

5 Challenges and Transformation of Football Clubs' Business Models

Marlena Ciechan-Kujawa and Igor Perechuda

Introduction

Football has changed. Clubs continue to be part of the cultural and sentimental heritage of cities and regions, which continue to be passionate about them. But, beyond this cultural dimension, recent decades have been dominated by the importance of football's financial and media dimensions. The parallels between economics, finance and on pitch competitions are clear. As a business, the football economy has also been affected by global economic issues, especially in lower-tier clubs. We know that revenues come from ticket sales, sponsors and broadcasting rights, but it is not always easy to understand the business logic hidden behind them. The professionalisation of football and the emergence of investors as club owners have blurred clubs' objectives and profitability has emerged as an alternative aim. The appearance of two groups of objectives (sport and finance) has raised questions about their interrelations and the characteristics of football business models.

According to Sánchez et al. (2020), profitability and success on the pitch are connected in many ways. Sports success may lead to profits because wins attract fans to stadiums and increase media attention. It brings higher attendance and TV rights, and more interest from sponsors. All this leads to revenue increase but, despite that, many studies have pointed out that football costs over the same period have increased more rapidly (Barajas and Rodríguez, 2010; Szymanski 2017). Solberg and Haugen (2010) explained this phenomenon, using game theory, as the result of the necessity to secure scarce talent in order to win on the field. However, the rules of financial fair play could change the business models of football clubs.

Looked at from a different perspective, owners may make decisions that sacrifice sporting performance in order to increase profits, for

instance when a talented player is sold. This is the case in North American sports, with revenue-sharing and salary caps. Big teams sometimes refuse to compete to hire the top players, and stick with healthier financial performance (Einolf, 2004). Galariotis et al. (2018) also found that financial performance, measured in varying ratios, negatively affects sports performance in French football.

Another study (Sanchez et al., 2017) identified that clubs do not have their own objectives. Their aims depend on who their owner is. Some club owners do not worry about club finances but are concerned with the club's sports triumphs. But if, for example, we look at the Glazer family, we see that they did not buy Manchester United to enjoy attending club matches. Thus, we can see that a club's aims are determined by their owners and depend on that owners' preferences and structure. This is a complex subject because clubs with different objectives could participate in the same competitions and shareholders with different aims may invest in the same club.

The idea of the business model is a concept of business activity which describes the mechanisms of creating, delivering, and capturing value (Amit and Zott, 2001; Markides, 2006; Teece, 2010; Wirtz et al., 2016). It is a representation of the network of systems of a given organisation, of its resources and partners, its internal and external connections (Adner and Kapoor, 2010; Amit and Zott, 2015). While there are different approaches to defining and describing business models (cf. Casadesus-Masanell and Ricart, 2010; Demil et al., 2015; Massa et al., 2017; McGrath, 2010; Osterwalder and Pigneur, 2010), the key components are similar at a systemic level (Saebi et al., 2016). On the basis of the widely recognised approach of Osterwalder and Pigneur (2010), which is commonly referenced in professional literature, nine basic elements can be identified: customer segments, value propositions, distribution channels, customer relationships, revenue streams, key activities, key resources, key partners, and cost structure.

Chesbrough and Rosenbloom (2002), as well as Mitchell & Coles (2003), stress that business models are not stable over time and require not only constant adjustment to the changing environment but also the ability to anticipate the internal determinants of variability. It may be necessary to change the very concept of value creation (key resources, for instance), and also the structure of stakeholder interrelations or management mechanisms.

The structure of a business model is therefore the result of strategic choices concerning a combination of assets, policies, and the method of management (Casadesus-Masanell and Ricart, 2011). As many scholars

have argued, the degree to which a business model is adjusted to current market requirements directly influences the level of competitiveness of a given organisation, the perceived value of its services, and the economic efficiency of the business (Amit and Zott, 2012; Anthony, 2012; Casadesus-Masanell and Ricart, 2010; Osterwalder et al., 2005). Flexibility in adjusting to these changes can, therefore, affect the success or failure of an organisation (Baden-Fuller and Haefliger, 2013; Brea-Solis et al., 2015).

In research literature, the triggers of business model change are sought primarily in external factors, and result from changes in either the macroeconomic or the competitive environment. Progress in the fields of information technology and communications is suggested to be the strongest factor involved in this phenomenon (Weill and Woerner, 2013; Wessel et al., 2016). However, other scholars emphasise the fact that companies often implement BM changes in response to the changing expectations of interested parties and their growing demand for CSR and sustainable development (e.g. Andries and Debackere, 2007; De Reuver et al., 2009; Doz and Kosonen, 2010; Ferreira et al., 2013; Johnson et al., 2008; Joyce and Paquin, 2016; Sabatier et al., 2012; Teece, 2010; Zollo et al., 2013). On the other hand, Foss and Saebi (2017) argue that modifications to the operational concept of an organisation are a necessary response to external interference, the globalisation of competitive processes, the pressure from existing competition, or the variability of the competitive environment, whereas Casadesus-Masanell and Ricart (2010), as well as Teece (2010), note the importance of changes pertaining to external regulation with regards to BM alteration.

In the case of soccer clubs, the main features that distinguish their business models from companies' business models, according to previous research, are mostly focused mostly on:

- 1 a utility approach. One of the most common objectives of football clubs is the maximisation of utility for stakeholders by maximising sport performance;
- 2 revenue maximisation instead of profit-orientation;
- 3 diverse ownership structures with different objectives (club members, private investors, public institutions, local government, etc.);
- 4 a strong influence on decision-making by stakeholders other than shareholders (e.g., public institutions which are often the co-owners of the club and owners of the infrastructure);
- 5 the high impact of intangible and vulnerable assets such as players;
- 6 the high share of HR costs in the costs structure;

- 7 the diverse and peculiar structure of revenues: television-broadcasting, sponsorship, ticket sales, player transfers, public funding (subsidies).

To sum up, the “competition” between sports results and financial stability is the key feature that distinguishes and disrupts the business of football, inspiring many studies in sport management.

Regulatory factors have been particularly relevant in the operation of European football clubs in the last decade. Implemented by UEFA in the 2013/2014 season, financial fair play (FFP) regulations have considerably changed the parameters of economic policy and the rules around a sustainable approach to the activities of clubs. The principles of FFP were intended as a solution to the significant financial difficulties of football clubs. Even before their implementation, the causes and mechanisms behind the paradox of very high-income organisations facing bankruptcy had been discussed by many scholars (e.g. Hamil and Walters, 2010; Solberg and Haugen, 2010; Szymanski, 2012). However, Szymanski (2012) has pointed out that this phenomenon is more typical of clubs in Europe than of those on other continents. Among the factors contributing to this situation, research has identified socio-cultural, managerial, legal, and economic issues.

