

CAPSTONE:

MANCHESTER CITY: A MARKETING CHALLENGE IN THE SOCCER INDUSTRY

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MKTG-541-001

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Spring 2013

University Honors

Abstract

The purpose of this capstone has been to analyze how the English soccer club Manchester City can increase its revenue from a marketing standpoint, and engage in the virtuous circle of success. The study started from three empirically tested premises (that the soccer industry is profitable, that paying the highest salaries correlates with success, and that UEFA Financial Fair Play Rules will affect clubs like Manchester City in Europe), and then it investigated the soccer industry. It has three relevant revenue components: matchday, broadcast, and sponsorship or marketing. By assessing the state of the industry and the three largest revenue generators, the study then focused on Manchester City's performance on the same three indicators. The conclusions are that Manchester City is starting to show some virtuous circle of success symptoms, but that there is still more room for growth. First of all, because if the clubs continues to be unprofitable it won't be able to participate in UEFA's competitions (which would be devastating in terms of revenue). Secondly, because sponsorship and (especially) matchday revenue are still small in comparison to the leading competitors.

Introduction

The purpose of this capstone project is to analyze the current European soccer industry from a marketing standpoint through Manchester City's case. The clubs current situation is encouraging as it has the capacity to spend more than almost any other single club; in addition, the global soccer industry offers stimulating opportunities for growth. The downside, or threat, to Manchester City's aspirations is the enforcement by the Union of European Football Associations (UEFA) of its financial fair play rules. Simply put, Manchester City has the economic resources to become one of the world's most successful soccer clubs, which in its turn

should boost its revenues. However, such desire for glory will not be achieved unless Manchester City participates, and wins as much as possible, UEFA's competitions (mainly the Champions League). In order to be able to participate in the Champions League Manchester City will have to meet the UEFA financial fair play requirements, which basically establish that clubs that spend beyond the reach of their revenues will not be able to participate. Not being able to participate would first of all imply a huge decrease in TV rights revenue, and secondly missing the opportunity to collect the revenue originated by each game played at the Etihad Stadium (Manchester City's field). In the third place, these mentioned bad performances would in its turn deviate the attraction of future sponsors and decrease the fans' desires of purchasing products and services as the club's brand equity would be affected by such poor turnout.

Therefore, understanding that it is in Manchester City's best interest to become a top soccer club in the world to be able to participate in UEFA's competitions, this Capstone explores how Manchester City can enter the virtuous circle success, meaning how it can attract vast revenues which will further permit them to acquire top players who make winning more likely. Winning teams, in turn, enjoy higher revenues (and therefore reinforcing the virtuous circles of success). To do so, this Capstone starts from three premises:

1. Soccer constitutes a profitable business with potential to grow even more.
2. Assuming that in soccer's value chain the players are the ones who get the biggest share of the pie, evidence shows how teams which are able to pay the highest salaries are the most successful ones.
3. UEFA Financial Fair Play rules will affect European clubs, and its influence needs to be assessed to determine which impact it will have in the European industry from a marketing standpoint.

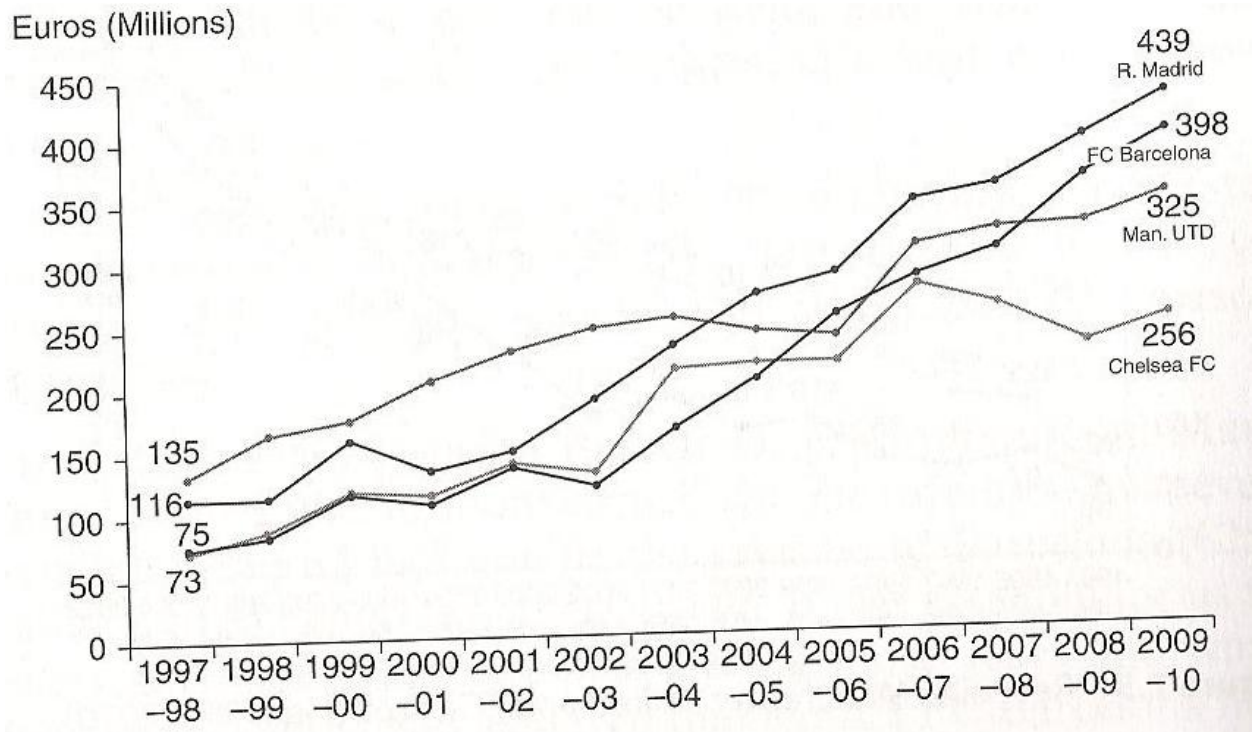
From here, the European soccer industry will be analyzed in three parts: Marketing and sponsorship revenues, TV rights revenues, and matchday revenues. This analysis will be the benchmark to establish where Manchester City is currently in this three marketing aspects, while it will also be taken into account how the UEFA Financial Fair Play rules and its gradual enforcement will affect Manchester City's potential for growth. Finally, all of these input will be incorporated into a set of recommendations of how Manchester City should increase its revenue (and therefore its chances of winning and entering the virtuous circle of success) from a marketing standpoint.

