

# Module 1. Financial Concepts



In this first module of the course, we will focus on the basics, the financial concepts that represent the foundations of financial management. After reviewing key concepts, such as income, expenses, profit, loss, and debt, we will move on to examine this in practice. As such, we will examine the revenue and key expense of the highest earning club in each of the big five European football leagues. Finally, we will pay additional attention to different types of expenses that sport organisations have, to better appreciate—once again—the basics of financial management in sport organisations.



**Unit 1.1 Financial concepts in theory**



**Unit 1.2 Financial concepts in the big five European football Leagues**




**Unit 1.3 Financial concepts in Bayern Munich**




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# Unit 1.1 Financial concepts in theory

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## Income

For sports organisations, income refers to the financial resources that these entities receive to sustain their operations and achieve their goals. In the world of sports, income can originate from various sources, with ticket sales, broadcasting rights, sponsorships, and merchandise sales being among the primary revenue streams (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). These organisations, which can include professional teams, leagues, and amateur sports clubs, heavily rely on these income sources to cover player salaries, facility expenses, and other operational costs. The financial well-being of a sports organisation is often intricately linked to its ability to generate and manage its income effectively.

Moreover, income in sports is not solely about the euros or dollars a team can receive, but also about the passion and dedication of fans who fill stadiums, tune in to watch games, and purchase team merchandise. Fan engagement and the loyalty of a fan base can significantly impact on a sports organisation's income. A dedicated fan following can boost ticket sales, increase viewership, and drive

merchandise revenue. In this context, income extends beyond monetary transactions and embodies the emotional and communal support that fans provide to their favourite teams and sporting events.

However, as sports organisations do not exist in silos, they must also consider the impact of revenue-sharing agreements and collective bargaining mechanisms when managing their income. Such mechanisms and wider programmes that exist in different leagues influence not how the income is generated, but how it is managed, something we will cover further on in the course.

## **Cost**

Costs, in the realm of sports organisations, represent the various expenses incurred in running and maintaining the operations of teams, leagues, and sporting events (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). These costs encompass a wide spectrum, including player salaries, coaching staff compensation, travel expenses, equipment and gear, facility upkeep, and administrative overhead. Managing costs is a critical aspect of financial stewardship for sports organisations, as it directly affects the organisation's financial health and ability to achieve its goals, whether that is winning championships, fostering grassroots sports development, or enhancing fan experiences.

Player salaries are typically the most substantial cost for professional sports organisations. The contracts signed with athletes and coaches often have a significant impact on the team's financial stability. Balancing the need to attract top talent with budget constraints, such as salary caps in some leagues, is an ongoing challenge. Other major expenses include venue-related costs, from renting or maintaining stadiums, to utilities and security. Travel expenses, including transportation and accommodation, are also substantial, especially for teams participating in national or international competitions. Moreover, marketing and promotional expenses play a vital role in attracting fans and sponsors, contributing to the overall costs of sports organisations, as we will also discuss later on in the module.

The financial dynamics of costs can be influenced by various factors, including market size, competitive pressures, and league regulations. Managing these costs efficiently is crucial to ensure that sports organisations can continue to invest in player development, infrastructure improvements, and fan engagement initiatives, while maintaining financial sustainability. Balancing the budget and controlling costs are essential elements of a sports organisation's financial strategy to help achieve both on-field success and off-field fiscal stability, as we will also discuss later in the course.

## **Profit**

Profit for sports organisations represents the financial gain realised when the income generated surpasses the total costs and expenses incurred in their operations (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). In the context of sports, profits can be derived from various revenue streams, such as the ones we mentioned above, after the overall costs have been deducted. Sports organisations, including professional teams, leagues, and even amateur clubs, aim to achieve profitability, as it allows them to reinvest in their teams, facilities, and fan experiences. Profit is not only a measure of financial success, but also a critical indicator of the organisation's ability to sustain and grow.

Profits play a significant role in sports organisations' long-term viability and competitiveness. The surplus funds can be used to sign star players, improve training facilities, or enhance the fan experience by investing in state-of-the-art technology and stadium upgrades. These investments, in turn, can lead to more success on the field, attracting more fans, sponsors, and revenue. Profits are also important for fulfilling financial commitments, such as paying off debt, honouring player contracts, and contributing to revenue-sharing agreements within leagues.

