

**Krisztina András**

**Business elements in sports, through example of football**

**Ph.D. Dissertation**

Department of Business Economics

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Budapest University of Economics Sciences and Public  
Administration  
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**Ph.D. Dissertation**

by

**Krisztina András**

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“Only those professional teams have bright future, which possess an own pitch, have its roots in the local-patriotism of a town or district and live the economic principle of cut your coat according your cloth.”

Mihály Malaky, 1927

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## **1. Examined problems and the structure of the dissertation**

Can we consider the operation of Hungarian professional football as business oriented? – is the central question of the dissertation. To discuss this question, it has proved to be necessary to describe business operations. In order to do so, Chapter 2 contains those thematic and conceptual bases, which are indispensable in this investigation. I present the evolution of football companies, the interpretation of market and of operations as they are used in the dissertation, both in international and Hungarian context. The chapter concludes with a brief survey of the football economic researches, which are relevant in our subject.

I present the markets of professional football in Chapter 3, relating them to the main revenue sources of the football companies. Before characterising these markets, I give an insight into the products representing values in football and into the development of active and passive forms of sports and their evolution to business. Every market is described following the same topics, what makes a presentation of the relationships between the markets possible. The chapter concludes with the issue of globalisation in professional football.

Chapter 4 is aimed to present the business and management factors, that have generally the main influence on the operations of the football companies. In this chapter, I discuss the stakeholders of a common football company, and from them I describe the most important self-regulating organisations of international football (FIFA, UEFA), the meeting points of the regulations of professional football and the EU and the G-14, a strategic alliance within international football.

Chapter 5 contains the answer to the core question of the dissertation, whether a professional football company can function on business bases in Hungary. The method used during the empirical research is primary qualitative, it is based on case-studies. The case-studies served as revealing, researching tools to describe the current situation on one hand, and as confirmation of the data of the elaborated business model on the other hand. The dissertation tries to give answers even for the future. Along a presented strategy and system of pre-conditions, it investigates, whether there is a relevance of business oriented functioning. The results of the evaluation of the company and the sensitivity analysis on the model give the final answers to the question methodically.

The core question of the investigation has aspects related to the present and the future, as well. The following hypotheses can be formulated concerning the relevance of the business based operations of Hungarian professional football companies in the current situation:

1. Is it relevant to call the operations of a Hungarian professional football company business based?

1.1. The size of the on-site audience, what is indispensable in case of business based football, is insufficient in Hungary.

1.2. The operating revenues rely mainly on incomes from sponsorship and are not properly diversified.

1.3. Hungarian professional football is connected only slightly to the business system of international football.

1.4. The main expenditures are represented by labour costs.

In the case of the future aspects of the core question, the investigations are aimed to present a possible development along certain pre-assumptions.

2. Can a Hungarian football company operate on business bases in the case of an optimistic strategy?

2.1. It is not worth investing into a Hungarian professional football company even in the case of an optimistic strategy.

2.2. The operation of the company could be made feasible in the case of reduction of players wages only.

2.3. The return on investment into the football company run with the presented optimistic strategy is sensitive to the following factors: increase of the number of spectators, development of the price of the tickets, of the amount of sponsorship revenues and of the amount of centralised marketing revenues.

The research hypotheses will be investigated in Chapter 5. The final answers to the current hypotheses will be given by the analysis of the case-studies, while the hypotheses regarding the future are answered with the help of business modelling (analysis of the model, conducting sensitivity examinations). Every projected hypothesis represents an important actuality. The hypotheses concerning the present business based operations force to think it over, whether the investment – under unchanged circumstances – of state and other monies into Hungarian professional football can lead to the realisation of business based operations.

The investigations present a good opportunity to reconsider the characteristics of the operating revenues and expenditures of the Hungarian professional football companies. Are unclear to each other? Are the labour costs regarding player wages conform with the generated incomes? How will the legal prohibition of paying salaries to players as private entrepreneurs effect the operation of Hungarian football companies?

Concerning the future, it is interesting, what the break out possibilities of a Hungarian football company are, that guarantee operational competitiveness. What scale of increase in ticket prices and ticket revenues is needed on the income side to improve the operational opportunities of the company? How much is a football company dependent on the sponsorship revenues? How is sponsorship related to market size of the country, the image of football and to sporting successes? How do centralised marketing revenues – that have become rather insecure in Hungarian football due to different factors – influence the operations? As one of its main strengths, the model – with the help of the sensitivity analysis – enables the indication of the effects of the above mentioned factors in the operations.

## **2. Terminological and conceptual background**

This chapter is aimed to present the theoretical bases, which are necessary to answer the core question of the dissertation. I do not include the presentation of the terms and concepts into this dissertation, which have been already discussed in my draft (András, 2002). However, I pay a special attention to the fields, which have become relevant since the research of the question has been concretised. So, this chapter discusses the appearance of sports companies in professional football, what means the presence of the legal forms ensuring business based operations in the professional game. Further, it gives a special interpretation to the markets, as it discusses the places of origin of the main revenue sources as separate markets. After the presentation of markets, the interpretation of the operations becomes necessary. From the various aspects to discuss business operations, I chose the financial point of view, so the main consequences are drawn primary from the balance sheets, profit-and-loss statements and cash-flow of the companies.

In the first chapter – under the title “Conceptual and theoretical background” – of the dissertation draft, I presented the characteristics of the approach, the origin of sports and the interpretation of sports as a service. The usage of the term of sports company was based on Chikán (1997): Sports companies are companies operating in the field of sports, trying to satisfy consumer demands along with gaining financial benefits (András, 2002). In accordance with this, football companies are the ones, which operate like this in the field of football. In the remaining part of the above cited first chapter of the draft, I illustrated the stakeholders of these companies through the example of a football company. Chapter two investigated the business elements in sports with the help of the phenomenon of professionalism, the penetration of business into sports and the role of the media. The chapter was closed by a instrumental possibility to measure business orientation.

The main critics against the draft were directed at the excessive complexity of the planned research. Therefore, I focus the subject to a single sport, the football and to the companies operating teams of its official championships. The presentation of the companies operating the participating teams of the Hungarian national championships emerged as an empirical goal. Furthermore, the question arises, whether it is relevant to speak about business based operations in the case of Hungarian football. In the chapters preceding the empirical research, I relied on the functional characteristics of international football. The empirical part includes

the research of the operations of the twelve football companies of Hungarian professional football.

The main theoretical backgrounds of the approach followed in the dissertation are provided by the business economics (Chikán, 1997). During the research of the business characteristics, it is worth to examine, whether the organisational and institutional background is capable of business operations. It means the investigation of the characteristics of the legal forms of the sports companies in Hungarian football.

### ***2.1. Sports companies in professional football***

Football clubs are in the focus of the dissertation, which are sports companies giving a corporate frame of business ventures related to sport. Functionally these are mainly companies<sup>1</sup>. Based on their size these are rather smaller enterprises.

A characteristic of the football companies is to operate with a double, sometimes opposite objective. The demands of the efficiency<sup>2</sup> in sport and of economic effectiveness are present with different measures but at the same time. Due to the decision of the owner, the duty of the management is to find the balance between these two objectives. The double objective appears also in another aspect, as a duality in creating value in case of sports companies (Chikán, 2003/a). The value should be created for both the client<sup>3</sup> and the owner at the same time. The same method, which brings value to the client should give value to the owner as well. The company unable to reflect on the demands of its clients, can not be profitable in a long run and can not stay alive on a self-financing basis. If the owner-investor can not see any return on his investment, then he will not keep the company alive.

However it should be considered, the micro-organisations of sports, the different sports organisations did not come alive in that form and did not operate this way at the beginning. In this section I will review the general process of evolution of the sport companies and then its characteristics in the field of football.

---

<sup>1</sup> The term of 'football club' is very common in football. This means different sports organisations operating teams, which definition has a wider sense than the football company in this dissertation, because it includes even sports organisations operating in not corporate status (ie. foundations, social clubs).

<sup>2</sup> This does not appear as profit in many cases, the realisation of self-financing could be sufficient as well.



According to Chikán (2003/b), the market competition co-ordinates mainly the activities in the world at the end of the 20<sup>th</sup> century, covering even a sectors, where it would have been inconceivable before. This phenomenon can be observed in professional football as well nowadays.

Most of the European clubs operating in *club* status – except for the English ones - have changed to companies during the '80-'90s. This process has not finished yet, because a few of the star clubs (i.e. Barcelona and Real Madrid) are still not operating in form of a company.

In the last tierce of the 19<sup>th</sup> century in England, the football clubs were not born in corporation status. In 1885, just three years before the first English championship, the Football Association (FA) legalised professionalism, so the clubs were allowed to pay wages to the players (Radnedge, 1995). Due to the authorisation of professionalism and the significant expense of the construction of stadia, the FA approved the company status of the clubs. In 1888, the predecessor Birmingham City was the first club to transform to a company. The example of the club in Birmingham was followed by many others, so many teams<sup>4</sup> operated as company by the turn of the century.

In contrast to the English example, German football clubs were not allowed to operate as companies. The co-ordinating association of the German football, Deutscher Fussball Bund (DFB), has approved the transformation of clubs into companies and their introduction to stock-market – as the last among the countries with the leading markets - in October, 1998. This decision is may be the most revolutionary since the introduction of the Bundesliga in 1963, however most of the clubs did not take advantage of the possibility this far.

In France, the decision of the approval of the company status was made on the 13<sup>th</sup> of December, 1990 ([www.psg.fr](http://www.psg.fr)). The financial problem of the clubs was one of the main reasons. Therefore, the largest French clubs (ie. Paris SG, Olympique Marseille, Girondins Bordeaux) are operating as companies by now.

---

<sup>3</sup> Unlike the Author, we use the phrase 'client' instead of customer, which expresses the importance of the intermediate buyers beyond the final consumers in the supply net in the world of today. The customers are spectators, fans in professional football, the supreme clients are companies and media.

<sup>4</sup> Arsenal, Aston Villa, Everton, Newcastle United and Manchester United are the most well-known of those teams.

The company status is widespread among the clubs of Italy (Handelsblatt, 1998.11.13/14.). The leading teams of the Serie A are operating as corporation. The great majority of the shares are held in one hand, usually in families of rich businessmen (like AC Milan – Berlusconi), except for the teams of SS Lazio, AS Roma and Juventus, whose shares were introduced on the Milano Stock Exchange in April 1998 and May 2000, respectively.

Most of the teams of the Spanish first division operate in legal status, as so called sports incorporated companies (Handelsblatt, 1999.05.07/08.). Based on cultural grounds, the two biggest club (Real Madrid and Barcelona) and Athletic Bilbao did not transform into a company and strongly rejects this possibility.

It can be observed, that the organisational frames show a diversity in the European football. The legal form, that supports the strive towards profitability in the best way, is present in all the countries of the BigFive. So, the organisational forms do not provide obstacles for the business based operations. But, is the convenient legal form a sufficient factor in the realisation of the business oriented functioning?

Historically, there were two waves of transformation of football clubs into corporate companies in Hungary. The first one happened between of the World Wars, while the second soon after the regime change, in the early 1990s. In both cases, the transformation was initialised by the introduction of the professional championship, where the required legal form was prescribed for the participants.

Vajna (2003) points out, that numerous football clubs transformed into corporate companies In 1926. Ferencvárosi Torna Club (FTC) and Újpesti Torna Egylet (UTE) became corporations, MTK<sup>5</sup> Hungária founded a limited company, just to mention the better known clubs. But most of the owners bankrupted during the big recession in the early 1930s and the football clubs were forced to operate as departments of multidivisional social organisations after World War II.

As by Sárközy (2002/a) the Law XXXI of 1998 and Paragraph 28/A of Law LXIV of 1996 enacted, the Hungarian Championships was mandated to be staged as a professional league from the 1998/1999 edition of the championship. According to the law, companies with legal entity only were allowed to participate in the league. Due to this fact, sports clubs with

football department established their own companies within a short period. Not the football departments were transformed into companies, but the sports clubs founded their limited companies, typically with the minimum capital investment of 1 million HUF allowed by the law that time. These companies inherited two major licenses by the transformation: First, the right of participation in the league; secondly, their employer status regarding the players as described in their contracts. The accumulated debts raised by mainly the football sections of the clubs along with all the other rights and liabilities related to football remained in the sports clubs with no ability of bankruptcy.

The conformance to different economic demands was introduced as the condition of the entry of the championship of 2000/2001. The participation of sport companies with financial guarantees was allowed only. Therefore, the sports companies operating with the minimal capital and with a single owner (the respective sports club) were forced to find new investors.

According to Sárközy (2002/b), we can find the following instances of transformation among the companies running professional football teams at the time of the obligatory transformation:

- the appearance of a strong owner with 100% share of capital (i.e. MTK Hungária),
- numerous small-size minority shareholders in a corporation with large capital (ie Zalaegerszeg),
- where the acquisition of the sports facilities effects majority ownership (i.e. Rába ETO),
- acquisition of majority ownership by raising capital (i.e. Vasas),
- owner with primary interest in brand-name, which presumes real market value of the club (i.e. FTC),
- dominance of state property, company run by the municipality and/or by the state (i.e. Haladás, DVSC).

The question – whether the legal form can enforce a business operation - can be answered following the empirical research.

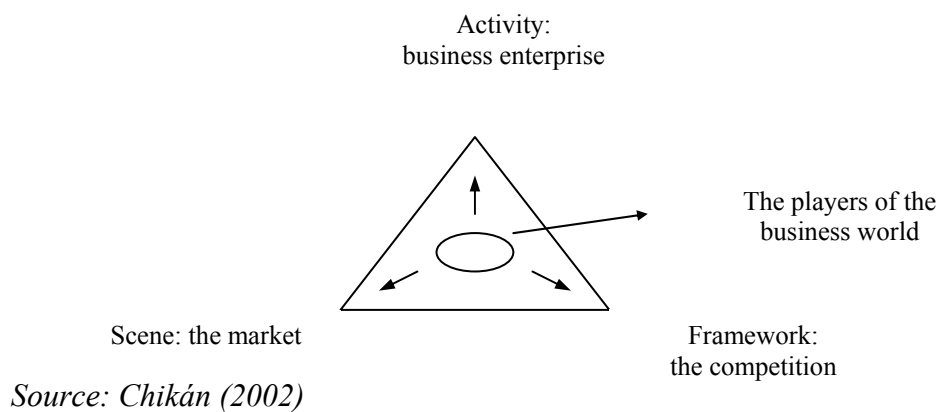
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<sup>5</sup> Magyar Testgyakorlók Köre

## 2.2. *The interpretation of the markets*

The market has become the dominant co-ordinating mechanism (Kornai, 1986) of the 20<sup>th</sup> century. This statement is true even in fields of society, that are far from economy. By now, the same can be told about football, that is in the focus of this dissertation. Contemplating the society from the aspect of market co-ordination, we get to the business world, that puts market co-ordination in effect. The business world, in absence of business-theories, can be approached through the structure of it. Business enterprise is the main activity in the world of business and those business enterprises operate on the market. The regulating framework is the competition. But beyond the general overview of these terms, it is useful to discuss their football specific characteristics, too.

*Chart 2.1. The structure of the business world*



First, we give a brief interpretation of the market, then we discuss the investigated markets, the possibilities to enter it and exit from it and the geographical boundaries of the markets in this chapter. At the end of it, we pay our attention to the interpretation of competition and its specialities regarding football companies.

Like Hunyadi (1989), I interpret the market from a broader perspective on one hand, and in some aspects in a special way on the other hand, in the dissertation. The broader view defines the market as the conjunction of the potential sellers and buyers of a given product or service, where those sellers and buyers get in contact to each other with the aim of exchange. From some aspects, I use a special interpretation, because the main goal of the theoretical part of the dissertation is to present the business elements of sports through the example of football. In concordance with it, I define the market of football as the aggregation of the resources, which generate the revenues of the companies operating football clubs. The revenue sources can be

considered and analysed as separate markets. However, this market oriented approach is unique in sense of economics, our starting-point assumes, that the companies have to be able to survive, to handle and to generate revenues, as these are the fundamental conditions of their operations. The market is the main origin of their revenues.

According to the broader definition, I will identify the product, the subject of exchange, its main characteristics, the most important factors determining the value of it, the players of the market (sellers, clients, intermediates) and finally the factors influencing the behaviour of the buyers and sellers in the case of every single market I discuss, based on the table below. The analysis of the markets in this way enables to identify the main factors influencing the business operations and the relationships among the different markets.

*Table 2.1. Elements of the description of the markets discussed in the dissertation*

Product (subject of trade)
Main characteristic of the subject of trade
Value drivers
Market-players: <ul style="list-style-type: none"> <li>– Seller</li> <li>– Buyer</li> <li>– Mediator</li> </ul>
Influencing factors of the behaviour on the market

*Source: András, based on Chikán (1995)*

The markets representing the main revenue sources of football companies operating on business values are the following:

- Consumers market,
- Broadcasting rights market,
- Sponsorship market,
- Merchandising market,
- Players market.

Within the frame of the *consumers market*, we will discuss the ones who enjoy and consume football, as a sporting service on-site or through the media. The media and the companies approaching with different marketing goals are also considered as buyers, clients of football. The media will be presented in the section describing the *transmission rights market*, while the one of the commercial markets, the *sponsors market* will include the circle of companies. The *merchandising market* is another important commercial market. The balance of buying

and selling football players, the so called transfer balance can be an important source of revenue of football companies. We take a closer look at it in the section of the *players market*. The usage of the term of “players market” instead of “labour market” is conscious, as some human resources (i.e. referees, coaches, etc) will not be discussed in detail. The grass-root development appears not only as a strategic factor of clubs and even countries, but as internal and external labour market in course of the operation of clubs, as well.

When discussing the business operations of the football companies, it is important to pay attention to the way the markets are reached, as special characteristics. The different competition rules and regulations give a good indication about the possibilities of reaching the markets of football. There are cases, when markets can be reached through the company of the football club winning the right to participate in a championship. Their way of winning this right of participation depends substantially from the fact, whether the competition is a closed or open one. The Big Leagues of the United States are the best examples of closed leagues. They are closed in a sense, that only teams possessing a franchise are allowed to participate. On the other hand, these leagues are closed in a way too, that not the sporting debacle, but the financial failure leads to exit from the competition. It means, the company operating the team produces the service as long and in a way as the franchise selling league it allows.

In the so called open competition formats, sporting achievements, like qualification or relegation, are the primary conditions of participation. Secondly, the federations or leagues sanctioning the competition can require special economic or other conditions. If the a company is unable to fulfil these requirements, then it is not allowed to participate, even if it had qualified for the given championship. The national championships in Europe are good examples. The requirements can be determined by the national and/or international federations.

The system of national and international cup competitions signal a special model. In the international cups, there is a special mixture of open and closed systems. This mixed or “quasi-closed” system (Dénes, 2003) is based on a special qualifying-relegating mechanism, but the entry is condition of serious administrative requirements. In national cup competitions, there are usually no special conditions required, the participation is open to any club of the various domestic divisions.

The dissertation discusses two major geographical markets. The domestic or national market covers the Hungarian professional football, while the term of international market is used for the market of the Western European professional football. The later can be tightened further to the BigFive (England, Germany, Italy, Spain and France), as the main characteristics of the business operations are provided by football companies participating in the professional championships of these countries.

Such limitation of the market is quite autocratic, because professional football as a spectacle sports is a global industry as the part of the entertaining business. But the grade of globalisation of its various related markets is different (cf. subsection 3.8.).

Some important markets are not discussed in the dissertation, like the North and South American, the Asian and the Eastern European markets. The survey of these would exceed the frames of this work.

The terms of competition and market are closely related. However, competition was long before present in sports, than the market. Competition means – in a broader definition – an activity between two or more sides oriented to gain advantages against each other, regulated by rules (Chikán, 1997).

Sporting events are the core products of professional football. The excitement, experiment and spectacle provided by the event is the basic service in every case. The competition and fighting on the sports field is the main engine of that. At the same time, the unpredictability of the outcome of this competition is guaranteed in the long term only, if non of the players gains special competitive advantages. That leads to a speciality of the operation and direction of sports: it often confronts with the issue of free competition. All self-governing bodies of sports, of football as well, all the sports federations operate in a monopolistic structure and under no means are they ready to change on that. However, no team or its company can be allowed to reach a monopolistic position in any competition system, because it would hurt the unpredictability of the outcome of results and that would jeopardise the existence of the whole system.

Cartels are a frequent phenomenon in sports, so in football as well, because that enables the companies of the teams to maximise the efficiency in managing their ownership rights. Even the term of competition shows, that due to the immanent nature of the market, there is need

for external regulators, whether it is a stakeholder on behalf of the state or from the civil sphere of sports.

There are also incentives of co-operations of common representation of interests, what is known by the name G-14 (cf. subsection 4.5.). G-14 is a kind of trade union of the richest clubs of the world, fighting for widening the rights of the members of this strategic alliance. A higher share from the revenues of the Champions League and the right not to be obligated to release their players for matches of the national sides are the main focuses of their movement. Time to time, they discuss the possibility of starting an international elite championships, which idea causes the international federations a lot of headache.

### ***2.3. Operational models***

To answer the core question – whether a professional Hungarian football company can function based on business – the interpretation of operations and especially the business based operations is required. Besides the interpretation of business operations, the operational specialities a professional football company has to face will be also discussed in the following section. Two models will be presented, the state and the business model, which mark the two extremes in terms of funding. The section concludes with the those football economic researches, which served as the cornerstones of my work.

#### **2.3.1. The interpretation of operations**

When interpreting the operation, the aspect of the approach and the level of the investigation of the operation should be clarified. I rely basically on a financial aspect of the operation, analysing the available accounting statements<sup>6</sup>. The football companies represent the level of my investigation.

First, it is important to define, what do I mean under the term business based operation. It means, that the costs of the operation is covered by revenues generated from the market. The business based revenues assume the existence of markets and the presence of consumers. The larger share is represented by business revenues, the more business based is the operation.



The categorisation of the revenues and the cost can be done by various dimensions. The categorisation of the accountancy<sup>7</sup> can be followed or there can be a segmentation based on the volume of the production/services: fix or variable; sports specific or not (i.e. related to sports events or not; occurring during the sporting season or outside it).

The interpretation of the operation is done by the researching the relationship between the balance sheets and the profit-and-loss statement, keeping the rule in focus, that the costs of business operation units should not exceed the revenues, meaning that the income side should determine the costs.

The main business revenues of the football companies are the following:

- Ticket and season-ticket revenues (see Consumers market),
- Revenues on player transfers (see Players market),
- Revenues generated from broadcasting rights (see Broadcasting rights market),
- Revenues from commercial rights: sponsorship revenues (see Sponsorship market) and merchandising revenues (see Merchandising market).

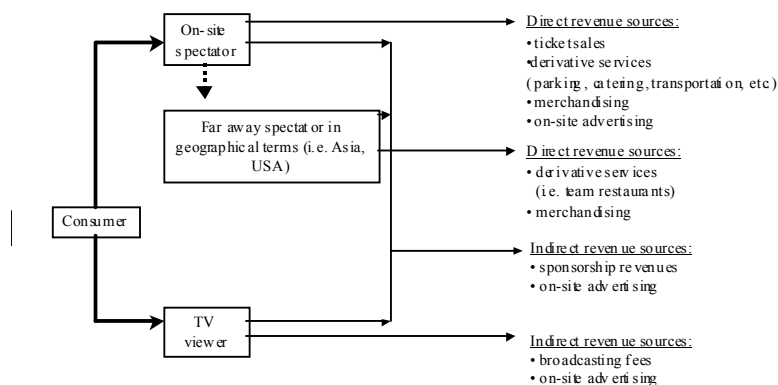
Table 2.2. combined with these illustrates well, that there are always consumers behind the different business revenues. Therefore, the business operations of the football companies are principally influenced by the number and characteristics of their real and potential consumers.

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<sup>6</sup> Where available, based on yearly statements and reports of public utility.

<sup>7</sup> Always determined by the regulations of the given country.

Chart 2.2. The main customer-related revenue sources of football companies



Source: Kassay (2003/b)

Additionally, there are other identifiable revenue sources, that are often related to the utilisation of the facility. But the detailed discussion of these revenue sources and the ones originating from the international cup competitions exceed the frames of this work, still I mention them in the empirical part of the dissertation.

The main costs emerge in relation to the operation of the teams participating in official competitions. The following are the main components of these costs:

- Costs related to players,
- Costs related to facilities,
- Organisational and participation costs related to matches,
- Other costs.

The dual interpretation of success is a characteristic influencing the operations, as well. The business elements in sports, in football have created two meanings of success by today, and therefore two success criteria should be distinguished. On one side, there is the sports specific success, the sporting achievements, that can be measured by the results in competitions. The other criterion was strange in sports at the beginning and comes from the business sphere: the

financial success, that can be captured by a result categories comprehensible by the accountancy.

### 2.3.2. *The specialities of operations in football*

Before starting the empirical research, it is worth collecting some factors, that basically influence the business based operation of a football company, and this way helps answering the core question, as well. Let's go through these factors on a theoretical level!

The basic service is a *seasonal* one<sup>8</sup>. Both championships and national, international cup competitions are characteristically run in seasons, composed by autumn and spring seasons. The UEFA has the main word in determining the yearly schedule. It sends the calendar of its own events to every national federation. The national federations compose their competition calendar taking the UEFA schedules and its own climatic conditions into consideration. This dynamism of the competition systems induces specialities, that influence even the business operations, as certain revenues sources related to the matches depend on the seasonality of the sport. It explains the practice, that football companies make their accountancy statements not only for the fiscal year, but for the football season, as well.

Additional to these, the seasons mark the periods, when football companies are allowed to buy or sell the players as property goods, who are their main resources as success factor.

There are phenomena, that friendly and training matches, tournaments are organised in the periods outside the competition seasons to help the preparation and there are major continental championships in almost every year<sup>9</sup>. But the preparation is only one of the goals of these events, as they also ensures a relatively continual flow of incomes to avoid liquidity problems. Still, the number of these events is limited by the human endurance, the durability of the players<sup>10</sup>, what gives human resources management a special importance.

The seasons show differences depending on the major global events organised typically in every fourth year (Olympic Games, World Cup, European Championship). The overloaded

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<sup>8</sup> This is a common practice since the very beginnings of the sport. Games are played on weekly basis during autumn and spring seasons. More details in: Dunning (1971).

<sup>9</sup> European Championship, Copa America, African Unity Cup, World Cup.

<sup>10</sup> Therefore, the busy international calendar causes heavy scheduling problems nowadays.

calendar understandably causes conflicts, as clubs do not want to release their players free to the national teams.

The business operations of football are characterised also by the speciality, that there is no clear co-relation between the two success criteria, the sporting and financial results. Szymanski and Kuypers (1999) investigated this question in England and empirical research showed, that a better position by a team in the league table at the end of the season did not mean better profits (before taxation) in the given season or in the following one. The analysis revealed, that the profits of the clubs scattered around zero and better league position could either mean more profits, or increased losses, as well.

Football, like other professional team sports, possesses the speciality, that the values of its goods can be exploited in a best way with a cartel-like marketing. Therefore, only a part of the revenues are directly realised by the football companies, and they have an indirect influence on the another part only. The revenues coming from central sources, like national and international federations and leagues can represent a considerable share in the income structure of the football companies.

The football companies face the difficulty of harmonising their income and cost sides, also because of the different time dimensions of the two. The most significant costs are the expenditures related to the players, in which case, the companies make efforts to commit themselves on a longer term. However, there are important revenue sources, which are predictable on shorter terms only. No team can be sure about its success in international club competitions or about growing revenues from broadcasting rights in the upcoming seasons. Especially the later one causes an acute financial crisis in professional football currently, as the overvalued broadcasting rights has led to the problems of television channels to exploit benefits<sup>11</sup> from the transmissions and this affects the economic situation of the clubs heavily. (cf. subsection 3.4.).

Football has a special situation – reflected also legally– as its applied rules and regulations do not always correspond the laws in act and in some cases not even to the EU laws and guidelines.

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<sup>11</sup> The general economic recession does not leave the companies unaffected, that take a healthy shape therefore, cutting all unnecessary costs. The advertisement industry reacts sensitively to it and that effects the media industry, as well.

### *2.3.3. The state and business models*

Two main operation models of football can be distinguished. The model run by the state (state model) is characterised by the important role of the state in the direction of sports and its operations and funding. In this case, revenues are coming from different state sources and the funding of football is done by the state. This model is typically apparent in its clearest form in the Eastern European countries, among them in Hungary.

In case of the model run by the business sphere (business model), most of the revenues have their direct or indirect origin in the world of business. Chikán (2002) uses the terms of business sphere or world of business as the conjunction of the realisers of the market co-ordination, so the stakeholders, whose relationships are mainly characterised by the market co-ordination. The narrowest business sphere of football is composed by its consumers and its clients: the media and the companies. So in this case, most of footballs revenues come from this sphere.

The different role of football explains the two principal forms of the revenues (coming from the state vs. the business sphere) based on that differentiation. In the case of the state model, the sporting successes achieved in professional football served to legitimate the political system and to improve public feelings. Meanwhile, football, as a professional sport, formed a part of the entertainment industry.

The model diverges from each other not only in their financial sources, but in their structure of ownership, as well. There is no real owner in the state model. The state provides the organisation with revenues required to function, but its role as an owner is performed through the directors of the organisation. According to that, revenues do not necessary mean limits for the costs and the system is characterised by soft budget limits (Kornai – Matits, 1987). The income side represents a restriction for the development of costs in the business model, in deed. The real owner is interested in the profitability of his invested capital, so in profitable operation, and even in a case of a grandiose approach, he expects that revenues should cover the cost in the long term. The business operation is the essential element of the functioning in the case of the business model.

The organisational frame of the two models is also different. The organisations in the state model take the shape of some kind of non-profit form, typically social club, while the enterprises of the business model usually operate in the legal form of a company.

*Table 2.2. Comparison of the two operation models of football*

	<b>State model</b>	<b>Business model</b>
<b>Financing sources</b>	Revenues from the state	Business revenues
<b>Role of the budget limit</b>	Soft budget limit	Hard budget limit
<b>Characteristic of ownership</b>	No real owner	Presence of real ownership
<b>Operational frame</b>	Non-profit: social clubs	For-profit: legal forms of companies
<b>Primary role of football</b>	Legitimation of political system, improvement of public feeling	Service as a field of the entertainment industry

#### *2.3.4. The business model*

Due to the uniting markets of Europe, professional sports crosses the borders of the single countries. This tendency projects a united, increased market, that enables football companies to operate in a more profitable way.

The base of the operations of the business model is provided by the core service, the viewing of quality football games, what induces an interest on behalf of the consumers. This creates the on-site spectators and generates incomes for the football company. On-site spectators are characterised by the facts, that the so called traditional spectators (cf. subsection 4.1.) have a larger share among them and they typically come to the games from a rather limited territory in geographical sense. The on-site sports consumer market is mainly a local market, using the interpretation of Chikán (1997).

The considerable size of on-site spectators not only mean revenue sources football companies, but a potential to be exploited commercially, that effects their business operations. On one side, it can generate interest on behalf of local sponsors and the media<sup>12</sup>. The media is not only able to transmit the sporting event, but it also transforms it. Through the transformation

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<sup>12</sup> If it is an isolated, unique phenomenon in the case of a given football company, than it will not be able to draw the attention of further market players other than the on-site spectators, local sponsors and may be the local media.

of an event into a good of the entertainment industry<sup>13</sup>, the media creates new sports consumers: the media consumers. They represent a considerably more numerous group and possess characteristics basically different from the on-site spectators. They have less expertise of sports, geographically they are more far away from the venue.

The fees paid for the broadcasting rights further increase the scale of revenues flowing into football. The presence of the media makes the service more valuable for the local sponsors, as well. Furthermore, it enables the appearance of national, regional and global sponsors (cf. subsection 3.5.). The interest of the sponsors – based on their marketing goals – towards national and international competition series generate additional incomes for football

The processes described above are made stronger not only by the high quality basic service, but by the social composition of the sports interested people, the favourable image of the given sport and by the existence of stellar personalities of the sport. These factors generate new consumers and additional revenues on every market of football identified in the dissertation.

The operational conditions of the business model can be summarised in the following way: Football should be marketable on the consumers market. The demand towards ticket and season ticket revenues are ensured by the solvent demand and the convenient facilities and marketing strategy of the basic and complementary services. The viewing figures and the marketable advertising minutes covering the broadcasting costs (transmission fees and production costs) determine the interest on behalf of the media.

It is another significant condition of the successful business operation, that the target group reachable via football should be as important in economic terms, as possible. But not only the business value of the reachable target groups, but the image of football also influence the marketing oriented approach of the companies. In the case of the merchandising revenues, the clear legal situation and the strong consumer loyalty are the principle factors of success.

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<sup>13</sup> Misovicz (1997) points out, that „expert” public (on-site spectators, who played the game before, the so called traditional fan) is too small, to provide enough revenue to a sports companies and a television channel to survive, therefore there is a fierce competition to attract the interest of the “lay” spectators. Due to this competition for this customer segment, the television broadcasting of a sports program has changed from simple documentary pole towards a more entertaining and dramatic character.

The net income on player transfers can be an important revenue source of the football companies. But it is not only influenced by internal factors<sup>14</sup> of the football company, but external<sup>15</sup> ones also.

*2.3.5. Researches in the field of Football Economics*

Investigations of the questions regarding the economics of football belong typically to the researches of economies of sectors. Their scientific importance lies in investigations raising sectorial characteristics, which can not be defined by other paradigms. The goal of this chapter is to give a brief insight into international and Hungarian researches, which are used and which correspond the approach represented in this dissertation.

The traditional levels of economic analysis can all be found even in researches analysing the football industry. Macroeconomic researches investigate primary the economic significance of football, its contribution to the gross national product and employment and level of required participation of the state. Analysis of World Cup’s and European Championships’ impact on the economy belong to this level, too. Meso-economic researches deal with the economics of the football leagues and studies describing the mechanism of the players-market. The microeconomics of football focuses on the demand football faces, on the characteristics of the products and services in football and on the operations of football clubs.

The empirical research of the dissertation belongs to the micro level analysis. However due to its case-study-like and modelling character, it represent a novelty in this field.

*Table 2.3. The main fields of researches in the football economics*

Fields of Researches	Levels of Researches		
	Micro	Meso	Macro
Football	<ul style="list-style-type: none"> <li>▪ Characteristics of services,</li> <li>▪ Research of the demand,</li> <li>▪ Operations of football clubs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Football leagues,</li> <li>▪ Characteristics of the labour market,</li> <li>▪ Cartel issues.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Participation of the State,</li> <li>▪ European Championships and World Cups</li> </ul>

<sup>14</sup> Grass root development program and the convenient selecting system at the football company, the position of the club (size, geographical location).

<sup>15</sup> The successfulness and recognition of a given country: the level of its championships, the results of the national side.



England was first in Western Europe to realise and start to exploit the commercial opportunities offered by football. Therefore, it is no surprise, that England possesses the largest literature of football economics and biggest number of studies investigating the business issues of football.

Researches are conducted in both the academic and in consulting spheres. Especially, the importance of the Football Research Unit of the University of Liverpool<sup>16</sup> should be stressed within the academic sphere in this respect.

In the consulting sphere, Deloitte & Touche published already the 12<sup>th</sup> edition its comprehensive analysis about professional football of England, in July 2003. The thematic analysis deals with four main fields: the profitability of football (basically on the level of operating profits and net profits before taxation), players related expenses (salaries and transfer fees), the facilities and the ways of founding the clubs.

Deloitte & Touche published studies about football in other countries (Italy, Denmark) too, with similar structure like in the research of English football. Beside these, other auditing companies (PricewaterhouseCoopers, Arthur Andersen, for example) also issued studies with similar points of view.

The work of Conn (1997) was one of the first books describing the business aspects of football, where he criticises commercialisation of football with a rather conservative approach. He reviews this commercialisation mainly as a historical process through the examples of the greatest English clubs (Manchester United, Newcastle United, Everton, etc.).

Szymanski and Kuypers (1999) puts emphasis on two main fields in their work. First, on the duality of competition and co-operation, what is (also) present in football, as clubs fighting fierce battles on the pitch, but are forced to co-operate with each other off the pitch to be able to operate in a more efficient way. Secondly, they used economic-statistical tools to discover correlation between the sporting success achieved and financial figures (especially revenues and labour costs) of the club.

Dobson and Goddard (2001) present the business structure of football with a detailed analysis of the characteristics of football's labour-market and the factors influencing the audience.

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<sup>16</sup> Director of the research centre: Dr. Rogan Taylor.

They give a special significance to the role of the manager<sup>17</sup> in English football and they investigate the impact of sacking managers on the success or failure of the team on the pitch.

Not only in Britain, but in Germany also, there are important consulting firms researching professional football. The German consultant SPORT+MARKT AG<sup>18</sup> conducts its own research<sup>19</sup> concerning the highest tier football of the BigFive countries (England, Spain, Italy, Germany and France). This project was extended to the Hungarian football, among others.

The University of Economics and Public Administration (BUESPA, formerly University of Economics) is one of the centres of sport economic researches in Hungary, where such researches have been conducted since the beginning of the 1990s<sup>i</sup>. The scientific works of the members of this workshop<sup>ii</sup> and of the participating students are unique in Hungary.

Investigation regarding operation of clubs was the core element of a big part of the Hungarian researches. Typically, these football economic researches are approached functionally. András (1996) used the example of football to survey the finances of Hungarian sports on the level both clubs and federations.

Dénes (1998) researched the factors of the demand towards football and explained service-management through the example of football. Misovicz dedicated his earlier works (Misovicz, 1994) to sports sociology, and the later (Misovicz, 1997) ones to relationship of sports and media. In her works, Kassay (1998) focuses on issues concerning marketing and media in football, like for example on sponsorship and on possibilities of football's sale towards companies. Seprényi (1998) investigated the factors influencing the value of football companies through the example of the English and Danish football. Kozma (2000) used similar principles to describe the relation between the attitudes of financial investors and the operations of football clubs using English football as example.

Rohony (2000/a) used the aspect of finances, too, when he investigated the techniques of financing football clubs on financial markets. As a result, he determined scales of profit and risk in professional football through the exchange rates of stocks. Urbán took a closer look

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<sup>17</sup> The term “manager” in British football has a broader significance than “coach” on the continent. The English manager performs the duties of the a head-coach, but at the same time, he is partly responsible for and has an influence on the business operations of his club, as well.

<sup>18</sup> [www.sportundmarkt.de](http://www.sportundmarkt.de)

<sup>19</sup> Football Monitor, [www.sportundmarkt.de](http://www.sportundmarkt.de)

(for example Urban, 2000) at the characteristics of the spectators of domestic football matches in various studies.

Szabados (2002) used the Balanced Scorecard to interpret the strategic management methods of Hungarian professional football companies. In his work, he identified strategic types as a result of the description of the operation of these companies. Nikl (2003) investigated the operation of the domestic game at the level of leagues, using studies and data supplied by the Hungarian Football League.

The Research Centres of Sports Management on the Faculty of Business Economics of the University of Economics and Public Administration started to investigate the relationship between football and business in the second half of the 1990s. First, within the frame of a conference<sup>iii</sup>, then in a research of the business elements of international football conducted in 1999-2000 and in another one in 2003, investigating the same issue in Hungarian football.

The research of international football<sup>20</sup> dealt mainly with questions of the human resources management and corporate finances. The description of the operations of the football companies running the Hungarian top divisional professional football teams was the goal of the research based on case-studies<sup>21</sup> in the summer of 2003.

Besides the researches, the members of the research centre also work on business consulting projects for the professional committee of the federation and for football companies involved in the highest division of Hungarian football. The research centre worked out the sponsorship strategy of the National Football Academy (national grass-root development program), too.

There were various projects on the University of Economics and Public Administration and on the University of Physical Education, that investigated football from the aspect of sociology. Hadas and Karády (1995) studied the links between football and social identity. Földesiné (1994) researched the on-site spectators of Hungarian football and dedicated long sections to football hooliganism (Szabó, 2003). Experts of this field, like Nyerges and Laki on the (former) University of Physical Education, investigated the questions of sports law and

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<sup>20</sup> Krisztina András was the directress of the project. The members of the Research Centre participated in it: Miklós Kozma, Zoltán Kynsburg and Ákos Rohony. Background studies were completed with the help of the economics students specialised on sports management: Judit Bolgár, Balázs Reich and Gábor Szabados.

sports management. The latest work was published by Nádori and Bátonyi (2003) discussing the expected effects of joining the EU on sports.

