

BUSINESS MODEL ATHLETIC CLUB

by Dr Oliver Seitz
with the collaboration of Matheus Girardi



SEPTEMBER 2017

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**A case study on
Athletic Club,
one of the most
unique organizations
in world football,
by Dr. Oliver Seitz
and Matheus Girardi**

In the first edition of the Football Focus, we have selected a club that we believe to be one of the most unique organizations in world football.

While football clubs tend to spend vast sums of money on finding and signing the best talent from around the world, Athletic is loyal to its tradition and limits recruitment solely to talent from the Basque region.

Despite being a seemingly simple code of practice, this philosophy affects the entire business structure of the club.

For any club, this self-imposed restriction on talent acquisition would have an immense negative impact on performance, as clubs in La Liga are able to attract top players from all over the world.

Yet, despite the very limited catchment area for talent, Athletic constantly finishes in the top half of the table and has never been relegated from Spain's top tier competition, which is something that only Barcelona and Real Madrid have also achieved.

Off the pitch, the club also excels while facing the same geographical restrictions. Despite being located in a region that does not rank among the most populated areas of the country, Athletic's newly refurbished stadium, one of the top football venues in the country, has one of the largest average attendances in Spain.

The club's finances are thriving. Equity value is increasing, revenues are at an all-time high, debt is low and reserves are solid.

This analysis will focus on understanding how Athletic Club manages to combine this successful financial performance with steady on-pitch results, while at the same time it resists the competitive demand for transfers and does not turn away from its traditions and local values.

How does Athletic do it? And what other football clubs around the world can learn from their business model?

Let's find out.

BACKGROUND

Located on the north of Spain, Bilbao is the heart of the Basque Country, one of the 17 autonomous communities of Spain. The Greater Basque Region also comprises areas from other autonomous communities and from France.



The Basque Country has battled throughout history to preserve its identity and liberty, and right to self-governance. Today, despite being part of the Spanish state, it is widely recognized as one of the most autonomous communities in Europe.

The region has around 2.2 million inhabitants (the Great Basque Region has around 3 million). Bilbao is the largest city, with a population of around 350,000 people, and is the eighth largest city in Spain. Bilbao's metropolitan area is significantly larger, reaching around 850,000 people in total. Although the metropolitan area is the fifth highest populated area in Spain, it is relatively small when compared to other European urban concentrations.

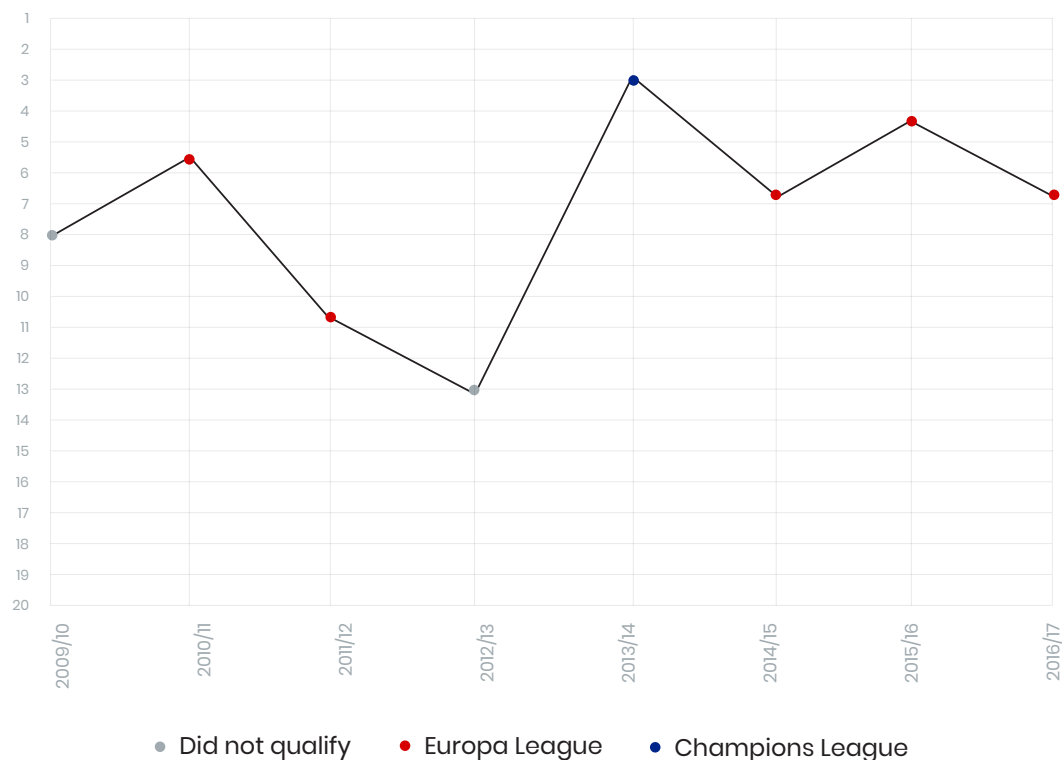
The Basque Country's strong economy, based on manufacturing and mining developed long ago, has successfully adapted to modern times with the recent growth of the service industry. The GDP per capita of the region is 30% higher than the Spanish average and a number of local companies are ranked among the richest in Europe.

SUCCESSFUL HISTORY OF PERFORMANCE

As in many coastal industrial regions across the globe, football arrived in the Basque Country in the late 19th century and quickly became the region's most popular sport. Up until the mid-20th century, the club was a major competitive force in La Liga, often reaching the first or second place in the competition. Athletic Club has won 8 La Liga titles and 23 Copa del Rey trophies, the last being the double in the 1984/85 season.