While profitability is a desirable goal, sports organisations often face financial challenges and uncertainties, such as fluctuating attendance, changing market dynamics, or unexpected expenses, like player injuries. Effective financial management, prudent cost control,

and diversified revenue streams are essential components of achieving sustained profitability in the dynamic and competitive world of sports, as we will also discuss in the course. A strong and sustainable financial position not only contributes to the organisation's success, but also ensures that fans can continue to enjoy the excitement and camaraderie that sports bring to communities worldwide.

### **Loss**

Loss, in the context of sports organisations, is a financial deficit that occurs when total expenditures and costs exceed the income generated (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). For these entities, which can include professional sports teams, leagues, or amateur clubs, incurring a loss can have far-reaching consequences. Losses may stem from various factors, such as lower-than-expected ticket sales, poor performance, or unforeseen expenses. They can hinder an organisation's ability to invest in player development, infrastructure improvements, and overall growth, potentially impacting on its competitiveness and long-term sustainability.

Losses in sports organisations can arise from a variety of sources. A decline in attendance at games or events, which has been especially challenging during events like the COVID-19 pandemic, can result in reduced ticket and concession revenues. Poor team performance may lead to lower viewership and decreased merchandise sales, further

contributing to financial difficulties. Unforeseen costs, such as legal expenses or facility repairs, can also contribute to financial losses. When losses accumulate, they may affect the organisation's ability to meet player salary obligations, pay off debts, or participate in league revenue-sharing arrangements.

Managing and mitigating losses are pivotal for sports organisations, particularly when they aim for financial stability and long-term success. This involves closely monitoring financial performance, optimising revenue streams, and carefully controlling costs. Additionally, some organisations may seek financial assistance or support from stakeholders, including team owners or sponsors, to weather periods of loss. Ultimately, successfully navigating financial challenges and returning to profitability is a crucial component of sustaining the excitement and tradition of sports for fans around the world.

## **Debt**

Debt, in the context of sports organisations, refers to financial obligations or liabilities that arise from borrowing money to fund various aspects of their operations (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Sports entities, like professional teams, leagues, or facilities, often incur debt to finance major capital projects, such as constructing or renovating stadia and arenas. This form of debt can be substantial, and it is typically repaid over time with interest. Debt

can also be associated with other financial commitments, such as player contracts, which obligate the organisation to pay salaries and bonuses.

Managing debt is a critical aspect of financial planning for sports organisations. While borrowing can provide the necessary capital to invest in facilities, infrastructure, or player development, it also creates an obligation to repay the borrowed funds. Prudent debt management involves evaluating the organisation's ability to service the debt through projected revenues, including ticket sales, sponsorships, and broadcasting rights. Careful consideration of interest rates, repayment terms, and the impact of debt on the overall financial health of the organisation is essential.

Debt in sports organisations is a double-edged sword: when managed wisely, it can facilitate growth and competitiveness; however, excessive or poorly managed debt can strain financial resources and jeopardise the organisation's ability to meet other obligations or invest in areas critical for success. Sports entities must strike a balance between leveraging debt as a strategic tool and ensuring that it does not become a financial burden that threatens their long-term sustainability.

Understanding these five fundamental concepts in financial management and how they materialise in sport is fundamental to better capturing some of the basic cornerstones of financial

management overall. Within them, we also see key concepts, such as profitability, cost control, revenue maximisation and budgeting, all of which set the scene for how financial management occurs in sport organisations.

At this point, it is worth exploring these key concepts and how they actively materialise in the world of sport and sport organisations. In the section below, we will examine how they materialise in sport by focusing on the big five European football Leagues and the top-earning club in each one of them.

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## Unit 1.2 Financial concepts in the big five European football Leagues

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For us to be able to better grasp the fundamental concepts we discussed above, it is worth examining case studies. So let us begin with the most popular and commercialised sport in Europe, football, particularly with the big five European leagues. These five leagues represent the top division of football in the following countries: England, Germany, Italy, France, and Spain.

The 'big five' European football leagues are considered the top five professional football leagues in Europe, based on their overall quality, competitiveness, and global influence (Deloitte, 2023). These leagues are known for featuring some of the world's most successful and popular football clubs, and they include the following:

- the English Premier League (EPL). It is arguably the most popular football league globally. It features twenty clubs, including top clubs like Manchester United, Liverpool, Chelsea, and Arsenal. The EPL is renowned for its competitiveness and high income generated.

