

# **(SP) STRATEGIC MANAGEMENT DESIGN FOR SPORT BUSINESS IN CRITICAL ENVIRONMENTS**

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## **Introduction**

In football, when sport performance is positive, satisfaction and euphoric climate reign, the stadiums are full and business has an easier way to assure profits. However, in professional football, a bad season, which implies relegation, could carry with a profound reform of the management model. Pitifully, it happens now and then. For this reason and, in order to guarantee the business viability on the long term, it is worthy to study the relegation and promotion problem and try to look for measures that give management tools to the clubs that, in addition, satisfy supporters.

The objective of this paper is to show how to design strategic adjust mechanism in management for reacting when serious alterations appear in the core business. Particularly, we are going to analyse the effect and strategies that a football club has experienced and applied as consequence of the relegation.

## **Methods**

To investigate the strategy adopted by football clubs in a particular situation as relegation and promotion where negotiation with players, finance institutions and key sponsors is driven by tailoring requirements, we adopt a case study approach. In order to extract consequences from the particular case studied we have interviewed, since February 2005 until February 2006, some Celta de Vigo senior executives, as the Chairman, the CEO, the marketing director as well as several executives of the main sponsors and the Assistant General Manager of the main borrower.

On several of these meetings we have employed an approach based on structured questionnaires although the specific interest of interviewed persons supposed that this was inevitably flexed. The questionnaires were designed considering previous papers about the effect of relegation and promotion (Gerrard, 2002; Deloitte & Touche, 2000; Noll, 2002).

We have analysed the annual reports and accounts of Celta de Vigo in order to check if the strategies had the desired effect and it was reflected on the Financial Statements. The analysis has been done considering the schema of financing systems for football clubs proposed by Grundy (2004) and Barajas (2005; 209). We focused on the business model and the returns of Celta. We have done a study of the turnover evolution and a split of revenues. We have explored the objectives summarized in the Annual Report of the last five seasons. We have checked if the financial evolution of the club fitted in with the ordinary financing strategies for football clubs.

## **Results**

We have found that Celta's turnover evolution was suddenly truncated in season 04/05 because relegation in previous season. The turnover went down to €10 million from €33.5 million.

The turnover distribution changed dramatically last season due to relegation to Second Division and it is really different to the turnover share of English clubs as Arsenal or Manchester Utd. as it is shown in Figure 1. TV rights decreased drastically but marketing strategy of the club was successfully achieving a significant increment of 17% on revenues from commercial (sponsorship and advertising). The club modified its marketing strategy

focussing its campaign for advertising among local firms taking advantage of the bargaining of its advert spaces and that most of home matches were broadcasted by the regional TV.

We have found that the best performance in League matches with the worst economic results, namely, €5 million loss on season 01/02 and €3 million loss on next one. On the last two seasons, the club returned to profit meanwhile sports performance was disappointing on 03/04 but on 04/05 season it became promising. The path to profit passed by the sale of the most expensive players.

A new financing strategy came out as consequence of the deal with the main borrower. A deep change happened, refinancing the short term debt to long term but only after the proposal of transformation of the squad. This meant that the gross investment in players decreased from €120 million in the season 03/04 until €60 million in the last season. The cash inflows from divestment on players allowed a debt reduction of €5 million in 04/05 with almost €10 million fall in short term (this means that €5 million became long term debt).

We have carried out an efficiency analysis following the ratios proposed by Gerrard (2005). We found that the revenue efficiency and the wage efficiency are worse in Second Division than in First.

Both the club executives and the borrower considered that the accomplishment of the UEFA financial requirements is a key factor in defining the other strategies. Grundy (2004) considers that key investment decisions in a football club are the acquisition of new players and the stadium expansion for driving future operating revenues. A reasonable financial strategy in a relegated club implies a change in competitive strategy. For that reason, Celta had to restructure the squad for playing in other division. The club adopted a policy of investing in young players, bringing the most talented footballers from the grassroots and hiring the rest. At the same time, the board of director of the club tried to develop an ambitious plan for building a new stadium as well as a hotel and a department store. Nevertheless, this plan failed for causes out of the club.

## Discussion

At the light of the case study, we have obtained the following conclusions:

- sports objectives may be reached preserving the financial ones, Celta obtained it being transparent with his financier,
- it is necessary to maintain the planned policies in order to reach the sports and financial objectives even if fans claim for changes,
- working with grassroots allows to control the wages, guarantees a higher degree of compromise with the club project and supposes less investment,
- strategies and targets must be adaptable changing easily if the competitive scenario varies. The chairman changed his mind in the last league match. He changed his way of understanding success and failure.

## References

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**Table 1: Turnover Distribution**

Celta	03/04	04/05	Arsenal	Man. Utd.
match takings	15,1%	25,1%	27,0%	39,0%
media	69,4%	20,1%	35,1%	36,0%
commercial (sponsorship and other)	13,4%	50,7%	5,4%	7,0%
merchandising	2,1%	4,1%	32,5%	18,0%
	100,0%	100,0%	100,0%	100,0%

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