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<sup>21</sup> Krisztina András was the directress of the research and both former (Gábor Szabados, Balázs Reich, Attila Moncz) and current (András Brezovich, Kinga Horváth, Norbert Kreisz, Dániel Mayer) students of economics. The case-studies, the results of the research, will be published as lecture notes.

### **3. The markets of football**

Regarding the research of business operations, it is worth discussing, how could the active civil activity of football become an important field of business. At the beginning of this section, those products will be presented, which has made football and the football companies interesting from business point of view and so, created the bases of a business oriented operation. While investigating the core question, it will be of major importance, whether there has been or not a transition in this respect in the professional football in Hungary.

The further parts of the section are aimed to characterise the markets interpreted through the main revenue sources of the football companies. The description of the markets is done in the same structure, based on Chikán (1995). In every case, the following factors will be determined: the subject of the exchange, its main characteristics and main factors influencing the value of the product in broader sense (goods and services). I give a survey of the market players on the selling and buying side of every market and of the intermediates in between of them. The description of the markets of professional football concludes with the identification of the main factors influencing the market behaviour of the buyers and sellers. At the end of every section describing a market, I present the current trends of the given market.

As the conclusion of this subject, my aim is to reveal the links between the different markets and the trend of globalisation in football. The description of the markets of professional football underlines the connections in the background of the business operations. Without it or in situations different from the presented, the business bases of the operation could be questioned.

#### ***3.1. Values in football***

The value, as defined by Chikán (1997), is nothing else, than a product or service, for what the consumer is willing to pay, because it satisfies some customer's need. These services and products appear through a continuous development in football, creating this way the business bases of the operation of professional football companies. This development can be described in the best way through the presentation of how football has become a business.

### *3.1.1. The evolution of football to business<sup>22</sup>*

At the beginning, football did not mean business but an amateur game. A game, which was played for the own entertainment of the sportsmen, not for earnings, without any special economic interests.

The question is: why has the game become a business? According to Szymanski-Kypers (1999), the reason was the slashing competition. In the authors' opinion, the beginning of the process was started at the time of the foundation of the national sports federations, or rather the start of the first championships. The championships stimulated the clubs for evolution, which brought the good quality of the game. The consumer demand, the first condition of the appearance of business, has been created, so the size of the audience has increased at the games. The basic condition of the business is the consumer, for whom value should be given. The attendance of the audience forced the establishment of the appropriate conditions and facilities. The development of the proper background needed considerable capital, which was just partly covered by ticket sales<sup>iv</sup>.

Victory is the topmost vehicle of the maintenance of the consumer demand and to achieve it better players are needed. The victory became a priority over the pure amusement of the games. Since then, the clubs with heavy capital have been trying to attract the best players. At the beginning, they offered expense refunds, assistance at workplace, compensations of lost time, while nowadays, players are tempted by significant salaries. The professionalism of the athletes was obstructed in every country at first, so this kind of financial motivations were illegal. Later in different moments<sup>v</sup>, it became accepted and allowed. That created a subsequent factor of business value, the professional (non-amateur) football player and a special labour market has evolved creating a group of related stakeholders: agents, agencies and unions.

Sports, including football have become commercialised with the turnout of television becoming a mass medium and with the revolutionary changes (András, 2002) in the media sector.

The above described evolution of the processes strained the early non-profit organisational status and the process of transformation into legal companies has started in the football sector

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<sup>22</sup> The evolution of football to business is presented by several authors through England and the maturation of

(cf. subsection 2.1.). This causes a duality in the institutional system of football to this very day. The previous, membership-based non-profit organisations are substituted by the legal forms of companies or they are operating parallel with frequent frictions. This brings on the evolution of football clubs into sports enterprises and the appearance of leagues, as a union of the owners, beside football associations. The clubs started to employ further operative labour forces beyond the football players and started investments, that are expected to return in the future, carrying serious risks.

The business motivations of the media can be found in the conversion of the competition systems of sports<sup>vi</sup>. The creation of the conditions of a media-friendly sports service and the exploitation of the potential of the media business of the professional sports were the non-hidden objective of these changes. Subsequently, the financial gap between the elite and other teams, championships has deepened, threatening the operational ability of sports in the long run. Experts see the future European Super League as the next step of development.

After the revolutionary changes in the media, the milestone of the business conversion of European football was marked by the introduction of the Bosman-ruling (cf. subsections 3.3. and 4.4.), that allowed the liberalisation of the players market. At the same time with these processes, there were products with further values born in football.

### *3.1.2. Products with values in professional football*

The central products of professional sports, and of football as well, are the various sports events and programs nowadays. Considering their complexity, they differ from each other, and we can distinguish *single events* or *series of events*. There are examples for both types in football<sup>vii</sup>.

In case of both single and series events, there is a right-holder, who is typically the organiser of the given sports event, the who determines the competition system. The major rights he possesses are: 1) the broadcasting rights in television, radio, 2) sponsorship rights, 3) merchandising.

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the institutional system of English football. In Hungarian, see Rohony (2000/a, b).

The right-holders are typically non-profit organisations: national or international sports federations. They are not selling the rights by themselves, they practice their ownership rights through different sports agencies by issuing contractual assignments.

There should be built a brand behind the event in order to enable the business-oriented marketing of the sports event. According to Bayer (1997), building of a brand can be managed in the long run only and with difficulties in football, because it is very sensitive regarding the performance of service providers.

The value of the rights in football is driven by the consumer interest generated by a given event. The substantive driver of the business operation is the consumer on-site. The importance of the sports consumers on-site (audience, fans) is not only based on the amount of direct revenues related to them, but on the fact, that the rest of the stakeholders of the business model (media, corporate sphere) are relying on their presence and number. Therefore, all the factors are of great importance, which influence the demands of the customers on the football-consumer market. There are several authors dealing with the factors influencing the demand towards the passive sports. According to Dénes (1998/a), the demand of the passive end-consumers is driven mainly by the performance, the unpredictability of the outcome, the loyalty of the fans and the uniqueness of the event. If a given event is followed by a proper consumer attention and the sport itself is attractive for the media (András, 2002), it will attract the interest of the media, mainly the television. Therefore, monitoring the viewing figures<sup>viii</sup> on-site and via media (cf. subsection 3.2.) is the easiest way to capture the popularity of a sport.

The media is a kind of creator and securer of the value of the rights. It depends basically on the medium (television, radio, internet portal) and its model (commercial or public television) of operation, why a sport or an event could be interesting for the media, beyond the general media attractiveness of a sport.

Considering its unique significance, the dissertation focuses mainly on television among all the media. The explanation of the operating model of the television is substantial, because the business relation between sports and television can be motivated by different factors in the different cases. Another interesting question is, what is the value of the rights protected by. It raises the question, how can exclusivity be guaranteed – while keeping the right as a private good – to somebody, who purchases the right provisionally. It is important to declare, whether



it is allowed to a medium to broadcast a sports event without a valid license and without compensating the right owner, just because of the principle of the liberty of information<sup>ix</sup>.

### *3.1.3. The values of football enterprises and players*

The football enterprises and the players are in interesting status in the featured business operations of football. Football clubs are mainly legal companies operating teams, which are participating in different football events (cf. subsection 2.1.), while football players are the creators of the quality of the principle service.

The football enterprises have disposal over a part of their value-driving factors directly, and indirectly of the rest. The general examples of the direct factors are the rights related to the facility, the right of participation of a given championship, the commission of the necessary license of the participation, the ownership rights related to the contracted players and the goodwill of the company. These value-driving factors are engaged mainly with rights, that are not transferable in many cases, but still, they can be used as a cover and guarantee in other economic transactions<sup>x</sup>. We should consider, that the football enterprise has a direct impact on the evolution of the major part of the direct value driving factors.

The main indirect<sup>23</sup> value-driving factor is the broadcasting right on television, radio. The football enterprise has just an indirect impact on the development of this factor. This depends generally on the contract between the right holder and the television company. It determines also the principles of the allocation of the central revenues among the teams.

The football players as employees have their own value driving factors. The disposal over the players license and the personal image, goodwill are the most important ones. If a sports enterprise or an owner of a sports event wants to build a brand for the sake of marketing, there is a need for star players. Star players are the ones, who are able to represent a brand, to speak and behave in accordance with this. There were some incidents in Hungary, when a football player makes an offensive statement on his employer or the sports federation or its professional department referring to the right of free demonstration of mind in front of the media. The problem is in the aspect of business, that it is worsening the brand and the image decreasing the interest of the clients and consumers of football.

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<sup>23</sup> Of course, it can be considered as indirect, if the sales of the rights are running by the football federations or their official department centrally, and not by the football enterprises themselves.

### *3.1.4. The value driving factors of the operation of the football enterprises*

The sports performance on a proper standard is the major value-driving factor in football as a sports service. The most obvious index of the sports performance is the result achieved in a certain series of events. The sports performance influences the rest of the value driving factors in direct and indirect ways.

It has a direct impact on the consumer interest - representing the basics of business operation - by generating significant revenues from tickets and season tickets sales. Beyond this, a huge return can be expected from the organiser of the event achieving a given place. It effects indirectly the fees of broadcasting rights, as better results may increase the interest of the media. Parallel with these, the presence of the media is making the football company more valuable for companies approaching it with marketing objectives.

The strength of players, the circle of star players, the style of its football could be value driving factors related to the sports performance of a football company.

The nature of the image of a club or the national football sport is an important value-driving factor. Football as a service activity has non-material character, so the role of the image is considerably bigger regarding the orientation of the audience and their decisions, then in the case of usual material production. So, the conscious development of the image is a precondition of the market success for every football company. The elements of the image of football include the characteristics of the composition of the consumers, the culture of the football company, the look and the behaviour of the players and the employees. András – Kozma – Kynsburg (2000) underline three major factors influencing the image of football nowadays: the globalisation, the diversification and the question of the safety of fans, which is raised by the scandals related to football.

It is worth to emphasise, that the base of the existence of business elements is assured by the generation and reservation of the consumer interest. This generates the revenues from the viewers on-site (ticket-, season ticket sales, local consumption) and from the merchandising. It attracts the attention of local sponsors and media; furthermore the presence of media guarantees the interest of national and international sponsorship. At the same time, the events at the level of the football company and the sports federation have an impact of its development.

### 3.2. The consumer market of professional football

The objective of the following section is to overview the market of the football-consumers, who are following this sport on-site or via media, and the major characteristics of this market.

Table 3.1. The consumers market of the professional football

<b>Product (subject of trade)</b>	the opportunity of watching a football event or competition
<b>Main characteristic of the subject of trade</b>	the experience and entertainment connected to it.
<b>Value drivers</b>	<ul style="list-style-type: none"> <li>– the quality of sports performance,</li> <li>– on-site: complementary services, standard of the facility, characteristics of the spectators on-site,</li> <li>– via media: services connected to transmission (background conversations, analysis)</li> </ul>
<b>Market-players:</b>	
– Seller	– sports suppliers
– Buyer	– sports consumers: on-site (spectators, fans) or via media (media consumers)
– Mediator	– media for the media consumers
<b>Influencing factors of the behaviour on the market</b>	– the direct and indirect costs of viewing

Source: András, based on Chikán (1995)

Watching a football game is a passive way of sports. People pay for watching others playing sports. The watched sports activity is played by professional athletes and the given service contains complementary services beyond the basic or core services (András, 2002).

The subject of trade is a way of spending spare-time, where the requisition of the service is generally related to entertainment and experience. Beyond that, the value of the product is determined by the quality of the marketing channel. First of all, it depends on the possibilities of the facility concerning the consumption of the services on-site. In the case of consumption via media, it depends on the media as a transforming factor.

In this case, The football-game and the related entertainment, excitement is the core of the sports service, whose value is mainly driven by the quality of sports performance<sup>24</sup>. This way, the product of the basic service is an incomprehensible, empirical and subjective experience. Furthermore, it is characterised by the simultaneity of the production and the consumption of

<sup>24</sup> The author does not consider the examination sports professional questions (technical, tactical, physiological, etc.) as part of this dissertation.

the service. Although, the media is able to extend the life-span of the service (video-reports, commentaries in newspapers), the primary product slips away.

Two groups of the consumer market of professional football can be distinguished. The consumers on-site buy tickets or season-tickets to live the experience connected to a sports event straight at the venue. For the media consumers the entertainment is broadcast by a medium, mainly by television, which, as pointed out by Misovicz (1997), transforms it by providing added values for television viewers. With the opportunity of consumption via media, the consumers have changed as well. Previously, the majority of the audience of the sports events were people, who played the observed sports themselves. But the size of the „expert” spectators is far less than the size of the necessary audience to enable sports (like football among others) and media to grow. The target was to captivate the lay spectators and the competition for them has changed the sports programs as well. The simple, objective and representative style was taken over by the ones with entertaining, dramatic nature.

The consumer demands for football was surveyed by many researchers<sup>xi</sup>. According to Dénes<sup>xii</sup> (1998/a), the four major characteristics of the end consumer demand for football as a service are the following:

- The quality of the performance of the team,
- The insecurity of the outcome,
- The loyalty of the fans and
- the uniqueness of the games.

The standard vehicle of the quality of the game is defined by the skills and qualification of the football players. The characteristic of the service is, that its requisition is public, happens in other people’s company. The private amusement can be strengthened or weakened by other people’s amusement. In our days, the phenomenon of football-hooligans is still unsolved in many places. It causes a lot of huge and measurable losses directly or indirectly to the business operation of football. A main aspect of the categorisation of consumers both on-site and via media is their demographic composition. Since the basic service is generated by human beings, the service itself is inconsistent and variable. The product can be modified and affected by many factors: weather, injuries, reaction of the spectators, current performance. All these factors influence the rate of satisfaction and identification of the spectators.

Beyond the mentioned factors, the number of the consumers on-site is limited by the capacity of the facility, as well. In addition, the setting of the ticket prices and the behaviour of other spectators effect the consumer's decision, too.

Sirgy (1982) says, that the intense personal identification is a speciality of the sports consumers, and as a consequence, consumers find the observed activity a simple one and easy-to-cultivate.

In case of categorisation of the sports consumers, we can follow up the classical segmenting factors of marketing-management, based on Kotler (1988). During the study of the business elements of football, some substantive aspects can be captivated from these. In the case of consumers both on the-site and via media, the relative size<sup>25</sup> of the audience generated from the viewing figures, the frequency of the consumption and the composition of the audience is relevant for the business world. Beyond the pure viewing figures, the characteristic of the composition of the audience, like gender, age, social status, level of income, is much more significant for the advertisers, sponsors.

The A.T. Kearney consulting company conducted a research among the enquirers of passive sports. The result of the survey is summarised in the table below:

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<sup>25</sup> This could be measured by the exploitation of the stadium in case of the spectators on-site, while in case of media consumers it can be done with the quote of the different media ratings numbers.

Table 3.2. Products, services and sports consumers

(scale 1-5, 5 is the highest value)

	Established sports consumers			New sports consumers		
	Sports fanatic	Club/Team -loyalist	Social viewer	Casual viewer	Star-struck spectator	Sports indifferent
<b>Products and services</b>						
Event-based content	5	5	3	3	4	2
Team-based content	3	5	2	1	3	1
Merchandise	4	5	3*	3*	3	1
Sportainment / interactivity	3	3	3*	3*	5*	1
Affiliated products	3	4	2	2	3	1
Community / event	5	5	4*	4*	3	1
<b>Key enablers</b>						
Brand	3	3	4*	3*	3	1
Technology	5	4	3	3	3	1

\* Opportunity to reach new consumers

Source: A.T. Kearney (2003)

Analyses demonstrate, the football game can generate extremely high ratings on television. The main indices used in the analyses. The age group of 18-49 is the most valuable target group from marketing angle, whose ratings used to be analysed separately.

The service providers of professional football are typically legal companies, nowadays. Operation of the football team and organisation of events are usually included among their main objectives in their corporate agreements. The basic function is the administration of the basic service, that requires to provide the background of a self-maintaining operation.

The costs of viewing are the main behaviour influencing factors. A part of these is related to the attendance of the event directly. The purchase of the ticket or season ticket is the main expense related to the core service for the consumers on-site. In case of consumers via media, this same factor depends on the type of the television channel, that acquired the rights to broadcast the event. When the broadcaster is a public television company, the subscription represents the cost. This same expense could be much more significant at cable channels. The highest price is applied by pay-per-view channels, though. At the same time there are other additional expenses of the attendance of an event on-site. Transport to the venue, parking, local consumption, the alternative cost of the time not spent with work - all of these mean the indirect costs of viewing a sports event.

### ***3.3. The players market of professional football***

The players market is a special labour market, where basically a personal right with special value of property is the subject of the agreement: the disposition about the playing licence for a given period. This right with value of property is very closely linked to the person of the player and includes all his abilities, both physical and mental, related to his sporting activities. Therefore, it is not transferable or vendible, but like a licence-agreement, the disposition about the playing licence is transferable. After the conclusion of the contract, the right of the disposition falls back to the athlete. During the term of a contract, the football company can transfer the right of disposition temporally or definitely to another sports company under the condition the player agrees with it. In this case, the releasing company may require a compensation called transfer-fee.

The ownership of his own playing right provides the player with an additional revenue force to his salary, what is the signing bonus. Nowadays, at the time of transferring the disposal of his playing licence to the football company of his club, the player transfers the right of using his image rights (i.e. in merchandising) – typically for extra compensation – as well. Questions concerning insurances form an important part of player contracts, as injuries and accidents can cause severe losses to both parties.

There are countries (like Germany), where players need to sign an agreement not only with their clubs, but with the national federations also to get a professional licence, that gives them professional status and authorises them to participate at competitions staged by the federation. In this case, the player accepts all the regulations of the given federation. In all other cases, the player has an indirect legal relation to regulations, as he has an agreement with his club only, but that obliges him to accept and respect the regulations of the national and international federations.

Table 3.3. Summary of the main characteristics of the players market

<b>Product (subject of trade)</b>	the transfer of the disposal about players playing licence
<b>Main characteristic of the subject of trade</b>	double deal: labour recruiting and acquisition of a value of property
<b>Value drivers</b>	<ul style="list-style-type: none"> <li>– pre-determined characters of the player (physical, mental, social),</li> <li>– current contract (buy-out clause, length of contract)</li> <li>– added characteristics</li> </ul>
<b>Market-players:</b>	<ul style="list-style-type: none"> <li>- 1) If contract expired: the professional player as an athlete, a person; 2) If contract is running: releasing football company.</li> <li>- Signing football company.</li> <li>- Player agents, managers, scouts.</li> </ul>
– Seller	
– Buyer	
– Mediator	
<b>Influencing factors of the behaviour on the market</b>	- transfer fee

Source: András, based on Chikán (1995)

There is a theoretical characteristic of the subject of trade: the player does not sell the his right completely. But it is even more important, that the signing of a player can be considered as a double transaction from the buying club's point of view. It means labour force recruitment and also an investment in a value of property, what can be used in various different ways (i.e. giving on loan, selling and using for marketing purposes).

Kozma and Kynsburg (2000) determined the factors enabling the player to maximise his market value. A branch of these factors are pre-determined, others are added characteristics. Pre-determined factors are advantages and disadvantages originating from "brought-along" physical (i.e. body-shape, skill, presence), mental (i.e. intelligence, playing intelligence, personality) and social (i.e. nationality, ethnic origin, family background) characteristics.

The authors point out, that additional learnable, acquirable characteristics are needed beside the original ones. Therefore, players need to be specially educated and their abilities need to be consciously trained. But existing intellectual abilities, the willingness and capability of learning are pre-conditions for such developments.

An athlete, who performs and makes decisions watched by millions, who enjoys great successes and suffers terrible failures publicly, and whose manners and behaviour are imitated by a big crowd of youngsters, must possess the following values: maturity, self-esteem, responsibility and humble.



The pre-determined and acquired characteristics together determine the PR and media attractiveness of the athlete, what is influenced by his look, style, manner of speaking and behaviour, among others. All these details define how the athlete can be marketed towards the media and through it, towards sponsors.

The trade of players are helped by the work of (mainly) licensed agents, who act as a kind of middlemen<sup>xiii</sup>.

Let us take a closer view at the specialities of this market regarding the operations of football companies! First of all, the players market is limited in its time-span, is opened twice a year, during the summer<sup>xiv</sup> and the winter. International rules allow a player to be signed by a club, if he has not found any clubs through no fault of his own during the transfer window. Secondly, the football player hiding behind the market good is a special labour force with the following characteristics:

- The longevity of a professional football career is limited;
- Regulations regarding player contracts depend on the age of the athlete<sup>26</sup>;
- Stars are hardly substitutable, exceptional labour forces;
- During the span of a running contract, there is a fee to be paid in the case the player wants to leave;
- Empirical, regressive analysis show, that best championships results can be reached with a squad, which is built for a longer term (Szymanski – Kuypers, 1999);
- Special job: the subject of the labour contract is difficult to describe;
- Special working times<sup>xv</sup>.

There is a labour contract between player and sports organisation in compliance with the regulations of FIFA and UEFA. However, the current Hungarian law (Sports Law) – deferring from FIFA guidelines – allows football professional to be paid as private entrepreneurs. The player market movement of a player with valid contract between two sports organisations is called a transfer. In most of the cases<sup>27</sup>, the signing football company pays a transfer fee as a compensation to the releasing one.

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<sup>26</sup> I.e., a player under 18 is allowed to sign a professional contract up to three years and with the signature of his legal representative only; players above 18 may sign a professional contract for the maximum of five years in Hungary.

<sup>27</sup> Except for cases, where the contract between player and sports organisation includes a clause, that club renounces any transfer fees.

The appearance of the transfer fee<sup>xvi</sup> - one of the specialities of the market – can be explained by two reasons. First, clubs (typically, still operating as social clubs) focusing on player development can be compensated by it. Secondly, even bigger sports companies can consider the trade of players as a lucrative investment due to the transfer fees. That draws the attention to another speciality: signing a player is not only the recruitment of a labour force, but it can be the form of a serious investment decision.

*Table 3.4. Most expensive transfers of all times*

(million GBP)

	<b>Name of Player</b>	<b>Released by</b>	<b>Signed by</b>	<b>Amount</b>	<b>Year</b>
1.	Zinedine Zidane	Juventus	Real Madrid	45,6	2001
2.	Luis Figo	Barcelona	Real Madrid	37	2000
3.	Hernan Crespo	Parma	Lazio	35,5	2000
4.	Gianluigi Buffon	Parma	Juventus	32,6	2001
5.	Christian Vieri	Lazio	Internazionale	32	1999
6.	Rio Ferdinand	Leeds United	Manchester United	29,1	2002
7.	Gaizka Mendieta	Valencia	Lazio	29	2001
8.	Ronaldo	Internazionale	Real Madrid	28,5	2002
9.	Juan Verón	Lazio	Manchester United	28,1	2001
10.	Rui Costa	Fiorentina	AC Milan	28	2001
...30.	David Beckham	Manchester United	Real Madrid	17,2	2003

*Source: Sportbusiness.com*

The figures indicate a trend, that even in the case of star players, there is a decrease in the transfer fees. David Beckham's blockbuster transfer to Real Madrid in 2003 occupies the position 30 only on the list. This phenomenon can be explained also by the operations adjusted to the revenues nowadays.

Due to the schedules of football events, football players can be regularly employed on weekends, outside normal "business hours". Professional athletes can sign contracts for determined periods only. Possessing a valid professional player licence issued by the responsible federation and being registered by the federation are conditions a player has to fulfil to be allowed to get into contractual labour relation.

As a players market speciality, players can be delegated to other organisations. It can only happen in consent with player himself and has two forms. First, it can happen, when a player gets invited into the national selection and secondly when his club gives him on loan to an other sports organisation.

The survival of the sports is guaranteed by grass-root player development programs and by education of officials and coaches. The return on investment into the development of the nursing clubs is supported by a clause of FIFA's transfer regulation – approved by the EU – that secures a compensation to every club, which has developed players under their age of 23, who were transferred internationally.

As players market is a specially regulated market, it is worth taking a closer look at the main regulations influencing its mechanism.

Professional football confronted with the four basic principles of the European integration, especially with the EU norms of the freedom persons and employees. But the old practice, that clubs required a compensation – as development and supporting fees – even for players, whose contract has terminated became a part of the past after the Bosman-ruling. The ruling issued on December 15, 1995 says, that if a player with terminated contract transfers from one EU-member country to an other, there can be no compensation fee required. Still, the Bosman-ruling (c.f. subsection 4.4.) has not cancelled transfer fees either, but distinguishes between EU and non-EU countries. But UEFA has the right to apply its own regulations concerning player development and education compensations between national federations.

Furthermore, this ruling changed the former rule<sup>xvii</sup>, that football clubs playing matches sanctioned by their federation were allowed just a limited number of foreign players.

Creating rules accepted by all member federations (valid in all countries) is one of the main duties of international sports associations. However, UEFA, the European confederation is allowed to have its own regulations in some fields (I.e. in questions regarding development and education compensations between national federation).

The main international principles of the game are laid down in FIFA's regulations regarding the status and transfer of players. Among others, FIFA defines amateur and non-amateur player statuses, discusses the questions of international transfers, player eligibility, protection of under-aged, player development compensations, maintenance of the stability of contracts, mechanism of solidarity, regaining of amateur status, retirement, availability of players for national squads and solutions of disputes.

Regarding the needs of the market, it should to be emphasised, that FIFA makes efforts to achieve a common transfer window in all of his confederations, but putting it into effect is a very complicated task.

The European transfer window – following UEFA’s proposal for its adjustment – is open twice<sup>28</sup> a year. During the span of one season (12 months), a player can change club once only. A player can be signed outside the periods of the transfer window just in special cases, what needs a conciliation between the club, the national federation and FIFA. If, for example, a club causes breeches in its contract with the player, the player (if he is innocent in the situation) must have the right to be allowed to find a club even outside the transfer window, in accordance with FIFA Bulletin 801 (March 28, 2002).

Reich – Szabados (2000) categorised countries on the basis of their role on the European players market of football. The transfer balance (The difference of transfer revenues and transfer expenditures) and the transfer volume<sup>29</sup> are the dimensions of the categorisation. If the transfer has a positive balance, then the given country is a net seller, while in case of a negative transfer balance, the country plays a net buyer role. The following table shows the result of their research.

*Table 3.5. Comparison of the transfer balances and transfer volumes in the BigFive countries*  
(thousand GBP)

Country	Year of Data	Transfer Balance	Transfer Volume
England	1998	-77 159	132 420
Germany*	1999	-22 470	56 176
Italy	1997	+69 070	48 453
France	1997	-5 400	n.a

\*In case of Germany, aggregated data were available of transfer costs only. Revenues are estimated<sup>30</sup>.

Source: *András – Kozma – Kynsburg – Rohony (2000), p.164*

Based on the data above, the BigFive are categorised as following along the two dimensions:

<sup>28</sup> Generally, the two periods to make possible changes (due to enforcement, replacement of injured, etc.) in the squads of teams are: during summer (after the end of the season) and in January.

<sup>29</sup> Shows the importance of the clubs of the given country on the international players market. The transfer volume was calculated as the average of the gross transfer revenues and transfer costs.

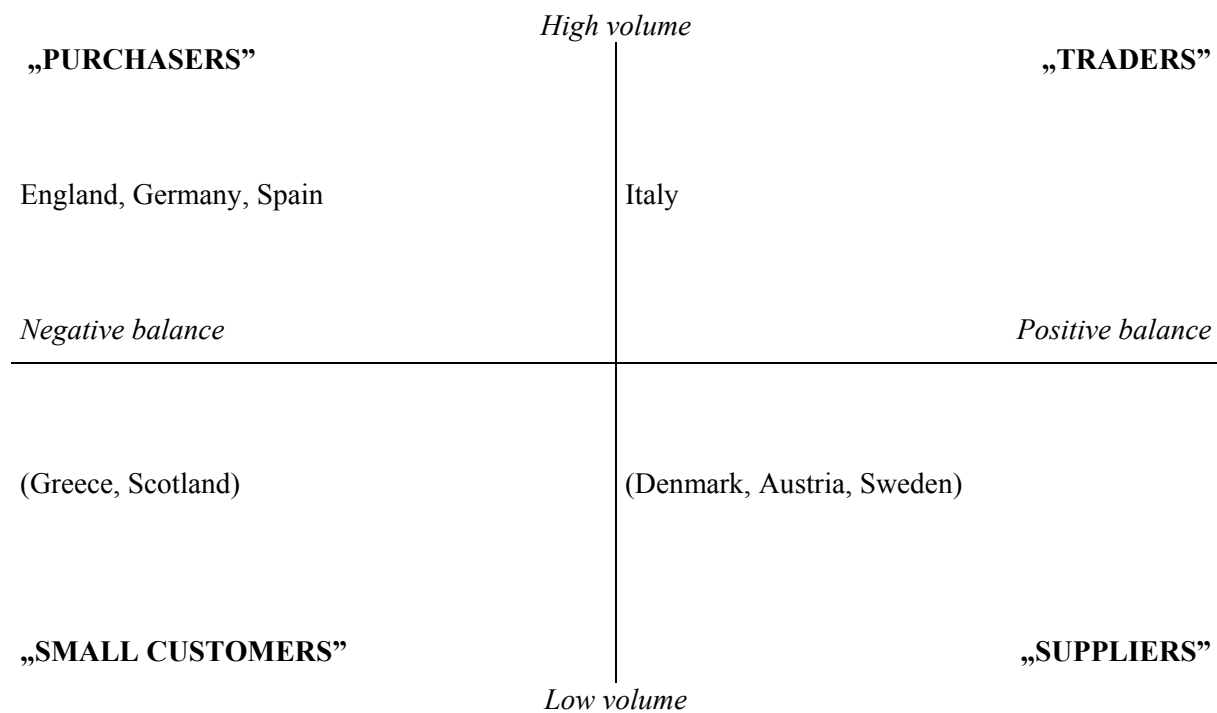
<sup>30</sup> The estimation was made using the average amount of the known transfers and the number of total transactions.

Table 3.6. Categorisation of the BigFive countries based on transfer balances and transfer volumes

Country	Transfer Balance	Transfer Volume
England	Negative	HIGH
Germany	Negative	HIGH
Italy	POSITIVE	HIGH
France	Negative	HIGH

Source: András – Kozma – Kynsburg – Rohony (2000), p.165

Chart 3.1. Categorisation of countries in the European transfer market (Szabados-Reichmatrix)



Source: András – Kozma – Kynsburg – Rohony (2000), p.165

Higher quality game presumes higher transfer volumes. The top countries regarding sporting results and economical strength of their clubs can choose from the broadest range of talented players. Their activity on the players market confirms that. The connection can be interpreted in the opposite way, too: a country with high transfer volume has presumably a high quality football game.

The investigation of the question, whether there are trends in player movements between countries on the players market of football, present interesting results. The authors of the

research Business elements of football investigated three countries in detail: Italy, England and Germany (András – Kozma – Kynsburg – Rohony, 2000).

*Table 3.7. Proportion of professional football players according to their nationality*

(percentages)

	<b>Local</b>	<b>EU</b>	<b>Eastern-European</b>	<b>Other European</b>	<b>South American</b>	<b>Other</b>	<b>Total</b>
Italy	77,60	10,80	2,80	1,60	5,60	1,60	100,00
England	33,82	50,00	2,95	4,41	4,41	4,41	100,00
Germany	65,40	15,73	7,55	3,76	5,67	1,89	100,00

*Source: András – Kozma – Kynsburg – Rohony (2000), p.172*

Italy and England are the two contrary poles: While Italian clubs buy the two third of their players from the local market, just one third of the active professionals are signed from English clubs in England. Germany represents a middle way between the two extremes.

There is no significant difference between Italy and Germany in the share of non-EU players in their top divisions<sup>31</sup>. The situation after the Bosman-ruling helps to explain the relatively high proportion of non-EU players, as the ruling reduced the obstacles of their signings.

*Table 3.8. The proportion of EU and non-EU players*

(percentages)

	<b>EU</b>	<b>Non-EU</b>	<b>Total</b>
Italy	48,21	51,79	100,00
England	75,55	24,45	100,00
Germany	45,45	54,55	100,00

*Source: András – Kozma – Kynsburg – Rohony (2000), p.172*

However, there is a strong tendency favouring players from EU countries in England<sup>xviii</sup>. No other countries have such strict regulations as the English, therefore those other countries can enjoy the advantage of signing players from the cheaper markets outside the EU in a larger scale. As the table show, there are almost the same number of players from EU and non-EU countries in Italy and Germany.

<sup>31</sup> Germany leads the other countries slightly.

Table 3.9. The proportion of non-EU players by regions

(percentages)

	<b>Eastern European</b>	<b>Other European</b>	<b>South American</b>	<b>Others</b>	<b>Total</b>
Italy	24,14	13,79	48,28	13,79	100,00
England	18,19	27,27	27,27	27,27	100,00
Germany	40,00	20,00	30,00	10,00	100,00

Source: András – Kozma – Kynsburg – Rohony (2000), p.173

The majority of non-EU players come from South America in Italy, while Eastern Europeans have the strongest presence in Germany.

Most of the English clubs reduced their transfer budget significantly in 2003<sup>32</sup>. Expenditures on player transfers were by more than 20% lower than in the season before. Clubs invested gross 323 million GBP in players after the 2001/2002 season, but they spent only 250 million this year. 215 million (from the total 250 million GBP) was spent during the summer transfer window. The Premiership clubs paid for players about 95 million GBP to overseas and about 40 million GBP to lower division English clubs (Deloitte & Touche, 2003).

Horváth (2000) describes the self-regulation of Hungarian players market as inconsistent, as it ignores both Hungarian laws and international regulations. The transfer period during the season is suggested to be used for adjustments and the summer window for the building and enforcing the team. Transfer fees are kept as secrets in Hungary. During the summer of 2003, the number of the top-division players decreased in Hungary. 102 players left their clubs and only 97 new ones were signed to replace them. The number of foreign players saw a decrease, as well<sup>33</sup>.

<sup>32</sup> Chelsea represented the exemption. The new investor Roman Abramovich spent 111 million GBP on signing new players. It means, that Chelsea alone accounted the half of the total amount circulated on the players market in England during the summer of 2003 (Deloitte & Touche, 2003).

<sup>33</sup> The most intense player movements were registered at Újpest and Videoton with 22 changes in the roster. Győr was left by the most players and by the most foreign players.

Table 3.10. Figures of the transfer period in summer of 2003

	<b>Left</b>	<b>Arrived</b>
Győr	13 (4)	8 (3)
Videoton	11 (2)	11 (5)
MTK	10 (2)	11 (1)
Debrecen	10 (2)	6 (-)
FTC	9 (3)	3 (1)
<b>Total</b>	<b>106 (23)</b>	<b>97 (17)</b>

Number of foreign players in brackets

Source: *Világgazdaság*, September 18, 2003, p.12

### 3.4. The market of broadcasting rights of professional football

The economic impact of sporting events with considerable public interest created the market of broadcasting rights both nationally and internationally. The possibility of transmitting sports events and series of events represent the product on this market. Under the term of transmissions I mean basically television transmissions in this chapter.

By now, these broadcasting opportunities make up the most important part of immaterial goods related to the sports industry. Essentially it means, that a broadcaster is allowed to transmit a sports event, that is accessible only for spectators possessing an entry-ticket on-site.

Sárközy (2002/a) considers the right to allow a transmission to be a right with value of property, an untransferable right with personal nature, that is unsellable and can not be the subject of trade. However, the right-owner may entitle a broadcaster with right of the usage of the broadcasting right through a licence-like contract. This way, it will be the broadcaster, who markets the broadcasting right. Uniqueness and irreproducibility are the main characteristic of the subject of trade representing a practical, commercial value. The value of this right is determined basically by the popularity and media attractiveness<sup>34</sup> of the given sports.

The right-owners of the events are the ones on the supply side of the market of broadcasting rights. However, it is not always clear, who the owner of broadcasting right is. In the case of

<sup>34</sup> Media attractiveness (András, 2002) is determined by the following five factors together: adequate competition format, simple rules, spectacle, possibility of transmissions without special expertise and equipment, high level of public interest.



international events, the international federations, as set down in their constitution and as they are entitled by the member federations to do so, dispose about the right to sign contracts with television companies themselves, usually in packages and on the basis of exclusivity. This revenues will be redistributed to the member federations as laid down in the resolutions of the international federations. The right-owners of the events are usually the organisations sanctioning them<sup>35</sup>. The rights of the championships of Western European countries are in the hands of the sports federations (i.e. in France) or the federations include in their constitutions to be entitled to dispose about contracts concerning the whole championship or obtain the rights from the member clubs to do so.

There are examples of both central (i.e. the English, Dutch, German and French championships) and individual (i.e. Italian and Spanish championship) marketing of these rights in football. When clubs dispose about the broadcasting rights, the formation of cartels is a common practice. Contracts can be exclusive ones or signed with more television companies. Packages usually include not only live, but repeated transmissions and highlights. The selection of the broadcast matches can be made by the television company or the federation. Hungarian football is stuck in a special situation.

The Hungarian Football Association imported the broadcasting rights of professional football into a company, the “Football Duo Kft.”. By doing so, it lost its opportunity to dispose about the rights directly.

In the case of centralised sales, the revenue generated from the broadcasting rights is handled by the federation or its professional department (league) following the resolution of the general meeting of its members. Most of the revenue is redistributed to the member clubs via different principles<sup>36</sup> and the rest remains at the federation’s disposal to fund grass-root development programs, lower division teams, the national side or to cover administrative expenditures.

It is a common practice even on this market, that the right-owners do not negotiate the deals by themselves, but work with special sports agencies. Federations usually get in contractual relationships with television companies through media and marketing agencies.

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<sup>35</sup> There are other problems in the identification of right-owners: 1) In the case of individual sports, 2) In team sports, when the competition is sanctioned by a federation, but the participating teams are operated by sports companies.

<sup>36</sup> Equal or mixed system.

The television broadcasters – trying to obtain exclusivity – represent the demand side of the broadcasting right market. There are three main reasons, that explain the profitability<sup>xix</sup> of sports transmissions. 1) Sports transmissions are among the most popular television programs; 2) Big sporting events are able to enforce the market position of a television company; 3) Advertisement revenues generated during sports transmissions are important revenue sources for television companies<sup>37</sup>. The exclusive broadcasting rights of the Champions League for Hungary was won by the commercial channel Viasat3 for the period between 2003 and 2006. More than 700.000 viewer watched the first two transmitted matches (September 16-17, 2003) in prime evening time. On September 16, Viasat3 had a market share of 10,8% among the target group of 18-49 years old men and the audience of the late night highlights did not decrease compared to the live coverage either and remained over 10%. Above all, the figures remained high even during the week after the Champions League matches, showing that the purchase of its broadcasting rights generates higher market share for the channel, in deed.

*Table 3.11. The market of broadcasting rights of professional football*

<b>Product (subject of trade)</b>	the possibility to broadcast a sports event or a series of events
<b>Main characteristic of the subject of trade</b>	irreproducible
<b>Value drivers</b>	<ul style="list-style-type: none"> <li>– the popularity of the given sports (high number of spectators, favourable opportunities in marketing),</li> <li>– the media attractiveness of the given sports</li> </ul>
<b>Market-players:</b>	
– Seller	– right-owners, indirect right-owners (i.e. leagues)
– Buyer	– broadcaster
– Mediator	– agencies
<b>Influencing factors of the behaviour on the market</b>	– the price of the broadcasting right

*Source: András, based on Chikán (1995)*

The price agreed by the two sides is the main factor influencing behaviours on the market. That is determined by the supply and demand, what is influenced by the structural characteristics of the market. Bourg (2000) researched in his business analysis, how different market structures and concrete occurrences influenced the prices of the broadcasting right market.