- La Liga: it is the top professional football league in Spain, and it includes famous clubs, such as FC Barcelona and Real Madrid. It is known for its technical and attacking style of football.
- Serie A: it is Italy's premier football league and includes historic clubs like Juventus, AC Milan, and Inter Milan. Serie A has a strong defensive tradition and has been home to some of the world's best defenders.
- Bundesliga: it is Germany's top football league and is known for its passionate fan base and high-scoring matches. Clubs like Bayern Munich and Borussia Dortmund have a strong international following.
- Ligue 1: it is the top football league in France including Paris Saint-Germain (PSG), which is known for its star-studded line-up. Ligue 1 has been growing in popularity and competitiveness recently.

Please notice that the status of football leagues and their rankings can change over time, with leagues in other countries, like Portugal's Primeira Liga or the Netherlands' Eredivisie, making a strong case for inclusion in the list of top European leagues (Deloitte, 2023). Additionally, league standings, club performance, and financial strength can shift from season to season.

Within the big five leagues, we can find some of the highest earning sports organisations in Europe. So, in this case, we will examine the

income of the highest earning club in each of these leagues.

### **1.2.1 Financial concepts in Manchester City**

Let us begin with the highest earning club in Europe overall, which is Manchester City (Deloitte, 2023). Looking at figure one below, we can see that their revenue between the years 2018 to 2022 is increasing. Now, of course, we notice a slight decline in the year 2020, caused by the COVID-19 pandemic.

If we pay careful attention, we can see that this upward trend is clear. But let us focus on the details of the revenue. The revenue or income of the club is represented with the green colours. In 2022, for example, from the overall revenue generated, we can see that three different sources of revenue appear: matchday revenue, broadcast revenue, and commercial revenue.

Matchday revenue, which represents only 9% of the overall revenue of the club, captures the income generated around matchday from ticketing sales and merchandise sales. Broadcast revenue, which in this case represents 40% of the total income of the club for that year, depicts the revenue coming from the sale of broadcasting rights. Finally, the commercial revenue that represents 51% of the income of the club for the year 2022, captures the income generated from commercial activities, such as sponsorship.

What we see in the graph is also a thin blue line, connecting the income generated in each season. This blue line represents the wages that the club has to pay to its players. We can see that this blue line is also increasing. Wages, as we discussed above, represent one of the biggest—if not the biggest—expenses of a sports organisation.

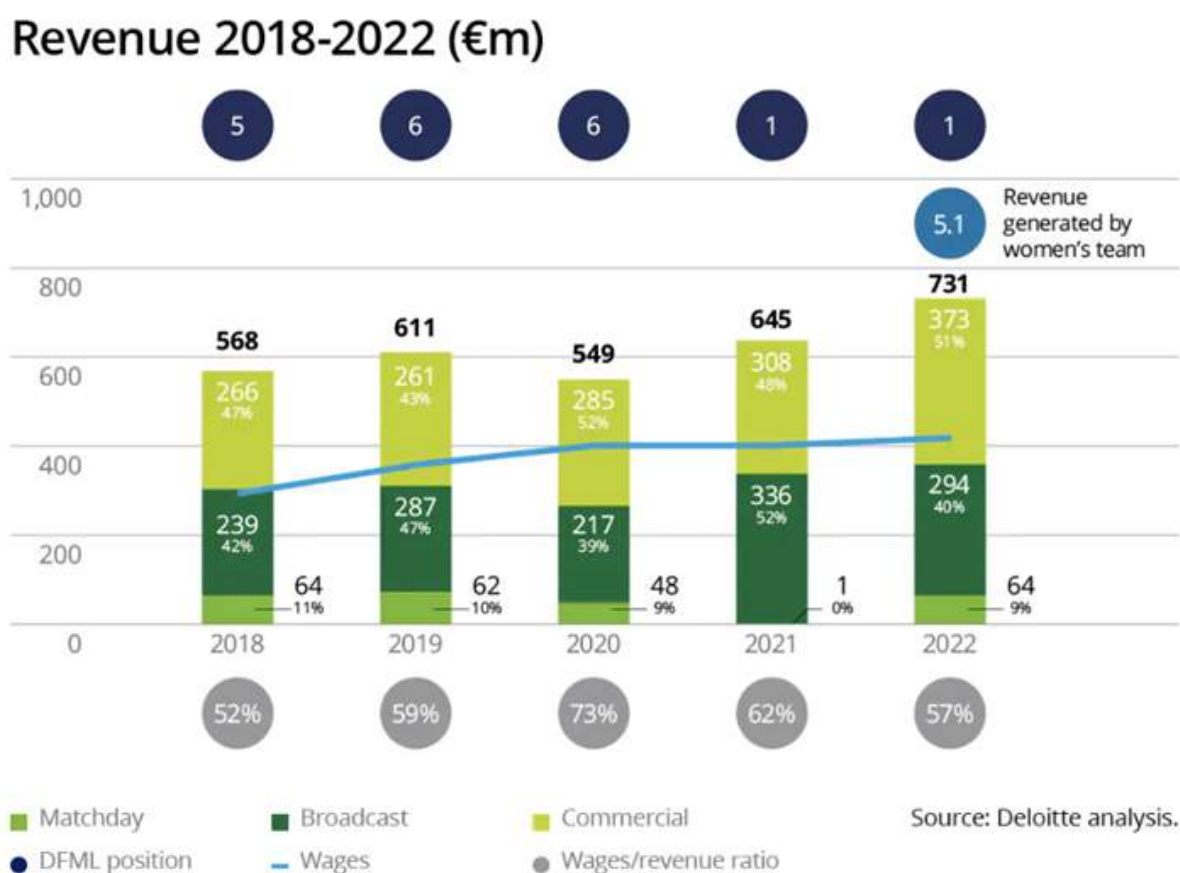
In this case, we should focus on the bottom of the figure, where numbers are presented in small grey circles. Within those circles, there is the ratio between the wages and the revenue. In other words, these numbers represent the ratio or the percentage of the total income that will be dedicated to just one single expense.