The subject of socio-cultural conditions has been explored by Solberg and Haugen (2010) for instance. They have demonstrated that European football clubs compete more fiercely for talented players than professional teams on other continents, which supports the theory of Vrooman (1997) that, in order to achieve a better sports performance, European club owners are willing to forego a proper return on investment in financial terms.

On the other hand, Hamil and Walters (2010) focused on problems in the managerial area, in particular on the dissonance of the short-term financial planning of clubs in relation to their long-term investments. The researchers have also examined legal matters, pointing to a lack of proactive regulatory action aimed at solving the problem of chronic unprofitability and unsustainable debt, which may have resulted in a serious financial crisis in English football.

Among the identified financial mechanisms behind the difficulties faced by clubs, a key role was played by financial doping (excessive financing, not balanced by income, in order to cover losses arising from expenses on professional talent), resulting, in particular, in lack of payment for completed transfers or postponed salary payments (Hamil and Walters, 2010). It has also been pointed out that the financial problems of football clubs lie chiefly in the area of cost management

(Hamil and Walters, 2010); however, some scholars have emphasised the greater importance of a lack of correlation between revenues and expenses (Solberg and Haugen, 2010).

The objectives of FFP have been linked to licensing regulations and centred around the following issues described in art. 2.2 UEFA (2012):

- a to improve the economic and financial capability of the clubs, increasing their transparency and credibility,
- b to place the necessary importance on the protection of creditors and to ensure that clubs settle their liabilities with employees, social/tax authorities and other clubs punctually,
- c to introduce more discipline and rationality in club football finances,
- d to encourage clubs to operate on the basis of their own revenues,
- e to encourage responsible spending for the long-term benefit of football,
- f to protect the long-term viability and sustainability of European club football.

Therefore, the regulations concentrate on improving the financial management of clubs at a strategic level, and apply to those clubs which have reached the minimal threshold of revenues and expenses defined by UEFA after the 2011/2012 season. The intended effect of adhering to FFP is the achievement of a stable balance between revenues, expenses, and investments. The long-term prospects of financial management benefit from the method by which the financial situation of clubs is determined, among other factors. The break-even point became a key parameter in this evaluation, calculated by comparing the proper revenues from football activity with the costs of the main activity (player salaries and player acquisition depreciation). However, this is calculated on a rolling basis over a three-year period. This makes it possible to cover a potential deficit with profits from the previous year. The established rules – according to Scelles et al. (2019) – should also negate the effects of uncontrollable football results on financial outcomes. Simultaneously, the rules for financing club activity have been made stricter, as have the rules for monitoring payments to external and internal stakeholders, particularly employees, the state, or other football clubs (Articles 62, 65, 66). The regulations also specify what situations require the provision of additional financial information, such as those involving an auditor opinion or triggered by the status of important financial indicators (Articles 52, 62).

Since 2012, scholars have studied the topic of FFP every year. Up to the end of 2019, 48 indexed texts had been published in the Scopus

database, mostly in the form of articles (44). The data used to analyse the publications in terms of FFP is presented in Table 5.1. In all categories, except for quotations, the threshold of three publications has been applied in selecting suitable texts. Quotations include research articles which have been referenced in at least 15 other publications indexed by Scopus.

Table 5.1 General publication profiling of the FFP research field

<i>Category</i>	<i>Top items (number of publications)</i>
Country	United Kingdom (16); Germany (10); France (6); Greece (6); United States (5); Italy (3); Spain (3)
Source title	<i>International Sports Law Journal</i> (7); <i>Sport Business and Management an International Journal</i> (6); <i>International Journal of Sport Finance</i> (4)
Author	Schubert, M. (5); Dimitropoulos, P. (4), Flanagan, C.A. (3); Szymanski, S. (3)
Core references	Peeters and Szymanski (2014) (45); Müller et al., (2012) (38); Franck (2014) (31); Wilson et al. (2013) (27); Madden (2012) (24); Sass (2016) (20); Dimitropoulos and Tsagkanos (2012) (19); Drut and Raballand (2012) (19); Schubert and Könecke (2015) (17); Szymanski (2014) (17); Morrow (2013) (15); Ramchandani (2012) (15)
Subject area	Business, Management and Accounting (20); Social Sciences (17); Economics, Econometrics and Finance (15); Health Professions (5)

Source: Own study based on data retrieved from Scopus (12 March 2020).

The impact of FFP has been analysed mostly by authors from the United Kingdom and Germany, while the works of four researchers – Schubert, Dimitropoulos, Flanagan, Szymanski – comprise over 30% of all sources. A third of the research has been published in three professional magazines: “*International Sports Law Journal*”, “*Sport Business and Management an International Journal*” and “*International Journal of Sport Finance*”. On the basis of keywords related to financial fair play, such as football, regulation, sport, UEFA, competition, competitive balance, corporate governance, and Europe, it is possible to identify the following author interests in specific topics:

- 1 The idea of FFP as well as the determinant factors and the organisational and legal effects of its implementation (e.g. Dimitropoulos, 2016; Menary, 2016; Morrow, 2013; Müller et al., 2012; Peeters and Szymanski, 2014; Sims, 2018).

- 2 The impact of the regulations on sports potential, club results, and competitiveness (e.g. Dimitropoulos and Scafarto, 2019; Franck, 2014; Peeters and Szymanski, 2014; Sass, 2016; Wilson et al., 2013).
- 3 The financial impact on internal and external stakeholders of implementing the regulations (e.g. Dimitropoulos and Scafarto, 2019; Franck, 2014; Peeters and Szymanski, 2014).

Across the discussion on FFP, a recurring theme is the adequacy of this concept for the purpose of assuring the long-term profitability and sustainable development of European football. There are significant research findings in this respect, in the form of studies that focus on presenting and measuring the effects of the changes introduced by FFP regulations in both the European football market and the business models of football clubs.

