

Zoltán Imre Nagy

The Unique Features of the Financing of Professional Football

SUMMARY: Since the 1990s, professional football has been experiencing an unprecedented economic boom worldwide, but only a few football clubs can meet the rapidly changing economic requirements. There are important questions that remain unanswered within the financing of football clubs, such as the impact of risks or the market value of capital costs. In addition to liquidity and beyond the above, the acceptance of the determinational dependence of certain capital funds on sports results and the development of a strategy suitable for the optimal target system are also important requirements. The conscious management of financing is pushed to the background even in countries with great football traditions. The study makes observations and recommends financing solutions for professional football clubs. Internal funding: income from media rights and ticket revenues, merchandising (image transfer), income from the sale of various assets and intangible assets. Cost-saving measures are very important for football clubs as the extent of internal funding is significant. External funding: external financing, issuing of securities, patronage capital, etc.

KEYWORDS: football incorporated company, corporate financing, sports and economic results, risk

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Only a handful of football clubs around the world are able to meet rapidly changing economic requirements. Modern business forms and financing solutions greatly contribute to outstanding footballing results and achievements. It is important to select financing sources and risks that correspond to given economic circumstances and involve suitable investors.

THE DISTINCTIVE FEATURES OF FOOTBALL ENTERPRISES

Beyond providing a high quality sports experience, football is also a unique cultural service that can move and mobilise masses as players,

spectators or employees (entrepreneurs) and has a great impact on fields, professions and persons that are in some way related to the sport. Another aspect of professional football has also been moving increasingly into focus, namely that, besides being the most popular sport in the world which is highly newsworthy, it has at the same time grown into a very profitable business field and an important economic sector. *Development is unbroken and unpredictable.* All of this is clearly supported by the statistical data. The EURO 2008 (2008 UEFA European Football Championship) drew an average of 155 million viewers per game, while 700 million people watched the 2010 World Cup final live on television. (Stöhr, 2010)

Another special feature in the field of professional football is that there is an *authority* within the sport that issues licenses and supervises the

E-mail address: dniz@freemail.hu

operation of enterprises. This is a unique and special circumstance that cannot be overlooked or disregarded. Of course, with respect to the operation of said authority, FIFA and UEFA directives apply. With respect to a given country's football, a smoothly operating licensing organisation is another important factor.

Another peculiarity of the trade of professional football is the indisputable circumstance that is reflected in the *extraordinary interest of the population* in the sport. (Dworak, 2010). (See Charts 1 and 2)

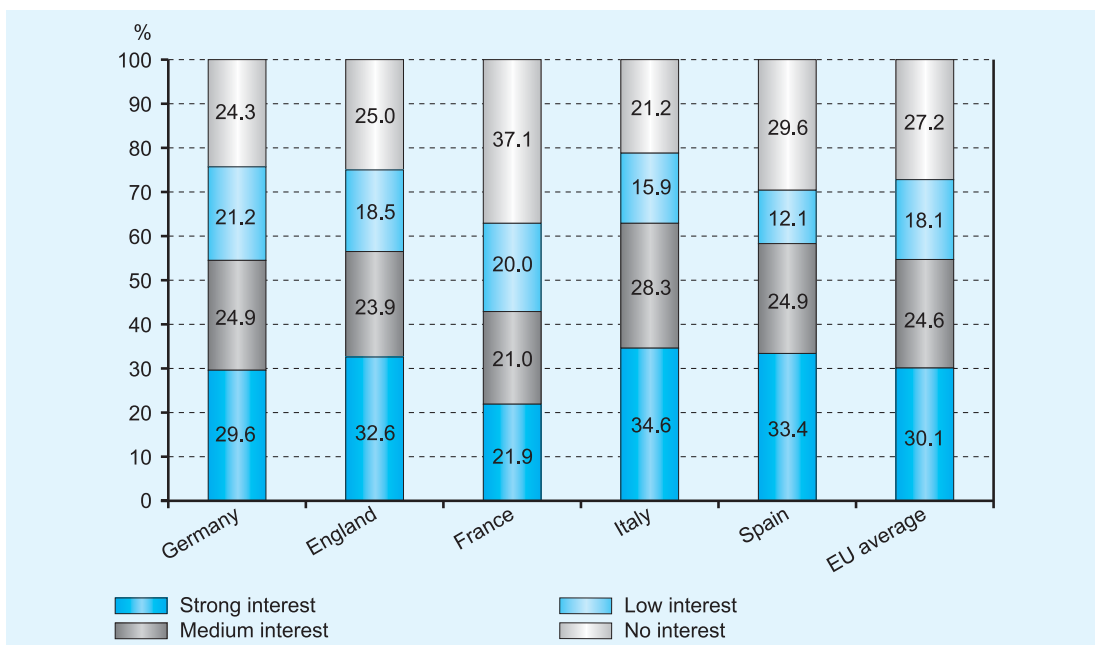
The number of persons interested in football to varying degrees reached approximately 50 million in 2004 in Germany, which in the case of a population of 82.2 million (2007) can be considered extraordinary, regardless of the slight drop afterwards. By 2011, the number of those interested exceeded 50 million (50.2) in spite of a drop in population and the intensity of interest in football increased once again.

