CASE 10

THE STRATEGIC REPOSITIONING OF OLYMPIQUE LYONNAIS: TOWARDS A NEW BUSINESS MODEL

AURÉLIEN FRANÇOIS AND EMMANUEL BAYLE

LEARNING OUTCOMES

Upon completion of this case study, the reader should be able to:

- define the concept of a business model for professional sports clubs;
- identify the factors that lead to decision to change a business model over time;
- consider the importance of these strategies to professional sport;
- critically assess the opportunistic transition of a model with an economic base to one that is more socially based.

OVERVIEW OF THE CASE

This case study focuses on the French soccer club Olympique Lyonnais (OL), which has a number of features that are different from other French clubs. In France, OL is the only club listed on the stock exchange market and is the only one to privately own a stadium, which is due for completion in 2016.

The OL case is particularly interesting as several recent economic and sporting failures pushed the club's managers to rethink their traditional business model. The cornerstone of this new strategy is that the stadium must support the model by following a pattern that manifests a more social dimension.

CASE STUDY

Originally formed in 1896, OL was officially established in 1950. Until the end of the 1980s it existed in the shadow of neighbouring club AS Saint-Étienne, and suffered in comparison with its neighbour's success. In 1987 OL was taken over by Jean-Michel Aulas, a young owner of a local company with a passion for sport. In that year, OL had a projected deficit of 1.5 million euros. This deficit represented 60 per cent of its 2.5 million euro turnover, even though the club operated, technical staff excepted, with only four employees.

Aulas instigated a complete restructuring of the club using his entrepreneurial skills. During his first year as president, he applied a plan entitled 'OL Europe', with several stages of commercialization through which the club had to proceed rapidly. In 1992 the French Football Association required all clubs to become companies, hence Lyon changed its status. Aulas then recruited communication and marketing personnel. But it was the changes that were made at the end of the 1990s that undoubtedly brought OL into the 'sportainment' era. In 1999 Aulas opened up part of the club's equity for investment. Jerome Seydoux, CEO of the cinema corporation Pathé, invested 15 million euros in the club, becoming its second-largest stockholder and also its vice president.

Those two men then extensively restructured the club by creating OL Groupe, a holding company owning various capital stakes in several subsidiary companies such as OL Voyages, OL Images and OL Merchandising. The activity of these subsidiaries embodied a double strategy. First, they allowed the internalization of costs previously paid to external service providers. Secondly, they participated in enhancing OL's brand value. Several licences and by-products were thus created, enlarging the club's marketing products offer. Even though the number of subsidiary companies has now decreased, the organization is almost the same today (see Figure 10.1). In 2002 the club's commercial company became an SASP (Société Anonyme Sportive Professionnelle), and then in 2012 it became an SAS (Société par Actions Simplifiée).

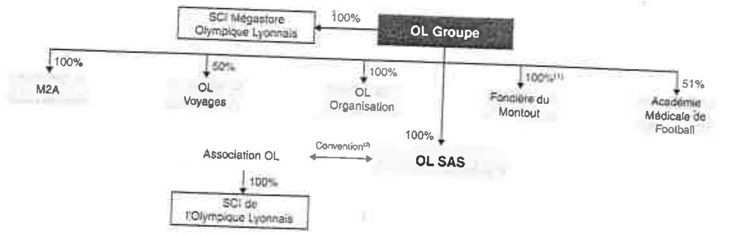

Figure 10.1 Simplified OL Groupe organization chart as of 30 June 2014

Thus the club's status is now even closer to the common status reserved for mainstream businesses, which allows the redistribution of profits to shareholders and also the remuneration of managers.

This strong drive towards commercialization allowed OL to reach higher sporting and economic levels. On the sporting side, OL started to dominate French soccer by winning seven championships in a row between 2002 and 2008 and, at a European level, it participated regularly in the very competitive Champions League. On the economic side, the club became the first (and so far the only) French club to enter the financial market. In 2007 the OL Groupe stock was introduced at a nominal price of 24 euros per share and this allowed the leveraging of almost 90 million euros in the days following its introduction. In 2008 the club's turnover was 211.6 million euros with a profit of 15.6 million euros, and it employed 256 people.

In the mid 2000s the emerging models of construction and private exploitation of stadiums in Europe reinforced Aulas' conviction to build a new stadium to generate some extra revenue streams, and to maintain OL's successful position. Even with the remodelling works that were carried out for the 1998 World Cup, the Gerland Stadium, built in 1926, was considered too old and too small. In particular, the stadium wasn't able to respond to the increased demand for tickets, which for some of the Champions League matches can go up to 200 per cent of capacity. Moreover, OL is obliged to pay a fixed rental charge to the city of Lyon, which owns the Gerland Stadium, and cannot currently enjoy financial benefits from the stadium other than ticket income. In 2004 a project to build a private stadium called OL Land was unveiled. It was first intended to build a 70,000-seat stadium, deliverable within 5 years for a cost of 140 million euros. In 2005 Aulas then proposed a less-ambitious remodelling project for the Gerland Stadium to Gérard Collomb, mayor of Lyon. However, this project was quickly abandoned. The new stadium project resurfaced after the announcement that the UEFA Euro 2016 tournament had been awarded to France, and for which Lyon is a host city. The search for a site for the location of such a complex was then focused on the east part of Lyon. In July 2013 work officially started on the construction of the Stade des Lumières.