<sup>37</sup> Newest statistical data show, that 44,6% of advertising monies are spent in television among all types of media. This estimated advertisement revenue reached 45 billion HUF during the period between January and September 2003 (HVG, November 15, 2003, p.6).

Table 3.12. The development of prices of broadcasting rights in different market structures

Market Structure	Event	Players on the supply side	Players on the demand side	Price of broadcasting right
Supply monopoly	Sydney Olympic Games, 2000	IOC	ABC, CBS, FOX, NBC, ESPN, TBS, CNN Sports, HBO, Showtime, Direct TV, Newport	1332 million USD
	Football World Cup, 2002	FIFA	ABC, Câble TV, UER (EBU), Team, Kirch, IMG-UFA, CWL	890 million USD*
Demand monopoly	French Football League, 1973/74	Professional clubs	ORTF	88,950 thousand USD**

\* without USA, \*\* 0,50 million FFR, the currency exchange rates are based on the currency converter program at [www.oanda.com/convert/classic](http://www.oanda.com/convert/classic) website.

Source: András<sup>38</sup> based on Stackelberg (1951) and Bourg (2000)

Bourg (2000) suggests, that the number of players on the demand side is significant regarding the agreed broadcasting price. There are sports events, where the market of broadcasting rights is characterised by oversupply. In these cases, the price of the broadcasting rights is determined by bargaining.

Not only the structure of the market, but the high number of television channels also influence the price of the broadcasting rights. The television market is a very competitive one with a fierce competition for the timeshare of customers' leisure time spent by watching television. This time is limited, therefore the competition increases among the growing number of television channels. Buying or creating the kinds of television, that are irreproducible or have a shortage in their supply become more and more valuable as providers of competitive advantages. These programs protect the broadcaster against the danger of falling viewing figures due to the appearance of new competitors. Urbán (2000) says, that professional spectacle sports has these characteristics. It can provide considerable advantages to public broadcasters in the fight for customers among television companies<sup>39</sup>, if the transmission of

<sup>38</sup> The author uses other categories of market structure in his original work, but I used the categories of Stackelberg (1951), instead.

<sup>39</sup> The football Euro 2000 was the first time the MTV Rt. (public television) used a sports event in the competition for viewers against commercial channels in the history of Hungarian televising (Urbán, 2000).

some sports events with special public interest is allowed only to free broadcasters, available for everyone. Urbán says, that it was the football Euro 2000, that the MTV Rt. (public television) used a sports event in the competition for viewers against commercial channels for the first time in the history of Hungarian televising.

When making a decision, television companies consider, if they receive the program “ready-to-transmit” or they have to produce it themselves. In the case of own productions, they have to count with additional production costs<sup>40</sup>. Even in sports, the relatively low former production costs related to transmissions have become much higher nowadays. It is already a qualifying criterion, that the transmission should be like a magazine not only focusing on on-site events, but on background reports, interviews and other inserts, also. All that requires higher technical standards, new camera positions, graphics and animations and expert’s analysis, all with high additional costs.

Urbán (2000) also points out, that broadcasting rights acquired for longer terms and stable program structures not only increase present viewing figures, but are able to develop new customer behaviours and to create customer loyalty.

The demand and supply relations of the broadcasting rights are in constant changes all over the world. The market was dominated by public televisions in the past, but commercial channels gained overhand in some countries by today and with the appearance of digital channels there are further changes to be expected in the near future.

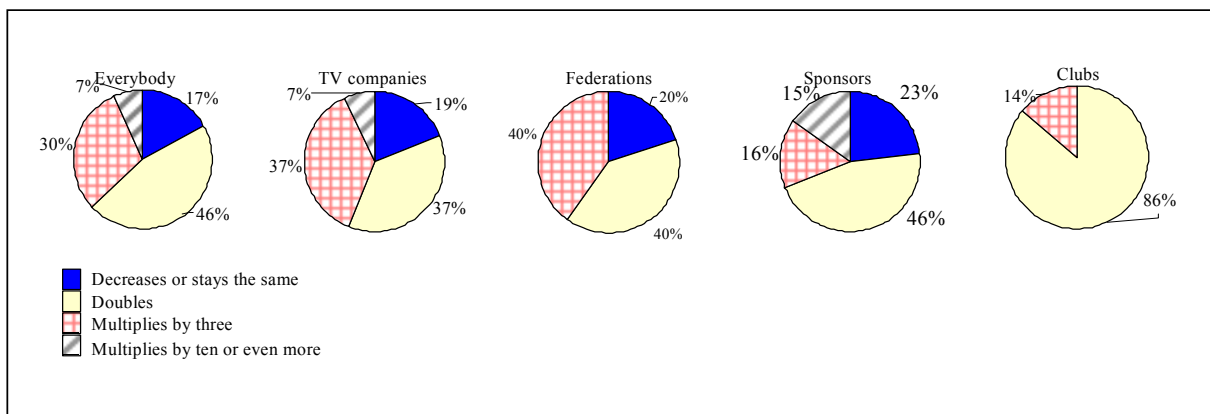
Pay-TV’s transformed sports transmissions from former public goods accessible for everybody into commercial goods with limited accessibility. The increase of the sports programs topped the increase of the supply of televisions and as a consequence, special sports channels have appeared and, like Whannel (1995) says, sports has increased its share in the program structure of normal channels, as well.

As pay-TV’s entered the market, new questions concerning market regulations have emerged. How is it to be ensured, that important social events remain accessible for everybody and what sports events belong to this category? This and similar questions are regulated by the 97/36/EG guidelines of the EU Commission issued on June 30, 1997. The so called Watch-List system is in act in Great Britain since the Television Act was issued in 1954. Canal Plus

received concession in France with the condition, that it does not access the broadcasting rights of events of significant social importance (i.e. Olympic Games, Football World Cup, The Championships in Wimbledon). The law regulating live transmissions of sporting events was enacted in Spain on July 25, 1997. This law says, that a committee is to decide, what sports events are considered to be in the focus of special public interest. Those events are not allowed to be broadcast exclusively on television channels applying subscription fees. This Spanish law had effect on contracts that had already been running.

The predicted changes in the number of future sports transmissions are interesting indices of the eventual development of the broadcasting rights market. Kassay (2003/a) draws the following consequences in her study.

*Chart 3.2. Forecasted changes in the number of future sports transmissions until 2011*



*Source: SportBusiness International, November 2001*

The first chart shows the common and uniform opinion of all market players. According to this, the players of the market expect a significant increase of the number of broadcast matches. Television companies and clubs represent two extremes concerning the range of the answers. While, the vast majority of the clubs count with a duplication of the number of matches on TV, television companies have all kinds of different ideas about the future.

The question arises: Is really such a strong demand to be expected towards professional sports transmissions or will be there a saturation in some sports? In the case of saturation, televisions will become more selective and tentative on the market. Considering the changes on the field of advertisements and the investments to cover the costs of the broadcasting rights and

<sup>40</sup> I.e. costs of the work of transmission, cutting, editing and supplementary works. Currently, the transmission cost of a Hungarian first division game is three times higher than the English, German, Italian and Spanish league matches together.

production costs, a trend is to be expected towards less transmitted sporting events, but with transmissions generating bigger audiences.

Possible changes on the advertisement business will influence the market of broadcasting rights, as well. Narrowing revenues from advertisements will make the situation of television companies more difficult to cover the costs of broadcasting rights by advertisements monies.

Urbán (1997) sees the “Baumel-disease” effect on the market of broadcasting rights, what we discussed concerning the players market. Professional sports have proved to be marketable through the television screen. Sports drew large crowds to increase viewing figures and that helped to rocket the prices of broadcasting rights into to sky in the 1980-1990s. As sports is one of those high quality entertaining programs, which serve as the main tools of lifting the viewing figures, broadcasting rights have continuously increased both in free channels financed by advertisement revenues and pay-TVs. These tendencies have effected public television channels too, as they have begun to be excluded from the market of sports events with high transmission fees.

However, the trends are starting to turn around, a decrease in the prices of broadcasting rights and financial crisis of media companies can be observed in some countries<sup>41</sup>. The bankruptcy of the Kirch Group rang the alarm in Germany, that broadcasting rights are already overvalued. Similarly, the failure of ITV Digital (a joint venture of Granada and Carlton Communications) caused huge financial problems in the second class (so called “First Division”) of English football. Telepiú and Stream in Italy, Quiero in Spain filed for bankruptcy, while Canal+ had heavy losses in France. There is a question mark, how these events effect the market of broadcasting rights and the operations of professional football.

### ***3.5. The sports sponsorship market of professional football***

Sponsorship appeared in sports first through equipment endorsement contracts and started to become important in the 1970s. Kassay (1998) defines sports sponsorship as a bilateral business relationship, signed in the hope of mutual economic advantages, what includes the

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<sup>41</sup> The Kirch bankruptcy shook the economic base of the Bundesliga in Germany. The sales of the exclusive broadcasting rights of the Champions League show different trends in different countries for the period 2003-2006. It was sold cheaper in Germany, but the price increased in Great Britain. Generally there is a tendency of falling broadcasting rights prices, but it depends on given countries and events.

rights and obligations of both parties. Sponsorship serves the marketing activities of the sponsor company and the sale of sports at the same time. It is a bilateral business relation, one of the main revenue source of sports.

*Table 3.13. Summary of the main characteristics of the sponsorship market*

<b>Product (subject of trade)</b>	The possibility of sports (athletes, event, organisation) related exposure, association.
<b>Main characteristic of the subject of trade</b>	long-term, bilateral
<b>Value drivers</b>	– matching target group, – media exposure
<b>Market-players:</b> – Seller  – Buyer  – Mediator	– The sponsee: 1) athlete, 2) sports organisation, 3) sports federation, 4) sports event (-organiser) – The sponsor: usually a company approaching sports with a marketing goal – sports(marketing) and media agencies
<b>Influencing factors of the behaviour on the market</b>	– The image and marketing value of the sponsee

*Source: András, based on Chikán (1995)*

The possibility of an association between sports, football in this case, and a company is one of the subjects of trade on the sponsorship market of football<sup>42</sup>. Based on Bauer – Berács (1998), this association has an effect form marketing point of view, if:

- the target group of the sponsor and the sponsee is the same;
- there is an image-transfer;
- the sponsee appears in media used by the sponsor's target group.

The relationship of the players of the sponsorship market of football is bilateral and long-term. During a sponsorship, the sponsor and the sponsee have an effect on each other anyway and the association between the two has an effect on their image for a longer time.

Sponsorship contracts usually guarantee exclusivity in the given product category. Sponsorship contracts can include property and other immaterial rights, as well. Television coverages form usually part of sponsorship packages increasing significantly the market value of this special product. The sponsor often take advantages from the appearance of the sponsored athlete in their marketing campaigns

<sup>42</sup> In the case of sports events, direct (on-site spectators) and indirect (reached through the media) customers are equally important.

Companies from different businesses are the typical buyers on the sponsorship market, contributing this way to the financial bases of sports. Both the changing characteristics of sports and factors outside the sports industry enabled the use of sports as a marketing communication tool. Sports fulfils this function, if the sponsoring companies can reach valuable target groups. It means, if the size of the audience and its social, demographic composition is right.

The sponsor company on the buyer side of the market can target various customer groups through the sports. So, it is important to distinguish between levels<sup>43</sup> of sponsorship according to geographical expansions as used by Chikán (1997). There are local sponsors targeting first of all on-site spectators and the customers of local media. Normally, it is the sports company itself, who gets in relationship with local sponsors and the sponsorship fee lands at the sports company, too. The number and strength of potential sponsors is depending heavily on the geographical location of the sports company.

National sponsors target customers nation-wide basically due to their presence at the national market. Regional sponsors are active in a given region, while global sponsors consider the whole world, when they identify their market and make decisions. However, the local audience and media exposures are of great importance at all sponsorship levels. While local sponsors are rather partners of the sports companies, national, regional and global sponsors can have direct relationship with sports companies or with the organisation staging the competition<sup>44</sup>, as both can ensure the reach of the targeted markets. Therefore, both sports companies and federations have responsibilities in exploiting the opportunities of sponsorship.

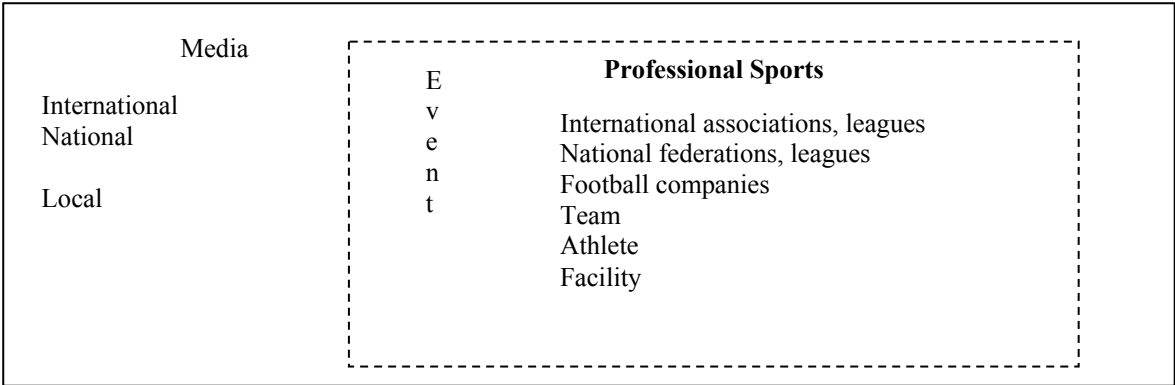
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<sup>43</sup> The literature of this field distinguishes among different sponsorship levels according to character of the service and to the amount of remuneration. One way of the differentiation can be: 1) naming rights and featuring sponsor; 2) official sponsor; 3) official supplier; 4) local sponsor. A possible categorisation according to the amount of the sponsorship fee: 1) diamond sponsor; 2) gold sponsor; 3) silver sponsor; 4) bronze sponsor. (Fazekas – Nagy, 2000)

<sup>44</sup> It is the national federation in the case of national championships and the national associations in the case of international competitions.



Chart 3.3. Opportunities offered by sports providers to sponsor companies



Source: Szántai (1999)

As it can be seen, the media has an indirect effect on the sponsorship market as well, because sponsors prefer sports with heavy media exposure. But the spreading of sponsorship has factors, that are independent from media. The prohibition of the advertisement of some product categories, the saturation of the traditional communication channels, the search of multinational companies for global communication channels, the opportunity to reach target groups, which are difficult to reach with traditional tools are all factors favouring the increase of the importance of sports sponsorship.

To reach a sponsorship agreement and to be successful with it, depends on the performance of the sponsee in many ways: sports successes on-field, image of the given sports, the size and the composition of the target groups directly or indirectly reachable, etc. If the supply is not as required by the sponsor in any of these factors, the business efficiency of the sponsorship is in doubt. There is a considerable risk anyway, when a company associates its name or products to sports.

Football with its characteristics is excellently suitable – among others – to support the introduction of new products, to help product positioning, direct sales, establishment of customer loyalty and increase brand awareness.

All over the world, the tendencies of the sponsorship market is influenced by trends of the advertisement industry, what depends on the activities of the television industry and the magazines. The US advertisement market, the largest on the world, gets one<sup>45</sup> of the biggest impulsions from the leading global sports events (like the upcoming 2004 Athens Olympic

<sup>45</sup> Experts consider the US presidential elections as the other major driving force of the US advertisement market.

Games). There is a decrease of the money spent on the advertisement market in Europe<sup>46</sup>, mainly due to the unfavourable figures of the German market.

### 3.6. The merchandising market of professional football

Merchandising<sup>47</sup> is an invention of the American movie industry, but has become mostly a market segment closely related to professional sports. Essentially, merchandising means a transfer of the image. According to Dénes (1998/a), it is the commerce of the trade marks – protected and approved legally – of football companies, including the sale of goods adored with club logos, symbols and other forms of identities (i.e. names, signatures and images of players). The mass and efficient use of the endless versions of merchandising products started to gain popularity in marketing-oriented fields of sports in the 1980-90s. Dénes (1998/b) explains, that the usage of merchandising as a tool of promotion is not an invention of sports, but has had the most spectacular development in this industry in recent years<sup>48</sup>.

Table 3.14. Summary of the main characteristics of the merchandising market of professional football

<b>Product (subject of trade)</b>	goods decorated with logos, symbols and other identities
<b>Main characteristic of the subject of trade</b>	has the ability to strengthen loyalty
<b>Value drivers</b>	value of the brand
<b>Market-players:</b> – Seller – Buyer – Mediator	– owner of the logo, symbol – consumers – agencies, retail units in charge of sale
<b>Influencing factors of the behaviour on the market</b>	Besides the price of the goods, it is influenced by fan's loyalty

Source: András, based on Chikán (1995)

Merchandising revenues represent a very important income source at football companies operating on real business bases. Manchester United has the best record among all the clubs regarding merchandising, too. This source accounts for the 17% (21,9 million GBP) of all of the club's revenues. Merchandising can serve as a complementary marketing activity strengthening fan's loyalty and through this, enforcing customer's demand.

<sup>46</sup> France, Germany, Italy, Spain and Great Britain.

<sup>47</sup> Merchandising is a common term of business literature all over the world. However, the term "Vermarktung" is frequently used too in Germany, meaning the marketing of the immaterial values of properties of sports.

A really professional merchandising strategy has functions reaching beyond marketing activity. It can generate customer's demand, helps the sale of the core products (services), enforces the building of the brand. Merchandising is an efficient PR tool to improve image and as a complementary part of the whole product-package, it improves the quality of the service. Besides all these, it plays an important role in the relationships with sponsors and supporters and transforms services, image and attitudes into a material form.

The following activities form the main parts of the merchandising-strategy (Dénes, 1998/b):

- Establishing the legal background of the merchandising activity: protection of trademarks, brand names and commercial rights;
- Development the strategy how to exploit trademarks;
- Development the strategy how to market trademarks.

An efficient merchandising strategy must be backed by a strong trademark based on the popularity of the athlete, sports company, sports federation or event.

Trademarks help the differentiation between goods and services all over the world. They are the identities of the products. The differentiating and identifying nature of trademarks is the base of market competition between competitors and the customer's orientation and choice among goods and services. A trademark has various functions from the aspect of merchandising:

- differentiating,
- informative,
- advertising
- competitive,
- quality certifying.

Trademarks are registered at the Hungarian Patent Office (Magyar Szabadalmi Hivatal, MSZH) in Hungary and at two main organisations internationally: the World Intellectual Property Organisation (WIPO) located in Geneva and International Bureau in the EU. If somebody wants to protect a patent outside of his own country, then he has to register at

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<sup>48</sup> As the author cites it, the officially approved merchandising commerce reached an estimated 4 billion USD that time.

WIPO through his national office or – in the case of EU member states – obtains trademark protection all over the EU via the International Bureau (Sorosi, 2002).

The typical channels of marketing merchandising goods have broad range including retail units, souvenir shops, franchise networks of those or the Internet and catalogues. There are even advertisements of merchandising goods on television.

Merchandising plays a significant role in the business operations of both football companies and the leagues in the real business oriented Western European professional football. As mentioned above, an efficient merchandising activity starts with its legal background, the protection of rights and trademarks. A survey conducted with the help of the MSZH investigated the situation of registration of trademarks in Hungarian football in the summer of 2003. The survey came to the conclusion, that Hungarian football companies not even pay attention to the protection of their rights, not to mention the building of their brands and their merchandising activities (c.f. subsection 5.2.2.). The research investigated an other aspect of trademarks in Hungary, too: Which foreign clubs protect their trademarks via WIPO in Hungary?

*Table 3.15. Football clubs with protected trademarks via WIPO in Hungary*

<b>Owner of Trademark</b>	<b>Trademark</b>	<b>Type of Trademark</b>
Milan A.C. s.p.a.	MILAN 1899	Colour symbol
A.S. ROMA s.p.a.	A.S. ROMA	Verbal
Real Madrid Club De Fútbol	Real Madrid	Symbol
Fútbol Club Barcelona	FUTBOL CLUB BARCELONA	Symbol
Fútbol Club Barcelona	FUTBOL CLUB BARCELONA	Verbal
AFC Ajax NV	AJAX AMSTERDAM	Symbol
JUVENTUS F.C. s.p.a.	JUVENTUS	Image

*Source: Hungarian Patent Office*

The research has proven that only a few foreign football companies protected their trademarks in Hungary, what could be an indication, that the Hungarian market is too small and therefore not significant for foreign football companies.

### ***3.7. The relationship of the markets***

The football companies, forming the subject of this dissertation, are all economic organisations and incomes directly or indirectly originating from customers are one of their main revenue sources. Incomes from the sale of entry-tickets and season-tickets are revenues coming directly from the customers. Season-tickets have an extra importance, as they represent a fixed revenue at once, calculable in advance, while normal one-match-tickets are sporadic revenues influenced by many factors. These direct incomes have an effect on the amount of some indirect revenue sources, as well, like merchandising incomes and incomes from other on-site consume of the spectators (catering, parking etc.). These connections create the relationship between the on-site customers market and the market of merchandising.

As soon as a sports event becomes a value driver, the related property rights become marketable. Football matches can be an attractive program alternative for television channels, if they can generate calculable, measurable high viewing figures and therefore create well marketable advertising surfaces for the television. If the viewing figures are high, the marketing the broadcasting rights can secure significant revenues for the right-owners. But the ability of entertainment is an obligatory condition, as consumers through the media are even more sensible than on-site spectators. There are two reasons for this: First, despite the development of program production techniques, the tension of the game and the atmosphere created by the spectators can be captured only indirectly in front of the television screens. Secondly, inexperienced viewers represent a bigger share among television viewers, than on-site spectators, and they are interested rather in the show and the dramatic moments.

The sale of broadcasting rights opens new perspectives in marketing the advertising surfaces at the venue, contributing also to the development and maintenance of a more intense activity of the sponsorship market. Kassay (1998) points out, that potential sponsor companies make their decisions in a complex way, embedded in their comprehensive marketing communication strategy, considering not only sponsorship, but traditional marketing tools also, the relative weight and proportion of these tools, the marketing objectives, the preferred target groups, the characteristics of the products and services, the related media exposure and the costs.

The tendencies of the customers market of professional football have a main influence on the sponsorship, broadcasting rights and merchandising market. The economic frame established

by these markets not only enable the operation of football companies, but can be the source of the trades on the players market. In case of effective business decisions, the trade on the players market serves as a further revenue source of the football companies.

The relation of the markets can be investigated from the aspect of the change of social environment, as well. As discussed earlier, the on-site segment of the customers market is based on the interest of people to watch other people's sporting activities. This phenomenon generates revenues and starts to tear apart the ideology of amateurism to open the way to professionalism. It creates two markets: the customers and the players market. The other markets needed the revolutionary changes of the mass media to gain a significant economic importance. Misovicz (1997) writes, that the appearance and spreading of television in Western Europe and partly as its consequence, the transformation of the traditional entertainment forms, increased the economic importance of television and at the same time, shook the financial background of sports operating on a non-profit basis.

All these possibilities and obligations created the bases of the relationships between media and sports: the dominance of media and the transformation of sports. The increased number of television companies led to a strong competition for the viewers, as all the companies concentrated their efforts on increasing viewing figures and exploiting advertisement opportunities. The transmission of sports events were optimal fits for the demands of media in that competition. The fast growing number of transmitted events and the high viewing figures raised and in many cases even overvalued the broadcasting rights (c.f. subsection 3.4.). This way, sports has become even more attractive for sponsors and advertisers and the financial crisis of sports seemed to be solved with the money flowing from the media and from sponsors.

Many argue, that the process described above has left sports exposed to business players and the media. However, it accelerated and completed professionalism, helped to modernise some sports and made them more digestible<sup>49</sup>. By today, sports compete for television airtimes, because transmissions and media consumers make sports marketable towards sponsors and advertisers. The presence of television in sports opened new markets (i.e. the market broadcasting rights) and increased the importance of already existing ones (sponsors, merchandising and players market).

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<sup>49</sup> Media is capable to determine the schedule of competitions, the choice of the venue, the competition systems and to transform rules.

### **3.8. Football and business globalisation<sup>50</sup>**

The frequently used term of globalisation has different interpretation in and effect on the various spheres of the society. Following Chikán (2001), we use the business aspect of its interpretation: the decision-makers of professional football have to consider the opportunities of the whole world. In fact, these decisions are relevant mainly within Europe yet, but within a short time<sup>51</sup> the horizon of professional football will be even broader as Japan and the United States increase their role in the industry. In these two countries football leagues could be implemented without strong traditions.

The globalisation is enforced even by the institutionalisation of football. The Champions League and the planned European Super League can be considered as regional championships. Meanwhile, the strongest clubs formed their own organisation, the G-14 (c.f. subsection 4.5.) to represent their interests. The formation operates only formally, but there are already continuous consultations among its members regarding issues of the industry. As both the regional championships and the union of the elite clubs are operating business oriented, they all support the global development of the football business.

The phenomenon of globalisation can be interpreted in connection with traditional markets, investigating separately the occurrences in the market of resources and goods. Three important resources can be distinguished in football: finances, information and players. Globalisation has different scales on these three markets and has some specialities in football compared to the world of business.

Financial markets are the most globalised ones. Nowadays, shares of clubs listed on stock-markets can be obtained all over the world. This is of great importance concerning the future founding of clubs, as clubs can be involved in the world wide system of direct capital allocation.

Although the labour market of football is less globalised, the phenomenon is still stronger here than on other labour markets. It has become a common practice, that there is a huge number of foreign players in the domestic championships. It happens despite a current practice opposed by the EU, which allows clubs to demand a transfer fee, if a player with a valid contract wants to leave the club. This practice is expected to change with the EU

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<sup>50</sup> András (2000)

<sup>51</sup> The same trend can be observed in Manchester United's efforts at the Asian market.

supporting his standpoint stronger. Such a change would mean a huge challenge in the business of football.

The third resource market is the market of information, which has become undisputedly and unstopably globalised with the appearance of the world wide web. Television offers the opportunity to follow various leagues at different corners of the world and the Internet provides us instant information about any event in the world. Internet has an impact on the market of goods, too, as merchandising products of different clubs can be easily obtained through the web. However, our domestic market has not yet reached this level of globalisation.

Today, even the consumer of business oriented football can be considered as a global consumer. Still, opposed to other sectors of the economy, the satisfaction of consumer demands is not getting as much uniformed in football. However, consumer always adjusts his expectation regarding the level of his satisfaction to the highest quality. The same happens in football: if a given championships can not perform at the expected level, the number of on-site spectators decreases.

The phenomenon of globalisation does not leave unaffected the future ways of clubs' operations. Similarly to the multinational corporations of other sectors, football clubs pay an increasing attention to new markets, primary to Asia. But it is also interesting, that despite the growing globalisation, football clubs generate the vast majority of their revenues from their domestic market.



## **4. The main factors influencing the operations of professional football**

This chapter features subjects, that are mainly influencing the operations of the current professional football game and of the football companies. A part of this factors are of institutional an other part of legal character. Based on business economics, the principal theoretical background of the dissertation, I identify the stakeholders of a common football company on a level described as rational by Freeman (1984).

This section is followed by the presentation of the two major international self-regulating organisations of football: the International Football Association (FIFA) and its European confederation (UEFA). In professional sports, so in football as well, self-regulation plays an important role. Every national federation has to accept and abide the rules and regulations of the international organisations, even if they are not in accordance with international, regional and national legal regulations. In that aspect, football is in a special legal situation, as its regulations not always harmonise with the laws in act or even with EU guidelines. I will deal with questions of business operations, where the norms of professional football and the EU border each other and this way effect the daily life of football companies. The chapter concludes with the brief presentation of G-14, a strategic alliance present in professional football nowadays.

### ***4.1. The stakeholders of football company***<sup>xx</sup>

A business-oriented football company operates in an environment, where it gets in touch with a wide range of members of the economics and of other parts of the society. How a football company operates and what the main characteristics of its behaviour are, is determined mainly by its relation to this environment. Our interest shall be focused to those participants, who maintain a long-lasting, essential and interactive relation to the company (Chikán, 1997). These participants are called stakeholders. All the meeting-points of this network of relations are of great significance, as football companies are incorporated into the society and into the world of business through these points.

The operation of a football company can be approached from different points of views, where a common approach is presented by the management approach of business economics

influenced by a strategic view and its components. The main focus of the dissertation falls on the identification of the business elements of its operations.

Before the start of the research (pre-analytic vision), we assume that economical, social and natural environments function embedded in each other, as described in Alternative Economics. It means, that an economical entity, like a business-based football company always operates embedded in a concrete social and natural context. Its operation can not be understood without identifying this context. For that reason, I make a strategic analysis using (the nowadays so popular) stakeholder management method, based on the stakeholder-theory. I do so despite the fact, that this method can be rather used in case of concrete companies and their decisions. So, I can unveil indispensable general statements, but each of the identified single stakeholders will be discussed in later chapters.

The boundary of the football company as organisation forms the base for categorising the stakeholders and alters the transactions defined by the co-ordinating mechanism. So, there are internal stakeholders, who are within the company and external stakeholders, who are outside of that boundary, accordingly.

It can be pointed out, that there are not two football companies with identical “*stakeholder-maps*”. Therefore, we will develop a general stakeholder-scheme by the end of the chapter. Although, this “map” can be altered regarding every major decision and the stakeholder balance of forces describing the negotiating positions between sports the football company and its stakeholders can change time to time, as well.

As we will be able to see, the stakeholder groups do not form a homogeneous unit, so we have to make further segmentations in order to reveal their unique interests. The stakeholder network will include some overlaps – as it is the case with the media, for example – so we will have to use “*stakeholder-matrixes*” to describe the different dimensions of the relations. The first dimension of the stakeholder-matrix is the different kinds of involvement, while the other one is the power in the sense of how a football company can use the resources by itself.

Freeman (1984) distinguishes three different types of stakeholders depending on their interest: ownership, business (or market) and influencing (or „kibitzer“). The corresponding types of power are: voting, economic and political.

#### 4.1.1. Internal stakeholders of the football company

There are three different internal stakeholders in the case of football companies. First, the *owners* varying depending on the type of organisation. However in business oriented football, companies are run as limited companies and therefore it is easier to define the owners, except for the ones on the stock-market. Researching the structure of ownership can lead us to useful conclusions, as both the stakes of properties and the owners behind it have significance concerning the operations of the company.

On one extreme, there can be cases, where there is one owner only, who has practically free hands taking decisions (with legal restriction, of course) or who can transfer his rights to others. The “big investors” usually think on longer terms, because their private fortune interacts strongly with the value of the organisation. There is the “small investor” on the other end. He possesses insignificant share regarding decision making in the company. His role is limited to the choice, that he can sell his share, if he is unsatisfied. The link between the private fortune of a small investor and the value of the company is indirect, is represented by dividends and quotations in companies and by the value of the property share in other kinds of organisations.

Sports enterprises can be owned by private persons, companies, financial and other institutions. The management of sports companies makes efforts to satisfy first of all their interests.

There are major differences between British and German football companies in the structure of ownership and their financing. The *British System* is characterised by a divided structure of owners based on stock-market trade. Those sports companies reach their capital mainly through direct allocations.

The structure of ownership is significantly less divided and the financing is linked more to indirect capital allocation through institutional inter-mediators in the *German System*. However, with the business orientation of the different sports, there will be an increasing demand for new capital allocation and an opening towards capital markets.

Table 4.1. Number of new listings on stock market

	-1996	1997	1998	1999	2000	2001	2002	Σ
England	8	10				+1, -2		<b>17 (3)</b>
Scotland	1	1			1			<b>3 (1)</b>
Denmark	3	1	2					<b>6</b>
Portugal		2						<b>2</b>
Switzerland		1				-1		<b>0</b>
Italy			1		1	1		<b>3</b>
the Netherlands			1					<b>1</b>
Germany					1			<b>1</b>
Turkey							2	<b>2</b>
<b>Total</b>	<b>12</b>	<b>15</b>	<b>4</b>	<b>0</b>	<b>3</b>	<b>+2, -3</b>	<b>2</b>	<b>35 (4)</b>

Source: András – Kozma – Kynsburg – Rohony (2000)

It is worth underlining another aspect of the differences among owners. It is of special significance in sports, whether the given investor is a institutional (financial) or a strategic (professional) one (see their comparison in Table 4.2.). Accordingly, their goals with the investment, the durability of their interests and their main fields of business are all different. While there is a kind of institutional (investment, financial or retirement) fond behind the financial investor, the professional investor is an owner, who acts in the given or in a connecting industry.

What the two types of investors have in common is, that they want to achieve a return on investment corresponding the risk of the industry (Brealey – Myers, 1991). But while the financial investor wants to realise the profit in a shorter term and typically sells his share within 3-5 years, the strategic investor plans for a longer term. The financial investors is interested in the long term destiny of the given industry just as far as to be able to secure a positive return on investment when selling his shares, the strategic investor is interested in the long term prosperity of the industry.

The financial investors looks for warrantees for the following questions: does the industry have the market potential, how much revenue can be realised from that, is the management capable to realise it, will be there somebody to buy the sports company in 3-5 years. No wonder, that financial investors favour sport companies turning into share companies (corporations) and bringing them to stock-market. As financial investors are no experts in the

given industry, a properly educated, motivated, experienced management with extended personal relations in the market is of crucial importance for them.

*Table 4.2. Comparison of financial and strategic investors*

<b>Aspects</b>	<b>Financial Investor</b>	<b>Strategic Investor</b>
Terms of involvement	Shorter (3-5 years)	Longer
Goals of investment	To exit with profit on the exchange rate of the shares	To increase value on long term
Their main business fields in spectacle-sports	insignificant	Grass-root development, to enter local markets, utilisation of real-estate, increasing brand awareness

There is a great variety of strategic investors, especially in the different sports. Still, they have it in common, that all of them are interested in increasing the value of the sports company in long term. For that reason, grass-root development and incomes from player transfers are the main fields of interests for professional investors of sports. On broader horizon, they can be also interested reaching local markets, media exposure and increasing brand awareness. As further aims, we can mention the utilisation of real estates (in connection with facilities and stadia) and marketing related purposes. Practical examples show, that all sports companies land in hands of strategic investors sooner or later (Kozma, 2002).

A study (commissioned by the Hungarian Ministry for Youth and Sports, ISM) conducted in 2000<sup>xxi</sup> revealed a frequent appearance of media companies among direct strategic investors.

Table 4.3. Media companies with significant shares in football companies, as of autumn 2000

Media Company	Football Club	Share (%)	Transaction	
			Date	Value (million Pounds)
<b>BSkyB</b>	Manchester United	9,9	Apr 1998	67,0
	Manchester City	9,9	Nov 1999	11,0
	Chelsea	9,9	Mar 2000	40,0
	Leeds United	9,08	Sep 1999	13,8
	Sunderland FC	5,0	Dec 1999	6,5
<b>Granada Group</b>	Liverpool FC	9,99	Aug 1999	22,0
	Arsenal	5,0	Sep 2000	47,0
<b>NTL</b>	Aston Villa	9,99	Jan 2000	26,0
	Leicester City	9,99	Jun 2000	12,5
	Newcastle United	9,9	Dec 1999	41,0
	Middlesbrough	5,6	Mar 2000	15,0
<b>SMG</b>	Heart of Midlothian	19,9	Sep 1999	8,0
<b>Canal Plus</b>	Paris SG	56,7	Apr 1997	Not available
	Servette Genf	47	Jan 1997	n.a.
<b>M6</b>	Girondins Bordeaux	44,4	Apr 1999	14,7.
<b>CLT-UFA</b>	Girondins Bordeaux	22,3	Apr 1999	7,4

Source: András – Kozma – Kynsburg – Rohony (2000), p.46

As Table 4.3. indicates, media companies are increasing their role as owners in European professional football. Quite frequently, only regulations draw a line to the scale of their investments.

While describing the model of business operation, it is important to know the aims of investors to become owners of football companies. Table 4.4. lists the main types of investors and their primary goals.

Table 4.4. Types of investors in football and their respective aims

	Types of Investors	Aim of Investment
1	Media Company	Club-ownership ( 1 ) – better position while negotiating transmission rights ⇒ synergy
2	Fan	Club-ownership ( 2 ) – expressing loyalty to club and unity with team
3	Institutional Investors	Profit on exchange rate of shares and/or dividend
4	Sports Enterprises (ENIC)	Increasing value, profit on exchange rate
5	Other enterprises	Increasing value, profit on exchange rate of shares and/or dividend
6	Wealthy entrepreneur	Increasing value, profit on exchange rate of shares and prestige

Source: András – Kozma – Kynsburg – Rohony (2000), p.47

The media participates in operating and decision making of the football companies. The fact, that they are primary profit-oriented in the football industry, but realise their profit in the media industry as a mutual, synergetic effect of the two industries, gives them a special feature.

Sports enterprises a wealthy private entrepreneurs are looking at the profitability of football itself, therefore these investors try to achieve this goal with participation in the direction of the football company.

Institutional investors and smaller enterprises do not get involved in the operative direction and try to achieve profits through dividends and/or increasing exchange rates of their shares without having ambitions of club leadership.

Fans in possession of shares want to express their link towards their favourite club and they are usually not involved in trade.

The club *managers* represent the second group of internal stakeholders. Due to their strategic decision-making role and their broad knowledge of information, we should distinguish them from other employees. The managers are responsible for the daily, operative work of the sports company. Still, there are differences in the role of managers depending on the different organisational forms.

It is a common practice in the sports industry, that former sportsmen fill the managerial jobs on the merit of their sporting achievements and special knowledge. Nowadays though, managers face heavier challenges of being familiar in management issues, as the industry gets more and more business oriented.

The third group is formed by the *employees*, and among them more importantly the sportsman, especially the stars, who play a particular role in the quality of the fundamental product in professional football. We should not forget about the providers of the complementary services either, who are the employees responsible for hospitality, facilities or for sporting goods.

#### *4.1.2. External stakeholders of the football company*

External stakeholders act outside the organisation of the football company and they have typically a business relationship with it.

The first group of our investigation includes the customers. Customers defined as spectators or fans represent one of the major factors of the demand. Spectators have become global and therefore, football companies not only have to serve the expectations of local visitors, but the spectators of world wide transmissions of sports events via global media companies. Sporting events, called “Third Home” by Chelladurai (1994), mean entertainment for them, where spectacle, heavy contest, collective experience are all important ingredients.

The customers – and the customer-orientation of the sports companies – are relevant factors in successful operation of football companies, as they are able to influence the quality of the product significantly. Quite often, customers play an active role in the production by influencing the outcome of the result. Above all, they represent an important revenue source for sports companies.

Particular customer’s satisfaction can be influenced by the behaviour of the “others”. In spectacle sports, the composition of local public, its behaviour before, during and after the event can keep away valuable customers despite the high quality of the principal product.

The segmentation of customers can be made depending on their lifestyle, attitude and characteristics of consumption. Through these, we can interpret trends in professional sports,



like appearance of family consumption or increasing proportion of female customers among spectators. These trends in the composition of spectators have fuelled the increase of prices of sporting events – in concordance with the improving quality of facilities – in recent years. That leads to the exclusions of certain “traditional” spectator groups in the case of some sports.

Misovicz (1998) described the conflict between the “traditional fans” and the “new customers” first of all in football, the most business oriented sport in Europe, especially in the high profile game in England. There are huge differences between the “new customers” and classic, club-colours-faithful fans regarding: their social backgrounds, their sensitivity towards the level of the game and price-quality ratio, nature of their involvement, their conception about football’s image and their knowledge of sports.

Traditional fans are “die-hards”: they have less flexible demand towards football, they are less sensible towards quality and tend more to active involvement. The new, middle-class customers are not that familiar with rules, are not unconditionally loyal to the club, are more difficult to get to be involved actively and although they are ready to pay more, they are more sensible toward the quality of the principal product and the supplementary services. The success of the team is the most important for traditional fans, while the new, wealthier customers are mainly interested in spectacle and action. At the same time, fans like to buy shares of their club to express their loyalty. Their relation with the sports company is complex. Table 4.5. shows the main differences between the two categories of fans.