1. Soccer is a profitable business

Within the entertainment industry, the sports market represents a multi-billion dollar worldwide business. Soccer is one of its biggest assets, and it is constantly growing. For instance, the 2013 edition of Deloitte's Money League, a key benchmark for the soccer industry, emphasizes how the fact that Real Madrid is the first club in history to earn more than 500 Euro million is a symptom of fast growing industry despite the global economics crisis: "The Spanish club's revenue growth has been remarkable. In 1996/97, the first season for which we published our Money League analysis, Real generated revenues of €85m, one sixth of the revenues they generated in 2011/12, and insufficient to make the top 30 in the current list. Over the fifteen years since, the club's revenue has grown by €428m at a compound growth rate of 13%" (Jones). Thus, in a 15 year period the revenue soccer generates has exploded. There are huge annual growths, and, what's more important, more room to grow.

As this graph indicates, the Real Madrid example can be extrapolated to the whole industry: The biggest clubs in Europe have been able to systematically increase their revenue.

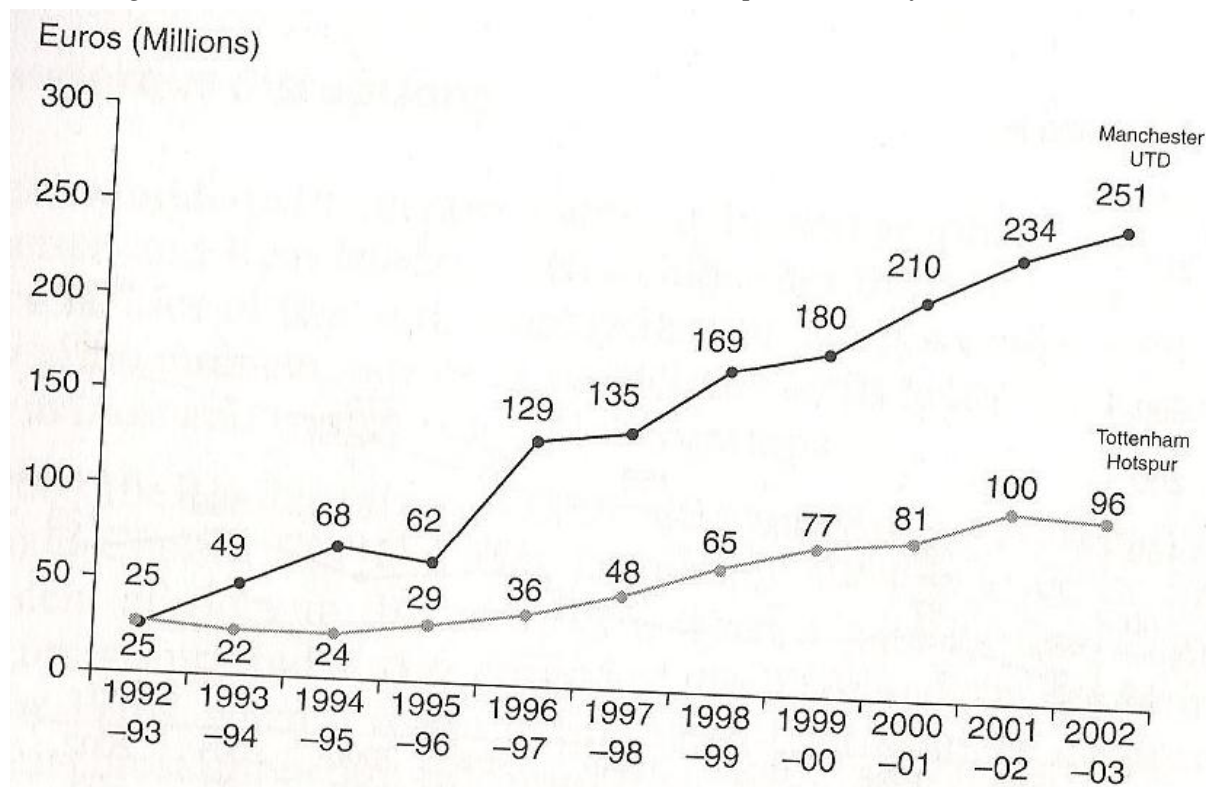
Figure 1: FC Barcelona, Real Madrid, Manchester United, Chelsea FC Revenue (in Euro Millions) from 1997 to 2010



Source: Goal. The Ball doesn't go in by chance (Ferran Soriano).

However, as this second graph shows the process is not automatic. Just by being in the industry revenue doesn't necessarily increase year by year:

Figure 2: Manchester United and Tottenham Hotspur Revenue from 1992 to 2003.



Source: *Goal. The Ball doesn't go in by chance* (Ferran Soriano).

The numbers speak for themselves. In the 1992/93 season Manchester United earned the same amounts of revenue than Tottenham: 25 Euro Million. Ten seasons later Manchester United's revenue was two times and a half higher than Tottenham's, meaning that while both clubs experienced substantial growths, they were still very far from each other.

The conclusion is, then, that the industry is profitable and there is room for growth, but it would be naïve to think every club will follow this process. Ferran Soriano, nowadays Manchester City's CEO offers his recipe for success: "So if you want a champion team, a team with a regular chance of winning championships, then you need to work consistently to have a big club that generates enough revenues to be able to sign the best football talent available. And you do this by working hard, using good management criteria and the same common sense used by the CEO

of a multinational corporation or the manager of a corner shop” (Soriano). If to this hard work and management cocktail we add to it sports marketing’s characteristics (its affinity advantage, positioning challenge, and experienced-based relationships between sports and fans), then we have the starting point for success both on and off the pitch.

2. Having the best soccer players leads to success

While obvious, this point suggests that because soccer players are the in first position of the value chain of soccer, that they are the ones getting the biggest share of the pie, clubs should spend their revenues in hiring and paying to the most talented players (which implies the ones with the higher salaries and transfer fees).

The premise is that success can’t be bought, as it requires hard work, but that, on the other hand, there is no success without money. Evidence shows that teams that pay the most are the top ones. The book *Pay as You Play*, which analyses all of the money spent in the British Premier League (BPL) since its foundation in the season 1992-93, focuses on: “The increasing importance money in achieving success in the Premier League era, and how trends are heading towards a lack of competitive balance” (Fulcher, Riley, and Tomkins). The imbalance comes in the capacity of rich clubs to invest in better teams than poorer ones. Although “plenty have tried to buy success and failed” (Fulcher, Riley, and Tomkins), there is a strong correlation between money and success. Zach Slaton, a soccer data analyst for Forbes, also concludes that: “the value of a squad (Sq£) or starting XI (£XI) in terms of its total current transfer purchase price (CTPP) is highly correlated to success in the Premier League” (Slaton).

