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BUSINESS STRATEGY V.
SPORTS STRATEGY, 2000–2006**

Kimio Kase
Sandalio Gómez
Ignacio Urrutia
Magdalena Opazo
Carlos Martí

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IESE Business School – University of Navarra

Avda. Pearson, 21 – 08034 Barcelona, Spain. Tel.: (+34) 93 253 42 00 Fax: (+34) 93 253 43 43

Camino del Cerro del Águila, 3 (Ctra. de Castilla, km 5,180) – 28023 Madrid, Spain. Tel.: (+34) 91 357 08 09 Fax: (+34) 91 357 29 13

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REAL MADRID – BARCELONA: BUSINESS STRATEGY V. SPORTS STRATEGY, 2000-2006

Kimio Kase*
Sandalio Gómez**
Ignacio Urrutia***
Magdalena Opazo****
Carlos Martí****

Abstract

Over the period 2000-2006, Real Madrid Football Club and Barcelona Football Club pursued different strategies and achieved different results. In the latter half of the period (in contrast to the first half), Real Madrid won no trophies but was crowned the richest club in the world¹. Meanwhile, after a disconcerting start, Barcelona won a UEFA Champions League and two La Liga titles, though it struggled financially.

By analyzing the two clubs' strategies and their financial and sporting performance over the chosen period we explore the different ways in which sports organizations can succeed, and how their success can be measured.

The purpose of this study is to answer the following questions: What strategies did Real Madrid and Barcelona adopt to bring about this reversal of fortunes in a few short years? What variables explain the difference in outcomes? Are there any differences in their business and sports strategies? We use a matrix to analyze and relate the clubs' financial and business strategy to their sports strategy.

* Professor, General Management, IESE

** Professor, Managing People in organizations, IESE

*** Professor, Accounting and Control, IESE

**** Research Assistant, IESE

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¹ According to "Football Money League 2006".

REAL MADRID – BARCELONA: BUSINESS STRATEGY V. SPORTS STRATEGY, 2000-2006

Introduction

Over the last thirty years sport has evolved: it has gone from amateur to professional, and it has become more commercialized. This applies to sport in general, and to sporting events in particular. According to the literature, the professionalization of sport is associated with: 1) the appearance of professional players who work full-time as sportspeople and make a living out of it; and 2) the revenue and sales opportunities that have emerged since the sale of broadcasting rights started (Chadwick and Beech, 2004).

Since the sixties, sporting activity has grown into a “sports industry” (Rottenberg, 1956; Noll and Zimbalist, 1997; Szymanski, 2001). Sport now belongs to some extent to the field of economics and business (Foster, Greyser et al., 2005). As a result, sporting success as the primary goal of sports organizations is coupled with others, including profit. In fact, one of the characteristics of professional sports organizations in the United States is the intention to maximize profit, whereas European clubs put sporting ambitions first (Fort, 2000; Ascari and Gagnepain, 2006). It is precisely the fact that sport nowadays can have more than one objective that has prompted this study.

In Europe, football is the most popular sport, and both Real Madrid and Barcelona are top names in Spain (Ascari and Gagnepain, 2006) and in Europe. No other Spanish club comes anywhere near them in fanbase, audience or revenues (Barajas, 2005). Also, both are among the few clubs in Spain to have retained their status as clubs, while most others have become public companies (*sociedades anónimas deportivas*)².

Real Madrid and Barcelona’s experience on the sporting and financial fronts in recent years deserves close study. In this paper we analyze the particularities of sport business by focusing on two football clubs which in recent years, despite their similarities (restricted as they are in their corporate purpose by the 1990 Sports Act³), have taken different paths.

² Sports Act (*Ley del Deporte*), 1990.

³ “To promote one or several sports and the practice thereof by their members, and to participate in sporting activities and competitions” (Sports Act, 1990).

For both clubs, divide the six-year period from 2000 to 2006 down into two sub-periods, each associated with distinctive strategies and different sporting and financial outcomes.

In the first sub-period, from 2000 to 2003, Real Madrid started from a financially precarious position. Under its new president, Florentino Pérez, it succeeded in balancing its budget and restructuring its balance sheet, mainly thanks to the proceeds of the sale of the club's former training ground. At the same time, it also triumphed on the pitch, carrying off two La Liga titles, one Champions League cup, and one Intercontinental Cup.

In the same period (2000-2003), Barcelona overspent its budget by a wide margin, worsening its already difficult financial situation. The team also failed to bring home any trophies.

In the second sub-period, from 2003 to 2006, Real Madrid's finances remained strong. It even reached the top of the ladder in terms of revenue and was crowned "the richest club in the world"⁴. Its on-pitch performance, however, scarcely deserves mention.

By contrast, under Joan Laporta from 2003, Barcelona saw a marked improvement in its finances, albeit without actually reaching a healthy balance sheet. It also notched up some impressive wins on the field: two La Liga titles and one UEFA Champions League.

The questions we ask are: What strategies did Real Madrid and Barcelona adopt to bring about this reversal of fortunes in a few short years? What variables explain the difference in outcomes? Are there any differences in their business⁵ and sports strategies?

In this study we analyze and compare the two clubs' strategies over a period in order to identify the factors that explain the evident differences⁶. To do this, we analyze the financial and sporting data for each club for the seasons from 2000 to 2006.

The study is divided into three parts. In the first part we describe each club's financial strategy based on its income statements and balance sheets. In the second we examine each club's sports strategy by analyzing the measures taken and the results obtained. And in the third part we summarize the strategies and outcomes and propose a more generalizable interpretation using an analytical matrix prepared by the CSBM⁷ that relates a sports organization's business and financial strategy to its sports strategy.

Financial and business strategy

Before sports competitions started to be shown on television and sport took on all the commercial trappings, the main source of revenue in football was gate receipts. Supporters would buy season tickets and match tickets, so clubs concentrated their efforts on maintaining the supporters' interest, so as to ensure high attendance on match days.

⁴ Thursday, February 16, 2006. *El País*, *Marca* and *El Mundo*.

⁵ By "business strategy" we mean the equivalent of the strategy of a conventional company aimed at achieving specific business objectives.

⁶ To compare the positioning of clubs with different combinations of business and sports emphasis we use a matrix devised by the CSBM which is explained later.

⁷ Center for Sport Business Management, a research center at IESE Business School.

Nowadays ticket sales are no longer the only source of revenue. Other sources, such as broadcasting rights, sponsorship, merchandising, distribution and licenses, have become more important.

In 2006, according to the Deloitte “Football Money League”, the richest club in the world was Real Madrid, while Barcelona was in sixth place, with a difference of around 70 million euros between the two. More interesting is the breakdown of revenue into commercial revenue, matchday revenue and broadcasting revenue, shown in Table 1 below.

Table 1

Club revenues (in millions of euros)

	Commercial	Matchday	Broadcasting	Total
Real Madrid	124	63	88	275
Manchester United	72	102	72	246
Milan AC	58	38	138	234
Juventus	82	23	124	229
Chelsea	55	84	82	221
FC Barcelona	63	66	79	208
Bayern	117	36	36	189
Liverpool	56	49	75	180
Inter	38	36	103	177
Arsenal	44	55	72	171
Rome	27	28	77	132
Newcastle	35	52	41	128
Tottenham	36	31	38	105
Schalke 04	58	23	16	97
Olympique Lyonnais	27	20	46	93
Celtic	21	47	25	93
Manchester City	29	22	39	90
Everton	17	28	44	89
Valencia	16	24	44	84
Lazio	24	15	44	83

Source: Prepared by CSBM based on Deloitte, “Football Money League: changing the guard”, 2006.

At country level we find that German clubs obtain a large proportion of their revenue from commercial sources (German model), while Italian clubs earn more from the sale of broadcasting rights (Italian model). English clubs have more of a balance between the three sources of revenue (English model)⁸.