The rules of FFP were intended by UEFA to facilitate a more balanced competition in European football leagues. Vöpel (2011) and Sass (2012) have warned, however, that the UEFA regulations would “freeze” the hierarchy in European football, creating an entry barrier for investors. In addition, Peeters and Szymanski (2014) have raised the question of the potential effects of the break-even point restrictions stemming from FFP on a sharp decrease in average wages and salary-to-revenue ratio, resulting in the strengthening of the position of traditionally top-tier clubs. Sass (2016) has also demonstrated that the market size of a club has a positive influence on its historical success (greater success draws in more supporters, thus generating higher income, which facilitates further success and the growth of market size), which leads to a very unequal competition. The latest findings of Birkhäuser et al. (2019) lead to the conclusion that FFP rules have further increased competitive imbalance. According to the researchers, because of the barriers preventing new investors from entering and of the support for winners of the previous season in terms of budget shares in the following season, European football leagues are now less balanced and FFP has supported the current club hierarchy. This last opinion is shared by Gallagher and Quinn (2019) who assert that FFP regulations further increase the financial and athletic strength of elite clubs and potentially undermine the intensity of competition in the league, shifting the relative focus of clubs from sports productivity to financial productivity. Data analysis in a UEFA report (2019) indicates that during the period 2008–2017, the income share of the 12 largest clubs on the continent – Manchester United, Manchester City, Liverpool FC, Arsenal, Tottenham Hotspur, Chelsea, Real Madrid, FC Barcelona, Paris Saint-Germain, Juventus, Bayern Munich, Borussia Dortmund – has

increased from 22% to 39% of the combined sum of the incomes of the participants in the main European leagues, whereas nearly half (49%) of total income is generated by the 30 wealthiest European clubs. It must be mentioned, however, that in that period the incomes of European clubs have increased overall from 11.4 billion to 20.1 billion euro (UEFA, 2019).

Scholars also differ in their opinions regarding the effects of the changes carried out in business models in terms of their structure and sources of financing. Even before the UEFA regulation was implemented, in a study of the financial data from annual reports for the period 2001–2010, Wilson et al. (2013) noted that the financial models of football clubs floated on the stock market were more often aligned with FFP rules. These clubs were also in a better financial condition than clubs funded from domestic resources or by foreign private investors. Nevertheless, studies have shown that the source of capital is important in such cases. Clubs owned by foreign investors achieved better sports results compared to clubs funded by domestic sponsors. These studies have also revealed that clubs pursuing a short-term maximisation of sports results depend on substantial investments, particularly from foreign investors. Szymański (2012), however, heavily criticised the restrictions FFP placed on club funding, citing conclusions drawn from studies on the English league, which suggest that the poor financial situation of a club is not necessarily a consequence of the wasteful spending of its owners and excessive contributions meant to satisfy the ambition of achieving a better position in the league, but is the result of independent external events which cause a decrease in productivity or affect demand (e.g. injuries, bad luck on the field, decreased value of media contracts). Nonetheless, Franck (2014) stresses that FFP in fact only limits owners in terms of payments for salaries, while investments unrelated to payrolls remain unregulated. This creates the opportunity to invest resources in infrastructure, social projects and youth academies, which in turn generate potential future sources of revenue from young players, increased supporter turnout, or sponsorship contracts. A UEFA report published in 2019 indicates that FFP had a strong impact on club balance sheets in terms of changing the level and structure of liabilities. Owner contributions and capital increases during the period 2008–2017 increased by nearly 12 billion euros, while net equity (assets minus debts and liabilities) increased to 7.7 billion euros (from 1.9 billion in 2008) (UEFA, 2019).

Another effect attributed to FFP is the limitation of serious losses. In the 2017 fiscal year, clubs generated a total profit of 615 million euros

for the first time (UEFA, 2019). Moreover, the report shows that recent years have seen a stable trend of revenue increase compared to expenses. During their studies of the Italian league, Nicolliello and Zampatti (2016) confirmed that the key factors affecting profits are located within expenses. The most crucial among them are player wages. The basic revenue of clubs comes from the net profit from player transfers. Other revenue sources, such as broadcasting rights or advertising revenue are not statistically relevant in profit generation (Nicolliello and Zampatti, 2016). However, it must be noted that in general, the revenue from the sale of broadcasting rights increased by 113% over the period 2008–2017 and a very important part of the budgets of clubs from less wealthy leagues – bonuses received from UEFA – increased by 228% (UEFA, 2019). However, the studies of Ghio et al. (2019), which were based on data from the period 2005–2015, show that FFP did not improve the average performance of Italian first-league clubs. Additionally, the research suggests that FFP has contributed to narrowing the performance gap between teams at the highest and lowest sports levels. Furthermore, based on their own findings, Gallagher and Quinn (2019) claimed that the break-even point regulations decrease the overall sports and financial effectiveness of clubs, with the performance loss positively related to the severity of the break-even point restriction.

On the basis of the UEFA report, it could also be said that a heightened activity on the transfer market was observable in the period 2012–2017, resulting in ever higher sums of money being offered for football players. Previously, Peeters and Szymanski (2014) had warned that the UEFA regulation would considerably restrict competition on the player market and place greater pressure on lowering wages, without improving competitive balance, and Madden (2012) had argued that assuming a relatively high elasticity in the supply of talent in the league, FFP regulation diminishes value for the players, owners, and supporters alike. As noted by Dimitropoulos and Scafarto (2019) in their studies of Italian clubs based on data from the period 2007–2017, FFP altered clubs' business models over the years: from a concept oriented towards investments (spending on wages) to an efficiency model focused on deriving profits from player trading. The researchers suggest that, because of this, club managers should concentrate on creating permanent player transfer cycles in order to evolve in the environment of new regulations. According to this research, FFP leads to more efficient decision-making regarding player transfers and consequently has a positive effect on the relation between profit from player transfers and financial results (Dimitropoulos and Scafarto, 2019).

The main purpose of this chapter is to identify the effects of the modifications introduced in business models under FFP rules, in terms of:

- sources of revenue,
- models of funding of the activity,
- levels and structures of key resources,
- levels of cost-effectiveness,
- levels of profitability.

Materials and methods

In order to achieve the established goal, it is necessary to analyse indicators around the financial data of clubs pertaining to particular areas of the business model. Our research sample consists of the top 50 European football clubs, according to the 2017 UEFA ranking. This ranking was chosen because it includes points over a period of five years, covering the period in which FFP came into effect. In the process of gathering financial data, it was possible to initially select approximately 30 clubs with available data. A subsequent verification of this data has ultimately reduced this number to 27 clubs, but not for all analyses. For some analyses it was possible to use data from only 24 or 26 football clubs. The data was gathered for the period 2012–2017 in order to have a reporting period of at least three years for each club included in the research. The chosen time frame made it possible to analyse how the business models of European clubs have changed during the period when FFP came into effect. In order to assess changes in sources of revenue acquisition, four basic groups of revenue were classified: merchandising revenue, TV broadcasting, match day, and other. That classification is the most common in research literature, and the revenue data from club sales is often divided in this manner. A debt ratio indicator was used to evaluate the funding structure, calculated as total liabilities divided by total assets. This indicator is also complementary in evaluating liquidity, and is one of the indicators used in FFP regulations (UEFA, 2019). A non-current assets in total assets ratio indicator was used to evaluate the resource structure. The data gathered has allowed only a limited analysis, and was not adequate for a detailed review of the components of club assets. In the case of cost-effectiveness, salaries are of key importance, as pointed out by other researchers (Dimitropoulos and Scafarto, 2019; Franck, 2014; Hamil and Walters, 2010; Peeters and Szymanski, 2014). For this reason, the adopted indicator for salary efficiency is the ratio of salaries to sales revenue. The changes in the final area of the business model were measured by gross profit due its comparability between different formats of collected data and to avoid the fiscal differences

