

# Module 2. Economies of Scale – Group Ownership in Sport

## Introduction

This course will focus on the numerous innovative financial approaches that are now occurring in the world of sport. In this section, we will focus on group ownership in sport and associated economies of scale. The first section will highlight what economies of scale are, and it will outline the concept of group ownership in sport.

We will then combine the two concepts and discuss how group ownership in sport can benefit from the impacts of economies of scale. For example, we will analyse what the organisations that enter into this practice are trying to achieve and whether they can be successful or not in this environment. To give some real-world examples of this model in practice, we will present some case studies.

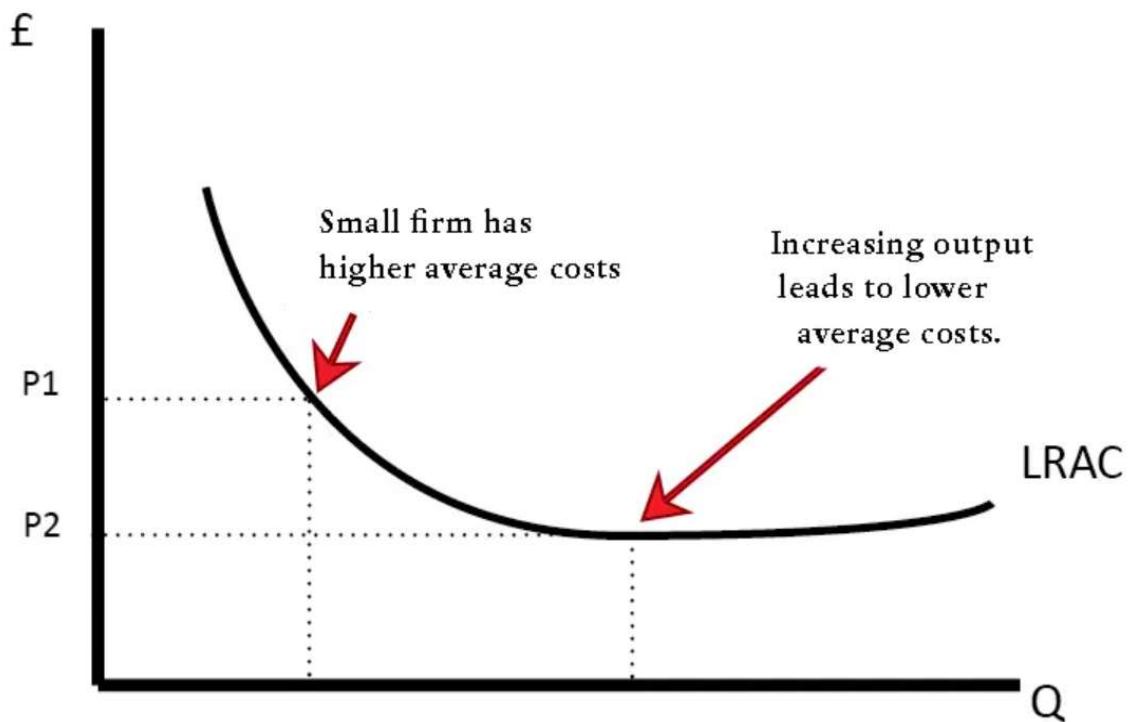
As we bring this reading to a close, we will critically debate both the benefits and the drawbacks of this approach. These are not always solely financial before summarising the reading. Firstly, however, what do we mean by economies of scale?

## Economies of Scale

The concept of economies of scale is one of the most well-known economic concepts and is regularly referenced within studies of business, economics, and the organisations that operate within various sectors. Economies of scale occur “if the firm achieves unit cost savings as it increases the production of a given good or service” (Besanko *et al.*, 2010, p. 43). This is demonstrated by the graph shown in the figure below.



Figure 1. Economies of Scale Example



Source: Pettinger, 2019, <https://bit.ly/3LN0FTN>.

As the graph shows, there is a certain point at which this becomes counterproductive. Diseconomies of scale exist when the marginal cost of the last produced unit is actually higher than the previous average cost (Besanko *et al.*, 2010). This goes without saying that, when this point is reached, we need to stop production as we will end up losing money, which is not the best move for any organisation concerned with increasing profits.

