

## FOOTBALL BUSINESS DEVELOPMENT IN THE CONTEXT OF EUROPEAN COMMON MARKET INTEGRATION

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### Abstract

**Scientific problem.** Football business is one of rapidly changing business sectors in Europe. The development of football business structure is based on changing financial flows, which become more and more various. In the analysis of football club's business environment there appears the conflict of two different orientations of football managers: 1) orientation to general benefit, which is mostly based on sporting success that may impact positives changes of club's financial state and 2) orientation to profit, where the main criteria for successful club management is profit maximization. The integration of European countries markets presumes the growing attention to the second orientation, which is based on financial results maximization. The goal of this study is to determine how this orientation conditions the changing structure of football system's management and in that way those changes influences the change of football's financial flows.

**The findings.** The analysis of various football specialists' publications allows stating that one of the most important factors that influence the changes in European football business structure is the growing integration of different countries football markets. This integration conditions the growing importance of television role in football business and more intensive sport events schedule. Those two factors, together with other less important factors, influence the change in European business financial flows and create the presumption for more intensive football business development.

### Keywords:

Football business, business system, European market.

### Introduction

Football in social life is firstly considered to be a sport – it is one of the most famous sports, which has fans in almost all countries of the world. But sport aspect is just a one part of football clubs' structure. The other part, which is not less important, is economical aspect of football, which means an ordinary business with specific processes. Football industry is a complicated system of business and sport interests, which integrate various business subjects with their specific objectives and tools for their realization in one entirety.

Football business is one of rapidly changing business sectors in Europe. In global world football is more and more often treated as business, not sport and this makes important to analyze football from business management and financing perspective, because it becomes one of most important key factors in football environment existence. The development of football business structure in the context of European common market integration is based on changing financial flows, which become more and

more various. This variety makes relevant the question in the scientific research area, how different financial flows may impact football business performance. For this reason there appears the need to determine the main factors which influence football business' financial flows.

*The objective* of this article is to determine the main factors that influence the changing football business's financial flows structure.

To achieve the goal of this article, the various football specialists' publications are analyzed that allows determining the importance of growing integration of different countries football markets in Europe on football business financial flows. To realize this, the main task of this study were set: 1) to define the main tendencies in football business due to growing globalization; 2) to assess the impact of football business globalization on football business financing sources structure in case of European football business.

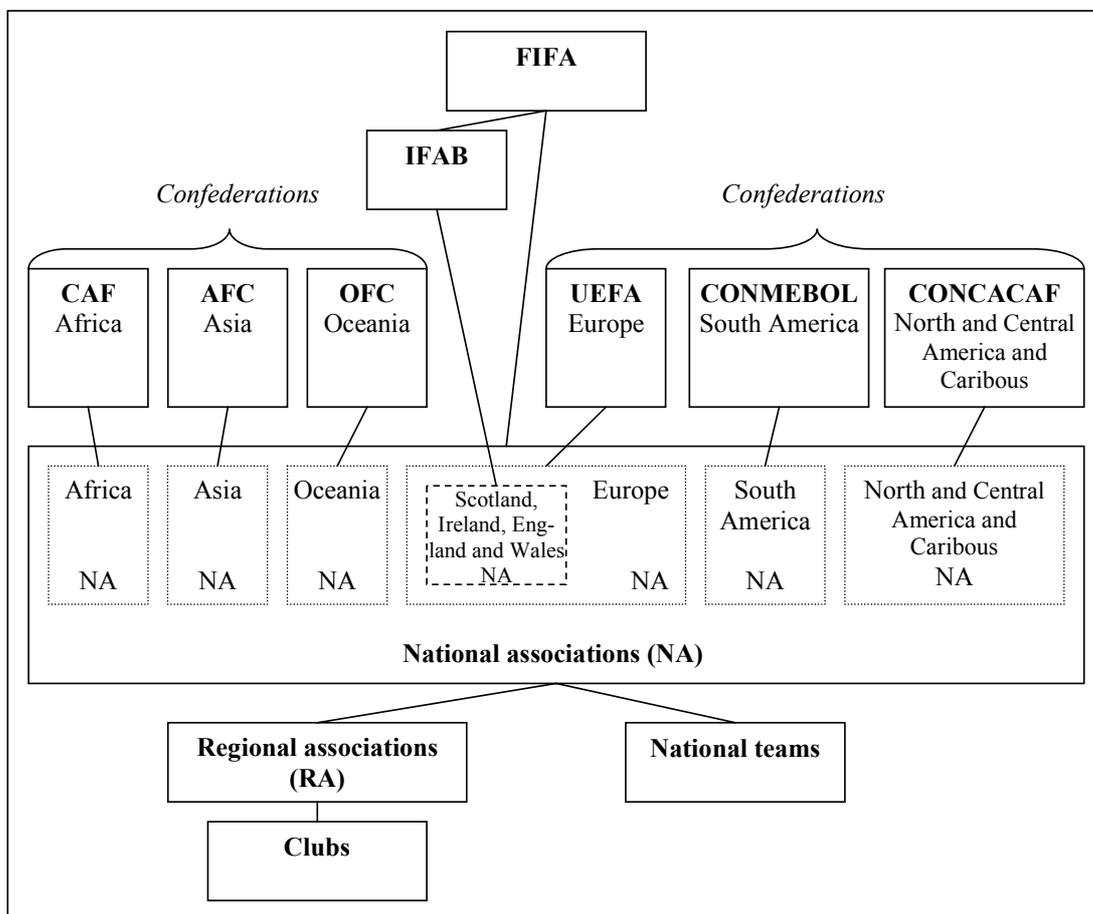
### Tendencies of football business globalization

