

Abstract

- Title:** Competitive Advantages in Professional Football Clubs – A Resource-Based Analysis
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- Problem:** In order to be a successful football club, the management team has to consider a variety of business issues. Since money is having such an impact on the football industry of today, the financial status of the clubs sets the condition for how clubs are able to achieve their main objective, i.e. to be successful on the football field. Clubs, therefore, have to have a full understanding of how competitive advantages are created.
- Purpose:** We intend to explain the nature and sources of gaining competitive advantages in professional football clubs.
- Methodology:** In our study, we have studied the football industry in top divisions, with a highlight on English clubs. With a theoretical framework based on the resource-based view and the Intellectual Capital theory, we have analysed our empirical findings, resulting in a list of resources in football clubs that properly managed could lead to the gaining of competitive advantages.
- Conclusions:** We have in our Football Resource Map listed nine resources all being valuable to the club. Of the nine resources, six compose the Structural Capital and two, the Management and the Players, make up the Human Capital of the club. The important Structural Capital contains resources like the Brand, Relations and Customers/Supporters. All of the resources in the Structural Capital need to be exploited by the Human Capital in order to gain competitive advantages. However not all of them are sources to competitive advantages according to the VRIO-framework. They are revenue-generating resources though, and revenues enable the club to gain competitive advantages on the football field by improving the Player Capital. Hence, a resource like the Supporters provides the club with competitive advantages albeit it isn't really a source to competitive advantages. The Supporter Capital is the most important resource, mainly because of its exploitability and revenue generating ability.
- Key phrases:** Competitive advantages, resources, VRIO-framework, Intellectual Capital, football

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1 Introduction

In this chapter we describe how the sport football has become an industry in which money plays an ever-increasing role. Thereafter we discuss recent developments in theories about competitive advantages and why these theories are useful when analysing football clubs. This discussion will eventually result in our purpose.

1.1 The New Industry

1.1.1 From Disaster to Money Carousel

On 15 April 1989, the home ground of Sheffield Wednesday FC, Hillsborough, hosted the FA Cup Semi-finals between Nottingham Forest and Liverpool. It was a big occasion with huge excitement, but instead of producing a great game, that Semi-final turned into a day of disaster. Due to overcrowding in the central standing area allocated to Liverpool fans, 96 supporters lost their lives.

Already before the Hillsborough disaster, the reputation of the beloved sport was damaged, mainly because of the incidents involving football hooligans. Many thought, however, that the Hillsborough disaster was to be the decisive incident that would change the football scene. It was believed that the number of spectators at the games would decrease, sponsors would drop off and the general interest in football would decline.

Those who thought the Hillsborough disaster was to be a decisive factor were right; football isn't the same as it was in the 1980s. But instead of a decrease in attendance and less sponsorship money, it has been the other way around. The Taylor Report, the inquiry into the tragedy at Hillsborough, forced English football clubs to spend £600 million rebuilding their stadiums¹. As a consequence ticket prices had to be raised and new investors and sponsors to be found. This was the start of the money carousel in professional football, not only in England.

1.1.2 Big Business

Since the tragic incident at Hillsborough, the amount of money flooding between clubs, players and other organisations in the world of football, has increased remarkably. When we read about player wages, transfer fees, broadcasting deals and sponsorship contracts in the sports pages, the size of the figures keep on astonishing us. If we compare these figures to what they were only five years ago, we ask ourselves; what will it look like in another five

¹ Conn, David (1997) *The Football Business; Fair Game in the 90's*

years? Will the trend continue and how will the clubs in that sense deal with the escalating amount of money?

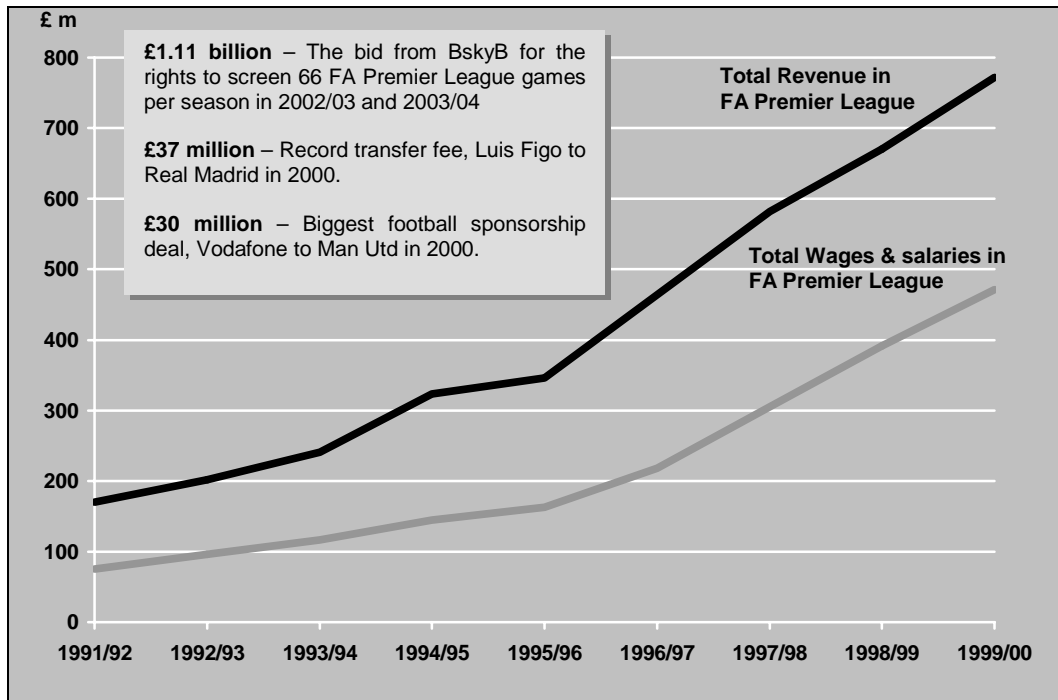


Figure 1.1 Big money in football Source: Deloitte & Touche, Aftonbladet.se

However, it isn't only the increasing amount of money that changes the football scene. Over the past decade we've seen a globalisation of the sport. Today football fans almost all over the world can follow the clubs in the big European leagues via satellite TV. The English Premier League, for instance, is broadcast in 153 countries². In even more countries, live match commentaries from the big leagues are available over Internet. The World Cup of 1994 in the United States and the upcoming World Cup of 2002 in Japan and South Korea are two big events that have opened up huge football markets with great potential. Because of the globalisation, clubs can enjoy a wider spread of their brand and will reach out to more potential consumers and fans, which in turn will increase the revenues for the clubs.

As a result of the increasing importance of money in professional football, we've seen many reorganisations in the clubs. Today the clubs are organised just like an ordinary company, with different departments dealing with different issues, and it's not unusual to find employees with titles like Director of Football, Finance Director and Merchandising Manager. In the past couple of decades, some clubs have taken even one step further towards the organisation and structure of a big company, i.e. getting listed on the stock exchange. Since 1983, more than twenty clubs in UK have decided to let their stocks float on one of the stock exchange lists. The trend of letting their stocks float on the stock exchange has begun to spread throughout Europe, although it isn't of UK's magnitude yet.

Without a doubt, the changes in the football world have had, and will have an affect on the football clubs and their environments. The game of football has become more than just an issue about football results and league positions. Every professional football club is today a big business, which together have formed a new industry – the Industry of Football.

² Deloitte & Touche, *England's Premier Clubs – April 2001*, p. 16

1.2 The Need for Competitive Advantages

1.2.1 What is Success?

We've discussed how big money is flooding into the world of professional football, but we haven't yet mentioned how this is affecting the clubs and their chase for success. First of all we need to define what success really is. In almost every kind of business, managers' main objective is to maximise profit and to create as much value to the shareholders as possible. If this is achieved, the management has been successful. But how is this achieved? Since profit is created when revenues exceed costs, the running of a business is a game of maximising revenues and minimising costs. In business theories this logic has been fundamental, and key words such as *cost efficiency* (minimising costs) and *customers value* (maximising revenues) have been frequently used in order to describe this logic, which also have dominated discussions about strategy implementation. In the past few decades, theorists have become more market orientated and the latter of the two key words has been more dominant. These theorists suggest that creating value to customers is the recipe for success.³

Even though professional football has become an industry of its own, it's not like an ordinary industry. Success can't just be measured by looking at the financial results and the stock prices. Loyal fans and other people involved in the clubs want the team to be successful on the football field, and might not care if the books are filled with red numbers. The only thing that matters in the long run is league positions and match results. The main objective of most professional football clubs has been, and will always be, to succeed in competitions; otherwise they wouldn't have any supporters, who are the football industry's equivalence of customers. And we all know that a business can't survive without its customers. Hence, it is the football results that determine whether a football club is successful or not.

1.2.2 How to be Successful?

So far we have discussed that success in the football industry is equivalent to good football results rather than good financial results. Now we will discuss how the success is achieved. Basically, succeeding is simply a matter of outperforming other clubs by winning competitions on the football field. This implies that football competence is a key asset and the club with the highest level of football competence will be champions. Thus, possessing a competitive advantage over other clubs in building and sustaining a good squad of players and coaches, will eventually lead to success. Such a competitive advantage can be gained in two ways, either by recruiting players and coaches within the club, or by recruiting from other clubs.

Manchester United is one of many clubs that have been very successful with recruitments within the club. Thanks to an outstanding youth academy, which has provided the first team with plenty of talented young players, they have been able to maintain a high quality of the first team squad. However, having a great academy or youth development system is no guarantee for success. Just look at the Swedish club Malmö FF. Their youth system has in the last two decades produced one up-coming star after the other, but still they got relegated from the Swedish Premier division in 1999. Recruiting players with a proven high quality from other clubs seems to have a more certain outcome than relying on the youth academy. Even though many exceptions exist, clubs that spend much money on new players tend to win

³ Band, William A. (1991) *Creating value for customers*

more, regardless of whether the players are bought or attracted by high wages when on free transfer. Several studies indicate that a relation between investment in players and good football results exists. Amir & Livne⁴ (2000) have in a study of more than fifty professional football clubs found a positive relationship between transfer fees paid and league position while Deloitte & Touche (2001) in their review of England's Premier Clubs point out that '*wages do tend to match sporting performance*'⁵. The bottom line is that being able to spend a lot of money on players increases the probabilities of good results on the football field.

1.2.3 What is Competitive Advantage?

It is obvious that football competence is a key success factor in the football industry, and being able to obtain such competence can be a competitive advantage. However, because of the increasing player wages and transfer fees, this competitive advantage is very costly and requires large amounts of free funds. Therefore clubs have to focus on creating profits and strengthening their financial positions. They need to take a look around and exploit the opportunities that could give the club some extra funds, which would enable the purchases of new players. In order to be successful in today's football industry, the club must possess some kind of competitive advantage in generating money, leaving the other clubs one step behind in the chase for the highest level of football competence. With this reasoning, achieving financial strength is one factor that in the long run will help the clubs to win football games.

1.2.4 The Source to Competitive Advantages

As discussed above, the main objective for most professional football clubs is to be successful on the football field, making the players and the football competencies they possess a key asset. However, these competencies are very costly to acquire and requires a large amount of funds, which have to be available to the club.

This reasoning gives rise to a number of questions:

- 1) How do professional football clubs achieve financial strength?
- 2) What is the source to financial strength, hence, source to competitive advantage?
- 3) What are the most important sources to competitive advantages in professional football?

In order to answer these questions we find a need to conduct an analysis that explains the nature of the football industry and the phenomena influencing the business of football clubs.

1.3 Purpose

In our study we intend to explain the nature and sources of gaining competitive advantages in professional football clubs.

⁴ Amir & Livne (2000) *Accounting for Human Capital when Labour Mobility is Restricted*, p. 25

⁵ Deloitte & Touche, (2001) *England's Premier Clubs – April 2000*, p. 21

1.4 Delimitations

Professional football is nowadays a game of two halves. In this study we will only focus on one of them, i.e. the business of football. Even though the other half, the game itself, is of greatest interest to most of those closely following the sport, including the authors, there is no point in exploring this area in a study that deals with strategic management issues within the field of business administration. Therefore, subjects regarding which players to buy or sell, the valuation of players' football attributes and skills, training, coaching and tactics will be excluded in this study. These matters are responsibilities of the football staff, i.e. the football managers and coaches, in the professional football clubs.

Instead we will focus on the issues that the club's management are responsible for, i.e. the business issues. However, we have included some areas that on the surface seems to belong to the excluded parts mentioned above. Although the selling and buying of players in general is excluded, as these matters are responsibilities of the football staff, the management of the club can make a decision whether to buy a star player, an investment expected to deliver future returns. Youth development is partly an issue of training and thereby excluded from our study, but also an issue of investing in the future, making it a part of the management's responsibilities, hence included in our study.

Although we have studied the football industry in general, we have focused on clubs in England and Sweden.

1.5 Structure

Chapter 1 - Introduction

Background – Problem Formulation – Purpose

The big money in today's professional football requires a 'new' way of thinking

Football is an industry in which the clubs need competitive advantages (CA)

In the football business, the resources are sources to CA

We attempt to explain the nature and sources of gaining CA

Chapter 2 – Methodology

Our general approach

Choice of subject & theories – Methodological & analytical approach

– Data Collection and Criticism

Chapter 3 – Theoretical Concepts

Theoretical Concepts used to analyse our empirical findings

The Resource-based View – The VRIO-framework – Intellectual Capital theories

Chapter 4 – Football Phenomena

Facts & Theories needed to conduct the studies and to understand the analysis and conclusions

The Peculiar of Football – The Circle of Success

– Recent Developments (calling for new sources of revenues)

Chapter 5 – Empirical Studies

Presentation of our case studies and interviews

Man Utd – Swedish clubs – Experts' opinions

Chapter 6 – Analysis

Analysis of the empirical findings with the help from the theories in Chapter 3 & 4

Listing the valuable resources from the case studies and the interviews

Source to CA? – Applying the VRIO-framework

Intellectual Capital – Applying the Intellectual Value Scheme

Chapter 7 – Conclusions

Presentation of our conclusions

The Resource Football – The Structural Capital

Exploiting the resources – The Human Capital

IC-multiplier – Competitive Advantages - Winning

2 Methodical Approach

In this chapter we describe how we have worked and the methodology we have used to accomplish our study. The chapter starts with a presentation of our choice of subject, our methodical approach and the theory and theoretical concepts we have used. The chapter continues with a description of how we have gathered our empirical data and is concluded with a critical review of our sources.

2.1 Choice of Subject

Football is a sport that in recent years has experienced a major transformation. Professional football has become an industry, in which the clubs are run just like any other company. A number of recent major transactions in the world of football, like the investment-bank Morgan Stanley's purchase of the Italy based football club Fiorentina, MTG's purchase of stocks in the Swedish club Djurgården, and Anschutz Entertainment Group's bid on the Swedish club Hammarby, display this transformation and how contemporary the subject is.

We were interested in the developments that had lead to this transformation, and decided to conduct a study on the subject. Furthermore, the area was fairly unexplored and we felt that we, with our interest and knowledge about the game, would contribute to explaining the nature of the business in professional football clubs. After having examined the football business more thoroughly, we understood the importance of having some kind of competitive advantage, not only in the game of football, but also in the business of football. Therefore, a natural step to take was to narrow down the subject and only focus on strategic business matters concerning competitive advantages.

2.2 Methodical Approach

To search for an understanding of our problem formulation, we found an approach with a qualitative method useful, since we intend to investigate the nature of a complex subject, which is explained by qualitative variables. We have tried to understand which factors that influence the phenomena of competitive advantages in professional football clubs and tried gather these in a concept, a model of the phenomena, which is one of the goals with a qualitative method⁶.

We have combined empirical studies with literature studies in this thesis, which means that it has a methodical approach of both inductive and deductive phases. This choice of approach gives the investigators more possibilities to avoid, or at least reduce, weaknesses in using only

⁶ Eneroth (1984) *Hur mäter man "vackert"?*, pp. 48-50

one of the two approaches, deduction and induction.⁷ Furthermore, this combined approach was necessary for our study, because we wanted to both create a model of the reality, the football business, and to test and apply existing theoretical models on the football business. This would give us a greater understanding of our problem while providing us with knowledge needed to draw conclusions.

2.3 Choice of Theory

Since our purpose of this study is to explain the nature and sources of competitive advantages in professional football clubs, we have made a thorough study of available literature on the subject. This implies that we have been studying literature on both competitive advantages and football business.

Competitive Advantages

In the last couple of decades, theories about competitive advantage have been divided in two different schools of thought, the industrial organisation paradigm and the resource-based view⁸. Michael Porter, who is one of the representatives of the industrial organisation paradigm, says that a firm's market position and the external environment in the industry explain the emergence of competitive advantages. According to Porter, firms have to choose between three generic strategies (cost leadership, differentiation and focus) in order to gain a competitive advantage⁹. We found, however, that Porter's explanation couldn't quite be applied to football clubs. Following his low cost strategy and trying to reduce costs wouldn't work, since reducing costs would mean reducing wages, which according to some studies is associated with lower league positions. Thus, we found Porter's low cost strategy to be less suitable for a thesis about football. Porter's other generic strategies wouldn't either fit into the world of football, since football clubs can't focus on a specific market segment or differentiate their product.

Since Porter's explanation that the external factors are the creator of competitive advantages wasn't appropriate, we chose to focus on theories saying that the internal factors are sources to competitive advantages. The most suitable theory we found was the resource-based view introduced by Barney and Wernerfelt¹⁰. They suggest an analysis of the resources and capabilities within the organisation in order to explain why a firm possess a competitive advantage over competitors.

We also found a need to address the resources to some part of the company to deepen our analysis; hence we needed some theory that divided the company in several parts. We knew the basic dividing in the tangible and intangible resources of the company, but we needed something that focused even more on the intangible part of the company. With the help of our supervisors, we found the solution in the theories on the intellectual capital of the company.

We are well aware of that other theories exist that could be used in our study. However, we don't believe that the usage of additional theories would have added much value to our

⁷ Alvesson & Sköldbberg (1994) *Tolkning och reflektion*. pp. 42-46

⁸ Eneroth & Malm (1999) *Knowledge webs & generative relations – On the development of competences in foggy landscapes*, p. 2

⁹ Porter (1985) *Competitive Advantage*, p. 11

¹⁰ Wernerfelt (1984) The Resource-based View of the Firm, *Strategic Management Journal*, 5(2) p. 172

analysis or affected our conclusions. We think that the theories presented in Chapter 3 have been sufficient bearing in mind of the purpose of this thesis.

Football Business

We have made thorough studies of all kinds of literature dealing with the business of football and sports. These studies enabled us to create Chapter 4, which consists of three main parts. The first is a presentation of existing theories about football business that were relevant to our analysis and conclusions. The second is the football business-framework, which is a model explaining the relation between financial results and sporting success in professional football. This framework was created by us and included in Chapter 4, because we felt it was necessary to describe the model before the analysis. The third part deals with recent developments of the football industry that are needed to bear in mind when analysing the business of football.

Choice of theories – Summary

The literature studies have given us knowledge, enabling us to continue our investigation with an analysis of the empirical findings, as well as the theoretical concepts.

Even though we felt that we had a broad knowledge base to stand on, we felt that we, in order to obtain the broadest knowledge framework possible, constantly had to search for all types of relevant books, articles, studies and information on the Internet and various databases. Parts of this literature are found in our list of references and are also used in Chapter 3 and 4. The search-words and phrases we used where among others: football, business, plc's (public limited company), sport, intellectual capital, Resource-based View and competitive advantage.