So, let us consider what we talked about above about income and expenses. Let us go back to season 2022. The ratio for Manchester City is 57%, suggesting that 57% of the total revenue will be dedicated to just one single expense. Now, if our deduction were simple, we would do the simple math of overall revenue minus overall expenses, and that would give us the answer as to whether we have profit or loss for that year.

Unfortunately, in this graph, we can only see one of the expenses. So, based on the data we have, which is, of course, limited, we could say that the revenue is higher from that one expense. However, since we do not have enough information about the total expenses of the club, we cannot make a safe assumption on whether the club ended up with a profit or with a loss.

Nevertheless, we must notice that 57% is, indeed, a very high ratio for wages against revenue, suggesting that, if other expenses are also high, then the club might not be able to generate profit. Once again, more detail is needed for us to make the final assumption.

**Figure 1. Manchester City's revenue 2018-2022**



Source: Deloitte, 2023, <https://bit.ly/3QXeyB4>.

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## Unit 1.3 Financial concepts in Bayern Munich

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Now, let us move on to another league. This time, we will investigate the German first league, particularly the highest earning club within it: Bayern Munich (Deloitte, 2023). The figure we see below captures the income of the club.

In this case, we see a steadier development throughout the years. There appears to be a tendency for the income to go up, something that was stopped, nevertheless, possibly due to COVID-19. The years 2022 and 2021 demonstrate a relevant decline in the overall revenue generated. In this case, in 2022, we are presented with the hopeful possibility that the income will go back to the levels prior to the pandemic.

If we focus again on the final column of the graph, we can see where the income of the club comes from. In this case, it is noticeable that matchday income represents only 10% of the overall income of the club for that season. The broadcast income represents 32%, and the commercial income represents 58% of the overall revenue generated for that season, so it is, by far, the biggest revenue source.

However, let us focus again on the biggest expense: the wages of the club. In this case, we can see that the wages represent 53% of the overall revenue, suggesting that, again, a very large percentage of the income generated would have to be spent or invested on players' wages. Once again, we do not have enough information to suggest whether the club will end up with a profit or a loss, but it is nonetheless worth considering that more than half of the income of Bayern Munich for the 2022 season will end up being spent on one single expense.

**Figure 2. Bayern Munich's revenue**

### Revenue 2018-2022 (€m)



■ Matchday      ■ Broadcast      ■ Commercial  
● DFML position      — Wages      ● Wages/revenue ratio

Source: Deloitte analysis.