In more recent times, the club has been out of the fight for the top two positions, but has guaranteed a place in European competitions by finishing near the top of the table in the past four seasons:

La Liga Position



The club's recent performance may not be as outstanding as it once was, but this does not seem to have had an impact on the number of fans attending the stadium.

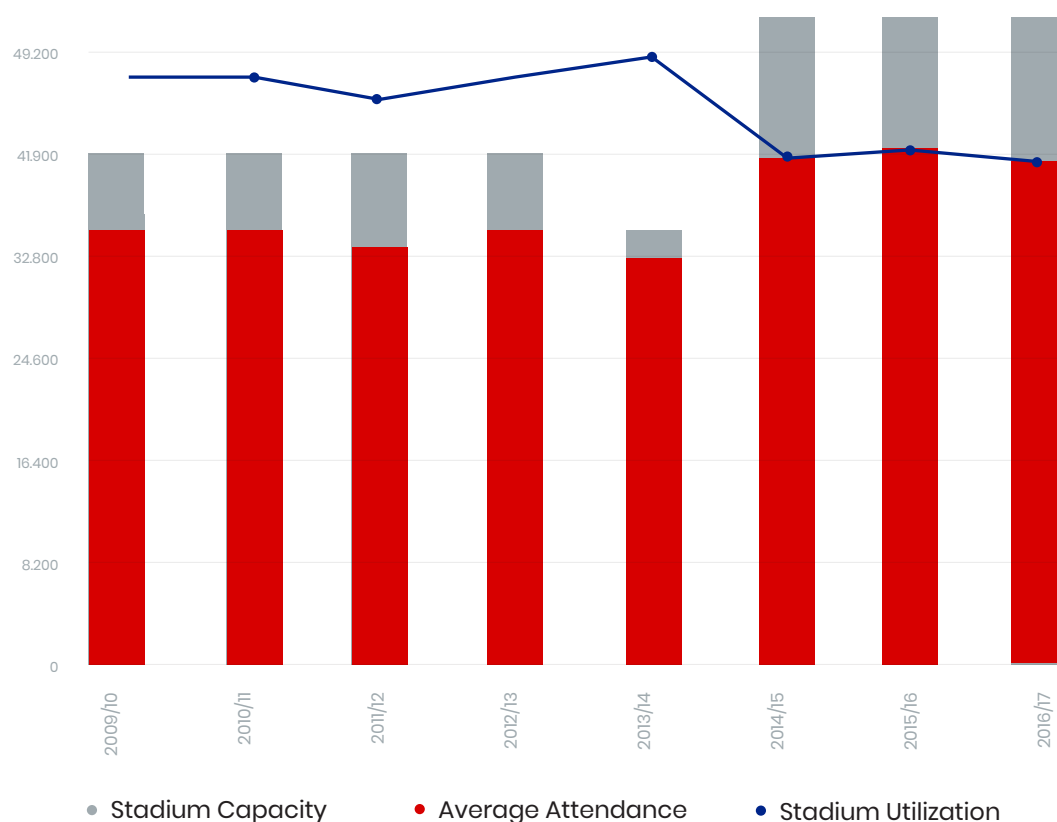
HIGH AND STEADY ATTENDANCES

Considering the size of Bilbao, Athletic's stadium crowds are impressive, reaching the equivalent of 10% of the city's population per match. Furthermore, attendance levels have been steady throughout the years, regardless of how well the club performs in the league.

This indicates a very strong connection between the club and its fan base that goes beyond the on-pitch results, highlighting the social role that the club plays in the region as a symbol of the Basque culture.

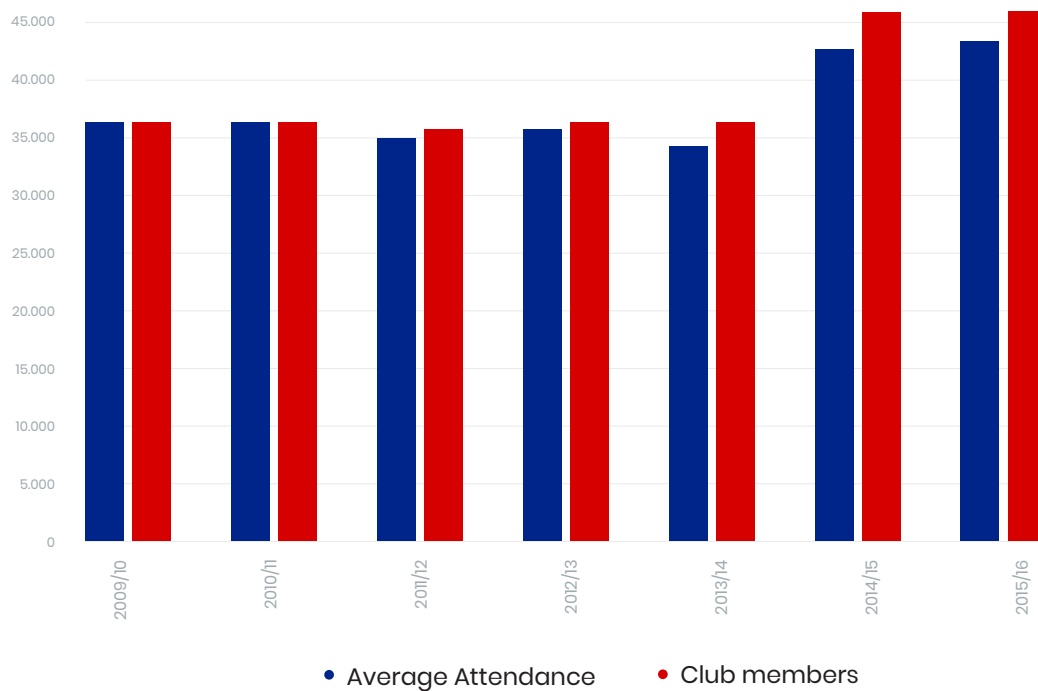
In the 2013-14 season, the club's stadium, San Mamés, underwent a period of redevelopment, which temporarily reduced its capacity from 40,600 to 35,686 people. In the following season, the redevelopment was completed and the stadium's capacity increased to 53,289 people. With the new expanded facilities, there was a hike in average attendance, but average utilization fell from around 90% to less than 80%:

Stadium Attendance, Capacity & Utilization



The number of club members also increased significantly with the new stadium. Curiously, average attendances are generally lower than the total number of club members, indicating a stadium filled with a very loyal fan base but with a low percentage of new fans:

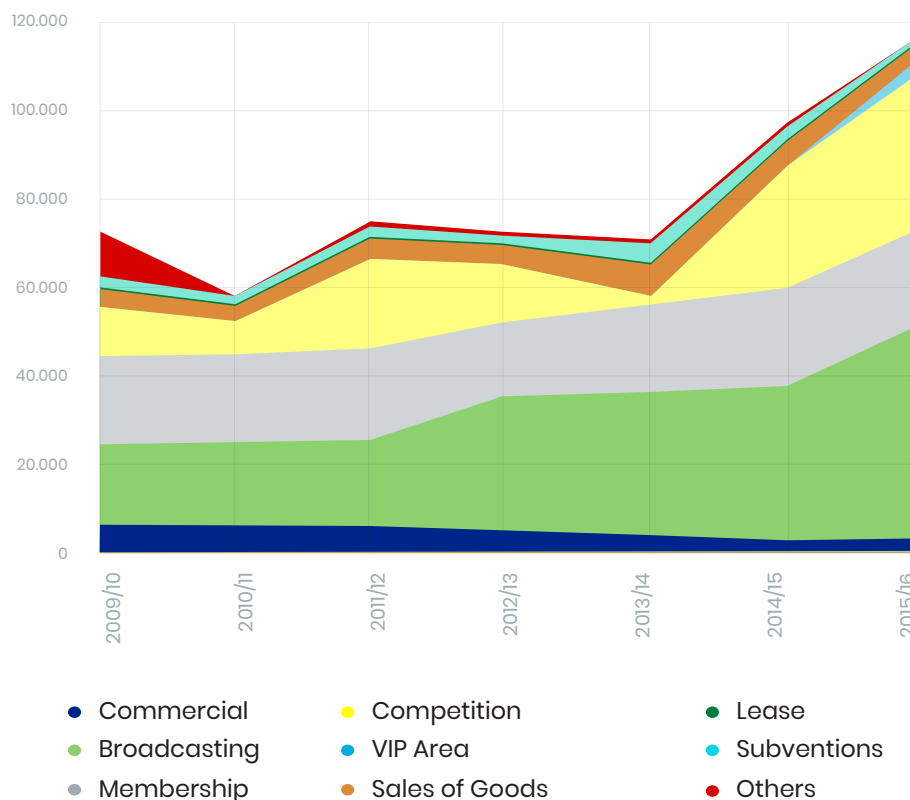
Attendance x Members



MORE MONEY, CONTROLLED COSTS

The drop in utilization levels at the club's new home has not had any impact on the club finances. In fact, completing the new San Mamés, while playing in the Champions League in the 2014-15 season and reaching the quarter-finals of the Europa League in 2015-16, combined with increasing broadcasting revenues from La Liga, provided the club with a strong boost in total revenues:

Revenues



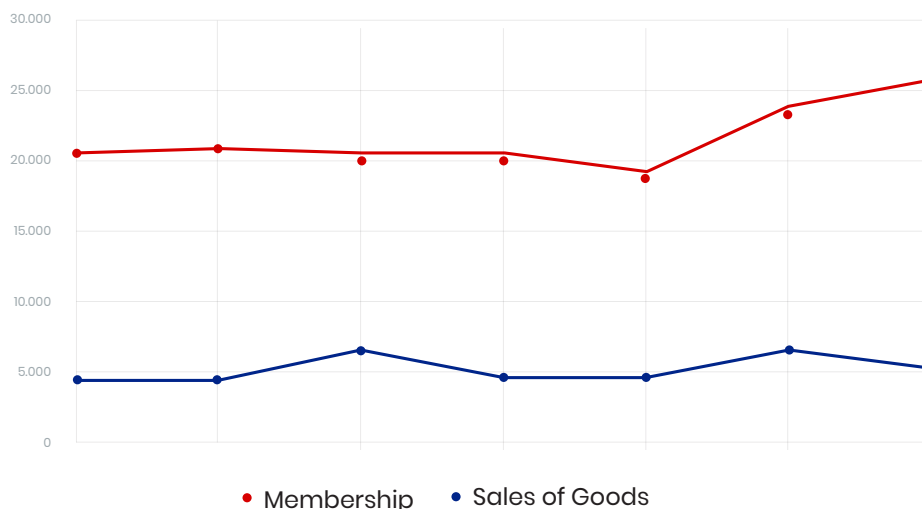
Commercial revenues appear to have been affected by the global financial crisis, losing over half their value between 2009-10 and 2014-15, but have regained pace since then.

For clubs with a regional fan base and market such as Athletic, this decline is understandable. Furthermore, the low importance of this revenue stream when compared to other sources resulted in a small impact on the club's overall finances.