Such findings are obtained both in the book *Pay as You Play* and Zach Slaton’s analysis, by using the Transfer Price Index (TPI), which consists of: “models based upon the squad and

starting XI costs in current day values of transfers using transfer-specific inflation factors from season to season” (Slaton). A good in example is displayed in one of Slaton’s articles in Forbes that indicates how Manchester City and Chelsea have benefited from the fact that they were purchased by wealthy benefactors:

Figure 3: Consequences on the performances of Chelsea and Manchester City after more money has been invested in both respective teams.

Comparison of Effects Before & After Latest Ownership Change (Chelsea & Manchester City, through 2010/11 Season)				
	Chelsea		Manchester City	
	Before	After	Before	After
Wages	£90.2M	£202.3M	£54.6M	£122M
mWages	1.58	3.55	0.95	2.28
Rank Wages	4.73	1.13	11.72	2.70
Sq£	£139.9M	£502.1M	£35.07M	£292.9M
mSq£	1.40	5.83	1.06	3.32
Rank Sq£	8.30	1.00	10.27	3.33
TTV	£203.7M	£692.6M	£146.6M	£418.3M
mTTV	1.42	4.84	1.03	2.92
Rank TTV	7.00	1.00	10.00	3.33
Finish	7.36	1.75	13.55	6.00
Relegated	Never	Never	5 seasons (96/97 to 99/00, 01/02)	Never

All data are averages except "Relegated" column
All data © <http://www.transferpriceindex.com>

Source: Forbes. Manchester City: The Ultimate Triumph of the Wealthy Benefactor Model (Zach Slaton).

Again, the number speak for themselves. Chelsea was bought by the Russian magnate Roman Abramovich in 2003. Since then, wages, squad value, and TTV have increased substantially. What has also subsequently increase increased is their BPL finish position. The same conclusions also apply to Manchester City after they were purchased by Sheikh Mansour in 2008. BPL finish positions have also decreased, and because the table also measure finishes until

the 2010-11 season, it does not compute City's BPL title in 2012, which would have substantially decreased the average.

Outside the scope of this precise measurement, there is also a correlation between the teams that pay the highest salaries on average and its success. ESPN published a list with the 250 top paying teams in the world. Because soccer is a profitable industry, without the salary caps that face most of American sports professional leagues, it is not a surprise to see seven soccer teams in the top 10:

Figure 4: Highest Paying Teams in the World (in US \$)

Rank	Last year	Team	League	Avg. annual pay \$	Avg. weekly pay	% change in avg. weekly	Total payroll \$ (rank)
1	1	Barcelona	La Liga	\$8,680,569	\$166,934	10	\$217,014,221 (1)
2	2	Real Madrid	La Liga	\$7,796,637	\$149,935	6	\$194,915,932 (3)
3	10	Manchester City	EPL	\$7,403,754	\$142,380	26	\$185,093,858 (4)
4	6	Chelsea	EPL	\$6,795,899	\$130,690	13	\$169,897,463 (8)
5	4	Los Angeles Lakers	NBA	\$6,278,088	\$120,732	-4	\$87,893,233 (63)
6	3	New York Yankees	MLB	\$6,186,322	\$118,968	-8	\$197,962,289 (2)
7	14	AC Milan	Serie A	\$6,104,769	\$117,399	8	\$152,619,219 (10)
8	12	Bayern Munich	Bundes.	\$5,907,652	\$113,609	2	\$170,231,332 (7)
9	13	Philadelphia Phillies	MLB	\$5,817,965	\$111,884	1	\$174,538,938 (5)
10	7	Internazionale	Serie A	\$5,700,915	\$109,633	-5	\$142,522,871 (12)

Source: ESPN. Highest Paying Teams in the World

The success in the teams of this list, at least the soccer ones, is undeniable. For instance, Chelsea won the last edition of the Champions League, Manchester City won the Premier League, Real Madrid the Spanish League...

Accordingly, the largest percentage of a club's revenue must be spent in the players' salaries. Once good management (including marketing strategies) has attracted large amounts of revenues to a club, spending it to attract and keep the best soccer talent available will create a winning team. In its turn, a winning team will generate even larger amounts of revenue so that a virtuous circle will be achieved.

3. UEFA Financial Fair Play

From the two first premises it could be implied that all of soccer successful teams have in fact created a winning virtuous circle. However, the lack of regulation in European soccer has allowed for teams with large amounts of capital to compete without matching the expenses they generated with revenue. The UEFA, Europe's maximum soccer authority, is trying to deal with this lack of fairness. To put it shortly, Zach Slaton at Forbes describes brilliantly Europe's current soccer situation: "Without a salary cap found in MLS or other North American sports leagues and with player rights literally bought and sold, international soccer is always going to be a game where the rich clubs win most of the championships" (Slaton). Furthermore, not only are rich teams the ones that usually win, but also there are also teams with rich owners, like Manchester City and Chelsea, that "seem to have little care for running a break even operation" (Slaton). This goes beyond the rich club model that has entered a virtuous circle, and is able to sustain good revenue and good TTV. Examples like Chelsea and Manchester City are the paradigmatic case of clubs that are usually unprofitable, but take advantage of unlimited funds

supporting them. Out of fairness and equality and competitiveness, the UEFA is trying to enforce a set of financial fair play rules to every single team participating in their competitions (namely, the UEFA Champions League, and the Europa League). As the authors of the book Pay as You Play believe: “The Impending Financial Fair Play Rules by UEFA may be one of the last hopes in helping to restore some kind of balance to the situation, although no matter what happens, there will always be some clubs who are richer than others” (Fulcher, Riley, and Tomkins).

Hence, being able to spend large amounts of money in transfer fees and salaries will be allowed as long as it is matched with revenue by each respective club. Clubs that are unsustainable by nature won't be allowed to participate in UEFA's competitions.

To begin with, UEFA's goals are stated as follows in their website (UEFA.com/financialfairplay):

- To introduce more discipline and rationality in club football finances;
- To decrease pressure on salaries and transfer fees and limit inflationary effect;
- To encourage clubs to compete with(in) their revenues;
- To encourage long-term investments in the youth sector and infrastructure;
- To protect the long-term viability of European club football;
- To ensure clubs settle their liabilities on a timely basis.

To achieve them, the UEFA requires the following: “an obligation for clubs, over a period of time, to balance their books or break even. Under the concept, clubs cannot repeatedly spend more than their generated revenues, and clubs will be obliged to meet all their transfer and employee payment commitments at all times” (UEFA.com/financialfairplay). UEFA's

enforcement of this obligation will be enforced by Club Financial Control Body (CFCB), which started to monitor clubs as the rules were created in 2010. Regulations “are being implemented over a three-year period, with clubs participating in UEFA club competitions having their transfer and employee payables monitored since the summer of 2011, and the break-even assessment covering the financial years ending 2012 and 2013 to be assessed during 2013/14” (UEFA.com/financialfairplay).