2.4 Empirical Study

2.4.1 Source Framework

As our study has a combination of an inductive and a deductive approach, the empirical findings play a central role in our study. We wanted our empirical findings to give us sufficient knowledge about the problem of the thesis as well as base to stand on when creating a model of the football business. As a result we chose to conduct an empirical study that would provide us with a broad understanding of the football business as well as deep insights of the business in certain clubs. The main idea of the empirical study was that the findings would enlighten those resources that were important to the professional football clubs' business. Since we wanted to obtain an understanding of the football business as a phenomenon and not only the business of a certain club, we chose to study a number of different clubs instead of making a thorough case study of one single club.

In order to get the broad understanding we interviewed a number of so called experts who in their profession closely follow the football industry. The deeper insights were mainly obtained through interviews with persons in leading positions within professional football clubs. In addition we read articles about the clubs and in the case of Manchester United vs. BSKyB, the study was based solely on already published material.

The case about Manchester United was chosen because of the amount of information that was available in already published material. Besides, a study of one of the world's most successful

football clubs in recent years was interesting. The other studied clubs were all chosen from the Premier Division in Sweden, due to geographical and financial restraints and the limited time for our study.

2.4.2 Data Collection

We chose to conduct interviews instead of an inquiry investigation, since interviews would give us more aspects and opinions from the persons that were interviewed. Furthermore, we feel that the quality of the answers improve and the credibility increases with interviews compared to an inquiry investigation with its standardised questions.

Our interviews have been made over telephone, via e-mail, as well as personal interviews. The personal interview lasted for about an hour, which was enough to give us answers on the questions we had. The telephone interviews were carefully planned and the interviewed persons were contacted before the actual interview in order to prepare for a relatively short interview. All interviews made over telephone lasted between ten to thirty minutes. When conducting the interviews via e-mail, we sent out a number of well-formulated questions that required profound answers. To our surprise, the questions were very thoroughly answered and the interviews proved to be a successful method.

Our questions were all based on our problem formulation in Chapter 1, but also on the knowledge of the theories included in Chapter 3 and the football phenomena described in Chapter 4. The questions were not divided in any special parts with different focus on importance. Instead our questions were formulated in a straight line, as we found there was no need for a special structure.

2.5 Analytical Approach

When conducting our analysis, we started by analysing the empirical findings. From the studied clubs and the experts' opinion, we were able to list the resources that were considered to be important to professional football clubs. These resources were then further analysed and the VRIO-framework was applied to them. The resources from our empirical findings were also put into the theories of Intellectual Capital. With this approach we were able to create a number of models of the football business explaining the nature and sources of gaining competitive advantages.

2.6 Criticism of Secondary Data

There are certain factors, which should be considered, when judging the sources and references involved in a paper¹¹:

- Criticism and analysis of the sources contemporarity
- Criticism of tendency, or if the author consciously/unconsciously has bent the given information in order to suit his or hers best interest
- Analysis of the mutual dependency

¹¹ Eriksson & Wiedersheim-Paul (1997) *Att utreda, forska & rapportera*, pp. 154

We have used literature ranging from 1980 to 2001, but with the emphasis on the most current literature. Therefore, we consider that the demand for contemporary literature is satisfied. Even though some of the literature is older than the other, it doesn't necessarily mean that it is less contemporary. We have only chosen literature that is contemporary, regardless of its age.

When considering the critics of tendency, we find that the authors' chosen angle in their books don't harm our study in any way. The authors of our literature all have different aspects and views of the subject, and gain nothing on bending data. However, one must consider that the authors of course, believes in what they are saying, and therefore only sees one truth on the matter. In order to prevent this, we have read the work of several authors, and used those frequently cited, thus increasing the credibility of the chosen literature.

When the question of the secondary data mutual dependence comes up, we've found that our chosen literature is partly depending on each other. To counteract this, we have tried to be open-minded for adjacent literature and have also tried to take part of the origin sources often quoted.

In our choice of theory, we have decided only to take chosen parts from the literature and theoretical concepts. One should be aware of that this could affect our paper in certain ways. We have, however, tried not to set any theories aside, which could be important for our paper, but we have, however, deliberately chosen the theories we find important and those we think assists us in the writing of this thesis.

We are aware of the fact that much attention in Chapter 3 is drawn to the work of Jay B. Barney. However, we do not consider this to be a problem. Since we are writing this master thesis in a Resource-based View, we consider the author's theory to be so well known, and his VRIO-framework so familiar, that one cannot dismiss his theoretical concepts as being of lesser importance. The fact that a lot of contemporary papers also uses Barney's framework is to us an evidence of the impact this author has had to the Resource-based View.

2.7 Criticism of Primary Data

If one tries to investigate the primary data according to the factors mentioned above in the criticism of our secondary data, we find the following:

The primary data is, naturally, contemporary. Concerning the question of critics of tendency, we find that there are no interests from our respondents to lie or deceive, because the possibilities to obtain or protect interest of their own are very limited. One can, however, not dismiss the fact that we are talking about peoples' perceptions of a sport. Therefore, it is highly personal thoughts and emotions, which colours the answers. Whether our primary data are mutually dependent or not, we can only say that we believe that our chosen respondents are not depending on each other, due to their independent positions in the football world.

3 Theoretical Concepts

In this chapter, we will describe the theories and concepts, which we find could be used when explaining a football club's long-term success. The chapter begins with an introduction to chosen parts of the Resource-based View of competitive advantage, followed by a description of the tangible and intangible resources of the firm with a highlight on the Intellectual Capital.

3.1 The Resource-based View

The rapid changes in the world with globalisation of markets and evolution of technology have revealed certain flaws and limitations of explaining competitive advantages as being created from the external environment. The need for a new way of explaining the sources to competitive advantages became more and more evident¹².

The change came with the alteration in focus from the generic strategies towards the resources behind the differentiation, low-cost leadership and focus. This was the beginning of what became known as the Resource-based View of the firm. The conclusion of the Resource-Based View is that the company is considered as a bundle of resources, defined as '*anything that could be thought of as a strength or weakness of a given firm*'¹³. The perspective is based on the notion that the company's resources and capabilities may be heterogeneously distributed across competing companies (resource heterogeneity), and that they can be stable over time (resource immobility). To gain long-term competitive advantages, one imagines that the company can acquire generic resources from a factor market. All of the companies have access to this factor market, but only a few are able to transform the generic resources into strategic ones.

3.1.1 The VRIO-framework

One of the founders and supporters of the Resource-Based View was Jay B. Barney. With his book *Gaining and Sustaining Competitive Advantage* (1997) he looked at the sources of competitive advantages according to the Resource-based View.

In the beginning of his book, Barney suggests that in order to be a strong competitor in a market, you have to have a clear strategy and a clear set of goals, which illustrates the meaning and purpose of the organisation. It is, however, of equal importance to implement a good strategic management. Barney means that a strategy...

¹² Normann & Ramírez (1998) *Designing Interactive Strategy*, p. 9

¹³ Wernerfelt,(1984) The Resource-based View of the Firm, *Strategic Management Journal*, 5(2), p.172

‘...is a pattern of resource allocation that enables a firm to maintain or improve their performance. A ‘good’ strategy is a strategy that neutralizes threats and exploits opportunities while capitalizing in strengths and avoiding or fixing weaknesses. Strategic management is the process through which strategies are chosen and implemented.’¹⁴

But how does one measure if the strategy chosen by the company is a success? The most common way of doing this is by measuring the company’s performance. Performance can be measured on five levels¹⁵:

1. *Firm survival* – this form of measuring is built on the notion that if a company is able to survive, it has to generate at least normal economic value.
2. *Accounting* – in this form you often see performance measured as different kind of ratios, i.e. profitability ratios, liquidity ratios, leverage ratios and activity ratios.
3. *Multiple-stakeholders view* – in this view of measuring performance, organisations’ performance should be evaluated relatively to the preferences and desires of stakeholders that provide resources to the company.
4. *Present-value* – measures the company’s performance through the cash flows generated by the company.
5. *Other* – these views of measuring the performance, includes Tobin’s q $\left(\frac{\text{MarketValue}}{\text{BookValue}} \right)^{16}$, stock market measures and other alternative market measures.

Barney, like Porter with his Five Forces of Competition, acknowledges the need for evaluating the environmental threats and opportunities, in order to understand how, when and where to act for the gaining of competitive advantages. For doing this, Barney suggests the use of the Five Forces Model by Porter¹⁷, and the use of the SWOT-analysis¹⁸. The SWOT-analysis is one of the most basic ways of mapping the company’s surroundings. It contains the analysis of the **S**trengths, the **W**eaknesses, and the **O**pportunities and **T**hreats facing the company. Barney suggests that a company can exploit the opportunities in an industry in different ways, depending on what the industry structure looks like.¹⁹

¹⁴ Barney (1997) *Gaining and Sustaining Competitive Advantage*, p.27

¹⁵ Ibid, pp. 34-63

¹⁶ Petrash (1999) *Intellectual Capital Accounting as a Management Tool*, p. 203

¹⁷ Barney (1997) *Gaining and Sustaining Competitive Advantage*, pp. 69-92

¹⁸ Ibid, p. 65, 99

¹⁹ Ibid, p. 106

Industry Structure	Opportunities
Fragmented industry	Consolidation - Discovery of new economies of scale - Altering ownership structure
Emerging industry	First mover advantages - Technological leadership - Preemption of strategically valuable assets
Mature industry	Creation of customer-switching costs Product refinement Investment in service quality Process innovation
Declining industry	Leadership strategy Niche strategy Harvest strategy Divestment strategy
International strategy	Multinational organization Global organization

Table 3.1 Source: Barney, Jay B. (1997) 'Gaining and Sustaining Competitive Advantage', p.106

After determining the external environment in the form of industry structure and the threats and opportunities facing the company, Barney continues by suggesting the examination of the company's strengths and weaknesses in the form of its resources and capabilities.²⁰ This is where Barney's framework, VRIO²¹, enters. The VRIO-framework examines the **V**alue, the **R**areness, the **I**mitability of a company's resources, and how the **O**rganisation exploits the potential of the company's resources. This model is structured in a series of four questions²²:

1. *The Question of Value* – In order to be accounted for as valuable, the resources and capabilities must be able to exploit environmental opportunities and neutralise environmental threats. If they don't do this, they can instead be thought of as weaknesses. If you do have valuable resources and capabilities it is, however, not sure that they will remain that way. Changes in customer tastes, industries' structure or technology can undermine the value of the resources and capabilities. If this should occur, Barney sees two choices available for the company: (1) Develop new and valuable resources and capabilities or (2) Attempt to apply traditional strengths in new ways.
2. *The Question of Rareness* – If the resource or capability within the company is available to, or possessed by numerous other companies, it is less likely that this is a source to competitive advantage. Valuable resources and capabilities will, according to Barney, be a source for at least a temporary competitive advantage.
3. *The Question of Imitability* – Valuable and rare resources and capabilities can be sources of competitive advantages if the companies not possessing these face a cost disadvantage in obtaining them. The sources of this cost disadvantage can vary from unique historical conditions to patents.
4. *The Question of Organisation* – To fully exploit the value, rareness and imitability of the company's resources and capabilities, the company must be organised to gain the full potential of these resources and capabilities. Barney sees the company's formal reporting structure, its explicit management control systems and its compensation policies as complementary resources and capabilities, which combined with other

²⁰ Barney (1997) *Gaining and Sustaining Competitive Advantage*, p. 134

²¹ *Ibid*, p. 145

²² *Ibid*, pp. 145-164

resources and capabilities can enable the company to gain full benefit of competitive advantages.

If you analyse your company’s resources and capabilities according to the parameters mentioned above, it’s possible to apply the VRIO-framework by Barney:²³

Valuable?	Rare?	Costly to imitate?	Exploited by the organisation?	Competitive implications
No	-	-	No	Competitive disadvantage
Yes	No	-	↕	Competitive parity
Yes	Yes	No		Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

Figure 3.1 The VRIO-framework Source: Barney, Jay B. (1997) *Gaining and Sustaining Competitive Advantage*, p. 163

3.2 The Resources of the Company

In his article ‘*Bringing Managers Back In: A resource-based analysis of the role of managers in creating and sustaining competitive advantages for the firms*’, based on the traditional notion of the Resource-based View, Barney determines that the view focus on the strengths and weaknesses - the resources and capabilities - of the company²⁴. Barney claims that the resources and capabilities of a company...

‘...include all of the financial, physical, human and organizational assets used by a firm to develop, manufacture, and deliver products or services to its customers.’²⁵

- 1) *Financial Resources* – these resources includes debt, equity, retained earnings, in short everything that has to do with the financial parts of the company.
- 2) *Physical Resources* – these includes the machines, manufacturing facilities, and building firms used in their operations.
- 3) *Human Resources* – here Barney includes all the experience, knowledge, judgement, risk-taking propensity, and wisdom of individuals associated with a company.
- 4) *Organizational Resources* – these resources includes the history, relationships, trust and organizational culture that is developed through the internal structure, control systems and dominant management style.

²³ Barney (1997) *Gaining and Sustaining Competitive Advantage*, p. 163

²⁴ Barney (1996) Texas A&M University, *Bringing Managers back in*, p. 3

²⁵ Ibid, p.3-4

The most common way of dividing the resources of the company is by dividing it into two parts: The *tangible resources* or the concrete resources of the company²⁶, and the *intangible resources*, the more abstract resources of the company²⁷.

More and more indicates that the intangible resources of a company play an increasingly important role in its value. In 1962, its physical or hard capital represented 62% of the company's value. By 1992 the percentage had declined to 38% and has continued to fall ever since²⁸. This indicates that tangible assets such as property, plant and equipment continue to be important factors in traditional production, but that the importance in the knowledge-based industries has declined in favour of the intangible resources²⁹. There is, however, a difference of opinion about what these intangible resources actually are. To make this form of resources visible, some authors claim that it is the value-gap between the market value of a company and its balance sheet³⁰. The term *intellectual capital* is often used to distinguish the intangible resources from the tangible³¹.

3.2.1 The Intellectual Capital

Intellectual capital, the more generic name of intangible resources, has caused some confusion as many think of this term as only applying to people. The easiest way of explaining the term intellectual capital, is by saying that the intellectual capital are those resources created by people – as well as the people themselves³². One can also make the distinction between what is left when the people have gone home, and the people themselves or what the company owns and what it doesn't. A broad categorisation of the intellectual capital has emerged from the work of Sveiby, Edvinsson and others:

- 1) *Structural Capital* – This category is usually divided into two parts. The customer (external structural) capital, and the organisational (internal structural) capital. The first part is about resources that enable and stimulate people outside the organisation to work with the organisation. It includes customer contracts, relationships, loyalty, satisfaction, market share, image, reputation, brands, distribution networks and channels. The second part involves all that has to do with the internal operations and efficiency. It relates to the strategies, systems, methodologies and all the explicit knowledge such as patents, know-how, databases and technology. The culture of the organisation is also included in this part.
- 2) *Human Capital* – This category is made up of the people in the organisation, their individual capability and commitment, their personal knowledge and experience. This is where the strength of teams and the effectiveness of leadership belong.³³

However, different authors have different views on what the components of the intellectual capital are. Brinker suggests that there is also a customer capital, adding to the structural and

²⁶ Amitt & Schoemaker (1993) Strategic assets and organizational rents, *Strategic Management Journal*, 14, pp. 33-46

²⁷ Normann & Ramírez (1998) *Designing Interactive Strategy*, p. 9

²⁸ Williams (2000) *Is a company's intellectual capital performance and intellectual capital disclosure practises related?*, p. 4

²⁹ Ibid

³⁰ Mayo (2001) *The Human Value of the Enterprise; People: Managing the Metrics of Your Most Important Assets*, pp. 26-27

³¹ Ibid

³² Ibid, p. 30

³³ Ibid, pp. 30-31

human capital that should be considered when judging a company's intellectual capital. Brooking goes one step further and suggests that there are four major resource types: market resources, intellectual property resources, human-centred resources and infrastructure resources. Draper provides the broadest definition identifying six components of the intellectual capital: human capital, structural capital, customer capital, organisational capital, innovation capital and process capital³⁴. (See Appendix A for a summary of these different views on intellectual capital.)

One of the clearest pictures of the different components of the intellectual capital is visualised in the 'Intellectual Capital Value Scheme'³⁵. This model clarifies the relationship between the market value of a company and the value on the balance sheet, as well as the components of the intellectual capital:

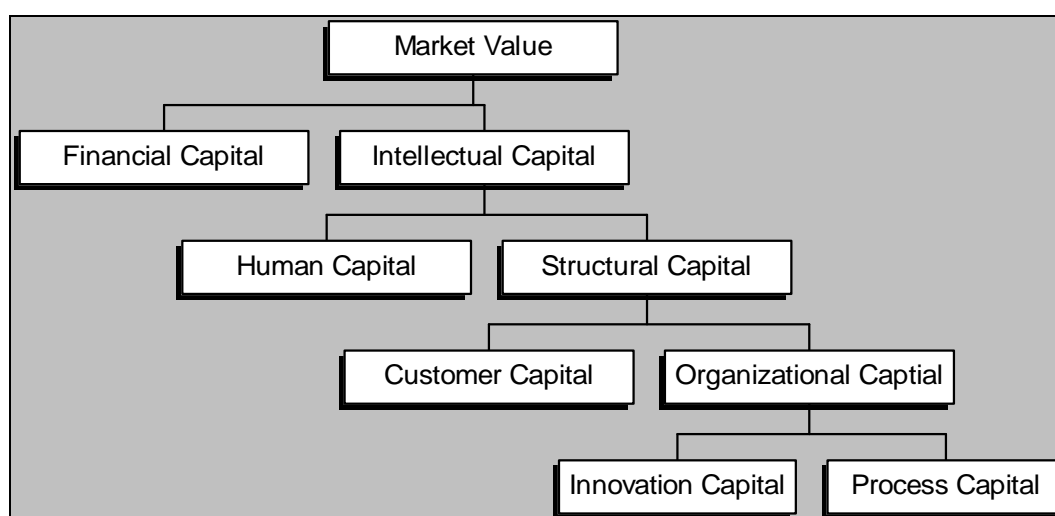


Figure 3.2 The Intellectual Value Scheme. Source: Edvinsson & Malone (1997) 'The Intellectual Capital'

During recent years, companies have more and more recognised the potential that lies within the intellectual capital. Well known was the fact that it is the unique structural capital within a company that helps the human capital to fully exploit its potential³⁶, but how does one measure this relationship?

One of the most famous spokespersons within the Intellectual Capital-movement, Leif Edvinsson, suggests the use of the 'IC Multiplier'³⁷. This tool calculates a ratio between the structural capital of a company and the human capital, i.e. Structural Capital/Human Capital. Based on the reasoning above, it is obvious that a ratio or IC Multiplier <1, leads to less value creation and even value destruction.