Though we are not aware of such data regarding the interest in football in Hungary, we can be certain that the sport is capable of mobilising masses even in its present state, when signs of development are once again visible. (OTP Bank league games broadcast by MTV1, nice goals, attacking football and goals in the national team, development achieved in youth football, great results produced by youth teams in under-18 tournaments). If we were able to take further steps (as intended by the present study through emphasising entrepreneurial and financing aspects) towards the success of past decades (coming up on half a century now), even partial success would rekindle the interest and match attendance of the Hungarian population.

In countries with a developed level of football, the *economic weight* of professional football increases from season to season and today plays an incredible economic role. Besides the

Chart 1

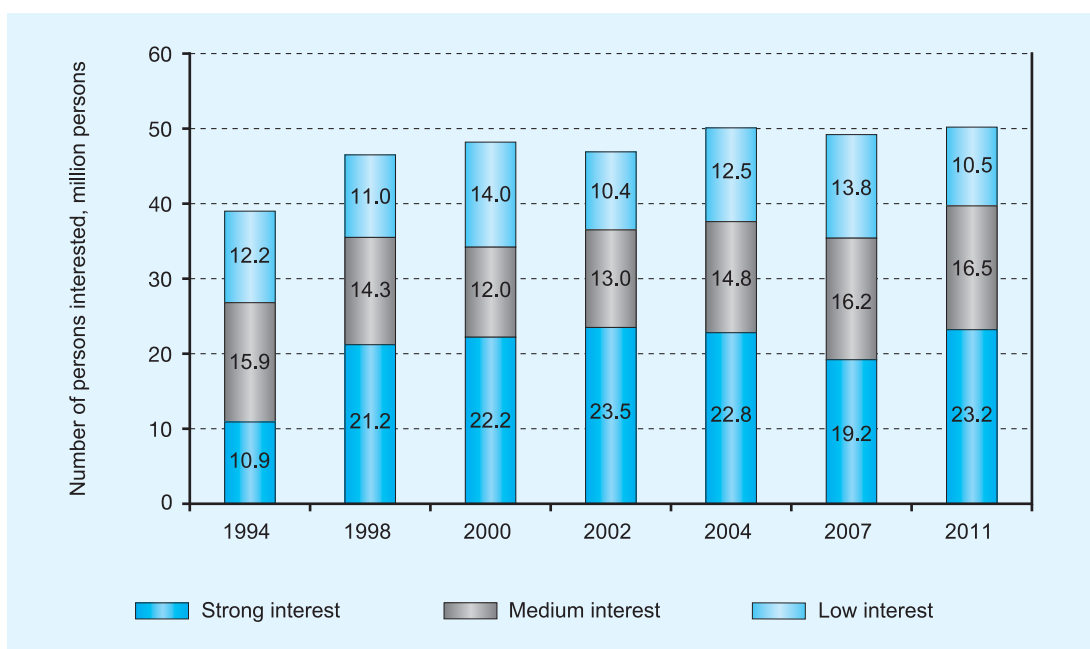
THE INTEREST OF THE POPULATION IN FOOTBALL IN CERTAIN GREAT EUROPEAN FOOTBALLING NATIONS



Source: A. Dworak: Finanzierung für Fußballunternehmen, author's own chart

Chart 2

THE DEVELOPMENT OF THE INTEREST IN FOOTBALL IN GERMANY



Source: sid/promit Statista 2011, author's own chart

increasing of the total revenues of professional football, an extraordinary rise in investments can also be observed. Another unique feature is, therefore, that the football industry can only accumulate reserves to a limited extent. The value of assets invested into the sector is constantly on the rise and the improvement of financial/investment opportunities is also a worldwide tendency. The growth in value of player portfolio and squads has now reached an extraordinary (according to certain opinions exaggerated) extent, which fact is supported by the remarkably high transfer fees. In recent years, the increase in equity capital could also be observed; a welcome fact as in the case of professional football – just like in any enterprise – it is true that equity capital is the engine of the enterprise. Unfortunately, said increase is prominent only in the case of certain larger football clubs, while overall in many countries the level of indebtedness in professional football is on the rise. This is the reason why the