Unlike the German, English and Italian clubs, the Spanish clubs cannot be grouped in a single model. As the tables show, commercial activities were Real Madrid’s main source of income (German model), while Barcelona had a more balanced model (English model). The alleged similarity between Real Madrid and Manchester United does not bear scrutiny. In fact, Real Madrid’s revenue model has more in common with the German model than with the English one.

The Deloitte report makes it clear that Real Madrid and Barcelona have different revenue sources basically because they have different strategic focuses. It also shows that the traditional association between Real Madrid and the English model is not borne out by the facts.

⁸ Table and business models for Germany, Italy and England prepared by Tanguy Jacopin, CSBM Research Fellow.

To continue our comparison of Real and Barça's financial strategies, we now turn to the clubs' income statements and balance sheets. To see the trends more clearly, we divide the study period into two sub-periods. The first sub-period (2000-2003) starts when Joan Laporta took over as president of Barcelona, following the resignation of Joan Gaspart, while Real Madrid was half way through Florentino Pérez's two terms of office. The second sub-period (2003-2005) ends when Florentino Pérez resigned and elections were held at Real Madrid, while Joan Laporta was well established at Barcelona.

First sub-period (2000-2003)

Both clubs' income statements for 2003 (Exhibit 1, Table 1) show a high ratio of staff costs to revenues. Staff costs (including players) at Real Madrid were 72% of revenues, and 83% at Barcelona. This is probably the main reason why both clubs posted operating losses (22 and 26 million euros, respectively). However, exceptional gains, mainly from the sale of a fixed asset (the old training ground), produced signs of a turnaround at Real Madrid. As a result, the club made a slight profit. At Barcelona, by contrast, low exceptional gains and high exceptional expenses contributed to an overall loss of 164 million euros.

Turning to the balance sheets for 2003 (Exhibit 1, Tables 2 and 3), Real Madrid had positive shareholders' equity and positive working capital, though it also had significant short and long-term debt (mainly accrued salaries and taxes payable⁹). At that stage, the intention to reorganize the club's finances were apparent in the income statement, but not in the balance sheet, which still reflected the burdens of the past.

Barcelona's situation was more precarious, insofar as it had an equity shareholders' deficit of 75 million euros, losses for the year of 164 million euros, and negative working capital. If Barcelona Football Club had been a normal business, it would have been technically insolvent; being a sports club, however, there was no danger of that. The 137 million euros of short-term debt consisted mainly of money owed to other clubs for player transfers. The state of Barça's finances in 2003 were public knowledge¹⁰.

On the asset side, Real Madrid had better liquidity than Barcelona, thanks to the 140 million euros held in short-term investments (compared to 3 million for Barcelona).

Second sub-period (2003-2006)

By 2005 the situation was improving for both clubs, each in its own way. That is to say, Real Madrid had consolidated its balanced model, while Barcelona, despite some improvements, had the same weaknesses as in 2003.

Looking at the income statements for 2005 (Exhibit 1, Table 4), we see that both clubs had an acceptable level of net operating income (11% and 9%, respectively). Significantly, for Real Madrid the net finance charge was nil, as it had no bank debt, whereas Barcelona had net finance charges equal to 18% of revenue.

⁹ Deferred taxes resulting from the tax treatment given to gains arising on certain player transfers, merchandising, licensing, etc., as well as part of the land on which the old training ground stood.

¹⁰ "The Financial Services Users' Association this week named Barcelona as the most indebted club in Spain, with debts of some 230 million euros", www.elmundo.es, February 7, 2003.

Real Madrid's pre-tax profit¹¹ was less than Barcelona's due to a higher amortization charge¹², probably reflecting Real Madrid's strategy of balancing the budget and exercising financial prudence.

Table 5 in Exhibit 1 shows the liabilities side of the two clubs' balance sheets for 2005. Though reduced since 2003, Barcelona still had an equity shareholders' deficit (37 million euros) and so remained technically insolvent. This was because deferred income¹³ and provisions for liabilities and charges¹⁴ are also debts and so add to the liabilities¹⁵. With positive shareholders' equity, Real Madrid had no solvency problems.

There was also a difference in the two clubs' borrowings and total debt. While Barcelona had bank debts totaling 64 million euros, Real Madrid had no bank debt at all. Furthermore, Barcelona had 123 million euros of non-trade payables, compared to Real Madrid's 16 million euros.

Table 6 in Exhibit 1 compares the two clubs' assets. Real Madrid's 157 million euros of short-term investments gave it better access to liquidity than Barcelona, with a mere 6 million euros. It is also significant that Barcelona's working capital was negative by 49 million euros¹⁶, whereas Real Madrid's was positive by 9 million euros. Although Barcelona's working capital had increased since 2003, it was still negative.

To sum up, Barcelona remained financially weak in 2005. Despite a certain improvement compared with 2003, the financial burdens persisted: shareholders' deficit, negative working capital, and lack of liquidity. Meanwhile, Real Madrid confirmed the healthy trend begun in 2003 and remained profitable. Income statement and balance sheet alike reveal a determination to build a sound financial position and follow an orthodox approach to the management of revenues, expenses and balance sheet structure.

If we look at operating revenues and expenses over the five years under study, we see that Barcelona's situation improved. The following graphs compare the data for the two clubs over the period.

Figure 1 shows that Barcelona maintained a balance between expenses and revenues. Although the profit margin was slight, operating revenues trended up relative to operating expenses (except in 2000-2001 and 2002-2003). The Real Madrid graph, by contrast, shows an abrupt increase in operating expenses in 2001-2002 (due to the sale of the old training ground), followed by moderation in 2003-2004 and 2004-2005. Once again this points to Real Madrid's business emphasis during this period, in that the burst of spending was an attempt to quickly restructure the club's finances by selling off a fixed asset to lay the ground for the prosperity the club was to enjoy later.

¹¹ Profit after taxes.

¹² The club amortizes player registrations at the time of acquisition.

¹³ According to the 2004-2005 annual report, these revenues are not freely available in that they are related to a bank guarantee established pursuant to Royal Decree 449/1995.

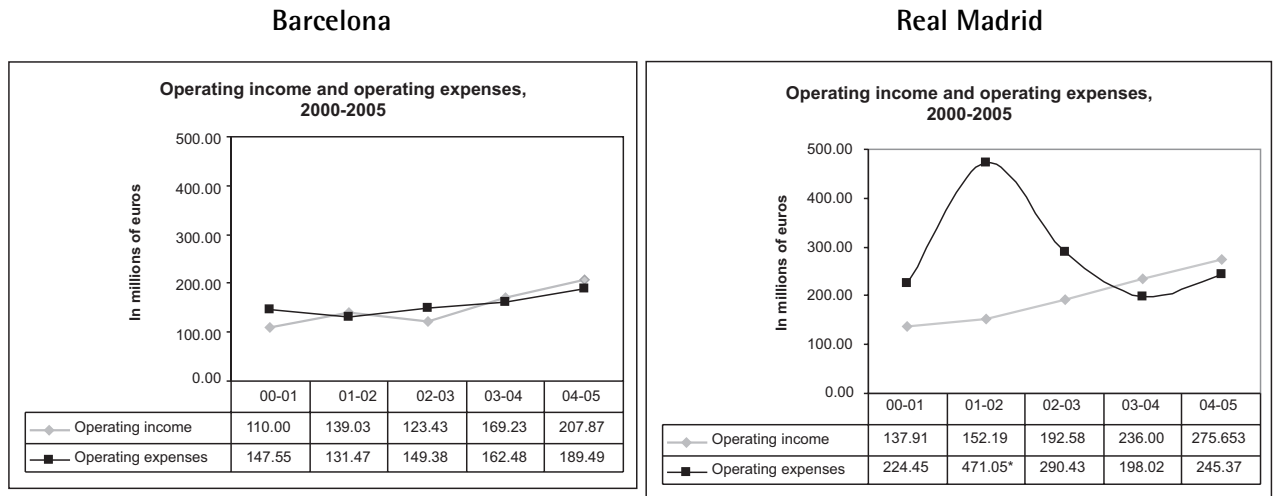
¹⁴ According to Note 13.a to the financial statements (2006), these provisions are linked to inspections initiated by the tax authorities in respect of earlier years.