Since the last decade of XX century globalization began evidence in almost all areas. Globalization factors especially actively evidence in Europe (including sport area) where the new economical development stage had begun after the domination of political-economical disunity and countries' reticence. Globalization also actively comes through in football where international structures, such as FIFA, UEFA, were formed with the purpose to organize international football matches. Alongside there appeared the growing demand for international advertising tools which was created by international companies. This factor positively impacted the development of international sport tournaments. In such case small, locally relevant and from local sources financed sport tournaments developed to strong global sport structures which are unable to base their performance only on local resources.

The base of global football business structure is national football associations which represent country's football system in international arena. Football associations are united by Federation of International Football Associations (FIFA), which represents football interest in all world and in all areas.

The graphical view of global football business administration structure is presented in figure 1.

Together with FIFA in global football business structure there also exist continental confederations (Europe, Africa, Asia, Oceania, South America, North and Central America and Caribous), which consist of national football associations. Another important element of global football business structure is International Football Associations Board which consists of national football associations of Scotland, England, Ireland and Wales.



**Figure 1. Global structure of football business administration (made by authors in accordance with: Radnedge, 2004; Szymanski, 1999; Howie, 2004)**

In a level of national associations football business is organized in the scale of individual state. Traditional smallest parts of national football business structure are football clubs which may conjoin in intermediate structure – regional association. Usually it is practiced in bigger states (i.e. United Kingdom). Together with football clubs in national associations

structure exist less business-oriented structures – national teams, which firstly represent the sport segment in global football structure.

Football clubs in modern football business structure should be treated as the backbone of football business system. Individual performance of football clubs and its organization as the entire system