The Stade des Lumières was designed with multifunctional arenas to ensure the ability to exploit it throughout the year. Inside the new OL Park, which included many non-sporting facilities (hotels, restaurants, meeting rooms, etc.) that were commercialized from the outset, the new stadium should be able to welcome 58,000 spectators, with 6,000 seats reserved for VIPs. Far above what was originally envisaged, the projected budget for the stadium has now reached 405 million euros. It is divided between internal funding (135 million euros) from the Foncière du Montout, a civil estate company specially created for this project, bank loans (136.5 million euros), issuing of bonds (112 million euros) and income from the commercialization of the park during its construction (21.5 million euros). The search for a sponsor to

give its name to the stadium is still ongoing. The board of directors claims that the naming strategy will lead to annual income of 10 million euros for a term of at least 10 years.

However, the building project suffered criticism, especially among some of the residents of the 11 urban areas impacted by it. Politicians and ecologists also protested. Although the stadium was privately funded, the surrounding infrastructure, such as access roads, was funded by the public sector, and ultimately the taxpayer, with a cost estimated at 160 million euros. Because of all these issues, the construction of the stadium fell behind schedule between the late 2000s and early 2010s.

Besides the postponed stadium project, the new model the OL managers wanted responds to the economical and sporting difficulties which accelerated the decline of the former project. For this reason, since 2010 OL has been developing its OL Academy, which is aimed at boosting OL's sporting strategy by giving high priority to resourcing its training centre. This project was undertaken after many mistakes were made in player trading at the end of the 2000s and because of significant financial difficulties. The club then focused its recruitment efforts on a training policy, allowing it to alleviate payroll pressures by selling valuable players (Bastos, Lloris, Lopez, etc.). The nomination as head coach in 2011 of Rémi Garde, former player and in charge of the training centre, and the arrival of young players from the training centre each symbolized this new sporting strategy. This strategy was also adopted as a result of the increasing financial gap between OL and the richer French clubs (Paris Saint-Germain and Monaco) and other European clubs. From an economic perspective, the OL Groupe share price has continued its drop since its entry into the market in 2007, reaching as low as 2 euros in 2013. Finally, the relative failure of the OL brand in terms of marketing rates confirmed the difficulties the club was going through. In 2014, according to the last available report, OL Groupe reported gross profits of 120.5 million euros and a net loss of more than 26 million euros (partly due to the huge stadium investment) (see Table 10.1).

Table 10.1 Comparison of OL Groupe gross income and net profit/loss between 2007 and 2014

	2007–2008	*2013–2014*	*Change*
Financial gain	**211.6**	**120.5**	**– 43%**
Ticketing	21.8	13	– 40%
Sponsoring and advertising	20.4	19	+ 7%
Media and marketing rights	75	56.2	– 25%
Brand-related revenues	38.5	16.2	– 58%
Player trading	55.9	16.1	– 71%
Net result	**+ 15.6**	**– 26.4**	**– 269%**

All these factors led OL to promote the social dimension of the Grand Stade project. The replacement in 2011 of the OL Land project by Stade des Lumières symbolized this strategic reorientation. In 2012, in the club's financial statement, Aulas declared that the construction of the new stadium offered wonderful development perspectives, but also imposed a certain number of responsibilities.

In fact, OL adopted a corporate social responsibility (CSR) strategy at the beginning of the 2010s. Following the example of the great European clubs, OL wanted to emphasize its citizen role. By reaffirming the community dimension of its action, the CSR strategy planned by OL allows the justification of its legitimacy as a major social and economic actor in the city. This new orientation took its roots at first in the decision to rationalize the club's philanthropic initiatives with a private foundation, created in 2007. OL Foundation thus led to the maintenance of historic relationships created between OL and a pool of local non-profit organizations. But being more than a simple philanthropic strategy, the creation of the foundation was also the symbol of the start of OL's CSR strategy. In 2012 the board nominated one of the only two female administrators to head a CSR committee More recently, a CSR department was created to develop the social policy of OL, a first for a French sports club. OL managers gave significant amounts of money to its women's soccer section, to which the club allocated both important material and human resources as compared to what is generally seen in French and European soccer.

OL's current transitional model should be complete by the delivery of the new stadium. Initially forecast for 2013, the stadium's inauguration will now not be celebrated before 2016. Annual stadium revenues, which have been estimated at between 70 and 100 million euros by 2020, will make a strong contribution to the club's future financial performance. It remains to be seen whether these strategic orientations anchored in a strong social dimension are merely transitional, or if they will be at the core of this new business model.