¹⁵ While the assets as a whole are undervalued, no account is taken of the increases in player value. If these increases were included, the reserve would cover the shareholders' deficit.

¹⁶ This situation was probably not a major cause of concern, as the bulk of these current liabilities consisted of the 123 million of non-trade payables, probably associated with player transfers and deferred payment agreements with other clubs.

Figure 1

Operating revenues and expenses, 2000-2005



Source: Real Madrid and Barcelona annual reports.

* Adjustment of the amortization charge in respect of players' registrations.

Lastly, it is interesting to note how the clubs' financial strategy relates to their staff costs. Table 2 gives an idea of what signing and retaining the kind of star players Real Madrid has had in its squad entails. Six of the twenty highest paid players in the world played with Real Madrid for one or more seasons during the period of our study.

Table 2

Football players' earnings

	Earnings (in millions of euros)		Earnings (in millions of euros)
1. David Beckham	15	11. Luis Figo	8.60
2. Zinedine Zidane	14	12. Gabriel Batistuta	8.60
3. Ronaldo	11.70	13. Sol Campbell	8.10
4. Rio Ferdinand	9.62	14. Oliver Kahn	7.65
5. Alessandro Del Piero	9.55	14. Alvaro Recoba	7.60
6. Hidetoshi Nakata	9.36	16. Francesco Totti	7.30
7. Raúl González	9.30	17. Rivaldo	7.20
8. Patrick Viera	9.28	18. Thierry Henry	6.60
9. Michael Owen	8.90	19. Fabio Cannavaro	6.08
10. Roy Keane	8.65	20. Paolo Maldini	6.00

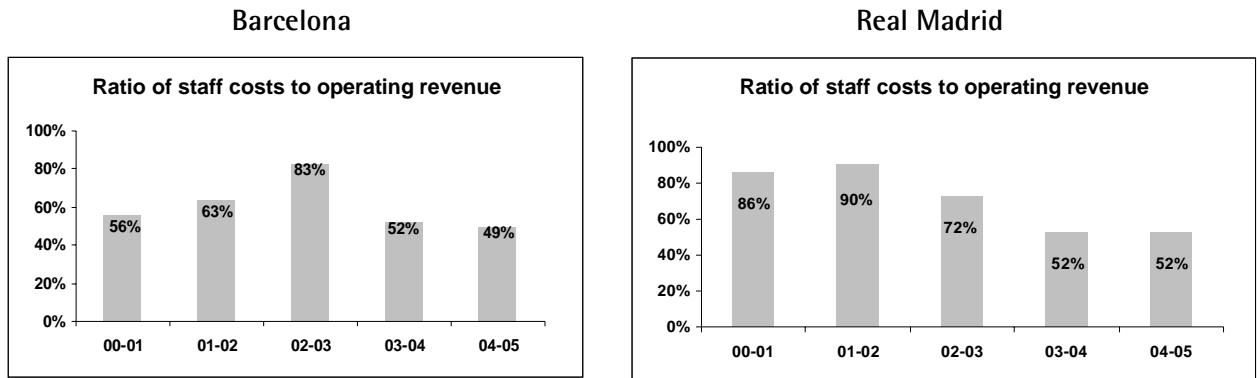
Source: European Football Statistics, 2002.

<http://www.european-football-statistics.co.uk/special/old/0305highestpaidplayer.htm>

With players like this in the squad, the ratio of staff costs to revenues is bound to be high. The data show that both clubs tried to keep staff costs at around 50% of revenues. Real Madrid had a period of imbalance between 2000 and 2003, while at Barcelona the ratio increased until 2003, after which it held steady at around 50%.

Figure 2

Ratio of staff costs to revenue, 2000-2005



Source: Real Madrid and Barcelona annual reports, 2000 to 2006.

We may conclude that Barcelona’s financial position was weaker in a static perspective (i.e. on a balance sheet basis) and healthier in a dynamic perspective (i.e. in its income statements). Real Madrid’s business emphasis, as shown by the data and the graphs, enabled it to balance its accounts and increase its profitability.

So, at the end of the period, if Barcelona was financially weaker than Real Madrid, why did Barça fans have more to cheer about than Real fans? The answer may be that:

1. Football clubs’ financial struggles appear not to affect the fans’ mood or feelings, which goes to show that economics is not the most important thing in a sports organization. The factors that really determine a club’s success are “extra-economic”.
2. In the short term, sporting performance is more or less independent of financial and economic performance, even though a club’s survival will depend on financial performance in the long run.

Our analysis has revealed the differences between the two clubs’ financial performance. Yet financial performance is by no means the only measure of a football club’s performance. Accordingly, in the following section we compare the two clubs’ sports strategies.

Sports strategy: different models, different results

To analyze the two clubs’ sports strategies we selected four variables relating to a football club’s sporting activities. The variables are: 1) football management staff, including coaches; 2) playing squad (player recruitment policy); 3) players’ playing time during the season; and 4) trophies. Again, as in the case of the clubs’ financial and business strategy, we divide the period into two sub-periods, corresponding to the stages in the clubs’ development: 2000-2003 and 2003-2006.

1. Football management staff

Real Madrid

For a football club, football management and the distribution of roles and responsibilities is crucial, especially in the medium and longer term. It is not only a club's formal sports management organization that matters, but also its policies, which often are not explicitly stated but can nevertheless be deduced from events. This dimension reveals a club's internal consistency, as it shows the logical relationship between decisions, organizational structure, and the distribution of roles and responsibilities.

As soon as Florentino Pérez became Real Madrid president in 2000, he started to build a particular team management structure and policy. In this first period, football management was in the hands of a director of football (Jorge Valdano), an assistant (Emilio Butragueño), and a first-team coach (Vicente Del Bosque, who stayed for more than three seasons). The chief characteristic of this period, therefore, was stability in organizational arrangements, policies and management staff. This gave continuity to the club's sports strategy. During this period Real Madrid won several trophies: two La Liga titles and one UEFA Champions League.

In the second period (2003-2006), still under Florentino Pérez, the situation changed. Coaches came and went (some did not even last a complete season) and the management structure changed: Emilio Butragueño was appointed vice-president, and there was a succession of directors of football (Emilio Butragueño, Arrigo Sachi and Benito Floro). This instability was accompanied by a lack of success in competitions, suggesting a link between management stability and on-pitch performance.

In 2000, Barcelona fielded a new president, Joan Gaspart, whom some saw as “a fan turned president”¹⁷. Gaspart's intention was to bring most of those who had competed with him for the presidency on board as members of the management team, but he did not succeed in uniting the club behind him. Feelings overruled consistency and strategic logic, resulting in high transfer fees (more than 180 million euros) and financial problems that earned Barcelona a reputation as “one of the most indebted clubs in Spain”¹⁸.

Table 3

Coaches and titles

Real Madrid			Barcelona		
Coach	Year	Title	Coach	Year	Title
Del Bosque (Spanish)	1999-2003	2 European Cups; 1 Intercontinental Cup; 1 European Super Cup; 2 La Ligas; 1 Spanish Supercup	L. Van Gaal (Dutch)	1997-2000	2 La Ligas; 1 Cup
			Ll. Serra Ferrer (Spanish)	2000-2001	
			C. Rexach (Spanish)	2001-2002	
C. Queiroz (Portuguese)	2003	1 Spanish Supercup	L. Van Gaal (Dutch)	2002-2003	
J. A. Camacho (Spanish)	2004		F. Rijkaard (Dutch)	2003-	2 La Ligas; 1 Spanish Supercup; 1 European Cup
M. García Remón (Spanish)	2004				
V. Luxemburgo (Brazilian)	2004				
J.R. López Caro (Spanish)	2005-				

Source: www.realmadrid.com and www.fcbarcelona.com.

¹⁷ www.elmundo.es, October 31, 2001.