If the goals are not implemented, UEFA foresees 8 different kinds of punishment (financialfairplay.co.uk):

1. Reprimand / Warning.
2. Fine.
3. Deduction of Points.
4. Withholding of Revenue from UEFA competition.
5. Prohibition to register new players for UEFA competitions.
6. A restriction on the number of players that a club may register for UEFA competitions.
7. Disqualification from a competition in progress.
8. Exclusion from future competitions.

Consequently, it is in the clubs best interest to achieve UEFA’s goals. Not being able to participate in their competitions would mean for clubs to abandon the pursuit of the virtuous circle: The impossibility to collect UEFA’s TV rights, the impossibility to win their competitions... Leading to a subsequent revenue decrease, and by not being able to hire or maintain the best soccer talent available.

All of these rules are designed for teams like Manchester City, Chelsea and Paris Saint Germain (all of which are owned by foreign magnates who spent in salaries and transfer fees well beyond the revenue collected). In the 2011-14 period, losses of 45 Euro million will be accepted only if they are subsidized by the owner. Later on, between 2014-17, the overall permitted loss will fall to €30m (£23.5m) for each three-year block monitored by UEFA. After that, UEFA hope clubs will have learned financial balance and be genuinely breaking even. There are some expenses that won't be taken into account, such as youth development, stadium infrastructure and community development.

As the following table shows, there is concern about the enforceability of these numbers given the current financial situation of top English clubs:

Figure 5: Profit margin (in UK Pounds) of the Top-6 English Clubs in the 2010-11 Season.

FINANCES OF THE 'BIG SIX' IN 2010-11	
CLUB	PROFIT/LOSS
ARSENAL	£14.8m
CHELSEA	- £67.7m
LIVERPOOL	- £19.9m
MAN CITY	- £194m
MAN UTD	£29.7m
TOTTENHAM	£0.7m

Source: Goal.com (Enforcement of FFP).

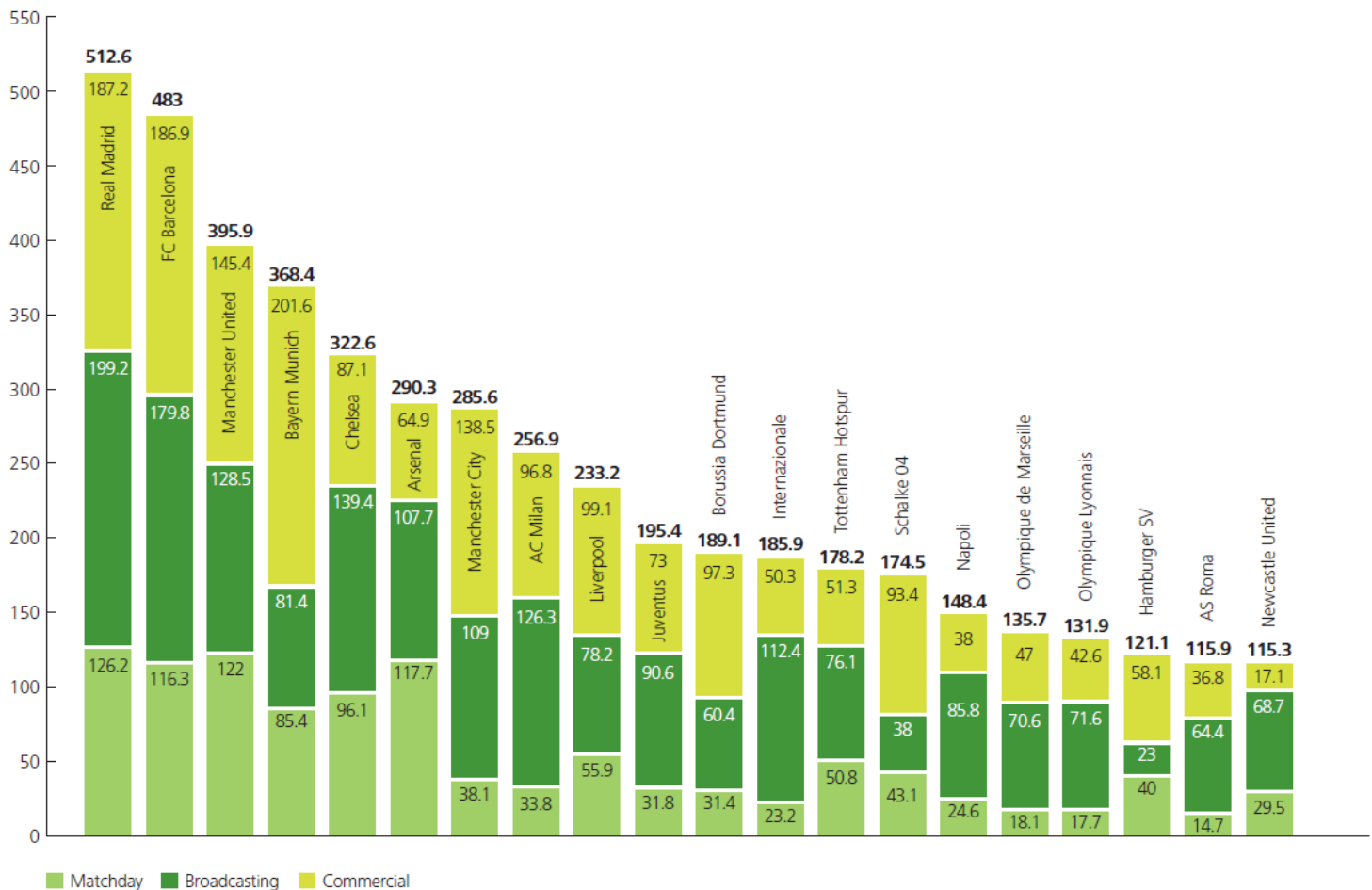
Soccer Industry Revenue Analysis

The revenue of soccer clubs is usually divided among three big sources: stadium (or matchday), broadcast (including TV rights), and marketing (including sponsorships).

Deloitte's soccer industry analysis begins its report with Europe's top-20 generators of revenues divided in these mentioned three sources:

Figure 6: Europe's Top-20 generators of revenues divided by sources in the 2011-12 season.

2011/12 Revenues by streams (€m)



Source: Deloitte. Captains of Industry 2013

Stadiums (Matchday)

All of the revenue within this section is related to the events that take place at the club's facilities, mostly during games. An indicator a team is doing well is by measuring the stadium's capacity, and then making the average of how many fans per game attend during a season. The stadium's size should be big enough to meet all of fans demands, but adjusted to that particular club's size, so that there are no empty seats.