*Table 4.5. Characteristics of the Classic and New Spectators*

	<b>Classic</b>	<b>New</b>
Social Background	Lower class	Middle-class
Price-Quality Exchange	Loyal	Not unconditionally loyal
Nature of Involvement	Active	Passive

In the case of professional sports, fans often gather in volunteer groups, called fan clubs. These fan clubs organise meetings and conferences to identify themselves with their favourite football club. So, they create a complementary service, which segregates itself in time and space from the core product of spectacle sports.

The next group of external stakeholders, the media has a distinguished role in the business aspect of sports companies. There are numerous business motivated links between sports and media. The most common relation is, when media appears as news provider and transmitter. Further, media plays an important role in marketing the principal product of spectacle sports (the events) and, as part of the complete product-package, in building star-images and give publicity to these star personalities. On one hand, stars enhance the consumer's identification and strengthen fan loyalty. On the other hand, stars are the product of the media and play an important role in its businesses. The media can be considered as the engine of globalisation, as through its transmissions local events become global ones. The influence of media is getting more and more intense and it plays a multiple role in business oriented sports.

Suppliers form another group of external stakeholders. In our interpretation, it covers all the industries, which provide the football companies with its background of resources. This wide range of fields reaches from sporting goods manufacturers to creditors, who supply the financial resources. No wonder, that their interests are differing from each other. Sporting good manufacturers, for example, are interested in a stable and predictable supplier relation with mutual benefits. At the same time, they use sports for their marketing policies to enhance their product and brand awareness, to improve their image, to express their economic power and social responsibility. Creditors (I consider them as suppliers too in my interpretation) are mainly interested in the paying discipline of the companies but they do not pay attention to the value increasing operation of the companies on short terms. Accurate and regular book-keeping of the football companies are of great importance for them. Through these numbers creditors can judge their risks and can work out the appropriate credit-constructions.

Competitors (other football companies) are significant factors in the company's business operations. Competition is an inseparable part of the market, the two can not exist without each other. But in sports, there is a special form of competition, which is different from the rest of the world of business. Competition creates winners and losers both in sports and in business. The weakening or exclusion of competitors are usually welcome by companies regarding their private interests in the normal business life. However, reducing the intensity of competition and decreasing the unpredictability of the outcome of results leads to loss of attractiveness of the product and so to less success in business in the case of sports companies. It means, reducing competition is in contradiction with the need of value creation.

Competition – in business terms – does not exist primary between the competing opponents, but between the industries competing for the free-time and disposable revenues of the

customers. Sports companies often defend their interest together, what can be interpreted as horizontal strategic association. At the same time, there is a healthy competition for the potential customers in between of them.

The group of various trade unions and players representations in spectacle sports belongs to external stakeholders, too. These organisations protect mainly the rights of sportsmen in a commercial, non-commercial or in a legal way. The power of trade unions vary strongly in different countries, but they are present everywhere. Basically, they represent the athletes in the traditional conflicts between employer and employee, for example in the case of injuries or non-fulfilment of player contracts. Player-agents represent their clients in a commercial form. They play an important role in the transfer of players, in the improvement of their negotiating position and in making the right choice between potential employers. The work of player-agents is strictly regulated by international sporting bodies (UEFA, for example) to avoid abuses. Sports tribunals also regulate the rights of sportsmen and sports companies both on international and regional level (i.e. Tribunal Arbitral du Sport or the Court of the EU).

Federation and leagues are sports specific stakeholders with major importance in the operations of football companies. These are the supreme self-governing bodies of sports. They have many common functions, but there are also significant difference in between of them. Leagues (especially in the United States) are organisations funded by team owners. Their main goal is to increase the demand towards their sports and to maintain its popularity. To achieve this goals, they have the following tasks:

- Regulation of the entrance and exit into and from the industry.
- Education of high-profile athletes.
- Maintenance of the unpredictability of the outcome of competition.
- Levelling the differences in the conditions of competition.

It is a special ambivalence, that the leagues have to reduce competition – therefore, teams form cartels and create this directing organisation of the industry, which performs even certain ownership rights – to protect competition. The instruments of the leagues where put to perfection by the big North-American professional leagues (MLB, NBA, NFL and NHL):

- Organisation of championships,
- Protection of the level of the game,
- Maintenance of the unpredictability of the outcome,
- Redistribution of revenues.

European leagues are not organisations formed by team owners. They are similar in their function to American ones, but they should be rather considered to be commercial versions of federations. It is a common practice, that international cup competitions wear the name “league” (i.e. Champions League), although these competitions are different from classic leagues.

Another group of external stakeholders are international sports federations, whose member organisations are the national federations. In football, the international are the right holders of the international club competitions (Champions League, UEFA Cup, FIFA Clubs World Championships) and of the competitions of national sides, like continental championships and the World Cup. At the same time, they can put restricting and liberalising laws in effect concerning business oriented football.

The State is an indispensable external stakeholders, which should not interpreted as a homogenous unit, but rather through its institutions. It performs an important regulating and law-making role and takes a different institutional form in different countries, as it can be a ministerial or secretarial. An administrative and economical Sports Law has a central importance in the regulation and assurance of the infrastructure of sports, and can provide a push towards the business orientation of sports. The state may even possess properties in sports, typically not in sports companies, but in infrastructure and facilities, where local municipalities play an important role, too. Stadia and other sports facilities and real-estates belong to the state treasury in Hungary, but certain stadia and facilities, especially in the case of the cities of the province, are typically in the hands of local municipalities.

Assuring the real-infrastructure and supporting grass-root development are other important fields of state intervention. The state is rather restrictive concerning the business operations of sports companies: imposes taxes, encourages general sharing of taxation and makes them to finance the national health service. National and regional Competition Authorities act in a restrictive way, too. Various state organisations (lottery, foundations, etc.) finance sports and the government, as supporter of national and market interests, give subventions, too.

To identify stakeholders and their interests are basically possible to a given sports only. The Tables 4.6. and 4.7. illustrate this through the example of commercial football.

Table 4.6. The typical stakeholders of a football companies and their interests

Typical Stakeholder Groups	Its primary interest
Owner	To increase the value of the club.
Player	To maximise revenue
Television	To improve audience
Fan	Success of the team
Competing Club	To maintain or increase market-share
National Federation	To maintain the unpredictability of outcome; to redistribute revenues.
International Federation	To increase the revenue of the industry internationally
EU Institutions	Law harmonisation

Source: András (2002), p.32

Table 4.7. The Stakeholder-Matrix of the Football Club

	Power	Voting	Economical	Political
Interest				
Ownership		shareholders managers		
Economical		managers	fans, players, employees, sponsors	
Influential		international federations	league, national federations G-14, media, competitors local	state  communities

Source: András (2002), p.32

4.1.3. The civil sphere of football

The business operations of a football company is principally influenced by the regulation of the sports determined by the self-governance of the national and international federations, whose role is constantly changing due to the increasing presence of business elements in football.

Originally, sports has been a purely private activity. Its active version (recreational sports, as it is called today) has never been the subject of any legal regulation formerly, and its passive version (professional sports, as it is called today) has been strictly under civilian self-

regulation. On the turn of the 19<sup>th</sup> and 20<sup>th</sup> century, the newly established system of non-profit organisations (clubs, federations) initiated the development of the autonomic self-regulation in sports.

Constitution of norms is one of the most typical characteristics of sports (Sárközy, 2002/a) – it means the establishment of rules both in broader and stricter terms. Clubs and federations work out their organisational and operational statutes, which are obligatory for all members. Federations work out the rules and regulations of the game and competitions. Competition rules will be completed by administrative measures, like entry and transfer regulations. Disciplinary committees, disciplinary regulations and courts of appeal are created to control the compliance with these rules. These rules are real norms, they are like laws and in sports they are often superior to the state laws.

The rules accepted by the assemblies and presidiums of international federation, which were developed due to the international integration (see: “development of sports organisations”), became the supranational, self-regulating norms of the given sports.

As Sárközy (2002/a) points out, sports federations always looked for exclusivity and for monopoly to be able to maintain the value of their products (their competitions and championships) at both levels.

International and national sports federations, as autonomous, civilian organisations, possess the monopoly to declare the rules and regulations of their sports, which are obligatory to all member clubs and through them to all professional athletes.

Originally, no state institution had the right to revise the competition rules of these autonomous federations, but the current practice seems to be different in the EU (EU vs. football and national sports federations, leagues vs. state laws).

According to Sárközy (2002/a), the defenders of the civilian character, the simultaneously norm creating and norm applying function and the hierarchic, monopolistic structure of the self-regulation of sports refer not only to the private autonomy, but also to its special ethic background (fair-play, priority of participation over winning, etc.).

Still, the self-regulation of sports came under heavy fire and was accused with “democratic deficit” in the last decade of the 20<sup>th</sup> century. The state tries to create norms for sports and to revise the closed system of the self-regulation of sports. At the same time, the institutional

background of sports became commercial itself (leagues, corporations), so they are subject to the laws of the world of business. This can be seen in the conflicts between competition commissions and sports federations regarding the above mentioned monopolistic positions and cartel-like formations.

I give a brief presentation of FIFA and UEFA, the two international associations effecting the operations of Hungarian professional football. In both cases, I illustrate their history, organisational structure and business operations.

#### **4.2. FIFA**

The Fédération Internationale de Football Associations (FIFA) was founded in Paris on May 21, 1904 and by today, it has become the second largest sports organisation with 204 member countries. It was founded by seven countries, Belgium, Denmark, France, the Netherlands, Spain, Sweden and Switzerland. Hungary joined the organisation one year later, in 1905.

FIFA's main goals are the following:

- Creation of universal rules and regulations of the game,
- Supervision of the national federations,
- Organisation of the World Cup every four years, since the first one in Uruguay in 1930.

With the growth of FIFA, continental confederations needed to be founded in 1955. The football federations of the six continents are the following:

- Asian Football Confederation – 44 members
- African Football Confederation – 52 members
- Confederation of North, Central American and Caribbean Associations of Football (CONCACAF) – 35 members
- South American Football Confederation – 10 members
- Oceania Football Confederation – 11 members
- European Football Association – 52 members.

So, that was the time, when the Union d'European Football Associations (European Football Association, UEFA) was founded, too.

The FIFA Congress is the highest organ of FIFA, having sessions in every two years. The FIFA Congress is the supreme decision making body. Approval of the yearly budget, inclusion of new members and election of officers are its main tasks. Every member country has one vote during the elections, independently of the size of the country or its role in world's football (www.fifa.com).

On one hand, FIFA's operation is very flexible and democratic, as signalled in the one country, one vote mechanism and in the inclusion of new members in order to enhance the popularity of the game. But on the other hand, there is a heavy conservatism and stability, what football's original rules (reaching back to the 19<sup>th</sup> or early 20<sup>th</sup> century) and the leadership of the organisation (the current president is just the 8<sup>th</sup> person in this position during the 99 years of FIFA) demonstrate.

The World Cup organised every four years is the most important product<sup>52</sup> of FIFA. There are efforts to re-establish the Clubs World Championships with the participation of 12 teams.

FIFA produced a surplus of 82 million USD in the period between 1998 and 2002. There are even higher targets set for the next four-years-period until 2006, when a 121 million USD surplus is expected. The 204 members receive about 250.000 USD each from the transmission rights and sponsorship revenues generated in the 1998-2002 World Cup cycle.

The Swiss agency International Sport and Leisure Worldwide AG (ISL) was entitled with the marketing tasks of FIFA and with the sale of the 2002 and 2006 World Cups' television rights outside Europe. After the collapse of ISL in summer of 2001, that caused a 300 million USD damage to FIFA, the German media group KirchMedia took over the rights from ISL. In April 2002, Kirch created a subsidiary, the KirchSport in Switzerland, handed over the transmission rights of the 2002 and 2006 World Cups' outside Europe and then, filed for bankruptcy. FIFA got the 1,2 billion CHF due for the 2002 World Cup before the event and received an additional 100 million CHF.

What will happen with the 2006 World Cup television rights is still uncertain. To solve this problem, FIFA issued bonds in the value of 420 million USD. With this transaction, FIFA aimed to cover the credit of 300 million CHF placed to disposal by the Credit Suisse First

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<sup>52</sup> Further important events for example: Futsal World Championships, Women's World Cup.



Boston and – like of the credit itself – to secure the redistribution of the incomes of the World Cup among the 204 member nations in time.

The finals of the 2006 World Cup will be viewed by an expected number of spectators of 34 billion (aggregated figure). FIFA used to sell the broadcasting rights to an international consortium uniting mainly public television channels, then this consortium sold the rights to its regional subsidiaries, to the European Broadcasting Union (EBU) in Europe for example, for the same price. FIFA sold the 1990, 1994 and 1998 World Cups in a package for 340 million CHF in 1987. In 1997, FIFA announced a tender to sell the broadcasting rights of the 2002 and 2006 World Cups and ISL Worldwide AG and Leonard Kirch turned out to be the winners. ISL won the right to dispose about transmission rights outside Europe, while Kirch could sell the rights within Europe. The two agencies offered 650 million CHF each for the 2002 World Cup and 750 million each for the 2006 World Cup.

After the bankruptcy of ISL, Kirch took over the obligations of ISL and that way it acquired the broadcasting rights outside Europe for the 2002 and 2006 World Cups, too. Kirch got the expected amounts from its German and Spanish partner, but it had to go in compromises elsewhere. Kirch asked for 180 million GBP from BBC and ITV – the two broadcasting companies share the transmissions rights in Britain since the 1966 World Cup in England – for the two events, but the two British channels wanted to give 40 million GBP only. BBC and ITV paid just 3,4 million GBP to EBU for the games of the 1998 World Cup. Finally, the sides settled with a price of 160 million in October 2001.

Kirch got a total 860 million USD for the two World Cups from the countries of South America. The world's biggest media market, the United States paid 200 million USD for the broadcasting rights of two men's World Cups and for the 2003 Women's World Cup, altogether. 150 million USD from that amount is paid by the Spanish language channel Univision, as spectators with Hispanic origin are the main target group of football in the United States. The American soccer league MSN bought the English language broadcasting rights for approximated 40-50 million USD, then forwarded the rights to ABC and the different channels of ESPN, both members of the Disney-empire and got the advertising times in exchange. The average list price of the 30-seconds advertisement spots before, in the half-time and after the matches is around 10.000 USD, while an advertisement in the same length costs 1,5 million USD in the half-time break of the Super Bowl, the sporting event with the highest number of TV spectators in 2002. However, even the 1,5 million was a set-back

compared to the 2 million USD in 2001. If Kirch can not come up with the agreed payment to FIFA, the broadcasting rights of the 2006 World Cup will return to FIFA (HVG, 2002.06.01.).

Despite the bankruptcies of ISL/ISMM and the Kirch Group, the marketing agencies and media partners of FIFA, the organisation produced a surplus of 74,3 million EUR between 1999 and 2003 and its equity capital increased to about 100 million USD. During the four-years-period until 2006, FIFA expects a revenue of 1,319 billion EUR and a profit of 109,8 million EUR (Nemzeti Sport, 2003.10.19.).

By today, the increasing conflict between club and national-side football has become a major risk factor affecting the functioning of football. The clubs have the rights of disposition over the playing licences of the players, and clubs are the ones, who pay the players. But during national sides matches, although the player plays for his country and not for his club, the clubs are running the risk of any possible injuries, without any compensation on behalf of the national federations. It is a continuous subject of disputes, during how many days a player must be at the disposal of the national selection to prepare for the national sides matches.

The security measures of major sporting events has become much more expensive since September 11, 2001. AXA, for example, quit the insurance contract of the 2002 World Cup in Far East due to the increased risks. After that, FIFA was forced to sign a new, but considerably more unfavourable agreement. The costs of the insurance covering the possible cancellation or interruption of the 2006 World Cup in Germany will be financed unlike traditional insurances, but by a bond to be issued by FIFA in the near future. During the course of this risk minimising action, investors could buy bonds in total value of 250 million USD and FIFA would pay back their money, if the tournament takes places without problems. Some sources speak about an investor's interest of 350-400 million USD and Credit Suisse First Boston has already started to register the intentions.

#### **4.3. UEFA**

The "Union des Associations Européennes de Football" (UEFA, Union of European Football Associations) was founded in Bale on June 15, 1954, a half a century after the foundation of FIFA. The unification, development and popularisation were the main purposes of its establishment. One of the main tools in achieving these goals was the initialisation of

European club competitions, which have become the most popular and prestigious competitions on club level internationally.

UEFA is one of the six continental confederations of FIFA and has 52 member federations currently. All these members are members of FIFA, as well. The membership increased significantly during the last 15 years, mainly due to political changes. The new successor states of the former Soviet Union and Yugoslavia, Israel's switch from Asia to Europe and the development of football in the European mini-states (Andorra, Feroer-Islands, Liechtenstein and San Marino) generated that increase.

Further reason of the relatively high number of member states is the fact, that the United Kingdom, unlike in the Olympic movement, has separate football federations in England, Scotland, Wales and Northern Ireland.

UEFA with its more than 200 full-time employees has grown to an organisation corresponding the needs of business oriented football. It has no governing power, serves as the representation of the European football federations, operates following the common will of its member federations and makes its decisions with their approval. UEFA defines its core mission as following: "To safeguard the development of European football at every level of the game and to promote the principles of unity and solidarity" ([www.uefa.com](http://www.uefa.com)).

Since the very beginning, the Executive Committee is the supreme organ of UEFA, which – similarly to the practice at FIFA – makes the most important decisions. The growing popularity of the game (as a consequence of the launching the international cup competitions, for example) led to the vertical expansion of UEFA's organisational structure in the 1960s and 70s. New committees have been established, like for example: UEFA Technical Committee, UEFA Referees Committee, UEFA Disciplinary Committee, etc.). The growth in both the yearly budgets and the number of employees required changes in the organisation. These structural changes were executed by the end of the millennium and as their result a three-level structure has been implemented with the Executive Committee on the top. The changes meant a big boost in the effectiveness of UEFA's decision making process.

In the 1990s, when football started to become more and more business oriented, UEFA had to face several new challenges, which – especially as a consequence of the pressure on behalf of

the Western European star clubs – needed urgent solutions. The required changes included the reform of international competitions.

First, the former European Cup of the national champions was substituted by the newly formed UEFA Champions League (UCL) in 1991/1992. Then, the second most prestigious club competition, the European Cup-Winners Cup was terminated in 1998/1999. The European Championship of national sides was reformed by the 1996 edition, when the number of qualified nations was increased to sixteen. As a consequence, the European Championship became the second most important football event behind the World Cup in the game.

Since the beginning of the 1980s, both FIFA and UEFA has been regularly organising competitions for younger age groups under the name of Under-19 and Under-17 World Cup and European Championships and these events have an important role in the world of football.

Women's football witnessed a gradual development world wide and also in Europe. Women have competitions both on clubs and national sides level similar to the men's game, like for example World Cups, European Championships or international club competitions.

The scene of the continents football competitions is completed by UEFA's Intertoto Cup (for clubs) and futsal tournaments. All these events provide an attractive programme through the twelve months of the year.

During the course of the 1990s, the football industry was first confronted with the fact, that its rules and regulations were not completely compatible with the legislation of the EU. The law harmonisation is still on the way, but two factors have been already causing significant changes in football. First, there was the ratification of the rules of multinational television rights and transmission fees. Secondly, the Bosman-ruling completely reformed the transfer system and the status of foreign players in European clubs, leading to perhaps the most dramatic change in the history of modern football.

In the 1990s, during the business orientation of football, the revenues of UEFA increased rapidly, fuelled mainly by two factors: the yearly competition of the Champions League and the European Championships every four years. Most of UEFA's revenues originated from the

sale of the television rights and sponsorship and advertising revenues of these events. These revenues show a 13 times increase from 100 million CHF in the year of the European Championship of Sweden in 1992 to 1,3 billion CHF in the year of the last European Championship in 2000. The Champions League accounted for 800 million CHF, the Euro 2000 for 300 million CHF, while other competitions or revenue sources for the remaining 200 million CHF in 2000.

The prize-money of the participating clubs in the Champion League and the compensation of the federations of nations without representation in that event are the main expenses. These subvention reached 3,3 billion CHF during the period between the seasons 1992/1993 and 2001/2002. Another important category of the costs are the amounts spent on grass-root development and on UEFA's administration cost. Redistribution of the funds to its member nations and to the participants of the club competitions is the main characteristic of UEFA's financial policy.

#### ***4.4. The European Union and the professional football***

The European Union (hereafter EU) does not have a common sports policy regarding the member states, the institutions of the EU do not regulate professional sports directly. The EU and the professional football, the subject of this dissertation, comes only under the field of competence of judicature and law constitution in the EU, if sports amount to business activity, so the communal right pertains to sports activity, if those consider part of the business world. This means by the EU if sports appear as a job or a service for payment. In brief, it is extending on professional sports, accordingly on professional football. By these cases, the violation of the EU law means trespass in the member states of the European Union.

The most frequent questions related to professional sports are raised mainly by the apropos of free movement of individuals. In the questions, where purely sports aspects support the special rulings of sports<sup>53</sup>, the Court of the European Communities (hereafter CEC) allows the exception from the discrimination, so these are not interfering with the legal prescriptions of the EU. At the same time by the questions apart from these, the CEC does not allow the discrepancy to the EU norms for the national and international sports federations. The principles of the EU are trying to obstruct the discrimination and the uneven treatment based

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<sup>53</sup> For example considering the sportsmen in the national teams.

on nationality. The free transfer of the players with expired contracts is allowed with no transaction fee, because the right of the disposition over the playing right reverts to the sportsman. The Bosman-ruling I<sup>54</sup> guarantees this in the EU countries, while the Bosman-ruling II in the economic and trade zone of the EU<sup>55</sup>.

The limit of the players from non-EU countries: any number of foreign players can play in the UEFA countries with EU passport, the maximum number of players from non-EU countries is three. In May 2003, the CEC made another precedent arbitrament apropos of the Kolpak-case<sup>xxii</sup>. According to the ruling, the sportsmen from the countries before the accession to the EU have the same rights as the players from the EU at the sport clubs. Accordingly, the sports federations can not limit the number of the professional players at championship or league games in the EU countries, if the player has a valid right of abode in the given country (c.f. subsection 3.3.).

The other important field concerning the economic questions of sports is the issue of television broadcasting. The article 3/a of directive no. 9736 of EU is obligating the member states to obstruct the program service providers under their authority in practice of their exclusive broadcasting right as they deprive the defined major part of the audience from the other member states by various methods to view events attracting public interest. Analogously the countries created internal regulation, that only free, public providers are allowed to broadcast certain events attracting public interest.

In 1989, the European Parliament and the European Commission defined the directive<sup>56</sup> about broadcasting and authorised to set a list of sport events in every EU member states, which should be accessible for everyone and should not be broadcast on subscribing channels. The right holders should start negotiations first with non-payable television companies with overall or almost overall coverage of the households about the selling of the rights. The collateral rights can be sold to subscribing channels. Besides the Summer and Winter Olympic Games, the European and World Football Championship were listed in the protected category.

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<sup>54</sup> In case of transfer of players under age of 24 the boarding club receives a training, grass-root fee

<sup>55</sup> The countries of Eastern Europe, Northern Africa

<sup>56</sup> 89/529/EGK, directive on the television without frontiers

The media committee of the EU asked the right holders to assist the right of shooting of other program providers as well, or, if there is no possibility for this, to submit them the records of the events.

There is an interesting collision point between sports and EU in the aspect of policy of competition. Among the five principles of public policy of competition<sup>57</sup>, the professional sport gets in touch most often with: 1) agreements and aligned activities restricting competition, 2) ban of abuse by superiority of strength or dominant market position, 3) control of fusion. It can be observed, that television companies agree to buy the rights jointly to cut the costs and to increase profit. This way, they are able to broadcast international events, which costs are too high to be covered only by themselves alone. This solution is used mainly by the not encoded, not payable channels, that have a competitive disadvantage considering their financial possibilities. The union of public televisions (EBU), for instance, which secures the Eurovision transmissions. With this solution, EBU ensures an extended coverage, so it plays an important role on the European market. Based on the decision of the European Commission<sup>58</sup>, commercial channels can obtain sports broadcasting rights possessed by the EBU, if they broadcast events – on delayed basis, summaries or live – which are not broadcast by the members of EBU.

The ban of abuse by superior strength or dominant position comes in the most slashing form at the discussions regarding the exclusive rights of broadcasting. Since the organisation of sport events, championships is in the exclusive competence of the national federation in every European country, just as it is the common practice on the European stage in case of European or international federations, the organisers have the rights to market the broadcasting rights. This abusive situation attracts the attention of the European Commission mainly in the case of the richest federations. The European Commission examines the television companies from this aspect as well. If a company obtains the broadcast rights of too many sport events, it can happen, that competitors will be squeezed out by it.

Questions of mergers of companies, acquisitions, and fusions are characteristically appearing in the form of vertical integration in football, when different media companies show up as direct investors in sport enterprises. This could offend the competition, because they can get information on broadcast rights as owners, can get in decision making positions concerning events or rules, which guarantee a superior strength for them over other media.

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<sup>57</sup> The restriction of free competition is forbidden based on 1. § of the clause no. 81 of the EK Contract and the clause no.7 of the regulation of December 1, 1986. The abuse of dominant position is kept out by the clause no.82 of EK Contract and the clause no.8 of the Regulation.

<sup>58</sup> Verdict on May 10, 2000

There is a collision in the policy of competition as well, that the international sport federations insist strictly to their monopolistic structures: there is only one national federation in a sport, and they give priority mainly to their constitutions instead of the national or the EU rights.

A current event nowadays rises questions of right of competition as well: Will the competition committee of the EU proceed a case, because Italian football clubs get a state credit to be paid back in ten years, while the ruling of the EU allows only a term of three years?

The EU rulings effects professional football at another important economic sphere: in the case of trademark protection ensuring the merchandising incomes. There is a unified trademark protection system in the EU. Its essence is, that a unified trademark protection can be given covering all the member states of the EU with only one registration. This can be done at the Office for Harmonization in the Internal Market, OHIM, located in Alicante or at the national patent offices. At the same time, the EU ruling does not affect the national systems. In the case of a registration at a national patent office, there are ways to protect a certain trademark in one country only.

#### **4.5. G-14**

The growing business orientation in football is also reflected in the increasing demand of clubs to protect their interests. The G-14, a union founded by the fourteen most influential clubs of European football in 1998, plays a leading role in this field. These clubs realised, that they protect and represent their interests much more efficiently, if they form a common platform, than by going their own ways. Currently, neither the international, nor the national federations recognise the G-14, still its importance is getting more and more considerable.

The focuses of the activity of the G-14 in the last couple of months can be summarised as following:

- Systems of international club competitions;
- Redistribution of the revenues of the Champions League;
- Possibilities of introducing a salary cap in football;
- Partly compensation of the salaries of national team players by their respective national federations;



- Releasing/not releasing of national team players by their clubs to friendly matches or matches outside Europe.

Following the invitation of the original fourteen clubs, four more joined the movement at the end of summer of 2002. So, the membership increased to eighteen, but name of the union remained the same<sup>59</sup>.

The current competition and prize-money system of the Champions League is the biggest achievement of the G-14 so far. The possibility, that the clubs of G-14 could organise an own European Super Cup, forced the UEFA to increase the number of participating teams to 32 and prize-money to 800 million CHF in the Champions League.

The G-14 had a significant influence in the reform of the UEFA Cup, as the changes were forced by the biggest clubs, just like in the case of the former European Cup of the Champions (forerunner of the Champions League) twelve years ago. The new format of the UEFA Cup starting next season is almost identical to the one proposed by the G-14.

Still, the standpoints of the G-14 and the UEFA are not always in accordance in all issues. At least the news let us suggest<sup>xxiii</sup>, that the G-14 was against the cancellation of the second round-robin phase of the Champions League. It pointed out, that due to the this change there would be a decrease by four matches per teams and by 32 altogether, what means less revenues for the teams. It will be clear only at the end of the 2003/2004 season, how much the teams lose with this changed competition format.

The compensation of clubs for the usage of the clubs' players in national teams is one of the most important issues still unsolved. The G-14 demands some money from the federations, because the players of this clubs are mostly involved in various national selections, these clubs pay the players, so they are taking the risk of injuries occurring during national team matches. To put it simple: the clubs have only costs from national team matches, but no revenues.

The question of how many days before a national team match clubs are obliged to release their players is another source of dispute. FIFA has already changed the rule from five days to four, but the elite clubs seek a further decrease to three days.

The trend of globalisation can be observed in the vertical relationships of clubs<sup>60</sup>. The most important star clubs form strategic partnerships with smaller clubs of even other continents. The relation is based just on players exchanges in many cases, but the tendency shows, that more and more big clubs become owners of they smaller partners.

Smaller clubs look forward to such partnerships as a protection against the rapidly raising player wages. It is a big advantage for them to get reasonably good players on loan, what helps them to achieve better results without increasing their payroll. The elite clubs look at this partnership to seek continuous match praxis for their (typically younger) players in the partner's team, who would not get much playing time in their own team yet, but who are important for them on longer terms.

Table 4.8. The most well known club partnerships

Team	Nation	Team	Nation
Ajax Amsterdam	Dutch	Ajax Cape Town	South African
		Germinal Beerschot	Belgian
Internazionale	Italian	Charlton Athletic	English
Internazionale	Italian	Atlanta Silverbacks	American
Internazionale	Italian	Spezia	Italian
Juventus	Italian	Crystal Palace	English
Manchester United	English	Fortuna Kapstadt	South African
Brescia	Italian	FK Ekranas	Lithuanian
Aston Villa	English	AB Köbenhavn	Danish
Arsenal	English	Beveren	Belgian
Wolfsburg	German	River Plate	Argentinean
Racing Santander	Spanish	Figueirense	Portuguese

Source: András – Kozma – Kynsburg – Rohony (2000), p.64, actualised

The G-14 is an organisation of the best football clubs in Europe. These clubs, using their organisation as a tool to represent their interests, present themselves united in questions regarding their business interests. The amount on table just in the issue of the compensation for their players playing in national teams reaches 1 billion CHF, for example.

<sup>59</sup> The fourteen original and the four new members are listed in the Appendix 1.

<sup>60</sup> Ajax Amsterdam possesses an extended farm system. The Dutch star club has a 51% share in the South African Ajax Cape Town and is owner of the Belgian club Germinal Beerschot, too. Ajax develops young talented African players in its farm teams and brings the best ones to Europe, to its famous „Ajax-School”.

The tendency of operating a club as a business enterprise can be observed among the clubs of the G-14, as well. Just two of the eighteen clubs does not operate in a legal form of a company and five of them are incorporated companies present on stock-markets.

Table 4.9. The legal forms of the G-14 clubs

Legal Form	Club
<b>Operating as a company [ 16 ]</b>	
Clubs listed on the stock-market ( 5 ):	
	Manchester United
	Ajax Amsterdam
	FC Porto
	Borussia Dortmund
	Juventus
Clubs not listed on the stock-market ( 11 )	
	AC Milan
	Internazionale
	Liverpool
	Paris SG
	Olympique Marseille
	PSV Eindhoven
	Bayern München
	Arsenal
	Bayer Leverkusen
	Olympique Lyon
	Valencia
<b>Not operating in the form of a company [ 2 ]</b>	
	Barcelona
	Real Madrid

Source: András – Kozma – Kynsburg – Rohony (2000), p.73, actualised

As Table 4.9. shows, the overwhelming majority of the most important European clubs have taken the form of a company, and the number of ones listed on stock-markets is steadily increasing. By becoming a company, the owners of the club and through them the holders of the responsibility can be clearly determined. The shareholders are usually profit-oriented, so they can pay dividends of the profit among themselves.

The dilemma of the managers to go either the way of the maximised revenue or the success on the pitch is perhaps the biggest challenge in the business oriented football. The clubs in the form of a company can not operate with deficit on a long run, even in the case of sporting successes, because the club can end up in bankruptcy. In contrast to that, social clubs do not face the requirement of profitability, the club managers are – theoretically – obliged to secure

the resources of the championship and cup participation, only. Real Madrid won the Champions League twice in the last decade, while its debt rose to 175 million GBP. Despite the heavy debt, Real paid 40 million GBP for the Portuguese Luis Figo in summer of 2000, a world record transfer amount that time. To fight the debt, despite the former resistance to do so, the new leadership of Real is considering the move to transform the club to a company, following UEFA's threat to exclude the Spanish giant from international club competitions.

However, real-life examples show, that sporting and financial successes can go hand in hand, in deed. Manchester United won the Intercontinental Cup, the Champions League, the Premiership and the FA Cup in the 1998/1999 season, meanwhile its net profit before taxation reached 22,4 million GBP. That meant, Manchester United has become not only the best, but also the most profitable football club of the world.

Whether to authorise the participation of clubs not taking the legal form of a company could be one of the crucial questions of the possible launching of the future Super League of the European elite clubs. Quite probably, the League would function on a profit oriented bases, therefore there is little probability regarding the participation of social clubs.

## **5. The operations of Hungarian professional football**

This chapter should answer the core question of the dissertation, whether a Hungarian football company is able to function on business bases. To answer the question, the presentation of the general operations of Hungarian professional football is required. At the beginning of the chapter, I describe the institutional system of professional football, the main products and the economies of the professional section. Later, I investigate, whether the bases of a business operation are present in Hungarian professional football. Related to this, I give a survey of the development of consumer interest towards Hungarian football. The former chapters have already convinced us, that there is no business oriented operation without the presence of consumers. The existence of brands is a kind of index of the business based company operation, as well. The chapter goes on with the presentation of the case-studies describing the operations of the twelve football companies with first division professional football teams in Hungary. The case-studies are suitable to describe the current situation and reinforce the pre-assumptions and data of the business model at the end of the chapter.

### ***5.1. The operations of Hungarian professional football***

The football companies have only an indirect influence over a part of the realisable revenues. These revenues are influenced mainly by the operations of the institutional system of football. The present institutional system of Hungarian professional football is a result of a longer evolution. It is characterised by its seemingly complicated system. The subsection is aimed to present the organisational and economical operations of this institutional system.

#### ***5.1.1 The organisational structure of Hungarian professional football***

The institutional structure of the Hungarian professional football is quite complex. The Hungarian Football Association (MLSZ), the national federation of this sport, has two divisions currently: the Hungarian Football League (MLL) and the Hungarian Amateur Football League (MALL). The MLSZ has some centralised tasks, and some functions are delegated to the competence of the MLL and the MALL. The centralised functions of the MLSZ include: Responsibility concerning the level of the game; control, direction and support of the functioning of football; setting and fulfilling the main objectives of the sport;

representation of Hungarian football in international organisations; ratification of rules and competition regulations, ensuring the compliance with legal laws and rulings.

The current modern institutional structure was created in 2000, when according to the Sports Law (Law LXIV of 1996 regarding sports) in act, The MLSZ established its two sub-associations, the professional (HLASZ) and amateur (ALASZ) one. HLASZ is a organisation of special public utility with legal entity, possessing separated property, own budget and representation right. The MLSZ delegates to the HLASZ the task of organising, supporting and co-ordinating the professional and parts of the amateur football game to achieves goals set by the MLSZ.

Due to the new Sports Law issued in January 2001, the two sub-associations were transformed into leagues<sup>xxiv</sup>. The MLL is composed by the participants of the top divisions of Hungarian football, so by the twelve teams of NB/I and the twenty-four teams of NB I/B<sup>61</sup>. The functions have a new breakdown among the MLSZ and its two leagues<sup>62</sup>.

The MLL (referred to as the League) got an own authority to organise and to run the competition formats of the two highest football divisions. The main goal of the League is to create the framework of a professional football game based on business and profit orientation. It includes the running of the best possible format of competition<sup>63</sup> to achieve these goals and the organisation, management and direction of systems, which represent the background of that competitions, like for example the system of the promoting and relegating clubs, rules of movements of athletes, cup and junior competitions. These systems should contribute to the improvement of the personal and financial conditions of the sports organisations, to the increase of their co-operation and their international competitiveness. MLL creates regulations and issues the club-licences, what are obligatory for teams to be allowed to compete.

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<sup>61</sup> All lower division teams are members of the MALL.

<sup>62</sup> All tasks concerning the national side, the contacts towards international bodies and foreign federations, the women's game, futsal, the development of coaches and concepts of grass-root level football remained in the authority of the MLSZ. The organisation and operation of competition systems were delegated to the MLL and to the MALL.

<sup>63</sup> Since June 2001 the organisation of the competitions of the U-19-17-15-13 age groups has been delegated to the League, as well. That means, besides the 48 teams of NB I, NB I/B and NB I juniors, the competition organising duties of a further 46 youth teams have been delegated to the administration of the League. In 2002, the officials of the League had to deal not only with the competition systems of the 44 teams in NB I, NB I/B and NB I juniors, but they were in charge of the championships of the U-19-17-15-13 age groups of both NB I and NB I/B, representing 96 teams.

There is another organisation working parallel to the MLL: the Hungarian Professional Football League (MHLL)<sup>64</sup>. The MHLL has the same members as the MLL, so the twelve teams of NB I and the twenty-four of NB I/B. However, the MHLL<sup>65</sup> is not a sub-organisation of MLSZ.

After its foundation, the MHLL created two companies: the Profi Liga Kereskedelmi és Szolgáltató Kft.<sup>66</sup> (Profi Liga Commercial and Servicing Ltd., referred to as Profi Liga Kft.) and the Futball Duo Kft.<sup>67</sup>.

The sale of the centralised marketing rights is the main function of the Profi Liga Kft. This function includes the marketing of the television and radio broadcasting rights, the title of the championship, the centralised advertisement panels in the stadia and other commercial rights. Furthermore, the MLL provides financial supports to the sports companies operating the professional clubs, through the Profi Liga Kft.<sup>68</sup>. On one side, the Profi Liga Kft. is the entity, where revenues from broadcasting rights<sup>69</sup> and title sponsorship<sup>70</sup> are realised. On the other side, it is responsible for the issue of re-organising bonds and for the management of the credits provided to the football companies.

On November 25, the League founded the Ligamarketing Vagyonkezelő és Vagyonhasználó Kft. (Ligamarketing Property Managing and Utilising Ltd., referred to as Ligamarketing Kft.) with 3 million HUF equity and a 100% share. Its functions include the utilisation of the centralised marketing rights, which were originally in the hands of the sports companies and the marketing of the rights with value of property was originally the exclusive right of the MLSZ, but it has been delegated to the MLL.

On February 19, 2003 the three organisations, the MLL, the Profi Liga Kft., and the Ligamarketing Kft. signed a syndicate treaty to uniform the principles of the managing and

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<sup>64</sup> The Hungarian Professional Football League is an organisation established in 1994. Its members are equivalent to the members of the professional division.

<sup>65</sup> Protecting and representing the interests of the teams and the maintenance of international relations is the main task of this organisation. The general assembly of the MHLL consists of the same 36 members as it is the case of the MLL. The MHLL has a League Commission formed by four persons.

<sup>66</sup> The Profi Liga Kft. was founded with 3 million HUF of equity and 100% ownership of the MHLL in 1996 to support Hungarian football.

<sup>67</sup> The ownership structure of the Futball Duo Kft. established with 60 million HUF of equity is the following: HTD Kft. 4%, MHLL 50% and MLSZ 46%.

<sup>68</sup> That enabled the teams to acquire credits worth 980 million HUF in 2001 and 900-1100 million HUF in 2002.

<sup>69</sup> It is the entity where revenues are generated based on the following contracts signed by the owner of the rights: Authorisation Contract with a Magyar Televízió Rt. (Hungarian Television Inc.) on July 21, 2000 valid until the beginning of the 2003/2004 season and the related subcontractor agreements.

directing entities of Hungarian professional football. The agreeing parties expressed their wishes to operate with a common budget and in a common system regarding the main questions starting with January 1, 2003, however they maintained their independence regarding taxation and legal matters and maintained their own corporate identities.

According to the treaty, the new allocation of tasks, duties and rights after January 1, 2003 is the following. The primer function of MLL is the direction of professional football, the protection of the rights of the sports companies and professional athletes, the representation of their interest in sports-related and business issues.

The Profi Liga Kft. manages the broadcasting, title-sponsorship, derived and commissioning contracts signed before the date of the syndicate contract. Furthermore, manages and handles the contracts signed in its own authority and the credit accommodation activities, what are covered by the re-organisational bonds and serve the surmounting of the financial problems arising during the operations and development of sports companies. The Profi Liga Kft. has a regular reporting duty towards the president and the Presidium of the MLL and fulfils its role as an executive organ under the direction and control of the management of the MLL.