¹⁸ www.elmundo.es, February 7, 2003.

Barcelona

At Barcelona during this period there was no continuity in football management, as the frequent changes of coach show (Serra Ferrer, Carlos Rexach and Van Gaal). Victory on the pitch proved elusive, too, and the constant crises were exploited by the media, until eventually Gaspart resigned.

In 2003, Joan Laporta took over. He hired a coach who was able to hold onto the post and who led the team to victory, with two La Ligas and one Champions League.

In conclusion, instability in management was associated in both cases with disappointing sporting results, while continuity in management was accompanied by competition success.

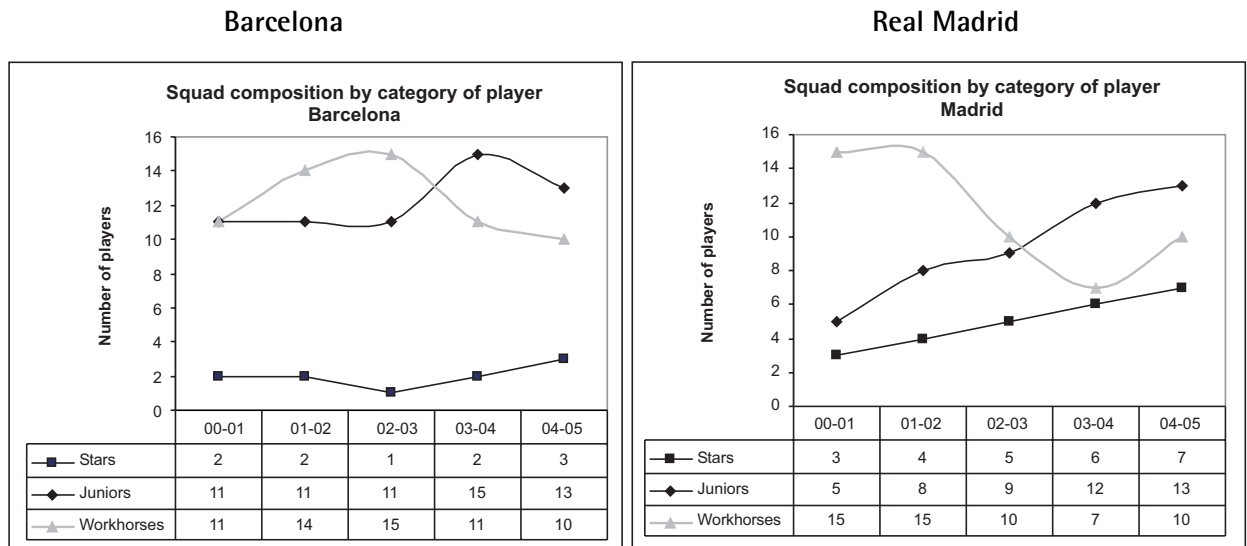
2. Playing squad¹⁹

In the highly competitive environment of the major European national football leagues (Italy, England, Germany and Spain), clubs had to scour the world for the best players and made huge investments in player acquisitions.

Real Madrid and Barcelona were no exception. They built their squads out of three categories of players: stars, workhorses and juniors. Stars are world-class players²⁰; workhorses are top level players from other national or international clubs; and juniors are players who have come up through the academy and the reserves to earn a place in the first team. Figure 3 shows the Real Madrid and Barcelona squads broken down into these three categories.

Figure 3

Squad, 2000–2003



Source: *Marca*, 2001; *Marca*, 2002; *RealMadrid*, 2002; *Marca*, 2003; *Marca*, 2004; *Marca*, 2005; *Marca*, 2006.

¹⁹ For more details on the squad, see Exhibit 2.

²⁰ Those who have been named world's best player, or have won the Golden Ball or Golden Boot award, or have huge media drawing power at an international level. There is a distinction to be made, however, between stars whose reputation was already established before they were signed (Zidane, Ronaldo, Figo, Beckham and Owen) and those who established their reputation during their time with the club (Ronaldinho and Eto'o).

Real Madrid

As the Real Madrid graph shows, the main objective over the period as a whole (2000-2006) was to sign as many star players as possible. The stars were accompanied by youth and reserve team graduates who were deeply committed to the shirt, identified closely with Real Madrid, embodied the club's values – and who also compensated for the high cost of the stars. The so-called “Zidanes and Pavones” strategy (named for one of the club's megastars and one of its young hopefuls) meant doing without most of the workhorse players that previously had been the team's backbone, but now were considered expensive and unsuited to the main objective.

It is important to note that this was not just a sports strategy aimed at pleasing the fans, but also a commercial strategy to bring in significant merchandising and licensing revenue. The balance of players in the squad and the draw of the stars made it possible to finance this policy and achieve a healthy bottom line.

In the case of the “Zidanes”, the strategy was implemented strictly, with three high profile international stars (Figo, Zidane and Ronaldo) being signed in just three years (2000-2003). Meanwhile, the number of workhorse players dropped from 15 to 10. The number of junior players in the squad increased throughout the entire period, from 2000 to 2006, outnumbering workhorse players from 2003 onward.

In the second stage (2003-2005), Florentino Pérez maintained the strategy that had yielded so many sporting triumphs between 2000 and 2003. Two more stars (Beckham and Owen) were signed. However, these signings were clearly oriented more to the media than to the needs of the team (Figo and Beckham played in the same position, and so did Owen and Ronaldo). The number of workhorse players continued to decline, and more junior players joined the squad. This is when the problems started, as not all the stars could be on the pitch at the same time. The “Zidanes and Pavones” policy started to be questioned. There were too many stars, the players' average age had risen, and there were too few workhorse players. Meanwhile, the juniors were not getting enough playing time.

Barcelona

Barcelona chose a different squad composition, with fewer stars (mostly up-and-coming players²¹ in the early stages of their career) and a bedrock of junior and workhorse players. In the 2003-2004 season, there were more junior than workhorse players, while the number of stars remained roughly unchanged throughout the period 2000-2005. This arrangement gave the junior players a better chance to develop and made the best possible use of the workhorses and stars, as the squad proportions could be replicated in the first team.

In summary, Real Madrid pursued a policy focused on mature star players backed by junior players, which in practice meant no workhorses and insufficient playing time for the juniors.

Barcelona aimed for a balance of juniors and workhorses, combined with a small number of exceptionally talented footballers who were thought likely to complete their rise to stardom while with the team and become top world players.

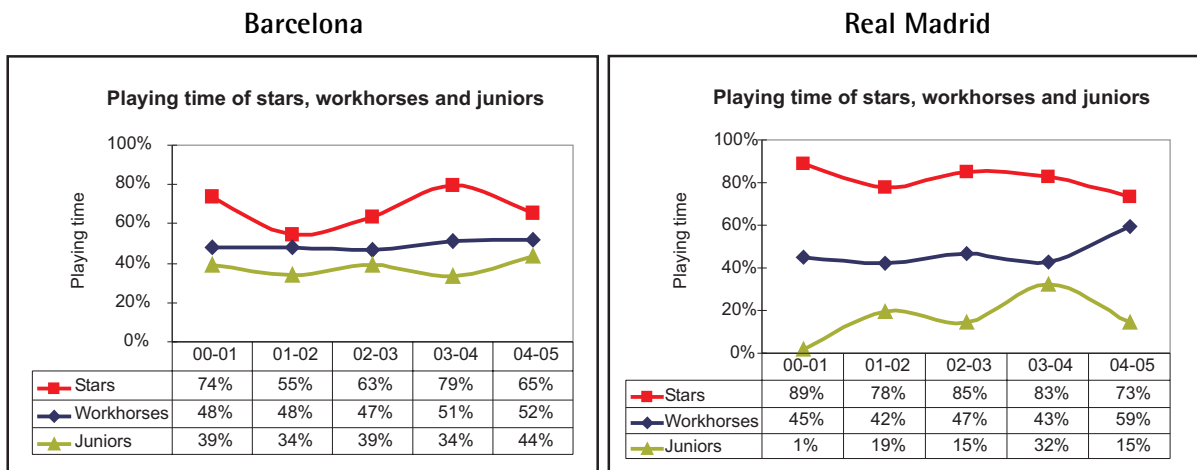
²¹ While most of the stars signed by Real Madrid were already international superstars at the time they were signed, those signed by Barcelona became superstars after they were signed.

