



Football performance and strategic choices in Italy and beyond

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Abstract

Purpose – Focusing primarily on Italian and European football, the research performs extended analyses at both the club and federation levels, compares between financial and sport achievements, and identifies correlations and discrepancies between the two. The paper aims to discuss these issues.

Design/methodology/approach – The paper studies managerial systems and strategic directions across clubs and countries and links them to financial and sport performance. The research is primarily secondary-data and literature review based and uses multiple sources to ensure validity and reliability of the findings.

Findings – Solutions to the diachronic problems of football cannot be addressed through isolated actions, nor by isolated clubs, or even federations; but through systemic changes that affect, at club and federation levels: the organisational structure; the financial control mechanisms; and the very social essence of football.

Research limitations/implications – The research is limited by its very secondary-data-based nature. Subject-specific primary data are thus necessary to empirically test the preliminary findings and propositions of this research.

Originality/value – The paper escapes the conventional “sports/financial performance” analyses to support a new perspective that examines the core product of football and identifies, comprehends and prescribes the various values offered by football to its various stakeholders and vice versa.

Keywords Performance, Marketing, Strategy, Football, Management, Italy

Paper type Research paper

Introduction

Contextual framework

The past few years have witnessed a rise in economic interests vested in professional football; as well as corresponding significant changes that defined and solidified the business identity of football (Thrassou *et al.*, 2012b). These changes affected the sector's industry structure and the competitive conditions among club and national championships. Football clubs, born and bred as sports organizations, are today radically modifying their every aspect, increasingly resembling business corporations. Though their socio-cultural role is undisputed, it is equally indisputably changing. Moreover, comparing the business and social identity of football, it has become very hard to identify which is the “means” and which the “end”.

The transition from sport organizations to firms was realized progressively and necessitated notable changes among both practitioners and fans (Kartakoullis *et al.*, 2012b). The first change was realized when football became a widespread sport. In this



period it became necessary to create supporters' services; services that required expenses, mostly covered by ticket sales (Baroncelli *et al.*, 2004). In Italy, law 485/1996 was established, institutionalising the business orientation of football as an industry, and recognizing clubs' profit orientation.

Changes in world football have transformed it into a real industry that can be measured in terms of percentage of GDP, in terms of media diffusion, penetration, etc. (Bof *et al.*, 2007). Its unique characteristics nonetheless, distinguish football as a complex phenomenon where sport, social and economic dimensions co-exist, intersect and influence each other. In fact, every football team pursues different aims simultaneously: distinction in major competitions (national and international championships), acquisition and loyalty of supporters, making profits and owners' visibility, among many others.

Research aim and questions

This research studies and analyses the marketing choices of Italian football clubs, as well as their sport and financial performances, in the strategic management context. The study focuses on competitive strategies in Italian football, which are largely affected by the mono-product nature that characterizes the Italian sport sector. Historically, according to Modigliani and Miller (1958), researchers try to explain how firms choose their capital structure, since identifying an optimal structure can maximize the value maintaining that financial mix. Analysis and review of different approaches in literature confirm an optimal composition of financial sources. This must be compatible with the strategic profile of the firm in order to take part in the value creation process (Thrassou *et al.*, 2012a). It was therefore necessary for this research to define and answer the following research questions:

- RQ1. Which are the critical factors of success and/or failure of Italian football teams, both collectively and individually?
- RQ2. What are the sport and financial performances of these firms?
- RQ3. What actions are necessary to increase competitiveness, especially against the larger national and international companies?

Towards answering these critical questions, the following objectives were set:

- Strategic analysis of the Italian football sector.
- Sport and financial performance analysis of leading international football teams.
- Performance and capital structure analysis of Italian football teams.
- Identification of key factors of success of football in different contexts.

Football: from sport to business

The analysis of football business requires the study of sector characteristics. Football teams in fact, represent only part of the sector, which also includes federations, leagues, associations of players, referees and other bodies and organisations.

However, researchers have focused their attention on business models and management models of professional teams. From early on in sport research, many economics' scholars (Neale, 1964; Jones, 1969; Noll, 1974; Scully, 1974) and management scholars (Enis and Roering, 1981; Mullin *et al.*, 2007; Vogel, 2010) have agreed that

professional sports fields, including football, present some unique characteristics. Particularly, professional sport systems operate in exception to the law: "Professional sports promoters and owners of professional teams have a long claimed a special position in respect to the Laws and the constitutional monopoly [...]" (Neale, 1964, p. 1).

Enis and Roering (1981) support that sector peculiarities are found in supply system specificity, in process characteristics and in specific knowledge and capabilities. Mullin *et al.* (2007, p. 17) describe the sport product as a peculiar bundling, characterized by the essential elements of:

- playful competition, typically in same game form;
- separation from "normal" space and time;
- regulation by special rules;
- physical prowess and training; and
- special facilities and special equipment.