As the founder of Profi Liga Kft. the MHLL has an identical membership with the MLL. The Presidium of the MLL makes its decision representing the whole general assembly. These decisions are executed by the Presidium of the MLL and the managements of the allied organisations, which signed the syndicate agreement. All decisions concerning the operative management of professional football are made by the Presidium of the MLL or during the periods between presidential sessions, by the president, as set down in the constitution.

The CEO of the MLL makes decisions, takes measures and acts in the range of economic figures set by the decisions of the Presidency or the president of the MLL and in accordance to consultancies with the president of the MLL. The CEO may make independent decisions regarding human resources and personal issues, daily operative measures and even decisions with economic effects in compliance with the range of figures set by the Presidency of the MLL.

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<sup>70</sup> Based on the contract agreed about the title sponsorship of the league's championship.



### *5.1.2. The marketable products of Hungarian professional football*

The marketable products of the Hungarian professional football are all related to sports events, like football matches of the various competition systems. One can find the following competitions and series of competitions of professional football in Hungary:

- The first division of the Hungarian Championship (NB I)<sup>71</sup>,
- Hungarian Cup<sup>72</sup>,
- National Indoor Football Championship<sup>73</sup>,
- Super Cup<sup>74</sup>.

Basically, I focus to the series of competitions organised and sanctioned by the Hungarian Football League in this dissertation, first of all to the most important one, the first division of the National Championships. The Hungarian National Championship is played in the following format: a regular season with twenty-two rounds of home and away round-robin matches and a play-off with ten rounds of home and away round-robin matches. The teams are divided into two groups in the play-off. The 1-6 placed teams of the regular season play out the first six positions, while the bottom six teams of the regular season fight against relegation.

The Paragraph 26 (1) of the Law CXLV of 2000 regarding sports considers the ways and conditions of utilisation of the rights with value of property related to the football events as exclusive rights of the football federation. The MLSZ delegated the utilisation of the rights with value of property into the competence of the MLL. The announcements of competitions issued by the MLL always contains the common marketing of the rights with value of property as an obligation of the teams and sets it as a condition of their participation. The MLL has extra regulations concerning the utilisation of the rights with value of property related to the organisation and running of MLL's championships and its matches. The

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<sup>71</sup> The Hungarian National Championship is played in the following format: a regular season with twenty-two rounds of home and away round-robin matches and a play-off with ten rounds of home and away round-robin matches. The teams are divided into two groups in the play-off. The 1-6 placed teams of the regular season play out the first six positions, while the bottom six teams of the regular season fight against relegation.

<sup>72</sup> The Hungarian Cup has a total of seven rounds played in a knock-out system, decided by one game. The teams of NB I have first round bye and join the competition in the second round only.

<sup>73</sup> The main function of the National Indoors Championship is to shorten the long winter break, to help the preparation for the new spring season and to canalise additional revenues into professional football. The six qualifying groups include four teams each, matches are played in round-robin system and winners of the groups qualify for the final. The final is played in two round-robin groups with three teams each. The group winners play the grand final, while the teams finished second in their groups play the bronze medal match.

<sup>74</sup> The Super Cup is a single match event, where the champion and the cup-winner of the previous season play for the title.

regulations regarding the utilisation of the rights with value of property were accepted by the Presidium of the MLSZ in the declaration 80/2002 on July 20, 2002.

Among the rights with value of property related to the competitions sanctioned by the MLL, there are ones utilised centrally and ones belonging to the teams. The main rights with value of property utilised centrally are the following:

- Pictures taken (moving or standing) and/or audio material recorded, typically for purposes of television and radio;
  - The utilisation of the material (live or in another time) as a whole or a short version or summary, recorded at the competition;
  - Rights originating from the organisation and running of the championships<sup>75</sup>;
  - The 25% of the advertisement surfaces outside and inside the stadia<sup>76</sup>;
- The commercial rights related to catering at the sporting events<sup>77</sup>.

The main rights with value of property utilised by the teams themselves are the following:

- All other rights outside the above mentioned regulations;
- The utilisation of rights with value of property at events organised by the club;
- Endorsement contracts of sports equipment and sports wear manufacturers,
- The 75% of the advertisement surfaces outside and inside the stadia;
- Teams have the right to free usage of the recorded images and voices of their matches according to the regulations, and primary used by the rights owner, on their television channels and Internet web-sites.

To be able to execute this system of the utilisation of the rights with value of property, the MLL sets as a condition of participation, that the football companies operating the first division teams have to sign a recognisance of obligations concerning those rights. In this treaty they renounce their rights concerning broadcasting and marketing in favour of the MLL and this way the MLL can market these rights centrally<sup>xxv</sup>. All members of the MLL are

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<sup>75</sup> I.e. the naming right of the championship, fan identity cards, the 25% of the surface of entry tickets.

<sup>76</sup> Business based utilisation of the rights with value of property approved by the majority decision of the members of the MLL. If the marketing of advertising surfaces is not conducted as laid down in the regulations, the MLL has the right to expose three advertising panels (6 metres \* 1 meter) in the opposite side to television cameras in each accredited stadia on each matches. Furthermore, it has the right to expose the logo of the title sponsor (6\*10 cm) on the top of the left sleeve of every player at every match of the championship. The MLL is not obliged to pay an extra fee for these rights.

<sup>77</sup> It has the conditions, that the tender is considered as successful by the three fourth of the members forming the tender and that they entitle the Presidium of the MLL to sign the sales contract.

obliged to sign a servicing, sub-contractual<sup>78</sup> agreement with the obligants of the contracts related to broadcasting and marketing rights. The fund is distributed among teams on the following principle: 20% among teams of NB I/B, 80% among teams of NB I.

The broadcasting right<sup>79</sup> is one of the most important good marketed centrally, which in a special way, appears being apportioned into an other company. In the beginning of the 1990s, the right of utilisation of the broadcasting rights of Hungarian championships matches was apportioned into the Football Duo Kft. Sárközy (2002/a) means, that this step could have been considered as a progressive one at that time, because due to its monopolistic situation, the state-owned television had not paid anything for the transmissions to the federations, before. In this structure, the Hungarian Football Association apportioned the right to handle the broadcasting rights into the above mentioned company and the Court of Registration accepted it and made it absolute<sup>80</sup>. Then, the Football Duo Kft. entrusted the Profi Liga Kft., owned by the Hungarian Professional Football League (MHL) to market the broadcasting rights.

On June 1, 2000, the MHL announced a tender for selling the broadcasting rights of the first division matches of the Hungarian Championship. The MTV Rt. had an optional right regarding the transmission of the matches, so after the conclusion of the tender, the right owner offered to MTV Rt. to purchase the transmissions. The television company used its option and bought the broadcasting right for three years. In July 2000, the Hungarian Television won the tender regarding the terrestrial broadcasting, while the right of satellite transmissions was obtained by the foreign partner-company of UPC, the Amsterdam-based WIZJA AV TV.

According to the agreement, the two channels (MTV and Sport1) broadcasting entire matches and highlights of league games had to pay a total of 23,5 million DEM (plus VAT) – equivalent with 3 billion HUF that time – to the Hungarian professional football for three years. If the companies would have used their option for an additional two years period, the amount had reached 44,7 million DEM. In the case of a 3+2 years contract, the 650 million

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<sup>78</sup> The obligations deriving from the sub-contractual agreements are handled separately in the case of the television broadcasting rights, the title sponsor's contract and the utilisation of other rights with value of property.

<sup>79</sup> The MHL redistributes the revenues generated by sale of broadcasting rights to the teams according to: 1) the number of the broadcast matches with the team's participation; 2) the number of spectators; 3) the advertisement revenues. During the 2002/2003 season, FTC was the team with the most television appearances and the company received about 30-40 million HUF from the broadcasting revenues (Világgazdaság, June 30, 2003, p.6).

HUF could have been increased to 774 million due to the corrections following the inflation by 2003 (András – Kozma – Kynsburg – Rohony, 2002). To illustrate the value of the contract, the Table below presents the broadcasting fees of some football games obtained by the Hungarian public television.

*Table 5.1. Broadcasting fees of football events on MTV*

Year	Venue	Event	Fee
1996	England	Euro 1996	504.000 CHF
1998	France	World Cup	960.000 CHF
2000	Belgium-the Netherlands	Euro 2000	831.000 CHF
2002	Japan-Korea	World Cup	4.833.000 CHF*
2001-2003	Hungary	Hungarian Championship	18.843.000 CHF**
2002-2003		Champions League	650.000 CHF

\* 800 million HUF, \*\* 3 billion HUF

Source: Data from *Világgazdaság*<sup>81</sup>, September 19, 2003, p.9

In March 2002, the Sport1 has suspended the agreement about the transmission of Hungarian championship games for an indefinite period, and on June 30, 2002, it terminated the contract, causing the MLL a loss of 400 million HUF and leaving MTV as the lone broadcaster of league matches. MTV paid more than 750 million HUF.

Fulfilling its contractual obligations, the Football Duo Kft. asked MTV six months before the termination of the third year to give a written answer to the right owner, the Profi Liga Kft, whether it wants to use his option. MTV's answer was positive and the sports department of MTV with the close collaboration with the commercial and production departments worked out the details of the contract draft<sup>82</sup>, that was put to paper by the legal department and was submitted to the Advisory Board. On September 18, 2003, the draft was unanimously rejected<sup>83</sup> by the Advisory Board of the Presidium of the MTV Public Funds.

<sup>80</sup> It would not be possible since the new economic law has come into force on January 1, 2001, but the law had no retroactive effect.

<sup>81</sup> The currency exchange rates are based on the currency converter program at [www.oanda.com/convert/classic](http://www.oanda.com/convert/classic) website.

<sup>82</sup> The draft suggested a contract term of 1+2 years and would have offered 450 million HUF + 25% VAT (562,5 million HUF) broadcasting fee for the 2003/2004 season (*Világgazdaság*, September 19, 2003, p.9).

Table 5.2. Viewing figures of the games transmitted by Magyar ATV

Date	Game	Event	Audience*
September 27, 2003	Balaton FC – Újpest	Arany Ászok Liga	0,9
September 28, 2003	FTC – Pécsi MFC	Arany Ászok Liga	1,5
October 3, 2003	MTK – Békéscsaba	Arany Ászok Liga	1,1
October 5, 2003	DVSC – FTC	Arany Ászok Liga	2,4

\* AMR-index: the figure is projected to the public older than 4-years-old (because there is a significant audience among the under 18-years-old, as well) and to viewers not zapping channels during the match. 1% means 100.000 viewers.

Source: AGB Hungary, MLL

In the case of participation of a team in international competitions, the company operating the team is the owner of the broadcasting rights. Some clubs market this right by themselves, while others involve agencies in the marketing of broadcasting rights<sup>84</sup>.

The other major element of the centrally marketed rights with value of property is represented by the common marketing of the 25% of all advertisement surfaces in and outside the stadia. The efficient exploitation of these rights depends not only on the central marketing strategy, but on the possibilities and conditions of the stadia serving as the venue of the league games, also. Facilities belong to the most essential material conditions of football. It is the infrastructure of delivery of football as a service. The Hungarian stadia are under state or municipality ownership, with the only exception in Győr. In the case of state properties, the Sportfólió Kht practices the rights of ownership. However, facilities not only act as the venue, where services is being produced, but it also influences the quality of the satisfaction of sports customers' demand.

Furthermore, facilities play an important role in the realisation of the centralised marketing revenues, too. There are only a few among the stadia currently used by the sports companies, that corresponds the international specifications. Originally, the Orth György Program<sup>xxvi</sup> was designated as the frame of the reconstruction of the old stadia and of the construction of new ones in 2000. First, a survey was conducted about the condition of the stadia and to calculate the required resources. The government of that time separated 12,7 billion HUF for this purpose in the budget, the rest of the resources would have been secured by the local

<sup>83</sup> For comparison: The Borsodi Liga (League) got 750 million HUF of broadcasting fee from the MTV in the 2002/2003 season. The broadcasting fee to be paid by the MTV for the Athens Olympic Games will be 1,512 million USD in 2004 (Világgazdaság, September 19, 2003, p.9).

<sup>84</sup> In the case of MTK, the operating company, the MTK Hungária Sport Kft. sold the right of marketing the broadcasting rights to SportFive.

municipalities (5,6 billion HUF at the price of that time), entrepreneurs and the owners themselves (1,8 billion HUF at the price of that time).

Due to the Stadium Reconstruction Program, there have been and still there are reconstruction and renovation works in the majority of the stadia currently used by the teams of the professional league, representing infrastructural obstacles to the realisation of marketing revenues. The League conducted a research<sup>xxviii</sup> indicating, that generally speaking, the aspects of advertisements and marketing<sup>85</sup> have not been taken into consideration during the reconstruction works.

The research has shown furthermore, that the 67% of the permanent catering units is owned by the state or municipality (the owners of the facilities) and the football companies own the 16% of them. In the remaining cases, there is no link between of the companies and the catering units.

The Hungarian Football League and the MHLL owned Profi Liga Kft. sold the title sponsorship rights to the International Media and Sport Company (IMS) for five years in November 2000. The British company registered on Jersey Islands marketed the title of the league to Borsodi Sörgyár Rt in the beginning of 2001. The MLL and the Profi Liga Kft. acknowledged in the appendix of the contract, that Borsodi purchased the rights and the first division championship would be called Borsodi Liga. The incorporated company paid a yearly amount of 114 million HUF and additionally purchased the name sponsorship for the winter indoors championship for 36 million HUF. Since the spring of 2001, Borsodi Sörgyár Rt has paid a yearly amount of 550.000 USD. The contract has been signed for five years (Világgazdaság, July 23, p.7).

In the summer of 2002, the owner of IMS passed away, the one-man-company collapsed and it did not pay the due amounts originating from the naming right contract to Profi Liga Kft. either, after a while. That was a serious breach of the contract. The MLL acquired a certification signed by a London-based lawyer's office saying, that the IMS seized its operation, its representative could not be reached. Borsodi Sörgyár Rt offered to take the position of IMS, but the MLL refused it saying, that there has never been a contractual relationship in between of itself and the brewery. The MLL has lost a total of 52 million HUF

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<sup>85</sup> I.e. In the case of transmission stations for television, and the utilisation possibilities of the territories between the pitch and the spectators.

by not accepting the payments of the brewery during the period between February 2003 and the end of the previous season.

The MLL issued a new tender concerning the naming rights. The Borsodi had the chance to use its right of making the first offer, but it considered the conditions of the new contract as unfavourable, as it did not contain new services, that would have explained the significantly higher price of 300 million HUF for the title sponsorship. The MLL included the indoors championship, the women's championship and the League Selection, that were marketed separately in the past, into the package. The Borsodi Sörgyár Rt informed the management of the League in a writing too, that it has no intention to participate in the title sponsorship tender.

On July 22, 2003, the MLL signed a new naming right contract with the Dreher Sörgyár Rt as the new title sponsor. The naming right of the Arany Ászok Liga brings 300 million HUF + VAT to the MLL. The agreement was signed for three years, until the end of the 2005/2006 season and the brewery has the right of the first offer at the termination of the current contract.

The contract includes terms regarding television transmissions and viewing figures. If there is no television coverage of the championship, the guaranteed amount of the title sponsorship fee could be reduced to 80 million HUF + VAT and the amount to be transferred will be influenced by the viewing figures, as well. The 300 million HUF + VAT price applies to the case only, when the league matches are broadcast on a nation-wide channel (Világgazdaság, July 23, p.1). Due to the current situation, that matches can be seen on ATV, what covers only 50% of Hungary, the fee decreased under 100 million HUF.

The survey of the values of Hungarian professional football has shown, that there are numerous factors present in this field, which obstruct the appearance of a company approaching Hungarian professional football with a long term business interest. The structure of right ownership is too difficult to understand and – in most of the cases – the factors guaranteeing the value of those rights are missing.

The next chapters present the economic matters of the division managing Hungarian professional football. However, the operation of the above discussed two companies can be

described through the investigation of the so called Hungarian Football League and its companies. As these companies operate independently, I present them one by one.

### *5.1.3. The business operations of the professional division*

The MLL was established in March 2000, but started its effective operations with the organisation and start of 2000/2001 season of the first division championship in June 2000. It was founded without starting capital, its capital stock was developed by revenues, by the turnover to secure the financing of the costs of the next half-season and its cash reserves at the end of the fiscal year.

The League finances its activities by the membership fees of member organisations and revenues related to competitions (i.e. administration fees of player transfers, fees of disciplinary sanctions and processes) staged by it self. The League has always managed to finance its activities from these sources and has never applied for (governmental or other kind of) subventions and has not conducted any entrepreneur activities.



Table 5.3. The development of the financial results of the professional division between 2000 and 2002

(thousand HUF)

	2000	2001	2002
<b>Revenues from activities of public utility</b>	<b>48.236</b>	<b>61.775</b>	<b>68.324</b>
Participation fees	25.700	23.100	23.725
Player licences	7.371	15.714	13.695
Administration fees of player transfers	4.806	1.578	–
Fees of disciplinary sanctions and processes	10.359	16.149	16.955
Broadcasting fee of the indoors championship and the Football Xmas charity gala	–	–	9.186
Ticket sales (matches of the league selection)	–	–	459
League selection sponsorship	–	–	2.000
Financial controlling services *	–	–	750
Other incomes (venue accreditation, etc.)	–	5.234	1.554
<b>Revenues from membership fees</b>	<b>3.585</b>	<b>1.800</b>	<b>3.225</b>
<b>Other revenues</b>	<b>745</b>	<b>1.771</b>	<b>4.279</b>
Other revenues (returns on amortisation)	–	–	3.502
Banking (interest) revenues	745	1.771	777
<b>Total revenue form public utility</b>	<b>52.566</b>	<b>65.346</b>	<b>75.828</b>
<b>Costs of activities of public utility</b>	<b>31.895</b>	<b>64.193</b>	<b>86.661</b>
Labour costs:	16.697	21.047	26.299
Salaries	6.798	10.332	7.720
Consultant compensations	4.862	3.965	6.725
Honorary awards	–	–	3.020
Other labour costs	1.189	1.653	2.923
Taxes and social insurances	3.848	5.097	5.911
Other costs:	15.198	43.146	60.362
Material costs	4.274	32.620	54.231
Amortisation	11	22	152
Other costs and expenditures	10.913	10.504	5.979
<b>Profit before taxation</b>	<b>20.671</b>	<b>1.153</b>	<b>-10.833</b>
<b>Profit of the period</b>	<b>20.671</b>	<b>1.153</b>	<b>-10.833</b>

\* There were no auditing companies involved in the control of financial operations of the teams. The controlling was performed by employees of the League and teams paid for a part of these services.

Source: Reports on public utility 2000-2002, HLASZ, MLL

The revenues continuously increased in the period, but the costs and expenditures increased in an even faster space. This led to operational losses by 2002.

In 2002, the increased sponsorship revenues and the winter indoors championship meant more incomes on behalf of the Profi Liga Kft., plus the revenues from the Christmas Gala accounted for the higher total income.

Besides fulfilling its principal functions, the League supported the Amateur Division with 3,3 million HUF in 2000 and gave a financial help of 5 million HUF to the Hungarian Amateur Football League (organiser of the amateur championship) in 2001.

In 2003, the MLL modified its 192 million HUF budget to 130 million.

#### *5.1.4. The business operations of the Profi Liga Kft.*

The Profi Liga Kft. is entrusted to utilise the rights with value of property belonging to the Hungarian professional football game and to fulfil its re-organisational functions<sup>xxviii</sup>.

Its activities include on one hand the centralised marketing of the rights with value of property related to the championships of the NB I and NB I/B (i.e. television and radio broadcasting rights, title sponsorship (naming rights) and commercial rights), on the other hand, the provisional financing of the re-organisation of football companies by issuing bonds with state guarantee<sup>xxix</sup> and the technical and infrastructural development of football.

The Profi Liga Kft. issued the so called Professional Football Development Bonds in two series (“A” and “B”) to enable the re-organisation of the teams belonging to its competence. The issuer must always be a corporate organisation responsible for the development of the given sport, that is not only competent in the questions of financing, but practices the function of controlling the utilisation of these resources, as well. Instead of the originally planned four series, there has been two issues of limited, not transferable bonds in 2001. The first issue of bonds had a total value of 500 million HUF and second one 2,6 billion HUF. The nominal value of one bond is 10 million HUF, its interest-rate corresponds the actual (at the time of the issue of the bond) interest-rate of the Hungarian government bonds with five years expiration.

The allocated credits had an expiry between three months or two years. The interest-rate of the credit equals the one month BUBOR + 2%. Resolving the short-term liquidity problems of the clubs is the principal aim of the credit. The Profi Liga Kft. can use this tool to secure a situation, where clubs complying with the obligatory conditions of participation have a convenient financial background and do not threaten the normal flow of the championship with a possible bankruptcy.

The Profi Liga Kft. contributed to the establishment of the financial bases of professional football – via channels outside the system of divisions of the MLSZ – by enabling the teams of NB I and NB I/B to realise a total amount of 605 million HUF in revenue originating from the sale of marketing rights during the 2000/2001 season. The Presidium approved in its sanction 18/2000, that the sports organisations get 535 million HUF of the marketing revenues, while 70 million HUF flows into the treasury of the MLSZ.

Revenues from the same source increased to 850 million HUF in the 2001/2002 season and 832 million HUF in 2002/2003. The following table shows the revenue and cost structure of the Profi Liga Kft. in 2001-2002.

Table 5.4. The revenue and cost structure of the Profi Liga Kft. in 2001-2002

(thousand HUF)

Term	2001	2002
Utilisation of rights	1.266.000	1.074.000
Other incomes*	33.000	50.000
Accounts of the Football Duo Kft.	540.000	360.000
<b>Total revenues</b>	<b>1.839.000</b>	<b>1.484.000</b>
<b>Expenditures of material character</b>	<b>1.697.800</b>	<b>1.424.400</b>
Material costs	1.800	1.600
Services employed	146.700	116.500
<i>Including:</i>		
<i>rentals,</i>	20.400	20.900
<i>marketing, ads</i>	21.400	8.700
<i>related to sports events</i>	17.600	25.000
Other expenditures	3.300	3.100
Value of transferred services	1.546.000	1.303.200
<i>Including:</i>		
<i>Accounts of Football Duo Kft.</i>	621.200	437.800
<i>Sub-contractual fees of the teams:</i>		
<i>2000-01 season, spring</i>	469.500	
<i>2001-02 season, autumn</i>	415.300	
<i>2001-02 season, spring</i>		409.400
<i>2002-03 season, autumn</i>		416.000
<i>Organisational costs of the Indoors Championship</i>	40.000	40.000
<b>Labour costs</b>	<b>12.100</b>	<b>10.300</b>
<b>Other costs</b>	<b>913.400</b>	<b>763.600</b>
<b>Operating profit</b>	<b>21.684</b>	<b>-282.218</b>
<b>Profit of financial activities</b>	<b>7.955</b>	<b>-6.598</b>
<b>Profit after taxation</b>	<b>24.111</b>	<b>-288.887</b>
<b>Retained profit</b>	<b>24.111</b>	<b>-288.887</b>

\* I.e. re-invoicing of rental costs, ticket sales

Source: Profi Liga Kft.

The utilisation of rights represented the most important revenue source in the investigated period. The decrease of the revenues is mostly a result of the termination of the broadcasting contract with UPC in the second half of the season. The main difference on the cost side is represented by the savings on the advertisement expenditures, as the Presidium froze the possibility of promoting the organisation in 2002. The increasing costs related to sports events is explained by the widening range of events staged by the company, what ignited the increase of revenues from ticket sales, too. The late payments of the televisions created the differences

in the clearings with Football Duo Kft. The supposed payments to the teams approved by the Club Commission were executed in due time. The difference between the fiscal year and the football season represents a further explanation of the deviancies between the two periods.

The Profi Liga Kft. supports the economic background of football with financial resources secured by the emission of the so called Football Development Bonds. The issue of these bonds puts an amount of 3,1 billion HUF to disposition until June 2006.

On December 31, 2002, the effective amount of credits used by the teams is the following:

*Table 5.5. The amounts of re-organisational credits at the teams of NB I*

<b>Team</b>	<b>Date of the credit</b>	<b>Amount of credit (1000 HUF)</b>	<b>Loss of value (1000 HUF)</b>	<b>Loss ratio (%)</b>
Matáv-Sopron	July 11, 2001	49.000	29.000	59,2
ZTE	August 30, 2001	100.000	50.000	50,0
Dunaferr	July 16, 2001	25.000	15.000	60,0
Új Lombard	May 31, 2001	30.000	12.000	40,0*

\* As of March 31, 2003, the loss of value is 50% compared to the debt of 23,4 million HUF.

*Source: Profi Liga Kft.*

His source provides the football companies with about 900-1200 million HUF of credit and served even as the financial background of the planning phase of the stadia reconstruction programs. The Profi Liga Kft. closed the fiscal year 2002 with a loss of 288,9 million HUF, due to the changing financial backgrounds of the football companies and the incalculable factors during the credit allocations<sup>86</sup>.

## ***5.2. The basis of business operations***

When discussing the question, whether a Hungarian football company can operate on business bases, it is necessary to look at the principle bases of the business operations, that are represented by the customers interest towards professional football. This chapter is aimed to present an overlook of the public demand towards Hungarian professional football by discussing both the on-site and the media audience. In the second part of this chapter, I

<sup>86</sup> Such events happened at the teams of Dunaferr and Vasas in 2002.

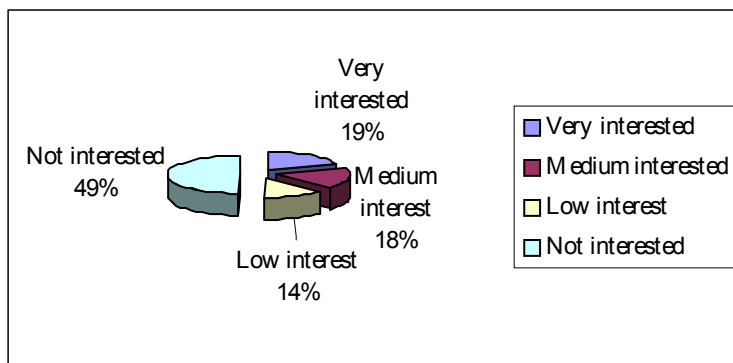
investigate the question, whether the Hungarian football game possesses any brands, that are essential bases of the business oriented operations.

### 5.2.1. Customers interest towards professional football

There are two important kinds of public interest towards the professional football game: on-site and through the media (c.f. subsection 3.2.). The determination of the characteristics of the customers - signifying the base of business operations – in Hungary is the goal of this chapter.

The Marketing Centrum National Market Research Institute<sup>xxx</sup> conducted an omnibus survey between April 24 and 27, 1998<sup>xxxi</sup> to define the customers interest towards Hungarian football. The main results of the survey showed a significant affinity of the Hungarian public towards the game of football. The 50% of the interviewed showed some kind of interest.

Chart 5.1. The development of the interest towards football



Source: Ács – Meiszterics (1998)

The segmentation analysis has shown a stronger than average interest among men of younger age groups, living in the cities of the province (not in Budapest). The investigation of the willingness to attend matches revealed, that the majority of the interviewed does not go to ballgames. At the same time, the national survey indicated a steadier audience in the case of teams in the lower divisions of the national championship. Attending football matches is still one of the most important entertainment in smaller cities and villages though, where even women go to matches with an above average frequency.

The survey included the research of the media customers. The researches experienced the highest viewing figures at the matches of the national selection in 1998.

Table 5.6. How often do you watch it on TV?

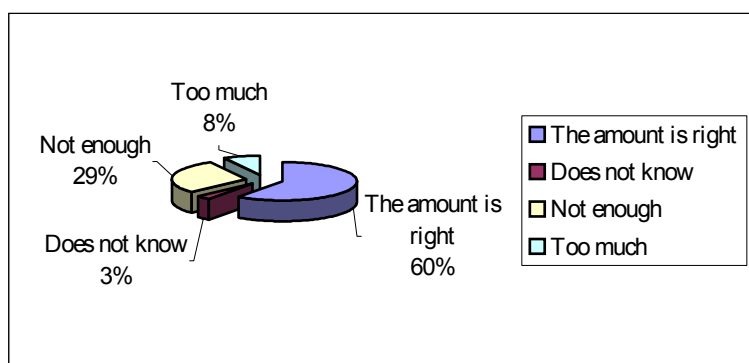
	Regularly	Sometimes	Rarely	Never
Matches of domestic teams	32	37	22	9
Highlights of domestic matches	42	34	16	8
Matches of the national team	50	31	14	6
Matches of foreign leagues	26	39	21	13
Highlights of foreign leagues	29	38	20	13
Matches of international cup competitions	39	36	15	10
Matches of foreign national teams	28	38	21	13

Source: *Ács – Meiszterics (1998)*

As a consequences of the data shown in the table, we can assume, that there is a stronger demand towards domestic matches, than towards foreign games.

The Football Monitoring research of the Sport+Markt AG looked for answers regarding the question, how people consider the number of the transmitted matches. The result of the survey showed, that the high number of football games on TV is not a reason for the low viewing figures, as only 8% of the interviewed thought, that there are too many matches on TV.

Chart 5.2. The quantity of domestic transmissions of football matches



Source: *Sport+Markt AG*

The attendance figures of the 2001/2002 and 2002/2003 seasons of the first division of the Hungarian championship were very low, what is well illustrated by the capacity exploitation indexes of the stadia.

Table 5.7. The average attendance figures at the home matches

(number of spectators)

Team	2001/2002				2002/2003 <sup>87</sup>		
	Regular season <sup>88</sup> autumn	Regular season <sup>89</sup> spring	Play-off <sup>90</sup>	Avg.	Regular season	Play-off	Avg.
Balaton FC (Siófok)	–	–	–	–	3030	3600	<b>3315</b>
Békéscsabai Előre FC	–	–	–	–	5000	2800	<b>3900</b>
<i>Dunaferr</i>	2580	2670	2500	<b>2580</b>	2690	1500	<b>2095</b>
DVSC-Megaforce	5280	3920	2330	<b>3845</b>	5200	4700	<b>4950</b>
FTC	6300	8350	6930	<b>7195</b>	7160	8540	<b>7850</b>
Győri ETO FC	3040	2920	2750	<b>2905</b>	2840	1680	<b>2260</b>
Kispest-Honvéd	1570	2080	1370	<b>1675</b>	2660	1600	<b>2130</b>
Lombard FC	4450	5750	4000	<b>4735</b>	–	–	–
Matáv-Sopron	3260	4480	3350	<b>3695</b>	2600	1630	<b>2115</b>
MTK-Hungária	2080	2200	860	<b>1715</b>	1950	2260	<b>2105</b>
Pécsi MFC	–	–	–	–	–	–	–
Újpest FC	2630	4300	3630	<b>3520</b>	2540	2520	<b>2530</b>
<i>Vasas</i>	2250	4000	650	<b>2300</b>	–	–	–
Videoton FCF	3060	2500	6250	<b>3935</b>	1640	1520	<b>1580</b>
Zalaegerszeg	8780	7400	15250	<b>10475</b>	5950	2000	<b>3975</b>
<b>Total</b>	<b>3770</b>	<b>4210</b>	<b>4150</b>	<b>4045</b>	<b>3600</b>	<b>2610</b>	<b>3105</b>

Teams not competing in NB I anymore in the 2003/2004 season are marked with italics.

“–“ refers to the fact, that the team did not compete in NB I in the given season.

Source: Own calculations based on spectator figures of the newspaper *Nemzeti Sport*.

<sup>87</sup> The championship had a regular season with twenty-two rounds of home and away round-robin matches plus a play-off with ten rounds of home and away round-robin matches.

<sup>88</sup> Altogether twenty-two rounds in home and away round-robin format.

<sup>89</sup> Altogether eleven rounds of round-robin in a format, where each team played all the other ones once only.

<sup>90</sup> Top and bottom half play-offs in a five rounds round-robin format with single matches.

Table 5.8. Average exploitation of stadia capacity

(percentages)

Team	2001/02			2002/03		
	Number of spect.	Stadium capacity*	Exploitation (%)	Number of spect.	Stadium capacity*	Exploitation (%)
Balaton FC (Siófok)	–	10000		3315	10000	33
Békéscsabai Előre FC	–	14500		3900	14500	27
<i>Dunaferr</i>	2580	11600	22	2095	10500	20
DVSC-Megaforce	3845	7600	51	4950	7600	65
FTC	7195	18100	40	7850	18100	43
Győri ETO FC	2905	25398	11	2260	16000	14
Kispest-Honvéd	1675	15000	11	2130	13500	16
Lombard FC	4735	13500	35	–	–	–
Matáv-Sopron	3695	8000	46	2115	3500	60
MTK-Hungária	1715	7702	22	2105	7702	27
Pécsi MFC	–	–	–	–	–	–
Újpest FC	3520	13900	25	2530	13500	19
<i>Vasas</i>	2300	18000	13	–	–	–
Videoton FCF	3935	19000	21	1580	17000	9
Zalaegerszeg	10475	15000	70	3975	12000	33
<b>Total</b>	<b>3770</b>	<b>14400</b>	<b>26</b>	<b>3105</b>	<b>12110</b>	<b>26</b>

*Teams not competing in NB I anymore in the 2003/2004 season are marked with italics*

\* The capacity of the stadia can alter year to year due to the works during the Stadia Reconstruction Program. While calculating the average exploitation, I always considered the stadium capacity of the given period.

Source: Own calculations based on spectator figures of Nemzeti Sport and technical parameters published in Stadium brochures.

A survey<sup>xxxii</sup> conducted in 2000 shows, that Hungarian football has a relatively steady audience and some prestigious matches can become important television events. Urbán's (2000) research reveals, that the composition of the audience of Hungarian football is favourable regarding social factors as it is marked by above average education level and stronger purchasing power. At the same time, the on-site audience of the domestic league matches remains below the spectator bases of foreign national competitions, both in number and in its commercial value. This situation could be improved by more convenient facilities and by more attractive and constant transmission times.

The figures of AGB Hungary Kft reflect low demand towards the matches of the autumn rounds of the 2002/2003 championship season. The games of the Arany Ászok League were broadcast by M2, a channel not available for a lot of households and with average daily viewing rate of 4-5%, compared to the 12-12,5% share of the principal channel MTV. The Euro 2004 qualifying match between Latvia and Hungary – broadcast on MTV - had the best



viewing figure among football programs. Its 10% share meant 1 million spectators. The Győr – Balaton FC league game turned out to be the least watched match with 1%, what means 100.000 people.

*Table 5.9. Viewing figures of football games in Hungary*

MTV			
Date	Game	Event	Audience*
July 19, 2003	MTK - FTC	Super Cup	7,4
August 13, 2003	MTK - Celtic	Champions League qualifier	8,7
August 28, 2003	FTC - Birkirkara	UEFA Cup	6,8
August 29, 2003	Milan - Porto	European Super Cup	6,2
September 10, 2003	Latvia - Hungary	Euro qualifier	10,0

M2			
Date	Game	Event	Audience*
July 28, 2003	Újpest – DVSC	Arany Ászok Liga	1,2
August 1, 2003	Győr – Balaton FC	Arany Ászok Liga	1,0
August 2, 2003	ZTE – MTK	Arany Ászok Liga	1,6
August 8, 2003	Balaton FC – Lombard FC	Arany Ászok Liga	1,1
August 9, 2003	Újpest – ZTE	Arany Ászok Liga	1,7
August 20, 2003	Slovenia – Hungary	Friendly	2,5
August 23, 2003	FTC – MTK	Arany Ászok Liga	2,1
September 1, 2003	Újpest – FTC	Arany Ászok Liga	2,7
September 12, 2003	Balaton FC – Békéscsaba	Arany Ászok Liga	1,3
September 13, 2003	Lombard FC – MTK	Arany Ászok Liga	1,8

\* AMR-index: the figure is projected to the public older than 4-years-old (because there is a significant audience among the under 18-years-old, as well) and to viewers not zapping channels during the match. 1% means 100.000 viewers.

Source: AGB Hungary

The data in the tables and my own analysis indicate, that the viewing figures of the matches transmitted by television in Hungary are largely dependent on the broadcasting channel. This is influenced by the number of households the given channel is technically covering (how many people are physically reached by the transmission) and by the calculability of the program structure. On the other side, these factors also influence the bargaining power of the channels when the broadcasting rights are sold.

While analysing the data, the time and the type of the given program must be taken into consideration, as well. The viewing figures of a game transmitted prime-time can not be

compared to other matches. Similarly, a live coverage can not be substituted by a magazine program.

Not only the viewing figures are of major interest, but also the social composition of the audience from different aspects. The data available allowed a comparison by age groups only. Furthermore, the figures concentrate almost exclusively to the audience of the age group 18-49 years old, therefore the interest of younger and older age groups towards football transmissions could not be determined.

### *5.2.2. The brands of Hungarian football*

Within the frame of the dissertation, I researched the current situation regarding brands in Hungarian football. The investigation was based on the presumption, that brands are existing in Hungarian football game and these are legally identifiable.

In Hungary, the distinctive marks of goods are registered the Hungarian Patent Office (Magyar Szabadalmi Hivatal, MSZH). The research was conducted with the help of the officials of MSZH in summer of 2003. It has shown, that in the case of the football companies operating the clubs of the NB I championship we can find some kind of efforts of registration at the following clubs.

*Table 5.10. Registered trademarks of football clubs in Hungary*

<b>Owner</b>	<b>Trademark</b>	<b>Type</b>
DVSC	DVSC 1902	Colour symbol
FTC	Ferencvárosi Torna Club, Ferencváros Sports Club	Colour symbol
FTC Labdarúgó és Sport Kft.	Ferencváros	Colour symbol
FTC Labdarúgó és Sport Kft.	Fradi	Word
MTK SE	MTK	Colour symbol
MTK Hungária Sport Kft.	MTK	Colour symbol
Új Lombard Labdarúgó Kft.	Lombard	Colour symbol
UTE	UTE 1885	Symbol
UTE	1885 UTE	Colour symbol

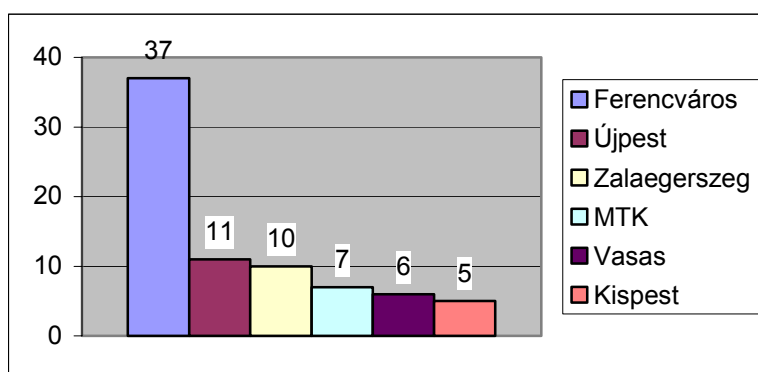
*Source: Hungarian Patent Office*

The result has indicated, that generally speaking brands are still missing in Hungarian football, both on micro and meso level. One of the reasons behind this phenomenon could be

the lack of real stars in the current Hungarian football scene. The Hungarian Football League makes strong efforts to change this situation. Therefore, the announcement of the Player of Month is one of their tools in their marketing strategy.

Ferencváros is the lone positive exception among the football companies. As Gábor Várszegi commented: „Fradi is a 100 years old brand, with 2 million fans in- and outside the borders, so this is a very strong emotional weapon. This is a brand, which can be used in a broad scale of products, the possibilities are almost unlimited. A Fradi-win is much more than a sporting success in the Hungarian cultural environment. It is an emotion, which can be the engine of a business model. Above all, football has been one of the most dynamically developing industry in the past 20 years.” The business model imagined by Várszegi had three pillars: 1) The new facility and recreational centre planned to replace the current stadium on Üllői Street, 2) Merchandising, 3) Sponsors and supporters. The value of the brand “Ferencváros” was developed based of its huge – by Hungarian relations – fan community. However, the value of this brand is devaluated by numerous factors (drastically decreasing audience, decreasing number of season-ticket holders, frequent scandals by fans). Still, up-to-date surveys confirm (the survey was conducted among 600 Hungarians between the age of 15 and 69, interested in football transmissions on TV), that Ferencváros is the most popular Hungarian football club even now.

