What soccer can teach you about value creation



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A new book on *Value Creation and Sport Management* analyzes Real Madrid, among many other entities, to reveal the virtuous

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circle of value creation in the global industry that sport has become.

Sport is big business not only in the sense that it has become one of the top 10 money generators in the world, but the breadth of its social reach makes it even more lucrative. Through its capacity to stir passions, generate media attention and create wealth, sport has become the ultimate 21st century stakeholder model.

Among the many topics and entities studied in their new book, IESE's Sandalio Gómez, Kimio Kase and Ignacio Urrutia consider the case of Real Madrid, especially under the first presidency of Florentino Pérez (2000-2006). In so doing, they apply conceptual management tools to discern what generates the virtuous circle of value creation. By charting the rise and fall of Pérez, for example, they illustrate the delicate and often unpredictable symbiosis between sporting and financial success.

Given the lack of serious research by management scholars covering the sport business, it has been impossible to provide high-quality material that adds real value to sports executives. In 2005, therefore, IESE Business School created a dedicated research center, the Center for Sport Business Management (CSBM). The book, *Value Creation and Sport Management*, presents a small sample of research conducted by CSBM-related researchers over the past few years.

Sports and sporting events generate value far beyond the sport itself, which is why there is such intense competition to host major events such as the Olympic Games or the World Cup. The authors show how Valencia used the synergy between sport and tourism to raise the city and the region's profile by successfully bidding to host the America's Cup and by adding Valencia to the Formula One grand prix circuit. These are clear examples of the virtuous circle in action.

Media revolution

The authors point out that the broadcasting of sports events, especially by television, has created revenue-generating opportunities for sports organizations through the sale of broadcasting rights, individual and team-image rights, advertising and so on. The media have revolutionized the world of sport, giving it a privileged status in social and economic life. In 2003, the Spanish sports daily *Marca* estimated that the soccer industry worldwide had a turnover of 235 billion euros.

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The elusive factor of brand loyalty is a key element in sport where the stakeholders, linked by common interests, form an interconnected network, creating a virtuous circle of value creation. The main success factor at the center of the circle is the sports competition itself, the purpose of which is to entertain and stir passions in the target group.

The fans play a central role, as they are the ones who set the circle in motion. However, there must be competition, because if one club or player always wins, the fans lose interest. The more evenly matched the rivals, the greater the uncertainty and passion, which is what generates interest and economic value.

The authors propose three sports business models that can be applied to soccer. The first model considers one single dimension based on sporting performance. The second model takes into account sport and financial issues, while the third is a variation of the second with the incorporation of the creation of virtuous circles for the stakeholders of the clubs. The stakeholders range from the fans to the players, the media, the locale where the club is based and the management.

One thing that Pérez understood is that the media play a key role in value creation. The media are closely associated with the commercialization process. The possibility of selling television rights for the broadcast of matches was the main source of income opened up for clubs, which had traditionally relied on the sale of match day and season tickets. At the same time, the media generate a large amount of information concerning the matches, players and clubs, such that media relations with the clubs have remained interdependent. Clubs and the media rely on each other equally.

Not stars but *Galácticos*

Pérez's strategy of signing one big name — or *galáctico* — every season ensured that Real Madrid was in the news and helped to extend its global reach. Players were signed not just for their ability but for the audiences they could attract and the cash they could generate: Zidane for the French and Arab TV networks; Ronaldo and Roberto Carlos for Brazil and the rest of Latin America; and Beckham for the emerging markets in Asia and the United States. The presentation of the players became so successful that they became international events; indeed, the official presentation of Beckham was attended by 499 journalists.

A virtuous circle happens when some charismatic players are signed by a club: the attractiveness of the club increases in line with the expectation that the player will increase the club's performance. Moreover, the ability to sign new players is linked to financial and

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emotional benefits — Pérez was able to hire the future *galácticos* because they were willing to be part of the best team in the world. Furthermore, the glamorous brand identity rubs off on sponsors, the fans, investors and the city, all of whom are joined in the virtuous circle.

No glamour in losing

However, for all its glamour, success began to elude Real Madrid, and even though they won two league titles during this period, they were not won with the style and panache the fans demanded. Worse, their chief rivals, FC Barcelona, were winning and doing so in style. Pérez, the hero, turned villain as the fans perceived him as only focused on running the club as a business entity. The virtuous circle was broken and financial and administrative decline began to accompany failure on the field.

Now the fans, and some of the players, have turned their backs on the *galáctico* approach, and there is a growing demand for the team to be made up of mainly Spanish players, with only a handful of international stars. This reflects the fact that fans pass judgment on club management on the basis of victories or defeats in games (short-term, zero-sum environment), not on the basis of financial and economic performance (mid- to long-term, possibly win-win environment).

The authors conclude that value creation is determined by the functioning of the entity, and as such, the structure which defines that functioning. The performance of the organization, and the way it deals with the players around it, will determine the extent to which it is able to create value within the sector.

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