Source: Deloitte, 2023, <https://bit.ly/3QXeyB4>.

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## Unit 1.4 Financial concepts in Real Madrid

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Following this, it is worth examining the income generated in the highest earning Spanish club, which is Real Madrid (Deloitte, 2023). In this case, we see an upward trend again, but, as in the case of the German Bayern Munich, we can also say that the overall revenue of the club has not recovered to pre-COVID-19 numbers.

Interestingly, between the years 2018 and 2019, there was only a very small increase, suggesting maybe that the development is not as steep as in the case of the English Premier League. Let us focus on the 2022 season again and on the sources of revenue for this club. We see that 12% of the income comes from matchday, 43% comes from broadcasting rights, and 45% comes from other commercial sources.

What is interesting in this case is to, once again, observe the line of wages. In this case, we can see that even though the line seems steady to begin with, it is in an upward trend between the seasons 2021 and 2022. In this case, we are presented with another alarming number. When we look at the wage's revenue ratio, we are told that 70% of the income generated by the club for the 2022 season will go

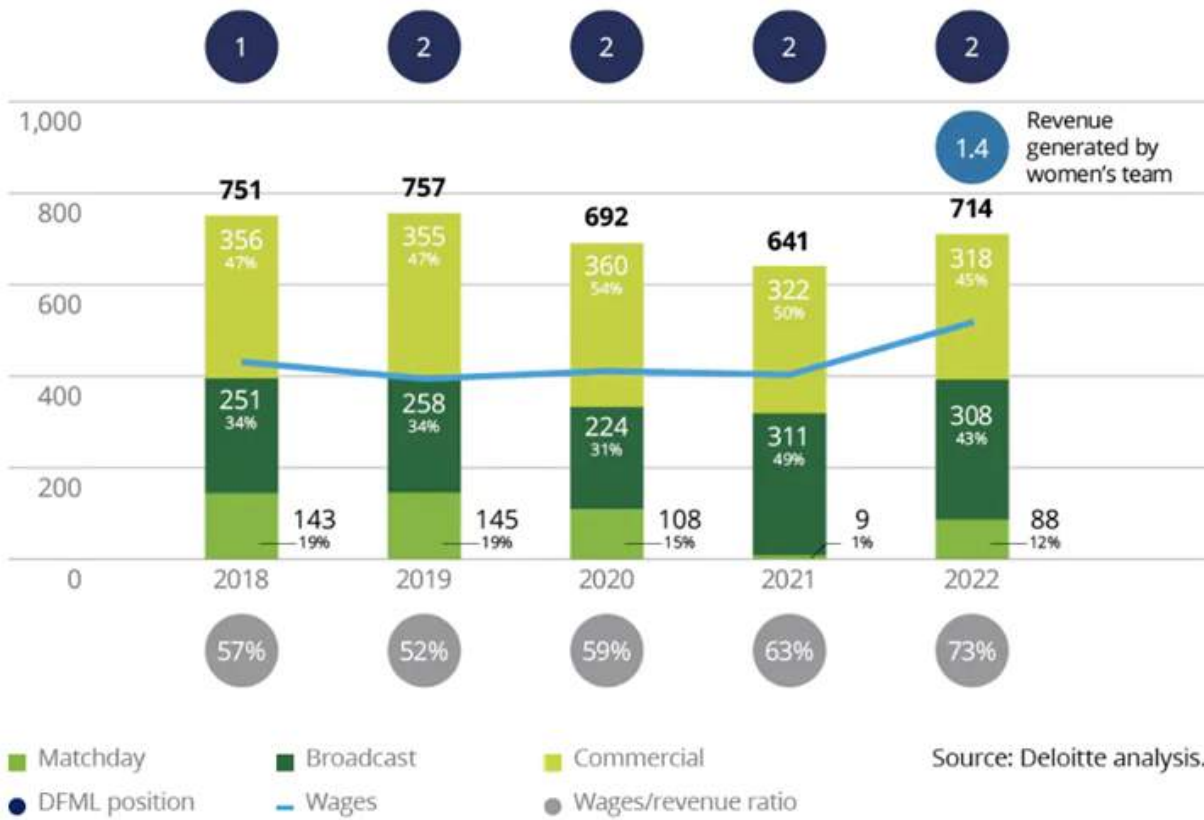
to one single expense. While this is, indeed, the biggest expense of a club, this is a worrying indication.