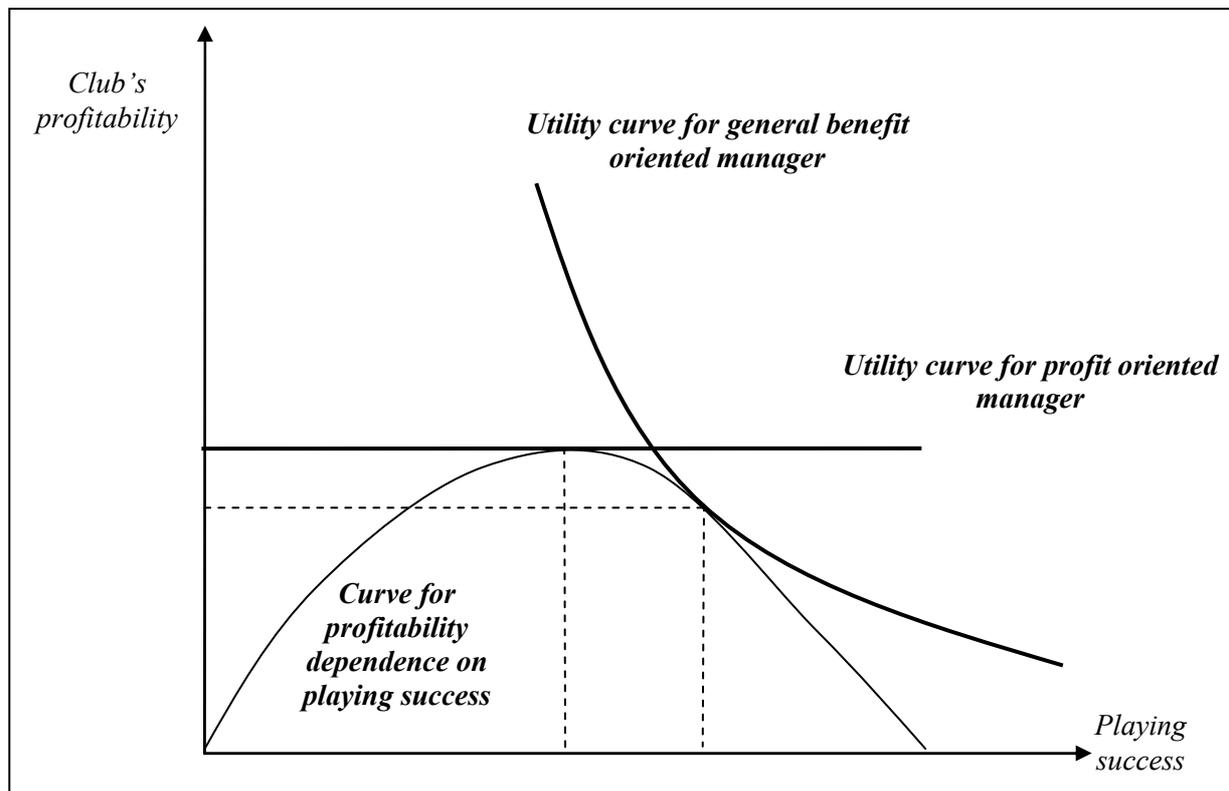
conditions the income and profitability of concrete football business system. In this case it is important to determine the difference between business and sport interest in football system.

A.M.Rapp (2004) illustrates the conflict between economical and sport results of football club by analyzing two different types of football club's managers (see figure 2):

- General benefit-oriented manager who is interested not just in financial performance,

but in sport performance of club and is ready for compromise if there is a necessity to forsake part of profit in exchange to bigger sport success.

- Profit-oriented manager who use to ignore sport performance results and has an interest only for club's profit maximization.



**Figure 2. The relation between football club's owners business orientation and club's profitability (Rapp, 2004)**

The utility curves for both club managers are based on economics theory – the bigger amount of one element (playing success or club's profitability) is less and less attractive in the comparison with other more and more scarce resource and otherwise. As it can be seen in presented figure the theoretical background allows assuming that profit-oriented manager is going to succeed less playing success because in any case he is trying to achieve maximum level of club's profitability. As A.M.Rapp (2004) states, the curve for profitability dependence on playing success has a form of upturned parabola which means that there exists the maximum point for club's profitability. Profit oriented managers utility curve is clearly horizontal, because he is not sensitive to playing success level. But the utility curve for general benefit-oriented manager has a form of traditional utility curve (analogous to a positive side of hyperbola). In this case the optimum for general benefit-oriented means bigger playing success but

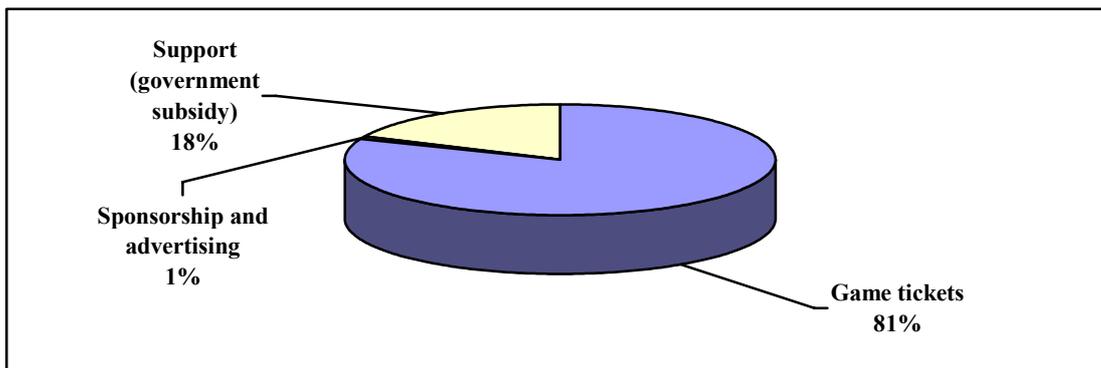
lower profitability (in comparison with profit-oriented manager). This analysis allows determining the presumption for rapid football business development – greater playing success is not a guarantee for bigger profit, so club's manager must pay more attention to business development than sport development. Such tendency can be clearly seen in the analysis of European football system's financial flows analysis.