between countries. Nevertheless, it must be remembered that profitability is not one of the primary objectives of sports clubs. Sánchez et al. (2017) have noticed that a large number of club owners does not seek monetary compensation for their investments, therefore there is no point in considering profitability as an indicator of investment utility. The authors suggest substituting it with a coefficient of efficiency as a measure of investment utility that takes into account the degree to which the different objectives of the owner have been achieved, including sports success. Measures of descriptive statistics were used in the analyses, such as arithmetic mean, median, and variance coefficient. For the detailed data about the selected clubs, positive changes in a given area of the business model were marked with a value of “1”. In the case of no positive changes in a given area, the clubs were marked with a value of “0”.

Results

The first area of the business model is the sales revenue structure. Analysing this structure provides a basis for assessing the type and extent of the changes that took place within the duration of FFP.

Figure 5.1 illustrates the change in the revenue structure that occurred under FFP. Cumulative data shows an increased share of merchandising revenue at the expense of TV broadcasting share. One of the motives for FFP was to draw the attention of club managers to the necessity of increasing revenue from sources other than TV broadcasting, whose previously very large share posed a risk to clubs, and in the case of the English league served as one of the causes of player salary inflation (Perechuda, 2019). A detailed analysis of the change of revenue diversification has been carried out and presented in Table 5.2.

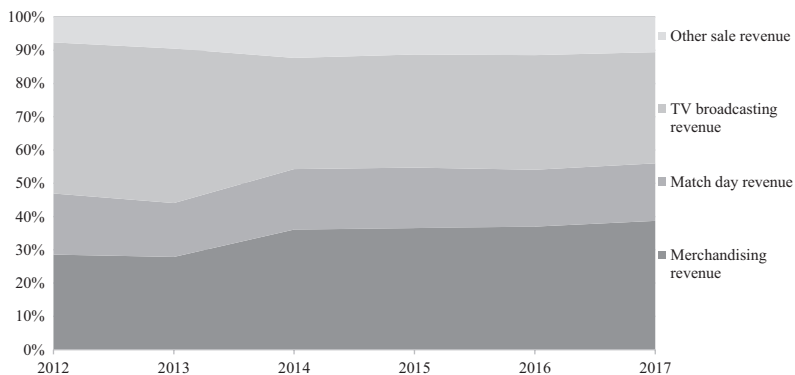


Figure 5.1 Revenue diversification in the total sample.

Table 5.2 Revenue – changes (increase or decrease) of coefficient of variation

	<i>Median of coefficient of variation change</i>	<i>Mean of coefficient of variation change</i>	<i>Positive change measured by median</i>	<i>Positive change measured by mean</i>
AC Milan	-8%	-6%	1	1
AS Monaco	42%	42%	0	0
Athletico M	3%	4%	0	0
Bay Munch	-1%	0%	1	0
BCN	1%	2%	0	0
Borussia MG	3%	4%	0	0
BVB	2%	3%	0	0
Chelsea	5%	5%	0	0
FC Basel	2%	3%	0	0
Fiorentina	14%	9%	0	0
Juve	-3%	-2%	1	1
Lazio	3%	6%	0	0
Liverpool	-1%	-1%	1	1
Malaga	-9%	-9%	1	1
ManCity	0%	0%	1	0
MANU	6%	5%	0	0
Olimp_Pir	12%	12%	0	0
Porto	-9%	1%	1	0
PSG	-6%	-11%	1	1
Real M	-8%	-28%	1	1
Roma	5%	5%	0	0
Schalke	2%	2%	0	0
Sporting	-8%	-6%	1	1
Tottenham	16%	12%	0	0
Valencia	8%	8%	0	0
Wolfsburg	-1%	0%	1	0
			11 of 26	7 of 26

In order to perform a detailed verification of the process of revenue diversification, it was necessary to measure the changes of the variance coefficient. The measuring process involved calculating the variance coefficient for the values of particular revenue sources from one year, followed by verifying the change (increase or decrease) of the variance coefficient over the years in a given club. This analysis enables an answer to the question of whether the revenue diversification has improved in a club on average (i.e. the revenues were more evenly distributed). The analysis also shows that in the case of a mean value of change, seven out of 26 clubs have improved their structure, and when applying the median value of change the number of such clubs

is 11. The research concerns improving the situation of revenue diversification from year to year. An in-depth analysis does not indicate improvement in the situation of most clubs, in contrast to what can be observed in Figure 5.1.

The next business model area which was examined is sources of funding of clubs (Figure 5.2).

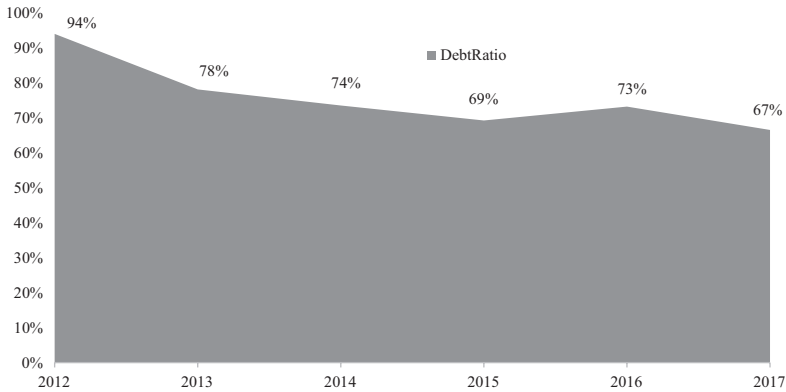


Figure 5.2 Debt ratio in the total sample.

Debt ratio was chosen for the analysis of funding sources, which led to an observation that, during the research period, all of the clubs exhibited a decrease in debt, and consequently a larger share of equity funding. The improvement of this ratio is one of the key effects of implementing FFP (Table 5.3).