Economies of scale—perhaps not surprisingly—exist within the business of sport as well. Wicker *et al.* (2014) suggest that economies of scale have been seen in both sports manufacturing and sports events. How this concept relates to group ownership in sport will be tackled in the following subsections. However, before we get ahead of ourselves, first, we need to give some consideration to the concept of group ownership in sport.

### Group Ownership in Sport

Group ownership in sport—sometimes known as multi-club ownership—is the practice of owning two or more sports clubs at any one time. This can be in the same sport or across multiple sports, and it can be owned by one individual or a larger group of investors. It is now becoming increasingly attractive in modern sport, and investors are attracted by its potential in solving a range of issues that single club ownership previously gave them while opening up new possibilities for further innovation, and profit, in the area.



There are multiple examples of this type of arrangement all over the sporting world; however, they are usually focused around the largest sports markets, the United States, and Europe. Menary (2021) highlights that, while it is not confined to just one area, you are more likely to support a club that is part of a multi-club ownership model if you support a team from England's Premier League. If you are a supporter of Manchester City, you are following a team that is part of a huge network of teams funded by the UAE royal family.

But, of course, Manchester City are not the only ones; the owner of Arsenal, Stan Kroenke has also stakes in Major League Soccer club Colorado Rapids and further US sports franchises, holding controlling interests in American Football, Ice Hockey, Lacrosse, and eSports. Even relegated Watford are part of a multi-club organisation, perhaps showing that this model is not a passport to success, being owned by the Pozzo family, which also controls Italian side, Udinese.

The next question is really the following: why do they operate in this fashion? One reason, of course, is the subject of this reading, benefiting from the economies of scale that are on offer. We will go into more detail in the following subsection, but, essentially, clubs that operate in this fashion are hoping to share finances, expertise, and even players across their group. We might also hope, as group owners, that we can attract further investment as a result of operating in a multi-sport group and that fans of one club become fans of another, if they are attached to the same ownership structure.

There are some benefits of operating in this fashion, and, if these benefits are obtainable, then the organisation and its clubs can enjoy a competitive advantage over their rivals, which are not solely related to finance. The advantage may relate solely to on match advantage, which—as we know—is important for any sporting club. While these benefits are not related to economies of scale directly, they all need to be paid for, and this is when these organisations can benefit the most.

In this subsection, we have shown where these organisations operate, and we have outlined their motivations for doing so. Now that we have covered both group ownership in sport and previously economies of scale, we are going to put the two together to outline the economies of scale of group ownership in sport.

### **Economies of Scale – Group Ownership in Sport**

The economies of scale that can be achieved in sport by entering into group ownership are numerous, and they can provide significant benefits to the organisations that engage with them; some of these are based on the typical economies of scale that we might observe in business, but some others are more specific to the world of sport.



## Sponsorship

Arguably, the main benefit of group ownership in sport is the sharing of resources. The obvious resource sharing that we are likely to think about is finance and financial support. For example, commercial deals can be set up that cover the entire group rather than one individual team. The benefit for the group is that sponsorship and other commercial deals can be centrally sourced, and they require less time and staff involvement to confirm. An example is shown in the figure below; Melbourne City FC, which are part of the CFG football group, have the same Etihad shirt sponsor as Manchester City and other members of the group. It is, perhaps, unlikely that these clubs would be of interest to Etihad were they not part of the group.

This is not to say that the singular clubs operating in other areas of the world cannot attract local sponsors to contribute to their sponsorship income. What this does allow them to do, however, is to combine their local sponsorship income with the ownership groups sponsorship to become more financially sustainable and allow them to invest more than their rivals.

**Figure 2. Melbourne City FC**



Source: Comito, 2019, <https://bit.ly/3Vki4kZ>.

## Equipment Purchase

There is also the benefit of organising and purchasing kit for the club group. This lends itself more to the traditional concept of economies of scale; clubs are able to purchase a

kit and other items of team clothing from the same supplier, and, therefore, they benefit from a lower rate per unit than if they had sourced these individually. In most cases, the designs for the kits and other merchandise will follow the same template, further reducing design and production costs.