It doesn't usually represent revenue's largest source, but it requires work in order to be successful. The Italian league is an example of how elite clubs should not let escape revenue from this source. As Ferran Soriano points, "in Italy the local government authorities own most of the stadiums and very little investment has been made compared with stadium in other countries" (Soriano). If a look is taken at Deloitte's numbers, it is clear that an elite club like AC Milan, which is in the top-10 revenue generators segment, is not taking advantage of its stadium with its 33.8 Euro million, compared to Arsenal, just ranking two more positions ahead, which is making 117.7 Euro million per season with their brand new field Emirates Stadium. The fact that AC Milan plays in a public stadium, and shares it with rivals Inter Milan, makes that they have less leeway to implement successful matchday measures and the stadium is usually half empty. AS Roma, in position 19, also has this problem, because it shares Rome's public stadium with neighbors and rivals SS Lazio.

Accordingly, there are measures that can be taken in order to maximize matchday revenue. Italian club Juventus, well aware of that situation, decided to leave Torino's municipal stadium (Delle Alpi), which was also half empty and didn't generate match revenue, to build the first Italian stadium owned by a club: Juventus Stadium. When Juventus played at Delle Alpi, a

stadium with capacity for 70,000 fans, the average attendance per season was of 22,000 fans, so that “the atmosphere was very cold, and the empty seats dominated TV broadcasts. On the other hand, the stands were too far from the pitch because of a running track, meaning that the fans had a worse vision of the games and more difficulties to reach the players with their animation” (Calzada).

The fact that Juventus decided to build a stadium tailored to its fans mass created a multiplier effect: “attendance average increased more than 50 percent during the season’s first half (after it was built), reaching 33,000 fans per game, season ticket holders increased from 14,000 to 24,000, and results during the first games were substantially better” (Calzada). Although Juventus is at the 10th position in terms of revenue, and its stadium revenue is of just about 32 Euro Million, a lesson can be taken from their decision: Having a field adapted to the fans needs creates a true multiplier effect because it has a better image on TV, it creates a warmer atmosphere, the players are more motivated leading to better results... And as a consequence revenue increases.

Figure 7: Delle Alpi (on the left side) compared with Juventus Stadium (on the right side).



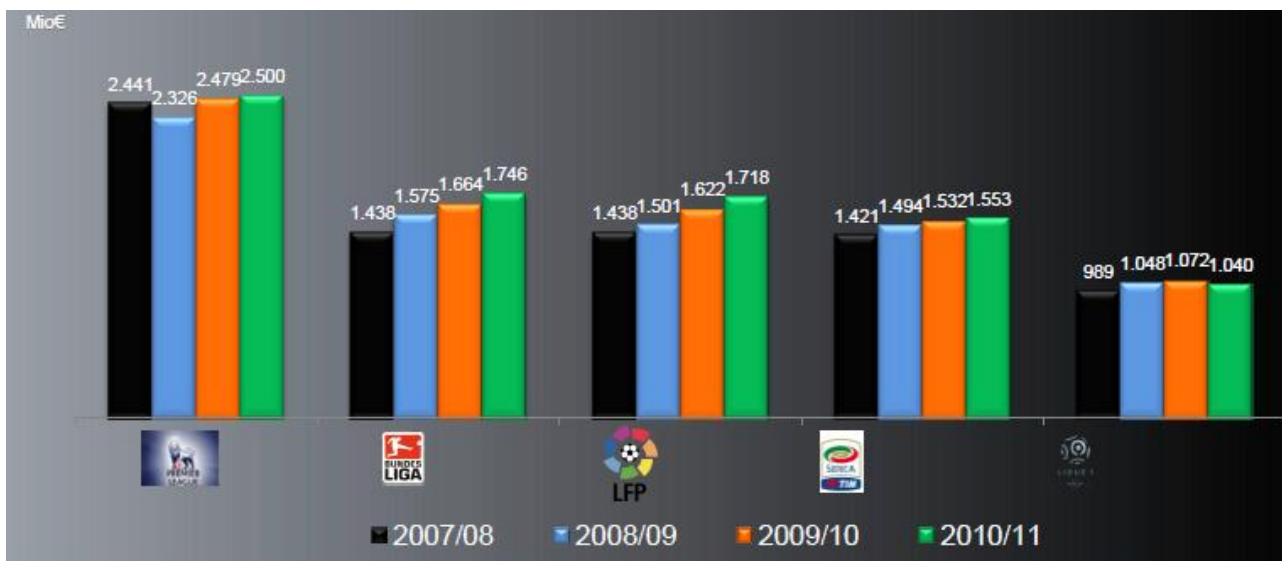
Source: Gazzetta.it

Broadcast

For teams in the European soccer elite like Manchester City, broadcast revenue comes from two big sources: The domestic national league and the European competitions organized by UEFA (namely, the UEFA Champions League and the Europa League). Depending on the competitions, there is a different approach on how broadcast revenue is distributed, either individually or collectively.

In terms of leagues, there is no question that the most profitable one is the British Premier League (BPL). Numbers are clear:

Figure 8: Revenues from European Leagues (in Euro Millions).



Source: Football Transfer Review 2013 (by Prime Time Sports).

BPL's dominance is explained because "it has successfully managed its foreign expansion and is the most watched football league in the world" (Soriano). However, TV rights it is usually one of the revenue streams in which "there is usually less room for maneuver and depends on third-party decisions or of collective bargaining" (Calzada). Regarding, for instance, Manchester City,

all of the BPL clubs receive their TV rights revenue directly from the BPL, and there isn't much room for negotiation. The fact that Manchester City were the BPL champions in the 2011-12 season implies that they received for the accomplishment more money than any other team.

Nonetheless, the BPL raises differences with other leagues, like the Spanish one, which is the only one in Europe where TV rights are negotiated individually. Although Figure 8 shows clearly that the BPL generates the largest amounts of revenue, it is also clear in Deloitte's graph (Figure 6), that Barcelona and Madrid earn the largest broadcast revenues in the world soccer industry, while British clubs are not even close to them. "The current situation... is that 80 percent of the demand for pay-per-view matches is shared out between FC Barcelona and Real Madrid, and this is the justification these two clubs receiving a much greater share of their income" (Soriano). While this system fosters a "rich get richer" distribution, killing potential competition, it is worthy to be analyzed as it shows how different leagues regulations influence the final revenue outcome.

On the other hand, there are the UEFA competitions. The Champions League, which is played by most of the teams in the top-20 revenue generators, provides with substantial revenues to its participants. The competition is so successful just by itself so that participating clubs are subject to its regulations and revenue share. Figure 9 shows how much Manchester City received, and also its rivals during the group stage:

Figure 9: UEFA Champions League TV Rights distribution in the 2011-12 edition.