Contrary to individual-player (non-team) sports, football is characterized by a series of relationships, e.g. between athletes[1] and between company and athletes[2]. Furthermore, football business is complicated by the specific relationship between the team and the individual athlete. In this rapport there are convergent and divergent interests. The principal convergent interest is the common aim to maximize the sport result, while the principal divergent interest is the maximization of the economic performance of each side. Owners of football clubs – particularly with Financial Fair Play[3] – focus their attention to costs containment (e.g. athlete costs) and to revenues growth (that depends on athletes' performance). Thus, football teams must essentially find a trade-off between sport and financial performances (Baroncelli *et al.*, 2004).

This consideration, presently universally accepted in football, was not always accepted in literature. Up until the 1990s, many scholars were rejecting the application of profit maximization theory to football clubs. Some authors (Arnold and Webb, 1986; Cairns *et al.*, 1986; Sloane, 1971; Dabscheck, 1975) argued the difficulty of identifying a linear objective for professional sports clubs. They believed that football teams pursue a complex objective that incorporates performance results, customer retention (measured by supporters' number), communities' prestige through local teams, and (potential) profits.

Football sector description (objective 1)

The football sector structure is influenced by all the parties involved in the execution, regulation and management of football activities. The principal actors of this business are not only the football teams, managers and athletes; but also a series of higher-level organizations.

Like in most professional sports, football teams represent firms that operate in the sector, but are subordinated to "aggregation" of enterprises called leagues. These associations are responsible for championships' organization, both amateur and professional. Football clubs are not the only actors that are subject to the rules established by the controlling organizations: a central role is played also by the national and international federations.

In Italy, there is the Italian Football Federation (FIGC) that organizes and manages Italian football; trying to combine the professional with the amateur dimensions, and

the economic outlook with the social vision. FIGC has a complex structure, undertaking the roles of a central body with different sectors; the organiser of leagues and championships (LegaSerie A, Serie B, Lega Pro, LegaNazionale Dilettanti); and being in charge of the Association of Referees and Technical Components (coaches and players). Its local federal representative is entrusted to the Regional Committees and Provincial Delegations (AREL, 2012, p. 18).

FIGC itself, is part of a wider complex federation. Primarily, it is associated to the Union European Football Association (UEFA). This is the administrative, organizational and controller organism of European football, in its turn one of six continental associations that adhere to the FédérationInternationale de Football Association (FIFA).

Italian sector analysis (objective 1)

In Italy, football has undergone changes over the years, specific to its structure and generally to its very nature. Football clubs became competitive businesses and football players became professional athletes. Their costs and media attention grew substantially, increasingly impacting on the total revenues of professional teams. More importantly, the ultimate element shaping football, the consumer/spectator/fan, has also gradually but significantly changed its behaviour to fit the context of the times (Vrontis and Thrassou, 2007; Thrassou and Vrontis, 2009).

Italian football is characterized by the large number of teams, members and managers, as well as its impact in terms of revenues and audiences (Table I).

Italian football has become an industry sector with a total turnover similar to other important ones: (Serie A turnover alone, was €1.5 billion). However, data show that production costs are higher than the production value. These statistics indicate that principal clubs, with occasional exceptions, are not yet able to adopt competitive business models. Particularly, economic and financial analyses of Italian football show disproportions in both costs and revenues. Although clubs are perceived as firms, capable of generating increasing cash-flows and sustaining higher labour costs (especially football player costs), they often have net income losses.

Baroncelli *et al.* (2004) identify six typical costs: wages and salaries, intangible assets depreciation, financial costs, extraordinary expenses, other production costs,

Team (professional)	69,908 (484)
Football players (professional)	1,108,479 (3,517)
Serie A and Serie B football players	1,608
Technical staff (coaches, trainers, doctors, etc.)	67,159
Referees	33,040
Managers	108,732
Official matches	588,770
Serie A, Serie B and lega pro audience	13,987,084
Equity value (€)	406,437,000
Production value (€)	2,506,000,000
Production costs (€)	2,836,000,000
Serie A revenues (€)	1,536,000,000
Serie A broadcasting revenues	999,400,000

Source: Author calculations based on FIGC (2010)

Table I.
Italian football numbers
(Italian championships
2009-2010)

other depreciation. The largest cost is carried by football players', coaches' and coaching staff's salaries. In recent years especially, these "labour" costs grew at a higher rate compared to revenues.

Revenues are categorised as follows: tickets and ticket-season, stadium management, sponsorships, merchandising, broadcasting revenues, other revenues. In the past, box office and season tickets were the main elements of clubs' income. These revenues were characterized by an inflexible demand that differentiated itself from corresponding consumer behaviours in other types of entertainment. This is largely linked to clubs' success in athletic terms (Baroncelli *et al.*, 2004). Stadium operation and management is a significant potential revenue source for Italian teams (Kartakoullis *et al.*, 2012a), but practically, only few teams have achieved to obtain permission to build an owned stadium. In the 2011-2012 season, only Juventus FC in Serie A had its own large stadium (with 41,000 seats, 34,000 m² of shopping areas, 64 sky boxes[4], 21 bars and eight restaurant areas). In other football systems though, particularly the English one, football stadium management represents a significant source of revenue for teams. Over ten years ago in fact, the Deloitte football money league (2001) identified the development of European football stadiums to be the first step to developing an efficient business model similar to the English one.