Curiously, taking part in European competitions has had little influence on both the Commercial and Membership revenues, the latter being much more impacted by the redevelopment of the stadium – further evidence of the loyalty of the club's fan base.

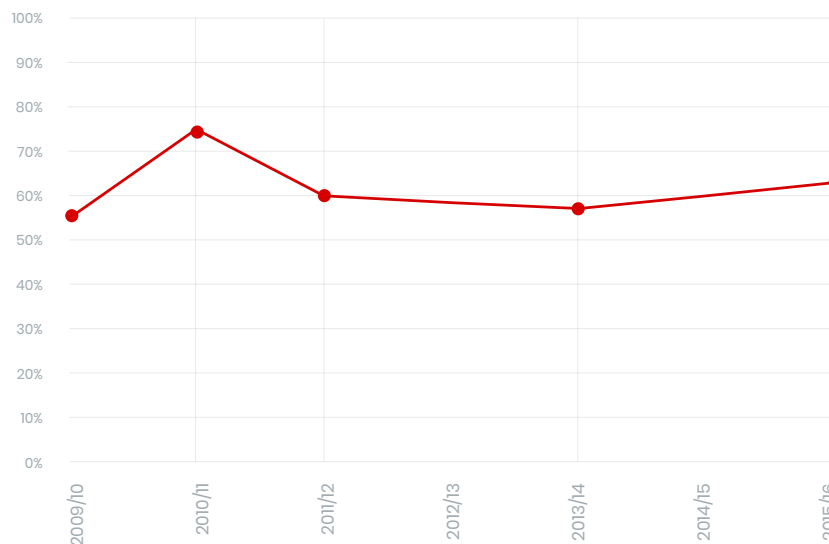
The other source of revenue derived from the direct relationship between the club and the supporters, Sales of Goods, has also been remarkably stable throughout the years. This is further proof of the powerful relationship that Athletic cultivates with its fans and shows again how the club is unaffected by on-pitch performance:

Fan-related Revenues



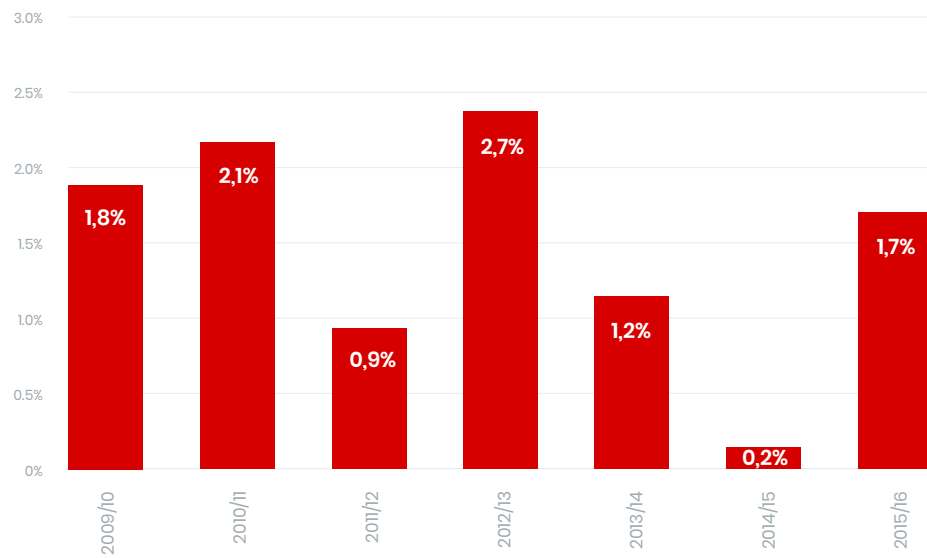
As a general rule for football clubs, and especially in a league dominated by few clubs such as La Liga, growth in revenues would typically mean a subsequent growth in costs associated with players' salaries, as clubs seek to maximize on-pitch results rather than any other KPI at the same time as they compete in a more unequal financial environment. However, at Athletic Club, the proportion of revenue spent on players' salaries has slightly decreased over the years.

Salaries / Total Revenue



Remarkably, the capacity of the club to maintain the level of performance without overspending resources is also seen on the transfer market, as the amount that Athletic spends in acquiring new players is very low when compared with the total expenditure by other La Liga clubs:

Athletic Bilbao / Total La Liga Transfer Expenditure



Source: Club annual accounts and CIES Football Observatory Monthly Report

The difference is immense. From the 2009-10 season to the 2015-16 season, the total money paid by all La Liga clubs in transfers was €3.14 billion, of which Athletic was responsible for only €47 million, only 1.5% of the total amount.

HOW DOES ATHLETIC DO IT?