The IC Multiplier gives the companies a good chance to calculate their IC performance, but they still have to decide which parts belonging to the structural capital and which parts belonging to the human capital. Another tool, based on the Intellectual Value Scheme above, has also been developed in the presence of Leif Edvinsson. This tool, called 'IC Rating', gives

³⁴ Williams (2000) *Is a company's intellectual capital performance and intellectual capital disclosure practises related?*, pp. 5-6

³⁵ Edvinsson & Malone (1997) *The Intellectual Capital*

³⁶ Ernst & Young-studien (1999), p. 9

³⁷ Åberg & Edvinsson (2001) *The IC Multiplier and the importance of structural capital*, p. 6

the companies an insight to the various parts of the company as explained in the conceptual framework of the IC Rating³⁸:

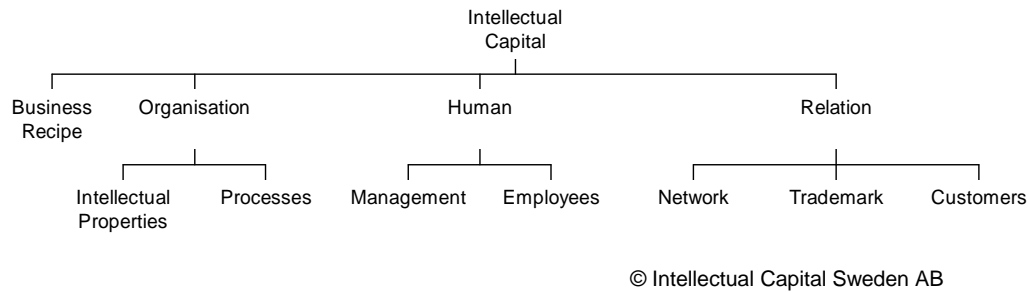


Figure 3.3 Conceptual framework of the IC Rating Source: Åberg & Edvinsson (2001)

Given the various components of the intellectual capital, the company can calculate the IC Multiplier-ratio more easily and more accurately. This information is then processed in order to measure and compare the IC performance with other companies.

³⁸ Åberg & Edvinsson (2001) 'The IC Multiplier and the importance of structural capital', p. 7

4 Football Phenomena

In this chapter we will give the reader a chance to take a closer look at the football industry. This chapter includes both theories about football and its industry as well as a presentation of how the game has changed over the past few decades, off the football field.

4.1 Football Theories

Ever since the game football was played for the first time, there have always been a loser and a winner on the football field. The game's original idea was about people co-operating in teams in a joined effort to win over other teams. However, as we have tried to explain in the first chapter, the football has turned into a giant industry with clubs having an annual turnover as high as £117 Million³⁹ Manchester Specific football theories have been developed, especially in the economics area, dealing with what determines demand and how the restricted labour market is affecting the competition. It has been very hard to find any relevant theories in the area of business administration, but in this section we will present those theories that we've found. We will also present a theoretical model created by the authors of this thesis, which we call *The Circle and Scales of Success*.

4.1.1 The Peculiar of Football

Even though professional football clubs have become more like regular companies and formed an industry of their own, the football industry differs very much from traditional industries. One of the key features of the industry's peculiarity is how demand is determined. Whereas a positive relation between the demand for matches (product) and the uncertainty of outcome (match results) exists, the major determinant of any one club's demand is success on the football field. In other words, each club can maximise income from gate receipts by maximising its number of wins, but the league (industry) as a whole may suffer⁴⁰. Another main determinant of the demand is the emotional factor. Adam Brown has stated:

'Brand loyalty, rather than quality or value for money, is the determining factor in football 'consumption', an emotional commitment to the team which is above and beyond normal consumer choice'⁴¹

However, studies have been made showing that the football consumers also consider the quality of stadium, the quality of the game itself and the price when choosing between products⁴².

³⁹ Deloitte & Touche *England's Premier Clubs – April 2001*, p 38

⁴⁰ Gratton (2000) *The Peculiar Economics of English Professional Football*, p. 11

⁴¹ Brown (2000) *Taken to Task: The Football Task Force, Government and the Regulation of the People's Game*, p. 256

⁴² Morrow (1999) *The New Business of Football*, pp. 8-10

The relationship between the customers (supporters) and the producer (club) is another peculiarity⁴³. We've already mentioned the extreme loyalty of the customers, which is a peculiar situation. In a normal business, customers would change to a competing producer if the first producer raises the prices, but in the football industry, supporters stick to their club even though they raise the ticket prices. The supporters also contribute to the output of the club through their presence on the stadium, which can be seen in the 'win' rate difference between home and away games. They also add value to the club, because of the increased likelihood of televised matches if the stadium is fully packed⁴⁴. Sometimes the supporters help the club out if the club's in financial difficulties by donating money. All taken together, these peculiarities mean that football supporters are more than just customers.

The way football clubs are competing within the industry also contributes to make the industry peculiar. While normal companies solely focus on business success, football clubs have to compete on two different levels – the football level and the business level. On the football level they have to win matches against competitors in order to be successful and on the business levels they, just like other companies, compete for customers. However, without competition on the football level the clubs cannot exist. The matches against rival clubs are often a vital income source for many clubs⁴⁵. Just consider the matches between city rivals Celtic and Rangers in Glasgow, Scotland. No wonder the games are called the 'old firm' Another peculiarity concerning competition is the one that derives from the restriction in competition on the labour market, due to regulated transfer systems. The competition in the football industry is also restricted due to various football associations around the world, redistributing funds from centrally negotiated broadcast deals, player transfers and merchandising revenues in an attempt to ensure competitive balance between clubs.

4.2 The Football Business-Framework

After thorough studies of existing theoretical models of the football business and with years of experience from watching the international football scene very closely, the authors of this thesis have been able to create a theoretical framework that will be presented in this section. This framework is used to explain the relation between sporting and financial matters.

4.2.1 The Circle of Success

Albeit, sporting success is the main objective for most clubs, they can't ignore the importance of financial results. Of course, some clubs have achieved good football results without spending too much money, but studies made by Deloitte & Touche suggest that high (low) wages and salaries are associated with high (low) league position⁴⁶. Another study, performed by Amir & Livne tells us that investment in players is positively associated with future benefits, i.e. high league position, while disposal of players is associated with a decline in future benefits⁴⁷. However, clubs can't just raise the player wages and expect to win every match, but with money available they can bring in some new expensive but good players and

⁴³ Hamil et al (2001b) *The State of the Game* p 10

⁴⁴ Ibid, p. 11

⁴⁵ Boyle (2000) *Sports Clubs, Multi-Media Company or Media Corporation?*, p. 6.

⁴⁶ Deloitte & Touche *England's Premier Clubs – April 2001*, p. 21

⁴⁷ Amir & Livne (2000) *Accounting for Human Capital when Labor Mobility is Restricted* pp. 15-23

be able to offer key players new contracts. After all, good players are vital in the chase for sporting success and being able to pay them what they demand is crucial.

With a good financial status, clubs like Manchester United and Arsenal have been able to build and sustain a competitive player squad, which in turn has resulted in high league positions and tickets to Champions League. Playing in Champions League and being one of the top clubs in England means that revenues both from fans and from broadcasting increase. These revenues enable the clubs to build an even more competitive squad for future competitions. Whatever that came first, good players or good financial status, Manchester United and Arsenal are examples of clubs that enjoy a positive situation in what we refer to as the *Circle of Success*.

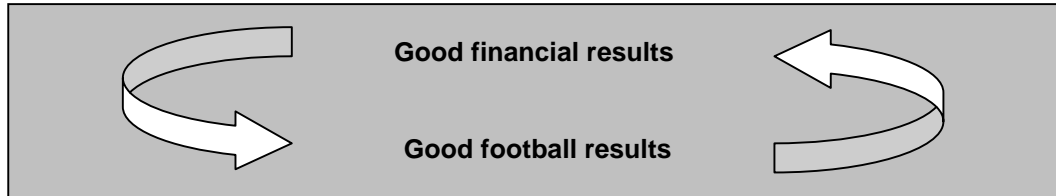


Figure 1.2 The Circle of Success

Albeit every club tries to be in the circle of success, many of them fail. Since there are losers every time there are winners on the football field, it's impossible for all clubs to achieve sporting success at the same time. Therefore, some clubs run the risk to end up in a circle with negative consequences. Sheffield Wednesday is a good example of such a club. After a few bad player investments that didn't pay off, and having sold some of their stars at very low prices, Sheffield Wednesday ended up with \$16 million in debts. Due to the club's financial problems, the board weren't willing to give the football manager sufficient transfer funds. Nor were they able to offer any new or existing players lucrative contracts that would tie them to the club for several years. As a result of this, the club wasn't able to hold a player squad good enough to compete on the highest level in England. In the 1999/2000 season, an eight-year spell in the English Premier Division came to an abrupt end, and one of the biggest English clubs was relegated to the First Division. The negative trend had started as the revenues decreased and lots of players left the club for little or no money. In the ongoing season Sheffield Wednesday is battling for survival in the First Division and the debts are still in the same range. Very much time and work will be necessary in order to get the club out of the negative direction in the Circle of Success and back to the Premier Division.

4.2.2 The Scales of Success

The Circle of Success could also be seen as a Scale of Success (Figure 1.3). Very often a football club has to choose between either good football results or good financial results. Let us look at the example of Coventry City FC. Before the start of the 2000/01 season, the Italian side Inter Milan offered Coventry £13 million in exchange for the young talented striker Robbie Keane. Their bid was eventually agreed on, and Coventry sold their most promising player to balance to books. In this case the club gave priority to the financial results instead of keeping their best player. After a bad season Coventry finished in 19th place in Premier League and were relegated to Division One. The loss of Robbie Keane was of course not the only reason to the relegation, but the player would have been helpful in the clubs fight for survival in the top division, especially since he scored 9 goals out of 17 appearances for Leeds

United later that season. Now Coventry will have to settle for a loss of revenue estimated to £15 million, due to the worse conditions in Division One⁴⁸.



Figure 1.3 The Scales of Success

4.2.3 Finding the Balance

In some cases, there is a trade-off between football and financial results, as the Scales of Success show. Clubs in financial troubles won't be able to invest in order to leverage the football results while trying to keep their financial status at a healthy level. Whatever the clubs choose to give priority to, the choice can lead to either a positive or negative direction in the Circle of Success. This implies that the financial status of the club is very important and decisive for future sporting success. If a club already is wealthy, it is easier to maintain the balance between financial and football results, since investments in new players don't affect the financial status very much. As the wealthy clubs don't have to trade-off between financial and football results, they can easier go into the Circle of Success in a positive direction.

Since the financial status is playing such an important role, it is interesting to know how a club can get control of this vital factor. Of course, the clubs can sell off some players to reduce the wages and bring in some capital in form of transfer fees. This way of improving the financial status is risky though, as the Coventry case shows.

4.3 The Search for New Sources of Income

To complete our presentation, we will enlighten certain events and facts, which have led to the creation of the football industry of today. These are very important to have in mind when analysing the football industry.

4.3.1 The Bosman Ruling

In the mid-ninety's Jean-Marc Bosman found himself being in a somewhat odd position. Bosman's contract with 2nd division Belgium club side RFC Liege had run out and he wanted to be transferred to the French club Dunkerque. Liege, however, refused to let Bosman leave

⁴⁸ Moxley (2001) Hedman linked to Parma switch

without the payment of a transfer fee which Dunkerque were unwilling to pay⁴⁹. At the same time he was on reduced wages since he was no longer a first team player. Jean-Marc Bosman decided to take his Belgian club to the European Court for restraint of trade. After several months, he won his case and the right for all EU players to a free transfer at the end of their contracts⁵⁰. Previously, out of contract players were not allowed to sign a contract with a new team until a transfer fee had been paid, or they had been granted a free transfer⁵¹.

The Bosman ruling presents two clear and precise acknowledgements: (1) It is not allowed by clubs or athletic-organisations to try and limit the number of foreign players within the organisation. (2) Athletes, who are EU-citizens, are allowed free movement within the EU. These rules are well known when it comes to traditional labour agreements within the European Union. The European Court states furthermore that clubs and organisations should not apply or adopt rules and regulations that give the clubs right to compensation when a non-contracted player moves to another club⁵². The consequences are that it is now the players and not the clubs who will benefit from the transfer-fees.

Seen from the football club's perspective, there has been some hostility against the Bosman ruling. FIFA, in turn, repeatedly delayed the EU-investigation of the transfer systems, and it wasn't until EU threatened to make the transfer systems illegal that FIFA reacted, with the implication that all 49 UEFA countries decided to adapt to the Bosman ruling, although not every UEFA country is a member of the EU⁵³.

The Bosman ruling had its limitations, and there have in recent years been some changes from the original statement. The European Commission has stated that since football has special social implications, one has to consider this in making decisions impacting the future of the game. Two major changes have occurred with a direct impact on the football industry: (1) Clubs who develop players have the right to demand compensation in the form of a percentage of the transfer fee. This rule applies for players up to 23 years of age. 5% of the transfer fees after the age of 23 should be divided between clubs the player has played at before. (2) International transfers will be limited to a two-month period from the end of May to the beginning of August. These measures have been taken in order to prevent big clubs from buying in star players from around the world during a campaign⁵⁴.

The most visible implication of the Bosman ruling is the booming wage increase. When players won the right to leave at the end of their contract without their club demanding a fee, the players could negotiate new contracts with such soaring salaries as Steve McManaman's £60,000-a-week at Real Madrid. The salary is one of the few things a football club actually can influence. If a club presents an unreasonable contract, there is almost always another club offering a better deal. Since it is now up to the player and not the club, the player chooses the one club where he can make the most money.

The Bosman ruling had a major impact on the European football business as a whole. Since it was the players and not the clubs who negotiated the deals when the players were out of contract, the clubs found themselves losing their largest source of income – the transfer fees. This led to a change of focus for the football clubs, who had to find other sources of income.

⁴⁹ Blanpain, & Inston (1996) *The Bosman Case*

⁵⁰ *The Bosman Ruling* (electronic reference)

⁵¹ Blanpain, & Inston (1996) *The Bosman Case*

⁵² Hallbäck (2001) *BOSMAN – en plåga eller hjälte?*

⁵³ *The Bosman Ruling and UEFA* (electronic reference)

⁵⁴ *Europe Announces Transfer Changes* (electronic reference)

4.3.2 Stadium Developments

The Hillsborough disaster was just one of many tragedies in just a couple of years in Europe. In 1985, 39 spectators were squeezed and trampled to death on the Heysel stadium in Brussels under a riot before the European Cup final between Juventus and Liverpool, and in the same year, 56 people died in the Bradford fire at Valley Parade, the home ground for Bradford AFC.

The Hillsborough disaster had, as well as the Bosman ruling, a great impact on the whole football industry. The Taylor Report, the inquiry into the tragedy at Hillsborough, forced English football clubs to spend £600 million rebuilding their stadiums⁵⁵. Both the English government and the football clubs were spending many millions of pounds for the removal of terraces from the top stadium, and for general reconstruction of stadium facilities. The clubs also received money from the Football trust for ground redevelopment, which altogether contributed to that the clubs could create new stands and stadiums in the country. All of these new facilities also provided a chance to increase the clubs revenues on both match and non-match days⁵⁶.

At the same time, the attitude of clubs towards revenue and profit changed dramatically. The clubs chose a diversification strategy to achieve this, which was based on taking advantage of commercial opportunities. The need for redeveloping stadiums coincided with the desire to increase revenue, leading to the construction of theme cafes, bars and restaurants. The sale of franchised outlets in some grounds (Liverpool FC has a McDonald's store at Anfield), expanded and enhanced visitor centres and museums have altogether made the stadium a nicer place to visit also 'off the game'. Some clubs, like Chelsea FC and Sheffield United, have adopted the approach of bigger and wide-ranging club shops and 'mega-stores', hotels and conference centres. New types of merchandise connected to the football clubs continue to emerge, ranging from club-badges to club credit cards and mobile phones, alongside with the more traditional flags, replica club shirts, scarves, household items etc.

All these changes in the football industry have led to a significant increase in the clubs' revenues, and football clubs have today chosen a strategy that is more focused on competing with cinemas, home entertainment and other sporting events. Merchandise and other additional elements around the actual game are deliberately targeted at the new preferred demographic of supporters, the more affluent supporters, those who attend in families and the less 'loyal'.

The key asset of most clubs nowadays, is the stadium. The thought among the clubs today is to maximise the revenues by using the stadium as much as possible, which also leads to a new social meaning for the game. Today the clubs are moving towards six-day operations on their stadiums for maximising their revenues, and also to make the stadium a place to visit in itself.

The stadium, thus, becomes a leisure and tourist facility of its own, especially for families with high levels of disposable income. For example are museums and stadium tours now commonplace at British stadiums. Another goal with the stadium development is to do the clubs financial performance less dependent on the team's performance on the match-days. The clubs are hoping to create revenue streams that survive also in times when the teams are

⁵⁵ Conn (1997) *The Football Business; Fair Game in the 90's?*

⁵⁶ Boon (2001) *TV cash - football's golden opportunity*

not performing at their top. With a basis of entertainment, leisure and ‘lifestyle-choices’, the clubs are determined to succeed with this goal.

4.3.3 The Media Boom

During the past few years, there has been a sudden interest from large media companies to invest in different football clubs, either as sponsors or owners. The most famous example is BSkyB’s attempted purchase of Manchester United, which will be presented in the next chapter. This deal was however stopped by the MMC, Monopolies and Mergers Commission, in England. Other media companies have also tried to buy a large portion of the shares in football clubs. Tottenham’s new owners ENIC Sports, for instance, decided, as soon as their take-over was concluded, to make a multimillion pound deal with a media company such as Sky, ntl., Telewest or Carlton Communications⁵⁷. Granada Media made a £20 million deal with Liverpool giving the club good possibilities to evolve into the digital age. The joint venture created, called Liverpool FC Broadband, is aiming to deliver live coverage of matches, betting and merchandising on the Internet, on WAP-enabled mobile phones and through digital TV. Manchester United signed a deal with Vodafone to sell wireless services and content to fans and named media rights consultancy Media Content as an adviser to the club. United have also approached Bill Gates of Microsoft, in order to create a new media company. Microsoft, Time-Warner and General Electric, the owners of the US broadcasters NBC, have responded in a positive way in the start of a joint company.⁵⁸

This trend of alliances between football clubs and media companies is obvious wherever you look (*See Appendix C for more examples*). In Sweden the media group MTG purchased shares in Djurgården Fotboll. They now control 17,2% of the shares and have already a contract regarding the rights to pay-per-view through the CATV-company com.hem. And earlier this year, the American billionaire Philip Anschutz bought himself a share in the Swedish football club Hammarby, a case that will be described in the following chapter. In Italy the business tycoon Silvio Berlusconi has both AC Milan and commercial television channels in his possession, and in France the TV channel Canal Plus owns Paris St Germain⁵⁹. The only country, in which this trend isn’t visible, is in Germany. Due to regulations stipulated by the German Football Association, the club itself has to have at least 50 percent plus one share of the shares, or 25 percent of the votes⁶⁰. This makes the clubs less attractive to invest in, since it is the clubs, and not an outside owner that influences the management of the clubs. Hence, there is no meaning for a media company, or any other company for that matter, to try to take control of a football club.

4.3.4 Media Development

In the late 80’s and beginning of the 90’s, media coverage of the top division matches was limited to the radio and television. Margaret Thatcher had in her days decided that the broadcasting right to the top division should be decided by auction in order to maintain a certain quality. BBC won each auction and was with *The Match of the Day*, a Saturday night fixture since 1964⁶¹, the leading supplier of top division matches.

⁵⁷ Hart & Bond (2000) *Graham welcomes ENIC’s arrival at Spurs*

⁵⁸ Draper (2000) *United sound out Gates over TVdeal*

⁵⁹ Andrewertha (2001) *Man U’s own goal*

⁶⁰ *Manchester United: BskyB verpflichtet sich zu Zurückhaltung*

⁶¹ Teather (2000) *Angry BBC Priced Out Of Market, The Guardian*, June 15th 2000

However, the Hillsborough disaster in 1989 brought about a great change. Along with the rebuilding of the stadiums came the possibility to improve the media friendliness. When the media was given better possibilities to cover the top division matches with enhanced quality, there was an increase in interest from other media companies, and the stakes got higher.