Sponsorship is another significant source of revenue for Italian football clubs. Many firms want to associate their name to a football team owing to the excellent marketing communication value of such status. Merchandising (shirts, scarves and other products carrying the football team brand) also represents a revenue source for Italian teams. Owing to management system peculiarities though, brand merchandising is not an important part of total revenues. In Italy as a matter of fact, and contrary to the English teams' model, clubs do not manage directly their merchandising, but instead hand over (through licensing) both production and marketing.

Broadcasting revenues on the other hand, are the most significant source of revenue for Italian clubs: the introduction of pay-TV and pay-per-view in the mid-1990s, has increased this type of revenue, which can be divided into two broadcast revenue categories: decrypted and encrypted ones. The former, were negotiated by LegaCalcio (Serie A and Serie B). The latter one however, by the 1999-2000 season, were negotiated individually and directly by football teams. This innovation has reshaped the football model, creating a notable "genetic" mutation: that from sport to television show. This change also indicates the potential of innovation, even in the idiosyncratic context of Italian businesses (Bresciani *et al.*, 2012; Rossi *et al.*, 2012).

Sector attractiveness (objective 1)

The competitive environment is defined by numerous actors and so is, consequently, the nature of club competitiveness. These actors are most significant in the form of competitors in conflict, and of co-operators in collaboration. To analyse sector competitiveness, Porter's five forces model was used, comprising the five forces that determine the attractiveness of the sector. A notable eccentricity of the football sector in this context though, is the fact that "success" is determined by factors beyond business parameters, and primarily athletic achievement ones.

The model, specifically adapted to the Italian football system (Figure 1), bears the following actors and characteristics:

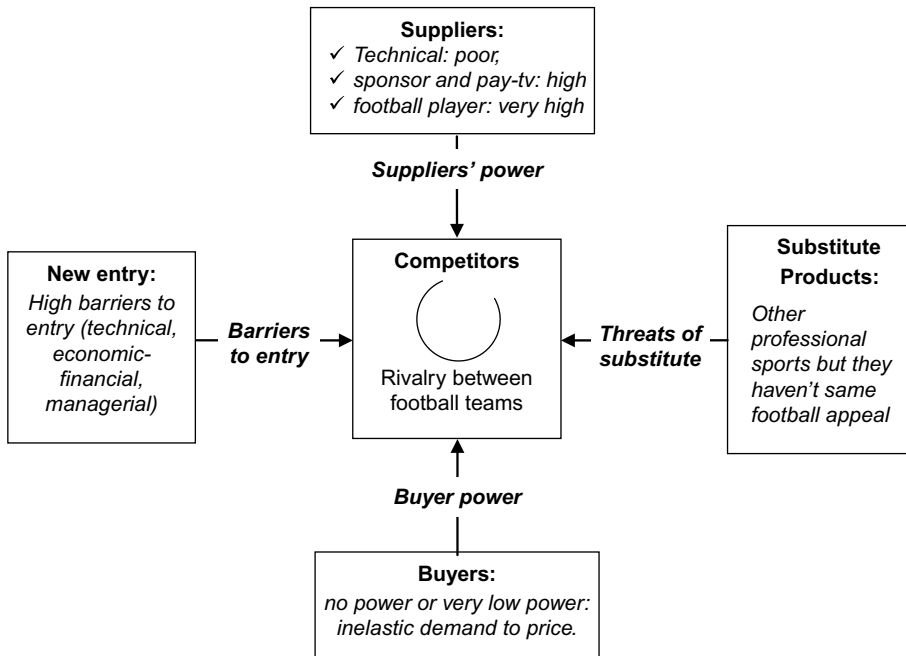


Figure 1.
Diagram of Porter's
five forces applied
to football sector

Source: Adapted from Porter (1980)

- Competition intensity is measured based on the rivalry between football teams. This may typically concern areas such as national/international competitions, or football player transfer/acquisition.

Competition in the above context is governed by uniform rules that constitute the rest of the football system actors:

- New entry clubs who reposition themselves and their objectives.
- Substitute products which include all other professional sports. Football though, is characterized by the high fidelity of its customers at both the sport and club levels.
- Buyers are also supporters with little will to “punish” their teams for not delivering their promises; and in fact standing by them in times of difficulty. This essentially social phenomenon means that contrary to conventional consumers, football ones have comparatively diminished control/power over both the industry and the business (club).
- Suppliers in football can be categorised into technical/economic suppliers and performance suppliers (players). The first group supply various services, from maintenance of stadiums to management of sports equipment, sponsorships, TV coverage, etc. This is an heterogeneous category with different powers for each supplier, with the highest being the broadcasting power. The second group

is composed by football players that have a very high power – especially after the Bosman sentence (Dejonghe and Van Opstal, 2010).