These costs might not matter so much for the group organisations as they would have no issue with funding them. However, as fans will purchase replica goods, it makes more financial sense to make the production cost as small as possible, to maximise the rate of return on goods sold. This type of revenue is important, even if it is not the main revenue stream for a modern-day sporting organisation.

Furthermore, there is distribution to consider. Multi-club organisations can, again, benefit in this regard; with all the kit and merchandise produced by one company, usually in the same location, they can make use of shorter and less complicated distribution channels. The beneficial impact for both is that they can reduce cost, and, therefore, they can increase margins, which is something a club purchasing a smaller amount of merchandise would be unable to do.

## **Marketing**

The way they sell and market these goods can also benefit from economies of scale. Marketing is very important to get right in this extremely competitive field. We must remember that, while it is thought that sports fans, and football fans in particular, are extremely loyal, this only applies to a portion of them. Others can be extremely fickle and move from team to team depending on the results, location or, indeed, fashion. As such, even when operating in the sports field, we need to behave in a more 'normal' business-like manner. When we are operating in a group ownership structure, we can share marketing strategy and funding, much like we have discussed in line with sponsorship. By doing this, we will be able to reduce costs, but also share best practice; we can see what works and what does not, and make suitable changes so that we can receive the best outcomes. This does not mean that this will be easy to do and success is guaranteed. Outlining and then implementing marketing plans in a global organisation can be tricky; for example, one region and its inhabitants will often respond differently to the same marketing plan despite the same good being offered.

## **Knowledge and Development**

A trickier aspect to quantify is knowledge and development. So, while it might not be straightforward, what we can benefit from in this group environment is the learning and knowledge resources, and the different elements and environment that the businesses come up against and operate in. There is no one sector of the group organisation where this would not be a valuable outcome of group ownership. It might be from the marketing,



advertisement, distribution, and other business-related tasks the like of which we have already covered. As Schoenfeld (2022) notes, it can be hard for less glamorous teams to attract high-quality business managers to run the organisations; however, due to the link-up with a multi-club group, this can be overcome with the clubs reaping the rewards.

It can also give the group a competitive advantage in sport-related tasks, including player data analysis, recruitment, and coaching. For all of these areas, information on best practice can be shared throughout the multi-club organisation. If players at one club are performing well in a certain area of the pitch, then this could be copied to others. Similarly, if certain training methods are proving successful in terms of results or player satisfaction, then these could also be shared with the other clubs in the partnership. This saves money, time, and staffing that would have to go into finding all of this information out in the traditional way, scouting or research, and development, rather than just having it available immediately. This is not the only saving that they could make; a major element of this could be the process of transferring players between clubs.

## **Transfers**

Transferring players has always been an expensive business, with top players moving for eye-watering sums; recently, some players are going for well over one hundred million euros. With this level of investment, the pressure is on; some organisations may have a lot of money, but they cannot afford to write that level of investment off.

Therefore, any method that could make this process smoother has understandably been welcomed by multi-club organisations. Consider that you, as a club based in Europe, have become aware of a talented player based in South America. You complete the purchase for \$10 million and the player joins. However, due to the change in the playing environment, coaching, and lifestyle, the player struggles to make an impact, and you sell him a few seasons later, for less than you paid for him. Not only have you lost some money on the initial transfer, but also his wages have been paid by you for that period. However rich we are, we cannot afford to be doing the same thing lots of times.

In cases like this, a multi-club organisation can come in and make it less risky, and it can spread the cost and future development costs over many teams. Instead of moving directly to Europe, the player joins a more familiar North American environment, usually for a lower transfer fee. If they then develop, they can move to other clubs in the network; but, if they do not make the grade, the cost of this is reduced.