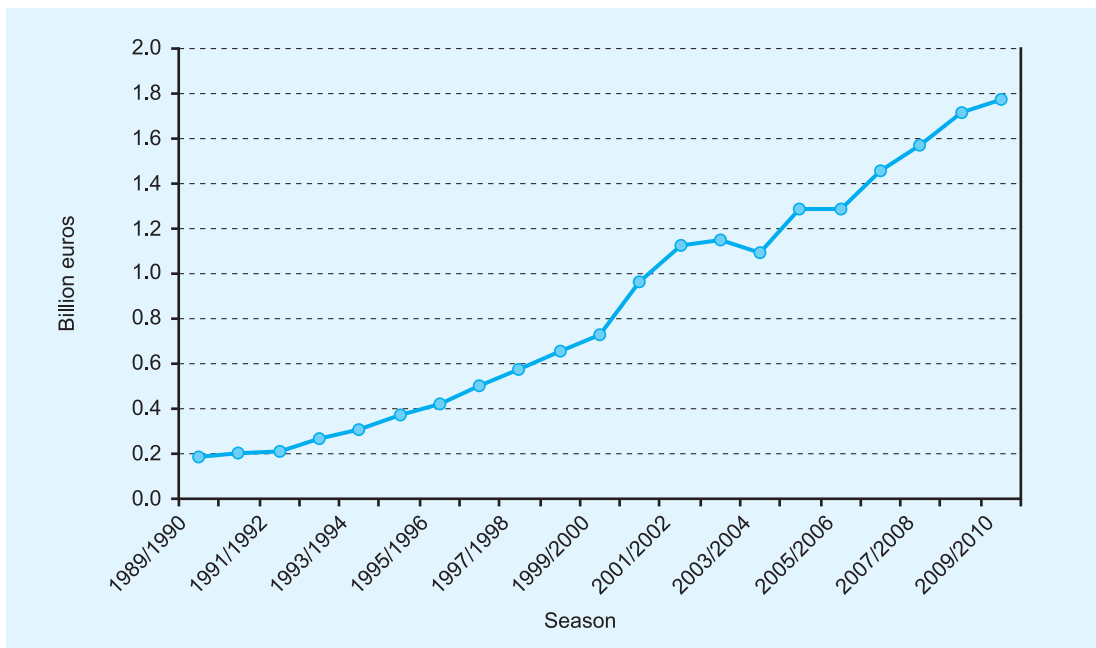
reduction of debt is still considered a priority in the industry both in the long and short-term.

The aggregate volume of the European football market is close to 15 billion euros, half of which is provided by the English, French, German, Italian and Spanish first divisions. More than half of revenues is made up of media rights sales and sponsorship revenues, which, beyond the economic significance of football, also reflects the prestigious position football occupies in society's scale of values. On top of all this, all market observers are predicting continued growth for professional football which entails unforeseen potential. (See Chart 3)

Even larger than the German is the English football market, where already in the 2007/2008 season turnover in the Premier League reached 2.4 billion euros. (Football League UK, 2011)

The spreading of the enterprise-centred view is reflected by the fact that in many countries

REVENUES OF THE GERMAN BUNDESLIGA 1



Source: Dworak, A.: Finanzierung für Fußballunternehmen, Bundesligareport 2011, author's own chart

the results of football clubs are evaluated from several aspects: broken down into sports results, economic results (profit) and ‘intangible results (value)’.

THE COMPONENTS OF THE COMPOSITE, AGGREGATE RESULTS OF FOOTBALL ENTERPRISES

At first glance it might seem that season after season football enterprises are interested in nothing but sports results, namely in reaching the best possible position in the national league and to remain standing in domestic and international cup series as long as possible. However, the number of players called to play for the national teams and their performance is also considered a sports result and this often clashes with club interest. Moreover, football enterprises – through maintaining their economic position – must also ensure their rights

to participate in the next championship. At first reading, this means that the aggregate result of football enterprises is supplemented by meeting economic requirements.

If we have a closer look, however, we can see that this rather simplified objective cannot be a strategic guideline in this new dimension of modern football, which in recent years has shown extraordinary development and today confronts football enterprises with global challenges. (Bott, 2007). Naturally, the main objective of football enterprises is also complex, made up of specific systems of sub-goals. The thorough examination and analysis of subordinated goals contributes to determining the ultimate objective itself and provides particular help in achieving this. The aggregate system of objectives in the case of a football enterprise is made up of three components: *sports result, economic result and intangible result (value)*. These three components can substitute each other only to a limited extent and strongly

correlate with each other. By breaking down objectives that form the basis of enterprises into components, they can be determined and optimised more precisely, as separate calculations can be prepared for each and every result-component and each element therein.

Sports results, which might mean winning international and national titles, qualifying for various international tournaments, avoiding relegation or being promoted to a higher division, are undoubtedly the most important components of the aggregate result, as these are what various factors of both economic and intangible results depend on. When the team of a given football enterprise achieves a great sports result, it is usually accompanied by better economic and intangible results. This is the reason why achieving the best possible sports result and maintaining them is the highest priority for each football enterprise. In accordance with this, football enterprises make great effort to acquire and keep the best squad possible, which in turn might lead to exaggerated investments. This in itself could be enough to upset the financial equilibrium of an otherwise financially stable football enterprise. This phenomenon highlights not only the contradiction between economic and sports results, but also points out that a long-term economic investment might cause economic tension in the short and mid-term, which could impede the desired sports result itself. If a given investment decision is based on a rational foundation, then its extent is pre-determined by economic results and circumstances.

We can say that in terms of sports results, football enterprises follow a strategy aimed at maximising squad strength. Sports results and sports successes, however, cannot be planned ahead. By investing into the squad, we can only increase the probability that the team will achieve better results. However, regardless of the strength of the squad, there is great uncertainty with respect to winning coming matches.

It is clear that an unforeseen wave of injuries could foil the plans to get sports results, just as other unexpected factors could. In other words, by maximising one factor we will not necessarily get closer to our goal, as reaching this goal is influenced by a whole series of factors. This means that other short and long-term economic result factors must also be taken into account.

Economic results also depend on economic processes in the case of football enterprises. In this particular field, football enterprises must act and behave similarly to any other enterprise. Economic results ensure the basic financial opportunity that forms the basis of the operation of a football enterprise. The most important factors of economic result for a football enterprise as well are: increasing yield; decreasing expenditure; decreasing debt burdens; generating and accumulating financial reserves; ensuring adequate liquidity; obtaining and holding on to licenses.