The Porter’s five forces analysis is completed with the profitability analysis of the football industry. The latter demands for one to consider also the effect of entry and exit barriers; in order to understand the degree of competitive pressure in the football sector. Also, the barriers are different mechanisms that have correlations, with their conjoint presence giving different combinations of risk/profitability. The football industry is characterized by a high, but risky profitability, owing to the simultaneous presence of high entry and high exit barriers (Table II).

International managerial models of football teams (objective 2)

Italian models

Each league is characterized by a specific organization and its management model is influenced by participating firms’ management. Italian football is influenced by the general governance model: the insider system (or network-oriented) and, more specifically, the Latin model. This governance model adopted from football teams whose primary characteristic is having one or few shareholders and no link with other clubs of other sports. In terms of legal status, law 81/1981 was imposed on Italian football clubs that the company and specifically Italian professional teams should be constituted as S.p.A. or S.r.l.[5] (Table III).

In Italian teams there is usually majority control by an entrepreneur (single or family) who is also the club chair or has indirect control over it. In this context it is possible to identify at least three organizational-managerial models.

The first one is the osmotic model characterized by a strong link between the football club and the entrepreneur owner. Osmosis rests on the fact that entrepreneurial activities are by nature associated with football teams. From a managerial point of view,

Table II.
Competitive pressure
degree in football sector

	Exit barriers	
	Low	High
Entry barriers		
Low	Low and stable profitability	Low and risky profitability
High	High and stable profitability	High and risky profitability

Source: Adapted from Porter (1980)

Table III.
Economic and legal
evolution of Italian
soccer teams

	1960-1981	1981-1996	From 1996
Law	Sports federations statute	Law no. 81/1981	Law 5867/1996
Club legal status	No recognized association	S.p.A. o S.r.l.	S.p.A. o S.r.l.
Aim	Sportive	No profit	Profit
Team orientation	Social oriented	No profit oriented	Business oriented
Org. structure	Informal	Simple	Matrix

Source: Data processed by Braghero et al. (1999)

a club has a high marketing value through the increased and improved public image/exposure of the president/owner. The club thus becomes a vehicle for business and other objectives. For these reasons, such owners finance football teams through (and with) large financial resources. Examples of the osmotic model are Juventus FC, AC Milan, ACF Fiorentina and SSC Napoli.

The second model is the dissociated model, characterized by a relationship between a business group and the club, largely for tax consolidation. Although in the previous model there is a strong identification between entrepreneur-president and team, in this model it is weak. Examples of the dissociated model are FC Internazionale Milano, SS Lazio, Genoa CFC and US Città di Palermo.

The last model is the residual-atypical model. It is termed as atypical, exactly because there is no link between the football club and the controlling group, but it is also residual because this is a model adopted from football teams in the past when teams did not have a business orientation. It is difficult to find football teams that compete at the highest levels and adopt such a model. It is an apparently anachronistic model since it bears few benefits.

The complexity of football firms' research is largely related to particular parameters used for measuring the performance: not only financial performance, but also sport performance. Using simultaneously economic and sport performance makes it possible to define different behaviours that generate four groups of teams:

- (1) *Sports winners-performance losers*. These are teams that have high national and international sportive results, even though these are incompatible with their economic-financial results. Operating balance is pursued, but it remains secondary to sport success and for this reason it is almost never achieved. The losses' compensation – sometimes significant – is guaranteed by the entrepreneurial group owner. Examples of this group are Juventus FC, AC Milan and FC Internazionale Milano.
- (2) *Combined sports-performance*. Includes those teams with moderate national and international sport success (Coppa Italia, UEFA Europe League) with a balance sheet in equilibrium. Examples of this model are AS Roma, SS Lazio, ACF Fiorentina and SSC Napoli.
- (3) *Performance winners*. These are teams that consider economic and financial equilibrium as their principal objective. Sport performances are instrumental to improving the nursery of young talented football players: these clubs sell their players, but they are always able to replace them. The championship results are necessary to valorise the football players and to realise significant gains. Examples of this system are Udinese Calcio, Atalanta Bergamasca Calcio and US Città di Palermo.
- (4) *Survivors*. This group includes all teams that care about their financial equilibrium and they have no relegation target (from Serie A). These clubs are more interested in their cost-benefit performance than in the football one; and desire to close their balance sheet with profit or a minimum loss. Examples of this group are AC Chievo Verona, AC Siena and Bologna FC.

Italian management models nonetheless cannot be viewed in isolation; and comparison with foreign ones helps in both their understanding and their evaluation.

European models

The English Federation is an international benchmark in terms of its clubs' capability to achieve sport success in combination with excellent financial performance. In recent years however, other federations also presented (less frequent) cases of clubs that have adopted innovative and successful business models.