An in-depth analysis of each club has demonstrated that the debt ratio has improved in 12 out of 24 analysed cases when the average change was measured by the median, and in 15 out of 24 cases when the change was measured by the arithmetic mean. Regarding sources of funding, it can be said that while FFP was in force the majority of clubs decreased their debt to levels below 70% indebtedness. Additionally, in contrast to the analysis of revenue diversification, debt improvement occurred in at least half of the investigated clubs. In the following step, the asset structure of clubs was analysed in order to determine what changes occurred in club resources. Unfortunately, the data gathered was not detailed enough to specify the most significant asset positions precisely. This analysis is based only on studying the change between non-current assets and total assets (Figure 5.3).

Examining the sum of gathered data, it is possible to observe a systematic increase in the share of non-current assets in the asset

Table 5.3 Debt ratio changes

<i>TL/TA</i>	<i>Median of change</i>	<i>Mean of change</i>	<i>Positive change measured by median</i>	<i>Positive change measured by mean</i>
AC Milan	2.2%	-0.1%	0	1
AS Monaco	0.1%	0.6%	0	0
Athletico M	0.1%	0.3%	0	0
Bay Munch	-4.1%	-4.4%	1	1
BCN	-3.5%	-3.2%	1	1
Borussia MG	0.6%	0.6%	0	0
BVB	-1.1%	-4.7%	1	1
Chelsea	-3.1%	4.0%	1	0
Fiorentina	0.3%	-0.1%	0	1
Juve	-0.3%	0.0%	1	1
Liverpool	-6.3%	-14.3%	1	1
Malaga	29.7%	29.7%	0	0
ManCity	0.9%	0.8%	0	0
MANU	2.4%	2.2%	0	0
Olimp_Pir	-3.7%	-3.4%	1	1
Porto	12.5%	5.4%	0	0
PSG	-1.7%	-0.9%	1	1
PSV Eind	-2.2%	-1.7%	1	1
Real M	3.7%	-0.8%	0	1
Roma	-1.9%	-4.4%	1	1
Schalke_new	-10.0%	-8.4%	1	1
Sporting	2.2%	-0.1%	0	1
Valencia	2.0%	-0.8%	0	1
Wolfsburg	-1.9%	0.3%	1	0
			12 of 24	15 of 24

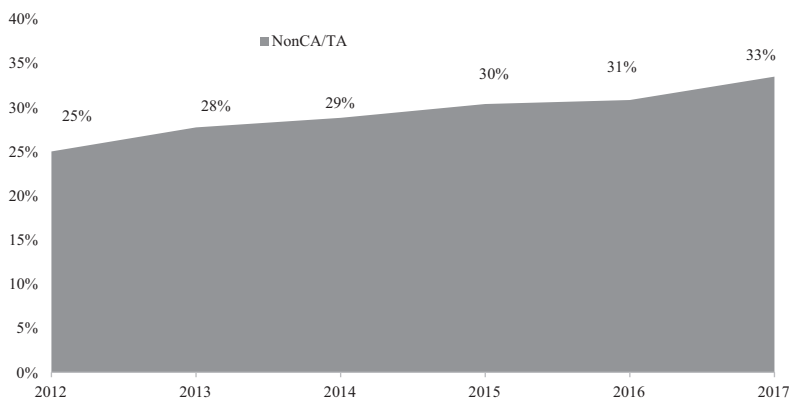


Figure 5.3 Non-current assets in total assets ratio in the total sample.

structure. This situation can also be considered as a negative change in club resources. This change means that the share of current assets of clubs is becoming progressively smaller and in consequence, their liquidity may become limited. Comparing this information with the decreasing indebtedness of clubs (Figure 5.2), it can be surmised that current assets will be reduced due to lower liabilities. This research is limited by the lack of information concerning the structure of liabilities. Future studies may answer the question of whether short-term liabilities are also limited in a given time frame, and only at that time will it be possible to determine whether the liquidity of clubs is improving or worsening. The asset analysis of clubs also suggests that non-current assets, including purchased players and club infrastructure such as stadiums, have increased over time. It can be assumed that, under FFP, clubs have been investing in their resources.

Players are one of the key resources of clubs and the key measure of the efficiency of this resource is the ratio of salaries to club revenue (Dimitropoulos and Scafarto, 2019; Perechuda, 2019).

After analysing Figure 5.4, it can be observed that in the chosen total sample there is a decrease of S/R ratio below 60%, but after that the ratio is stable. It also confirms what was observed by Perechuda (2019), that S/R ratio in the clubs with the best sports performance is between 50% and approximately 60% (Table 5.4).

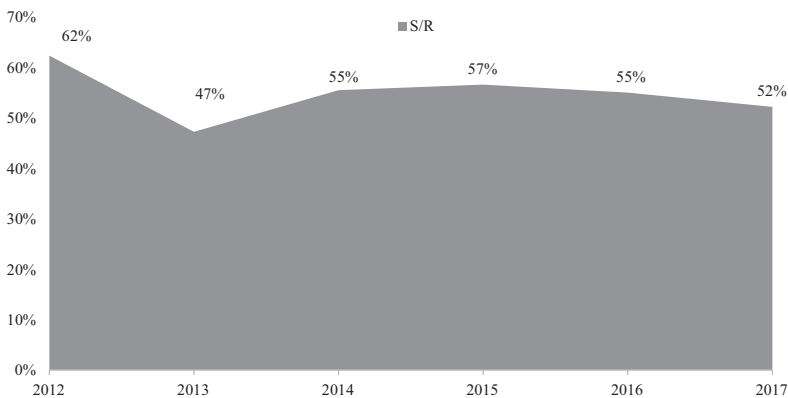


Figure 5.4 Salaries/revenues ratio in the total sample.

An improvement of the situation in over half of the studied cases is observed in the detailed analysis, regardless of whether the improvement was measured by median (18 out of 27) or by arithmetical mean (16 out of 27). This also complements the conclusions drawn in previous

