

Crowdfunding and crowdlending as fan-based financing alternatives in professional German football

Authors: Maria Ratz (1), Prof. Dr. Florian Pfeffel (1), Dr. David Grundy (2), Dr. David Hart (2)

Institutions:

1. Accadis Hochschule Bad Homburg, University of Applied Sciences
2. Northumbria University, Newcastle Business School

Introduction

Crowdfunding is a form of crowdsourced venture funding and is already described as a viable alternative to finance new businesses or projects (Hagedorn and Pinkwart, 2013). The basic concept of it is to assemble financial resources from social networks, which means that projects or business ventures are financed by a relatively large number of smaller investors (Bock et al, 2014). This paper analyses crowdfunding and other related crowd-based financing forms in the context of German football clubs as some of the professional football clubs have already used fan-based financing and crowdfunding campaigns; for example, in order to finance their licensing costs.

Research question

This analysis is part of an overall long-term study which analyses the impact of crowdfunding - and especially of its subtypes crowdfunding and crowdlending - as an additional and cost-effective element for financing professional sports clubs or for projects within such an organisation. This paper will focus on one particular element of this research project in detail by analysing the financial figures of the cases which already exist in the professional German football leagues and test the hypothesis that crowdfunding and/or crowdlending allows better financial conditions for the club compared to the market level.

Rationale for this study

Crowdfunding has rapidly grown since 2009 owing to global technological advances, however the research in this area is still very limited. Especially, "almost nothing is known about crowdfunding" as a sub-category of crowdfunding (Hornuf and Schwienbacher, 2015, p. 2). Therefore, a scientific comparison between crowdfunding and traditional venture finance is necessary to receive a better understanding of the similarities and distinctions (Bock et al, 2014). With the increasing challenges in the financial markets such as stricter lending policies of banks for instance, it is necessary for football clubs to look for new alternatives (Bezold and Lurk, 2016). However, in the context of sport organisations in Germany and their use of crowdfunding only very limited empirical research is known to the author so far. Thus, this study aims to contribute to financial management practices of sports organisations.

Methodology

For this paper a platform analysis has been conducted in order to analyse the existing crowdfunding campaigns of German football clubs and their financial frameworks. In addition, a document analysis will offer insights into the lending policies, financial indicators and results of fan bonds of those clubs that already used fan-based financing. These findings will be

compared within a risk assessment to market investments to test the hypothesis whether crowdfunding could be a financial alternative for professional football clubs.

Results

There have been at least 15 clubs that offered bonds to their fans since 2004. The holding period of those credits was or is always longer with 5 to 7 years than the one in the crowdfunding example. The details of each campaign are quite different, however, the average interest rate was or is approximately 5.6 per cent (Bezold and Lurk, 2016). In fact, all of those cases are examples for crowdlending campaigns (even if it is not conducted via a platform). Furthermore, there has been one club in the professional German football leagues that initiated a crowdfunding campaign in the original sense via a specified platform. In total 1386 supporters of the club take part in the campaign as investor. They received 3 per cent fixed interest rate for their credit for approximately 18 months. Furthermore, in the case of a promotion of the club to the 2nd Bundesliga a 2 per cent variable interest rate was promised (Crowdrange, 2015). Comparing those figures to the current market situation with very low interest rates such as risk-free rate of approximately 1.1 per cent (which is not at the same risk level), crowdfunding or crowdlending might be a viable alternative for investors. However, to test the hypothesis it is necessary to enlarge the risk assessment of clubs in more detail to create comparable data. The completed financial evaluation between fan-based financing with market investments will be provided by the time the conference is hosted.

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