Starting with the English model, it is characterized by a particular element: all the top teams are owners of their home stadium. The stadium itself is not simply a venue for football matches, but a social epicentre with museums, shops, pubs and restaurants. The English model is well represented by Manchester United FC. It is, since 1991, a Public Limited Company. The primary Manchester United team has also been listed on the stock market with the free float reaching one billion pounds. In May 2005, Malcolm Glazer completed a hostile takeover and delisted the title from the London Stock Exchange. Manchester United is the football team with the highest average attendance (67,000 spectators per match) and a stadium capacity utilization of 99.5 per cent (Karlik, 2012). This model allows the so-called "Red Devils" to generate the financial resources necessary to continuously reinforce team. For many years in fact, it is a top club on continental competition and it has had large success in both national and international competitions (Deloitte, 2012).

Another good English club managerial model example is Arsenal FC (Petri, 2010). Two common characteristics among these two clubs are the presence of a coach-manager for over 15 years and stadium ownership. Beyond these though, there are significant differences. Arsenal has never met the athletic achievements of Manchester United, and it has a different philosophy regarding the management of the team. The so-called "Gunners" consider the nursery of young talented football players to be very important. These players are "grown" and sold at high prices once they have established themselves at national and international level (e.g. Fabregas from Arsenal to Barcelona in the summer of 2011); thus securing substantial capital gains that allow solid business and athletic improvements (Baconi, 2011).

A different model, but a most successful one, is FC Barcelona. The Catalan team is the most successful club in recent years. The governance model adopted is participatory (a particular co-operative typology), with the greatest possible participation by citizen-members. Management is functionally carried out by the top management, but each member may participate in important decisions[6]. With this organization, Catalans have achieved sport success and a strong link with the (large) local community: the Catalan identity is an integral part of the club image and a key element in competitive strategies and marketing choices. Barcelona is a particular case in which relationships with the locality represent a particularly beneficial resource. The participatory model adopted demonstrates how these factors can be used strategically to enter new markets, to create new business opportunities, to increase revenue sources, to create partnerships with firms of other sectors and other countries (Bof *et al.*, 2007).

Another particular Spanish model, but diachronically equally successful, is Real Madrid CF. This is a real sports group that includes a plurality of sports. In the past it has encompassed men's volleyball, handball, baseball, athletics, rugby, tennis, swimming; in addition to football and basketball. Real Madrid is the only professional sports club in the world that has established, in 2006, a post-graduate university school, which specializes in sports, sports management, communication and health, at the Universidad Europea de Madrid. Recognized by many as a successful model, the

so-called “Blancos” of Madrid resemble the big Italian clubs’ model, but with different financial results and a different costs-revenues structure. The financial resources invested by the club are not from the president’s resources (which do exist but are proportionately very low), but from incomes from rights and merchandising.

Over the past few years, another football model has attracted the attention of sports management scholars: FC Bayern München AG. This is a German multisport club based in Munich, and FC Bayern shares are controlled by the sport association FC Bayern. It holds the absolute majority (as much as 80 per cent) and a residual part (20 per cent) is in the hands of two major sponsors: Adidas and Audi. Bayern has an excellent costs-revenues rapport and there is a perfect assets control. Governance responsible has imitated the classic English model and Bayern is the owner of its stadium: the technologically advanced Allianz Arena stadium with 69,000 seats. Its total expense was €340 million in 2005, but after only five years the Bavarian club has already paid half it (Bayern achieves a “sold out” in every match and a consequent guarantee of 60 million a year of match days’ revenue). Merchandising is also very well developed and there are important sponsors’ contributions, with Audi and Adidas being also club shareholders. The sponsorship logic used is innovative, because it aims to create synergy between football team and sponsor: for example, HypoVereinsbank has provided its customers’ savings accounts, credit cards and checking accounts, signed by FC Bayern with attractive interest rates that increase with each goal and cup win (Ludwig Karstens, one of the most important manager of sort marketing in Germany). 150,000 booklets were issued, with an average of €1,000 (Reuscher, 2010).

Italian football competitiveness (objective 3)

The wisdom of football clubs’ strategic choices is reflected in their performance results (both sport and financial). To undertake therefore, an analysis of the Italian football system, it is necessary to examine performance at both the individual club and the federation levels.

Athletic performance

To increase research reliability, data from different surveys was considered in the analysis, including Football Money League (Deloitte, 2012), UEFA rankings and others sources by EuroTopFoot.com. The first element of interest is the comparison of football systems’ (federations’) competitiveness according to the official UEFA ranking (UEFA, 2011).

Concerning Italy’s rank, it is far behind the three nations that precede it; but its current position still reflects an extremely high standard of athletic performance. It must also be noted that the past decade was a period of technical and financial accountability and readjustment for many Italian clubs. Often, for this reason, less competitive clubs participated in major European competitions, sometimes being eliminated in the early rounds. Competitiveness improved since 2008 (e.g. in 2010 FC Internazionale Milan won the Champions League) and this should achieve a positive repositioning of Italy in the UEFA ranking.