Table 5.4 Salaries/revenues ratio changes

	<i>Median of change</i>	<i>Mean of change</i>	<i>Positive change measured by median</i>	<i>Positive change measured by mean</i>
AC Milan	-0.3%	0.7%	1	0
AS Monaco	-47.9%	-47.9%	1	1
Athletico M	-3.8%	-2.3%	1	1
Bay Munch	-0.8%	-0.9%	1	1
BCN	4.3%	0.2%	0	0
Borussia MG	-3.8%	-2.3%	1	1
BVB	2.5%	2.9%	0	0
Chelsea	-1.1%	-1.4%	1	1
FC Basel	3.1%	2.9%	0	0
Fiorentina	-2.1%	0.6%	1	0
Juve	1.2%	0.9%	0	0
Lazio	-1.7%	-0.5%	1	1
Liverpool	-3.9%	-1.6%	1	1
Malaga	-12.5%	-12.5%	1	1
ManCity	-4.3%	-7.6%	1	1
MANU	0.1%	-1.1%	0	1
Olimp_Pir	-6.3%	-6.5%	1	1
Porto	6.1%	9.0%	0	0
PSG	0.7%	-0.2%	0	1
PSV Eind	-5.4%	-2.2%	1	1
Real M	-1.1%	-0.5%	1	1
Roma	1.7%	1.8%	0	0
Schalke_new	-1.0%	0.2%	1	0
Sporting	-0.3%	0.7%	1	0
Tottenham	-5.3%	-5.9%	1	1
Valencia	10.3%	5.8%	0	0
Wolfsburg	-0.8%	-0.9%	1	1
			18 of 27	16 of 27

research, that the clubs with the best sports results (the studied clubs belong to the top 50 of the UEFA ranking) maintain their S/R ratio below the average value, i.e. below 62%. Moreover, the average of this ratio in this study does not deviate from the average derived by Perechuda (2019). The final analysed business model area is revenue profitability. In order for this analysis to be proportional, the examined value is gross income, which does not include the tax burden (Figure 5.5).

In the total sample, a systematic increase of gross revenue margin from 2.9% to 5.1% can be observed, except for a decrease in 2014. As long as the aim of FFP was to increase the stability of profits in football clubs, it is apparent that it succeeded in the total sample. The research of Nicolliello and Zampatti (2016) showed that the improvement

of profitability depends on the wage policies of clubs. Our findings confirm this. In the research period, the S/R ratio has improved, as well as profitability in a global perspective (Table 5.5).

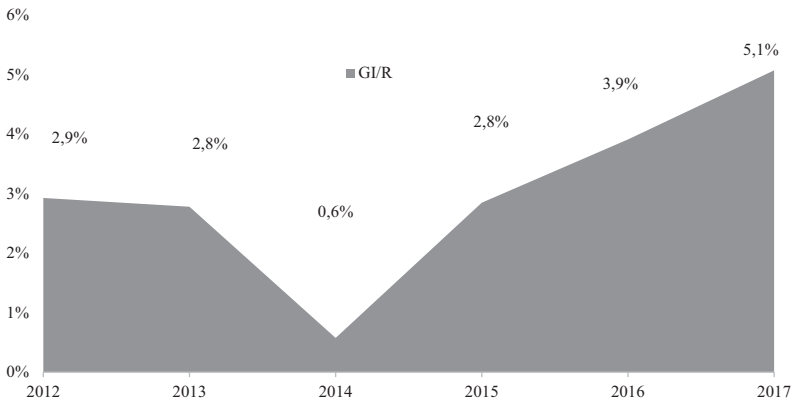


Figure 5.5 Gross revenue margin in the total sample.

It is specifically observable that the improvement of profitability in the research period was exhibited on average in 17 out of 27 clubs (measured by median) or in 13 out of 27 clubs (measured by arithmetical mean). This constitutes the majority of studied clubs. The majority of researched clubs have also improved the cost-efficiency of salaries, which is the justification for regarding salaries as key expenses in football clubs. It is also worth mentioning that an average of 18 out of 27 clubs exhibited a positive gross result, which constitutes more than half of the clubs in the research.

Conclusions

In general, many researchers argue that FFP has put great emphasis on management quality. Egon Franck (2014) points out the effectiveness of the solutions implemented, particularly in the enforcement of hard budget constraints. A similar conclusion, based on the study of Italian clubs, was reached by Dimitropoulos and Scafarto (2019), namely that FFP restored effective managerial incentives in football businesses, which, in fact, is an argument for full implementation of the regulations. On the other hand, Szymański (2012) argues that by focusing on managerial faults, FFP overlooks the actual causes of insolvency. In the course of this research, it has been noted that the

Table 5.5 Gross margin ratio changes

	<i>Gross margin mean</i>	<i>Positive margin in studied period</i>	<i>Median of change</i>	<i>Mean of change</i>	<i>Positive change measured by median</i>	<i>Positive change measured by mean</i>
AC Milan	-24.4%	0	-5.2%	-7.9%	0	0
AS Monaco	-15.5%	0	-20.7%	-20.7%	0	0
Athletico M	2.6%	1	0.6%	0.1%	1	1
Bay Munch	6.5%	1	0.9%	1.0%	1	1
BCN	6.8%	1	0.7%	-1.0%	1	0
Borussia MG	2.8%	1	0.2%	-0.1%	1	0
BVB	9.4%	1	-6.5%	-5.3%	0	0
Chelsea	11.6%	1	-6.5%	-3.9%	0	0
FC Basel	9.4%	1	-6.5%	-5.3%	0	0
Fiorentina	-11.5%	0	9.5%	-0.3%	1	0
Juve	3.4%	1	3.7%	4.6%	1	1
Lazio	2.1%	1	7.9%	5.2%	1	1
Liverpool	0.1%	1	18.5%	8.8%	1	1
Malaga	-3.1%	0	3.8%	3.8%	1	1
ManCity	6.7%	1	-4.3%	-4.8%	0	0
MANU	5.0%	1	5.3%	3.0%	1	1
Olimp_Pir	-0.7%	0	-3.9%	-2.6%	0	0
Porto	-25.7%	0	-26.3%	-19.1%	0	0
PSG	-0.1%	0	0.1%	-0.8%	1	0
PSV Eind	3.4%	1	0.1%	0.7%	1	1
Real M	7.5%	1	0.3%	0.0%	1	0
Roma	-20.2%	0	4.4%	2.2%	1	1
Schalke_new	5.6%	1	4.8%	5.3%	1	1
Sporting	-24.4%	0	-5.2%	-7.9%	0	0
Tottenham	18.0%	1	6.4%	4.1%	1	1
Valencia	11.6%	1	-2.1%	2.1%	0	1
Wolfsburg	6.5%	1	0.9%	1.0%	1	1
		18 of 27			17 of 27	13 of 27

share of merchandising revenue in the business models of football clubs has increased, decreasing the dependence of clubs on TV broadcasting. Detailed analysis, on the other hand, has shown that a positive change in the revenue structure of business models has occurred only in the minority of investigated clubs. This corresponds with the results of previous research on the effects of FFP, which stated that implementing these regulations would only render the competition less flexible, and any positive changes would occur in clubs which were already in a favourable business situation (Birkhäuser et al., 2019). The changes observed in the resource structure and in the effectiveness of salaries are supportive of previous research. Dimitropoulos and Scafarto (2019) suggested that FFP drove a shift in the business model of Italian clubs from being investment focused (wage spending)

to more efficiency-driven, which relied (to a greater extent than before) on player trading. In our research we can see that the S/R ratio was reduced, and at the same time we observed an increase in non-current assets share in total assets, which could confirm the change in business model towards increasing the value of players which was disclosed in the balance sheet. FFP also had positive impact on the profitability of clubs, which has improved in the research period both globally and in counting the number of clubs. The explanation for this situation should be sought in the wage policy of clubs, which has adapted to the new regulations.