If a club must spend the vast majority of its income, close to three quarters of it, on one single expense, we can safely assume that they will finish the season with a loss. This means that their expenses will be higher than their income, resulting in a loss. If that loss is to be repeated season after season, alarming and, indeed, devastating consequences can occur for the club.

After all, if a club is not able to cover the expenses generated, it can be driven into the creation of debt. In other words, the club would have to borrow money to be able to cover the current expenses, potentially perpetuating this rather vicious cycle.

### **Figure 3. Real Madrid's revenue**

# Revenue 2018-2022 (€m)



Source: Deloitte, 2023, <https://bit.ly/3QXeyB4>.

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## Unit 1.5 Financial concepts in Paris Saint-Germain

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Another interesting example to look at, that aligns with the analysis of the Real Madrid case above, would be the case of Paris Saint-Germain (Deloitte, 2023). Paris Saint-Germain is, by far, the highest earning football club in France and one of the highest earning football clubs in Europe.

The income that we can see in figure 4 below, generated by the club, seems to also have a similar trend, as we have noticed above. We therefore can also see within it the increase we noticed earlier between the years 2018 and 2019.

The COVID-19 pandemic appears to have slowed down the income generated by the seasons 2020 and 2021. In 2022, nevertheless, we can see the club generating more income than before. So, let us investigate this season in more detail: in this case, 20% of the income comes from matchday, representing the highest matchday income proportionally that we have seen in all the clubs so far. 22% of the income comes from broadcasting rights, which is the lowest

percentage we have seen in our discussion of clubs' income. Finally, 58% of the income comes from commercial deals.

What is worth examining at this point is the blue line representing the wages. In the case of the wages, we can see a very clear and, indeed, alarming steep increase in the amount of that expense. If we investigate the season 2022, we can see that that one single expense surpasses the overall income generated by the club.

Indeed, it appears that the wages expense for this club represents 111% of the overall revenue, suggesting that, even though this is the highest earning club in the league, it is because of their very high expenses that they finished this season with a loss.

Once again, it is worth noticing that perpetuating losses, having multiple consecutive losses for a single sport organisation, can result in the creation and accumulation of debt. Simply put, when the expenses are higher than the income, then, at the end of the season, the sport organisation is unable to cover their needs and, as such, they have to borrow and thus develop debt.

#### **Figure 4. Paris Saint-Germain's revenue**

# Revenue 2018-2022 (€m)



■ Matchday      ■ Broadcast      ■ Commercial      Source: Deloitte analysis.  
● DFML position      — Wages      ● Wages/revenue ratio

Source: Deloitte, 2023, <https://bit.ly/3QXeyB4>.

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## Unit 1.6 Financial concepts in Juventus

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Finally, we finish this analysis with an examination of the fifth big football league in Europe and the highest earning Football Club within it: Juventus (Deloitte, 2023).

In the case of Juventus, we can see that the income follows a similar pattern in terms of the increase between the years 2018 and 2019, and a decrease between the years 2019 and 2020. However, in the year 2021, we can see that the income increases, but unlike what we saw in other clubs, it decreases again in the year 2022. This interesting up and down we notice suggests that there exists instability in terms of the development of the revenue generated, something that is interesting and inviting for further research.

So, once again, let us look into the different sources of income and how they contribute to the overall income of the club. We can see that matchday represents only 8% of the income generated in the club, while broadcasting represents 44% of it, and commercial represents 48%, suggesting that those final two sources of income,

broadcasting and commercial, clearly dominate in terms of the percentage of total income they represent.

Looking at the wages line in the middle, we can see almost a similar pattern exists in terms of the increase and decrease of that expense. While we notice a drop in the season 2020, we can see that, in the year 2021, the expense returned to the prior levels and was kept almost steady between the years 2021 and 2022.

If we combine this trend in this high expense, with the decrease that we just said in the overall income, we can see that the percentage or the ratio between wages and revenue in the club seems to have increased. Indeed, whilst the ratio between wages and revenue for the season 2021 is 78%, in 2022, it is 84%, suggesting that it will be safe to assume that the club did not have a profitable year.

Again, let us make the simple calculation: overall income minus overall expenses. While here we are presented with only one expense, we can see that it is so high, capturing more than four fifths ( $4/5$ ) of the overall income, thus suggesting that it would have been very difficult for profit to be achieved for that season.