To add to the comprehensive understanding of the subject, the research approached the matter of athletic performance also through a different, historical perspective. One that considers results of the national football teams in different European competitions since their foundation (EuroTopFoot, 2012). In this ranking Spain is the

most titled nation (32 cups won), followed by England and Italy (29 cups each), Germany (17) and Holland (11). These rankings underline the excellent performance of Italian clubs: they have won 29 tournaments and boast 52 teams in the finals. These achievements are largely linked to the “big three” (Juventus FC, AC Milan and FC Internazionale Milan), although Fiorentina, Napoli, Sampdoria, Lazio, Roma and Parma also contributed to the sport success of the Italian model. The deviation between cup wins and UEFA rankings relates to the disastrous involvement of Italian clubs in the UEFA cup since 2000, consequent to the participation of primarily inferior (in athletic performance) teams. Overall, although underachieving compared to the 1990s, Serie A continues to be a very high standard championship, with three Champions League wins and five finalist teams.

Relating economic and financial performances with athletic performance

Football business understanding necessitates a sport performance analysis to accompany a corresponding financial performance one. The obvious correlation to establish therefore, is the one between sport and financial performance among the top European leagues. The European Club Footballing Landscape is a study conducted annually by UEFA that analyzes governance and financial development of European football, both at micro (individual clubs) and macro (federation) levels. Federations are divided into five clusters of turnover from top to micro (Table IV):

This year, the financial analysis includes pan-European year-on-year and five-year trends (aggregate and by number of clubs), country by country data and a split of clubs within each country across a range of important financial measures (UEFA, 2011, p. 10).

To verify the existence of a correlation between UEFA ranking and UEFA and turnover is not easy, because clusters have different ranges and different measures. A perfect correlation can be verified only for the top group. In fact the first important conclusion is that the top five federations of UEFA’s sport performance ranking occupy the top five positions for total revenues as well. In this first cluster, three countries (Italy, Germany and Spain) are in the medium-high level (between €90 and €110 million), England is close to maximum (€135 million) and France is near the low level of €50 million. Therefore, for the first five federations, sports performance is correlated with financial performance, so that the positions in terms of sports scores and in terms of turnover are essentially the same.

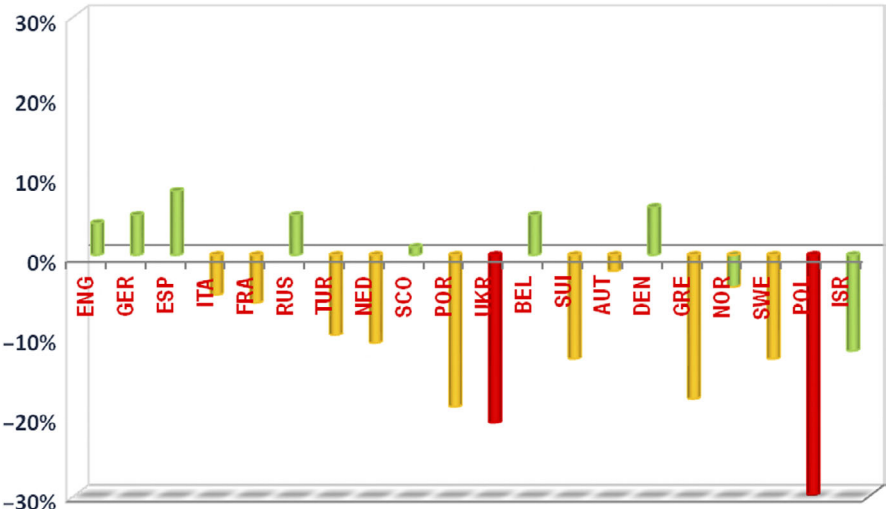
Additional conclusions may be drawn by correlating these results with operating results achieved by different federations. For the third consecutive year, England, Spain and Germany have made an aggregate operating profit (Figure 2). This result was achieved only by Belgium, among the other top 20 federations, while the other two federations included in the top five of the UEFA rankings (Italy and France) had aggregate net losses.

Federations’ performance analysis can be achieved also considering the number of clubs included in the categories of “profit”, “balance” or “very low loss” levels. English, Spanish and German federations perform significantly better compared to the other top 20 federations. Specifically, Germany appears as the “virtuous” federation, while Italy the “unbalanced” federation of the top five (UEFA, 2011, p. 76).

Another set of important data is the proliferation of associations that have a net loss: 2010 marked record low losses of 1.641 million (+36 per cent compared to 2009

Peer group	Peer group member – by national licensor									
	FRA	DEN	ITA	GER	ESP	NED	TUR	ENG		
TOP	€ 50 m	POL SVE	SUI BEL	UKR POR SCO					€ 135 m	RUS
LARGE	€ 5 m	HUN	CRO SVK	CYP	CZE	KAZ		ROU	€ 50 m	ISR
MED	€ 1.25 m	MNE LUX	BIH LIU	NIR AZE	MDA IRL	LIE BIL FIN		SVN	€ 5 m	
SMALL	€ 350,000	ALB AND	ARM	EST		WAL			€ 1.25 m	MKD
MICRO	€ 80,000								€ 350,000	
Source: Based on data from UEFA (2011)										