It is undeniable that changes have occurred in the business models of the chosen clubs during the time of FFP. Moreover, the changes observed in this paper partially confirm the findings of other scholars. Nevertheless, it cannot be said that the observed positive changes involve a clear majority of researched clubs. Depending on the business model area, positive changes affected roughly half of the studied cases. This may be a result of what has been noted before, that FFP strengthened the business and sports positions of clubs which were already performing well in a sports and business sense. It can be confidently asserted that FFP has changed business models, but it cannot be said that the business models in the majority of cases have improved overall. It is apparent that the majority of clubs were unable to improve the diversification of their revenue. What has improved, however, is funding and the cost-efficiency of salaries.

Bibliography

- Adner, R., Kapoor, R. (2010). Value creation in innovation ecosystems: How the structure of technological interdependence affects firm performance in new technology generations. *Strategic Management Journal*, 31(3): 306–333.
- Amit, R., Zott, C. (2001). Value creation in e-business. *Strategic Management Journal*, 22(6/7): 493–520.
- Amit, R., Zott, C. (2012). Creating value through business model innovation. *MIT Sloan Management Review*, 53: 41–49.
- Amit, R., Zott, C. (2015). Crafting business architecture: The antecedents of business model design. *Strategic Entrepreneurship Journal*, 9(4): 331–350.
- Andries, P., Debackere, K. (2007). Adaptation and performance in new businesses: Understanding the moderating effects of independence and industry. *Small Business Economics*, 29(1/2): 81–99.
- Anthony, S. (2012). The new corporate garage. *Harvard Business Review*, 9: 44–53.
- Baden-Fuller, C., Haefliger, S. (2013). Business models and technological innovation. *Long Range Planning*, 46: 419–426.

- Barajas, A., Rodríguez, P. (2010). Spanish football clubs' finances: Crisis and player salaries. *International Journal of Sport Finance*, 5 (1): 52.
- Birkhäuser, S., Kaserer C., Urban, D. (2019). Did UEFA's financial fair play harm competition in European football leagues? *Review of Managerial Science*, 13(1): 113–145. doi:10.1007/s11846-017-0246-z
- Brea-Solis, H., Casadesus-Masanell, R., Grifell-Tatje, E. (2015) Business model evaluation: Quantifying Walmart's sources of advantage. *Strategic Entrepreneurship Journal*, 9: 12–33.
- Casadesus-Masanell, R., Ricart, J.E. (2010). From strategy to business models and to tactics. *Long Range Planning*, 43: 195–215.
- Casadesus-Masanell, R., Ricart, J.E. (2011). How to design a winning business model. *Harvard Business Review*, 89: 100–107.
- Chesbrough, H., Rosenbloom, R.S. (2002). The role of the business model in capturing value from innovation: Evidence from Xerox Corporation's technology spin-off companies. *Industrial and Corporate Change*, 11: 529–555.
- De Reuver, M., Bouwman, H., MacInnes, I. (2009). Business models dynamics for start-ups and innovating e-businesses. *International Journal of Electronic Business*, 7: 269–286.
- Demil, B., Lecocq, X., Ricart, J., Zott, C. (2015). Introduction to the SEJ special issue on business models: Business models within the domain of strategic entrepreneurship. *Strategic Entrepreneurship Journal*, 9(1): 1–11. <https://doi.org/10.1002/sej.1194>
- Dimitropoulos, P. E., & Tsagkanos, A. (2012). Financial Performance and Corporate Governance in the European Football Industry. *International Journal of Sport Finance*, 7(4).
- Dimitropoulos, P. (2016). Audit selection in the European football industry under Union of European Football Associations financial fair play. *International Journal of Economics and Financial Issues*, 6(3): 901–906.
- Dimitropoulos, P., Scafarto, V. (2019). The impact of UEFA financial fair play on player expenditures, sporting success and financial performance: Evidence from the Italian top league. *European Sport Management Quarterly*. doi:10.1080/16184742.2019.1674896
- Drut, B., & Raballand, G. (2012). Why does financial regulation matter for European professional football clubs?. *International Journal of Sport Management and Marketing* 2, 11(1–2), 73–88.
- Doz, Y. L., Kosonen, M. (2010). Embedding strategic agility: A leadership agenda for accelerating business model renewal. *Long Range Planning*, 43: 370–382.
- Franck, E. P. (2014). Financial Fair Play in European club football-what is it all about?. *University of Zurich, Department of Business Administration, UZH Business Working Paper*, 328.
- Einolf, K. W. (2004). Is winning everything? A data envelopment analysis of Major League Baseball and the National Football League. *Journal of Sports Economics*, 5(2): 127–151.
- Ferreira, F. N. H., Proença, J. F., Spencer, R., Cova, B. (2013). The transition from products to solutions: External business model fit and dynamics. *Industrial Marketing Management*, 42(7): 1093–1101.