However, this could have consequences for the industry. Multi-club organisations are often accused of hoarding talent, and therefore depriving players of reaching their potential and other clubs in the industry of competing. A comment by Antonia Hagemann, Chief Executive Officer of Supporters Direct Europe, highlights the following:



It could also be the end of transfers as we know it, as there could only be transfers between clubs. As a player, you can start off with a feeder club and move up to a parent club, but this promotes inequality and poisons the competitiveness of the market. If you have this group of clubs that trade between themselves and shift players back and forth, it is cheaper and puts them at a competitive advantage. (as cited in, Menary, 2021, para. 18).

By using the network to share data, experiences, and coaching, there is a higher potential of a player making the 'grade' at one of the top clubs in the group. They can also benefit—as we have discussed before—from reducing the cost and time spent on player development, which works as further evidence of group ownership benefitting from economies of scale in sport.

There are, of course, benefits of operating in this fashion; for example, organisations can benefit from economies of scale, which can give them a competitive advantage over others in the industry. We have already discussed these benefits previously, but we will outline some further benefits—some that are not entirely related to finance and economies of scale—in the following subsection.

## **Benefits**

In this subsection, we will talk about the benefits of group ownership, for the group owners themselves, the clubs that become owned, and the fans. We have already covered the main benefits that we are likely to benefit from in terms of economies of scale, but there are other benefits that need to be considered for a club to go down this route. While the focus of this work is the financial side of the operation, other aspects will also act upon it.

## **Group Ownership**

One of the other benefits of the group ownership model is the joining together of teams. This could lead to further economies of scale, but its main attraction is the ability to have power in the market. The football market—as we have already mentioned—is extremely competitive, with clubs jostling for position. One of the main external influences on these

clubs—whether they are domestically or internationally influenced—are the competition organisers.

By operating within a multi-club model, it strengthens the multi-clubs against competitors and competition organisers. Imagine if an organisation with eight sides in one region did not approve of a move by the governing body of that region; they would be a powerful body in which to outline their issue. They could also use each of the member clubs to compete with other clubs for signings, youth prospects, coaching staff, and pitch time; as a consequence, they would be potentially weakening rivals.

## **Clubs**

Individual clubs can also benefit from this model. They can reap the rewards of being part of a multi-club organisation, as they have better access to players, coaches, and facilities, as these can be shared among clubs in the model. But not only that: they can also benefit from investment, which might not have previously been coming. The facilities, such as the training ground and main stadium, can be improved by the ownership group, something that the clubs brought into the model could not have previously done. This, of course, can bring in further revenue in terms of ticket sales.

For example, the clubs in the CFG group can feel relatively secure, as, at present, it appears that the ownership group are financially viable. Some of the less glamorous teams might have struggled to compete at the top level of their leagues without this level of investment. By having this investment, they can remain competitive in their leagues and enjoy those benefits on a domestic level.

## **Fans**

Fans are, perhaps, the most important thing to consider here; it might appear that money is the main objective, but, if the fans are not on board, it will not matter much. It might also appear that fans are set against multi-club ownership, which does not have to be true. While some might be concerned with the new direction, others have been seen to welcome it.

As we have said above, the benefits for the club can also then be benefits for the fans, who will be able to watch the matches in new facilities. These games might be played by better players and cause results to turn in a more positive fashion, and fans will always enjoy seeing their team win. The takeover in ownership has also seen teams being rescued from going out of business; while fans might have been hopeful of their club not needing the help, the prospect of throwing away everything the club has done over many years is surely the worse of the two options. However, as we know, where there are benefits, there are also drawbacks.

## Drawbacks

In this subsection, we will talk about the benefits of group ownership, for the group owners themselves, the clubs that become owned, and the fans. As you can probably imagine, these models and their creation are not easy, and they often come in for criticism, which is something to consider if you wish to use this model.

### Group Ownership and Competition Organisation

The first concern is around the group ownership itself. There are concerns that it can cause harm to the sports ecosystem and give what some deem an unfair advantage to these multi-club organisations. The first concern arises from the transfers and accusations of hoarding players and coaching staff, while the teams themselves might not be concerned, as they are usually in the business of win maximisation. The competition organisers are concerned and want to curb this behaviour, as they are beginning to note that this practice is making local and international competitions uncompetitive. As a result, competitions, including the English Premier League, have brought in rules limiting the number of players that can be loaned out and financial fair play, hoping that this will reduce the problem of player hoarding.