The latest auction, held by the Premier League in January 2000, reveals a three-year package with a beginning in August 2001⁶² (*See Appendix B for further information*). The implications of the auction were that the BBC program, Match of the Day, was to disappear from the TV screens, since BBC lost the bidding regarding the highlights of the games to ITV and its bid of £183m. Rupert Murdoch's BSkyB, succeeded in keeping the rights to live coverage of the Premier League matches with its bidding of £1.11bn for 66 matches. 40 matches were also bid upon by the cable company ntl: to be shown on a pay-per-view basis. The cost landed on £328m. Altogether, the auction brought £1.64bn to the Premier League to be distributed over three years⁶³.

The deal also means that the clubs themselves have the right to broadcast the matches on their own television channels. Taken under consideration, this indicates that the gap is widening between the Premier League and the First division⁶⁴. And the fact that the TV-money is distributed based on the merit awarded previous season, indicates that the gap is growing inside the Premier League. It is only when smaller clubs are playing friendly games, i.e. pre-season or non-competition games with top clubs, that the increasing amounts of money within broadcasting rights becomes visible for the smaller clubs.

Another insight to the vast sums involved in the Premier League is that the money is eaten up by the inflation in player wages. When the last deal was negotiated in 1996, there were few players earning more than £10,000 a week. Now, several players earn as much as £50,000 a week. All indicates that these sums will continue to rise alongside with the increasing amount of money involved in broadcasting rights.⁶⁵

There is, however, one thing that has to be considered in the future; the rights to broadcast the matches over the Internet. The larger clubs want to keep their online rights in order to show highlights of the game and goals on their websites. Manchester United's website, indicates in round figures eight million hits a month. This shows the potential available via the Internet, and smaller clubs with less capacity to make money on their websites have the opportunity to co-operate with separate online-companies to gain the full potential of this media.⁶⁶

Still, there is uncharted territory left to exploit when it comes to attracting money to the Premier League. At the last count there were 142 countries paying for coverage of Premiership games worth £32m a year. When compared to the latest deal, this means that the Premier League can expect to net in excess of £100m for the overseas rights between 2001 and 2004⁶⁷.

And, as if this was not enough, media companies have recently begun to create ventures with football clubs. As mentioned above, companies as the TV-channel Canal Plus, the Swedish media group MTG and Italian TV-channels all own a share of a football club.

⁶² Teather (2000) Angry BBC Priced Out Of Market, *The Guardian*, June 15th 2000

⁶³ Ibid

⁶⁴ Wilson (2000) Cash Will Divide Top Two Leagues, *The Guardian*, June 15th 2000

⁶⁵ Taylor (2000) TV Deal Heralds £100,000 Per Week Footballer, *The Guardian*, June 16th 2000

⁶⁶ Walter (2000) Who Gets The Internet Right To Premier League?, *The Times*, June 16th 2000

⁶⁷ Henderson (2000) Under-fire BBC Face Radio Battle, *The Observer*, July 2nd 2000

4.3.5 Clubs Going Public

As a consequence of the ever-increasing role that money plays in professional football clubs, financial matters in the clubs have been given more focus. This has resulted in clubs searching for alternative ways to finance the running of the club. First out in England to try the alternative that the stock exchange offers were Tottenham in 1983. Since then the number of clubs listed on one of the stock exchanges in England has increased considerably and amount today to more than twenty. The trend of transformation into Plc's can also be seen in other countries like Germany, Italy and Spain.

As the clubs go public, the ownership structure changes. The clubs used to be owned by one or a few wealthy supporters loving their club, but in recent years we have seen media companies and other investors buying large parts of the clubs' shares. With the shareholders demand for profit, the management has become more businesslike and poorly trained amateurs no longer administer the top clubs⁶⁸. However, supporters do not always like this new kind of management in their clubs, since ticket prices have been raised. They accuse the directors for acting only in the interest of the shareholder or running the club more as a marketing tool for companies owning the club than as a football club⁶⁹.

As a result of the changes in the ownership structure of the clubs, supporters in UK have taken on actions in order to increase their involvement in the clubs. 'Supporters Direct' is the initiative, which helps supporter groups to form trusts with a view to give the supporters a greater say in how their clubs are run⁷⁰. The organisation has since it became fully operational in 2000, given boost to the foundation of trusts in twenty-eight clubs in UK from which six are top divisions clubs⁷¹. These trusts enable supporters to come together by pooling shares in their clubs to form a block shareholding, which then can be used to gain representation at board level.

4.4 Revenue Streams

All the recent developments in the football industry mentioned above have in some way resulted in increasing revenues for professional football clubs. In every one of the top five leagues in Europe, the average annual revenue growth rates since the 1995/96 season exceed the 15%-mark. Spain has the highest growth rate with 28% and Germany the lowest with 15%. There between, Italy has 24%, England and France 22%⁷². In our further study and analysis of the revenue streams in football clubs, we will use the same three way split as Deloitte & Touche does. Hence, we divide the revenues into traditional match day, (ticket sales), broadcast, (revenues from TV and radio deals) and all other commercial revenues⁷³. In the 'old' revenue model, each stream provided about one third of the total revenues to the club. However, in the past two years, the 'new' revenue model, with broadcast accounting for

⁶⁸ Pierpoint (2000) *Heads above Water: Business Strategies for a New Football Economy*, p. 29

⁶⁹ Johnson (2001) *Loosing money and matches*

⁷⁰ Hamil *et al* (2001a) *The Changing Face of the Football Business*, pp. xi

⁷¹ <http://www.supporters-direct.org> (2001-05-30)

⁷² Deloitte & Touche, (2001) *England's Premier Clubs – April 2001*, p 33

⁷³ *Ibid*, p. 12-18

over half of the total revenues to the club, has emerged in almost all of the big European Leagues.

In Deloitte & Touche's revenue model, only revenues from the daily business are included. However, in professional football clubs revenues from player trading should also be considered, as the size of these revenues often is substantial. Although these revenues don't derive from the daily business, they still contribute to the revenue streams flowing into the average professional football club.

5 Empirical Studies

In this chapter we present our empirical findings. The chapter starts with a presentation of several studies of professional football clubs, all describing today's football business. We conclude the chapter with a summary of experts' opinions on business in football clubs.

5.1 BSkyB's Attempted Take-over of Man Utd

The perhaps most famous attempt made by a media company to gain control over a football club, was the attempt made by BSkyB to buy Manchester United.

5.1.1 The Match – BSkyB vs. Manchester United

On 9 September 1998, the boards of BSkyB and Manchester United announced the terms of a recommended offer for all the issued shares of Manchester United⁷⁴. The offer stated that BSkyB was willing to pay 120p per share and 0.2537 BSkyB shares for every Manchester United share. BSkyB also offered a full cash alternative of 240p per share or a full share election of 0.5074 BSkyB shares per Manchester United share. Based on the cash offer, Manchester United was valued at £623 million⁷⁵.

Angry voices were raised as many fans and involved parties believed that BSkyB only purchased Manchester United to fund the rest of the broadcasting empire⁷⁶, and on 8 October 1998 even the Football Association wrote to the Office of Fair Trading, claiming the bid not welcome. The OFT admitted receiving 350 complaints opposing the deal, which led to an extension of the review by 15 working days⁷⁷.

On 29 October 1998, just a couple of days before the announcement regarding Manchester United's future, Peter Mandelson, Secretary of State for Trade and Industry, referred the proposed acquisition to the Monopolies and Mergers Commission (MMC)⁷⁸.

Meanwhile, the two companies did their best to send out positive signals to the merger, and indicated that there would be several positive synergy effects to both parties.

The board of Manchester United, when recommending the offer by BSkyB, said that the reason for the merger was to secure the club's medium- and long-term future as a competitive force in both domestic and European football. In order to achieve the European success that

⁷⁴ *Manchester Utd Board Accepts £625m Offer From Sky* (electronic reference)

⁷⁵ Monopolies and Mergers Commission (1999), *British Sky Broadcasting Group plc and Manchester United plc; A report on the proposed merger*, p. 72

⁷⁶ Ibid

⁷⁷ Ibid

⁷⁸ Ibid

had eluded it in recent years, Manchester United felt that the club would benefit from being part of a group with greater financial and other resources, and one that was committed to the development of football in England.⁷⁹

The merger would represent a natural extension of Manchester United's business, and several positive precedents for broadcaster/club mergers in other countries had encouraged the club. Ownership of, and involvement in football clubs by broadcasters was an increasing European trend. Manchester United had also been influenced by the benefits which media involvement had brought to the game in England. Attendance had increased, stadiums had been upgraded, the quality of players improved and the family game football had been reborn.⁸⁰

Manchester United felt that the BSkyB group was one that understood football and the traditions and history of the game, and was also one that was committed both to enhancing the value of any club it acquired, and to ensure that the culture fostered at Manchester United over a number of years was allowed to prosper. Further, its connections with the News International group, with its numerous overseas interests, would assist in wider promotion of Manchester United abroad, including the Far East, and in developing new markets for Manchester United's range of products.⁸¹

BSkyB, on the other hand, was quoted saying that the rationale focused on a football club being a good strategic fit for BSkyB, considering its ability to add economic value by assisting with brand development and new business opportunities. Manchester United was considered by BSkyB to be the best option, primarily because of the strength of its management team, its quality revenue streams and the breadth of its supporter franchise.⁸²

Furthermore, BSkyB also noted that football, the world's most popular sport, was a key media asset with further growth potential, and TV revenues were critical to future growth. It was the leading sport in the European TV sports rights market by a considerable distance; vigorous competition in the future, with more 'players', would mean higher bids for those rights. The TV sports rights were purchased to build the value of TV networks and/or distributors. A significant proportion of the value of football had been, and would be, generated by BSkyB; and the company wanted to capture a greater proportion of the value to be created by the introduction of digital TV. The value of sports teams for media groups went beyond their direct cash flows. They were purchased to build the brand and the value of TV networks and/or distribution.⁸³

⁷⁹ Monopolies and Mergers Commission (1999) *British Sky Broadcasting Group plc and Manchester United plc; A report on the proposed merger*, p. 167

⁸⁰ Ibid

⁸¹ Ibid

⁸² Ibid, p. 142

⁸³ Ibid

5.1.2 The Teams – History and Activities

BSkyB

BSkyB was formed in November 1990 following the merger of the satellite TV businesses, Sky Television plc (Sky TV) and British Satellite Broadcasting Holdings Limited (BSB). In December 1994 BSkyB was floated on the London and New York Stock Exchanges.⁸⁴

BSkyB distributed TV programming via satellite and created programming content for distribution via satellite, cable and digital terrestrial TV. Besides that, BSkyB was part of a joint venture in order to bring digital interactive services to customers. Via its network, BSkyB provided three sports channels and a sports news channel, each broadcasting for up to 24 hours a day. Since 1992, BSkyB had featured over 100 sports including Premier League football⁸⁵.

Overall, the Premier League rights made up 53 per cent of BSkyB's annualised cost of all sports rights held by the company, which very well indicated the significance of Premier League rights to BSkyB⁸⁶.

Manchester United

Manchester United is the parent company of Manchester United Football Club, which is one of the 20 teams in the top English football competition, the Premier League. The club was established in 1878, under the name of Newton Heath LYR Football Club. In 1892, the club joined the Second Division of the Football League, and ten years later the club adopted the name Manchester United and moved 1910 to Old Trafford where the club has played their home matches ever since⁸⁷.

The activities of Manchester United are above all the operation of the football club. The club creates their revenues by competing in various football competitions and hosting matches at the Old Trafford stadium. Manchester United also makes money from sponsorships and advertising, as well as from TV rights and appearances. In 1998, the total TV-based income was £16 million. £9 million came from the Premier League rights originated from BSkyB, and £5.5 million from European matches⁸⁸.

The club also generates revenues from the sales of, and the licenses to sell, replica shirts and other items carrying the Manchester United logo or name, ranging from lighters to footballs. Manchester United's intentions are to use the club's name to establish 150 Manchester United shops abroad, either under direct ownership or in joint ventures with third parties⁸⁹.

In 1998, Manchester United launched MUTV. This is a joint venture between Manchester United, Granada and BSkyB that provides a subscription TV channel dedicated to Manchester

⁸⁴ Monopolies and Mergers Commission (1999) *British Sky Broadcasting Group plc and Manchester United plc; A report on the proposed merger*, p. 58

⁸⁵ *Ibid*, p. 60

⁸⁶ *Ibid*, p. 65

⁸⁷ *Ibid*, p. 67

⁸⁸ *Ibid*

⁸⁹ *Ibid*

United. The channel shows six hours daily of magazine-type programmes about Manchester United, archive material and live reserves and youth team matches⁹⁰.

Other projects launched in order to bring money to the club, include the newly-opened hotel near the stadium, in which Manchester United has a 25 per cent interest, the £14 million development of new training facilities and the £30 million expansion of the east and west stands at Old Trafford. This project, which is to be finished in 2001, will increase the capacity of the stadium from the 55, 000 of today to 67, 400 spectators.⁹¹

The profitability of Manchester United has its origin in a sustained period of on-field success. In financial terms, the club is the largest English club by a substantial margin. In 1998, Manchester United's turnover was 78 per cent more than the next English club, Newcastle United⁹².

Of great magnitude for Manchester United's success, has been the club's ability to develop players of the necessary quality. Because of this, the club has been able to reduce the need for acquiring player talent through the transfer market, and until 1998, the club's transfer fees ranged between plus or minus £4 million. However, due to the less successful year of 1997, Manchester United spent £28 million on players.⁹³

Manchester United's recent era of success, has led to the fact that the club, more than any other club, has benefited from the increasing interest from media and the money that has got into the game from this. The success the club has had, has resulted in the fact that Manchester United have been aired more times than any other Premier League club, and this greater TV exposure is one factor that increases the sponsorship value of the club.⁹⁴

5.1.3 The Field

The Football Association Premier League was incorporated on 27 May 1992, as a private company limited by shares. The main objective of Premier League is to organise and manage, under the jurisdiction of the Football Association, FA, the combination of association football clubs known as the Premier League and its annual competition. The original members of the Premier League were the 22 clubs that would otherwise have been entitled to compete in the First Division of the Football League at the end of 1991/1992 season. The number of members of the Premier League was reduced to 20 at the end of the 1994/1995 season. The former Divisions 2, 3 and 4 of the Football League have become Divisions 1, 2 and 3 of the Football League.⁹⁵

For each football season (August to May), the Premier League organises a competition in which the member clubs of Premier League play a series of matches. Each club play every other club twice, at home and away, and are awarded points depending on the results. The club with the highest number of points is the winner of the Premier League. Every year the three teams having the lowest number of points, have to be relegated to the First Division of

⁹⁰ Monopolies and Mergers Commission (1999), *British Sky Broadcasting Group plc and Manchester United plc; A report on the proposed merger*, p. 68

⁹¹ Ibid

⁹² Ibid, p. 69

⁹³ Ibid, p. 70

⁹⁴ Ibid, p. 71

⁹⁵ Ibid, p. 123

the Football League, at the same time as the three clubs having the highest number of points in the First Division of the Football League are promoted to the Premier League.⁹⁶

The authorised share capital of the Premier League is £100 divided into 99 Ordinary Shares of £1 each (of which 20 are issued) and one Special Rights Preference Share of £1. Each of the 20 Premier League clubs owns one Ordinary Share. The FA holds the Special Rights Preference Share. As the Special Share Holder, the consent of the FA is required before any amendment can be made to the objects of the Premier League or to certain articles contained in the Articles of Association. Its consent is also required for a change of name, a variation of voting rights attaching to shares in the Premier League, passing a special resolution to wind up the Premier League, and amendment or removal of certain rules affecting the Premier League. It is entitled to receive preferential treatment in a distribution of capital on winding up of the Premier League.⁹⁷

Since the inception of the Premier League in 1992, Premier League domestic TV revenue has been and continues to be distributed according to the following formula: 50 per cent is divided equally among each of the clubs; 25 per cent is divided among each of the clubs on merit based on positions in the League table at the end of the relevant season (i.e. pro rata on the basis of one point for the bottom club and 20, or whatever is the number of clubs in the League for that season, points for the top club), and 25 per cent is divided as facility fees, equally among the clubs whose matches are broadcast.⁹⁸

5.1.4 The Result

On 12 April 1999, the MMC presented their report on the merger between BSkyB and Manchester United. They came to the conclusion that the bid should be blocked, since it would adversely affect competition between broadcasters⁹⁹. The MMC found that, except for small niche channels, BSkyB was the only provider of sports premium channels. BSkyB's very high market share, together with the difficulties of entry, lead the MMC to conclude that BSkyB had market power in the sports premium channel market.¹⁰⁰

The MMC came to this conclusion by considering the public interest consequences of the merger, by looking primarily on the competition among broadcasters for live Premier League rights and creating four scenarios, one or other of which may be expected to occur¹⁰¹:

1. The first scenario involved the continuation of existing collective selling arrangements and no other mergers between broadcasters and Premier League clubs. The MMC concluded that under this scenario, BSkyB would, as a result of the merger, gain influence over and information about the Premier League's selling of rights that would not be available to its competitors. It would also benefit from its ownership stake in Premier League rights, providing a further advantage in the bidding process. Taken together, these factors would significantly improve BSkyB's chances of securing the Premier League's rights. This would enhance BSkyB's already strong position arising from its market power as a sports premium channel provider and from being the

⁹⁶ Monopolies and Mergers Commission (1999), *British Sky Broadcasting Group plc and Manchester United plc; A report on the proposed merger*, p. 123

⁹⁷ Ibid

⁹⁸ Ibid, p. 130

⁹⁹ *BSkyB Bid Blocked* (electronic reference)

¹⁰⁰ Ibid, p. 3

¹⁰¹ Ibid

incumbent broadcaster of Premier League football. The effect would be to reduce competition for Premier League rights leading to less choice for the Premier League and less scope for innovation in the broadcasting of Premier League football.

2. If the live rights of Premier League clubs were to be sold on an individual basis and there were no other mergers between broadcasters and clubs, BSkyB would, as a result of the merger, have substantial advantages over other broadcasters competing for the rights. This would have adverse effects for competition similar to those we identified under our first scenario.
3. If existing selling arrangements continued and the BSkyB/Manchester United merger were to precipitate a further merger between a broadcaster and a Premier League club, the effects on competition of the merger between BSkyB and Manchester United would be broadly similar to those of the first scenario. If there were several mergers between broadcasters and Premier League clubs precipitated by the BSkyB/Manchester United merger, then the MMC believed that collective selling would continue only if broadcasters agreed among themselves to share the rights, which would have at least as adverse an effect on competition as the first scenario.
4. If rights were sold on an individual basis and there were several mergers between broadcasters and Premier League clubs precipitated by the BSkyB/Manchester United merger, all of the feasible outcomes would be less competitive than the situation in which rights were individually sold and no broadcaster/Premier League club mergers had occurred.

The MMC concluded that, under all of the four scenarios described above, the merger was expected to reduce competition for Premier League rights with the consequential adverse effects they had identified. However, the MMC also thought that the merger would adversely affect football in two ways. First, it would reinforce the existing trend towards greater inequality of wealth between clubs, thus weakening the smaller ones. Second, it would give BSkyB additional influence over Premier League decisions relating to the organisation of football, leading to some decisions, which did not reflect the long-term interests of football. On both counts the merger was expected to have the adverse effect of damaging the quality of British football.