Since the improvement of the financial situation usually has a positive effect on aggregate result, we can assume that the management of any given football enterprise (particularly its financial management) wishes to maximise this and will consider the maximisation of profit the focus of entrepreneurial activity. (Zieschang, – Klimmer, 2004) Economic result is closely connected to other result factors. Radical changes of the various result factors could cause undesired effects that might in turn lead to unforeseeable financial crisis. As a result players' wages might have to be significantly reduced or assets might have to be sold. In the end, these will have a negative effect on sports results as well. In the case of relegation to a lower division (which is a significant change), the given football enterprise is forced to face serious economic consequences, which can be lightened through prize indemnity insurance. Even a remarkable sports result, such as winning a championship, could become a nega-

tive influencing factor if the club pays extraordinarily high bonuses to players for the title, which could overload the enterprise's budget. Naturally, insurance can be taken out for such cases (which of course costs money).

Result factors are interrelated and interdependent, their sum giving us the aggregate result. Naturally, the exploitation of opportunities arising due to the operation of incorporated companies emphasises result maximising orientation within operation. (It would be expedient to discuss legal forms separately as their significance within football makes this necessary). The economic result of a football enterprise should never be identified as the profit achieved in the fiscal year, as the latter is no more than a snapshot of long-term economic performance. A more interesting issue is what economic activity was used to generate the economic profit of the given year; whether it is the result of the previous championship season, and whether, taking into account the given sports result risks, these economic conditions will be repeated or not in the next season.

The *intangible result*, success of a football enterprise entails all value factors that are very difficult to quantify using financial-economic or sports result aspects. This includes the image of the football enterprise, the improvement of which usually results in an increased media presence or the improvement of financial positions or the growth of the market value of the enterprise. Of course this also impacts economic results as an improved image could lead to increased sponsor involvement. When speaking of intangible results, we should also mention the supporters' strong identification with the club. This strong relationship has a positive impact not only on economic result, but could also boost the achievement of better sports results. (Many have experienced what the legendary 'Fradi-heart' means, and probably even more have heard of it). The personal goals of competent club executives could also

strongly influence the intangible results of football enterprises. In this case, professional decision making considerations play a subordinated role only, and in most cases this particular factor is enforced through sympathy or dislike shown towards club executives or owners or their acceptance and ability to enforce their interests.

A football enterprise naturally strives to maximise intangible result, value, however, this can only be achieved at the expense of other result factors. Primarily this would clash with economic result. If the club's management and owner decide to sign valuable star players and managers regardless of the size of the expenditure, this will obviously have a positive effect on intangible results and naturally sports results as well. It is very likely that in the long-term the enterprise's revenues will also increase. In the mid-term, however, such decisions impose significant financial burdens, which in turn could lead to a serious financial crisis for the club. In professional football – as opposed to other economic fields – it is not customary to prepare a separate plan with respect to image impact for example. Today, the change of image is still an indirect effect of investment. The way of the future is that football enterprises shall directly plan to increase intangible results through certain targeted promotions, e.g. by planning and managing member recruitment, loyalty promotions, etc.

The three main components of the aggregate result and their factors are closely interrelated. For example, the improvement of sports results has a positive impact on economic result, which in turn leads to an increase in television and ticket revenues and the sale of promotional products, but member contributions and revenues from sponsorship deals could also grow. Improving sports results also affect intangible results: the club becomes more respected, supporter ties become stronger and media interest increases. A good economic

result has a favourable effect on sports results as the sufficient liquidity provided through profit and appropriate management allows the club to fulfil incentive wage and premium payments without any problems. We should also emphasise that a good economic result has a positive effect on intangible result as well. Opportunities open up to finance supporter projects and clubs as well as significant advertising activity. Star players and managers can be signed to the extent of expanding financial opportunities. Intangible result also has an effect on the factors of the other two result components: sports results improve through the impact on public opinion, but economic result also improves since television revenues and the sales of endorsed products increase. In the case of sufficient interest, live broadcasts can be set up, member contributions as well as sponsorship revenues rise. Understandably, sponsors highly appreciate the significance of image.

A football enterprise acts correctly if it strives to achieve the maximum of the composite result made up of the aforementioned three components.

FINANCING CONSIDERATIONS OF FOOTBALL ENTERPRISES

Naturally, football clubs use the same financing and credit rating criteria as other enterprises. In addition to examining basic forms of financing (internal as well as external financing, own, external and patron financing), important financing considerations such as risk, market value, cost of capital or the opposition between owners and agents (asymmetry of information) must also be taken into account.

Risk is also a very important consideration for football clubs as well, which is also due to the high degree of uncertainty of the sports results in the field of professional football,

which entails a *much greater risk* as compared to other economic areas. This must be taken into account when selecting financing solutions.