A further issue revolves around how governing bodies regulate multi-club organisations. This issue does not occur for everyone; for example, FSG currently do not own or have a stake in any other football clubs, and, therefore, Liverpool do not meet any organisations that are under the same umbrella. For others, this becomes much more complicated, as they have several clubs in the same region, competing in the same competitions.

This presents a particular problem for the governing bodies: namely, UEFA and FIFA, and what happens when these teams meet. So far, these occurrences have been few and far between, helped in no small part by existing rules outlawing ownership of two or more clubs operating in the same domestic competition. For example, Claudio Lotito owned a controlling interest in two Italian sides, Lazio and Salernitana. Following Salernitana's promotion to Serie A, Lotito was forced to sell his stake in the club by the Italian FA (Menary, 2021). The impact on the clubs themselves will be covered in the following subsection. And it is not just regulation around competitions that these bodies need to begin considering.

One of the benefits of the multi-club ownership model is that players can move between organisations with relative ease. However, this can cause further problems for other clubs who might not be part of this type of model. Accusations of hoarding talent and simply moving it around different feeder clubs, depriving others of signing these players, is one that is often levelled at clubs in this practice.

## Clubs

It can also put the clubs in compromising positions. By competing in the same area, and both doing well in their leagues, it was perhaps inevitable that Red Bull Salzburg and Red Bull Leipzig would meet in competition. The first meeting occurred in 2018, as they were both drawn in the same Europa League competition. It should be noted that UEFA deemed the club's separate entities, and, therefore, they could both be allowed to enter European competitions.

**Figure 3. Red Bull Leipzig vs. Red Bull Salzburg**



Source: BBC, 2018, <https://bit.ly/3HxnZ5m>.

There is no suggestion of any wrongdoing by either Red Bull club or UEFA, but the negative publicity and conjecture surrounding competitive unfairness were something that all three organisations could have done without. We have focused on Red Bull and their sporting network earlier in this piece; you might wish to reread this area, having learnt about some of the positives and drawbacks.

We have also previously focused on the City Football Group, and we will now talk about the possible issues facing one of their clubs, New York City FC, in particular. The club were founded in 2013, not as a separate club before being taken over by CFG, but as a new club with CFG as owners. NYCFC have always been closely linked with Manchester City, in a little brother sort of way, and players have moved in both directions to strengthen each club. However, the movement of players appears to be slowing, with Manchester City having not sent a player to NYCFC for many years. Ruthven (2023) suggests that the reason might be linked to the expansion of the group to include Girona FC in Spain, an arguably

more favourable place for players to go given the weather, distance, and strength of football on offer.

But where does this leave NYCFC and their chances in an increasingly competitive league structure? Ruthven (2023) outlines that they have lost a vast majority of the players that won them the MLS title in 2021, with only three players remaining, leaving their upcoming season one of fighting to remain off the bottom rather than competing for trophies. While a new stadium is in the works, this does show the issue with these types of arrangements; if you are not the top club in the relationship, or have been founded specifically for the purpose of group development, then you lack control over what happens next. This makes it extremely difficult to plan and build a sustainable results-based club, as the players, funding, and technical information sharing might be gone in an instant.

## Fans

We might also want to consider the fans in all of this. The fans are the ones that are often forgotten in these scenarios, and, even if they are, it can often be as an afterthought. We only have to look at the plans that have been put in place regarding TV rights, ticket cost, and new competition structures around the world to see how true this is.

This is also true for the concept of group ownership. The fans of teams that enter into group ownership are often never consulted on whether they wish to enter into the partnership. How fans react to these new ownership structures is still unclear; however, one example might paint a less than positive picture.

Austria Salzburg played in the top flight of the Austrian league system, but, after some years of less than impressive league performances, they were taken over by local drink company, Red Bull. The plan for Red Bull was to start with Salzburg and begin a group ownership scheme. Initially, it seemed like the perfect match, as the fans were not immediately dismissive of the plan; however, the relationship soon soured over the colours of kit and recognition of the club's history (Storey, 2022).