*Chart 5.3. The most popular Hungarian football clubs*



*Source: Sport+Markt AG*

With the appearance of Fotex, there was a real owner and that brought a change in the life of the football company<sup>xxxiii</sup>. Involving its business partners as sponsors of the club, it started to win back spectators and used different tools to strengthen the brand. The web site of the club was developed, a channel named Fradi TV was introduced and a weekly magazine called

100% Fradi was published. With the co-operation of sponsors, a banking card<sup>xxxiv</sup> and the Fradi Beer<sup>xxxv</sup> was put to the market. To stop the strong decrease of the spectator numbers the communication office of the club founded the Fradi Club and organised complementary programs.

Based on the case-studies, the survey of the merchandising activities of the Hungarian football companies has shown, that 58% of them has such activities. There are differences in the ownership and in the way of selling merchandising products among the companies. There are two basic forms: temporary stands during the matches or sales via Internet and contracted shops. The 90% of the manufacturing of the goods is done by subcontractors. The classical sales points, the fan shops are not typical<sup>91</sup> in Hungary. There are numerous professional football companies without any kind of merchandising activity.

### ***5.3. Investigation of domestic football companies***

The investigation of the operations of football companies is done in three form, in the dissertation. First, there is an inter-corporate analysis. During the inter-corporate analysis, I compare the chosen Hungarian football companies on internationally on club level. Secondly, there are the sector analyses, where I have the opportunity to make general declarations about all clubs of the Hungarian professional football, based on the analyses of the case-studies conducted about domestic football companies. All these create a realistic background for the business model, regarding both its system of pre-conditions and its data. The third form is given by the business modelling. The elaborated business model is suitable to accept or neglect formulated hypotheses based on the conducted sensitivity analysis.

#### ***5.3.1. Inter-corporate analyses***

The international comparison is based on Manchester United and Borussia Dortmund, as business oriented football companies, both operated as open incorporations. Furthermore, it can be said about both of them, that they are over-representing even the international professional football regarding their sporting and economic operations.

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<sup>91</sup> FTC is an exception also in this field in Hungarian football. There is a fan shop in the stadium owned by the owner of the facility, the Sportfólió Kht. FTC Rt. has no revenues from the profit of the shop.

According to Rohony (2000/a), the two football companies can be considered as star clubs, that are operating on large and developed markets.

Chart 5.4. The power-matrix of European club football

	<b>LARGE AND DEVELOPED MARKET</b>	<b>SMALL AND LESS DEVELOPED MARKET</b>
<b>STARS</b>	Bayern Munich, B. Dortmund, Manchester Utd, Arsenal, Paris SG, Olympique Marseille, Milan, Juventus, Internazionale, Barcelona, Real Madrid	Ajax, PSV Eindhoven, Feyenoord, Rangers, Celtic, Porto, Benfica, Sporting Lisbon, Anderlecht, Rosenborg Trondheim
<b>UPCOMING CLUBS</b>	Hertha BSC, Hamburger SV, Leeds United, Everton, Auxerre, Nantes, Parma, Lazio, Deportivo La Coruna, Valencia	Galatasaray, Olympiakos Pireus, Bröndby, Grasshoppers, AIK Solna, Sparta Prague, FTC, ZTE, DVSC

Source: based on Rohony (2000/a)<sup>92</sup>

Rohony (2000/a) argues, that the star teams of the smaller market – following the current tendencies – will have decreasing chances to maintain their competitiveness against the star clubs of the BigFive.

The two football companies (Manchester United and Borussia Dortmund) is also characterised by being included in the list of the twenty wealthiest football companies, published by Deloitte & Touche. The list has been headed by Manchester United for years.

Although the revenue sources of the clubs go through a significant differentiation, an increasing disparity can be seen among the clubs. This is well illustrated by the following tables, presenting the list of the clubs with the biggest incomes.

<sup>92</sup> The author included MTK as Hungarian representative in his original chart. The results of the recent years and the legal forms justify the its substitution by these three teams.

Tables 5.11.-5.12. Ranking of football clubs with the highest revenues 1996/97-1999/2000

(million pounds)

1996/97				1997/98			
	Club	Nation	Revenue		Club	Nation	Revenue
1.	Manchester Utd	English	87,9	1.	Manchester Utd	English	87,9
2.	Barcelona	Spanish	58,9	2.	Real Madrid	Spanish	72,5
3.	Real Madrid	Spanish	55,7	3.	Bayern Munich	German	65,2
4.	Juventus	Italian	53,2	4.	Juventus	Italian	55,3
5.	Bayern Munich	German	51,6	5.	Newcastle Utd	English	49,2
6.	AC Milan	Italian	47,5	6.	Barcelona	Spanish	48,6
7.	B. Dortmund	German	42,2	7.	AC Milan	Italian	48,6
8.	Newcastle Utd	English	41,1	8.	Internazionale	Italian	48,2
9.	Liverpool	English	39,2	9.	Chelsea	English	47,5
10.	Internazionale	Italian	39,1	10.	Liverpool	English	45,5
11.	Flamengo Rio	Brazilian	37,4	11.	B. Dortmund	German	41,5
12.	Atletico Madrid	Spanish	32,4	12.	SS Lazio	Italian	41,1
13.	Paris SG	French	31,7	13.	Arsenal	English	40,4
14.	Rangers FC	Scottish	31,7	14.	AC Parma	Italian	33,4
15.	AS Roma	Italian	28,2	15.	Paris SG	French	32,9
16.	Tottenham H.	English	27,8	16.	Rangers FC	Scottish	32,5
17.	Ajax Amsterdam	Dutch	27,8	17.	Aston Villa	English	31,8
18.	AC Parma	Italian	27,8	18.	Tottenham H.	English	31,2
19.	SS Lazio	Italian	27,3	19.	AS Roma	Italian	30,7
20.	Arsenal	English	27,2	20.	Leeds United	English	28,3

Source: Deloitte & Touche FourFourTwo: The 20 Richest Football Clubs In The World, 1998, [www.ft.com/sport](http://www.ft.com/sport)— The world's 20 richest clubs by turnover

(million pound)

1998/99				1999/2000			
	Club	Nation	Revenue		Club	Nation	Revenue
1.	Manchester Utd	English	110,9	1.	Manchester Utd	English	117,0
2.	Bayern Munich	German	83,5	2.	Real Madrid	Spanish	103,7
3.	Real Madrid	Spanish	76,1	3.	Bayern Munich	German	91,6
4.	Chelsea	English	59,1	4.	AC Milan	Italian	89,7
5.	Juventus	Italian	58,5	5.	Juventus	Italian	88,4
6.	Barcelona	Spanish	55,7	6.	SS Lazio	Italian	79,4
7.	AC Milan	Italian	54,1	7.	Chelsea	English	76,7
8.	SS Lazio	Italian	50,0	8.	Barcelona	Spanish	75,2
9.	Internazionale	Italian	49,1	9.	Internazionale	Italian	68,9
10.	Arsenal	English	48,6	10.	AS Roma	Italian	64,1
11.	Liverpool	English	45,3	11.	Arsenal	English	61,3
12.	Newcastle Utd	English	44,7	12.	B. Dortmund	German	59,5
13.	Parma	Italian	44,4	13.	Leeds United	English	57,1
14.	B. Dortmund	German	43,9	14.	Fiorentina	Italian	54,2
15.	Tottenham H.	English	42,6	15.	Rangers FC	Scottish	51,7
16.	AS Roma	Italian	39,4	16.	O. Marseille	French	49,9
17.	Leeds United	English	37,0	17.	Tottenham H.	English	48,0
18.	Rangers FC	Scottish	36,5	18.	AC Parma	Italian	47,5
19.	Aston Villa	English	34,9	19.	Liverpool	English	46,4
20.	Celtic	Scottish	33,8	20.	Newcastle Utd	English	45,1

Source: Rohony (2000/a), Nemzeti Sport Online: [www.nemzetisport.hu](http://www.nemzetisport.hu).

Incomes generated by the marketing of broadcasting rights account for a very significant part<sup>93</sup> of the revenues of the big market football clubs. Considering the recent trends of the media market, the dependence from this market makes the operations of the club rather vulnerable.

The big market teams have the common characteristic, that they are generally net player importers. It means, they sign more and/or more valuable players, than they sell on average in longer terms. Meanwhile, the clubs of the smaller markets or of the countries with less developed economies try to get in the position of net player exporters, sell their players, developed by themselves or bought for a cheaper price, with profit in abroad.

The football companies running the investigated Hungarian teams are characterised by the form of the closed share company<sup>94</sup>. The ZTE Rt. has a squandered ownership, the FTC Rt.

<sup>93</sup> It reaches 30-40% in some cases.

<sup>94</sup> ZTE established a share company right at the beginning, in 1998 when the transition from clubs into companies became obligatory (registered on July 22, 1998). DVSC and FTC operated as a limited company first and later – DVSC in August 5, 1999, FTC in January 31, 2003 – they both transformed into share companies.

has a dominant majority owner, while the DVSC Rt represents a uniqueness due to the presence of the municipality among the owners. All of the three are clubs can be considered as upcoming ones functioning on less developed, small markets, based on the categorisation of Rohony (2000/a).

Due to the studied balance sheets<sup>95</sup> of the period between 2000 and 2002, the equity capital of the foreign clubs is about 55-60% of their gross sum of balance (Appendix 2). That indicates a stable registered equity capital. In case of the domestic clubs, the equity capital is very volatile. As a result of their operational losses, their equity decreases steadily, what requires the increase of the equity repeatedly, as a compensation.

The registered capital reaches about 7-12% of the gross sum of the balance in foreign clubs, while in domestic clubs, the registered capital almost reaches or, in some cases, even tops the gross sum of the balance. This phenomenon has its roots in the operational losses, in the negative profit and profit-reserves.

In the case of Manchester United and Borussia Dortmund, the registered capital has a relatively low level. At Manchester United, the profit-reserve is remarkably high, while Borussia Dortmund has considerable capital reserves. The former one is explained by the profitable operation, the later on is quite probably the result of the significant difference between the nominal value and the exchange rate at the issue of the shares.

The gross sum of the balance increases steadily in the case of the English football company, while the one of the German corporation remains about the same. Among the Hungarian football companies, there is an increase in the case of ZTE, due to the growing figure of the immaterial goods. This phenomenon can be explained by the increase of the capitalised value of the player contracts.

The research of the profit statements<sup>96</sup> show, that Hungarian football companies have losses at every level of the profits. The dimensions of the losses are independent of the development of revenues, as more revenue can be achieved with even higher costs only, so that increases the losses, as well. International examples indicate, that profitable operations are not self-

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<sup>95</sup> Deferred charges are listed separately in the balance sheets of the English companies, mainly among current assets. Accrued charges are listed as usual.

<sup>96</sup> English companies list the profit of player transfers outside the operational profits, while German and Hungarian companies include it in the operational profits. The analyses were conducted according to this.



evidences in football operated on business bases either. Manchester United has profits both in terms of operational and balance profits and pay dividend to its shareholders. However, as many examples show, paying dividend is not usual among football companies. The reason behind it can be most probably found in their non-profitable operations. Dortmund is a good example for a quasi zero-profit-operation: slightly positive operational and balance profit without payment of dividends.

### *5.3.2. Sector analysis*

The core question of the dissertation: can a professional football company operate on business bases in Hungary?

Towards of answering this question, I have reviewed the markets constituting the business ground of football, their characteristics and the main stakeholders, who are effecting on the business operation, in the course of the study. At the same time, the question refers specifically to the Hungarian professional football, so the general operational environment of the Hungarian football companies has been introduced shortly.

In order to be able to answer this question, a case study research was conducted in summer of 2003. The case studies included 80% of the football companies operating professional teams between 2000-2002. The whole research used a given draft, a structure, which can be surveyed in the appendix (Appendix 3) of the dissertation.

The case studies served as exploring research tools considering the major characteristics of the current operation of football companies, furthermore, served as a valuable input data for the business model. The business model is trying to map the operation of a football company under an optimistic strategy and gives the answer to our question under featured optimistic circumstances. The case studies are eligible to support the documents and to guarantee the reality of the input data.

#### *5.3.2.1. The financing of the Hungarian football clubs in the past*

The clubs, considered as the predecessor of the professional football companies, have been founded in Hungary characteristically at the beginning and middle of the 20<sup>th</sup> century. The

operation of Hungarian sports, just as football, was described by two major factors after World War II. On one hand, the departments giving a background for the given sports were a part of multi-sports club model. On the other, both the management and the operation of sports were duties of the state.

According to András (1996) and Földesiné (1998), the role of the state has been changed progressively, but has not ceased up to this very day. The transformation is reasonable by many aspects, supported by economic arguments as well, in many sports, so in football, too.

The operation of Hungarian football on business bases and the permission to do so was obstructed by many factors, however. The football departments outgrew the multi-sports club model, but they still needed state funds to cover the costs of their operation. In the market economy, the state has secured henceforward their subsistence and operation in direct and indirect ways. Ignoring the introduction of tax and social insurance system, these clubs did not pay for the prescribed state commitments, but the state left them unpunished for many years. On the other hand, a sponsorship covered by patronising existed without of bilateral business relations.

It was in 1992 for the first time, that the state, to solve the problem of the accumulated public dues, remitted the public due stock, including capital, interest and penalty items totalling an amount of 900 million HUF accumulated by sports organisations, but mainly by their football departments. The football departments have departed from the clubs in many cases to start a new life leaving their public due behind. The Sports Law LXIV of 1996 put as a condition of the state subventions, that the supported should not have any public dues. But even so, the Hungarian sports sphere has accumulated a public due of 10 billion HUF by 1998, especially the sports clubs operating football teams. A tender was called by the order of the government to settle the remained amount, after the release of interests and penalties. This amount debited the budget of the sports administrations with an item appropriated to the settlement of the public dues of 1 billion HUF yearly, for many years.

As another technique to avoid public dues, players found unlimited partnerships or are paid with bonds. Another common routine is to employ the players as individual contractors, what is allowed by the Sport Law in effect, but it is against both the legal practice and the prescriptions made by the international federation.

The legal form allowing bankruptcy introduced obligatory in 1998 and the competition regulations prevent the accumulation of the expired public dues in such an amount nowadays. The public dues have become private dues to suppliers.

The Ministry of Youth and Sports, established in January 1999, created a development program for football and planned to spend more than 10 billion HUF on the reforming of football and creating the business bases of Hungarian football in four years.

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#### 5.3.2.2. The results of the case-studies

The main objective of the completion of the case studies was to make the presentation of the typical operation of professional football companies in Hungary.

All of the analysed companies were established in the summer of 1998, as a necessary condition of the participation in the professional championship. Characteristically, they were founded in the form of limited companies with the minimal invested capital. The municipalities, that own and maintain the stadia, and the former clubs are appearing as owners almost in every team of the province. In many cases, the local entrepreneurs made joint efforts to gather the necessary minimal capital for the foundation.

The structure of ownership shows a diverse picture. Among the owners, we can find small investors and real owners, as typified by Chikán (1997). Behind the majority ownership, there is usually a company, whose profile could be totally different from football. A common profile of the owner companies is related to the real-estate business. In many cases, there is an individual in the background of the owner companies, who has regional or other ties to the team. In case of companies operating teams of the province, the municipal ownership is explained by the ownership of the stadium or by the grass-root development as a sporting opportunity provided for children.

In the past years, two companies (the ones operating the teams of DVSC and FTC) have changed their legal status from limited company to incorporated company. Considering its legal form, the operation of Hungarian professional football is in accordance with the form desirable for business operation. At the same time, the amount of the equity and the budget ensuring the operation differs in a distorted way.

The main profile of the companies is the other sporting activities. The further fields of activity depend on the football strategy of the company, on one hand, and of the field of activity of the dominant owner company, on the other hand. According to this, the major fields of activity are indicated in the following table.

*Table 5.13. The other fields of activity of the Hungarian professional football companies*

<b>Activities related to the strategy of a football company</b>	<b>Other activities</b>
Operation of the sport facility	business consulting
Recreational service not listed elsewhere	Let and operation of real-estates
Service improving physical state of health	Rental of other overland vehicle
Advertisement	Data processing
Other business services not listed elsewhere	Washing and cleaning of textile and fur
Publishing of periodical publication	Trusteeship
Retail trade of books, papers, stationery	Demolition, alignment

*Source: copies of company registries*

Reviewing the revenue structure of the companies in the period between 2000 and 2002, it can be noticed, that the major part of the revenues, 41% in average, generates from the local sponsors and advertisers (Table 5.14.). At the same time, the bilateral business relation can be queried behind these sponsorship incomes, as the number of the on-site spectators is decreasing permanently (c.f. subsection 5.2.1.), although the spectators should guarantee the base of local sponsorship. We can often find other business or non-business reasons outside of the range of football behind the sponsorship. It also happens, that the subvention from the municipality enabling the operation of the stadium appears in the category of sponsorship. As a special business motive, there are so called “sponsorships”, that are related to the person and the to the personal interest sphere of the owner. It is also a common practice, that the companies, which are the principal business partners of the majority owner outside of field of football, act as sponsors of the football company.

Table 5.14. The average operational revenues of all the football companies together between 2000 and 2002

<b>Form of return</b>	<b>Average amount of the revenues of all teams (HUF thousand)</b>	<b>Proportions (%)</b>
Tickets revenues	450.919	11
Centralised marketing revenues	462.722	11
Revenues of participation in international competitions	131.135	3
Local sponsors, advertisers	1.701.416	41
Incomes from player transfers:	461.853	11
Domestic transfers	348.232	
International transfers	113.621	
Other revenues (Winter Indoor Tournament <sup>*</sup> , etc.)	398.097	10
Subventions	322.951	8
Other	228.138	5
<b>Total operating revenues</b>	<b>4.157.230</b>	<b>100</b>

<sup>\*</sup> Starting from 2001.

Source: business plans, MLL

The role of local sponsors motivated by their local patriotism is very important in the life of Hungarian football companies, at the same time these arrangements are characterised by many low-sum items and by the approximation of the economic power of this field. Hereby, further revenue sources can hardly be excepted from them. Among the sponsorship contracts we can find both cash contributions or barter based relations. The major barter relations are connected to the operation of the company, so the football companies are provided with sporting goods, equipment, other services and alcoholic drinks, mainly beers by their sponsors.

The next biggest items of revenues are from ticket sales, centralised marketing revenues and the player transfers, amounting 11% of distribution in the examined period.

The steadily decreasing number of the audience on-site with tickets or seasons tickets is an important symptom behind the tendency of the average revenue from ticket sales, which is lower than in the international practice (c.f. subsection 5.2.1.). Beyond this, the different pricing policies applied by the companies influence the development of the ticket revenues. The price of tickets is generally differentiated nowadays. The factors of the differentiation are: the uniqueness of certain games, the location inside the stadium and the variance of the complementary services, discounts offered on gender or age-group basis. the Entrance is

occasionally free for women, students and children under a certain age. In Hungary, the entrance to the stadiums is not secured yet by entrance-systems, except for a few facilities. Therefore, the credibility of the available spectator numbers are quite insecure, just as the determination of the rate of paying and not-paying viewers. At the same time, every team has a low level, but stable number of viewers.

*Table 5.15. Average price of tickets*

(HUF)

<b>Team</b>	<b>2002/2003</b>	<b>2003/2004</b>
Balaton FC (Siófok)	1150	1150
Békéscsabai Előre FC	725	725
Dunaferr	750	–
DVSC-Megaforce	1150	1150
FTC	950	1000
Győri ETO FC	875	1000
Kispest-Honvéd	700	–
Lombard FC	–	800
Matáv-Sopron	900	800
MTK-Hungária	1250	1250
Pécsi MFC	–	850
Újpest	1025	1025
Videoton FCF	900	650
Zalaegerszeg	1000	1200
<b>Average price</b>	<b>950</b>	<b>970</b>

*Source: Nemzeti Sport, reports on games, personal calculation*

As it is shown in the table, the tendency of the ticket prices indicates, that football companies did not increase dramatically the prices, sometimes the prices remained the same or got even a bit lower than earlier, in deed. In the aspect of price sensitivity, an eventual rise of the prices of tickets is not causing extra decrease in the number of the audience. Especially in the case of international games, the companies could, but do not take advantage of the realisation of extra returns based on this price inflexibility.

The football companies have only an indirect influence on the amount of the centralised marketing revenues. This item is realised centrally, the collective marketing of rights with value of property is in its background. There are both normative and performance-based elements in the principles of the distribution. All of the teams in the NB I and NB I/B, pertaining to the Hungarian Football League (MLL), gets a share of it, equally within each division. The achieved position, the number of on-site spectators, the participation in

broadcast matches and the media ratings influence the performance-based distribution. The existence or the absence of a television contract effects strongly the amount of the centrally marketed revenues. Without a contract with a nation-wide television company, the title sponsorship becomes valueless and impossible to sell and it devaluates the local sponsorship relations, as well. Whether every football company can guarantee the standard service to the sponsors, is another important criteria. As of today, the Hungarian stadia and the possibilities of advertising, marketing in those facilities can not satisfy those needs completely.

Player transfers to abroad represent 25% only in the sale of players. The higher proportion of player transfers within the country is interesting, because virtually there is no functioning players market in Hungary. The transactions do not generate money flow between the football companies. The transactions are usually made by the football companies, when a player has an expired contract or the player is free, because his previous club violation the terms of the contract. In that case, the transaction is free of charge, so it does not affect any cash flow. And the buying team not pays to the account of the Hungarian Football Association (MLSz). The so called signing bonuses represent even in this case considerable revenues for the players. This gives an opportunity for the company in accounting sense to list the paid amount among the intangible assets. Reviewing the balance sheets, most of the companies are taking advantage of indicating the temporary assigned rights of players in the intangible assets and the linear amortisation in a steady pace during the period of the contract. It is not extraordinary, that the negative equity is turned to positive by value amendment on turning day by changing the book value to market value as valuation reserve on the resource side.

The source of the other revenues with a 10% share are the incomes from tournaments apart from the championship.

The 8% of the subventions can not be considered as a form of business revenue, still its share is extremely high. Characteristically, there are supports by the owner behind it. Either the municipality or the company owner supplements the revenues this way to help the company to cover its costs. The free of charge usage and the operation of the stadium and the support of the grass-root development are the communicated reasons of the municipal subvention. The usage of football as a local political factor is its major undisclosed reason.

According to the table 5.14., the revenues realised from international competition are insignificant, what points out the problem of the Hungarian football that it is not able to join

the business system of international football which can be basically explained by the series of sporting failures. Beyond the lack of revenues, this is going to be caustic when the companies can not extend the limited resources of the country with small market. Besides other factors, it explains, why the Hungarian professional football can not attract a nation-wide sponsor interested in regional markets. Due to this tendencies, the profitable transfer of players to abroad is getting more difficult.

The revenues related to merchandising activities or other hospitality services do not appear as separate items in the table. However, most of the football clubs have a web-site and the available merchandising items are on sale online, but the return from this has still space for improvement. The legal status of the trademarks is unsettled, the clubs do not care about building a brand. The trade of merchandising goods are run by agreements with mobile vendors, sports and souvenir shops. It is not rare, that the company runs a souvenir store in the clubhouse, at the receptions desk or by mail paid upon receipt, ordered via Internet.

The ownership of the stadiums are not under the disposal of the football companies, with one exception. This could mean an easier maintenance of the operation, but means also a serious problem by the missing developments, the limited usage of the facility for other purposes and in the case of soliciting bank credit. The Hungarian football companies are not able to get credit at all, because the reimbursement of the credit is not guaranteed by their operation or other covering possibilities.

It can be stated, that the companies use the stadia mainly for staging football games, they do not think in any other way of utilisation, so they do not realise any extra revenues.

Analysing the period between 2000 and 2002, material expenditure – from what an average of 94% was represented by employed and other services – was the major item of operational expenses of the football companies. The main reason of this significant item, accounting for more than 3 billion HUF in yearly average, is explained by the fact, that domestic players are employed as individual contractors (Heller, 2002), which expenses explain more than 90% of this item.



Table 5.16. The average operational costs of all the football companies together between 2000 and 2002

Cost items	Total average amount (thousand HUF/year)	Proportions (%)
Material expenditures	3.989.542	79
Personal expenditures	670.007	13
Other expenditures	369.344	7
<b>Total operational costs</b>	<b>5.028.893</b>	<b>100</b>

Source: business plans, MLL

The expenditures related to players wages are kept secretly in Hungarian professional football. The information available indicate, that compensations are composed by monthly salaries and bonuses. As the table below indicates, the amount of the monthly salary depends on the age and playing quality of the players. More than 60% of the interviewed companies pay bonuses for the points won and their average amount exceeds 60.000/HUF per point.

Table 5.17. Elements of player compensations in Hungarian football

Team	Amount of monthly compensations	Amount of bonuses
Balaton FC	0-300.000 HUF	Not public
Békéscsabai Előre FC	100.000-300.000 HUF	No individual bonuses
DVSC-Megaforce	Not public	Not public
Győri ETO FC	Youngsters: 100.000-120.000 HUF, Older players: 300.000-500.000 HUF, Significant players: above 500.000 HUF	No individual bonuses
FTC	Not public	Not public
Lombard FC Haladás	80.000-500.000 HUF	No individual bonuses
Matáv Sopron	200.000-500.000 HUF	50.000-130.000 HUF
MTK Hungária	Not public	Not public
Pécsi MFC	200.000-450.000 HUF	60.000 HUF/point
Újpest FC	80.000-650.000 HUF	50.000-100.000 HUF
Videoton FCF	100.000-600.000 HUF	No individual bonuses
Zalaegerszegi TE	Not public	Not public

Source: Nemzeti Sport, September 12, 2003, p.24

The personal expenditures with a share of 13% are originated from the wages of employed coaches, players, management, and operative employees. Its average amount is way smaller, than the compensations paid for the players as individual contractors.

Considering the operating and the pre-tax profit of the Hungarian football companies, they are operating with losses, what can be explained by the insufficient operational revenues and the high amount of expenses, that are not in relation with the incomes. Permanent rise of capital, supplementary paid-in capital by the owners, value amendment of intangible assets and re-organising credits maintain the operations even with losses and present a positive equity capital, what is needed for the entries. To avoid liquidity deficits, players and coaches are usually paid late.

This can be pictured the best way with the average amount of labour costs compared to the operational revenues, what reached an average of 65% in the examined period. According to the empirical rule of the consulting company Deloitte & Touche (2003) applied in international football, a football company with a ratio above 70%, is expected to operate with losses.

To answer the question, if the invested billions of money have created the bases of business operation and placed the operations of the professional football companies on market principles, the answer is no. The reason of the failure is not the elaborated program, but its reality, the lack of a feasibility study in advance, the inaccurate assignment of the priorities and the way of execution.

The current operation of the football companies are not characterised by the business based functioning, but by the permanent capital input of the amounts by the owners generated elsewhere, the evasion of the legal back-stairs, the harnessing of state and municipal opportunities and the accumulation of personal dues.

The number of on-site spectators, meaning the basic of business operation, is decreasing. The absence of media interest to football is shown in the problems around the broadcasting rights not sold yet for the season of 2004/05. There is still a misshapen discrepancy in the aspect of management, the Hungarian professional football companies try to make both ends meet. The labour expenses are extremely high, that are not covered by real performance. On the other side, the operational revenues lag behind. In case of a country with small market and the absence of success, the employment of amateur players and the introduction of the salary cap in case of professional players should be considered. The study of the operations has shown, the on-site spectator is still not the premier factor: the companies are not trying to build and boost fan loyalty by services at the facilities nor by merchandising activity. Not much teams

are thinking in the long run, what should be featured by prepared grass-root development or farm-teams system. In reflection of the case studies, the operation of the present Hungarian professional football companies can not be considered as business based.

### *5.3.3. Business modelling*

The composition of the business model was enabled by the case-studies, the already existing databases and former research experiences. During the construction of the model, I outlined a real-life situation in Hungary and created an optimistic strategy for the football company. To enable the modelling, I used numerous assumptions, that simplified the reality, but did not hinder the presentation of the connections. The elaborated business model makes it possible to simulate the operations of the football company depending on various strategies and indicates the neuralgic points of the functioning. Hereafter, I give a brief presentation of the imagined strategy of the football company and the main pre-conditions of the business model.

I search for the answer with the help of business modelling to the question, whether an optimistic strategy is sufficient to the business success of a professional Hungarian football company, which is successful in sporting sense.

While formulating the assumptions, I take the current conditions of Hungarian football and business life into consideration. Especially in the former one, I rely heavily on the completed case-studies, on the yearly accountancy statements of the football companies and on my experiences from the action-researches. Furthermore, the direction and management of the Hungarian Football League provided me with the documents the teams entered as conditions of their participation and with the publicly available extracts of the Firm Registry and Information Service of the Ministry of Justice.

During the construction of the model and the establishment of its system of preconditions, I considered both the domestic and international phenomena and tendencies. At the same time, to enable an easier handling, I assumed a “friction-free” world. Friction-free in a sense, that the model disregards the various transaction costs and the VAT, assumes the compliance with different contracts, rules and regulations<sup>97</sup>. So, it does not count with fan violence and handles

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<sup>97</sup> In accordance with it, it does not count with penalties and different administrative costs related to disciplinary offences, organisational failures, etc.

this issue on the level of the fulfilment of legal regulations. The operations of the company are characterised by the compliance with all regulations in all aspects.

The basic situation is the following: We buy a football company at its book value in 2003. The company has a team playing in the top division (NB I) of Hungarian professional football and occupies a position, that ensures its participation in the top division in the 2004/2005 season, as well. According to this, the company has to secure the conditions of the participation in the spring season of the 2003/2004 championship. Because of the sale of the company, an audited yearly statement has been made on the turning day. The bought company had all its debt consolidated before handing it over. We bought the company at the book value of 300 million HUF. During the establishment of the new capital structure, the company took a credit of 300 million HUF in addition to its equity of 300 million HUF in 2003.

In accordance with the criteria of the UEFA, the company rents a stadium with a capacity of 18.000 spectators from the state (the owner of the stadium) for a symbolical value of 1 HUF for the period of 25 years. During this period, the company disposes about the stadium, its complementary facilities and training grounds. As laid down in the contract, the renter is obliged to operate and maintain the stadium, its facilities, its movable properties and real-estates, but it has free disposal on the utilisation of the real-estates belonging to the stadium. The stadium is conform with UEFA regulation, has a capacity of 18.000 spectators.

The company possesses contracts signed for three years with the players included in the balance-sheets. The roster consists of 25 players. Eight of them have half, another eight players have one and a half and nine of them have two and a half years still left from their contract. The book value of the right of possession of the playing rights is 300 million HUF.

*Table 5.18. The characteristics of the roster handed over*

<b>Number of players</b>	<b>Time still left from the contract (years)</b>
8	0,5
8	1,5
9	2,5
<b>Total: 25</b>	

Based on its optimistic strategy, the football company wants to be active in its merchandising activity, having confidence in increasing attendance numbers and trying to increase fan loyalty. Therefore, establishes a co-operation with a manufacturer of merchandising goods. In the first year, the football company buys an assortment for one month to cover consumer demand at the beginning of the season. Further stocks are amounted by sports equipment, medical equipment and food supplements.

The figures appearing in the model are valid for the fiscal year starting on January 1 and finishing on December 31, as determined by the Hungarian accountancy law. Due to the difference between the football season and the fiscal year, the later one includes the following items<sup>98</sup>:

- January-February: transfer period, there are no league matches, but training camps, preparation matches and the winter indoors tournament fall on this period.
- March-May: spring season: league games, participation in national (and perhaps) international cup competitions.
- June-beginning of July: transfer period, there are no league games, but there are training camps and preparation matches.
- Beginning of July-end of November: autumn season.
- December: No matches, it is typically the holiday period.

All these mean, that the current fiscal year includes the spring season with the league play-offs and the final stage of the domestic cup competition of the previous football season. However, Hungarian teams are usually not involved anymore in international cups by this time. After the summer transfer window, the new season starts with the autumn rounds and this time marks the beginning of the domestic and international cup competitions, as well.

#### 5.3.3.1. The applied method

In the following paragraphs, I briefly present the characteristics of the research of the core question and its methodical background. Then, I discuss the basic situation to be investigated: the business background and the business model determined by the optimistic strategy. While

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<sup>98</sup> The projection of the seasonal program includes a simplification – to enable the modelling –, as it does not contain the major international events on four-years-rhythm, however these effect the scheduling, as well. This is not a heavy simplification though, as Hungary has not qualified to any European Championships or World Cups since 1986.

presenting the business model, I include the main pre-assumptions I had to make to enable the modelling.

Whether professional football companies are able to operate on business bases in Hungary is the core question of the research. The question can be formulated even this way: Is it worth making an investment in a football company in Hungary today?

I will calculate the business value of the football company. In this calculation, I use the formula of the discounted cash flow (DFC), which is the most frequently used method world wide to evaluate complete business units on the base of future profitability. The main principle of this method says, that the value of the company is determined by its future profitability. The profitability of the company is not calculated with accounting approach, but by taking its real flow of money, the free cash flow created by the normal functioning of the company, into consideration. The free cash flow is an earning, that can be used freely by the owners. If we discount that amounts by the interest rates corresponding the risk of the investment and add the cash flows expressed in current value, we get the business value of the company. The main precondition of the use of this method is, that the future profitability and the business plan based on a long term strategy of the company should be possible with a reasonable advancing.

The steps to calculate the discounted cash flow to determine the business value are the following:

Quantification of future cash flows in an indirect way based on the projections of the balance sheet and the profit-and-loss statements;

Calculation of residual value;

Determination of the discount rate;

Calculation of the business value with its general formula:

$$V = \sum \frac{C_t}{(1+r)^t} + \frac{ME}{(1+r)^t}$$

V = business value

$C_t$  = cash flow of the period t

r = the interest rate used as discount factor

$ME$  = residual value (i.e. the expected cash flow of the period following the researched period or the net value of assets at the end of the period)

So, the first component of the formula represents the cumulated cash flows of the researched period and the second one shows the current value of the residual value.

The usually applied time period is 5-7 years in case of the calculation formula. I project the period 2004-2010 in the model. To calculate the residual value, I followed the method of the perpetual annuity calculated with 3% increase.

I follow the FCFF (Free Cash Flow to Firm) based version (Copeland – Koller – Murrin, 1999) from the two principal versions of the calculation of discounted cash flow (FCFE and FCFF based DCF methods). In this case, the value of the company can be determined from the point of view of the investors, and we interpret invested capital as the conjunction of equity capital and long term debts and credits. So, the cash flow is calculated until the free cash flow level volume available to the owners of the invested capital (it means, the change of the credit volume and interest rates are not deducted). As the FCFF includes not only the money available to the owners of the equity capital, but the profit of the creditors (interest rate, capital redemption) as well, this value has to be discounted by the Weighted Average Cost of Capital (WACC). The WACC is nothing else (Brealey-Myers, 1991), than the average – weighted by the business value of the equity and foreign capital – of the expected return on the equity and foreign capital.

The formula of the WACC:

$$WACC = \frac{E}{D+E} * r_e + \frac{D}{D+E} * (1-t) * r_d$$

- E Business value of the equity capital
- D The market value of the interest bearing debt
- t Marginal corporate tax-rate
- $r_e$  Expected return on equity
- $r_f$  Interest rate of the credits taken additionally

The WACC takes the tax saving effect of the interest rate payments from the profit before taxation also into consideration – the interest rate payments with the deduction of the tax savings are used in WACC.

In the case of the FCFF based model, we get to the Enterprise Value (EV) as the result of discounting. The EV represents, than the joint market value of the equity capital and the credits of the company. We get to the total value of the company shares by subtract the market value of the credits from the enterprise value:

$$V = EV - D$$

V = the business value of the equity capital of the company,

EV = the joint business value of equity capital and the credits, determined with the FCFF method,

D = the value of the company's credits

In this case, the development of the volume of company value is the decision making criterion. If this is positive, it is worth operating the company based on the business model.

Among the various methods to determine the discount rate to discount the cash flow - the so called cpst of capital approaches, like (CAPM, WACC after taxation, Miles-Ezzel-formula) – I use the WACC. I estimate the WACC to 20%, based on the 15% used by Deloitte & Touche in the case of the French club Paris-Saint Germain ([www.deloitte.com](http://www.deloitte.com)). The difference can be explained by the differences of the inflation rates, the size of the two countries, the quality of the two championships and the other risks of the investments.

The Net Present Value (NPV) rule, as decision making criteria of the profitability of an investment, is based on discounted cash-flow calculation. We can get to the value of NPV by correcting the company value calculated by the FCFF based method with the original equity and foreign capital. In the case of the NPV rule, the decision making criteria is reaching a value of zero or above zero.

#### 5.3.3.2. Presentation of the business strategy of the investigated prototype

In this subsection, I present the strategic background, that serves as the business base of the development of the prototype model.

The strategic goal is to create a success-oriented team with sporting triumphs, that reaches a level within seven years, where the company becomes suitable to operate with stable regional significance. As seven years are quite a long period strategically, I distinguish two periods within the investigated time-span. Accordingly, I handle the periods 2005-2007 and 2008-2010, as separate strategic cycles. The company dedicates the first period mainly to investments, while the second one will be characterised by profitable business operations.



The question is, whether the execution of an optimistic strategy is sufficient to achieve business successes in the case of a leading Hungarian football company.

The analysis of the main environment, the industry, is always the starting point of the development of a strategy (Porter, 1980). The business model of the dissertation is optimistic even in the assumptions of the strategy regarding the external environment in the given period. I assume, that Hungarian professional football will go through a development both in sporting and business sense during 2005-2010.

Successes on the sports field and the development of a brand offering new potential opportunities appear as core elements of the optimistic strategy. I assume, that the company has a long history of sporting successes, has always been a member of the first division and possesses the most league and club trophies in Hungary. These successes are backed by a well functioning grass-root development system. There is a nation-wide interest towards the team operated by the company or there is a potential for it. The participation in national and international competitions, plus the brand name make it possible, that players get transferred to other teams at a higher price and so the value of the team's roster is continuously increasing. The talented players of the junior teams make it often to the first team.

The utilisation of the real-estate is a further important factor of success. The company acquired the state-owned football stadium for a rent of 1 HUF for 25 years. The cost of the utilisation and maintenance is paid by the football club, but it disposes over the utilisation of the real-estates belonging to the facility and included in the contract, however this will not be used in the investigated period. The company wants to run a restaurant, a gym and a souvenir-shop related to the stadium.

The following factors are important value-drivers from strategic point of view:

- The revenues related to one on-site spectator;
- The continuous increase of the number of the on-site audience;
- Player transfers;
- League and cup results (their prize-money, marketing value and the increased number of matches).

The company makes efforts to continuously increase the number of on-site spectators of home matches. The figure of the revenues per on-site spectator is an indicator of the effectiveness,

which reflects the value of the brand to the management. Its value can be broken down further into ticket, sponsorship/marketing and merchandising revenues per spectator. The sponsorship revenues calculated per spectator can serve as a good argument when discussing sponsor contracts and the merchandising revenue per spectator indicates the effectiveness of the merchandising activity of the company.

Player transfers represent a core element of the corporate strategy. It has the condition, that the company develops or buys players with the aim of increasing their value. The team's successes in the league and in the cup effects the realisation of this strategy in many ways. First, it induces direct revenues through the centrally distributed bonuses, furthermore, it secures the participation in international cup competitions, what means staging more matches. Besides these, the improved image and increased brand value effects the marketing revenues.

The company concludes the football season started under the former owner and, at the same time, starts the realisation of the new strategy. In the first strategic period, winning the domestic championship regularly and the continuous participation in international cup competitions is the goal. To achieve these goals, the company signs domestic and international stars and brings talented youngsters into the team from the own player development.