Assessing market value and cost of capital for football clubs should be especially significant for management. These considerations have not been accorded the significance they should have even by German football clubs. Managers usually only notice substantial changes. Generally speaking, financial awareness and foresight are still in need of considerable improvement in the field of professional football. This, in turn, can result in grave consequences. Asymmetry of information (lack of information, erroneous information) also affects professional football to a greater degree than other areas of the economy, which could lead to the football clubs' inability to exploit the various potential capital funds to the necessary extent, which can severely restrict the operation and results of football clubs. The asymmetry of information that exists in terms of public opinion, must not be underestimated either, because public opinion may play a significant role in ensuring various capital funds. The assessment of market value and capital costs has an effect on the decision-making criteria used by external principals. Principals and agents are in a conflict of interest, and this applies to football clubs to an even greater extent. The conflict could be eased by a wide range and depth of supplementary information, thereby facilitating the wider potential use of financial assets. On the other hand generally deliberate asymmetry of information restricts alternative financing opportunities. The control systems embedded by the owners may translate into an unavoidable restriction of corporate freedom of choice. Supplementary information and control systems might be used as review criteria, which can be divided into general financing and football-specific criteria.

General criteria: the content and impact of risk; the expectations of external investors; the problem of asymmetry of information; the lim-

itation of corporate freedom of choice; examination of the implementation period and the availability of assets; period of making the capital available; rate of liquidity, availability of liquidity; renewal opportunities (re-investment after expiry of term); effects on taxes, etc.

Football-specific criteria: great dependence on sports results; the determinant effect of realised economic results; the legal form of the football enterprise; economic know how as a prerequisite; the great impact of intangible results; the increased impact of spectators and the environment.

FINANCING OPPORTUNITIES AND THEIR EVALUATION

Capital can be provided through internal or external financing. Football enterprises are highly dependent on *internal financing*, where forms of financing specific to football are especially prevalent. Financing sources in this case can be expanded by increasing revenues and decreasing expenditures or releasing tied up capital. Main revenues in a classical sense are revenues from media rights and ticket sales, merchandising (image transfer), and revenues from non-economic areas or areas close to football, which in the case of a football enterprise obviously depend on sports results. (Keller, 2006)

In the case of significant economic and intangible results, the dependence of main revenues on sports results significantly decreases. Examples of this are media rights revenues, which are sold through contracts prior to the launch of the season. For certain periods, these revenues can be considered fixed. In this case of course, growth opportunities are highly limited for the duration of these contracts. Revenue growth can only be achieved as a result of sports results, in the case of unexpected successes abroad or by integrating new media elements. Revenues from media rights, therefore, can be considered a given condition depending on the previous season, which of course does not mean that the club should not try to generate as much revenue as possible, as media revenues are usually the most significant and most intensely growing revenue source for professional football clubs. In Germany, in the 2008/2009 season in the Bundesliga 1, such revenues increased by 40 percent compared to the 2006/2007 season. (Bundesligareport, 2011). The revenue structure of the 2009/2010 season is shown in *Table 1*. The tendency observed is that clubs have to move in the direction of pay-per-view channels instead of free television channels. This is more apparent in Italy, France and England, where revenues are greater as a result. Significant growth is expected in the field of secondary sales and foreign broadcasts, where main target countries are China and

Table 1

GERMAN FOOTBALL CHAMPIONSHIP REVENUES IN THE 2009/2010 SEASON (BUNDESLIGA 1)

	Billion euros	%
Game and ticket revenues	0.379	21.4
Sponsorship and advertising revenues	0.512	28.9
Media revenues	0.505	28.6
Transfer revenues	0.106	6.0
Merchandising revenues	0.074	4.2
Other revenues	0.193	10.9
Total:	1.769	100.0

Source: Bundesligareport 2011, www.bundesliga.de

Japan. The role of new media (Internet and Mobilfunk) is also on the rise.

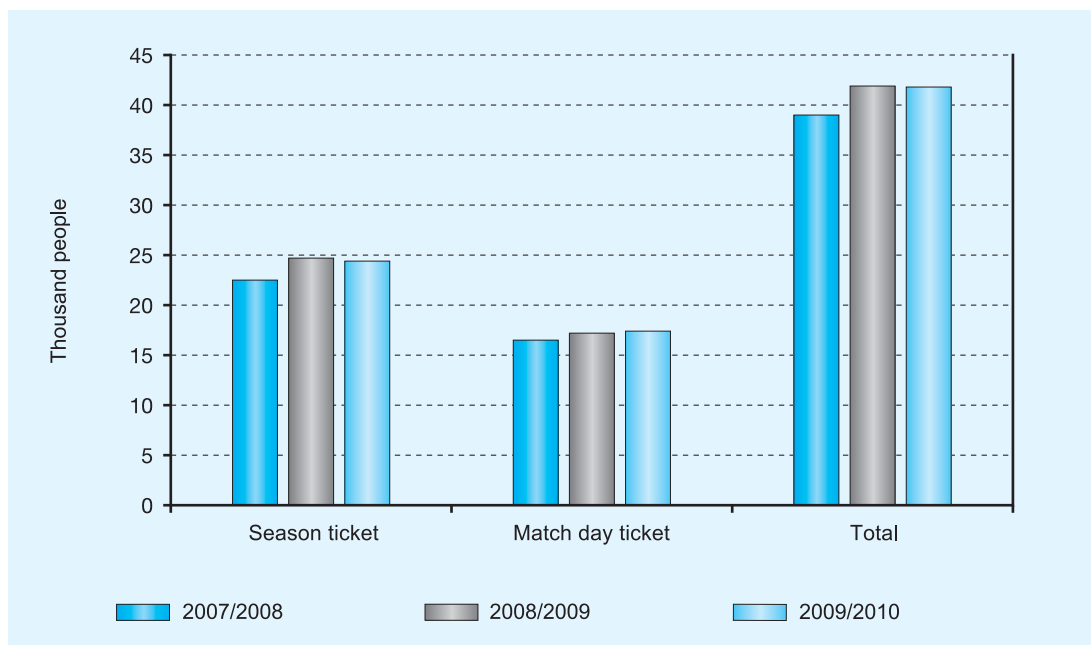
Sponsorship and advertising revenues in the future, and particularly their development, are difficult to predict. The main elements of this revenue source are jersey, t-shirt and logo applications, and banner adverts. Naturally, in every championship there are expiring contracts that must be replaced. In a difficult economic situation this could cause serious problems. Professional marketing agencies must be hired that are involved in concluding sponsorship agreements and finding sponsors. Contracts between such clubs and sales professionals usually contain warranty clauses for cases where the search for sponsors does not go as expected or is not achieved at all. (Failure fee, which is paid by the marketing agency.) Revenues can be optimised and losses reduced by using the above-mentioned methods. Compared to clubs of other great European footballing nations, German clubs generate significantly more