QUESTIONS

1. What is a business model? What does it mean for a professional sports club?
2. The reasons for changing the OL traditional business model to a social one are numerous. List them and discuss them.
3. What is CSR? How does it take shape in this case?
4. Could CSR perspectives be fully integrated into the core strategy of a professional sports club?
5. Is the new OL business model sustainable? Expand your analysis to other professional soccer clubs, and more generally to the business of sport.

CONCLUSIONS

The business models of professional football clubs have long been thought of as an answer to the needs of both sporting and economic performance. However, the introduction of new logics distilled by the sustainable development trend, such as the necessity for an organization to take into account the interests of its stakeholders, questions this traditional model.

Increasingly, club managers are asked to think according to global performance principles, aiming at the creation of new sustainable business models. The emergence of the model of private ownership of European stadiums, illustrated in this case, supports this view. Private ownership will enable the club to engage in more profitable and value-adding relationships. Therefore, analysing the change of business model is valuable for club managers wishing to have new managing strategies at their disposal, and also for those responsible for implementing these changes.

RECOMMENDED READING

The literature on the concept of the business model is flourishing. We first suggest referring to Drucker's 1994 article, published in the *Harvard Business Review*. Although he does not use the term 'business model' explicitly, he defines the concept. In the same journal, Johnson, Christensen and Kagerman's 2008 article enables us to go beyond the definition of the concept by introducing the benefits of a change of model with the help of recent examples.

Focusing on football management, a book such as Chadwick and Hamil (2010) allows the case to be put into perspective through the problems every professional football club is confronted with. French-speaking students could also refer to the work of Desbordes and Chanavat (2015), and more especially to the chapter by Scelles and Andreff (2015), allowing a contextualization of this study in respect to French football.

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RECOMMENDED WEBSITES

Financial Times (2013). Jean-Michel Aulas: Football man who scores in big business, accessed 11 July 2015 from www.ft.com/intl/cms/s/0/bf238a34-80d6-11e2-9fae-00144feabdc0.html
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CASE 11

SOCIAL MEDIA AND MEDIA MANAGEMENT

RAYMOND E. BOYLE

LEARNING OUTCOMES

Upon completion of this case study, the reader should be able to:

- understand the key role played by social media in football PR;
- appreciate the importance of media training among football managers;
- understand the importance of briefing for live media interviews;
- be clear how important reputation management is in the 24/7 media environment.

OVERVIEW OF THE CASE

This case study highlights the importance of speed in the digital sports news environment, and the key role that communications experts need to play in helping managers and players understand the implication of media actions on the reputation of the club, and by extension its brand.

Contemporary sport is big business. Major teams, leagues, franchises, merchandisers and retailers are in fierce competition in a dynamic global marketplace. Now in a fully revised and updated second edition, *International Cases in the Business of Sport* presents an unparalleled range of cutting-edge case studies that show how contemporary sport business is done and provides insight into commercial management practice.

Written by a team of international experts, these case studies cover organisations and events as diverse as the NBA, the Americas Cup, the Tour de France, the PGA tour, FC Barcelona and the Australian Open tennis. They explore key contemporary themes in sport business and management, such as broadcast rights, social media, strategic development, ownership models, mega-events, sports retailing, globalisation, corruption and financial problems. Each case study also includes discussion questions, recommended reading and links to useful web resources.

International Cases in the Business of Sport is an essential companion to any sport business or sport management course, and fascinating reading for any sport business professional looking to deepen their understanding of contemporary management.

Simon Chadwick is Professor of Sports Enterprise at Salford University, Manchester, UK, where he is a member of the Centre for Sports Business. He also works as Director of Research at the Josoor Institute in Qatar. His interests are in the areas of sports business strategy, sports marketing, and geo-politics and sport. Chadwick has worked with some of the world's most important sports organisations including FC Barcelona, UEFA, the European Clubs Association and Adidas. His research has been published or covered by outlets ranging from *Sloan Management Review* to *Newsweek*, and CNN to the Academy of Marketing Science. *The Times* of London has called him the 'guru of sport management'.

Dave Arthur, in a previous life, was a well-respected and widely published lecturer and researcher who one day saw the light and who now plies his trade as a sought-after consultant and 'pracademic'. As CEO of Sport Business Resources he has undertaken diverse and interesting sport business projects that have seen him work with some of Australia's best professional franchises. His burning entrepreneurial desire has recently seen him set up the Institute of Sport – an online start-up that aims to disrupt tertiary education and equip sport business professionals with the skills to lead and manage sport.

John Beech is an Honorary Research Fellow at Coventry University, UK. He is an International Professor at the Russian International Olympic University in Sochi, Russia, and has held the post of Visiting Professor at FH Kufstein University of Applied Sciences in Austria, and at the Instituto de Empresa Business School in Spain. He currently lectures at universities in Sochi (Russia), Jyväskylä (Finland), Paris (France), Split (Croatia), and Karlsruhe and Salzgitter (Germany). He has published widely, both research articles and textbooks. His research has been reported in national newspapers in the UK and across Europe.

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