3. Players' playing time during the season²²

Although the balance of players in the squad reflects a club's recruitment policy and sports strategy, it does not necessarily correlate with the first team line-up or the amount of time players spend on the pitch during the 38 games played in a La Liga season. Our analysis of players' playing time reveals the concordance between the player recruitment policy or sports strategy and what happens on the pitch. Figure 4 gives an idea of playing time by player category in the La Liga seasons from 2000 to 2005.

Figure 4

Players' playing time during the season, 2000-2005



Source: *Marca*, 2001; *Marca*, 2002; *RealMadrid*, 2002; *Marca*, 2003; *Marca*, 2004; *Marca*, 2005; *Marca*, 2006.

Real Madrid

The Real Madrid graph confirms the suspicion that as the number of junior players increased, the amount of playing time they received did not²³. In the second sub-period, there were more juniors than workhorses, but the juniors had less playing time – much less than the stars. There was no match between squad composition and playing time.

Barcelona

At Barcelona the distribution of playing time among the three categories was more balanced throughout the period 2000-2006. It is interesting to note that the junior players had almost as much playing time as the workhorse players. Thus, there was a better balance between the squad, as determined by the sports strategy, and the first team line-up.

²² Playing time is calculated using the average number of minutes played per season per player category (juniors, workhorses and stars), expressed as a percentage of the total number of minutes played in one La Liga season.

²³ Guti and Casillas were excluded because their playing time was considerably below the average for the rest of the players during the season.

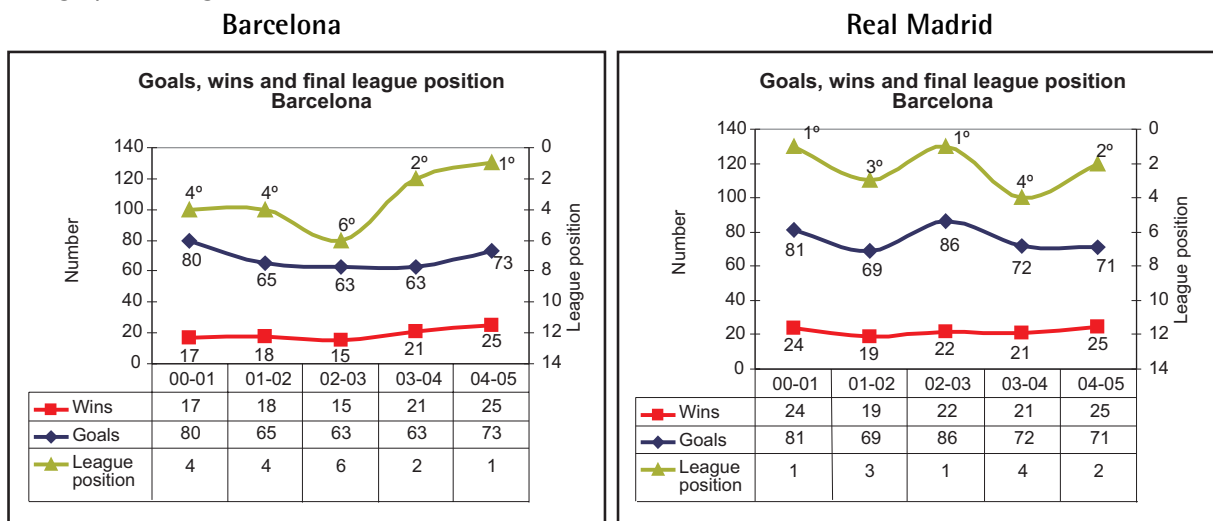
4. Trophies

The effects of sports management, player recruitment and playing time decisions can be seen in a team's performance on the pitch. It is immediately apparent that teams with the same number of wins and a very similar number of goals can end up with very different league positions.

The first sub-period (2000-2003) was when Real Madrid won most trophies (two La Liga titles and one European Cup), while Barcelona trailed behind. In the second period (2003-2006), Barcelona chalked up two La Liga titles and one European Cup, while Real Madrid came away empty-handed.

Figure 5

La Liga position, goals and wins, 2000-2005

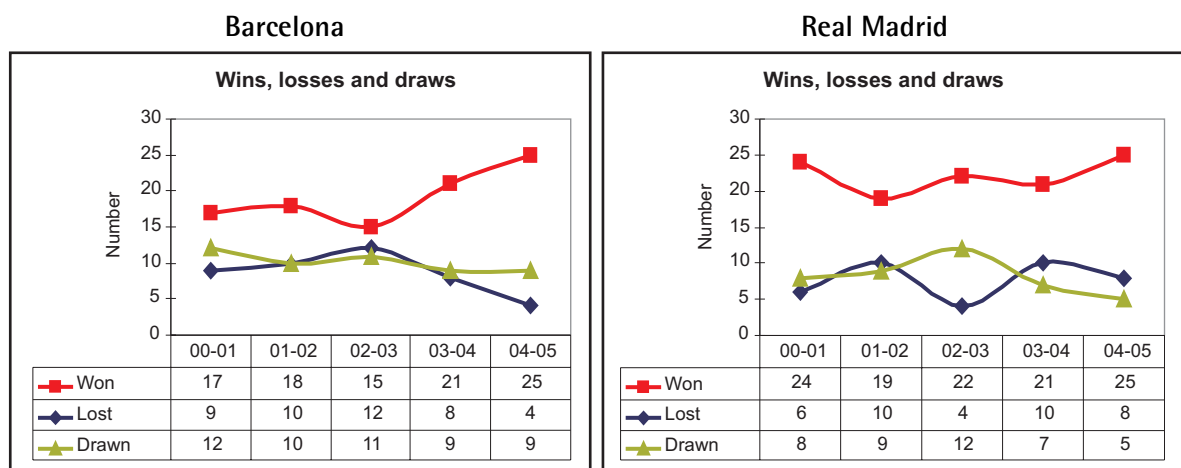


Source: Marca, 2001; Marca, 2002; Realmadrid, 2002; Marca, 2003; Marca, 2004; Marca, 2005; Marca, 2006.

The differences are more obvious if we look at the number of games won, lost and drawn. In the first sub-period (2000-2003), Barcelona shows an increase in losses and a decrease in wins. After 2003, the situation is reversed: the wins increase and the losses decrease, leading to a higher final league position. The trend in Real Madrid's performance is less obvious. All we can say for sure is that the La Liga title in 2003 was due to fewer losses and more wins, with quite a few draws.

Figure 6

Wins, losses and draws, 2000-2005

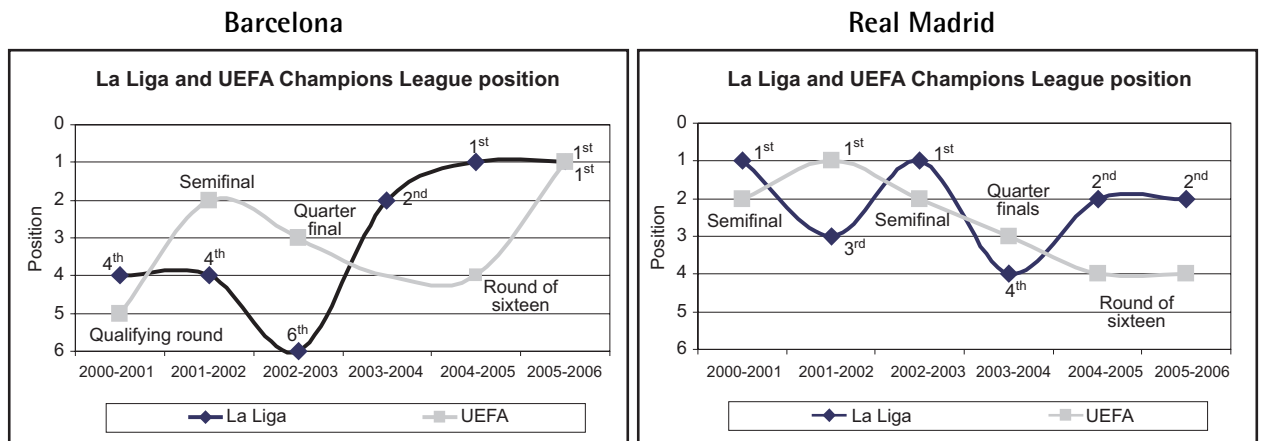


Source: Marca, 2001; Marca, 2002; Realmadrid, 2002; Marca, 2003; Marca, 2004; Marca, 2005; Marca, 2006.