revenue from this source, but market researches conducted in Germany are showing the saturation of the market.

In the case of *ticket revenues*, the main factor to take into account is constant spectator interest, which might increase with the establishment of a new field of play or stadium. Dependence on results can be decreased for a certain time and to a certain extent through the wider sale of season tickets in the interest of consolidating or increasing of attendance numbers, which increases the stability and plannability of revenues and expands the modes of utilisation of these revenues. Beyond that, a differentiated pricing system can be established using a professional price calculation that serves the increasing of revenues. It is expedient to link supplementary services to higher prices, thus justifying this higher price range. (E.g. FC Bayern Munich, VIP boxes in the 1970's). European Championships and World Cups always give new momentum to ticket sales,

Chart 4

AVERAGE NUMBER OF SPECTATORS PER GAME, GERMAN BUNDESLIGA 1



Source: Bundesligareport 2011, www.bundesliga.de

which great clubs boost with member recruitment and increases of membership fees. For example, in 2004 VfB Stuttgart used offensive promotions to increase the number of its members from 7.000 to 21.000.

Spectator numbers in Bundesliga 1 have been on the rise since the 2001/2002 season, and by the 2009/2010 season the number of persons that have purchased a ticket reached 12 791 508. The average number of spectators per game in Bundesliga 1 exceeded 41 thousand, while this was only 20 thousand in the 1990/1991 season (see Chart 4). Bundesliga 2 was also developing nicely. In recent years the number of spectators in the German 2nd division grew by an even greater extent, reaching one third of 1st division spectators (4.5 million people in the 2009/2010 season). Ticket prices in Bundesliga 1 perceptibly became more expensive. Ticket prices in the licensed league are shown in Chart 5.

In terms of *merchandising revenues*, in recent

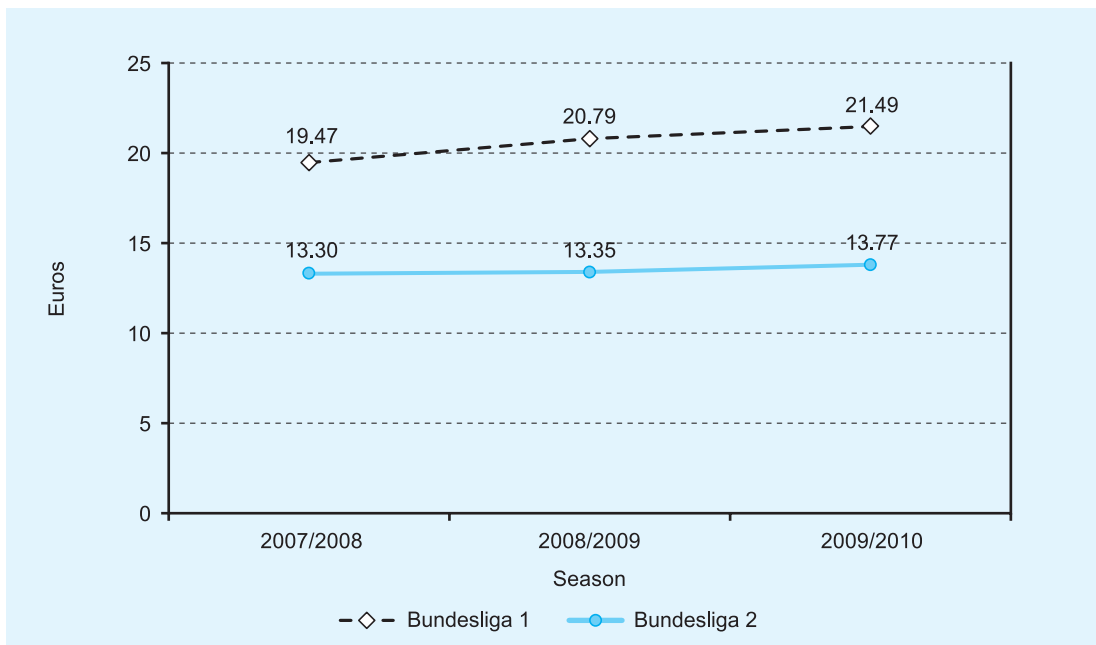
years a slight growth could be observed. This growth is primarily taken advantage of by the top clubs. For smaller clubs, the solution is once again to turn to marketing agencies in order to increase revenues professionally. The internet as a sales channel will become increasingly significant in the future. As a result of globalisation, foreign, primarily Asian markets will play in increasingly important role.