5.1.5 Comments on the Match

Martin Edwards – Chief Executive, Manchester United

‘The deal would have brought £623 million to the club which is facing huge cash demands next season. We are spending £44 million developing the stadium over the next two years. There will be no more spending on players like the £28 million last year. We have to make sure that we don’t go heavily into the red. [...] The sheer logic of the deal was that together with Sky we would have been much stronger’¹⁰²

¹⁰² *Edwards – I Won’t Quit* (electronic reference)

Mark Booth – Chief Executive, BSKyB

‘We are disappointed that the Secretary of State has made this decision. [...] The ruling sets an unfortunate precedent for other British clubs and companies who have wanted to work together to improve and invest in the future of football, for the benefit of clubs, players and fans alike. [...] This is a bad ruling for British football clubs who will have to compete in Europe against clubs who are backed by successful media companies.’¹⁰³

Adam Brown – Football Task Force

‘The deal would have spelled disaster for football with the interests of television served before that of the game. [...] The opposition to the bid surprised United and BSKyB who were really the only two bodies which supported the deal’¹⁰⁴

5.2 Malmö FF

On 24 February 1910, the Swedish football club Malmö FF was founded. They started playing in a series called Sydsvenskan, a series they would win in 1920. In 1928, the series system changed, and Malmö FF came to play in the Second Division in Sweden. In 1931, Malmö FF was promoted to the First Division, the Allsvenskan, in which they stayed through the years 1936-1999. In total, Malmö FF was to win the Allsvenskan seventeen times, five times in a row between 1985-1989.¹⁰⁵ Although Malmö FF has been a very successful club, the thing that made the club famous in Sweden in recent years, was the sale made in 2001 of the 19-year-old Zlatan Ibrahimovic for 82 MSEK, a sale that shook the Swedish world of football. Zlatan Ibrahimovic is by far the highest valued Swedish football player sold to an international club, in this case the Dutch football club Ajax¹⁰⁶.

Even though the sale of Zlatan was a big deal, a lot of things can be said being a lot smaller in Sweden. By using the words of Hans Cavalli-Björkman, former chairman of Malmö FF:

‘take the amounts of money involved in Swedish football, multiply by a factor ten and you’ve got the amounts regarding English football’¹⁰⁷

In 1975, Hans Cavalli-Björkman became chairman of the club, a post he didn’t leave until 1998. During Cavalli-Björkman’s era, Malmö FF wasn’t just successful in Sweden but also on the international arenas, reaching among other top positions the Europe Cup Finals.

By 1989, Malmö FF peaked with their 17th winning of the Allsvenskan for the fifth time in a row. Cavalli-Björkman decided to figure out why Malmö FF didn’t quite reach the top on an international level¹⁰⁸. When he compared with other successful clubs in countries of equal size of Sweden, in this case Holland and Belgium and the clubs Ajax and Anderlecht, he found that the biggest difference was that the foreign clubs all had full-time employed players and trainers. In Sweden, the situation was quite different. Players found their task of playing football as a hobby, and several of the players had other jobs. In other words, compared with other countries, Sweden had amateurs playing in an amateur league. Malmö FF came to the conclusion that they had to gain knowledge from outside the club in order to learn how they

¹⁰³ *Reaction and Comments to Takeover Rejection* (electronic reference)

¹⁰⁴ Ibid

¹⁰⁵ <http://www.mff.se>

¹⁰⁶ *Zlatan Ibrahimovic till Ajax* (electronic reference)

¹⁰⁷ Interview, *Hans Cavalli-Björkman* (010511)

¹⁰⁸ Ibid

should act on the international arena. Through the exchange programs Malmö FF had with foreign clubs, trainers were recruited, and adding to this came the decision to employ their players full-time and thereby professionalise Swedish football. By being the first club to have full-time employed players, Malmö FF enjoyed a great deal of success, which could be shown in the 1992 World Cup, where five of eleven players came from Malmö FF.¹⁰⁹

Another thing that made Malmö FF so successful, was the never-ending struggle to develop players. Cavalli-Björkman feels that this is perhaps the most important resource to the club, alongside with international co-operation, foreign trainers, the creation of a trainer education of their own and an expansion of youth activities in immigrant-dense areas¹¹⁰. Malmö FF has always had an active financial plan, mostly based on selling successful players to gain money, which in turn can be used to improve the average quality of the team¹¹¹. Cavalli-Björkman also points out the network that surrounds Malmö FF to be of crucial importance. The network consists of companies, other clubs and, to some extent, local politicians. The network contains mostly people with great interest in MFF who will do almost anything for the club. These are the ones who, according to Cavalli-Björkman, make it possible for Malmö FF to survive, and it is therefore important to consider the network when decisions are made.

Despite of their success, however, Malmö FF faced a hard time in 1999. They were relegated to the Second Division in Sweden, Superettan. A suite of 64 years of playing in the First Division was broken¹¹². The main ambition was to cover player losses, but the risk-taking was at a minimum¹¹³. Malmö FF had already planned to sell a certain young player, Zlatan Ibrahimovic, for at least 20 MSEK. Ibrahimovic, who came from a club in an immigrant-dense area of Malmö, joined Malmö FF already 1994¹¹⁴, and in 1999, he was one of the key-persons participating in Malmö FF's comeback to Allsvenskan from Superettan.

In 2001, they actual sale occurred. Zlatan Ibrahimovic was sold to the Dutch club Ajax for 82 MSEK, a stunning 62 MSEK more than calculated. This means that Malmö FF now is fully financed for a period of between three and five years¹¹⁵.

The sale of Zlatan meant that Malmö FF's had followed their strategy. By exploiting a surrounding resource, i.e. recruiting players from immigrant-dense areas, develop the player by utilising the internal resources and sell of the individual player, they created the possibility to a leverage in the average team quality. To what extent the strategy is successful, we can only guess since the sale of Zlatan came through 1 July. What we do know is that the club now have financial resources available to recruit new players, but there are still a lot to be said.

According to Cavalli-Björkman, Malmö FF still has a lot to do to reach the level of success the club once had. They have to develop a very good relationship with the media, which sells the club and creates an interest. Furthermore, the arena needs improvement. It is not build especially for football; hence you need binoculars to see the game. And if the club wants to rebuild the arena, a good relationship with various politicians could be useful. But of greatest importance is the brand of the club and it's name. A strong brand attracts sponsors, the

¹⁰⁹ Interview, *Hans Cavalli-Björkman* (010511)

¹¹⁰ Ibid

¹¹¹ Ibid

¹¹² <http://www.mff.se>

¹¹³ Interview, *Hans Cavalli-Björkman* (010511)

¹¹⁴ *Zlatan Ibrahimovic till Ajax* (electronic reference)

¹¹⁵ Interview, *Hans Cavalli-Björkman* (010511)

sponsors' pumps money into the club, which means that the club can afford new players. The new, and hopefully, good players will do the club more successful on the field, attracting more sponsors, hence, the ball is rolling.¹¹⁶

5.3 Hammarby IF Football

After several years spent as a yo-yo club going up and down through the league system, Hammarby IF, or Bajen as the majority of supporters would say, have finally taken the step into the Swedish elite of football. In 1998 the club was back in the Swedish premier division Allsvenskan after having spent two seasons in the first division. Only three years later, Hammarby had their most successful season ever and secured the championship title in the second last game of the campaign.

The success in the Swedish Premiership wasn't the only thing that was written about Hammarby in the newspapers in 2001. The American company, Anschutz Entertainment Group (AEG), acquired 25% of the club for about £1 million in August. The deal also included an option to sell further 24% for the same amount of money. This implies that AEG valuate the club to about £4 million, not much in the international football industry. The board of Hammarby were however very satisfied that AEG was willing to invest in the club¹¹⁷. The investment was very much needed and enabled the club to sort out its finances. Henrik Appelqvist, Vice-Chairman, and Patric Ljungström, Market Manager, point out that the deal was something very beneficial for the club. Not only was it an injection of capital, but also an injection of knowledge. They believe that AEG as a strong owner can make the club more professional and more profitable. Having access to AEG's international network and marketing knowledge will increase the club's revenues from sponsorships and selling merchandises.¹¹⁸

The reason why AEG invested in the football club was, according to Hammarby, because of two things. First they wanted influence on the arenas in Stockholm, particularly those in the area around The Globe Arena, the largest in-door stadium in Sweden. Second they saw potential in Hammarby, a club with a strong brand that could be exploited much more than it was before the deal.¹¹⁹ Basically, AEG was interested in Hammarby because of the stadiums, on which the football team and the ice hockey team are playing their games. The American company wanted to control and develop the commercial aspects connected to these arenas. Even though it is likely that AEG will help the club to increase their revenues from events on the arena, supporters fear that the deal will result in higher ticket prices.

Hammarby IF has a very strong brand that is associated with the social class of the citizens in the southern part of Stockholm city. The supporter base is relatively big for a Swedish club and Söderstadion, Hammarby's home ground with a capacity of 10,000 spectators, is filled at almost every game. The club is planning to expand the stadium to take another 4,000 spectators, a heavy investment of about £10 million. Another recent investment that Hammarby have undertaken is a development of the organisation, making it more business like and professional.

¹¹⁶ Interview, *Hans Cavalli-Björkman* (010511)

¹¹⁷ Holm (2001) *Hammarbys styrelse jublar*

¹¹⁸ Interview, *Henrik Appelqvist & Patric Ljungström* (010929)

¹¹⁹ Ibid

According to Henrik Appelqvist and Patric Ljungström, the most important resource of the club is the dedicated supporters. As mentioned before, Hammarby have a big supporter base, but it's all a matter of being able to reach them. The information technology has become an important tool and the club is planning to redesign their homepage and to set up an interactive channel. This will improve the communication between the club and its supporters, thus making the bounds between them stronger.

5.4 Djurgårdens IF Football Club

Just like Hammarby, Djurgården are one of the three major football clubs in Stockholm. Another similarity is that both clubs have had mixed fortunes in the past few decades. In the last ten years Djurgården have been going up and down the divisions like an elevator, gaining promotion to Allsvenskan three times and been relegated just as many.

Djurgården IF plays their home games on the Olympic stadium in Stockholm, taking 14,500 spectators when hosting a football game. The stadium, built for the Olympic games in 1912, has very old traditions, but Djurgården's brand has even older traditions. Bo Lundquist, chairman of the board, considers the brand as the most important resource of the club¹²⁰.

In order to capture the full potential of the strong brand, Djurgården have restructured the organisation and made it more commercial. All commercial issues are nowadays taken care of in a separate company that deals with the marketing and sales of merchandises. While the brand is considered to be the most important resource, the most important relations are those with the supporters. According to Lundquist, the supporters are the soul and the life of a football club and it's very important to have a strong and good relationship with them.

5.5 Helsingborgs IF

In the last ten years, Helsingborgs IF (HIF) has been one of Sweden's most successful football clubs. In 1999 HIF won both Allsvenskan and the Swedish cup. The year after they gained a place in the UEFA Champions League, in which they played well against three of Europe's big clubs.

Thomas Stenberg, Sports Director and vice chairman of HIF, explains the success to be a result of many different factors. Among them is the board's courage to gamble and ability to build on previous success. As expenses occur before the revenues, the club has to be willing to gamble once in a while. Stenberg also states that the cooperation with the local industry in and around Helsingborg has been an important factor to the success. The success can in some cases be explained by single incidents on the football field like Sven Andersson's penalty shot save against Inter Milan. The save did not only earn HIF a place in the Champions League, but also gave the club a much better financial position, because of the revenues from playing in Champions League.

HIF have recently divided the operations in the club into two sections; one that is dealing with football issues and the other with financial and commercial issues. Because of the growing importance of having good finances in professional football this was an inevitable development of the club. One major thing that has come out of the newly founded commercial

¹²⁰ Interview, Bo Lundquist (010521)

section was the plans to rebuild Olympia, the 17,500 capacity stadium, on which HIF play their home games. Not much was changed on the stands in the stadium, but the new Olympia and the area around the stadium contains a new conference centre and a new restaurant. HIF hope the events that can be held in the new Olympia will be a profitable business that will strengthen the club's finances.¹²¹

5.6 Views from Experts

In order to get a broader perspective on the football industry, and to obtain a clearer understanding of why the football industry looks the way it does, we decided to interview people with great insights in the world of football. These persons and their positions will be explained in the text as they are quoted.

5.6.1 The Increasing Role of Money

All of the interviewed parties agreed upon that the ever-increasing money involved in football, was due to the money that television adds to the game. As Lars-Åke Lagrell, chairman of the Swedish Football Association pointed out, this is a phenomenon that could be found all around the world. According to Lagrell, the major clubs in Europe were until 1991-1992 slumbering social clubs, not professionally managed, and it wasn't until the following years that the rapid evolution began¹²².

Adam Brown, Research Fellow at the Football Governance Research Centre, Birkbeck University of London, however, sees the turning point in the Italia 90 World Cup, where FIFA got record values for the TV rights. He also points to the fact that this was the time when satellite TV was introduced. Satellite TV channels like Sky, had to have a content to persuade people to subscribe. Brown feels that since football vastly overshadows all other content, the satellite TV channels began to pay more and more to obtain the rights to send matches¹²³.

This happened first in the UK, and was accompanied by the Hillsborough disaster that forced the clubs to rebuild their grounds, which in turn gave the clubs the chance to try and change football's audience. Soon, football was part of a broader leisure portfolio attracting middle class audience with more money, which led to ticket price increases of over 400 per cent in less than a decade¹²⁴. Brown also sees the floating on the stock exchange markets as a reason to the increasing sums of money, partly since it allowed the clubs to raise capital to rebuild their grounds, but most of all since it brought about a legal obligation to maximise profits to shareholders.

Jeannette Findlay, lecturer in the Department of Economics at the University of Glasgow and also a Research Fellow at the Football Governance Research Centre, Birkbeck University of London, also sees the role of television as being the biggest driver for the changed focus within the football industry¹²⁵. Findlay sees the change in three areas; first, the gate receipts are no longer the main source of income for most of the bigger clubs, and second, as a result

¹²¹ Interview, *Thomas Stenberg* (010516)

¹²² Interview, *Lars-Åke Lagrell* (010514)

¹²³ Interview, *Adam Brown* (011002)

¹²⁴ Ibid

¹²⁵ Interview, *Jeannette Findlay* (010925)

of the first, the fans are seen by several as being irrelevant to the individual football club, and third, the growing divergence between the big clubs and the small clubs in terms of income¹²⁶.

Åke Stolt, Sport Journalist at *Sydsvenska Dagbladet*, believes that the main driving force behind the increasing role of money is the increased influence by businessmen in football. They are used to running companies with one short-term goal – maximise profits. Therefore he also sees a trend in diversifying the risks, as can be seen in the stadium developments with hotels and conference centres.¹²⁷

The interviewed parties agree that the tragedies that occurred at the Heysel-stadium and at Hillsborough were major factors that contributed to the rapid development, and had these tragedies never occurred, they don't believe that the development that took place would have been so rapid as it was. Åke Stolt goes as far as saying that it was mostly the hooligans that was responsible for the rebuilding of the stadiums, and they are the ones responsible for the side-projects like restaurants that some clubs now are offering at their stadiums.¹²⁸

Adam Brown suggests, that although all UEFA games have to be all-seater now, the safety priorities are quite different across Europe. The important point, however, was that the Hillsborough disaster was an opportunity used by those who run and own football in England to change the political economy of the game¹²⁹.

Sean Hamil, one of the leading football researchers in the world with many book titles on his CV, thinks that the development of the football industry would have occurred regardless of the Taylor report. He believes that the sophistication of the football audience was a main force, but that the tragic incidents at Hillsborough, Heysel-Stadium and Valley Parade were the trigger and accelerated the development. Basically, he's of the opinion that the development was good for the sport, which needed to be modernized.¹³⁰

5.6.2 Sporting Success

Lars-Åke Lagrell suggests that there are various factors determining the long-term success of a football club, and mentions among other things the geographic location of the club as one of the most important factors. According to Lagrell, the club has to adapt to it's external environment in co-operation with external parties but implies that the most important reason is the continuity of the leadership of the football club.¹³¹

Adam Brown also feels that it's not just a question of who has the most money. He gives Blackburn as example. A club which was the biggest spenders when it was relegated from the Premier League in 1999 and compares with Manchester United, who don't spend that much money and yet they win. Instead, he stresses the importance of young players developed at the club mixed with bigger stars. This is of course easier for clubs like United who have a lot of money and can offer better deals, but it isn't just about wealth, which in that case would mean that Chelsea FC should be extremely successful.¹³²

¹²⁶ Interview, *Jeannette Findlay* (011015)

¹²⁷ Interview, *Åke Stolt* (011008)

¹²⁸ Ibid

¹²⁹ Interview, *Adam Brown* (011002)

¹³⁰ Interview, *Sean Hamil* (011015)

¹³¹ Interview, *Lars-Åke Lagrell* (010514)

¹³² Interview, *Adam Brown* (011002)

Sean Hamil sees three reasons behind success. Number one is financial strength, which is crucial if you want to have a winning football team. Secondly, it's important to manage the human resources of the club in a good way. This includes developing own talents and making them loyal to the club. The third success factor according to Hamil is leadership. Having a football manager who is able to make the right player investments has helped many clubs to achieve success, while other managers have ruined their clubs finances on the transfer market.¹³³

Jeannette Findlay, on the other hand, finds that it is the television revenue and the disparities between clubs in distribution. Findlay means that if one club is successful, media companies will spend a lot of money in order to obtain the rights to send the club's games. With the increasing amounts of money, the clubs can attract new players, and hopefully reaching higher league positions. And, if we look at England, with the way Premier League TV rights money is distributed, it means that more money comes to the successful teams, hence, there is a risk that the already rich clubs will get richer and the poorer getting poorer.¹³⁴

5.6.3 When Good Times go Bad

The increasing role money plays in football, can unfortunately lead to that clubs overspend in their search for success. But there are ways of dealing with such matters. Unfortunately, it is a dilemma. The obvious thing a football club can do to balance their books, is to sell off their top players. However, this means a risk of losing their position in the league, and as mentioned earlier, thereby the money from TV rights.

Lars-Åke Lagrell suggests one way to get out of trouble: hard work and working together towards a common goal. He means that there are a lot of things similar to any other industry, but the one thing that makes the football industry stand out, is the fact that the competitors success, and the success of other leaders, decides which position your club will get in the league, something you in a traditional industry with more accuracy can predict¹³⁵.

Adam Brown suggests that the developing of own talent is crucial for the surviving, as well as having a long-term view¹³⁶. Jeannette Findlay agrees with Brown, but goes one step further and suggests partnership with local authorities to share grounds and facilities with the local community in return for some financial help¹³⁷. She also gives the advice to smaller clubs, that they might allow their fans to take a greater role in the running of the club, and thereby harness the goodwill, talent and resources available.

Åke Stolt implies that those clubs spending more than they are earning, sooner or later will be caught up by reality, and continues by giving the advice to those clubs who wants to survive, that they have to diversify into activities that generates profits. Stolt gives the example of FC København, who makes over £6 million by owning the Parken Arena and sublet to professional boxing, Eurovision Song Contests, concerts and international football matches¹³⁸.