Table IV.
UEFA peer group 2011

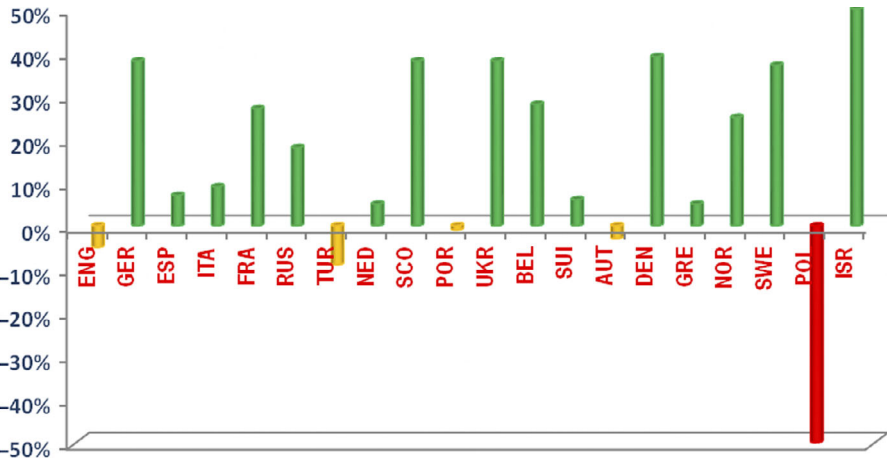


Source: UEFA (2011)

Figure 2.
Federations' profit and loss

and +153 per cent compared to 2008). Also, a micro analysis does not improve the situation: all major federations realize losses. The situation is somewhat better for Spain and Germany whose losses are below 10 per cent of revenues. Interesting, at federation level, is also the analysis of total debt, measured as ratio between equity and total assets (Figure 3).

The general situation is quite negative in terms of economic good sense: only the 20th federation (Israel) has a level of debt equal to about 50 per cent of its total assets. There are cases where the ratio is extremely negative (e.g. Poland), but half of the top 20 have an index value between -10 and +20 per cent. Among the top five, only Germany and France have values greater than 25 per cent, while England has a



Source: UEFA (2011)

Figure 3.
Federations' equity
(in % of total assets)

negative value of this index. The result is confirmed by the micro analysis: there is an index of high indebtedness of the main football teams in almost all federations.

This analysis can also be conducted at the individual football club level. First of all it is important to analyse sport performances (EuroTopFoot, 2012). The top 20 teams represent eight countries. Spain is the most represented federation (five teams) and Barcelona FC has confirmed its first place in this ranking, winning two of the last three champions leagues. Spain is followed by England, Italy (four teams each, but the English clubs are all in the top ten), and Portugal (two).

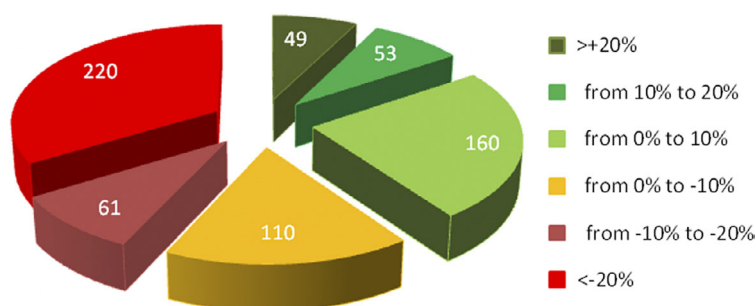
The top 20 are completed by Germany, France, Scotland and Russia, all represented by one team. Also at micro level, it is interesting to investigate if sport success is linked to good financial performance. The first value to consider is total turnover, according to Deloitte Football Money League 2012 (EuroTopFoot, 2012).

In this special ranking, the top 20 teams are again representing only five countries. In fact there are: six English, five Italian, four German, three Spanish and two French teams. This survey underlines the economic importance of football business and emphasizes the football firms' power, with a turnover of €4.4 billion (+3 per cent over last year). The comparison between sport results and turnover shows some discrepancies, though.

First of all, not all top 20 teams, in terms of sport performance, are included in the top 20, in terms of turnover. Seven clubs of the turnover ranking are not present in the sports performance ranking. This indicates a negative correlation between sport performance and total turnover. Another important observation is made based on the operating results achieved by teams of different federations. In this case there are no disaggregated data[7], but it is possible to show that a large number of European clubs (over 33 per cent) realized losses in excess of 20 per cent of total revenues; and about 60 per cent realized operating loss or balance (UEFA, 2011) (Figure 4).

Additional conclusions may be drawn from net income and indebtedness analysis. From the 665 teams, representing 53 European federations, nearly 56 per cent have closed their accounts with a net loss, and about 30 per cent with a loss greater than 20 per cent of revenues. Comparing leagues, Spain has the highest number of teams (five) who have made a net profit, while England is the federation that has the largest number of teams (seven) with the largest losses (UEFA, 2011).