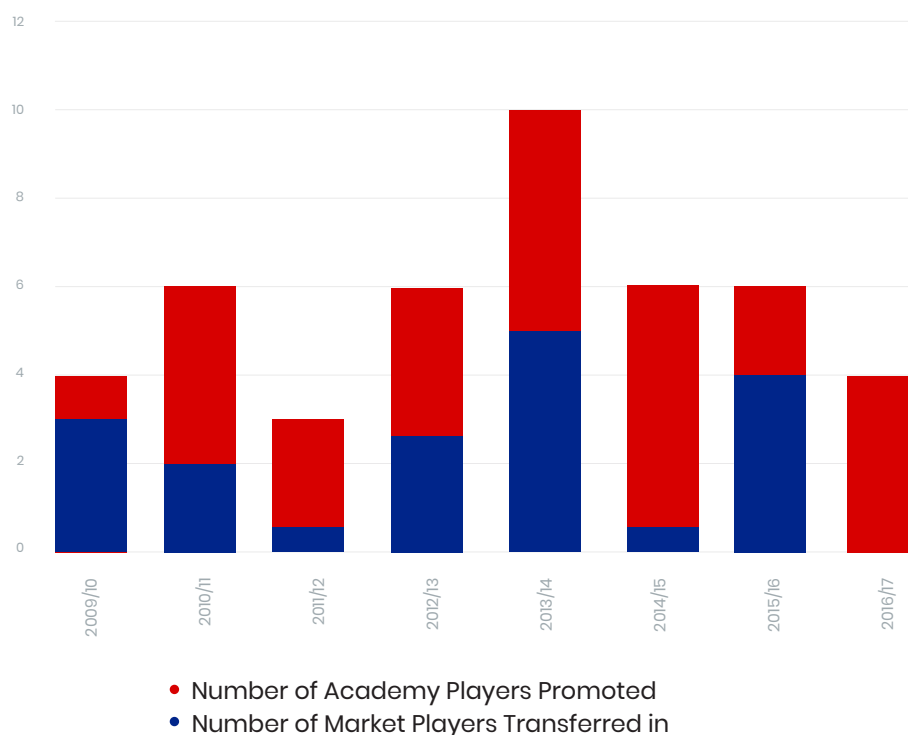
The main reason behind this difference is Athletic's famous philosophy committed to only developing, signing and fielding players that have Basque origins or that were developed by a Basque club.

This unwritten rule followed by the club for over a century, which undeniably helps to promote local Basque values to the global football audience, has a profound impact on the business model of the club.

By self-limiting the number of talents available for the club to the historical connections to one small geographical area, it is little surprise that Athletic focuses on developing young local talent, as many other clubs around the world do, especially those with less financial resources.

Unsurprisingly, the number of players joining the professional squad promoted from the academy often surpasses the number of players that the club brings from other clubs:

New Players per Season

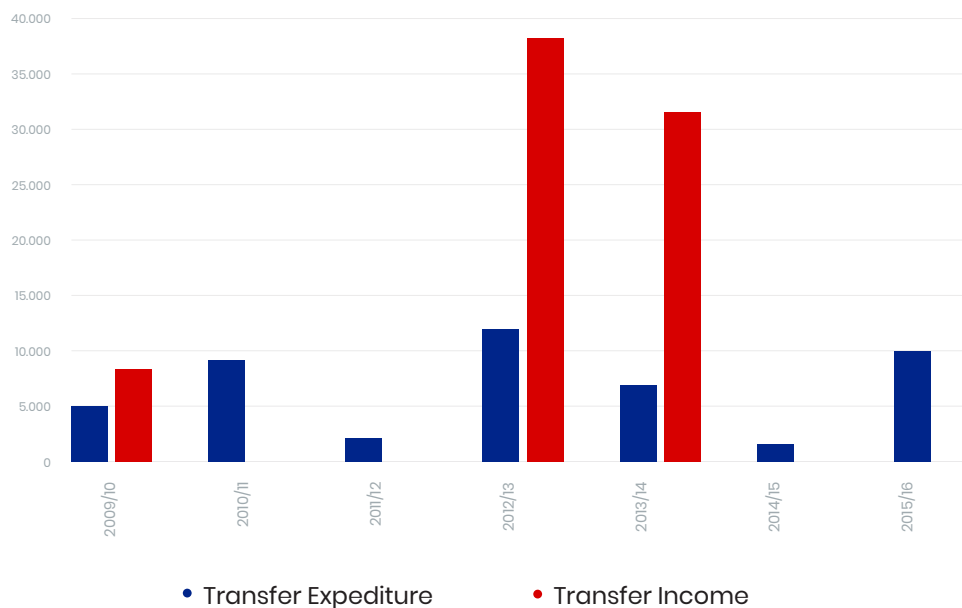


Source: transfermarkt.com

However, what really sets Athletic Club apart is that when a talented player starts generating demand from other clubs, Athletic's best interest is in keeping the player rather than profiting from the transfer, as the club cannot find a direct substitute to the talent from the general transfer market.

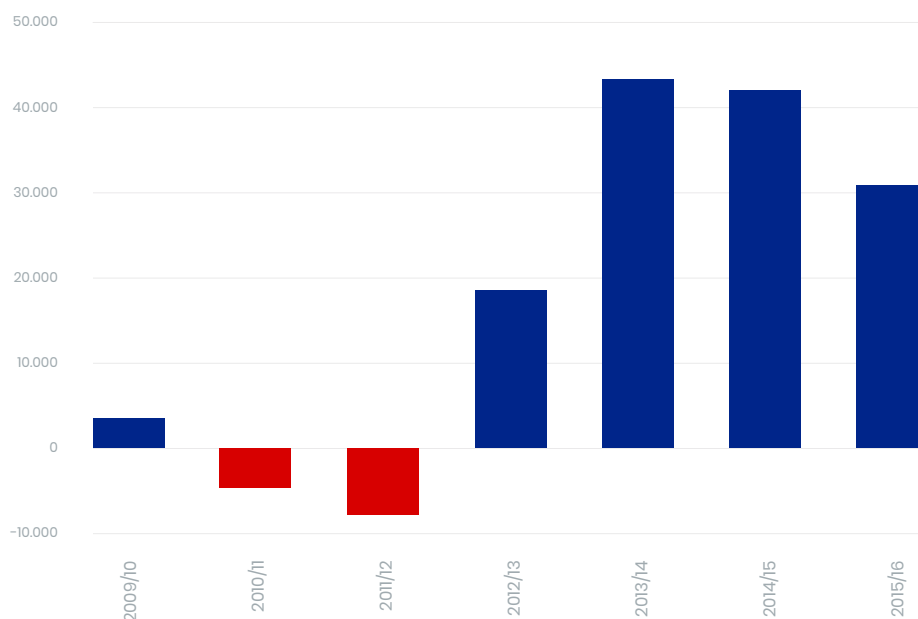
With this scenario, the club's strategy is to sell only players with maximum value, such as Javi Martínez to Bayern Munich and Ander Herrera to Manchester United, retain most of the revenue from them and reinvest just a small proportion each year in the overall market:

Transfers Expenditure and Income



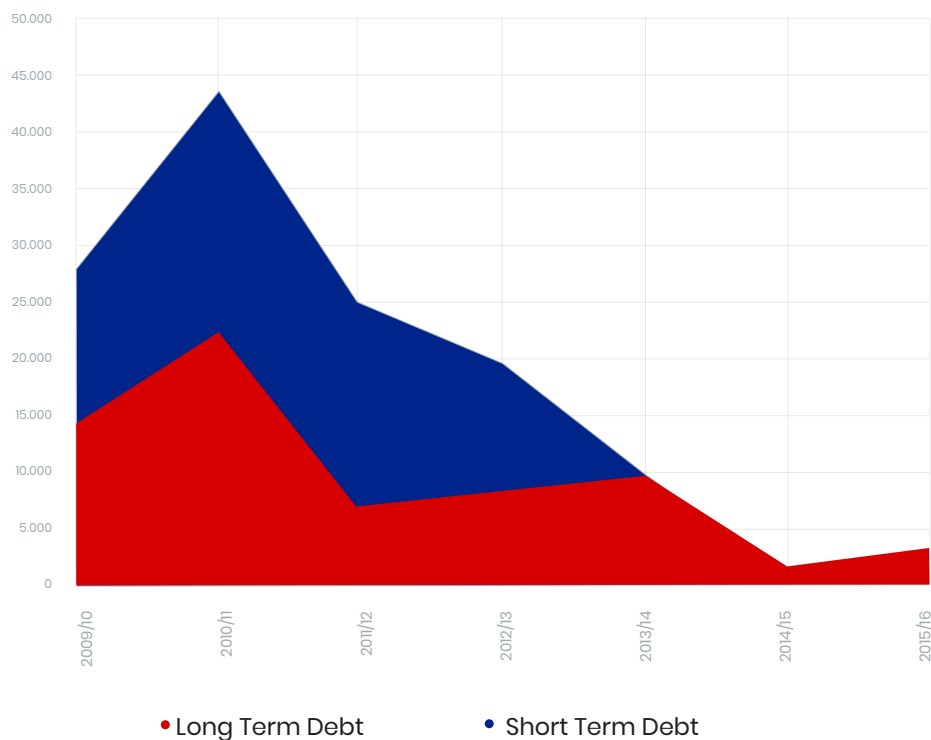
These two high-profile transfers in the past few years combined with the low expenditure in buying Basque players have generated a significant net value in the transfer market for the club:

Accumulated Net Transfers



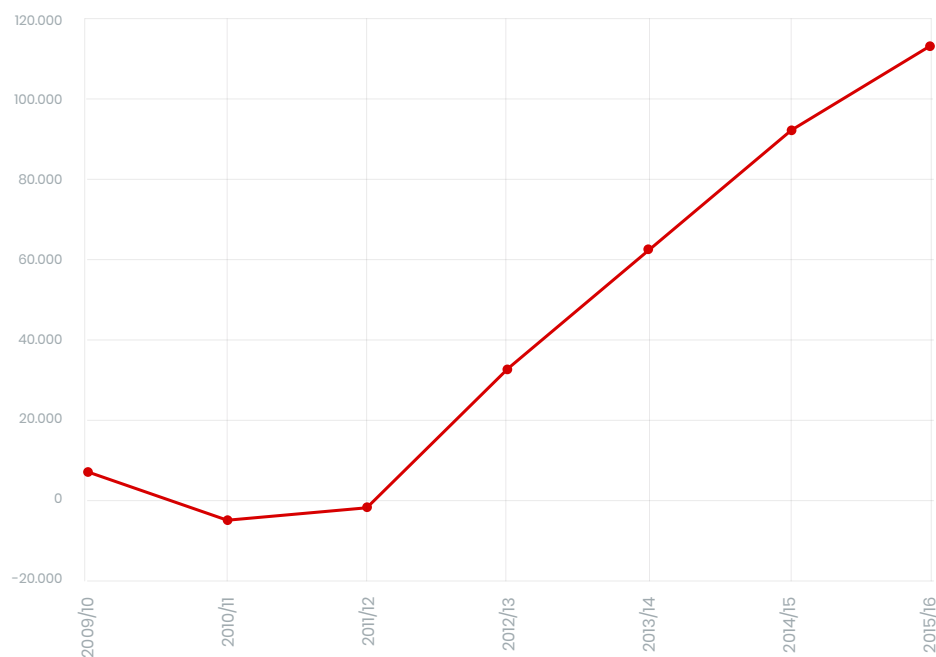
The accumulated value from transfers, combined with the increase in revenues and the compulsory controlled expenditure, have changed the financial landscape of the club. With stronger financial resources, Athletic has almost managed to clear its long-term and short-term debt in the past few years:

Debt



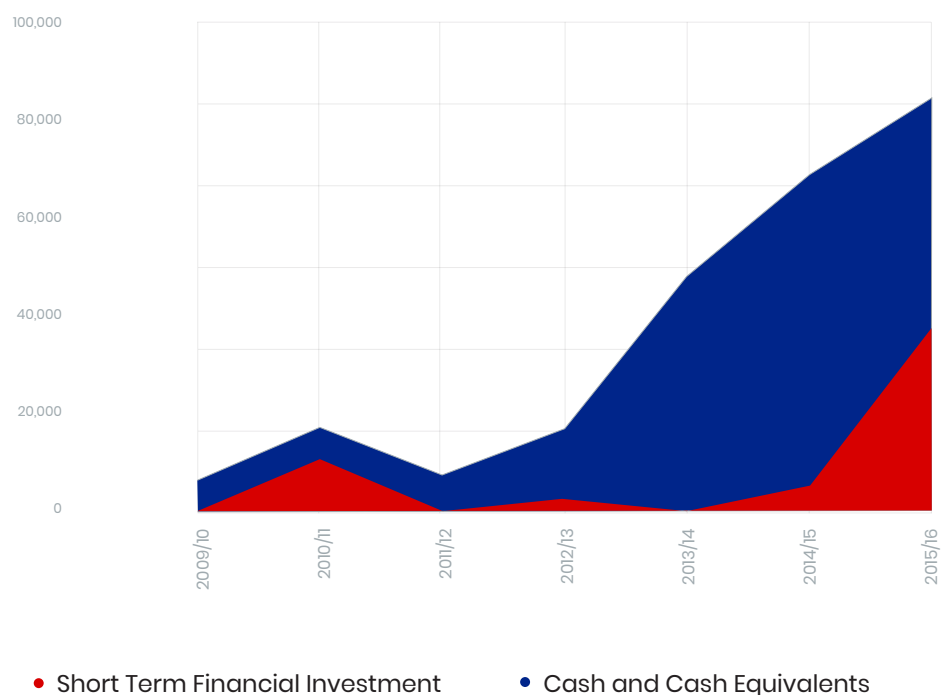
As Athletic is one of the few Spanish clubs that has retained a non-profit association status, the positive financial results cannot be distributed in dividends to shareholders, so they are retained by the club. Consequently, Athletic's equity has improved a lot in the past few years:

Equity



The combination of the impossibility of distributing dividends together with the limited market available to spend money on transfers, and no need for immediate financial concerns with the recently redeveloped stadium, has allowed the club to improve its short-term financial conditions, increasing the level of cash available and even allowing itself the luxury of allocating almost €35 million in short-term financial investments:

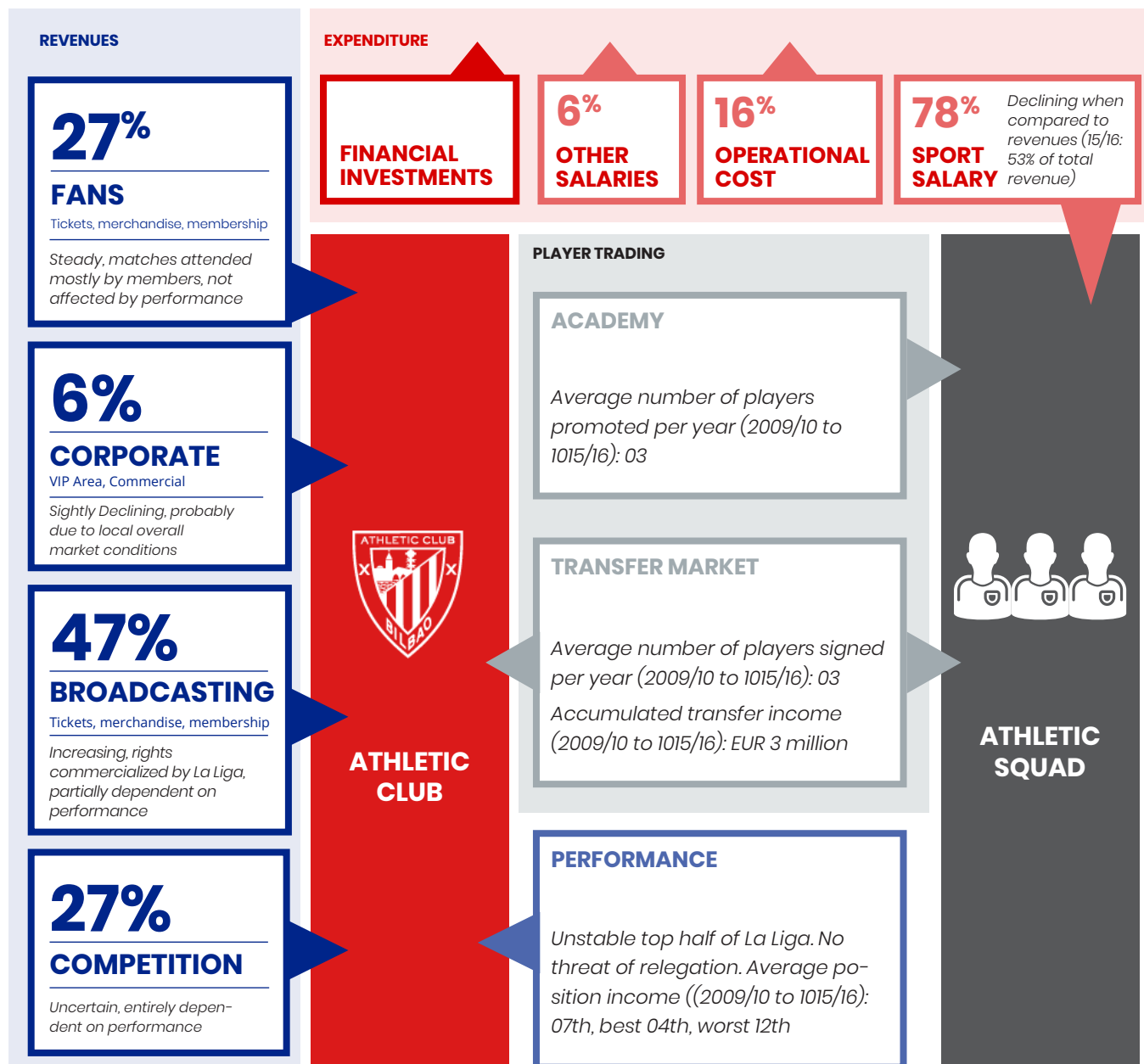
Short-Term Financial Investment + Cash & Equivalents