For both clubs the international competition results, in particular the UEFA Champions League, follow the same pattern as the La Liga results. In the first period (2000-2003), Real Madrid was successful, but from 2003, though still a participant, it won no more titles. Barcelona did not make its presence felt until the 2005-2006 season, when it was the cup winner. Both the La Liga and the UEFA Champions League curves rise toward the end of the period.

Figure 7

La Liga and UEFA Champions League results, 2000-2006



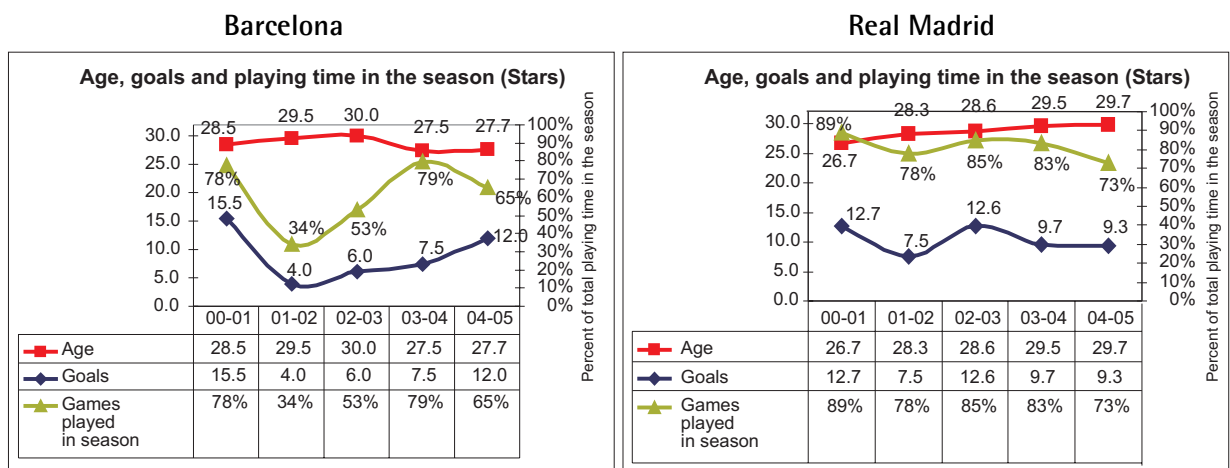
Source: www.uefa.com.

Consequences of the two models

The sports strategy, as reflected in squad composition, playing time and management stability, influenced both teams' sporting performance and also had consequences for their future.

Figure 8

Stars' age, goals and playing time in each season, 2000-2005



Source: *Marca*, 2001; *Marca*, 2002; *RealMadrid*, 2002; *Marca*, 2003; *Marca*, 2004; *Marca*, 2005; *Marca*, 2006.

Figure 8 shows the risks of Real Madrid's unbalanced squad, with a group of aging superstars who played in every game, while other players spent most of their time on the bench. The stars were generally older than the other players, significantly increasing the team's average age. As

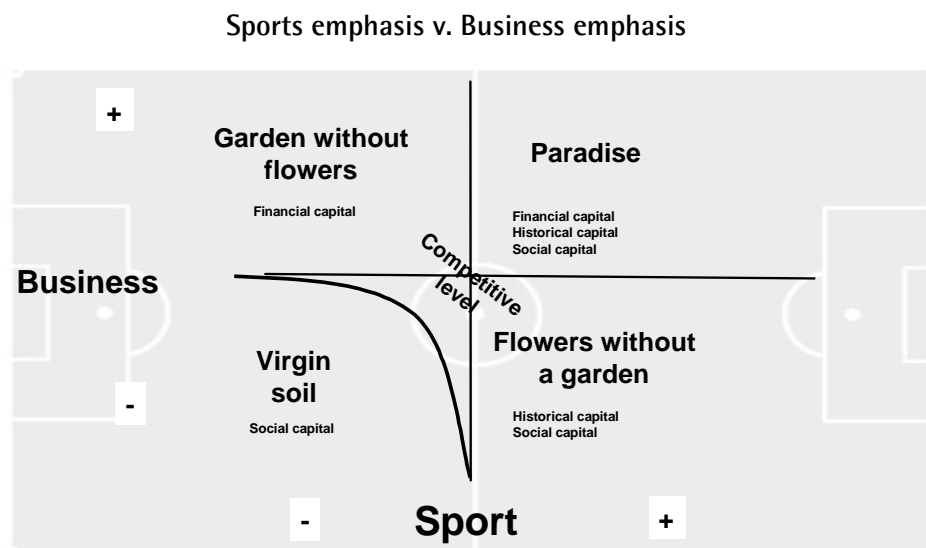
Figure 8 shows, as their age increased, their playing time and the number of goals they scored decreased. Also, as they played in more internationals and probably had to push themselves harder than the others, the risk of injury and exhaustion was significantly higher.

In the case of Barcelona we find that in the first period the stars were relatively old and their playing time was decreasing, as was their scoring record. From 2003, however, the average age of the star players started to fall, while their playing time and goals increased.

Clearly, signing a large number of late-career star players has the drawback of age and a relatively short remaining career span. Maintaining a balance in the squad and replacing star players in good time can help stave off decline in playing time and number of goals.

Business strategy-sports strategy matrix

Our analysis of the financial and sporting performance of Real Madrid and Barcelona has revealed certain differences between the two clubs. These differences are brought out more clearly in the following matrix, in which the sporting and financial dimensions are cross-referenced, so that the emphasis of each strategy and the results it produced can be better understood.



Source: prepared by IESE- CSBM.

A football club can be positioned in any of the four quadrants. The gardening metaphor rests on an analogy between soil and wealth, on the one hand, and flowers and trophies, on the other. The business and financial side of a club is the soil in which sporting success grows. Sound business and financial management allows a club to have good players, coaches, facilities, etc. However, while having good players, coaches and facilities gives a club a better chance of winning trophies, it is no guarantee: the flowers may grow or they may not.

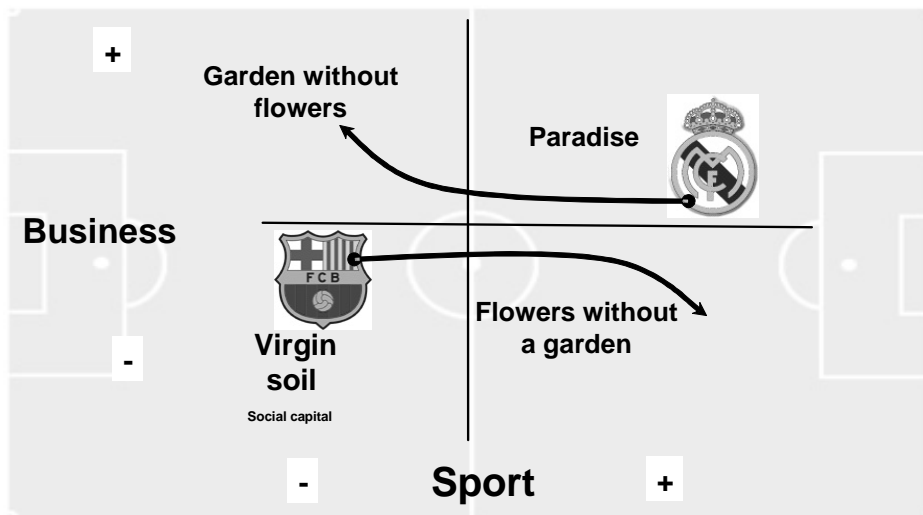
If a football club is poorly run and unsuccessful both as a business organization and as a team, it will be situated in the bottom left quadrant, “virgin soil”: it may have potential, but the potential is not being exploited. If a club is victorious on the pitch but struggles financially, it will be situated in the bottom right quadrant, “flowers without a garden”: the soil produces flowers, but only precariously, so long as the club does not have to dispose of an important player or asset.