This first strategic period enables the transition of the former cost and revenue structures. There are major changes in sponsorship revenues on the income side and in the labour costs of the players, coaches and managers among the expenditures. The sponsorship contracts expiring in 2007 are re-signed or substituted by new ones showing heavy rises in their values, due to the regular successes of the previous three years. These increases allow a performance-based increase of the wages of the employees, as a tool of motivation. That effects the amount of compensations of players, coaches and managers.

The strategy focuses on the following:

- To secure regular sporting successes;
- To increase the number of on-site spectators continuously;
- Participation in international cup competitions;
- Profitable player transfers;
- Grass-root development;
- Active merchandising activities;

- Utilisation of the facility;
- Building of the brand.

The management sees the guarantee of sporting success in the adequate player roster, in the use of performance motivating tools and in relying on the own player development program.

They try to increase the on-site audience not only by the sporting successes, but by using other tools, as well. Every game is advertised and every spectator gets a match brochure, when entering the stadium. To strengthen consumer loyalty, they offer special offers of season tickets, providing season ticket holders with the following advantages:

- Free entry in two matches;
- Preferred treatment in the case of submitting tickets for international matches;
- Merchandising presents.

The participation in international club competitions are based on successes in the domestic competitions. In the case of these international participation, the company's goal is to be successful to be able to play as many matches as possible. In situations, where the company disposes of certain rights, it markets them by itself. In cases other than this, the company gets the broadcasting fees redistributed from the international federation. Participation in international competitions enables to improve sponsorship revenues through the media, as it provides a market bigger than the domestic one, making sponsorship more valuable even on-site.

The management wants to strengthen the team roster with domestic and with affordable international stars. The continuous domestic successes and the international participation allow the company to market their bought and developed players with a surplus, producing this way resources to sign new players. As a part of conscious transfer policy, all players will be offered a new contract or will be sold not later than half a year before the expiry of their contracts, to avoid that the players become free agents.

The grass-root development is aimed to develop players for the first team time to time, whose club loyalty is secured and so they strengthen the loyalty of fans, as well. Furthermore, it feeds the junior team with players, and the maintenance of such teams are conditions of the entry in the league. The company, through the sporting opportunity provided for the local kids, improve their community relations and tightens the link with the local municipality, that

often supports grass-root football financially. To secure a quality work on this level, the company employs outstanding coaches and motivates them with extra compensations. The facility with its flood-lighted training pitches and fitness rooms provides the adequate infrastructure.

The active merchandising activity is secured by the proper selection of goods, the flexible form of distribution and by the presence and strength of the brand. The company had little merchandising activity under the former owner. Therefore, the company signs contract with a manufacturer to produce the items. Barter agreements with sponsors (manufacturer of sporting cloths and equipment) provide the company with quality, trade-mark articles and with a favourable profit margin. The company supposes, that sporting successes, the increasing spectator numbers and the effective marketing actions help the profitability of merchandising. The flexible distribution is achieved by a souvenir-shop in the stadium and by the web-site of the club. Payment at delivery and credit-card transactions are the possible techniques of internet sales. Besides the usual opening times, the souvenir-shop offers its goods before and after the home matches, as well. During the games, merchandising products are available at the mobile vendors.

In the case of the utilisation of the facility, the company tries to reduce unused capacities. To maintain the good quality of the pitch, neither the main playing field, nor the training grounds are used for other purposes than sports. But the gym is open to the public in hours not used by the football players. Although it offers basic fitness services only, there is a high interest expected, as fans are eager to work-out in the same place, where their idols do. This does not mean any extra costs, in fact it lowers relative costs, while producing additional revenues.

The company wants the restaurant operated by a subcontractor, who pays the company a certain share of his incomes. The restaurant could be an excellent meeting point for fans, former and current athletes and employees. Its banquet-hall serves as the venue of VIP hospitality. A beamer makes the site to the favourite place of sports fans.

The projected strategy can be considered as optimistic, because it is based on the assumption, that the company is able to fulfil its ideas in both the first and second strategic period. Furthermore, it is optimistic in sporting sense also: every year, a position in the domestic league, that secures participation in international cup competition (the paid bonuses are calculated for the case, that the team wins the league). Every time, it enters an international

competition, the team faces at least one very attractive opponent, that guarantees a sold-out home game and well marketable broadcasting rights. At the same time though, the assumptions of the model do not count with an eventual qualification to the main phase of the Champions League, what would generate extra revenues for the company.

But on the other hand, the model calculates revenues, that do not characteristically appear among the incomes of the Hungarian professional football companies, as indicated by the case-studies. I consider only those activities in the strategy, that are closely related to the basic activity of the football company. As a consequence, I do not consider the utilisation of the facility and the real-estates to any other kind of activities (i.e. other sports and cultural programs, rentals).

As a third reason for the optimism of the model, it supposes, that a player can be sold for the price set by the model, every year. And finally, it can be considered as optimistic due to the number of spectators, as well, what indicates sold-out matches by the end of the investigated period, even in the case of matches in the domestic competition. That means, that there are no further possibility of a quantitative increase in ticket revenues (without the change of the facility) and so, the further strategy of the company could increase the ticket revenues by a qualitative improvement, only.

#### 5.3.3.3. The general casemaps of the model

2003 is the starting year of the model. The predictions refer to seven fiscal years during the period of 2004-2010. The macro-economic pre-assumptions used in the predictions are the following.

- The rate of the inflation will decrease continuously during the period, as indicated in Table 5.19.
- I assume unchanged taxing conditions in the model: the corporate tax remains 16% (as in act from January 1, 2004). I do not consider VAT. 40% is the degree of social security contribution.
- The interest rates of the credits in the investigated period are determined by the BUBOR, what is influenced by the predicted inflation and the real interest rates.

Table 5.19. The development of the basic parameters

	2004	2005	2006	2007	2008	2009	2010
Inflation	5%	5%	4%	4%	3%	3%	3%
Price index	105%	105%	104%	104%	103%	103%	103%
Real interest rate	4%	4%	4%	4%	3%	3%	3%
BUBOR	9%	9%	8%	8%	6%	6%	6%
Credit interest rate	11%	11%	10%	10%	8%	8%	8%

There is the need for some sporting pre-assumption as well, during the course of business modelling. These are the following for the investigated period:

- The team participates in the first division of the championships (NB I) every year and does not get relegated.
- It participates in the domestic cup competition every year and gets to the final.
- It finishes in the top six of the league, meaning it qualifies every year for the play-offs.
- It reaches positions in the domestic competitions, that qualify the team to participate in the qualification rounds of an international cup competition<sup>99</sup> every year. There are different alternatives: It finishes first or second in the league or wins the cup (supposing, that Hungarian teams does not get an even more unfavourable categorisation in international competitions and the number of Hungarian participants remains at three teams). To maintain the credibility of the model, I supposed, that the team does not qualify to the main phase of the Champions League. An eventual qualification would mean extra revenues to the company, but it should not rely on this success in advance, though.
- It plays at least four home matches in the international cup competitions, what means reaching the second round in both the UEFA Cup and in the qualifying rounds of the Champions League.
- If the team participates in the UEFA Cup, then there is at least one home game with extraordinarily high number of spectators every year.

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<sup>99</sup> The UEFA ranking of the countries determines the conditions of the participation of the teams of the given country in European club competitions (how many teams per country and the ones with what kind of domestic results). The ranking positions are based on the results of the international club competitions. The current system allows the following teams from Hungary to participate in the competitions: the runner-up of the league and the cup winner in the UEFA Cup and the league champion in the qualifying rounds of the Champions League. If the participant in the qualifying of the Champions League loses in the third qualifying round, it is entitled to continue in the UEFA Cup.

#### 5.3.3.4. The detailed casemaps of the model

This section is aimed to present the detailed casemaps of the model. To do so, I will follow the structure of the profit statement and the balance sheet and I will present the items one-by-one, as well as the factors influencing their amount and the background assumptions of the model.

The operation of the company is characteristically dissimilar in the year 2004. The acquisition of the company was made during the football season, so 2004 reflects the concepts of the previous owners, as well. According to this, I have separate assumptions regarding the year of 2004.

The general assumptions regarding the year of 2004:

- The number of home matches: 20,
- The number of the season ticket holders: 1000; the average amount of ticket buyers: 5000,
- The average number of spectators of the most important games: 13000,
- The team plays three international home matches, one of these is of special importance,
- The amount of central marketing revenue: 80 million HUF,
- The realised revenue of sponsorship: 250 million HUF,
- The profit of players transfer: 20 million HUF,
- The company was not engaged with merchandising earlier,
- The average basic salary of the players: 400.000 HUF per month,
- The bonus per points won: 50.000 HUF per point,
- The team wins 60 points in the season of 2004,
- The amount of the bonus based on the position equals the salary of 3 months in case of the players and the salary of 5 months in case of the trainers,
- The total salary of the management: 20 million HUF.

*The main items of the profit statement and the explanations of their development:*

Regarding its basic activity, the football company counts with the following revenues in the first year of operation, in 2004.

- Revenue from ticket sales,
- Sponsorship revenue,
- Central marketing revenue,
- Revenues from participation in international competitions,
- Subventions,
- Revenue from players transfer.

The main characteristics influencing the yearly development of the **ticket revenue**:

- The number of home matches,
- The number of (paying) on-site spectators,
- The development of ticket prices.

THE ASSUMPTIONS RELATED TO THE REVENUE FROM TICKET SALES IN THE MODEL:

- The national and international competition system relevant for the company will not change.
- The number of teams in NB I will not change, will remain at 12.
- The competition system of the national championship has 22 games in regular season and 10 games in playoffs.
- There are 21 paying home-games held in the local stadium in one business year.
- The average ticket prices increase – from the initial 1000 HUF – by the inflation plus 4% yearly between 2005-2007 and – by the inflation plus 10% yearly between 2008-2010.
- Ticket prices vary in case of domestic and international games with special importance. Ticket prices for international games are the double of the price of domestic games.
- The number of the paying viewers includes both the ticket and season ticket holders.
- The number of paying viewers increases: the initial number 6000 spectators including 1000 season ticket holders and 5000 ticket holders, increases by 20% yearly.
- The special international games will be hold in front of sold-out crowds from the year 2005.
- The ticket price policy of the company is moderate; ticket prices in the calculations are the average of two half-seasons of one business year.



- Season tickets are valid for the whole competition year.
- The purchase of season tickets allows the saving of the price of two championship games and includes other services (the opportunity of purchase of tickets for domestic and international cup games, merchandising give-aways).

Table 5.20. The development of the average ticket prices

(HUF)

	2004	2005	2006	2007	2008	2009	2010
Domestic games	1000	1110	1220	1340	1520	1720	1940
International games	2000	2220	2440	2680	3040	3440	3880

Table 5.21. The development of the number of spectators

(Person)

	2004	2005	2006	2007	2008	2009	2010
Number of on-site spectators (season ticket holders)	1000	1200	1440	1728	2074	2488	2986
Number of on-site spectators (ticket holders)	5000	6000	7200	8640	10368	12442	14930
<b>Number of on-site spectators</b>	<b>6000</b>	<b>7200</b>	<b>8640</b>	<b>10368</b>	<b>12442</b>	<b>14930</b>	<b>17916</b>
<b>Number of on-site spectators (special international)</b>	<b>13000</b>	<b>18000</b>	<b>18000</b>	<b>18000</b>	<b>18000</b>	<b>18000</b>	<b>18000</b>

The factors influencing the development of **sponsorship revenues**:

- 250 HUF million in 2004, unchanged at 300 million HUF yearly between 2005-2007 and 450 million HUF in the rest of the examined period.
- 60% of the sponsorship revenues are cash, the rest is realised as payments in kind.

Table 5.22. The development of sponsorship revenues

(HUF million)

	2004	2005	2006	2007	2008	2009	2010
Cash	150,00	180,00	180,00	180,00	270,00	270,00	270,00
Material and barter	100,00	120,00	120,00	120,00	180,00	180,00	180,00
<b>Sponsorship total</b>	<b>250,00</b>	<b>300,00</b>	<b>300,00</b>	<b>300,00</b>	<b>450,00</b>	<b>450,00</b>	<b>450,00</b>

ASSUMPTIONS RELATED TO SPONSORSHIP REVENUES:

- The continuous domestic and international sporting successes attract the interest of local and international sponsors.

- The first contract signed by the company is valid for the period of 2005-2007; the revenues derive from earlier contracts in 2004.
- After the expiration of the three-year contract in 2007, the company is expecting an increase of 50% for the next three years, based on the sporting successes of the past three years, on the increasing interest on-site and via media. At the same time, there is probably no chance for further increase in sponsorship revenues.
- The sponsorship contracts are characterised by bilateral business relations and their long term.

The main factors influencing the yearly development of **central marketing revenues**:

- Contracts signed by the Hungarian Football League (broadcasting, title sponsorship, others).
- The company realises a central marketing revenue of 100 million HUF yearly in 2005-2007 and 120 million HUF yearly in 2008-2010.

*Table 5.23. The development of the central marketing revenue*

(HUF million)

	2004	2005	2006	2007	2008	2009	2010
Central marketing revenue	80,00	100,00	100,00	100,00	120,00	120,00	120,00

ASSUMPTIONS RELATED TO THE CENTRAL MARKETING REVENUE:

- Revenues from the centrally marketed rights depend basically on the contracts signed by the Hungarian Football League and on the sporting results of the team.
- The League signs contracts for three years. The teams performs well throughout the whole period, its matches are often televised.
- In the examined period, there is an effective contract between the Hungarian Football League and a terrestrial television company concerning the broadcasting of games and summaries.
- There are two separate periods marked by the amount to be redistributed. The yearly amount does not change within a period. The League can sign a more favourable contract in 2008, due to the development of Hungarian football.
- The principles of distribution of the central marketing revenue do not change. The main rules of the system: a part of the revenue is distributed on normative basis between the teams, the rest depends on the reached position, the matches broadcast on television, the development of the number of spectators.

- The contractual obligations are fulfilled completely by both sides, so there are no deductions from the transferred central marketing revenues.

Revenues from **participation in international competitions:**

- The main items are broadcasting fees of the special international games and the prize-money from the international federation.
- 100 million HUF in 2004, 160 million HUF in 2005, which changes according to the inflation in the rest of the examined period.

*Table 5.24. The development of the revenues from participation in international competitions*  
(HUF million)

	2004	2005	2006	2007	2008	2009	2010
Revenue from international competitions	100,00	160,00	166,40	173,06	178,25	183,60	189,10

ASSUMPTIONS REGARDING REVENUES FROM INTERNATIONAL COMPETITIONS:

- The company disposes over the broadcasting rights related to the international cup games and sells them by itself.
- Concerning the international games, the amount received from the international sports federation is influenced basically by the budget of the competition. I assumed a change in the budget of the competition, that follows an inflation at a stable level.
- The team faces an opponent of special public interest at least once a year.

**Subventions:**

- The subventions are mainly the membership fees paid by the parents of the grass-root aged players and the donations from the institutes supporting the grass-root development.
- The amount of the subventions is 20 million HUF in 2004, which changes according to the inflation in the examined period.

ASSUMPTIONS REGARDING REVENUE FROM SUBVENTIONS:

- The company runs a quality grass-root development, therefore it gets permanent subventions from both the corporate sponsors and the state, characteristically the local municipality.

**Revenues from player transfers:**

- The company is selling its players permanently both on the domestic and foreign market.
- The revenues from the transfers always exceed the expenses.

**ASSUMPTIONS REGARDING REVENUES FROM PLAYER TRANSFERS:**

- The model disregards the fee of the transfer to be paid to the national federation.
- The model disregards the conversion between the foreign currencies.
- To make it simple in the model, transfers are made in the January transfer window, only.

The company has complementary activities as well, that generate further revenues:

- Merchandising revenues,
- Other revenues from the utilisation of the facilities (hospitality, other),
- Revenues from fitness gym.

**Revenues from merchandising:**

- The management of the football company emphasises the merchandising activity in their business concept, what generates a revenue from this sphere increasing by 20% yearly between 2004 and 2006, and by the rate of the inflation in the following period.

*Table 5.25. The plan of the development of merchandising revenue*

(HUF million)

	2004	2005	2006	2007	2008	2009	2010
Merchandising revenue	50,00	60,00	72,00	74,88	77,13	79,44	81,82

**ASSUMPTIONS REGARDING MERCHANDISING REVENUES:**

- Subcontractors of the football company produce the merchandising goods. The company sells the products in a store run by the company itself.
- The stock is sold in an average of 30 days.
- Buyers pay on-site.

**Revenues form other utilisation of the facilities:**

- Other revenues are generated from the restaurant leased out by the football company.

- Based on the leasing contract, the football company receives 20% of the restaurant's revenues from the lodger. This meant 30 million HUF in 2004, what changes according to the inflation in the examined period.

#### ASSUMPTIONS REGARDING REVENUES FROM OTHER UTILISATION OF THE FACILITIES:

- The restaurant is leased out.
- The restaurant owns a projector and represents a regular, quality meeting point for the companies related to the club, the players and the fans.

#### **Revenue from the fitness gym:**

- The gym assuring the fitness of the players is operating as a public fitness gym after the time of training of the players.
- Simple services: possibilities of bodybuilding, sauna and solarium.
- The capacity of the gym is exploited to 60%. The yearly income is 14.4 million HUF in 2004, that increases according to the rate of the inflation.

#### ASSUMPTIONS REGARDING THE REVENUE FROM THE FITNESS GYM:

- Included the time guaranteed for the players, the exploitation of the capacity of the gym reaches almost 100%.
- The fitness gym has the following services: body building machines, sauna, and solarium.

The main items of the expenses related to the basic activity of the football company are the following:

- Material expenditures,
- Personal expenditures,
- Amortisation.

The material expenditures have the following main factors:

- Cost of the maintenance of the stadium,
- Cost of organising games,
- Cost of road games,
- Cost of international games,
- Cost of competition,

- Cost of grass-root development,
- Costs related to season ticket holders,
- Marketing expenses,
- Cost of administration.

**Cost of maintenance of the stadium:**

- Based on the leasing contract, the maintenance of the stadium is in the competency of the company.
- The main items related to the maintenance of the stadium are the following: expenses of watering, maintenance of the grass, expenses of security, etc.
- This means a total of 60 million HUF in 2004, that increases according to the rate of the inflation.

**Cost of organising games:**

- The organisation of matches has the following main items of expenses: police and security service, lighting, printing expenses.
- The development of the organising expenses of games increases characteristically depending on the number of the games and the development of the number of spectators.
- The company has a yearly contract with the police, which guarantees the presence of police during four hours per game, 2500 HUF per hour.
- The number of policemen depends on the expected number of spectators and should be the 0,8% of the number spectators.
- The company has a contract with a security service as well, that means an additional cost of 1500 HUF per security personnel.
- The number of the security guards is 2% of the expected number of the audience.
- The lighting cost of the stadium is 25000 HUF per game, That changes according to the inflation every year.
- The printing expenses, containing the printing of tickets and the bulletins prepared for every game, reach the amount of 7.95 million HUF in 2004, what is influenced by the number of games and the inflation. The printing expense is calculated as 75 HUF per spectator in the model.

Table 5.26. The costs of organising games

(million HUF)

	2004	2005	2006	2007	2008	2009	2010
Police service total	9,36	13,36	15,88	19,00	22,65	27,12	32,63
Security service total	13,64	18,90	22,64	27,28	32,71	39,38	47,60
<b>Total cost of security</b>	<b>23,00</b>	<b>32,26</b>	<b>38,53</b>	<b>46,28</b>	<b>55,35</b>	<b>66,51</b>	<b>80,23</b>
<b>Total cost of lighting</b>	<b>0,50</b>	<b>0,55</b>	<b>0,57</b>	<b>0,60</b>	<b>0,61</b>	<b>0,63</b>	<b>0,65</b>
<b>Total cost of printing</b>	<b>7,95</b>	<b>9,92</b>	<b>11,79</b>	<b>14,15</b>	<b>16,82</b>	<b>20,18</b>	<b>24,22</b>
<b>Total cost of organising games</b>	<b>31,45</b>	<b>42,73</b>	<b>50,89</b>	<b>61,03</b>	<b>72,78</b>	<b>87,32</b>	<b>105,11</b>

ASSUMPTIONS REGARDING THE COST OF ORGANISING GAMES:

- Besides the uniformity of competition systems, the given football company plans 21 games at home yearly in the period starting with 2005.
- The model does not make any difference in the aspect of organising games with different rates of danger, disregarding the consideration of security risks.
- The company fulfils the regulations of organisation, what generates higher costs of organisation, as the number of spectators increase.
- The costs of the contracts with the police and the security service change following the rate of inflation.
- The team plays both the domestic and international games under flood-lights, what means two games on monthly average.

**Cost of the road games:**

- Its main items are travelling, meals and accommodation.
- These costs reach a total of 7.2 million HUF in 2004.
- The amount is influenced by the rate of inflation and the number of road games per year.

Table 5.27. Costs of road games

(million HUF)

	2004	2005	2006	2007	2008	2009	2010
Travelling	1,20	1,26	1,31	1,36	1,40	1,45	1,49
Meal	3,60	3,78	3,93	4,09	4,21	4,34	4,47
Accommodation	2,40	2,52	2,62	2,73	2,81	2,89	2,98
<b>Total</b>	<b>7,20</b>	<b>7,56</b>	<b>7,86</b>	<b>8,18</b>	<b>8,42</b>	<b>8,67</b>	<b>8,94</b>

#### ASSUMPTIONS REGARDING THE COST OF ROAD GAMES:

- On average, 30 persons travel to a road game in the model.
- In case of road games, the team spends a night on road 10 times a year.
- The cost of meal is 6000 HUF per capita per day, the cost of accommodation is 8000 HUF per capita.
- The prices change according to the inflation.

#### Cost of international games:

- The expenses of international games include transportation of the team, the sponsors and the fans to the location of the international games, meals and accommodation.
- This amount is 80 million HUF in 2004, that depends on the number of the persons, the costs of the meals and accommodation.
- The prices change according to the inflation.

#### ASSUMPTIONS REGARDING THE COST OF INTERNATIONAL GAMES:

- I calculate an average cost of 20 million HUF per game.
- I calculate four journeys to abroad on average a year.

#### Cost of competition:

- As a pre-condition of the entry, the payment of the fixed entry fee and the expense refunds of the referees and controllers is to be paid. This means a total of 6.76 million HUF in 2004.
- The expense refund for the referees and the controllers are part of the cost of competition. Considering a period of competition of 8 months, the costs are 720 000 HUF per month both at championship and cup games, that changes according to the inflation every year.
- The entry fee for the season 2004 is 1 million HUF, that changes according to the inflation in the following years.

Table 5.28. The development of cost of competition

(million HUF)

	2004	2005	2006	2007	2008	2009	2010
Entry fee	1,00	1,05	1,09	1,14	1,17	1,20	1,24
Cost of referees	5,76	6,05	6,29	6,54	6,74	6,94	7,15
<b>Total</b>	<b>6,76</b>	<b>7,10</b>	<b>7,38</b>	<b>7,68</b>	<b>7,91</b>	<b>8,14</b>	<b>8,39</b>



**Cost of grass-root development:**

- The infrastructural, professional and financial background is guaranteed for the grass-root development.
- The amount spent on grass-root development is 20 million HUF in 2004, that changes according to the inflation in the following period.

**Cost related to season ticket holders:**

- The season ticket holders get two games free of charge and a merchandising give-away in the value of 2000 HUF due to the marketing campaign.
- This amount depends on the number of the season ticket holders and the rate of the inflation.
- The amount is 1.6 million HUF in 2004.

**Marketing expenses:**

- The company spent 70 million HUF on building a brand in 2004, what is explained by the costs of advertisements in newspapers and open-air billboards.
- This amount is influenced by the development of the inflation in the following years, only.

**Cost of administration:**

- The expenses arising during the daily costs of the company operations are included in the administrative costs, like for example: accessories, phone and overhead costs, computers, postal service and auditing.
- The expense of administration is 15 million HUF in 2004, that increases by the rate of the inflation in the examined period only.

The main items of personal expenditures are the following:

- Players wages,
- Other salaries,
- Social security charges.

### Players wages:

- Expenses related to the players. The players with Hungarian and foreign citizenship are employed with labour contracts.
- There are professional players only in the first team run by the company, while its other teams contain amateur and grass-root aged players, as obligatory prescribed in the rules of competition.
- The total amount of salaries is 275 million HUF in 2004.
- Between 2005 and 2007, the salaries are stable in real sense, but they will be raised by 15% in the year of 2008, thereafter they will not be changed in the rest of the examined period.
- The salaries paid to the players have three elements: basic wage, point bonus and position bonus.
- The salaries of foreign players have three elements as well, but have a double value compared to the domestic players.
- 50% of the sponsorship barter appears as material allowances to the players.
- The model contains the gross wage of the players. The model takes the employer's charges into consideration.
- The point bonus is paid upon the points won.
- The position bonus is equivalent of the quarter of the basic wage.

Table 5.29. The development of labour expenses of the players

(million HUF)

	2004	2005	2006	2007	2008	2009	2010
Basic wage for domestic player per capita per month	0,40	0,42	0,44	0,45	0,52	0,54	0,55
Basic wage for international star player	0,80	0,84	0,87	0,91	1,04	1,08	1,11
<b>Basic wages total</b>	<b>120,00</b>	<b>131,04</b>	<b>141,52</b>	<b>147,18</b>	<b>169,26</b>	<b>174,34</b>	<b>179,57</b>
<b>Point bonus total</b>	<b>75,00</b>	<b>95,55</b>	<b>103,19</b>	<b>107,32</b>	<b>123,42</b>	<b>127,12</b>	<b>130,94</b>
<b>Position bonus</b>	<b>30,00</b>	<b>32,76</b>	<b>35,38</b>	<b>36,80</b>	<b>42,32</b>	<b>43,58</b>	<b>44,89</b>
<b>Material allowances</b>	<b>50,00</b>	<b>60,00</b>	<b>60,00</b>	<b>60,00</b>	<b>90,00</b>	<b>90,00</b>	<b>90,00</b>
<b>Salary expenses of the players total</b>	<b>275,00</b>	<b>319,35</b>	<b>340,10</b>	<b>351,50</b>	<b>425,00</b>	<b>435,05</b>	<b>445,40</b>

#### ASSUMPTIONS REGARDING THE LABOUR EXPENSES OF PLAYERS:

- The players with foreign citizenship are medium tier, affordable star players in European aspect, who contribute to the success with their performance and generate consumer interest.
- The size of the roster is 25.
- The model does not make any distinction between the players in the aspect of age, position, results, etc.
- The management of the company signs three-year contracts with the players.
- The successful realisation of the first strategic period (2005-2007) is the condition of the rise of wages by 15% in 2008.
- The amortisation is accounted in linear pace during the term of the contract.
- About 70 points are needed to clinch the championship. In the examined period, the team wins the title all along, so the point bonuses are paid after 70 points won per season.

#### **Expenses of other salaries:**

- The expenses of other salaries include the salaries of the employees besides the football players with the total amount of 60.6 million HUF in 2004.
- The number of the this personnel is 12: an operative and a marketing manager, three coaches (head, field and goalkeeper coach), a doctor, a trainer, two field maintainers, a masseur and two other employees.
- The salaries of the management and the trainers will remain the same in real terms between 2005-2007, and due to the sporting successes, they will be raised by 15% by 2008 and will remain the same in real terms in the following years.
- Based on the reached positions in the league, the trainers get bonuses as well, what is equivalent with their salary of 5 months.
- The salary of the employees, whose wages can not related to the development of sport performance, changes according to the inflation.
- In case of common employees besides the players, the football company pays employer's charges, what is included in the model.

Table 5.30. The development of expenses of other salaries

(million HUF)

	2004	2005	2006	2007	2008	2009	2010
Managers (2 persons)	20,00	21,00	21,84	22,71	26,12	26,90	27,71
Coaches (3 persons)	24,00	25,20	26,21	27,26	31,34	32,29	33,25
Coaches' bonuses	10,00	10,50	10,92	11,36	13,06	13,45	13,86
Others (7 persons)	12,60	13,23	13,76	14,31	14,74	15,18	15,64
<b>Other salaries total</b>	<b>66,60</b>	<b>69,93</b>	<b>72,73</b>	<b>75,64</b>	<b>85,26</b>	<b>87,82</b>	<b>90,46</b>

ASSUMPTIONS REGARDING THE OTHER SALARIES:

- The successful realisation of the first strategic period (2005-2007) is the condition of the rise of the salaries of the coaches and the management.
- The model assumes the average number of the employees as it is usual in Hungarian football.
- Regarding the examined period, all the contracts are signed, every person works out the period of the contract, no new person will be employed<sup>100</sup>.
- There is no need of changing the coaches, because the team is successful.

**Social security charges:**

- 40% after the salaries paid.
- The amount is 136.64 million HUF in 2004.

**Amortisation:**

- The amortisation of the usage of the players' right is kept as immaterial goods in the books.
- The period of amortisation is as long as the contract: 3 years.
- The depreciation is linear, at steady pace.
- The average amount of the signing bonuses is 16 million HUF.

<sup>100</sup> In case of swapping persons, there are no additional expenses.

Table 5.31. The development of the balance value of the players

(million HUF)

	2004	2005	2006	2007	2008	2009	2010
Signing bonuses of domestic players	16,00	16,80	17,47	18,17	18,72	19,28	19,86
Signing bonuses of star players	96,00	100,80	104,83	109,03	112,30	115,66	119,13
Number of signed domestic players	7	6	6	7	6	6	7
Number of signed star players	0	1	1	0	1	1	0
<b>Total player signings</b>	<b>112,00</b>	<b>201,60</b>	<b>209,66</b>	<b>127,20</b>	<b>224,59</b>	<b>231,33</b>	<b>138,99</b>
Opening gross balance value	384,00	368,00	441,60	523,26	538,46	561,45	583,12
Replacement	112,00	201,60	209,66	127,20	224,59	231,33	138,99
Outgoing	128,00	128,00	128,00	112,00	201,60	209,66	127,20
Closing gross balance value	368,00	441,60	523,26	538,46	561,45	583,12	594,91
Opening net balance value	192,00	177,28	257,44	321,38	275,90	322,80	368,85
Replacement	112,00	201,60	209,66	127,20	224,59	231,33	138,99
Amortisation	126,72	121,44	145,73	172,68	177,69	185,28	192,43
<b>Closing net balance value</b>	<b>177,28</b>	<b>257,44</b>	<b>321,38</b>	<b>275,90</b>	<b>322,80</b>	<b>368,85</b>	<b>315,41</b>

#### ASSUMPTIONS REGARDING THE AMORTISATION:

- The fact, that contracts expire in three years mean, that the contracts of the third of the roster expires every year.
- The players the club wishes to release, will be sold half a year before the expiration of their contract.
- A contract extension will be offered to the players wished to be hold. The signing bonus represents the initial cost in the balance sheet.
- The first team will be completed with at least one player from the grass roots every year.
- As a simplification, the model disregards the amount to be paid to the federation after each transfer.
- The company sells players basically to the domestic market only in 2004-2006, while in the period of 2007-2010, it sells one or two players to abroad each year.

The main expenses related to complementary activities:

- Expenses of merchandising activity,
- Expense of utilisation of the stadium,

- Expense of the operation of the fitness gym.

**Expense of merchandising activity** (purchasing value of the sold goods):

- It is generated mainly by the purchased stock of the merchandising activity, which depends on the size of the stock.
- The cover is 25%, that will be raised to 30% due to the popularity of the brand from 2008.

**Expense of utilisation of the stadium:**

- It means basically the costs of the restaurant. The company has no extra cost, because of the leasing contract.

**Expense of the operation of the fitness gym:**

- This amount is 6 million HUF in 2004, that changes according to the development of the inflation-rate every year.

THE ASSUMPTION RELATED TO THE EXPENSE OF THE FITNESS GYM

- The operation of the fitness gym does not require any further employees.

The model distinguishes the following profit categories:

- Business, operational profit,
- Financial profit,
- Pre tax,
- After tax,
- Profit based on the balance sheet.

The *operational outcome* indicates the difference between the returns and expenses related to the operation. The profit of player transfer<sup>101</sup> is included in the operating profit, in contrast to the practice in England.

The football companies characteristically realise only losses, but no *profits derived from financial activity*. The reason of it is, that they do not usually have temporary reserves, what could be invested and could generate interest returns, At the same time, they are often obliged to apply for credits, that generates liabilities of interest costs.

The *profit after taxation* is calculated by the deduction of the tax of 16%.

The profitable operation does not generate dividend payments<sup>102</sup> as it is usual in the operation of football companies. So, the profit after taxation and the profit based on the balance sheet are equal in the model.

### *The different items of the balance and the explanation of their development*

The assets of the football company are the following:

- Current assets:
  - ⇒ Cash,
  - ⇒ Buyers,
  - ⇒ Stocks,
- Invested assets.

#### **Cash:**

- The cash in hand is 30 million HUF in 2004.

#### **Buyers:**

- The merchandising activity, the central marketing revenues and the revenues from participation in international competitions explain the amount of the buyer.

#### **ASSUMPTIONS REGARDING THE BUYERS:**

- The amounts from sponsorship are paid on 3 months frequency, based on the sponsorship contract.
- The revenues from the participation in international competitions (broadcasting fees, bonus from UEFA) will be received in one at the end of the year.
- The central marketing revenues are distributed and transferred by the Hungarian Football League every month.
- There is a term of 30 days at the buyers.

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<sup>101</sup> Based on the Hungarian accounting system, the domestic football companies follow the German way.

<sup>102</sup> In this aspect, Manchester United is a rare example among the football companies, because it is paying a slightly increasing dividend for the shareholders.

**Stocks:**

- The merchandising goods are the major part of the stocks.
- A production company, contracted by the football company, produces the merchandising goods.
- The company has a stock of 30 days of merchandising goods ahead of the next year.
- The circulation speed of the stock is 30 days, what is equal to the one of the suppliers.

**ASSUMPTIONS REGARDING THE STOCKS:**

- The value of the stock increases according to the rate of inflation.
- The football company gets the sporting goods and equipment in the form of barter as a part of the sponsorship contracts.

**Invested assets:**

- The invested assets are the rights of the players indicated on the closing net balance value.

The main sources of the football companies are:

- Suppliers,
- Credits,
- Equity capital.

**Suppliers:**

- There is a 30-day payment term on the merchandising items (30 days circulation speed), so the suppliers finance the stocks exactly.

The capital structure of the company is steady, includes 50% of equity and 50% of funded capital. To maintain this ratio, additional raise of capital or credits are needed.

**ASSUMPTIONS REGARDING CREDITS:**

- The interest rate of the credit is changing according to the development of BUBOR.
- In 2003, in the first year of the credit, there of is no revenue, but the interest must be already paid.



Table 5.32. The development of the interest rate of the credit

	2004	2005	2006	2007	2008	2009	2010
Inflation	5%	5%	4%	4%	3%	3%	3%
Price index	105%	105%	104%	104%	103%	103%	103%
Real interest rate	4%	4%	4%	4%	3%	3%	3%
BUBOR	9%	9%	8%	8%	6%	6%	6%
<b>Interest rate of the credit</b>	<b>11%</b>	<b>11%</b>	<b>10%</b>	<b>10%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>

### 5.3.3.5. The result of the analysis of the business model

In the case of the optimistic strategy reflected by my prototype, the FCFF based evaluation shows a negative net present value: -254,49 million HUF. Based on this figure, buying the football company can not be considered as a good decision, not even in the projected case. The profitable operation falls on the second strategic period, what is in a more far away future, so its realisation is more insecure. Secondly, the amount of the company value is based on the residual value.

I summarise the results of the sensitivity analyses in the upcoming paragraphs. The sensitivity analyses – according to the hypotheses – investigated the effects of the changes of the following factors, regarding the development of the value of net present value, as the criterion of the decision:

- Player wages (basic wages, bonuses),
- Ticket revenues,
- Sponsorship revenues,
- Factors influencing the revenues on the centrally marketed rights.

The return on the investment is considerably sensible towards the player wages. The flexibility of NPV is -5,06, that means a 5,06% opposite way change in the case of a 1% increase of the basic wages of the players. That justifies, why labour costs in football are given a great significance by the international literature. The second case of this analysis deserves a special attention, that simulates the consequence of the change, when players are not paid as private entrepreneurs anymore, but as normal employees. In this case, the football companies will pay an amount reduced by the public dues (40%) to the players. It can be seen, that the above mentioned change (the normal employment of professional athletes will be

obligatory soon) will have a very significant effect on the profitability and the value of sports companies, like football companies among others.

Based on the figures of the table below, it can be pointed out, that the right determination of the basic wages will play a critical role in the company value and in the value increase from the point of view of the owner.

*Table 5.33. The effect of players' basic wages on the net present value*

(million HUF)

Basic wages of players				NPV			
Old value	New value	Change	Change in %	Old value	New value	Change	Change in %
0,4	0,35	-0,05	-12,5	-254,5	-93,5	161	63,26
0,4	0,285	-0,115	-28,75	-254,5	111,6	366,1	143,85
0,4	0,5	0,1	25	-254,5	-576,5	-322	-126,52

The bonuses paid for every point won have also a significant effect on the net present value of the investment. But its effect does not reach the effect of the basic salaries on the decision making criterion. This is confirmed by the sensitivity index of  $-2,9$  in the case of the bonuses. Practically, the net present value has the same flexibility in the case of the points won. It is important to affirm, that during the investigation of the points won, I did not consider the effect of the sporting successes on the number of spectators and other revenue sources.

The separate changes of the two factors determining the paid bonuses have almost identical effect on the return on investment.

*Table 5.34. The effect of the change of performance bonuses on the net present value*

(million HUF)

Change of bonuses				NPV			
Old value	New value	Change	Change in %	Old value	New value	Change	Change in %
0,05	0,04	-0,01	-20	-254,5	-107	147,5	57,96
0,05	0,06	0,01	20	-254,5	-402	-147,5	-57,96

Table 5.35. The effect of the change of the points won on the net present value

(million HUF)

Change in the points won				NPV			
Old value	New value	Change	Change in %	Old value	New value	Change	Change in %
70	63	-7	-10	-254,5	-181	73,5	28,88
70	77	7	10	-254,5	-328,2	-73,7	-28,96

Hereafter, I present the results of the analyses conducted on the most important revenue sources. The development of the ticket revenues can be linked to two factors: the ticket-prices and the number of spectators. Regarding ticket-prices, I investigated, how the change of the ticket price at the beginning – assuming the same development of price increases – effects the return on investment. It can be pointed out, that this factor has the most dramatic effect on the net present value. The flexibility of NPV shows a figure of 8,9 in this case. Regarding the real life, it shows, that this assumption of the model can not be considered as realistic in the case of a Hungarian football company.

Table 5.36. The effect of the changes of ticket prices on the net present value

(million HUF)

Change of ticket prices				NPV			
Old value	New value	Change	Change in %	Old value	New value	Change	Change in %
0,001	0,0011	0,0001	10	-254,5	-27,4	227,1	89,23
0,001	0,0009	-0,0001	-10	-254,5	-481,6	-227,1	-89,23

The number of on-line spectators is the next, important factor influencing ticket revenues. The flexibility index of 3,7 in the case of this factor, shows a considerably weaker link, than the one experienced in the case of the ticket prices. However, this is still a significant effect concerning the net present value. It is very important to consider the fact, that in the case of a team with a facility of a 6000 seat stadium, the realistic increase can be nothing else than 0, as the stadium puts physical limits to the increase. The result of the calculation shows again, that a Hungarian football company can not operate based on this strategy. It should be aimed to develop a more modest strategy.

Table 5.37. The effect of the increase rate of spectator figures on the net present value

(million HUF)

Increase rate				NPV			
Old increase rate (%)	New increase rate (%)	Change	Change in %	Old increase rate (%)	New increase rate (%)	Change	Change in %
20	10	-10	-50	-254,5	-730	-475,5	-186,84
20	0	-20	-100	-254,5	-1048,5	-794	-311,98

The number of spectators assumed at the beginning of the model is the third, very important factor of ticket revenues. This is made to the second most important factor among the analysed ones with its NPV flexibility value of 5,6. This means, that the number of the on-site spectators is very important even in the first year.