Restricting the analysis to the 80 teams that participated in the final stages of the Champions and Europa Leagues, the results are even more disturbing: 65 per cent have



Source: UEFA (2011)

Figure 4.
Clubs' operating
profit result as %
revenue FY2010

a net loss and 36 per cent have losses above 20 per cent of revenues. This data confirm a negative correlation between sport success and financial performance. To compete at the highest levels it is necessary to spend a lot of resources that often do not generate a positive income. These data also confirm the difficult economic situation that is influencing the major European clubs. An UEFA survey in 2008 highlighted the great difficulties of the major European clubs: the ten most indebted clubs had a deficit of €5 billion, with the findings (UEFA, 2009) highlighting some interesting trends:

- the most indebted clubs are of three federations, Spain and England (four each) and Italy (two); and
- most of the deficits by these teams are caused by players' salaries (only for Arsenal FC in 2008 expenses were primarily for a new stadium).

Further considerations on the financial condition of European football teams arise from the analysis on debt: 36 per cent of all teams of the 53 European federations present a dramatic financial situation. In fact 237 teams have an equity value – as a percentage of total assets – less than zero. This data highlights excessive debts for more than one third of the European football. For 23 per cent of teams the value of this index is higher than – 50 per cent. It is finally important to understand how leading football firms finance their investments and how they invest their resources. Regarding the first point, data show that the major European teams participating in continental competitions are characterized by a clear preponderance of bank loans and capital injection by the owners, representing 45 per cent of liabilities. Regarding investment, 25 per cent is related to players.

Conclusions (objective 4)

The sport and financial performance link

The analyses of business models, marketing choices and financial performance portrayed by leading Italian and European clubs have supported and highlighted an important connection between sport and financial performance:

Participation in European competition remains important not only in gaining a top 20 position but also in terms of movement within the top 20. The revenues that European club competition participation delivers on a match day and through central UEFA distributions are an important component of most Money League clubs' revenue profiles (Deloitte, 2012, p. 4).

This general consideration must be contextualized within specific characteristics of the Italian Football League, such as their peculiar management models that often have a negative impact on financial performance. A common feature to almost all Italian clubs (with the exception of Juventus FC as of season 2011/2012) is the lack of an owned stadium, which has a significant impact on revenue distribution. In fact stadium ownership – or at least stadium management – is potentially an instrument for different strategic planning revenues' diversification and greater profitability. The importance of stadium property emerges from the comparison with the English teams in lower categories. In England "company revenues do not correlate with the category: The Championship – the English football second division – occupies third position in Europe as attendance average, more than Italian Serie A". This is an indicator of a different philosophy on the nature and role of football itself.

A wider perspective

The research findings however, appear more valuable when focusing out, to hold a more “panoramic” perspective. In doing so, it is evident that the subjects of football performance and strategic choices cannot be addressed through isolated actions, nor by isolated clubs, or even federations. It is quite clear that solutions are to be found through systemic changes that affect, at club and federation levels:

- the organisational structure;
- the financial control mechanisms; and
- the very essence of football.

The latter, being the most abstract factor, is also probably the most important one. A redefinition and perhaps repositioning or even redevelopment of the very nature of football is required. Bypassing the more romantic notions of “freeing football from business” and a priori accepting that the two are de facto presently and inevitably interlinked, the question is how to create a positive symbiotic relationship for the benefit of football and all its stakeholders.

The need for a value-based analysis

Towards this aim, the research concludes that further research is required, through a different dimension, which escapes the conventional “sports performance” and “financial performance” analyses. A new perspective really, that investigates the core product of football and identifies, describes and finally prescribes the various values offered by football to its various stakeholders and vice versa. Football as business, football as entertainment, football as a social phenomenon, football as one of many other roles: these are not various ways of seeing football, these are many simultaneous and parallel values produced by football to many simultaneous and parallel stakeholders. These are the football elements that require definition; and their comprehension and interrelation is the key to unleashing football’s true potential in the twenty-first century.

Notes

1. Football players pursue a common objective that depends on their interactions.
2. Relationship between football players and team concern four elements (Baroncelli *et al.*, 2004): (a) revenues distribution of sportive activity; (b) cooperation toward a common objective; (c) definition of a favorable context to achieve contractual agreement; and (d) management of external stakeholder pressure.
3. UEFA’s Executive Committee approved a financial fair play concept for the game’s well-being in September 2009; a concept supported by the entire football family.
4. A sky box is a private suite in a sports stadium which is designed to appeal to the more well-heeled sports fans.
5. S.p.A. is the acronym of Società per Azioni, an Italian corporate form used by major public firms. S.r.l. is the acronym of Società a Responsabilità Limitata, an abbreviation, in several languages, for phrases corresponding to “Private Limited Company” in English, appearing at the end of many company names.
6. Barcelona football shareholders have a lot of rights: 1. Active and passive voting, 2. Attendance at general shareholders’ meetings, 3. Expression of their opinions.
7. The European Club Footballing Landscape – an UEFA survey – has considerate 653 teams of 52 European Federations.

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Further reading

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