UEFA CHAMPIONS LEAGUE : Distribution to clubs 2011/12

all amounts in €	Group matches				Knock-out matches				Total
	participation bonus	match bonus	performance bonus	Market - Pool	Round of 16	Quarter-finals	Semi-finals	Final	
Group A									
FC Bayern München	3'900'000	3'300'000	3'600'000	14'830'000	3'000'000	3'300'000	4'200'000	5'600'000	41'730'000
SSC Napoli	3'900'000	3'300'000	3'200'000	14'334'000	3'000'000				27'734'000
Manchester City FC	3'900'000	3'300'000	2'800'000	16'525'000					26'525'000
Villarreal CF	3'900'000	3'300'000	-	6'709'000					13'909'000

Source: UEFA.com/management/finance/news

Manchester City ended up earning a total of 26.5 Euro million. Taking into account that the team was defeated in the group stage it is a very large amount. On the other hand, German club Bayern Munchen obtained a total of almost 42 Euro million because they were able to reach the final. Chelsea, who were the champions, were the team that obtained the most revenue, with 60 Euro million.

In conclusion, broadcast revenue will depend on a big extent on the club's league, and the capacity to participate in competitions at an European level. However, if a club is able to enter the virtuous circle of success, broadcast revenue will accordingly increase as well. Meaning that while it is a factor that they do not directly control, a good performance on the pitch will assure an increase in revenue.

Marketing

“This is the source of income with the greatest potential for growth. The reason for this is the opportunities for global expansion... This is the category where the sponsorship programs, merchandising, and friendly matches are to be found” (Soriano). To make a parallelism, jersey sponsorship represents for European soccer teams the largest source of revenue coming from marketing, in the same way naming rights does for American major sports leagues franchises. The difference being that the top European clubs can earn as much as ten times the average NBA franchise would make to concede the name of its arena.

In this sense, FC Barcelona and Manchester United (2nd and 3rd in Deloitte's index, respectively) represent a good example of the potentiality of these deals. FC Barcelona presented in 2011 what at the time was the most profitable sponsorship deal in the history of soccer: Qatar

Foundation (related to the government, and therefore paying public money) would pay 30 Euro million per season during five years. Nonetheless, it has later been explained that this deal not only included the jersey agreement, but it also was a total sponsorship agreement, meaning that it also includes practice jerseys, backdrops at press conferences, website and a large etcetera. That not only makes the deal less valuable by itself, but it also subtracts space to the other main sponsors, and makes them decrease their value.

While the sponsorship was still the largest ever signed at the time it was announced, Manchester United revealed their sponsorship with General Motors, that will start to be implemented in the 2014-15 season, and it will consist of a “deal with GM’s Chevrolet brand that will be worth \$80m a year, more than double the 19m Pounds AON insurer is paying right now. The exclusive rights deal, worth \$559m over seven years from the 2014-15 season, sets a new record for a football club sponsorship contract” (Edgecliffe-Johnson). Moreover, this deal has the particularity that it will only feature United’s game jerseys, leaving the value of other sponsors intact. Hence, the Deloitte industry report explains that teams such as FC Barcelona and United are at the top of the ranking because “the recent batch of commercial deals that have been announced by clubs... (like) Manchester United’s ground breaking seven year shirt sponsorship deal with General Motors, worth \$70m (€54m) in the first full season (2014/15) of the deal with small increases thereafter, topped FC Barcelona’s €30m per season deal with Qatar Sports Investments” (Jones).

Then, there are also smaller deals providing with revenue: “Together with this small main sponsor, the clubs have other sponsors in some basic product sectors: a beer, a soft drink, a bank, a car etc.” (Soriano). For example, Manchester City has partnerships with Heineken and Jaguar that involve lower exposure, and therefore a lower price.

Manchester City Analysis

Before getting to Manchester City's revenue analysis it is necessary to see how much it has spent in the last seasons. By first assessing how much the club spends in the first place, it will be possible to determine how much revenue will be need to match the expenses, and avoiding the UEFA FFP regulations.

First of all, Manchester City appears the third in the ranking contained Figure 4, which indicates the teams that, on average pay the most to their players. Because the average pay of a player is \$7.5M, it is safe to assume the clubs spends almost \$190M in salaries (assuming the average size of a team, with 25 players). Since Deloitte's report is in Euros, the equivalent would be, approximately, 150 Euro millions. As the report indicates, Manchester City's revenue for the year 2012 was of 286 Euro millions, which leaves a good ratio between what the club earns and how much it spends on its players: "It is said that salaries should be approximately between 50 and 65 percent of revenues... (it) is an accepted indicator of the good management and financial health of football clubs" (Soriano).

However, because in 2011 the revenue was of just 170 Euro million, the club has some serious debt that may jeopardize their participation in UEFA Champions League. For example, in the same 2011-12 season in which it won the BPL a reached a revenue amount of 286 Euro millions, the club lost 98 million Pounds. Manchester City has therefore been unsustainable to the date, although is trying to find loopholes in UEFA's regulations: "The rules allow a club to deduct from their losses money spent on infrastructure – mainly their stadium and youth academy. City are building a £140m training campus on 80 acres near their Etihad Stadium... City have halved their loss from the £197m, the highest ever in English football, in 2010-11, so will show Uefa

that positive ‘trend’. In this 2012-13 year, despite exiting the Champions League at the group stage, City will again expect to diminish the loss by increasing their income from commercial sponsorships and reducing costs by being prudent in the transfer market. If that trend is happening, clubs can escape a UEFA sanction if they can show their overall loss is higher than the €45m allowed only because they made a loss in 2011-12 caused by the wages of players' contracts signed before 1 June 2010” (Conn).

Hence, as the article suggests, the debt has been accentuated not only by the players’ salaries, but also because of the expensive transfers fees paid during the last few seasons, and as Ferran Soriano points: “only the big clubs can sign up and pay the best players, and keep the *magic ratio* at around 50 percent” (Soriano).

Figure 10: Accumulated net payment of transfer fees in the last 4 seasons(In Euro Millions):



Source: Football Transfer Review 2013 (by Prime Time Sports).