### **Figure 5. Juventus' revenue**

# Revenue 2018-2022 (€m)



n/d Revenue generated by women's team

■ Matchday      ■ Broadcast      ■ Commercial      Source: Deloitte analysis.  
● DFML position      — Wages      ● Wages/revenue ratio  
Note: Wage costs for financial years ending in 2022, 2021 and 2020 in the club's annual financial statements are subject to a qualified opinion by the club's independent auditors.

Source: Deloitte, 2023, <https://bit.ly/3QXeyB4>.

What the above practical analysis allows us to see is that the basic concepts of income and expenses, and the fundamental aspects of profit and loss and how that can lead to debt, can clearly shape the modern reality in sport organisations. Whilst the aim of sport organisations is to always generate as much income as possible, to allow them to operate and ideally develop in the best possible way for their sport, in this section, we examined some of the highest earning clubs in the world, only to identify that it is not only about generating

income (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Cost control is a fundamental aspect of financial management in sport organisation, and it is one that is often overlooked.

To generate profit, we need appropriate financial management that controls both sides of that equation: the income and the expenses. If we succeed in it, then we can have profit, but if we fail, we have losses, which, over the years, through the accumulation of multiple losses, can lead to the creation of debt. The creation of debt is not by itself detrimental, however, if it is not managed appropriately, then it could prove detrimental for the financial health of a sport organisation.

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## Unit 1.7 Sport organisations' expenses

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While the above practical analysis allowed us to discuss the main income sources, the expenses of sport organisations were not adequately covered. In this section, we will therefore focus on it, to provide more detailed information on what expenses or costs sport organisations have.

The expenses of sports organisations represent the various financial outlays required to support their activities, maintain competitiveness, and deliver exceptional experiences to fans and participants (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). These expenses encompass a broad spectrum of categories and are a critical aspect of financial management for sports entities, whether they are professional teams, leagues, or amateur clubs.

One of the most substantial and well-known expenses in sports organisations is player salaries and contracts. In professional sports, top athletes and coaches often command hefty compensation packages. These agreements are pivotal for securing talent and maintaining a competitive edge on the field. However, managing

these costs can be challenging, especially when accounting for salary caps and financial constraints within leagues. Balancing the need for top talent with financial sustainability is a constant juggling act, as it also became evident through the above analysis of some of the clubs.

Operational expenses are another major cost category that was not covered before (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). This includes the day-to-day costs of running the organisation, such as salaries for administrative staff, marketing and promotional campaigns, travel expenses, equipment and facilities maintenance, and utilities. The upkeep of sporting venues is a significant expense, including stadium rentals, maintenance, security, and utilities. Proper facility management is crucial not only for providing a safe and enjoyable experience for fans, but also for attracting sponsors, who often demand high standards in venue quality.

Recently, the integration of technology and analytics has led to the emergence of new expenses related to data analysis, sports science, and cutting-edge technologies. Sports organisations increasingly invest in these areas to gain a competitive edge. While these investments can lead to improved player performance, injury prevention, and fan engagement, they require substantial financial commitments.

Sponsorships and marketing expenses also play a vital role in the overall health and particular financial health of a sport organisation

(Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Attracting and retaining sponsors and partners is essential for financial support and brand exposure. These agreements often come with financial obligations, and sports organisations must fulfil their side of the contract to maintain these valuable partnerships. Marketing campaigns, fan engagement initiatives, and merchandise development all require budget allocation to ensure the growth of the organisation and fan base.

Finally, unexpected expenses can arise from various factors, including legal issues, unforeseen events like natural disasters or public health crises, and compliance with league regulations. The COVID-19 pandemic, for example, disrupted the sports world, causing losses in ticket sales, broadcasting revenues, and additional expenses related to health and safety measures. Such unforeseen costs can have a significant impact on an organisation's financial health.

Effective financial management is critical for sports organisations to maintain financial stability and long-term sustainability, by controlling these expenses and ensuring that profit is generated when they are deducted from the overall income. As such, losses and the creation of debt can be avoided.

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## Unit 1.8 Summary

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In this first module, we captured the financial concepts that represent the foundations of financial management in organisations. Having examined the concepts in theory, we then examined them in practice through the revenue and the main expense of football clubs. Additional attention was also paid in the module to examining other expenses of sport organisations.

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