¹³³ Interview, *Sean Hamil* (011015)

¹³⁴ Interview, *Jeannette Findlay* (010925)

¹³⁵ Interview, *Lars-Åke Lagrell* (010514)

¹³⁶ Interview, *Adam Brown* (011002)

¹³⁷ Interview, *Jeannette Findlay* (010925)

¹³⁸ Interview, *Åke Stolt* (011008)

5.6.4 The Main Resource of a Football Club

There are a lot of resources available to a football club, which the club can exploit and take advantage of. But there is a great difference of opinion on which resource that is the most important to a club.

Adam Brown finds one resource a football club cannot survive without – the fans – and suggests further that without fans, football will be no professional sport¹³⁹. This is also the opinion of Jeannette Findlay and Sean Hamil, who say that even if the vast majority of money were to come in from television, football would not be an attractive spectacle for live television if it were not for the fans¹⁴⁰.

Hamil has an even broader perspective on the importance of the supporters. Even if they don't regularly attend games or buy merchandises it's important to have a good relation with them. They might not put any cash into the club's bank account now, but in the future they could be important customers or partners. Hamil refers to the emotional and social factors of being a football supporter when he points out that all supporters are important resources when it comes to spreading the club's culture and the brand's values. A well-treated supporter with strong mutual connection to the club is more likely to recruit supporters from the family, friends and colleges. Another resource that is very important for the club is the stadium. Hamil is of the opinion that a modernized stadium not only enables the club to increase revenues from non-football events, but also enables the club to have differentiated ticket prices. Due to the increasing ticket prices, Hamil says it's important to offer those supporters with less money to buy subsidised tickets in less attractive seats in the stadium. These supporters are often either very dedicated or children and students with potential of being big spending customers in the future.¹⁴¹

Lars-Åke Lagrell, however, sees the arena as one of the most important resources, and implies that you could look at the arena in various ways: 1) just as the turf, and thereby being the classic ground that is the bond between the supporters, 2) as a conference facility that provides the football club with a steady cash flow on and off match days, and 3) as a way of creating a competitive edge against competitors, for instance if the arena could be played on during the wintertime, off season, which would mean an advantage compared with other teams who don't have this possibility. Lagrell also points out the human factor, the leaders of a club, that has to have the right composition in order to fully understand the opportunities given in the clubs surroundings.

Åke Stolt on the other hand, believes that there has to be some amateurs involved in the football industry, even though professionals have to handle the more important factors. He puts it best by saying:

'Football isn't an ice-cold capital good you buy over the counter, it has to contain a soul, feelings and commitment, and it is in this combination great things can happen.'¹⁴²

¹³⁹ Interview, *Adam Brown* (011002)

¹⁴⁰ Interview, *Jeannette Findlay* (010925)

¹⁴¹ Interview, *Sean Hamil* (011015)

¹⁴² Interview, *Åke Stolt* (011008)

5.6.5 Predicting the Future

Lars-Åke Lagrell predicts that the football industry in the future is going towards more comfortable arenas, always sold-out matches and an increase in the pay-per-view area. Lagrell also sees two audiences in the future, one paying sitting inside the arena, and one paying audience sitting outside the arena, watching pay-per-view.¹⁴³

Adam Brown, on the other hand, predicts several possible scenarios: 1) A much reduced, TV-driven league, with a few wealthy star clubs, and the rest of the clubs acting as amateur/semi-pro clubs, or 2) Football's value to TV is lost or reduced due to the over-exposure, and since the audience is bored, the football-bubble bursts and football has to be restructured, or 3) Fans takes an increasingly active control over smaller clubs and run them as community operations and the bigger clubs breaks loose in an totally different league like in 1) or go bust like in 2).¹⁴⁴

Jeannette Findlay doesn't see much change in the near future. She believes that football should belong to the people and taking it to far from its base, i.e. the fans will kill what we know as football today.¹⁴⁵

5.6.6 Advice and Warnings

All of our respondents agree that the football industry has had a boom in recent years and radically changed the way football used to look. From being a sport of the people, it is now a sport with annual turnovers reaching the £100 million mark.

Adam Brown finds two dangers in the increasing disparity in wealth between the clubs due to the way the system usually works with more money to the successful clubs: 1) It institutionalises success through the winning clubs becoming the richest. This is in contrast to the system in for instance the American football league, NFL, where teams with worse records have the right to first pick a player in the yearly draft, where non-contracted players are signed. Additional TV money in NFL is shared equally helping to maintain league balance, 2) The grass roots are harmed as smaller clubs, who develop talents and keep interest in the game across the countries, go bankrupt¹⁴⁶. This is an opinion also shared by Åke Stolt¹⁴⁷. Brown continues by saying that one has to consider that the football industry is quite different compared to other industries. Fans do not buy football because the product is necessarily good. They buy it because they have an emotional attachment to a particular club. If Manchester United charges me too much for a ticket, I will not go to Manchester City games instead.

Sean Hamil is particularly concerned about the increasing exploitation of the supporters and the media companies' involvement in the clubs. He believes that too much exploitation of dedicated supporters will eventually lead to less loyalty. He refers to the increasing match ticket prices and the frequent changes of the replica kit. Regarding the media companies' involvement he fears that they as powerful owners will have a bad influence when it comes to

¹⁴³ Interview, *Lars-Åke Lagrell* (010514)

¹⁴⁴ Interview, *Adam Brown* (011002)

¹⁴⁵ Interview, *Jeannette Findlay* (010925)

¹⁴⁶ Interview, *Adam Brown* (011002)

¹⁴⁷ Interview, *Åke Stolt* (011008)

negotiation of broadcasting deals. As buyers of broadcasting rights they want the prices to be lower while the clubs want more money out of the deals.

We conclude with the words of Jeannette Findlay:

‘I think there is a good case for some kind of government intervention into football to maintain it as a sport that is open to all – both for playing and for watching’¹⁴⁸

¹⁴⁸ Interview, *Jeannette Findlay* (010925)

6 Analysis

In this chapter we analyse our empirical data with the help from the theoretical concepts and football phenomena described in Chapter 3 and 4. This gives us the information needed to present our findings in the following Chapter 7.

6.1 Competitiveness vs. Attractiveness

Up until now, we have in our thesis used the term competition in its most traditional sense. But football isn't a traditional business, and therefore the term perhaps isn't the right one to use. As explained in the section 'The Peculiar of Football' in Chapter 4, football clubs compete on two levels; on the football level through winning matches, and on the business level through attracting sponsors and customers. And that is exactly what the competition on the business level is about – attraction. The clubs have to attract sponsors, supporters, media interest and so on and so forth. The football clubs don't compete with each other when it comes to these subjects. For instance, Manchester United can't build a strategy based on competing actively with another football club for its supporters. In general, the supporters of a club are so loyal that they stick to the club they've supported all their lives and don't even consider to abandon their favourite club. When we're discussing whether a resource or an intellectual capital is a source to a competitive advantage, we've broadened our perspective of the term competitive advantage. If a resource can be exploited so it will reach a level of superior attractiveness, we consider this resource to be a competitive advantage, even though competition between clubs hasn't taken place.

6.2 Resources of the Football Club

In this section we will enlighten those resources and those intellectual capitals that we during our empirical research have found to have a great importance in the running of a club. We have come to this conclusion (1) since they are the resources the interviewed parties have highlighted, and (2) since they are common throughout the business and not specific to these cases alone.

6.2.1 Manchester United

If we look at the first case, Manchester United vs. BSKyB, there are several resources that became visible through the attempted merger. First of all, BSKyB noticed the opportunities in the advantage of having a business partner with almost unlimited customers – the supporters. Furthermore, they also thought that Manchester United was the ultimate choice due to the strength of United's management team, and the strength of its brand. The fact that Manchester United also was one of the clubs actually creating steady revenues also contributed to the fact that United was the choice of BSKyB. The fact that the club was actually generating a profit

was due to the fact that the club had such an effective youth development. This had led to the fact that Manchester United, unlike most clubs, didn't have to spend that much money on recruiting players externally.

Manchester United, on the other hand, observed the advantages B SkyB could offer the club in terms of promotion, mostly due to B SkyB's interests overseas. United also thought that B SkyB could secure the club's future through the media company's financial strength.

6.2.2 The Swedish Clubs

Even though Swedish clubs are much smaller than the big clubs in England, Italy, Germany and Spain, the same pattern is visible in Sweden as well as in the other countries. Although the size of the stadiums, supporter bases and the annual turnovers differ, they are of equal importance to the clubs.

Common for all of the Swedish clubs that we have studied, is that they all have made a reorganisation in the past few years in order to exploit new opportunities in the football industry. The organisations have become more professionalised and business-like. For instance, the three clubs, Hammarby, Helsingborg and Djurgården, have all divided their operation into at least two sections; one dealing with football matters and one dealing with business matters.

A competent organisation that is able to meet the new challenges and opportunities in the industry has become a crucial resource for all studied clubs. Some clubs have taken a step further by bringing in external competence through networks and alliances. It's not just the competence exchange that is important, but also the relations per se. Furthermore, these relations are often found in the environment surrounding the clubs.

The clubs also stress the importance of their brand and supporters, two resources closely linked together. For instance, Hammarby point out that their strong brand has provided them with a big supporter base as well as a potent investor in AEG.

Another important resource is the stadium. The rebuilding of the Olympia stadium in Helsingborg has provided the club with an additional revenue source, and in Hammarby's case, the stadium was one of the reasons to why AEG made the investment they did.

Some clubs consider information technology to be important when it comes to drawing the attention of supporters. The information technology creates most possibilities through the individual club's homepage. One of the most obvious advantages that come with the homepage is that the club can reach out to far more supporters than with traditional media channels.

6.2.3 Experts' Opinions

The interviewed experts agree to the resources mentioned above being the most important to the clubs. However, Sean Hamil is sceptic when it comes to mergers with media companies that broadcast football matches. Giving the media companies too much influence in the clubs, is likely to cause a decrease in the value of the broadcast deals, hence, also the revenues.

The experts also stress the importance of having a good leadership and management team, capable of spotting and exploiting opportunities and to adapt to the changing external environment.

6.2.4 The Football Resource Map

After having examined the cases of the studied clubs we listed all of those resources that either were considered being important to the club's business or create a significant value by generating revenues. These were the criteria that were to be fulfilled; otherwise we wouldn't include them in our further analysis. If the resources wouldn't fulfil one of these simple criteria, nor would they be a source to competitive advantages. In figure 6.1, we've plotted the resources and gathered them into nine clusters.

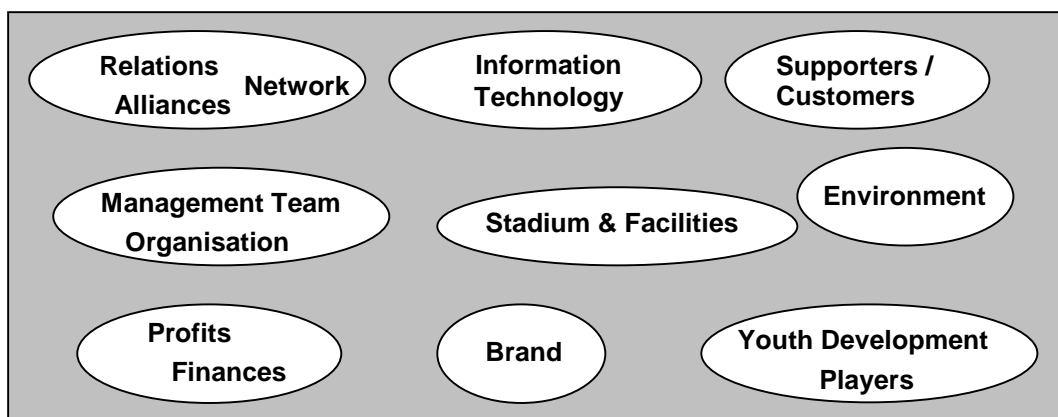


Figure 6.1 The Football Resource Map

6.3 Generative Resources and Capitals

In this section, we will apply the VRIO-framework on the resources in *'The Football Resource Map'* except Profits and Finances. These resources won't be discussed nor analysed as exploitable resources. It is the exploitation of the other resources that creates the profits and healthy finances. Hence, this resource cluster is more of a desirable goal than a means to achieve it.

We will also discuss how the resources can be further exploited by the organisation, in order to gain competitive advantages. To be able to describe the value of many of the resources in football clubs, we will also place the resources into the Intellectual Capital-theory. We will apply the *'Conceptual framework of the IC-Rating'* as well as *'The Intellectual Value Scheme'*, both models created by Leif Edvinson.

6.3.1 Customers

As a football club's customers we refer to the consumers of the variety of products and services a club offers. We have found five different types of customers to football clubs. Since different types of customers have different preferences and thereby consume various types of products and services offered by the clubs, we see a need to divide them into different clusters; supporters, football consumers, hospitality customers, marketing partners and media companies. The supporters or the fans are those who really support the team. They are loyal to the club and have no other favourite club in the same league. While supporters love their club,

football consumers love the game. They're not as loyal to one club and don't spend as much money on club merchandises as the supporters do. Hospitality consumers are the ones that are buying the various hospitality features offered by the clubs while marketing partners are companies sponsoring the club or using the club and its stadium for advertising. The last type of customers are the media companies buying the rights to broadcast matches.

Supporters

There's no doubt that the supporters are one of, or the most valuable resource to the club. They are the ones that keep the club going. Without them the big clubs wouldn't be big and football stars wouldn't have someone to shine for. Their presence on the stands very often creates an atmosphere in the stadium that itself makes it worthwhile to attend a football game. A good crowd of fans, singing, chanting and cheering the team, is often referred to as the 12th player, giving an extra boost to the team. However, we will mainly focus on the supporters' value and importance to the clubs' finances.

Since sales of match day tickets still account for a major part of the clubs' revenues, the ones buying the tickets should be regarded as an important organizational resource of the club. Not only do the supporters buy tickets, they are also the main buyers of the clubs' merchandises. Almost every true supporter wants to have an own replica jersey, scarf or badge.

Applying a Resource Based View, the supporters don't pass all of the criteria in Barney's VRIO-framework. They are valuable, since the clubs exploit the environmental opportunities through them, but they aren't rare. Although some may say they have the best supporters in the world, they haven't got anything that is rare. Every big club has its supporters that buy tickets and merchandises. What might be rare is the size of the supporter base. Some clubs like Manchester United, Liverpool and Real Madrid have extremely large supporter bases with fans from all around the world. The size of the supporter base is rare, but the individual supporter isn't. Also on the next step in the VRIO-framework, the Question of Imitability, we would say that the answer differs whether you look at the individual supporters or the size of the supporter base. To imitate another club's supporters or the relation to them isn't very costly or difficult, but trying to get a supporter base of Manchester United's size is very difficult. It requires years of football success and traditions from decades ago to attract that many supporters to a club.

When the club exploits the supporters as a resource of the club, the supporters are a competitive resource. However, it's all a matter of the size of the supporter base whether the resource is a source to a competitive parity or a sustained competitive advantage.

Advices and recommendations

Even though the supporters on an individual basis aren't a source to a competitive advantage, this structural capital is a very valuable resource that should be fully exploited, thus making it even more valuable. There are two main ways to make the supporters an even more valuable resource than it already is; (1) increasing the revenues from the individual supporter and (2) increasing the size of the supporter base.

By offering more products and services to the supporters, they are more likely to spend more money on their beloved club. We believe it is important for the club to have a well-stocked store selling all kinds of souvenirs, from replica kits to coffee mugs. The store should also be available on the Internet, enabling supporters from far away to buy merchandises. The

Internet has become a very useful tool in the football clubs and many new opportunities have emerged. One of these is the opportunity to broadcast almost every game the club plays on the Internet and charge the viewer for watching.

The Internet could also serve as a tool for strengthening the relations between the supporters and the club. An attractive homepage, loaded with every kind of information about the club and with other features like downloadable screen savers and games, is likely to increase the interest in the club. For supporters, higher interest often implies stronger bonds and relations. The club could also set up a website, on which the supporters register themselves, thus providing the club with valuable information about their most important customers. This creates a database of supporters, which enables the club to make better marketing activities. The supporters can be approached personally, giving them a greater feeling of connection to the club. Thus, the loyalty, dedication to, and passion for the club ought to increase and with it the likeliness of spending more money on the club.

Other activities could also be used, adding to the perceived value of being a supporter to the club. Goodwill events such as open-house days on the stadium, players visiting schools and hospitals and player meetings could add value to existing as well as new potential supporters.

As a result of the huge investments in stadium improvements all around England, average ticket prices throughout the 1990s rose by rates well above the inflation¹⁴⁹. Nowadays it has become very expensive to attend a football game in the highest division and many supporter organisations have raised their voices about the high ticket prices. We believe it's necessary to employ a pricing strategy that suits the wallets of every supporter. To differentiate the prices by lowering the tickets prices on less attractive seats in the stadium and increasing the prices on seats in great demand is very much needed. This will hopefully attract more spectators, as more people will afford to attend the games and the club can hang on to supporters from every social class.

The second main way of increasing the value of the supporters is to make the supporter base larger. A larger supporter base means higher value of this resource and when the size of the supporter base is superior other clubs', it means a competitive advantage if exploited by the club. Therefore, clubs should focus upon attracting new supporters while they look after existing supporters. All of the activities mentioned above are helpful in the club's strive for the competitive advantage that a larger supporter base mean. However, we'd like to give prominence to the importance of Internet when it comes to attracting supporters to the club. The global reach of Internet and the services provided on the web is very useful if the club wants to build a huge supporter base.

Football Consumers

The football consumers are those who watch football for entertainment. They are interested in the game, but do not fanatically support one particular club. When they attend matches they seek, in particular, for quality football. Hence, generally they tend to watch games that include top clubs and attend the local club games more often when they are successful and play an attractive football. Thus, this resource could be considered both as a strength and a weakness. When the clubs are successful and football consumers are attracted to the games, managers could be lured into investing with capital derived from the high attendances at

¹⁴⁹ Deloitte & Touche, 'Englands' Premier Clubs – April 2001', p 14

matches. This could be fatal when the club's football results get worse and the football consumer chooses to watch the top clubs instead.

This customer cluster can however be seen as a valuable resource, considering how broadcast deals with different broadcasting channels are negotiated and sold in the future. What we mean is that this customer cluster is willing to spend a large amount of money to be able to watch the games on TV or via another media. Selling pay-per-view games on the Internet could increase the revenues considerably from the football consumers. However, due to the characteristics of the football consumers, they cannot be considered as a rare or non-imitable resource, and thus, not providing a competitive advantage.

Advices and recommendations

Albeit its lack of rareness and its non-imitability, the value created from this customer cluster could be enhanced on a business level, by improving the quality and comfort of the facilities at the stadiums. Differentiation of ticket prices is just as important to football consumers as it is to supporters. It will hopefully attract more football customers, thus increasing the value of this customer cluster.

Hospitality customers

The hospitality customers buy those products and services offered at the stadiums not directly connected to the football games. The revenues from hospitalities are strongly connected to the local business environment, as the customers most often are representatives from it. The hospitality customer cluster is a valuable resource, since it provides the clubs with an extra and stable revenue stream not depending on sporting success. Since the hospitality customers mainly come from the local business environment, this resource can be seen as rare, since the local business environment is unique in itself. Non-imitability also exists, while a club cannot recreate the customer base of another club, due to the unique characteristics of the local business. Thus, if exploited by the club, the hospitality customers deliver a competitive advantage. However, the revenues from this customer cluster aren't as big as from the supporters or football consumers, but the revenues are important because of its high independence of sporting success.

Advices and recommendations

The hospitality customers could be even more exploited by the clubs than they already are. By improving the stadium and its facilities, more hospitality customers would be attracted, thus generating more revenues in an even flow throughout the year. Since the main part of the customers are found in the local business environment, a good relationship with the local business would result in more customers due to network effects.