Revenues from *non-economic areas* usually only cover expenditures, and no significant funds are generated this way.

Areas close to football, under certain circumstances, may generate revenues for football clubs that are independent of sports results, but the volume of such revenues in football is rather small. Such revenues are for example the organisation of 5/6-a-side or indoor football tournaments or training sessions for the public for a certain charge in order to fully utilise club facilities. The German telecommunications company Bildmobil launched a very interesting

Chart 5

AVERAGE TICKET PRICES IN GERMANY'S LICENSED LEAGUES



Source: Bundesligareport 2011, www.bundesliga.de

initiative, where they attempt to recruit new mobile subscribers by having each client select a 1st division club and awarding them 10 minutes of free calls if their chosen club wins a game. Those participating in the promotion can also watch games free of charge on mobile internet. The company is building on the football affinity of clients and obviously the clubs also receive their share from increased mobile phone and internet traffic.

The sale of *various assets* is another option for football enterprises to increase financing funds that can be freely utilised. In modern football, parties typically conclude transactions combined with lease-back options as the assets sold out of necessity are essential for club operation (e.g. stadium). Though these transactions could also be interesting from a taxation point of view, the main consideration is the fact that the club parts with assets only temporarily in order to generate funds. The agreements usually include the right to repurchase said assets at the end of the lease, which proves that clubs part with them only temporarily, for unavoidable reasons.

Another financing opportunity is the *sale of intangible assets*, which is the sale of the squad's transfer rights, the market rights of the football enterprise or the rights related to the stadium name. Revenues from player transfers in the EU are not very significant ever since the Bosman ruling as such revenues are only generated after the sale of players who cannot be transferred freely, that is top players with unexpired contracts. In the German professional football league, transfer revenues are often lower than transfer expenditures. It is also typical of European football that players who are not freely transferable are only signed from abroad. The sale of the sales rights of the football club primarily helps smaller and medium sized clubs. In such cases, intangible result (value) plays an important role as this allows the club to offer greater benefits to sponsors as well.

Furthermore, this professional external sale means further industrial knowledge for the club, which can be maintained when market sales return to the competency of the club itself. It is also true, however, that the sale of rights constitutes a partial limitation of the decision making freedom of the club. The rights related to the name of the stadium can be sold by all clubs. The exclusivity of the current playing field and the intangible result play an important role with respect to the potential therein.

The strong internal financing orientation of the football club has great significance from a *rationalisation* aspect as well, since in football revenues can be ensured through great expenditure. Cost reduction, related to the licensed player portfolio of the club, should be the focus of rationalisation – which entails economisation opportunities and thus could result in the *release of capital*. In Germany, the reduction of costs is achieved by shifting to labour contracts with terms of usually four seasons. These contracts can of course be shortened by transfers or loans, applied before the expiry of the contract, however, this is usually at the expense of squad strength which in turn could undermine sports results. In the case of this factor, it is the short-term view that could cause problems or if rationalisation measures break away from the level of economic results. (For example if they sacrifice significant intangible results in exchange for savings that are relatively modest compared to the result.)

An important factor of internal financing is therefore the *reduction of expenditures and costs* which requires the football club to prepare a specific action plan in order to best exploit the opportunities available here. The most important items come from personnel payments, various lease charges and youth training. Other important elements are operation, security services and the costs of away games. Personnel

payments should be achieved partly through the reviewing of player salaries, and partly by the sensible reduction of the number of players on the squad. In Germany 1st division clubs employed an average of 28 players in the 2001/2002 season, while this dropped to 25 players in the 2004/2005 season. (Bundesliga Offizielles WEB-Seite, 2011). When acquiring new players, German clubs tend to lean towards freely transferable players or bring up players from their own youth teams. In such cases, there are of course no transfer expenses. With respect to youth training costs, literature and experts are all expecting growth, however, in the case of appropriate professional work there can be no doubt about the recovery of these costs.

In the case of *technical balance-sheet financing* opportunities, for football clubs only depreciation allowance for balance-sheet asset values has greater significance. In this case, it is primarily the capitalised squad value and the value of real estate that are significant from the aspect of the *reduction of tied up capital*. The club must strive to efficiently utilise the facilities necessary for operation; to sell unnecessary facilities, material assets and stocks that are not in use; and to push out payment deadlines while realising revenues as soon as possible. In the case of the latter, the volume and ratio of season tickets are very important. The profit and the booking of the profit of football enterprises represent another obstacle for the further technical balance sheet components of *releasing capital* (such as appreciation), because these elements may only turn into supplementary funds through profits. Capital and accumulated profit reserves have a negligible role in the financing of football clubs.

The analysis of the factors of internal financing has also pointed out that financing is not just the responsibility of the finance department, but that of the *entire club management*, and it is strongly related to the overall income and

expenses of the football club as well as the *coordination* efforts, which require the cooperation of all managers.