ATHLETIC'S BUSINESS MODEL

The improvement in the club's finances is remarkable, and yet it is achievable mainly because of Athletic's unique business model, where increasing financial resources from low-risk sources and self-imposed limitations on expenditure and restriction on dividends generate the cash that has been lately transformed into short-term financial investments.

Athletic Club Business Model



Fan-related revenue is historically steady and disconnected from on-pitch performance, therefore is unlikely to change in the near future.

Broadcasting revenue will increase due to new La Liga agreements. Because Athletic's performance in the league has also been steady and is very unlikely to result in relegation, income from broadcasting can also be considered low-risk.

Corporate revenue has been slowly declining, but represents only a small fraction of the overall income and therefore, even in the eventuality of a further sharp decrease, will have little impact on the overall operation of the club.

Competition revenue is uncertain by nature, but, due to the club's controlled expenses, this volatility will impact mainly on the excess cash generated by the club and not on the overall financial picture.

With the large majority of expenses going to pay the salaries of a squad that has a small turnover of players from one season to another, it is safe to argue that the club management is under control and that the business model of the club at this moment is functional and well established.

WHAT'S NEXT FOR ATHLETIC?

Athletic's current situation is complex and adds to the uniqueness of the club. Revenues are higher than ever, costs are under control and debt is almost non-existent. There is no indication at the moment that this will change dramatically in the next few years. In such a scenario, any other football club would either reinvest the money on transfers to improve the squad or distribute dividends to the shareholders. Athletic cannot do either.

Sticking to its self-created philosophy and tradition regarding the eligibility of players, the club cannot seek for players outside the Basque region, which greatly limits the amount the club can spend on transfers due to the lack of talent available.

Holding on to its non-profit status, the club needs to reinvest the money on itself. However, with a new stadium and good training grounds already in place, there are also limited options for reinvestment in infrastructure on its football operations – none that would demand a significant expenditure by the club.

The challenge that Athletic now faces is an unusual question of where to allocate the money derived from the expected further growth in income.

The club needs to have strong cash reserves to cope with the unlikely possibility of severe underperformance that could mean relegation. As the club has not been in this situation before, it is a bit hard to estimate the impact, therefore a good contingency plan will prevent any eventual damage to the club's operation, especially the expected fall in broadcasting revenues.

With strong reserves, the club can now focus on filling the empty seats in its new stadium, a problem that has arisen with the increased capacity of the venue. This could be achieved by increasing the work with local supporters on different fronts or by being more aggressive in boosting ticket sales to external audiences.

The club could also start to promote its female team more, and also other sports activities. Eventually, the club could also work as a catalyst for further non-sport-related community investment, by funding further positive impact projects, creating a post-modern model for a football club where the riches obtained from different sources of revenue are redistributed in the interest of football fans and also the interest of the overall community.

However, enforcing the local talent recruitment policy is a priority. The presence of other Basque clubs such as Real Sociedad and Eibar in the top tier of Spanish football reduces the availability of local talent, as eligible players are also tempted to join them. The growth in revenues of these clubs increases the difficulty of approaching their players, as they can resist the transfer if the value does not meet their financial expectations. A shortage of local talent is one of the greatest risks that Athletic faces to its business. The club needs to have mechanisms in place to guarantee the development of top-level players continuously.

WHAT DOES OTHER CLUBS CAN LEARN?

The unique socio-cultural environment and transfer philosophy of Athletic makes it a very difficult example for others to follow. Few clubs are located in a region with such strong local identity that uses football as a projection of its values. Even fewer are willing to self-limit their catchment area for talent.

Nonetheless, Athletic can be seen as an example in different ways for clubs around the world. For those with limited financial resources available and not fighting for the top positions of the table, the club provides a model of how to explore the transfer market by focusing on the development of local players.

And for those based in regions with strong traditions and local values, the club shows how it is possible to reap the rewards from connecting with the community and generating a fan base that is loyal, regardless of performance.

FIVE QUESTIONS ABOUT THE CLUB'S BUSINESS MODEL

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Below you can find a few questions for debate related to the future of the club based on the business model explored:

- 1, What are the main threats to the club's business model in the short term?
- 2, What could the club do to prevent the eventuality of a local talent drain?
- 3, In an environment of high connection with club members, what could be done to increase the attendance of non-member fans?
- 4, What would be the best strategies for the club to allocate the profits?
- 5, If you were the club's decision-maker, would you try to change the club's transfer philosophy?

NOTES

1, Unless stated otherwise, all information used was available in Athletic's Annual Financial Reports.


2. Average attendances are provided by different sources and calculated according to the average of these, which vary little. The number of club members for the 2009-10, 2011-12 and 2012-13 seasons is estimated according to articles by the press and the historical average of the club.



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