Marketing partners

Due to the enormous interest in football, many companies are willing to spend large amounts of money just to have their brand connected to the club or the sport. Sponsorship deals and sales of advertising spots in the stadium make up a big part of the commercial revenues. This customer cluster is valuable to the clubs, but by no means a competitive advantage. Neither rareness nor non-imitability does exist, because these customers exist in every big club. It's just a matter of attracting more marketing partners and making the deals more valuable.

Advices and recommendations

Much can be done to make the marketing partners a more valuable resource to the club. As most of the customers pay to be connected to the club, a stronger brand would more likely attract more and bigger sponsorship deals. The clubs should therefore engage in activities that will strengthen the brand and spread the positive values of it.

Media companies

In most European leagues, clubs don't negotiate TV deals on their own. These deals are with a few exceptions negotiated on a central level between media companies and a top organisation, such as Premier League and Nationwide League in England and the Football Association in Sweden. The only situations where clubs actually can make a broadcast deal of their own, is when they themselves have arranged a friendly game or tournament and when new channels of media distribution such as Internet emerges.

Considering the way broadcast rights are negotiated, we would like to divide the revenues from them in two parts; 1) Revenues from centrally negotiated deals and 2) revenues from deals negotiated by the individual clubs. The centrally negotiated deals are very valuable to the clubs. As discussed in previous chapters, the TV deals in English football involves substantial amounts of money, which is distributed throughout the clubs. Because of the fact that all of the clubs share the money from the deals, the rareness and non-imitability criteria are not fulfilled. Furthermore, the exploitability is low, as the deals are centrally negotiated and the individual clubs have limited influence on the negotiations. In comparison to the central deals, the individually negotiated deals are less valuable but the exploitability rate is higher. They are also more rare but not very costly to imitate. Regardless of how the broadcast deals are negotiated, the media companies as customers cannot be considered as sources to competitive advantages since they don't pass all of the criteria in the VRIO-framework.

Advices and recommendations

The clubs cannot do much to enhance the media companies' contribution to the revenues. When it comes to centrally negotiated deals, the club's hands are tied, since they cannot influence the deals. However, they can to some extent influence the individual deals. For instance, they could choose to participate in friendly off-season games more attractive to television. This option is limited though, because of the tight schedules in professional football leagues. We believe that exploitability lies within the broadcasting on Internet. With more future viewers wanting to watch games on Internet, selling rights to broadcast on Internet could provide the individual club with large incomes in the future.

Summary Customers

Every customer in every customer cluster form together the club's customer capital. The customer capital is an important ingredient in an organisation's structural capital that leverages the value of the total intellectual capital. Even though the customers aren't always a competitive advantage, they are a very valuable resource providing the club with large revenues, thus a valuable and important resource.

6.3.2 Relations – Alliances and Networks

In all industries, including the football industry, relations, containing networks and alliances with external parties, surround the industry. These various relations and alliances are areas, in which the football clubs carefully have to consider the consequences. The club forms relations with parties such as media, customers, owners, other businesses and other clubs.

The alliances and network within the relations all have one thing in common; they generate value to the football club and are, also according to several football clubs, crucial for the clubs survival. The relations generate value to the club in form of money, goodwill and through the connections the network provides.

The outcome of every relation, network and alliance is unique. One club forming some sort of relationship with one external party cannot expect the same result and outcome as another club who already have a relationship with the party. Hence, the relationships surrounding an industry, in whatever form they may be, cannot be copied.

Translated into the VRIO-framework, this means that the network surrounding a club, containing relations and alliances, are valuable, rare and non-imitable.

In terms of the Intellectual Capital-theory, we address this resource, the relations containing networks and alliances, to be parts of the fourth branch of the conceptual framework of the Intellectual Capital – Relations.

Advices and recommendations

Since this resource is said to be valuable, rare as well as non-imitable, the resource is of great importance to a football club. Therefore, every relation, alliance and/or network should be carefully nurtured and exploited in an active way.

One of the most important relations a football club ever creates, are the ones they have with various sponsors. The sponsors provide some of the money needed to make it possible to run a club in a professional way. However, this is well known to the clubs, who we feel already fully have exploited the sponsor relations. Therefore, we won't discuss these relations any further.

However, we believe that relations with other companies, that do not sponsor the club, have more possibilities to be improved. We suggest that a broader business view can generate synergies with other businesses, deeper and just as valuable to the club as those sponsorship-like relations only involving money transfers and advertising.

Above all, we suggest that these synergies should be gained in creating alliances and networks with:

1. Internet Companies – These companies provide the clubs with services and knowledge, making the so important Internet applications possible. As can be seen in the section 4.3.4 Media Development, several clubs have already created alliances with Internet companies, in order to take full advantage of the new market on the Internet.
2. Media Companies - Good relations with media companies could prove to be vital in the running of a professional football club. This depends, however, in which country the club acts. In England and the Premier League, e.g., these relations are not that

important to the clubs, due to its present form. However, in other countries, where the individual club makes the negotiations, it could be crucial for the club's survival. As described under the section 'Revenue Streams', the revenue stream Broadcast provides the largest source of income to a club. Therefore, the clubs should consider various relationships with media companies.

3. Other Leisure Companies and Sports Clubs – The football clubs can also achieve advantages in creating relations with leisure companies and other sports clubs. Leisure companies have access to and knowledge about distribution channels and marketing, which the clubs can use. The relationships with other sports clubs can be used in sharing Mega-store facilities i.e. offer products with the clubs' names, and thereby spread the name of the clubs. As football becomes more and more global, such relationships are very important, and the football clubs should strive to create such relationships.

6.3.3 Environment

The environment, i.e. the structure of the local business and the social demographics, is a foundation that determines the possibilities to leverage the outcome of the relations with local customers, sponsors and companies. Thereby, the environment can be said to go hand in hand with the relations, alliances and the networks surrounding a club, hence, the environment is also a part of the fourth branch of conceptual framework of the Intellectual Capital.

A club, operating in an environment with many wealthy companies and inhabitants with high average income, is more likely to obtain revenue-creating relations. However, a club operating in a 'poor' environment, e.g. traditional working class cities can also create very valuable and revenue-creating relations. Just look at the city of Manchester. This is a city with working class roots that despite of this fact has produced two teams, Manchester City and Manchester United, of which the latter is considered by many as the biggest football club in the world. Hence, it is the unique environment that creates the ground for which relations that will be created. In this aspect, the environment could be seen as a resource that, in VRIO-terms, is valuable as well as rare and non-imitable.

6.3.4 Stadium and Facilities

The stadium and facilities of the football club, is a resource cutting across many of the other resources: (1) The capacity of the stadium determines the number of customers that could attend the game, hence adding ticket revenues. (2) The facilities and hospitality features of the stadium, determine the number of customers attending the stadium beyond match days, thus adding extra revenue not connected to the sporting success. (3) These facilities also attract local businesses, which can use certain hospitality facilities, e.g. conference facilities, throughout the year, hence adding another revenue stream not connected to the sporting success.

Due to the major importance the stadium has to the individual football club, we consider this resource to be Valuable, since it creates revenues to the club, Rare, since it is not easy to build a stadium, and Non-Imitable due to the large amounts of money a club has to invest in order to build one.

Advices and recommendations

The stadium is for the football club a tricky resource to exploit further. If the stadium capacity is fully utilised, i.e. every match is sold out, a club should consider building a new, or expand the existing stadium. Seems easy, but there are a lot of factors to consider. First, the building of a new, or the rebuilding of an old stadium, requires substantial financial capital. The club has to compare the amount of capital needed for this investment with the increased utility. Furthermore, there is a risk that the results go downhill with a decline in attendance as a consequence.

In addition, the club has to consider the mythological value the stadium enjoys with the club's supporters. In rebuilding their stadiums, some supporters may feel that the stadium 'lost its soul', and choose to watch the games on television instead. One can consider the stadium to be a church, in which supporters worship their religion football and their gods – the players.

The clubs could instead focus on developing the stadium's facilities hosting hospitality features in order to satisfy the customer cluster mentioned above as hospitality customer. The clubs should focus on developing these in buildings in connection to the stadium, thereby minimising the risk that the stadium itself loses its mythological value. The building of conference centres and hotels outside the stadiums are alternatives that should be considered by the football clubs in order to maximise their revenues off match-days.

6.3.5 Information Technology

The information technology, e.g. Internet and databases, a club could possess are according to some clubs very important resources when reaching out to more customers and spreading the brand of the club. We address this resource in the conceptual framework of the Intellectual Capital-theory to the second branch – Organisation.

The Internet is a fantastic way of reaching more people than can be done with traditional media channels. For a lesser amount than advertisements in newspapers would cost, the club can reach far more interested parties as well as spreading the message on an international level. The Internet also creates a fantastic way of starting shops. Located only virtually, the club doesn't have to pay expensive rent, and enables the club to offer the club's products to everybody on-line. In addition, as people visit the club's website, internal databases can gather information about the customers and later on sending personalised marketing efforts.

Applying the VRIO-framework these resources, we clearly see that they are valuable, since marketing activities and e-shops creates revenues to the clubs. They are, however, not rare, since the creation of a website and databases today is a one mans task. These resources, the Internet and the databases, are available to everyone within the industry; hence, they are not sources to competitive advantage at this stage. Nonetheless, we see a great potential in further exploiting these resources.

Advices and recommendations

The Internet and databases are, as mentioned above, potentially offering the greatest improvements of all the resources, mostly depending on the fact that these resources still are relatively new. We see great possibilities in the use of Internet as a media, due to different ways it adds value to the club and its supporters. This is mainly because of the enormous

reach this media possess. The Internet is available to almost everyone in the world, with no or little regulations and restrictions.

We also suggest that the clubs should exploit the unique possibilities offered by the Internet when it comes to information. The website can be updated as the slightest change occurs, giving the visitor information always up-to-date. This is of great value to supporters hungry for information, which also could give them a feeling of stronger connection to the club. The fact that the running of a website is cheap, also means that the club reaches far more people than they would have done with a fanzine, which have to be printed, distributed and thereby be bought by customers.

As mentioned above, we also suggest that the clubs exploit the possibilities the Internet provides when it comes to the creation of e-shops, i.e. virtual shops on the Internet. The shops can use the superior reach the Internet provides, and thereby reach as many customers as they would have with an international chain of stores. Furthermore, this solution only costs a fraction of what the international chain of stores would have cost, when it comes to distribution and storage. The e-shops are something that is available to all football clubs – big and small – and should be considered by every club.

The Internet could also create an increase in revenues by exploiting the possibilities of broadcasting matches, highlights of the matches and interviews. The building of broadband, allowing higher transfer speeds of data, is already initiated in most countries allowing these possibilities to be transformed into reality.

The clubs also have to think of the possibilities given by the creation of databases over customers. Combined with the use of an individual website, the clubs can gain an advantage compared to other clubs. Let's say you are a supporter of a certain club in the city in which you live. Due to circumstances out of your control, you have to move from this city to another one located 500 miles away. If you are a frequent visitor of the club's e-shop or website, the club could have information of your new address, stored in a database. When the time comes, and your old favourite club is about to play in the vicinity, or in the city where you now live, your favourite club sends you a message: 'We are playing against XX on Saturday. As an old supporter, come and watch!' The status of a supporter could give you advantages in form of cheaper seats etc.

All of the insights mentioned above are possible to accomplish if the football club sees the opportunities and reach out for them. Unfortunately, many football clubs doesn't consider themselves being of the size that requires a website. However, there is no fault in creating one. If the success should arrive, the club already has a resource that helps keeping in touch with old supporters and reaching new ones.

6.3.6 Brand

The brand is the source to the loyalty of supporters and creates a bond, since it is loaded with image, values and traditions, generating goodwill. This goodwill is the core in all kinds of products and services delivered by the club. Hence, a strong brand containing lots of goodwill is valuable to the club. The uniqueness of every club's brand is deeply rooted in the traditions and history of the club and therefore impossible to imitate. When exploited by the club in a commercial way it is a source to competitive advantages. A strong brand associated with

success not only attracts many supporters and spectators, but also large sponsorship deals and other business partners.

Advices and recommendations

We believe it's all a matter of marketing skills in order to get leverage on this structural capital. Nothing can be done about the historical and traditional elements in the brand, but there's a great potential of spreading the positive values through skilful marketing. The competence of strengthening a brand and spreading it is essential and should be available. If neither the board nor anyone else within the club possesses the competence, it can be made available through relations.

6.3.7 Management

The management is perhaps the most important resource to the club. After all, the managers and the member of the board are the ones who make all of the decisions in the club. It's up to them to exploit all of the resources that exist. Their competence, knowledge and skills are of greatest value to the club, but it's hard to tell if this human capital is a competitive advantage. Nevertheless, a management able to spot opportunities and act upon them is essential. If the club wants to exploit their resources in a way they become a competitive advantage, the club doesn't only have to possess the resources, but also the ability and know-how.

Advices and recommendations

In order to exploit all of the possibilities existing in the football industry, good management skills is essential within all levels at the football clubs. Key issues are the fundamental understanding of a long-term strategy and the ability to notice environmental changes and act upon these. It is also important to dare to exploit opportunities when they emerge and to react when things go bad. However, the most important thing is that the clubs have realised in what position they are. Football on the highest level is nowadays a big business and the clubs have to be organised just like a big business. The first thing that has to be done is to make the organisation more professionalised. It's no longer acceptable to let amateurs run the club, just because they love the club and have been long serving members. Let's bring in managers who understand the business and know how to generate money. However, managers cannot forget that football is a game of the people. The supporters who indeed are the ones who keep the club's going must not be negatively affected by the search for higher profits and healthier finances.

6.3.8 Players and Youth Development

Football players are of apparent reasons an extremely important resource to a football club. Their football competence is the main factor determining the results in football games. If a club have players with a high level of competence, the results on the football field will be good and the club could enjoy the positive effects of the Circle of Success. The players are an important source to competitive advantages on the football field. Their football competence is very valuable, determining the outcome of football results. Every player is unique, possessing different kinds of skills and attributes; hence, they fulfil the rare-criterion. They are also very costly to imitate, because of the high wages and transfer fees in today's professional football. A football club wouldn't be a football club if it weren't organised to exploit the potential of the players, thereby is also the last criterion of the VRIO-framework fulfilled.

The players with high football competence generate value on the football field by producing good football results, leading to higher league positions and increased revenues. Players could also generate revenues without contributing to good results in matches. Their name and reputation alone could attract new sponsorship deals and create an increase in attendance on matches as well as in sales of merchandise. Investing in star players could be profitable if the future returns exceed the invested money. Hence, the star status of a player could be a valuable resource off the football field. Whether this resource is rare or not is questionable. In professional football, all players have some kind of star status and some players could be the biggest star in one team while being just one of many starts in another team. However, rareness is a question of how bright the stars shine. The higher star status the player has, the rarer it is. As mentioned above players are very costly to imitate, because of the high wages and transfer fees. If the club exploits the star status of the star player, it could be a source to competitive advantage if the star status is high enough to be rare.

Another important resource is the youth development system within the club. If this activity is well organised and given enough funds, it could produce future star players. With this reasoning the youth development system could be seen as a producer of the resources mentioned above – football competence and star status. The youth development in itself is also very valuable, due to the potentially high return on investment. Players are virtually free when they at a young age join the youth development program, but could after a few years be disposed for a larger amount of money.

We have noticed that some clubs have been more successful in developing talented young players than other clubs. One can therefore argue that this is a source to competitive advantage. However, we cannot point out certain factors explaining why some clubs have an advantage in developing young players. It could depend on many factors, like the demographics of the home district of the club, the geographical location, the reputation of the club and random coincidences. Therefore, we won't be able to further analyse this resource, due to its complex nature.

Advices and recommendations

We believe that the football competence already is fully exploited in professional football clubs. However, due to natural circumstances, e.g. aging and injuries, this competence continuously has to be renewed. This could be achieved by bringing new players from either the youth development system or from the transfer market. The transfer market is much more expensive, making the youth development system a preferred choice if it could offer a player of equal quality. Although the transfer fees are avoided when using the youth development, the club still has to afford paying the wages. Furthermore, the financial status of the club has to be good enough to afford the alternative cost of rejecting bids on players, young and old. As a consequence, it is the financial strength that is the determinant whether a club will be able to hold on to the good and develop its future football competence. However, having a well functioning youth development system, able to produce quality players, will reduce the costs of renewing the football competence. Thus, the importance of youth development can't be ignored, and appropriate measures must be taken in order to ensure the quality of the youth development system.

If a club has a player who possesses a star status, this resource should be fully exploited, by exposing the star in media and to supporters and other customers. If a club wants to acquire a player with a star status, it has to be prepared to pay for it.

6.4 Summary

6.4.1 The VRIO-framework

In the table below, the reader will find a summary of those resources we've analysed, applied to the VRIO-framework. We've only analysed resources that in some way affect the revenues of a club, thus generate value. Hence, all of the resources fulfil the first criterion – Value. However, we've tried to rate the impact they have on the revenues by grading the value according to low, medium and high. Furthermore, when it comes to whether the resources are exploited by the organisation or not, it's impossible for us to answer a simple yes or no. We have instead just examined to what degree the resources are exploitable by grading them low, medium and high, in order to make a generalised view of the football industry.

Resource	Value	Rareness	Non-imitable	Exploitability	Source to Comp. Adv.?
Customer					
Supporters	High	Yes/No*	Yes	High	Yes/No*
Football Consumers	Potentially high	No	No	Medium	No
Hospitality Customers	Medium	No	No	Medium	No
Marketing Partners	High	No	No	Low	No
Media Companies					
Central Deals	High	No	No	Low	No
Individual Deals	Potentially high	No	No	Medium	No
Relations	High	Yes	Yes	Medium	Yes
Environment	Medium	Yes	Yes	Low	Yes
Stadium & Facilities	Medium	Yes	Yes	Medium	Yes
Internet & Databases	Potentially high	No	No	High	No
Brand	High	Yes	Yes	Low	Yes
Management	High	No	No	Low	Yes
Players					
Football Competence	High	Yes	Yes	Fully exploited	Yes
Star Status	Medium	Yes/No**	No	Low	No
Youth Development	-	-	-	-	??
*Depending on the size of the supporter base **Depending on the star status					

Table 6.1 The VRIO-framework applied to football resources.

6.4.2 The Football Business Value Scheme

Based on the Intellectual Capital theories, we've created a value scheme similar to the Intellectual Value Scheme presented in section 3.2.1. Instead of having the market value as a base for the value scheme, we decided to use financial strength. This is more appropriate, because market value is irrelevant for most football clubs. The future of the club is not determined by the market value; it is the financial strength that is the decisive factor. In the Football Business Value Scheme, there are three types of Structural Capital. We have removed the Organizational Capital and replaced it with Facility Capital and Relationship Capital. The latter is divided into three sub-capitals, Brand, IT, and Environmental, all leveraging the value of the Relationship Capital. Another modification of Edvinsson's model is that we've divided the Customer Capital into a Supporter Capital and an External Customer Capital. The External Customer Capital consists of football consumers, hospitality customers, marketing partners and media companies. The Human Capital is divided into two sub-capitals with the management of the club in one and the players in the other.