After fully exploiting the opportunities afforded by internal financing, *external financing* opportunities need to be taken into account starting with outside financing, followed by patronage and own financing. *Outside financing* for football clubs usually means loans, considering especially that a number of clubs cut themselves off of alternative financing means simply by choosing a legal form that prevents them from taking advantage of such financing options. As a result of the changing framework conditions applicable to the acquisition of external capital, football clubs must switch to borrowing that is based on more detailed credit assessments. This might represent significantly deteriorating credit conditions, and might also result loan applications being rejected for some clubs, especially those, whose financial position is not stable. Only football enterprises that are able to generate considerable economic results may continue to expect improving conditions and generate profits – due to their credit rating – as a result. This is where external credit ratings would be very useful. In many countries, the creditworthiness and results of licensed leagues are undergoing a welcome improvement.

Bond issue is a viable option for those clubs, whose economic results are adequate and whose legal form allows them to issue bonds. These conditions are seldom met even in great footballing countries, which is why bond issue – in the traditional sense of the word – has not been a very popular solution so far. In most cases, a low volume of *fan bonds* are issued.

The issue of *asset backed securities* is an exceptional solution in the world of football, since with this particular solution aggregate issue values can reach levels that are only possible in the field of professional football. The issue of highly decreasing corporate decision-making freedom, exceptionally high corporate

risk, requiring additional prerequisites must also be taken into consideration – in addition to the capital charges spread over a long period as well as extraordinarily high intangible results (for instance a football club must also have a large fan base) – such as high viewer numbers on every match and a high ratio of income from season tickets within ticket sales.

In spite of its somewhat contentious situation, *patronage capital* (the tax approach regards it as outside capital, whereas the balance sheet approach regards it as equity) may have a very positive effect on the financing of football enterprises. In this regard, one must point out the role of interest bearing securities (Wandel- and Optionsanleihe, convertible bonds) that can be converted into stocks under certain conditions and to a certain extent – the majority of German football enterprises are unable to comply with the necessary capital market requirements – as well as the issue of participation certificates – with the involvement of a silent partner —, which are not regulated by law (meaning there is certain degree of contractual freedom involved). In essence, these are unsecured subordinated debentures. They cannot be clearly categorised as own capital or outside capital, because they embody rights. (In this respect, they are more similar to stock.) These securities are generally repaid at nominal value and the interest they earn depends on profit levels, i.e., their interest is not fixed. Despite the fact that the arrangement is highly flexible in terms the sports, economic and intangible results of football enterprises as well as the returns and profitability of the capital invested by principals, football enterprises have rarely resorted to exploiting these types of funds. These types of debentures are not as prevalent in the financing of professional football as in other economic activities either in terms of the frequency of their issue or the quantities involved.

When it comes to *own financing*, one must mention strategic partners first. Instead of

focusing on yields alone, their cooperation is based on a special combination of business interest and profit, which is grounded in utilising the synergies that exist between football and business enterprises. With respect to achieving positive effects, the prerequisite (among other things) is the high intangible result of the football enterprise, which the partner can utilise for economic purposes. The partner investor must be ensured appropriate information, intervention and supervision rights as it has a concrete share in the given football enterprise. Beyond that, under certain circumstances, in the interest of the utilisation of this capital fund some structural changes of the enterprise are also necessary.

Football enterprises can acquire own funds by involving further investors (*private equity*) or/and through *capital raise*, building only on the confidence of investors already on board. This is an over-the-counter procedure.

By *going public* or through *capital raise*, football clubs can acquire significant capital. In the interest of being able to exploit these options better, complex preliminary works must be undertaken (among others changing the legal form of the enterprise, complying with criteria applicable to listed companies, etc.) in addition to ‘incorporating’ the football club as a stock corporation based on stocks. After a successful initial public offering, ad-hoc reports and other information must be provided on a regular basis, and analysts’ meetings must be held as well. In addition, the enterprise must present good results at all times in every area (sports, economic and intangible results), which makes the use of capital funds quite difficult for football enterprises. Moreover, the expectations of outside principals must be met (stock price, yield and dividend expectations), and the circumstances limiting the decisions of the football enterprises – depending on the various legal forms of operation – must be taken into account as well.

With regard to *over-category investor (share) financing*, the strong intervention by investors into the affairs of the football enterprise is very typical. The limitations of decision making freedom in this case are very high, as further parts and rights of the football enterprise are outsourced and then partially handed over to investors, thereby a quasi-economic exposure and vulnerability to investors is realised. Based on existing intangible results at the time, the football club first receives professional assistance in all sales fields, and secondly – particularly in the case of lower divisions – receives extraordinarily high supplementary financing, which must materialise in future sports results as soon as possible. This way, both partners (primarily the investor) can profit from positive economic effects. With this particular solution, the football enterprise

has to achieve good sports results in the future as well, since in the absence of results the probability of investors leaving, insolvency or bankruptcy is very high. Accordingly, the risk of this particular capital fund is very high.

The structure and risk content of funds described in the study showed us that not all financing instruments can be equally taken into account and used to satisfy financing needs in the case of football clubs of various financial standing. Financing opportunities must be adapted to the situation of football enterprises of different categories.

In the case of football enterprises, another source of financing difficulties is often the fact that in the long-term, *club management is unable to meet* the joint requirement of sports results and appropriate economic result or at least is unable to convince investors of this.

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