In the upper half of the matrix are the clubs that perform well financially. In the top left quadrant are those that despite strong finances have no success on the field. And in the top right quadrant, “paradise”, are those that win victories on both fronts.

Applying the matrix to Real Madrid and Barcelona, we find that they belong in different quadrants. Barcelona’s financial weakness in both periods puts it in the lower right quadrant, while Real Madrid, with its balanced finances from 2003, belongs in the top half of the matrix.

Combining business and sporting performance over the entire period (2000-2005), we see the path each club followed. With its lackluster sporting performance in the first sub-period and three major trophies in the second, Barcelona moves from “virgin soil” to “garden without flowers”, while Real Madrid, with a successful first period and an unsuccessful second, moves from “paradise” to “garden without flowers”.

Sports emphasis v. Business emphasis: the paths the two clubs followed



Source: prepared by IESE-CSBM.

Real Madrid and Barcelona differ in both position and trend, confirming what the Deloitte “Money League” and the La Liga and UEFA Champions League results suggest. By analyzing certain sporting and business variables and comparing strategies, we have found that two clubs that seem alike in fact had different business and sports strategies and so achieved very different results in each sphere.

Real Madrid had a very healthy income statement and balance sheet, and a squad that was recruited based on neither the team’s real needs nor the players’ average age nor internal training needs, suggesting a very marked commercial orientation (the drawing power of soccer superstars). All this goes to show that Real Madrid’s strategy had a strong business emphasis. Barcelona, by contrast, performed poorly in financial terms, but had a player recruitment policy designed to develop youth and reserve team players, with a sizable contingent of workhorse players and a smaller number of more youthful star players, which in the long run produced results on the pitch. Barcelona’s strategy thus had more of a sports emphasis.

Conclusions

In this paper we have used a conceptual framework to guide us in an analysis of the strategies of two leading European football clubs of comparable size in terms of audience, resources and reputation. The analysis relates strategy to sporting and financial performance in two significant sub-periods between 2000 and 2006.

The hypotheses derived from this analysis and to be tested in subsequent studies are as follows:

- In the short term, sporting success does not depend on having balanced finances.
- In the long term, healthy finances are essential to maintain sporting success.
- Continuity and clarity in organizational structure and in the distribution of roles and responsibilities in sports management significantly increase the chances of sporting success.
- A club's player recruitment policy, the balance of players in the team, and the average age of the players is reflected in on-pitch performance.

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Exhibit 1

Income statements and balance sheets of Real Madrid and Barcelona

Table 1

Income statement for 2003 (in millions of euros)

	Real Madrid		Barcelona	
Membership and stadium revenue	41	21%	34	28%
Revenue from friendlies and international competitions	37	19%	8	6%
Broadcasting revenue	46	24%	43	35%
Merchandising revenue	38	20%	24	20%
Other revenue	30	16%	15	12%
Total revenue from operations	193	100%	123	100%
Procurement expenses	9	5%	1	0%
Staff costs (including players)	139	72%	103	83%
Operating expenses	42	22%	46	38%
Increase (decrease) in provisions for operating expenses	2	1%	2	2%
Ordinary depreciation and amortization	23	12%	44	36%
Total operating expenses	214	111%	196	159%
Operating profit (loss)	(22)	-11%	(26)	-21%
Interest receivable and similar income	4	2%	6	5%
Interest payable and similar charges	(5)	-2%	(5)	-4%
Net finance income (charges)	(1)	-1%	1	1%
Profit (loss) on ordinary activities	(23)	-12%	(71)	-58%
Profit on disposal of player registrations	6	3%	4	3%
Profit on disposal of fixed assets	129	67%	8	6%
Exceptional gains	8	4%	2	2%
Total exceptional gains	142	74%	14	2%
Early amortization	76	40%	44	12%
Increase (decrease) in provisions for fixed assets	26	13%		0%
Prior-year expenses	6	3%	11	9%
Other exceptional expenses	2	1%		0%
Total exceptional expenses	110	57%	112	91%
Net exceptional gains (expenses)	32	17%	(98)	-79%
Profit (loss) before taxes	9	5%	5	0%
Corporate income tax	3	2%		4%
NET PROFIT (LOSS) FOR THE YEAR	6	3%	(164)	133%

Source: Real Madrid and Barcelona annual reports.

Exhibit 1 (continued)

Income statements and balance sheets of Real Madrid and Barcelona

Table 2

Balance sheets for 2003 (in millions of euros)

LIABILITIES AND SHAREHOLDERS' EQUITY	Real Madrid	Barcelona
Shareholders' funds	74	(75)
Membership fund	59	77
Revaluation reserve	9	12
Profit for the year	6	164
Deferred income	40	65
Provisions for liabilities and charges	32	135
Long-term liabilities	183	33
Long-term liabilities to credit institutions		22
Other payables	183	11
Payable to sports clubs for player transfers	45	4
Corporate income tax payable	98	4
Long-term liabilities for broadcasting rights	20	
Long-term liabilities for purchases of fixed assets	19	
Current liabilities	169	137
Short-term liabilities to credit institutions	-	39
Payable to group companies and associates	1	
Trade payables	38	19
Payable for purchases and services	34	13
Payable to sports clubs for services	3	6
Other non-trade payables	95	78
Payable to sports clubs for player transfers	29	24
Payable for purchases of fixed assets	4	27
VAT, corporation tax and social security payable	7	12
Corporate income tax payable	2	8
Wages and salaries payable	53	7
Accrued income - income to be recognized in the following year	35	1
Stadium revenues	27	
Competition revenues	6	
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	498	294

Source: Real Madrid and Barcelona annual reports.

Exhibit 1 (continued)

Income statements and balance sheets of Real Madrid and Barcelona

Table 3

Balance sheets for 2003 (in millions of euros)

ASSETS	Real Madrid	Barcelona
Fixed assets	212	239
Intangible sporting assets	-	110
Player registrations	372	241
Amortization	(372)	(131)
Other intangible assets		2
Cost	99	3
Amortization	(99)	(1)
Property, plant and equipment	113	104
Cost	138	139
Depreciation	(24)	(34)
Allowances	(1)	
Investments	99	22
Deferred expenses	0	7
Current assets	286	48
Inventories	2	0
Accounts receivable	141	45
Receivable for broadcasting rights	8	
Receivable for stadium revenue	15	
Receivable for merchandising	21	
Receivable from Group companies and associates, short-term	1	
Receivable from sports clubs, short-term	16	
Receivable for sale of fixed assets, short-term	64	
Loans and advances to employees	1	
Tax credit, short-term	24	
Other tax receivable	0	
Allowances	(10)	
Sundry receivables		
Short-term investments	140	3
Cash and cash equivalents	3	1
Prepayments and accrued income - deferred expenses	0	0
TOTAL ASSETS	498	294

Source: Real Madrid and Barcelona annual reports.