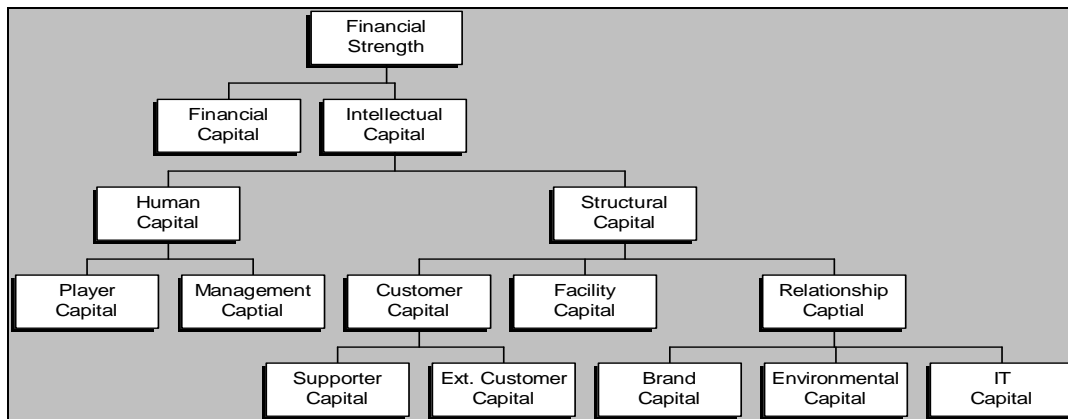


Figure 6.2 The Football Business Value Scheme

6.4.3 The IC Multiplier

In football clubs, the Human Capital, particularly the Player Capital is very valuable, since it possesses the football competence needed to win football matches. This Capital is essential for the club if it wants to achieve the primary goal for most clubs, i.e. to be successful in competitions. Although football clubs in some way own their players through contracts, the Player Capital is a fickle asset. When contracts expire, players are free to go to any club and even when they are on contract they could be sold to another club. Due to the mobility of the Player Capital, the explanation of long-term success ought to be found somewhere else.

The IC Multiplier is a tool used to evaluate the IC performance in an organisation, by calculating the ratio between the Structural Capital and the Human Capital. If the Structural Capital is more valuable than the Human Capital the IC Multiplier is positive, which displays the importance of the Structural Capital. Within the Structural Capital, it is the Customer Capital, which is the most important, since the game football cannot survive without its customers and the revenues coming from them. Due to the loyalty of the supporters, their willingness to pay money to the club and the numerous ways of exploiting the supporters as a resource of the club, we regard them as being the most important Customer Capital. Thus, having a Customer Capital providing the Structural Capital with much value will help the club's Management Capital to create leverage in the IC performance of the organisation, improving the financial status of the club.

7 Conclusions

In this chapter we present our conclusions based on the analysis made in the previous chapter.

7.1 The Resource-Football

In Figure 6.1 in the previous chapter, we presented a bunch of resources grouped into nine different clusters, all having a great importance or value to the club. Since we chose to exclude the finance/profit cluster, because it was more of a goal than an exploitable resource, we were left with eight resource clusters.

The eight clusters were then applied onto our theoretical framework, the Resource-Based theories and the Intellectual Capital theories. Having put the resources (although one cluster in some cases contains more than one resource, we mean the whole cluster when we mention one single resource.) into the Intellectual Value Scheme (see Figure 6.2) we were able to identify the Structural Capital in professional football clubs. Initially we had nine important resources, but only six of them qualified into the ‘Resource-Football’, which is a bundle of resources that together compose the Structural Capital.

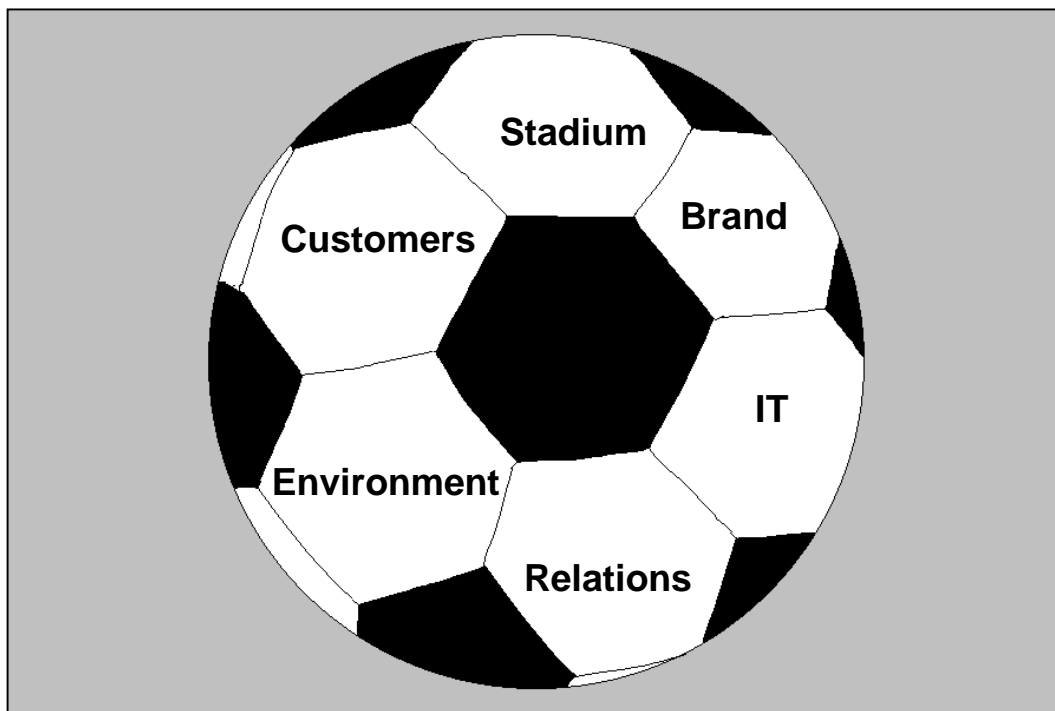


Figure 7.1 The Resource-Football

As concluded in the previous chapter, some of the resources in the Resource Football can't be regarded as competitive advantages when employing a resource based analysis and J.B. Barney's VRIO-framework. For instance, customers is not a heterogeneous resource, they are available to all clubs, thereby not passing the rareness criterion. However, environment, stadium, brand and relations are resources that could be sources to competitive advantages if exploited by the club. The many ways of exploiting these resources could give the clubs an advantage over other clubs when it comes to generating revenues through various business activities. As they don't directly provide the clubs with advantages on the football field, we're talking about sources to *business competitive advantages*.

7.2 Handling the Ball

In order to achieve sporting success in football, players have to possess good skills in handling the ball and a good eye for the game.

In order to achieve business success in football, the management team has to possess good skills in handling the Resource-Football and a good eye for business.

This metaphor clearly explains the importance of the Human Capital in football clubs. Being able to handle, dribble and shoot the Resource Football is the same as being able to exploit the resources that make up the Structural Capital. Everyone involved in the business of the club, in particular the management team and the members of the board, is a valuable resource that provides the club with skills and competencies in running a successful business. Having such resources is essential and the better they are, the more likely it is that they will increase the revenues. Management is in itself a source to business competitive advantage, but their importance lies in the way they are able to exploit other resources and make them competitive advantages.

In the ever-changing football industry where more and more money is involved, it has become very important to have a valuable Management Capital, in order to be able to spot and act upon emerging opportunities.

7.3 Winning the Game

7.3.1 Tactics – The Winning Formula

4-4-2, 4-3-3 or 3-5-2, which formula is the best? Well, that is arguable, but whatever tactics the teams chose to play with, they all aim for having a balanced team with a solid defence and a creative offensive play. The tactics help the team to get the best out of the squad, coordinating the players into a collective effort to win the games. In a well-organised team good tactics is likely to enhance the skills of the individual players.

Also in football business, there's a formula with the same enhancing attributes as the tactics, i.e. the IC Multiplier. In today's professional football, where money is playing such a big role, it is very important to have a healthy financial status. Hence, it is important to have resources that generate revenues to the club. The IC Multiplier tells us how important it is to have valuable resources within the structural capital, because it is the structural capital that leverages the value of the total intellectual capital of the club. And then, the intellectual

capital, together with the already existing financial capital, decides the financial strength of the club.

7.3.2 Players

As long as you don't trade players, with the objective to generate profits, the players can't be regarded as a business resource. And generating profits from player trades often means selling the best players, which often results in lower league positions. Therefore trading players in order to generate money should be avoided. However, players may not be a source to business competitive advantages, but they are a source to *football competitive advantage*. After all, it is the players who outperform other clubs in football competitions.

In order to attain this football competitive advantage, the clubs need very much money. The increasing wages and transfer fees require large amounts of funds available and it has become very expensive to have a competitive player squad. The players are the clubs' most important resource in their fight for glory and success, and being able to spend money on players should be first priority.

7.3.3 Scoring Goals

As the objective of all professional football clubs is to win as many games as possible, focus lies upon getting a competitive advantage in playing football. However, this competitive advantage is as mentioned above very expensive, and as you know, money doesn't grow on trees. Therefore, it is essential to have valuable and exploitable resources and the right management skills to be able to generate revenues. The clubs need competitive advantages off the football field in order to attain a competitive advantage on the field.

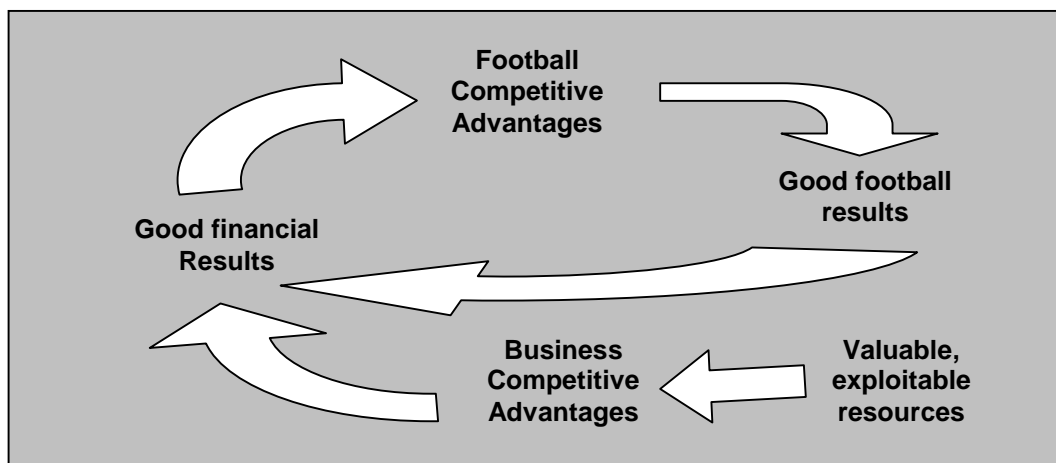


Figure 7.2 The modified Circle of Success

It's all about money in today's professional football. The right resources and the right exploitation of them will increase the revenues and strengthen the finances. The business resources of a football club aren't all competitive advantages in themselves, but their exploitability and money generating attributes could be sources to football competitive advantages. Having these sources to competitive advantages will increase the likelihood of a positive direction in the Circle of Success. In Figure 7.2 we have modified the Circle of Success to include the relation between resources, competitive advantages and football results.

7.4 Man of the Match

In a football game one of the players is usually awarded Man of the Match. But in our study we won't give this title to the players. They certainly are the most important football resource, but they don't provide the club with business competitive advantages. Neither do the financial capital, even though this is an inevitably resource, especially when it comes to signing and buying players. Well, you might think we will give the award to the managers, the human capital running the business and exploiting all of the resources. They are contenders, because of their ability to gain business competitive advantages through their valuable knowledge and business skills, but this resource is not the resource we want to award.

Now we are left with the resources in the structural capital of the football clubs. A valuable structural capital creates a positive IC Multiplier, which in turn creates financial strength in professional football clubs. A well-developed stadium contributes with extra revenues from activities and features both on and off match days and there are many ways to further exploit this resource. The brand, the surrounding environment and the information technology are all resources that enhance the value of the relationships the clubs have with other party. Regardless of whether the other party is a sponsor, a media company or a customer, it is possible to strengthen the relationship by exploiting the relation enhancing resources. The information technology above all, provides the clubs with many opportunities to give the relations a new dimension, thus adding value to the clubs' structural capital.

However, none of the resources mentioned in the section above will be awarded Man of the Match. Instead, the authors want to pay tribute to the clubs' main revenue source, the customers. In our analysis we've been talking about five customer clusters, but we would like to give the Man of the Match award to only one of the clusters – the supporters. In contrast to the other clusters, the supporters are dedicated loyal fans supporting their favourite club through thick and thin and spend more money on products and services from one single club than any other customer cluster.

However, the individual supporter isn't a source to business competitive advantage, since supporters exist in every club. Only if the club has a superior size of the supporter base, we regard them as a source to a business competitive advantage. Yet, this resource is the most important resource for the professional football club. Bearing the high rate of exploitability of the supporters and all potential revenues from them in mind, this resource is very valuable to the club. The large amounts of money the supporters spend on match tickets, on club merchandises and to be able to watch televised matches provides the club with large funds that could be used for investing in better players. Hence, the revenues from the supporters enable the clubs to attain a competitive advantage on the football field.

So, the supporters, with their dedication, loyalty, love for the club and willingness to spend money on their favourite club, are very valuable to the clubs in their fight for glory in football competitions. Even the supporters' presence on the stadium has an ability to boost the competitiveness of the team in tight matches. If the club is capable of taking advantage of the opportunities to exploit this resource in a proper way, the supporters are likely to provide the club with football competitive advantages.

The main objective of every professional football club is to be a successful club in all kinds of football competitions. The supporters pay big money to support their club and want to be rewarded with success for the club. They demand their club to win games but also help the

club to do it by providing the club with a source to football competitive advantages. However, it's up to the club to get the most out of this source. The players may be the ones who win the games for the club and the fans, but it is the exploitation of the supporters that enables the club to have players capable of winning games. With a business view of the professional football clubs, the supporters are the most important resource, helping the club to achieve its main objective.

'So for me, the big money [...] and the rest will never change the fact that the lifeblood of football is the fans.'

Sir Alex Ferguson, Manager of Manchester United

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Former President of Malmö FF

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Brown, Adam

Research Fellow at the Football Governance Research Centre, Birkbeck University of London

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Findlay, Jeannette

Lecturer in the Department of Economics at the University of Glasgow and Research Fellow at the Football Governance Research Centre, Birkbeck University of London

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Hamil, Sean

Deputy Director of the Football Governance Research Centre, Birkbeck University of London

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Chairman of the Swedish Football Association

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Lundquist, Bo

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Stenberg, Thomas

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Appendix A

Study	Intellectual Capital Component	Description of Component as Defined by Researcher	Example of Respective Component
Edvinsson	Human Capital	Combined knowledge, skill, innovativeness and ability of the company's individual employees to meet the task at hand.	<ul style="list-style-type: none"> • Company Values • Company Philosophy • Organizational Culture
	Structural Capital	The firm's infrastructure that supports an employee's productivity.	<ul style="list-style-type: none"> • Software • Databases • Patents • Trademarks
Brinker	Structural Capital	Infrastructure that supports the human capital component of intellectual capital.	<ul style="list-style-type: none"> • Information Technology Systems • Company Image • Organizational Concept and Documentation
	Human Capital	Capability of employees to provide solutions to customers, to innovate and to renew. Also includes the dynamics of an intelligent (learning) organization in a changing competitive environment, its creativity, and innovativeness.	<ul style="list-style-type: none"> • Tacit Knowledge • Explicit Knowledge • Training Programs • Recruitment
	Customer Capital	Relationships with people with whom a company does business.	<ul style="list-style-type: none"> • Long-term Contracts • Customer Satisfaction • Customer Profile • Customer Success (renewal of contracts)
Brooking	Market Assets	Potential of an	<ul style="list-style-type: none"> • Repeat Business

		organization with respect to its market-related intangibles.	<p>Percentage</p> <ul style="list-style-type: none"> • Value Associated with Goodwill • Dominance from Marketing Strategies
	Intellectual Property Assets	The know-how, copyright, patents, semiconductor topography rights, and various design rights of the company.	<ul style="list-style-type: none"> • Reputation of Intellectual Property Developed • Dist. Of Intellectual Property Held • Total Intellectual Property Investment • Intellectual Property Renewed/Revised
	Human-Centred Assets	Collective expertise, creative capability, leadership, entrepreneurial and managerial skills embodied by the employees of the organization. Also includes the psychometric data and indicators on how individuals perform under situations such as high stress.	<ul style="list-style-type: none"> • Dist. Employees by Gender, Age, and Seniority • Employee Education Investment • Employee Turnover
	Infrastructure Assets	Technologies, methodologies and processes enabling the organization to function.	<ul style="list-style-type: none"> • Methodologies for Assessing Risk • Databases on Markets and Customers • Communication Systems

Draper	Structural Capital	The value of what is left when the human capital – the employees – has gone home.	<ul style="list-style-type: none"> • Information Systems • Customer Lists • Operational Documentations
	Human Capital	Accumulated value of investments in employee training, competence and future.	<ul style="list-style-type: none"> • Employee Satisfaction • Employee Education Investment • Employee Turnover and Seniority
	Customer Capital	Value of the customer base, customer relationships, and customer potential.	<ul style="list-style-type: none"> • Customer Contract Renewal • Customer Satisfaction • New Customer Figures
	Organizational Capital	Systematized and packaged competence combining systems for leveraging the company's innovative strength and value-creating organizational capability.	<ul style="list-style-type: none"> • Organizational Philosophy • Company Strategies and Directives
	Innovation Capital	Renewal strength in a company, expressed as protected commercial rights, intellectual property, and other intangible assets and values.	<ul style="list-style-type: none"> • Commercial Rights • Intellectual Rights
	Processing Capital	The combined value of value-creating processes.	<ul style="list-style-type: none"> • Time for processing of Orders • Product Development Time • Human Resource Dist. By Processes

Source: Williams, Mitchell S. (2000) 'Is a company's intellectual capital performance and intellectual capital disclosure practises related?'

Appendix B

BBC:

- Football Association Cup Final (from 2002) England home internationals (football)
- Football World Cup European Football Championships, UEFA Cup
- Final European Super Cup (football) Olympics, summer and winter Grand

ITV:

- Premier League football highlights (from 2002)
- Football World Cup
- European Football Championships
- Champions League (football)

Channel Four:

- Serie A (Italian football)

Channel Five:

- Selected soccer matches, including some England away internationals and various UEFA Cup games.

Sky Sports:

- Premier League football
- Nationwide League football
- Scottish Premier League football

OnDigital:

- Champions League football
- Bundesliga (German football)

ntl:

- Premier League pay-per-view football

Source: http://www.shareholdersunited.org/just_who_can_show_what.htm (2001-05-28)

Appendix C

<u>Media interest</u>	<u>in</u>	<u>Sporting clubs</u>	<u>Country/Sport</u>
Canal+		Paris St Germain	France/Football
Sevette		Geneva	Switzerland/Football
Mediaset		AC Milan Monza	Italy/Football Italy/Football
International Management Group		Racing Club Strasbourg	France/Football
Cecchi Gori Communications		Fiorentina	Italy/Football
News Corporation		LA Dodgers New York Knicks New York Rangers	US/Baseball US/Basketball US/Ice hockey
Time Warner		Atlanta Braves Atlanta Hawks Thrashers	US/Baseball US/Basketball US/Ice hockey
Disney		Anaheim Angels Chicago Cubs Mighty Ducks	US/Baseball US/Baseball US/Ice hockey
Cablevision		New York Yankees	US/Baseball

Source: Monopolies and Mergers Commission (1999), 'Part II; Background and Evidence', p. 73