#### **Football business globalization impact on football business financing sources structure: case of European integration**

Traditional professional football financing model, which used to dominate in Europe till the middle of pre-last decade of 20<sup>th</sup> century, is based on traditional mass entertainment events financing principle. W.Andreff (2000) has named this principle as SSSL model. The abbreviation SSSL means *Spectators – Subsidies – Sponsors – Local* and it quite clearly describes the financing system of those days football.

In this system the very first and main football's financial source was the spectators of football match. The income from ticket sales used to made the biggest part of all football club's income. For example in

season 1970 – 1971 in France division 1 the 81 percent of average club's income came from ticket sales and only 1 percent was income from sponsors and advertising (Howie, 2004).



**Figure 3. France division 1 football club's income structure in season 1970 – 1971 (Andreff, 2000)**

The second biggest and on of the most important professional football financing sources till the mid 80's in 20<sup>th</sup> century were government subsidies. Government used to subsidy practically all sports. In football such subsidies had some lower impact than in other sports, because football, as one of the most popular sports in Europe, was able to attract quite big and stable financing form other sources.

Various sports used to be most actively subsidized by local government institutions which were interested in promotion of local professional sport clubs' development. Professional sport as the necessary part of public subsistence has a noticeable positive impact on region's economical level and often is treated as the handy tool for local government's positive image amplification (Quirk, Fort, 1992). Such the role of professional sport stimulates the local government to keep strong sport clubs in the region and for this reason local government tend to subsidy sport clubs and motivate them to represent the interest of local region not just in sport sphere but in most public performance areas.

Money from sponsorship and advertising in professional football was treated only as a small additional financial flow in most European countries. In most cases this financial source was based on close connection between football club and local business. Region's major companies used to sponsor local sport clubs with the purpose to join the realization process of local community's economic interests. The bigger impact of sponsorship and advertising on professional sport could be noticed in those countries where government subsidies for sport clubs were limited by law. As an example there can be presented the financing structure of England's cricket clubs' in 1978 were over 50 percent of financial flows came from private sponsors ("Schweppes", "Benson & Hedges", "Gillette" etc.) mostly because this kind of sport was

unable to attract the necessary spectators number for sport's structure surveillance (Andreff, 2000).

At the very end of 20<sup>st</sup> century in the context of European common market integration and growing globalization the changes of professional football financing in Europe began. These changes, as Ch. Gratton and P. Taylor (2000) state, were influenced by several factors: 1) the changing business conditions in European Union economical integration, 2) the growing modern technologies impact on business processes; 3) the growing globalization level.

One of the main technical factors which influenced changes in football financing structure is television (Szymanski, 1999; Espitia-Escuer, 2004; Andreff, 2000). The growing role of television in various sports business systems was conditioned by modern technologies, which allowed reducing the cost of sport events translation and dispersion in different regions.

The possibility to translate sport events is attractive for lot of television companies. Modern technologies, which were used in television for rapid and quite cheap video translation, conditioned the formation of new powerful business structures – television companies. Some of those companies used to base their business on professional sport translations and this conditioned the growing importance of new sport financing source – televisions sponsorship. This may be clearly noticed in football business financial flows' analysis. Football translations are treated as one of most attractive products for TV companies, because of some reasons: 1) football is one of the most popular sports; 2) football has a widely developed business structure that allows creating long-lasting business relations between football and TV business subjects.

TV companies are interested in professional sport events translation and this stipulate them to financially support football business structure with the purpose to

improve the quality of football matches. The higher quality of football match directly impacts the number of TV channel audience during the match translation, and this conditions the bigger financial flow for TV company from advertising services.

The impact of globalization on football business financing source structure may be seen in the analysis of football clubs standpoint in case of cooperation with TV companies. Till the mid 90s in 20<sup>th</sup> century, in the period of domination of closed European countries' economies, football clubs used to avoid the cooperation with TV companies because of presumable negative impact of their financial flows. As it was mentioned above, in that time the main football clubs' financial source used to be income from ticket sales and TV translations were treated as the threat for this financing source. The opinion dominated that TV translation can only reduce the wish for football fans to go to stadium and to choose cheaper way (TV translation) to watch football match.