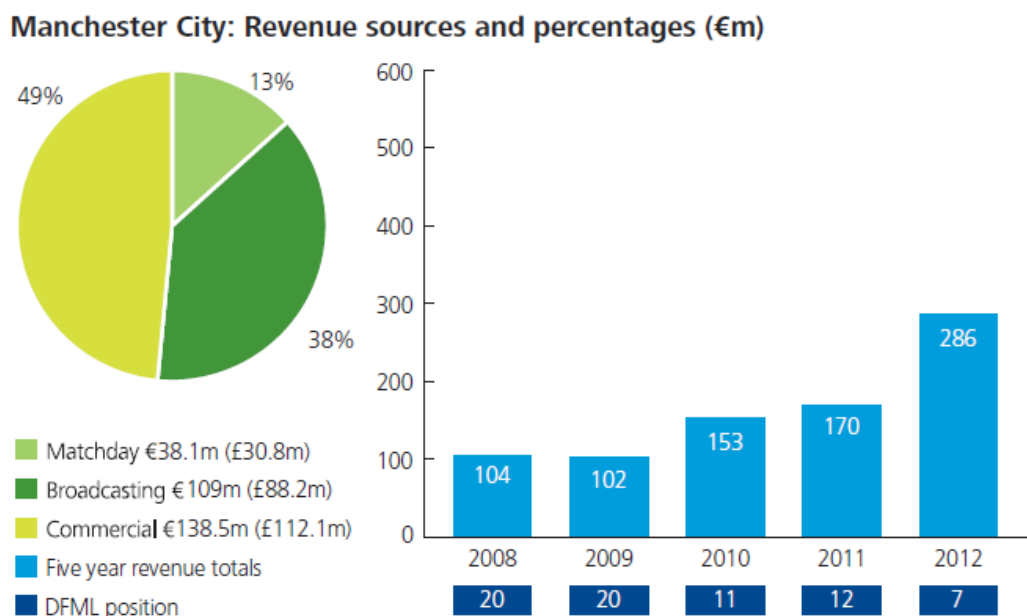
What the ranking shows is that Manchester City has been the European club that in the last 4 years has spent the most on transfer fees (even with the money sold players taken into account). Therefore, salaries and transfer fees explain the debt and deficit. What made the club

unsustainable in the last for years were basically a payroll of 150 Euro million per season plus an average spending on new players of 85 Euro million per season.

In terms of expenditures, then, Manchester City will be able to deduct money going towards the construction of their youth academy, the positive trends of their losses, or the high salaries included in contracts signed before June of 2010. Looking ahead, it should not spend per season on new players what has spent on average during the last four years.

On the other hand, in terms of revenue, Manchester City's analysis for the last season provides with reasons for optimism:

Figure 11: Manchester City's Revenue Sources and Percentages (in Euro Million):



Source: Deloitte. Captains of Industry 2013

What the numbers show is that between 2011 and 2012 Manchester City experienced a 60 percent revenue increase, and entered the top-10, in the 7th position, for the first time of soccer

clubs revenue generators. The club's numbers between 2008 and 2009 were horrible. In an industry that has been defined as profitable, Manchester City decreased its revenue during that period, which meant it was losing market share. Since then, it has been regaining market share, and what's more important, a revenue quantity that will allow the club to be sustainable while it keeps on spending in players. Accordingly, all of the club's marketing efforts will consist of perpetuating the virtuous circle, of obtaining more revenues with on the pitch success, and spend the subsequent revenue to guarantee future successes.

Matchday

To begin with, Manchester City's attendance numbers during match days at their home stadium, called Etihad Stadium, need to be analyzed:

Figure 12: Attendance Development

Season	Competition	Matches	Sold out matches	Total	Average
2012/2013	Premier League	15	14	704.999	47.000
2011/2012	Premier League	19	16	893.851	47.045
2010/2011	Premier League	19	-	872.195	45.905
2009/2010	Premier League	19	-	863.930	45.470
2008/2009	Premier League	19	-	815.165	42.903
2007/2008	Premier League	19	-	800.400	42.126
2006/2007	Premier League	19	-	759.946	39.997
2005/2006	Premier League	19	-	814.269	42.856
2004/2005	Premier League	19	1	858.655	45.192
2003/2004	Premier League	19	-	889.854	46.834

Season	Competition	Matches	Sold out matches	Total	Average
2002/2003	Premier League	19	4	656.730	34.565
2000/2001	Premier League	19	9	647.108	34.058
1995/1996	Premier League	19	-	530.885	27.941
1994/1995	Premier League	21	-	476.158	22.674
1993/1994	Premier League	21	1	553.017	26.334
1992/1993	Premier League	21	1	518.655	24.698

Source: TransferMarkt

So far, until April 2nd of 2012, the Etihad stadium has had average attendances close to the stadium's capacity of 47,800 spectators. Numbers might suggest the club is achieving a multiplier effect like in Juventus case, but in terms of revenue it's not. One of the prerequisites to achieve it is to have a full stadium, but the fact that the club regularly sells out its tickets doesn't translate into revenue.

According to Figure 10, matchday revenue is in relative terms the smallest revenue generator. Moreover, in absolute terms, as Figure 6 indicates, Manchester City's 38.1 million in matchday revenue is far from Arsenal's 117 or Chelsea's 96 (to mention the two next clubs in the ranking).

In other words, Manchester City has all of the ingredients for a stadium that plays a multiplying effect role (better image on TV, a warmer atmosphere, players are more motivated leading to better results), but revenue doesn't increase. The recommendations section will address how to make the revenue number increase. Although the stadium is able to meet the fans demands and appear full, the amount of revenue generated is weak.

Broadcast

In terms of revenue generated by TV rights, there are two causes explaining City's increase (that puts them ahead of Bayern Munchen and Arsenal, to mention two other rivals that are ahead in the revenue ranking, but not in that aspect): The fact that they won the BPL last season, and their participation in the UEFA Champions League. Although they participate in the most profitable league in the world, the fact that TV rights are negotiated collectively makes it impossible for them amounts similar to FC Barcelona's and Real Madrid ones. Participating in the UEFA Champions League also meant more TV revenue, but because they were eliminated in the group stage, they could fully economically benefit of the experience.

As the Deloitte's report puts it: "City's broadcast revenue increased by £19.4m (28%) thanks largely to the receipt of UEFA Champions League and UEFA Europa League distributions totaling £22.5m (€27.8m). This compares with Europa League distributions in the previous year of £5.5m (€6.1m) and highlights the importance of UEFA Champions League participation to the top Money League clubs. Domestically, City were the recipients of the highest payout of all Premier League clubs receiving £60.6m (€74.9m) in broadcast payments after winning the Premier League, an increase of £5m (€6.1m) from the previous season when they finished in third place" (Jones).

Coming back to the industry's analysis point about broadcast revenue, there is not much that can be done by clubs, because they usually participate in competitions in which TV rights have already been negotiated. Nevertheless, that is not to say that if the team wins trophies broadcast revenue will remain unchanged. That means that from a club standpoint like Manchester City's on the pitch performance will be key in that regard, and the team will only win if it generates

enough revenue to keep paying the best soccer talent. Again, the idea that being able to hire the best talent available will generate more profits, which will allow to keep a winning team which in its turn will bring more revenue (like in the TV's case).