- Foss, N. J., Saebi, T. (2017). Fifteen years of research on business model innovation: How far have we come, and where should we go? *Journal of Management*, 43: 200–227. doi:10.1177/0149206316675927
- Galariotis, E., Germain, C., Zopounidis, C. (2018). A combined methodology for the concurrent evaluation of the business, financial and sports performance of football clubs: The case of France. *Annals of Operations Research*, 266(1–2): 589–612.
- Gallagher, R., Quinn, B. (2019). Regulatory own goals: The unintended consequences of economic regulation in professional football. *European Sport Management Quarterly*. doi:10.1080/16184742.2019.1588344
- Ghio, A., Ruberti, M., Verona, R. (2019). Financial constraints on sport organizations' cost efficiency: The impact of financial fair play on Italian soccer clubs. *Applied Economics*, 51(24): 2623–2638. doi:10.1080/00036846.2018.1558348
- Hamil, S., Walters, G. (2010). Financial performance in English professional football: 'An inconvenient truth'. *Soccer & Society*, 11(4): 354–372. doi:10.1080/14660971003780214
- Johnson, M. W., Christensen, C. M., Kagermann, H. (2008). Reinventing your business model. *Harvard Business Review*, 86(12): 50–59.
- Joyce, A., Paquin, R. L. (2016). The triple layered business model canvas: a tool to design more sustainable business models. *Journal of Cleaner Production*, 135: 1474–1486.
- Madden, P. (2012). Welfare economics of “financial fair play” in a sports league with benefactor owners. *Journal of Sports Economics*, 16(2): 159–184. doi:10.1177/1527002512465759
- Markides, C. (2006). Disruptive innovation: In need of better theory. *Journal of Product Innovation Management*, 23: 19–25.
- Massa, L., Tucci, C., Afuah, A. (2017). A critical assessment of business model research. *Academy of Management Annals*, 11(1): 73–104.
- McGrath, R. G. (2010). Business models: A discovery-driven approach. *Long Range Planning*, 43: 247–261.
- Menary, S. (2016). One rule for one: The impact of champions league prize money and financial fair play at the bottom of the European club game. *Soccer and Society*, 17(5): 666–679. doi:10.1080/14660970.2015.1103073
- Mitchell, D., Coles, C. (2003). The ultimate competitive advantage of continuing business model innovation. *Journal of Business Strategy*, 24(5): 15–21.
- Morrow, S. (2013). Football club financial reporting: Time for a new model? *Sport, Business and Management: An International Journal*, 3(4): 297–311. doi:10.1108/SBM-06-2013-0014.
- Müller, J. C., Lammert, J., & Hovemann, G. (2012). The financial fair play regulations of UEFA: an adequate concept to ensure the long-term viability and sustainability of European club football?. *International Journal of Sport Finance*, 7(2).
- Nicoliello, M., Zampatti, D. (2016). Football clubs' profitability after the financial fair play regulation: Evidence from Italy. *Sport, Business and Management: An International Journal*, 6(4): 460–475. doi:10.1108/SBM-07-2014-0037.

- Osterwalder, A., Pigneur, Y. (2010). *Business model generation: A Handbook for visionaries, game changers, and challengers*. Hoboken, NJ: Wiley.
- Osterwalder, A., Pigneur, Y., Tucci, C. L. (2005). Clarifying business models: Origins, present, and future of the concept. *Communications of the Association for Information Systems*, 16: 1–25.
- Peeters, T., Szymanski, S. (2014). Financial fair play in European football. *Economic Policy*, 29: 343–390.
- Perechuda, I. (2019). Salaries to revenue ratio efficiency in football clubs in Europe. In: Bilgin M., Danis H., Demir E., Can U. (eds), *Eurasian economic perspectives. Eurasian studies in business and economics* (vol. 10/2, pp. 301–314). Cham: Springer.
- Ramchandani, G. (2012). Competitiveness of the English Premier League (1992–2010) and ten European football leagues (2010). *International Journal of Performance Analysis in Sport*, 12(2), 346–360.
- Sabatier, V., Craig-Kennard, A., Mangematin, V. (2012). When technological discontinuities and disruptive business models challenge dominant industry logics: Insights from the drugs industry. *Technological Forecasting and Social Change*, 79: 946–962.
- Saebi, T., Lien, L., Foss, N. J. (2016). What drives business model adaptation? The impact of opportunities, threats and strategic orientation. *Long Range Planning*, 50(5): 567–581.
- Sánchez, L. C., Barajas, Á., Sánchez-Fernández, P. (2017). Does the agency theory play football? *Universia Business Review*, 53: 18–59.
- Sánchez, L. C., Barajas, Á., Sánchez-Fernández, P. (2020). Profits may lead teams to lose matches, but scoring goals does not lead to profit. *European Research on Management and Business Economics*, 26: 26–32.
- Sass, M. (2012). Long-term competitive balance under UEFA financial fair play regulations. FEMM Working Papers No. 5/2012. Otto-von-Guericke University Magdeburg, Faculty of Economics and Management, Magdeburg.
- Sass, M. (2016). Glory hunters, sugar daddies, and long-term competitive balance under UEFA financial fair play. *Journal of Sports Economics*, 17(2): 148–158. doi:10.1177/1527002514526412
- Scelles, N., Dermit-Richard, N., Haynes, R. (2019). What drives sports TV rights? A comparative analysis of their evolution in English and French men's football first divisions, 1980–2020. *Soccer & Society*, 21(5): 1–19.
- Sims, P. J. (2018). The circumvention of UEFA's financial fair play rules through the influx of foreign investments. *Northwestern Journal of International Law and Business*, 39(1): 59–84.
- Solberg, H. A., Haugen, K. K. (2010). European club football: Why enormous revenues are not enough? *Sport in Society*, 13(2), 329–343. doi:10.1080/17430430903523036.
- Szymanski, S. (2012). Insolvency in English professional football: Irrational exuberance or negative shocks? *Working Paper No. 12-02*. North American Association of Sport Economics.
- Szymanski, S. (2014). Fair is foul: A critical analysis of UEFA financial fair play. *International Journal of Sport Finance*, 9: 218–229.

- Schubert, M., & Könecke, T. (2015). 'Classical' doping, financial doping and beyond: UEFA's financial fair play as a policy of anti-doping. *International Journal of Sport Policy and Politics*, 7(1), 63–86.
- Szymanski, S. (2017). Entry into exit: Insolvency in English professional football. *Scottish Journal of Political Economy*, 64(4): 419–444.
- Teece, D. J. (2010). Business models, business strategy and innovation. *Long Range Planning*, 43: 172–194.
- UEFA. (2012). *Financial fair play and club licensing regulations* (2012 edition). Nyon: UEFA.
- UEFA. (2019). *Club licensing benchmarking report financial year 2017*. Nyon: UEFA.
- Vöpel, H. (2011). Do we really need financial fair play in European club football? An economic analysis. *CESifo DICE Report*, 9(3): 54–59.
- Vrooman, J. (1997). A unified theory of capital and labour markets in major league baseball. *Southern Economic Journal*, 63: 594–619.
- Weill, P., Woerner, S. L. (2013). Optimizing your digital business model. *MIT Sloan Management Review*, 54(2): 71–78.
- Wessel, M., Levie, A., Siegel, R. (2016). Legacy ecosystems: They separate you from your customer. *Harvard Business Review*, 94(11): 68–74.
- Wilson, R., Plumley, D., Ramchandani, G. (2013). The relationship between ownership structure and club performance in the English premier league. *Sport, Business and Management: An International Journal*, 3(1): 19–36. doi:10.1108/20426781311316889
- Wirtz, B. W., Pistoia, A., Ullrich, S., Göttel, V. (2016). Business models: Origin, development and future research perspectives. *Long Range Planning*, 49: 36–54.
- Zollo, M., Cennamo, C., Neumann, K. (2013). Beyond what and why: Understanding organizational evolution towards sustainable enterprise models. *Organization and Environment*, 26: 241–259.