But the globalization effect changed such the standpoint of football clubs. The growing amount of international games and more and more stronger international football leagues forced to use the positives of TV – the spread of TV channels in other regions and even other countries – for football business development. International matches has a wider range of fans than local matches – during the international match there are always a big part of fans that can't go to stadium, by ticket and watch football match because of big geographical distance, the scarce size of stadium and other factors. For this reason TV companies became the necessary partners of football business system and now are being treated as one of the main tools for football business development and football sport spread. Such the changes in business philosophy conditioned the changes in football financing flows structure – the main financial source became TV companies and ticket sales are now treated only as additional financial source. This can be seen in the analysis of Italy division 1 football clubs financial structure. In 1988 the income from ticket sales was the main part of club's financial flows with 71 percent of whole income, and in 1998 it felt to 36 percent (Andreff, 2000).

The football clubs' financial flows structure was also impacted by some big TV companies' new business strategy. Such TV channels as BSkyB, CLT-UFA, AB Sports, Canal Plus, etc, which considered sport matches translation to be the primary service for their costumers, began practicing the owning of football clubs' capital shares. In this case TV company as on of football club's owners could make strategic impact on club's financial flows (Bourg, 1999). As an example in this situation can be mentioned France professional football leagues, where

in 1997 – 1998 the main financial source for football clubs became TV companies (Andreff, 2000).

Football matches translations on TV have changed not just the structure of football clubs' financial flows but also the size of total flows. TV translations became the primary factor for attracting the income from advertising. TV translations cardinally changed the size of football match's audience and for this reason football match became more attractive tool for advertising spread. The fact that football match is going to be shown on TV amplifies the interest of advertising companies and this automatically conditions the growing income for TV company and, indirectly, for football club. This conditions the positive multiplier effect of TV role in football business for football business's finance. TV companies are interested in football match's translation (for the possibility to attract bigger TV audience) and this conditions the pretext for football match organizers to enhance the income from advertising because of bigger match's audience.

TV translations and growing financial flows conditions important changes in sport business understanding. This can be quite clearly seen in the analysis of football business' principles changes. As football became the sport with big spectators' audience and high income from advertising, the importance of football as business sector has amplified.

The growing football clubs' financial flows conditioned the changes in football club's conception. Football clubs are no longer being treated only as sport bases; they now are business subjects with big financial flows. For this reason most famous football clubs are now treated as a marketable business subjects with the positive profitability potential. Large corporations now treat football clubs as profitable investment objects. For this reason football clubs became fully-fledged business subjects and this also had an impact of football clubs' financial flows: the additional flows from ownership and debt stocks appeared in the structure of financing structure.

As football club became business organization, there appeared bigger interest in club's income enlargement, which is based not only on the need to cover the necessary expenses, but to create additional value for club owner (to create profit). For this reason football clubs now are mostly managed by professional managers who changed sport functionaries in club's management process.

After the football club has transformed to business organization, the sport game processes, which used to be treated as the only and substantial club's performance part, has lost its importance and in business-oriented football club is treated as one of several main business processes. High popularity of football club, created with the help of TV companies,

conditioned the possibility for football clubs to develop alternative commercial activities, which may be described as the selling of club's souvenirs. Such commercial performance creates highly profitable additional value, because famous football club's souvenirs are little price-elastic and mostly depends not on the cost of souvenirs but on club's popularity, which, in reverse, is mostly impacted by club's sport results.

The analysis of changes in football club's financial sources structure in the context of European common market integration (and, as the result, globalization) showed that the appearance of new financing sources and the change of old ones role in football business conditioned the formation of new football business financing model that can be described as MCMMG model: Media-Corporations-Merchandising-Markets-Globalization. So, as it may be concluded, football business has experienced serious changes in football business processes understanding that resulted in the major changes in football business financing sources structure and those changes can be treated as highly dependable on economical and political changes in Europe, which condition the integration of individual states' markets.

### Conclusions

1. Football business in Europe has experienced serious changes in philosophy and understating of sport business role and possibilities, and those changes were mostly conditioned by the changes in footballs business's macro-environment. Major changes in macro-environment may be treated as follows: the changes in Europe political and economical situation (common market integration); growing globalization; wide spread of modern technologies.
2. While football business existed in closed economy, it was based on SSSL model, where the main role in football business financing was played by ticket sales. The

changes in football business's environment conditioned the development of new football business financing model, which is named as MCMMG in accordance to the changes in financing sources structure: as the main sources now are treated TV companies, large corporate investors, stock market and merchandising.

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