Marketing

Marketing or commercial revenue represents Manchester City's biggest source of income, and it basically comes from sponsorships. For instance: "Commercial revenue almost doubled to £112.1m (€138.5m). The most significant component of this growth was the commencement of the new partnership with Etihad Airways. As Premier League champions and now regular Champions League participants, the club will undoubtedly look to capitalize commercially on their global status. In 2012/13 they have already agreed a new deal with Hugo Boss and announced a kit deal with Nike from the start of the 2013/14 season" (Jones).

Therefore, some virtuous circle of success symptoms are starting to appear: because the club has spent their revenue to maintain the best possible players in the team, success on the pitch is arriving, which leads to more marketing revenue. Manchester City's biggest sponsorships deal is with Etihad Airlines, a total sponsorship deal of 400 million Pounds that includes: " a 10-year extension to their shirt sponsorship at City, as well as financial backing for what will be known as the Etihad Campus, a vast area of land around the stadium that already includes the City Square fans' village, and has other major development planned, including a new training ground and sports science centre" (Taylor). However, given the relevance of this deal to Manchester City's financial situation, UEFA will investigate if it breaches the Financial Fair Play Regulations, because they see as suspicious the fact that Etihad Airlines is owned by the Abu

Dhabi government, with the fact the Sheikh Mansour (Manchester City's) is part of Abu Dhabi's royal family.

Other deals include, as previously stated, the one with Nike for jersey sponsorship in the following season. That is another major driver of marketing revenue. Other than who sponsors your jersey, which company designs it. Manchester City will finish their deal with Umbro starting next season, and the deal with Nike will imply "a six-year kit deal with Nike worth up to £12million a year" (Sportsmail Reporter).

Finally, to put an of Manchester City's minor sponsorship deals, they have a partnership with car manufacturer Jaguar: Under the deal, which runs until the end of the 2013 Premier League season, Jaguar branding will appear around the City of Manchester Stadium at all home league and domestic cup games, in addition to a package of activation inventory content in the Club's official match programme, magazine and website..." This deal, which will end up this season, has generated 1 million pounds during the three years in which it has been implemented as a club's press release explains.

Recommendations

Manchester City is in a profitable industry, but so far their model has consisted of a rich benefactor, Sheikh Mansour who has been paying for a deficitary club. Because of UEFA's regulations and the club's potential to grow, there different ways to obtain more revenue to be matched with the current high expenditures that have brought debt to the club.

First of all, regarding matchday revenue the club will need to bring more revenue: There are two clear ways to do so: 1) Increase the money spent per fan ratio for every single game (attendance

is close to 100% in almost every game, but revenue is small compared to other English teams),

2) Start reforms of Etihad stadium. It would directly contribute to goal number one (making the experience more enjoyable, and therefore more expensive), and it would attract more fans as tickets are usually sold out for EPL and Champions League games.

Stadium infrastructure expenditures have clear incentive other than the revenue derived from it: They are not included in UEFA's FFP regulation. Leaving the club self-sustainability aside, Manchester City would not suffer its enforcement while it would see a boost in their matchday revenues. However, Etihad Stadium's biggest handicap is that it is publicly owned by the Manchester City Council. In this sense, Manchester City is facing the same problems Italian teams (except Juventus) have. Neighbors and rivals Manchester United have been able to enjoy very high matchday revenues as Old Trafford sells out its tickets for every single game, no matter how high they are. They were even able to raise their seating capacity from 68,000 to 75,000 and still sell out all of their tickets. Manchester City approach in the short run should not be to build a new stadium, but to address with the city council how some transformations could be made. For example, "The club has conducted feasibility studies on various ways of expanding the ground, with the most ambitious plan to lift off the roof and add a whole new tier. That would give the Etihad stadium a capacity in excess of 70,000 and hugely increase the potential match-day income" (White). The author further specifies that "The average attendance of 45,949 last season was nearly 2,000 under capacity but City are hoping that consistent success will lead to an upsurge in demand. They also want to make sure they have the corporate facilities which are such a money-spinner for Arsenal and United, especially in Champions League fixtures" (White). Simply put, City would reinforce its virtuous circle of success by bringing more fans to the stadium, and having facilities similar to the ones of their competitors. Regarding the stadium

public ownership handicap, the author specifies that the city council would support such a move if it translates into a higher rent payment, and all of the costs are assumed by the club.

Secondly, on broadcast TV there is not, as mentioned in both the industry and Manchester City analysis, much to implement from a management perspective. However, as the Deloitte industry report affirms: “Participation in European competition remains crucially important not only in gaining a top 20 position but also in terms of movement within the top 20” (Jones). In addition, other on the pitch achievements such as winning the BPL has a huge impact in this sense. Investing in keeping and hiring the most competitive squad would be an indirect way of contributing to success and by extension to increasing broadcast revenues. It would be safe to assume that this kind of revenue won’t go up next year as Manchester City did not go beyond the group stages again in the Champions League, and won’t probably win the BPL. Nonetheless, it is safe to assume that as Manchester City’s team consolidates, they will be able to advance more rounds in the UEFA Champions League and regularly finish in the top positions of BPL. That will be a good component to keep up with the competitors’ revenue pace.

Finally, in regards to commercial or marketing revenue the club should focus on sponsorship deals. On the one hand, it has signed competitive deals like to one with Etihad Airlines (pending of UEFA approval). On the other hand, competitors like Manchester United are getting ahead with deals that generate a much larger amount of revenue per season in areas like jersey sponsor: “Manchester United convinced General Motors to pay a record \$559 million to have its Chevrolet brand on the team’s red jersey. Now, the 19-time English soccer champion is ready to play hard ball with Nike, its maker” (Panja). On the other hand, Manchester City has also closed a jersey sponsorship deal with Nike, but with much lower figures: 12 million Pounds a year. The numbers show that while big sponsors like Nike want to see their name associated with

Manchester City's brand, they are not willing to spend the same amounts they are paying to clubs who consistently achieve success on the pitch like Manchester United. The ability to lift more trophies in the future will be key: The better the team performs, the more sponsors will be willing to pay (either by renegotiating existing deals or by signing new ones). Also, the club should focus on how many sponsors it has and how much do they pay. Then they should make a decision on whether they need more of them (while paying less), or having less sponsors paying more.

On the other hand, another good idea to establish the virtuous circle of success is the club's idea to build a large youth training infrastructure. Like in the stadium expenditures' case, it is not affected by UEFA's regulation. Furthermore, it will in the long run decrease the average amount of money spent on transfer fees, as players from the academy will be able to join the senior team. FC Barcelona, the top soccer club in the world with the most home grown players has benefited from this approach: Each player is estimated to cost an average of 2 Euro million (and in some cases, like Messi, their market value is of more than 100 Euro million), they know the way the team plays as they have experienced in the lower divisions and they feel the team's colors.

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