Exhibit 1 (continued)

Income statements and balance sheets of Real Madrid and Barcelona

Table 4

Income statement for 2005 (in millions of euros)

	Real Madrid		Barcelona	
Membership and stadium revenue	71	26%	45	22%
Revenue from friendlies and international competitions	23	8%	21	10%
Broadcasting revenue	65	24%	79	38%
Merchandising revenue	117	42%	48	23%
Other revenue		0%	14	7%
Total revenue from operations	275	100%	207	100%
Procurement expenses	(9)	0%	(3)	-1%
Staff costs (including players)	(144)	-52%	(102)	-49%
Operating expenses	(74)	-31%	(43)	-21%
Increase (decrease) in provisions for operating expenses	(1)	0%	0	0%
Ordinary depreciation and amortization	(16)	-6%	(40)	-19%
Total operating expenses	(245)	-89%	(188)	-91%
Operating profit (loss)	30	11%	19	9%
Interest receivable and similar income	3	0%	1	0%
Interest payable and similar charges	(3)	0%	(8)	-4%
Net finance income (charges)	0	0%	(7)	-3%
Profit (loss) on ordinary activities	30	11%	12	6%
Profit on disposal of player registrations	24	9%	9	4%
Profit on disposal of fixed assets		0%	28	0%
Exceptional income	3	1%		14%
Total exceptional gains	27	10%	37	18%
Early amortization	(48)	-17%		0%
Increase (decrease) in provisions for fixed assets		0%		0%
Prior-year expenses		0%		0%
Other exceptional expenses	(1)	9%	(13)	7%
Total exceptional expenses	(49)	-18%	(13)	7%
Net exceptional gains (expenses)	(22)	-8%	24	11%
Profit (loss) before taxes	8	3%	36	17%
Corporate income tax	(2)	-1%	(1)	1%
NET PROFIT (LOSS) FOR THE YEAR	6	2%	35	18%

Source: Real Madrid and Barcelona annual reports.

Exhibit 1 (continued)

Income statements and balance sheets of Real Madrid and Barcelona

Table 5

Balance sheets for 2005 (in millions of euros)

LIABILITIES AND SHAREHOLDERS' EQUITY	Real Madrid	Barcelona
Shareholders' funds	86	(37)
Membership fund	71	(86)
Revaluation reserve	9	12
Profit for the year	6	37
Deferred income	27	45
Provisions for liabilities and charges	8	78
Long-term liabilities	192	121
Long-term liabilities to credit institutions	0	64
Other payables	192	56
Payable to sports clubs for player transfers	36	50
Deferred income tax payable	85	2
Long-term liabilities for broadcasting rights	16	
Long-term liabilities for purchases of fixed assets	55	4
Current liabilities	245	170
Short-term liabilities to credit institutions		29
Payable to group companies and associates		18
Trade payables	41	18
Payable for purchases and services	38	
Payable to sports clubs for services	3	
Other non-trade payables	140	123
Payable to sports clubs for player transfers	37	26
Payable for purchases of fixed assets	27	38
VAT, corporation tax and social security payable	7	25
Deferred income tax payable	16	
Wages and salaries payable	53	34
Accrued income - income to be recognized in the following year	64	
Stadium revenues	32	
Competition revenues	5	
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	558	376

Source: Real Madrid and Barcelona annual reports.

Exhibit 1 (continued)

Income statements and balance sheets of Real Madrid and Barcelona

Table 6

Balance sheets for 2005 (in millions of euros)

ASSETS	Real Madrid	Barcelona
Fixed assets	302	243
Intangible sportings assets	-	100
Player registrations	379	
Amortization	(379)	
Other intangible assets	-	3
Cost	101	
Amortization	(101)	
Property, plant and equipment	209	123
Cost	244	
Depreciation	(34)	
Provisions	(1)	
Investments	93	17
Deferred expenses	1	12
Current assets	254	121
Inventories	5	-
Accounts receivable	80	103
Receivable for broadcasting rights	2	
Receivable for stadium revenue	7	
Receivable for merchandising	38	
Receivable from Group companies and associates, short-term		
Receivable from sports clubs, short-term	12	
Receivable for sale of fixed assets, short-term		
Loans and advances to employees	2	
Tax credit, short-term	19	
Other tax receivable	10	
Provisions	(10)	
Sundry receivables		
Short-term investments	157	6
Cash and cash equivalents	3	12
Prepayments and accrued income - deferred expenses	8	
TOTAL ASSETS	557	376

Source: Real Madrid and Barcelona annual reports..

Exhibit 2

Squad, 2000-2005

REAL MADRID				
Season	Goalkeepers	Defenders	Midfielders	Strikers
2000-2001	César Sánchez - Casillas	Hierro – Campo – Karanka- Salgado – R. Carlos	Celades – Figo – Geremi – Flavio – Guti – Helguera – Makelele – McManaman – Solari – Sanchís – Rivera	Morientes – Munitis – Raúl – Tote – Savio
2001-2002	Carlos Sánchez – César Sánchez – Casillas	Hierro – Karanka – Campo – Salgado – Miñambres – Bravo – Geremi – Pavón – Rubén – R. Carlos	Celades – Figo – Flavio – Helguera – Makelele – Mcmanaman – Solari – Valdo – Zidane	Guti – Morientes – Munitis – Savio - Raúl
2002-2003	Casillas	Helguera – Hierro – Salgado – Miñambres – Pavón – Raúl B. – R. Carlos – Rubén	Borja – Cambiasso – Celades – Figo – Guti – Makelele – Mcmanaman – Solari – Zidane – Flavio	Morientes – Portillo – Raúl – Tote – Ronaldo
2003-2004	Casillas – César Sánchez	Helguera – Mejía – Salgado – Miñambres – Pavón – Rubén – R. Bravo – R. Carlos – Samuel	Cambiasso – Beckham – Borja – Núñez – Figo – Guti – Juanfran – Jordi López – Solari – Zidane	Portillo – Morientes – Raúl – Ronaldo
2004-2005	César Sánchez - Casillas	Helguera – Samuel – Mejía – Salgado – Miñambres – Pavón – Arbeloa – Palencia – R. Bravo – R. Carlos	J. García – Jotha – Juanfran – Borja – Celades – Baptista – Beckham – Gravensen – Guti – P. García – Solari – Figo – Zidane	Owen – Morientes – Portillo – Raúl – Ronaldo

BARCELONA				
Season	Goalkeepers	Defenders	Midfielders	Strikers
2000-2001	Arnau – Dutruel – J.M. Reina	Abelardo – F. de Boer – Puyol – Reiziger – Sergio	Cocu – Gabri – Gerard – Guardiola – L. Enrique – Petit – De la Peña – Simao – Xavi – Zenden	Dani – Kluivert – Overmars – Rivaldo – Pérez – Santamaría
2001-2002	Bonano – J. M. Reina	Puyol – F. de Boer – Christnaval – Coco – Sergio – Reiziger – Andersson – Abelardo – Fernando Navarri	Xavi – Cocu – Gabri – Rochemback – L. Enrique – Geovanni – Motta – Gerard – Jofre – Trashorras	Saviola – Kluivert – Rivaldo – Overmars – Pérez – D. García
2002-2003	Bonano – V. Valdés	F. de Boer – Puyol – Reiziger – Zorín – Fernando Navarro – Christnaval – Andersson – Oleguer – O. López	Mendieta – Riquelme – Cocu – Xavi – Gabri – Gerard – Motta – Rochemback – L. Enrique – Iniesta – Geovanni	Kluivert – Saviola – Overmars – D. García – Nano
2003-2004	V. Valdés – Rustu – Jorquera	Van Bronckhorst – Reiziger – Puyol – Márquez – Oleguer – Gabri – O. López – Andersson – Mario – Ros	Cocu – Xavi – L. García – L. Enrique – Quaresma – Motta – Gerard – Davids – Iniesta – Santamaría	Saviola – Ronaldinho – Kluivert – Overmars – S. García
2004-2005	V. Valdés – Jorquera – R. Iván	Puyol – Oleguer – Márquez – Belletí – Van Bronckhorst – Silvinho – Damiá – Edmilson – Fernando Navarro – Rodri	Iniesta – Xavi – Deco – Ronaldinho – Giuly – Gerard – Motta – Messi – Albertini – Gabri	Eto'o – Larsson – Maxi López