Table 5.38. The effect of the initial number of spectators on the net present value

(million HUF)

Change of the initial number of spectators				NPV			
Old value (persons)	New value (persons)	Change	Change in %	Old value (persons)	New value (persons)	Change	Change in %
6000	5400	-600	-10	-254,5	-397,5	-143	-56,19

The international literature of sports economics gives the sponsorship revenues the same importance as to the ticket revenues. As it has already demonstrated by the dissertation, this income source is especially vital for the researched football companies in Hungary. Therefore it is no surprise, that the net present value is very sensible in the case of the change of this factor. The flexibility index is 5, what means, NPV is not influenced by sponsorship in the strongest way. This seemingly contradictory data can be a result of my presumption in the model, that indicated a heavy increase of the audience following the sporting successes. This has led to the vanishing of the dominance of sponsorship among the operational revenues of the football company, what resulted in a more diversified revenue structure.

Table 5.39. The effect of the changes of sponsorship revenues on the net present value

(million HUF)

Changes of sponsorship revenues				NPV			
Initial value	New value	Change	Change in %	Initial value	New value	Change	Change in %
250	225	-25	-10	-254,5	-381,8	-127,3	50,02
250	275	25	10	-254,5	-127,2	127,3	-50,02

Broadcasting rights are the third revenue source representing an equal importance in the international literature. However, this income does not have such a significance in the case of Hungarian football companies, than in abroad. In fact, the league redistributes this amount in conjunction with the centrally marketed sponsorship revenues. Accordingly, the model handled these two sources together. The net present value has shown the least sensitivity regarding the central marketing revenues, among the analysed factors. But its flexibility index of 2 still indicates a strong relationship.

*Table 5.40. The effect of the change of central marketing revenues on the net present value*

(million HUF)

Central marketing revenues				NPV			
Initial value	New value	Change	Change in %	Initial value	New value	Change	Change in %
80	72	-8	-10	-254,5	-305,3	-50,8	-19,96
80	88	8	10	-254,5	-203,7	50,8	19,96

## 6. Summary

The business model based on an optimistic strategy has shown a negative company value. The sensitivity analysis have indicated, that the investigated football company could become profitable with significantly lower players wages only. The alternative could be a much higher level of revenues. And there is an optimistic system of pre-conditions behind the business model. Compared to the data of the case-studies, the ticket revenues, the amount of sponsorship revenues and the surplus realisable on player transfers every year can be considered as optimistic. The model calculated incomes (merchandising and supplementary services), that are common in business oriented football, but not yet present or their presence is very unstable in Hungarian professional football.

The assumptions of the model diverged a bit from the current Hungarian reality in a sense, that the company runs its facility by its own. However, there are examples of it in the present Hungarian football. This induces supplementary revenues among other activities on the income side, but it also indicates, that the company – even with utilisation of the facility – is not able to maintain its facility. The expenditures of the utilisation overload the costs side, and so explain the fact, that football companies are not eager to utilise the opportunity to lease the facilities from the state owner. The strategy presented in the model has not investigated other forms of utilising facilities and real-estates.

The pre-conditions of the investigation indicated, that the presented operations can be achieved by one or two teams only. The analyses confirmed, that the strategy I featured can not be followed by the other teams. Probably, they should operate with a strategy of reduced costs and more modest goals.

The main pre-assumptions of the model was determined by the legal operations, and the employment of the football players as real employees turned out to be the major consequence.

Whether it is possible to operate on business bases on long term, if complying with the legal conditions, is a further question. It has to be taken into consideration, that there can be additional benefits to the owners (i.e. image, lobbying, business connections), which can not be measured and included in the model. How can it be converted into revenues, that appears in the cash-flow and increases the business value? It has to be assumed, that if a company

sells its name to a sponsor, the decision is backed by business rationality and a surplus of the decision is realised by the sponsor. The model is optimistic in the case of the sponsorship revenues, as well. The planned sponsorship incomes of over 300 million HUF per year is well above the average of the business based sponsorship in Hungarian professional football. Just for comparison: The current title sponsorship contract of the Hungarian Football League secures 300 million HUF – beside the transmission fees of the terrestrial broadcasting of the matches – to the twelve teams of NB I altogether. The data of the case-studies shows an average amount of 142 million HUF per team from club sponsors and local advertisers. The estimation of sponsorship revenues in Hungarian sports – conducted by the Business Group in 2003 – indicated a maximum of 400 million HUF in the case of a football team, that includes both the centralised and the club level sponsorship (Kassay, 2003/c). In the model, the total amount of sponsorship revenues is above 400 million HUF per year – except for 2004, the first year -, what is explained by the supposed sporting successes of the modelled team.

The declarations of the business model explain posteriorly the events that happened in Hungarian football in the last couple of years. At the same time, it is impossible to base the operations of football companies on long-lasting, unpaid debts towards creditors, suppliers (players, coaches, etc.) and the state, assuming a legally correct environment. Due to the consequences of the model, a football company even with an optimistic attitude can not avoid bankruptcy.

But, who will play the costs of these bankruptcies? Hungarian professional football teams need to be consolidated. This has not yet happened in a way, that could create the conditions of future operations. The repeatedly cancelled unpaid public dues have not solved the operational problems, in fact, it even worsened the moral problems in football. The former public dues have become private debts, the owners finance the continuous losses of the football companies with payments called sponsorship or with capital increases. The re-organisational credits can not function as credits in classic form either, as the business potential guaranteeing the repayment is missing in the football companies. Only the future revenues from the centrally marketed rights can be presented as covers for the credits, however these are rather insecure as well, and furthermore the consume of the future sources will cause severe operational problems in the future. The price of the bankruptcy will be paid by somebody. Sometimes it is the state, as it does not consider the football companies as usual companies and does not act as strictly against them in collecting the pending public dues and in many cases, it cancels the debts.

What is the solution then? First, it must be reconsidered, whether the professional character of the game should be maintained. If the answer is “yes” in numerous aspects (i.e. the social benefits of sports and football) that can be proven economically, then football should be supported. On one hand, the situation should not be maintained, where just a fake business orientation exists and because of the inability to function on business bases, the state, players, suppliers and creditors pay the price of it. On the other hand though, there should be PPP (Public Private Partnership) of the private and public sphere supporting the case in a tender-like principle. The socially justified fields of football should be supported publicly in deed, like for example grass-root development, recreational and school football and the development of facilities. That would decrease the fix part of the costs of professional football, as well. The rest of the fields could be financed by the private and the public sphere jointly. The above mentioned fields would be financed by the state directly, while the others would be able to win resources through tenders. The system of these tenders must be clear, well controllable and must be based on performance.

What would happen, if Hungarian football would operate on amateur basis? The question should be considered as a possible alternative, as well. Even, if the current quality of the service is not taken into consideration, the current size of the Hungarian market is simply not sufficient to feed the football companies. This requires to think about the idea of a semi-professional system. Or the potential of the market should be increased through a regional competition format, so the possibility of a Central-Eastern-European League is another thought worth reconsidering.

The football company of my model can not be considered as an average one anyway: neither due to its sporting results, nor to its infrastructural background. The investigations of further cases would enable other research opportunities. It would be worth examining the case of a “Tier II” team from the province, that occupies a middle position in the league and relies on a local market with less business potential.

Another field of research would be opened by the investigation, how the qualification to the Main Phase of the Champions League effects the operations of a Hungarian football company. The researching options of the model can be developed by including other profiles as revenue sources, as well.



The mentioned breakout opportunities represent further kinds of revenue sources. Still the time, that these are realised, the football companies have to remember the quotation from 1927: "... and live the economic principle of cut your coat according your cloth."

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## Appendix

### Appendix 1 G-14

*The original G-14 members (in alphabetical order):*

Ajax Amsterdam	Dutch
Barcelona	Spanish
Bayern München	German
Borussia Dortmund	German
Internazionale	Italian
Juventus	Italian
Liverpool	English
Manchester United	English
Milan	Italian
Olympique Marseille	French
Paris SG	French
Porto	Portuguese
PSV Eindhoven	Dutch
Real Madrid	Spanish

*The four new members joining in summer of 2002:*

Arsenal	English
Bayer Leverkusen	German
Olympique Lyon	French
Valencia	Spanish

*Source:* SoccerInvestor 3rd September, 2002 – Issue 111: G14 adds four new members

## Appendix 2 Balance sheets and profit & loss accounts

(million GBP)

	Manchester United							
	00/01	%	01/02	%	02/03	%	Average	Avg %
<b>FIXED ASSETS</b>	195,619	89,6%	212,327	86,4%	182,429	68,3%	196,792	80,7%
Intangible assets	71,117	32,6%	82,209	33,5%	55,299	20,7%	69,542	28,5%
Tangible assets	122,710	56,2%	128,329	52,2%	125,526	47,0%	125,522	51,5%
Investments	1,792	0,8%	1,789	0,7%	1,604	0,6%	1,728	0,7%
<b>CURRENT ASSETS</b>	22,790	10,4%	33,408	13,6%	84,700	31,7%	46,966	19,3%
Stocks	2,209	1,0%	0,196	0,1%	0,208	0,1%	0,871	0,4%
Debtors	20,581	9,4%	32,279	13,1%	43,975	16,5%	32,278	13,2%
Securities	0,000	0,0%	0,000	0,0%	11,941	4,5%	3,980	1,6%
Cash at bank and in hand	0,000	0,0%	0,933	0,4%	28,576	10,7%	9,836	4,0%
<b>ACCRUALS</b>		0,0%		0,0%		0,0%	0,000	0,0%
<b>TOTAL ASSETS</b>	<b>218,409</b>	<b>100,0%</b>	<b>245,735</b>	<b>100,0%</b>	<b>267,129</b>	<b>100,0%</b>	<b>243,758</b>	<b>100,0%</b>
<b>CAPITAL AND RESERVES</b>	120,457	55,2%	137,443	55,9%	156,833	58,7%	138,244	56,7%
Share capital	25,977	11,9%	25,977	10,6%	25,977	9,7%	25,977	10,7%
Profit and loss account	88,473	40,5%	93,890	38,2%	110,966	41,5%	97,776	40,1%
Retained profit for the year	9,742	4,5%	16,986	6,9%	19,390	7,3%	15,373	6,3%
<b>RESERVES</b>	9,309	4,3%	8,668	3,5%	9,772	3,7%	9,250	3,8%
<b>CREDITORS</b>	45,985	21,1%	54,147	22,0%	52,593	19,7%	50,908	20,9%
Creditors – amount falling due after one year	1,050	0,5%	0,688	0,3%	2,391	0,9%	1,376	0,6%
Creditors – amount falling within one year	44,935	20,6%	53,459	21,8%	50,202	18,8%	49,532	20,3%
<b>ACCRUALS AND DEFERRED INCOME</b>	42,658	19,5%	45,477	18,5%	47,931	17,9%	45,355	18,6%
<b>TOTAL SOURCES</b>	<b>218,409</b>	<b>100,0%</b>	<b>245,735</b>	<b>100,0%</b>	<b>267,129</b>	<b>100,0%</b>	<b>243,758</b>	<b>100,0%</b>

(million EUR)

	Borussia Dortmund							
	00/01	%	01/02	%	02/03	%	Average	Avg %
<b>FIXED ASSETS</b>	135,197	53,9%	158,955	59,1%	116,103	48,4%	136,752	55,1%
Intangible assets	59,331	23,6%	75,735	28,2%	55,306	23,0%	63,457	25,6%
Tangible assets	60,042	23,9%	66,097	24,6%	27,486	11,5%	51,208	20,6%
Investments	15,824	6,3%	17,123	6,4%	33,311	13,9%	22,086	8,9%
<b>CURRENT ASSETS</b>	110,131	43,9%	106,260	39,5%	117,679	49,0%	111,357	44,9%
Stocks	1,258	0,5%	2,413	0,9%	1,870	0,8%	1,847	0,7%
Debtors	43,034	17,2%	38,591	14,3%	44,024	18,3%	41,883	16,9%
Securities	18,242	7,3%	13,637	5,1%	1,460	0,6%	11,113	4,5%
Cash at bank and in hand	47,597	19,0%	51,619	19,2%	70,325	29,3%	56,514	22,8%
<b>ACCRUALS</b>	5,579	2,2%	3,822	1,4%	6,258	2,6%	0,026	0,0%
<b>TOTAL ASSETS</b>	<b>250,907</b>	<b>100,0%</b>	<b>269,037</b>	<b>100,0%</b>	<b>240,040</b>	<b>100,0%</b>	<b>248,134</b>	<b>100,0%</b>
<b>CAPITAL AND RESERVES</b>	146,827	58,5%	150,270	55,9%	148,497	61,9%	148,531	58,6%
Share capital	19,500	7,8%	19,500	7,2%	19,500	8,1%	19,500	7,7%
Profit and loss account	0,042	0,0%	-10,878	-4,0%	-10,123	-4,2%	-6,986	-2,8%
Retained profit for the year	-10,921	-4,4%	0,755	0,3%	3,257	1,4%	-2,303	-0,9%
<b>RESERVES</b>	3,156	1,3%	7,084	2,6%	8,214	3,4%	6,151	2,4%
<b>CREDITORS</b>	92,268	36,8%	101,687	37,8%	73,532	30,6%	89,162	35,2%
Creditors - amount falling due after one year		0,0%		0,0%		0,0%		---
Creditors - amount falling within one year	92,268	36,8%	101,687	37,8%	73,532	30,6%	89,162	35,2%
<b>ACCRUALS AND DEFERRED INCOME</b>	8,657	3,5%	9,995	3,7%	9,797	4,1%	9,483	3,7%
<b>TOTAL SOURCES</b>	<b>250,908</b>	<b>100,0%</b>	<b>269,036</b>	<b>100,0%</b>	<b>240,040</b>	<b>100,0%</b>	<b>253,328</b>	<b>100,0%</b>

(thousand HUF)

	FTC							
	00/01	%	01/02	%	02/03	%	Average	Avg %
<b>FIXED ASSETS</b>	371	0,2%	105 459	25,2%	92 838	22,8%	66 223	37,5%
Intangible assets	0	0,0%	102 941	24,6%	87 002	21,4%	63 314	35,9%
Tangible assets	371	0,2%	2 518	0,6%	5 836	1,4%	2 908	1,6%
Investments	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>CURRENT ASSETS</b>	95 530	45,9%	152 810	36,5%	82 239	20,2%	110 193	62,5%
Stocks	24 837	11,9%	1 699	0,4%	3 998	1,0%	10 178	5,8%
Debtors	69 723	33,5%	140 945	33,6%	77 136	18,9%	95 935	54,4%
Securities	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Cash at bank and in hand	970	0,5%	10 166	2,4%	1 105	0,3%	4 080	2,3%
ACCRUALS	112 216	53,9%	160 589	38,3%	232 296	57,0%	1	0,0%
<b>TOTAL ASSETS</b>	<b>208 117</b>	<b>46,1%</b>	<b>418 858</b>	<b>61,7%</b>	<b>407 373</b>	<b>43,0%</b>	<b>176 417</b>	<b>100,0%</b>
<b>CAPITAL AND RESERVES</b>	7 750	3,7%	-277 270	-66,2%	-81 923	-20,1%	-117 148	-34,0%
Share capital	3 000	1,4%	103 000	24,6%	153 000	37,6%	86 333	25,0%
Profit and loss account	-71 554	-34,4%	6 942	1,7%	-380 270	-93,3%	-148 294	-43,0%
Retained profit for the year	1 304	0,6%	-387 212	-92,4%	145 347	35,7%	-80 187	-23,3%
RESERVES	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>CREDITORS</b>	163 964	78,8%	548 975	131,1%	458 140	112,5%	390 360	113,2%
Creditors - amount falling due after one year	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Creditors - amount falling within one year	163 964	78,8%	548 975	131,1%	458 140	112,5%	390 360	113,2%
ACCRUALS AND DEFERRED INCOME	36 403	17,5%	147 153	35,1%	31 156	7,6%	71 571	20,8%
<b>TOTAL SOURCES</b>	<b>208 117</b>	<b>100,0%</b>	<b>418 858</b>	<b>100,0%</b>	<b>407 373</b>	<b>100,0%</b>	<b>344 783</b>	<b>100,0%</b>



(thousand HUF)

	DVSC							
	00/01	%	01/02	%	02/03	%	Average	Avg %
<b>FIXED ASSETS</b>	117 398	57,8%	64 733	27,5%	20 586	19,2%	67 572	40,8%
Intangible assets	12 800	6,3%	42 573	18,1%	7 024	6,5%	20 799	12,5%
Tangible assets	101 598	50,0%	22 160	9,4%	13 562	12,6%	45 773	27,6%
Investments	3 000	1,5%	0	0,0%	0	0,0%	1 000	0,6%
<b>CURRENT ASSETS</b>	52 503	25,9%	155 445	66,0%	86 737	80,8%	98 228	59,2%
Stocks	4 224	2,1%	4 761	2,0%	12 231	11,4%	7 072	4,3%
Debtors	45 553	22,4%	68 455	29,1%	56 712	52,8%	56 907	34,3%
Securities	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Cash at bank and in hand	2 726	1,3%	82 229	34,9%	17 794	16,6%	34 250	20,7%
ACCRUALS	33 153	16,3%	15 459	6,6%	2 407	2,2%	0	0,0%
<b>TOTAL ASSETS</b>	<b>203 054</b>	<b>83,7%</b>	<b>235 637</b>	<b>93,4%</b>	<b>107 323</b>	<b>102,2%</b>	<b>165 801</b>	<b>100,0%</b>
<b>CAPITAL AND RESERVES</b>	91 162	44,9%	170 780	72,5%	41 422	37,7%	101 121	55,3%
Share capital	150 100	73,9%	230 000	97,6%	230 000	209,6%	203 367	111,2%
Profit and loss account	-124 947	-61,5%	24 804	10,5%	-120 950	-110,2%	-73 698	-40,3%
Retained profit for the year	-30 648	-15,1%	-143 481	-60,9%	-127 085	-115,8%	-100 405	-54,9%
RESERVES	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>CREDITORS</b>	107 817	53,1%	46 717	19,8%	34 079	31,1%	62 871	34,4%
Creditors - amount falling due after one year	0	0,0%	2 000	0,8%	0	0,0%	667	0,4%
Creditors - amount falling within one year	107 817	53,1%	44 717	19,0%	34 079	31,1%	62 204	34,0%
ACCRUALS AND DEFERRED INCOME	4 075	2,0%	18 140	7,7%	34 229	31,2%	18 815	10,3%
<b>TOTAL SOURCES</b>	<b>203 054</b>	<b>100,0%</b>	<b>235 637</b>	<b>100,0%</b>	<b>109 730</b>	<b>100,0%</b>	<b>182 807</b>	<b>100,0%</b>

(thousand HUF)

	ZTE							
	00/01	%	01/02	%	02/03	%	Average	Avg %
<b>FIXED ASSETS</b>	8 856	7,0%	98 860	47,2%	217 162	61,2%	108 293	54,1%
Intangible assets	18	0,0%	90 930	43,4%	208 103	58,7%	99 684	49,8%
Tangible assets	8 838	7,0%	7 930	3,8%	9 059	2,6%	8 609	4,3%
Investments	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>CURRENT ASSETS</b>	86 438	68,4%	96 558	46,1%	93 003	26,2%	92 000	45,9%
Stocks	3 693	2,9%	9 413	4,5%	18 681	5,3%	10 596	5,3%
Debtors	79 788	63,1%	78 916	37,7%	67 313	19,0%	75 339	37,6%
Securities	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Cash at bank and in hand	2 957	2,3%	8 229	3,9%	7 009	2,0%	6 065	3,0%
ACCRUALS	31 162	24,6%	13 863	6,6%	44 435	12,5%	0	0,0%
<b>TOTAL ASSETS</b>	<b>126 456</b>	<b>75,4%</b>	<b>209 281</b>	<b>93,4%</b>	<b>354 600</b>	<b>87,5%</b>	<b>200 292</b>	<b>100,0%</b>
<b>CAPITAL AND RESERVES</b>	74 900	59,2%	-15 425	-7,4%	49 293	13,9%	36 256	15,8%
Share capital	59 900	47,4%	59 900	28,6%	123 690	34,9%	81 163	35,3%
Profit and loss account	12 258	9,7%	15 000	7,2%	-89 218	-25,2%	-20 653	-9,0%
Retained profit for the year	2 742	2,2%	-90 325	-43,2%	-115 619	-32,6%	-67 734	-29,4%
RESERVES	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>CREDITORS</b>	42 181	33,4%	211 546	101,1%	302 038	85,2%	185 255	80,5%
Creditors - amount falling due after one year	0	0,0%	100 000	47,8%	0	0,0%	33 333	14,5%
Creditors - amount falling within one year	42 181	33,4%	111 546	53,3%	302 038	85,2%	151 922	66,0%
ACCRUALS AND DEFERRED INCOME	9 375	7,4%	13 160	6,3%	3 269	0,9%	8 601	3,7%
<b>TOTAL SOURCES</b>	<b>126 456</b>	<b>100,0%</b>	<b>209 281</b>	<b>100,0%</b>	<b>354 600</b>	<b>100,0%</b>	<b>230 112</b>	<b>100,0%</b>

(million GBP)

	<b>Manchester United</b>			
	00/01	01/02	02/03	<b>Average</b>
<b>TURNOVER – LEVEL 1.</b>	129,569	146,062	173,001	<b>149,544</b>
Revenue on disposal of players				
<b>TURNOVER – LEVEL 2.</b>	129,569	146,062	173,001	<b>149,544</b>
Cost of sales	110,737	131,148	146,684	<b>129,523</b>
<b>OPERATING PROFIT</b>	18,832	14,914	26,317	<b>20,021</b>
Profit on disposal of players	2,219	17,406	12,935	
<b>PRE-TAX PROFIT</b>	21,778	32,347	39,345	<b>31,157</b>
Taxation	7,399	7,308	9,564	<b>8,090</b>
<b>PROFIT AFTER TAX</b>	14,379	25,039	29,781	<b>23,066</b>
Dividens	5,195	8,053	10,391	
<b>RETAINED PROFIT</b>	9,184	16,986	19,390	<b>15,187</b>

(million EUR)

	<b>Borussia Dortmund</b>			
	00/01	01/02	02/03	<b>Average</b>
<b>TURNOVER – LEVEL 1.</b>	89,296	149,151	161,941	<b>133,463</b>
Revenue on disposal of players	25,260	1,235	0,316	<b>8,937</b>
<b>TURNOVER – LEVEL 2.</b>	114,556	150,386	162,257	<b>142,400</b>
Cost of sales	122,993	144,386	155,177	<b>140,852</b>
<b>OPERATING PROFIT</b>	-8,360	6,054	5,891	<b>1,195</b>
Profit on disposal of players				
<b>PRE-TAX PROFIT</b>	-10,913	1,089	3,479	<b>-2,115</b>
Taxation	0,449	0,515	0,191	<b>0,385</b>
<b>PROFIT AFTER TAX</b>	-11,362	0,574	3,287	<b>-2,500</b>
Dividens				
<b>RETAINED PROFIT</b>	-10,921	0,755	3,257	<b>-2,303</b>

(thousand HUF)

	<b>FTC</b>			
	00/01	01/02	02/03	<b>Average</b>
TURNOVER – LEVEL 1.				
Revenue on disposal of players				
TURNOVER – LEVEL 2.	733 185,0	424 969,0	774508	<b>644 221</b>
Cost of sales	721 387,0	1 100 509,0	995 698,0	<b>939 198</b>
OPERATING PROFIT	11 798,0	-675 540,0	-221190	<b>-294 977</b>
Profit on disposal of players				
PRE-TAX PROFIT	1 304,0	-387 212,0	145347	<b>-80 187</b>
Taxation	0,0	0,0	0	<b>0</b>
PROFIT AFTER TAX	1 304,0	-387 212,0	145347	<b>-80 187</b>
Dividens	0,0	0,0	0	
<b>RETAINED PROFIT</b>	1 304,0	-387 212,0	145347	<b>-80 187</b>

(thousand HUF)

	<b>DVSC</b>			
	00/01	01/02	02/03	<b>Average</b>
TURNOVER – LEVEL 1.				
Revenue on disposal of players				
TURNOVER – LEVEL 2.	166 358,0	253 930,0	216 447,0	<b>212 245</b>
Cost of sales	229 601,0	392 671,0	344 023,0	<b>322 098</b>
OPERATING PROFIT	-63 243,0	-138 741,0	-127 576,0	<b>-109 853</b>
Profit on disposal of players				
PRE-TAX PROFIT	-30 648,0	-143 481,0	-127 085,0	<b>-100 405</b>
Taxation	0,0	0,0	0,0	<b>0</b>
PROFIT AFTER TAX	-30 648,0	-143 481,0	-127 085,0	<b>-100 405</b>
Dividens	0,0	0,0	0,0	
<b>RETAINED PROFIT</b>	-30 648,0	-143 481,0	-127 085,0	<b>-100 405</b>

(thousand HUF)

	<b>ZTE</b>			
	00/01	01/02	02/03	<b>Average</b>
TURNOVER – LEVEL 1.				
Revenue on disposal of players				
TURNOVER – LEVEL 2.	146 786,0	199 601,0	458 252,0	<b>268 213</b>
Cost of sales	199 501,0	286 476,0	552 565,0	<b>346 181</b>
OPERATING PROFIT	-52 715,0	-86 875,0	-94 313,0	<b>-77 968</b>
Profit on disposal of players				
PRE-TAX PROFIT	2 742,0	-90 325,0	-115 619,0	<b>-67 734</b>
Taxation	0,0	0,0	0,0	<b>0</b>
PROFIT AFTER TAX	2 742,0	-90 325,0	-115 619,0	<b>-67 734</b>
Dividens	0,0	0,0	0,0	
<b>RETAINED PROFIT</b>	2 742,0	-90 325,0	-115 619,0	<b>-67 734</b>

Source: Annual Reports

## **Appendix 3 Survey of the Hungarian professional football companies**

### *The draft of the case-studies*

#### **STRUCTURE OF OWNERSHIP**

- Changes in the structure of ownership,
- Identification of current owners,
- Shares in ownership,
- Motivations and expectations of the owners.

#### **PRESENTATION OF THE FOOTBALL COMPANY**

- Presentation of the legal predecessor,
- Characteristics of the management,
- Activities of the company,
- Size of the company:
  - ⇒ Based on financial indices,
  - ⇒ Based on the number of employees,
  - ⇒ Based on the size and the value of the team roster,
- Positioning: economic and sportive approach,
- Organisational structure and the main directing mechanisms of the company.

#### **MARKET ANALYSIS**

- Ticket revenues – consumer behaviour of match attendants – Paying spectators: season-ticket holders vs. the ones buying tickets occasionally, VIP guests, free and honorary tickets,
- Broadcasting rights – press and electronic media, audience through the media, demand towards written material,
- Sponsorship and advertisement revenues (companies approaching football with marketing objectives: equipment manufacturers, other companies with profiles not related to sports): audience through the media, composition of the audience (demographic characteristics, solvency, income categories),
- Subventions – state, municipal, other,
- Characteristics of international participation,
- Merchandising,
- Hospitality.

#### **THE FACTORS OF THE OPERATION OF THE COMPANY**

- Operational environment.

## Notes

<sup>i</sup> Researchers and teachers of the Faculty of Business Economics have dealt with the social science and management issues of sports since the beginnings of the 1990s. The Research Group of Sports Management (since 1991) and the Centre of Sports Social Sciences (since 1994) was directed by Ferenc Dénes. The members were: Tibor Misovicz, Péter Nagy, Tamás Szántai, Tibor Tamás, Krisztina András, Ágnes Urbán and Győző Vályogos.

<sup>ii</sup> The research centre is currently called Research Centre of Sports Economics and operates beside the Faculty of Business Economics of the BUESPA. It is directed by Krisztina András. Its members are: Lili Kassay, Miklós Kozma, Zoltán Kynsburg and Ákos Rohony. The Research Centre aims to be the internationally acknowledged domestic centre of the researches in sports economics. The members of the Research Centre maintain relationships to the market players of the industry and to the experts of this field, and at the same time, try to extend its links towards the corporate and governmental spheres.

The Research Centre wishes to fulfil the following activities to achieve its goals:

- Collecting and elaboration of the domestic and international literature and material of sports economics;
- Conducting theoretical and applied researches in public and sports economics;
- Publication of the results of researches and its knowledge to enable the successful functioning of the sports industry;
- Usage and integration of the results of researches into the academic education;
- Consulting the stakeholders of the sports industry.

<sup>iii</sup> The conference was organised under the title “Forduló előtt” (the title has a double meaning: “Before a Game-day” or “Before the Changes”) on May 16, 1997 (the idea of the conference came from Ferenc Dénes and was organised by Krisztina András and Ferenc Dénes). The conference investigated the possibilities of the reform and the business orientation of Hungarian football through the lectures of invited business and football experts. The lectures and interviews with the invited experts were published in Replika (September 1997, pp.140-169) under the title “Fociüzlet” (“Football Business”, editors: Krisztina András and Ferenc Dénes).

<sup>iv</sup> According to Szymanski-Kypers (1999) it is an interesting phenomenon, that most of the fans (consumers) are against commercialisation, however their attendance was the first step in the process of commercialisation.

<sup>v</sup> For instance: the football players were allowed to get salaries since 1885 in England and officially since 1926 in Hungary.

<sup>vi</sup> At the beginning of the 1990s, the top division of professional football has become an own institution in England, the European Cup of the Champions has changed to Champions’ League with group system and more games, the Cup Winners Cup was assimilated in the UEFA Cup in 1999.

<sup>vii</sup> The Super Cup, organised for the cup winners (Champions League and UEFA Cup, at present) at international level every year or for the champion and the cup winner at national level, can be considered as a single event. The different national and international cups, championships, qualifications for world events and the European and World Championships Finals are staged as series events.

<sup>viii</sup> Besides the viewing figures, the number of the professional and amateur athletes of a given sports could be important as well. It is an observed phenomenon, that a part of the viewers on-site have played earlier or still playing the given sport in their spare time. This means, that a large recreational sports base can build a better quality professional athlete base and increase the number of the end-consumers (viewers on-site or via media, fans) for a given sport at the same time.

<sup>ix</sup> This question raises in the case of the right for a short report, at the most slashing way. Based on the answer of Sárközy (2000), the property can not be limited, it is vulnerable because of the realisation of the liberty of information.

<sup>x</sup> For example in case of credits. It is well illustrated by the introduction of the Bosman-ruling (c.f. subsections 3.3. and 4.4.), that football clubs were frightened for not being allowed to charge transfer fees for players with expired contracts. The right of charging transfer fees were often used as a guarantee for loans. If the transfer rights becomes worthless after the expiration of the contract, the guarantee of the loan disappears and the repayment will be matured immediately.

<sup>xi</sup> Bird (1982), Borland (1987), Simmons (1996), Jennet (1984)

<sup>xii</sup> In another approach, Dénes (1997) regards the basic factors determining the primal demand as the following: 1) basic services: quality of game, the uncertainty of the outcome, 2) additional services: the creation of the possibility of additional consumption, 3) the conditions of presentation of the service: price, facility, 4) sports specific factors: fan loyalty, local community, 5) other factors.

<sup>xiii</sup> Commercial agents are allowed to be active in a transfer, if the agent is registered by the responsible federation. The registration has personal and property related pre-conditions.

<sup>xiv</sup> The FIFA execution guidelines regarding player status and transfers (Chapter I, Paragraph 2) say, that it is the National Federation’s task to set the period of the yearly summer and winter transfer windows, what must be communicated to FIFA. The principles of the setting of the periods are the following: 1) The first transfer window can not start before the end of the previous season, must be concluded by the start of the new one and

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should not exceed six weeks. 2) The second transfer window falls on the middle of the season, does not exceed four weeks and is limited to transfers with “sporting causes”.

<sup>xv</sup> There has been more attention paid to this speciality since a scandal at Borussia Dortmund recently. A significant part of player wages were paid as night and weekend compensations trying use advantages of taxation facilities applied to these kind of payments. Mr. Meier, the club manager estimates, that about 1,5 million EUR was saved on taxes this way (HVG, October 18, 2003, pp.31-32).

<sup>xvi</sup> The institution of transfer fees raises a serious legal question, because everybody has the constitutional right for work and a free choice of work. There are no other fields of the economy, where employees may only change their jobs, if the new employer pays a compensation. But it must be considered, it is a right with value of property what we are discussing. That is one of the special characteristics of sports, that image and personality rights are marketable. Signing a star player (i.e. Figo, Zidane, Beckham) can bring benefits to a sports organisation before the given player plays its first match or participates at the first training in his new club. His image alone can bring profits.

<sup>xvii</sup> There has been a „Gentlemen’s agreement” between UEFA and the EU Commission since 1990, the so called “3+2 Rule”, what has been in use in European football since the 1992/93 season. This rule limited the number of foreign players per team in a match to three and further two were allowed to play, if they have been playing for more than five years in the given country. The Bosman-ruling annulled 3+2 Rule in EU countries, while it has remained in practice in some countries outside the EU.

<sup>xviii</sup> It is a consequence of the so called „75% Rule”. A non-EU player gets a British working permit only, if he has played at least 75% of the national team matches of his respective country during the last two years.

<sup>xix</sup> When speaking about the profitability, we have to pay attention to the question, how the television company can generate enough revenue to cover the costs arising from sports transmissions. That depends from the type of television channel. Gálík (2000) distinguishes classical commercial, state-owned/public, dual and multi-channel models. These model show basic differences regarding the payment by their audience, the structure of the market and the form of ownership. If we consider the main revenue sources (Gálík, 2000), then we find not only the classical free channels for the big audience and the ones financed by advertising revenues, but also pay-TV, subscription televisions and pay-per-view programs. The way of circulating the channel is another important factor in the categorisation of television companies. In this context, we distinguish terrestrial, cable, satellite and AM-micro channels.

<sup>xx</sup> András Krisztina (2000): A labdarúgóklubok érintettjei, in: András Krisztina – Kozma Miklós – Kynsburg Zoltán – Rohony Ákos (2000): Üzleti elemek a labdarúgásban, ISM-kutatás (812-11 futballmenedzsment), zárótanulmány, Budapest, pp.23-29

<sup>xxi</sup> Üzleti elemek a labdarúgásban (ISM-kutatás, 812-11 futballmenedzsment) projekt, Directress of the project: András Krisztina.

<sup>xxii</sup> The European Court said, that Maros Kolpak a Slovakian handball player playing in Germany, was limited in his playing right by the regulation of the German Handball Federation (DHB), that allowed only two non-EU players on-field in league and national cup games. Kolpak has played for the second division side of TSV Östringen as a goalkeeper since 1997, so he should have been given the same rights as to his sports-mates from EU countries (Világgazdaság, May 16, 2003, p.3).

<sup>xxiii</sup> Nemzeti Sport, Oktober 19, 2003, p.8

<sup>xxiv</sup> The term “league” is a bit confusing, though. Normally, league means a sports organisation formed the owners of sports companies, that acts as a kind of trade union, as well. The current Sports Law (Law CXLV of 2000 regarding sports) considers the MLL as the professional division of the MLSz, and it means, that it is an internal sub-organisation of the MLSz. The MLSz delegates derivative rights to its professional division. The constitution of MLSz determines the organisational structure, the form of operation and the level of independence of the division. Based on the Law CXLV of 2000 regarding sports (Sports Law), the MLSz had the authorisation to include in Paragraph 6 of its constitution the creation of a division under the name of Hungarian Football League. The MLL has its own legal entity, is an organisation of special public utility. Its function is to realise the goals set down in the Sports Law, the constitution of the MLSz and in the constitution of the MLL, what is the organisation, co-ordination and development of professional football. MLL has separate property and its own right of representation. It operates on the bases of its own constitution and fulfils the tasks delegated to it by the Sports Law and the MLSz.

<sup>xxv</sup> It happened for the first time at the summer entries regarding the 2002/2003 season, that some teams (FTC, MTK) did not provide the above mentioned obligatory declaration. They argued, that the amount (800.000 HUF) they receive for each of their matches broadcast live is less, than their missing ticket revenues, due to the effect of broadcasting. Basically, the two clubs wished to market the broadcasting and marketing rights of their matches themselves. This is in contradiction to the Sports Law and to the regulations of the League.

<sup>xxvi</sup> On July 21, 2000, the Youth and Sports Ministry (ISM) of that time (now: Children, Youth and Sports Ministry), The Hungarian Football Association and the Professional Football Division of that time (now: Hungarian Football League) signed an agreement regarding the Orth György Reform Program of the Hungarian Football to help the development of the professional game. The program set two main objectives: 1) The

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development of professional football and 2) Widening the grass-root base and the popularity of the game. The government of that time was supposed to provide a total amount of 20,075 billion HUF to the program. The plan categorised the stadia regarding the technological content of the investment and the comfort level of the planned stadia. The program took in consideration geographical and territorial aspects, too. The Sportfólió Kft, owned exclusively by the ISM, founded the Stadion Invest Rt with the task to handle the resources provided by the government, to control and to manage the project.

<sup>xxvii</sup> Füzesi Zsolt (2003): Összefoglaló jelentés a reklámfelületek központi hasznosításáról. Internal study of the MLL.

<sup>xxviii</sup> Due to the agreement related to the Orth György Reform Program signed by ISM (of that time), the MLSZ the HLASZ (of that time) on July 21, 2000. The original functions included the contribution to the Stadia Reconstruction Program, as well. For that reason, ISM founded a separate company, the Stadion Invest Rt. At the beginning of 2000, the Profi Liga Kft. performed the preparatory works of the Stadia Reconstruction Program and its duties shifted towards the field of re-organisation during the course of the year.

<sup>xxix</sup> The credit allocations are executed based on the Profi Liga Kft's "Regulations of the allocation of re-organisational credits".

<sup>xxx</sup> The survey was conducted by the employees of the Marketing Centrum National Market Research Institute (Research Director: Ferenc Ács, Research Manager: Enikő Meiszterics). During the course of the so called omnibus survey, the researchers asked 1200 randomly selected citizens in 100 communities of the country. The locations of the samples followed the structure of settlements in Hungary. However, the composition of the sample concerning sex, age and educational level differed slightly from the proportions expected based on the results of the last census. These smaller differences were corrected by mathematic models using the micro-census of KSH (National Statistics Bureau) from 1996. The standard deviance of the data is around 3-5% depending on the number of the interviewed and their scattering.

<sup>xxxi</sup> Ács Ferenc – Meiszterics Enikő: Futball-barométer, Marketing&Menedzsment, 1998/3., pp.5-7

<sup>xxxii</sup> The survey includes the viewing figures of the broadcast matches in Hungary during the period of February-July of 2000: 27 Hungarian league, 5 national team, 12 Champions League and 27 Euro qualifying games. The survey was conducted by Ágnes Urbán.

<sup>xxxiii</sup> On 25 November, 2003, it was announced publicly, that Fotex Rt goes out of FTC Rt, remains a shareholder with an amount of 2 billion HUF only and as a return on its investments, Fotex keeps the partial commercial rights of FTC forever. As communicated by some newspapers, those rights cover commercial rights of product categories, which does not belong to the typical revenue generating rights of football companies (i.e. press items and beverages). Other news agencies report, that the rights include the broadcasting rights of international cup competition matches (Világgazdaság, November 26, 2003, p.11). That means, that the products introduced during the ownership of Fotex (Fradí TV, 100% Fradí weekly magazine, web site, Fradí Beer, Fradí Whiskey) will not generate revenues to FTC anymore. Furthermore, Fotex sponsors FTC with 100 million HUF a year during the next three years to secure the 10% of the advertising surfaces for itself forever.

<sup>xxxiv</sup> The MKB (Hungarian Foreign Trade Bank) Fradí VISA card supports the funding of the grass-root development program. The card can be obtained since April 2002, and there are thousands of club officials and fans paying with this card. The services of the card include more and more advantages and gifts.

<sup>xxxv</sup> The Dreher Sörgyárak Rt sponsors the FTC since the middle of the 1980s. During the first two weeks of its introduction, consumers bought 1,5 million litres of Fradí Beer, equalling 300.000 cans of beer. The marketing director of the brewery told, that the well known brand name Ferencváros made the introduction of the new product very easy.