The fans of the club decided that the only way to get their voice and frustration with the process that their club was going through was to begin again. They founded a completely new team, which they named Austria Salzburg in honour of the previous organisation. Even though the team began at the bottom of the Austrian pyramid, they were very popular, and their crowds dwarfed many other sides in the country. However, as the club transitioned into professional football, it began to struggle and the journey became harder; not that the fans seemed to mind, preferring to focus on stability rather than on the riches that Red Bull had brought their old team (Storey, 2022).

In a similar situation, Melbourne Heart were taken over by CFG in 2014; CFG immediately rebranded as Melbourne City and decked out in the familiar light blue strip of Manchester



City. Given that the original Melbourne club played in red and white strips, it was perhaps not surprising that this change was made, but it was still a tough pill to swallow for the fans. Their response was less dramatic than the Salzburg fans, and they did continue to support the club, nevertheless, while wearing the Heart colours. CFG also made more of an effort than Red Bull, with the original colours appearing in numerous kits and merchandise, helping in a small way to make sure fans remained on side.

What these examples show all too clearly is that fans are often only considered as an afterthought. Of course, this might not be of huge concern to those operating these organisations, as finance coming from ticket sales is of less importance in the modern football ecosystem. However, as a reputational tool, the discarding of fans might leave a sour taste in the mouth of fans of the impacted organisation. As Antonia Hagemann, Chief Executive Officer of Supporters Direct Europe, again states :“It creates different tiers of clubs: the parent and a feeder club. If you are a fan of a parent club, then you are lucky, but not if you are a fan of a feeder club” (as cited in Menary, 2021, para. 17).

We will now focus on some case studies that will hopefully enhance this topic by showing how this occurs in the modern sporting world, and some of the motivations behind operating in this fashion.

## **Case Studies**

To highlight some of the ways in which these methods are used in the real sporting world, we will be outlining some case studies from the City Football Group, Fenway Sports Group, and Red Bull Group.

### **City Football Group**

As we have already outlined, City Football Group have a controlling interest in a number of clubs, all over the world. These include—and started with—perennial English Premier League champions, Manchester City, but their reach covers far and wide, and it is truly global.

## **Figure 4. Map of City Football Group**



Source: Sky Sports, 2021, <https://bit.ly/3HzdAWC>.

CFG have used their structure to make use of player development and purchase opportunities that we have discussed in the previous sections. Here is some discussion regarding this type of movement:

Some of those have come from other CFG clubs - we've had several from Man City on loan, Daniel Arzani is on loan now who previously played for Melbourne, our starting goalkeeper previously played for Montevideo City - so the fact we're having much more of an international squad and more CFG loan players is pretty different. (Bajkowski, 2021, para. 7).

What is the aim of CFG in owning these clubs? There is a background to the club ownership that the UAE-based owners are trying to reposition themselves in a new world order. By diversifying from other industries into one of sport, the country and the region can move away from the traditional oil industries as supplies run out.

But there is something simpler about their approach; as we have already seen in the discussion about transfers, it is about making sure that talent can be secured from all corners of the globe. As well as clubs all over the world, they also have scouting centres linked to these clubs. The benefit here is that players could be moved and signed to the best environments for their development. In this way, it is hoped that the player can



develop into their potential and either become a key player for one of the teams higher up in the organisation, or realise their value in the transfer market (Schoenfeld, 2022).

### Fenway Sports Group

Fenway Sports Group is an US-based sporting conglomerate which owns English Premier League side Liverpool FC, Major League Baseball team, Boston Red Sox, and the recently acquired National Hockey League side, Pittsburgh Penguins.

**Figure 5. Fenway Sports Group Teams: Liverpool Football Club**



Source: [online image of Fenway Sports Group Teams: Liverpool Football Club], (n. d.), <https://bit.ly/3LOaRev>.

**Figure 6. Fenway Sports Group Teams: Boston Red Sox**



Source: [online image of Fenway Sports Group Teams: Boston Red Sox], (n. d.), <https://bit.ly/3HwfYgS>.

**Figure 7. Fenway Sports Group Teams: Pittsburgh Penguins**



Source: [online image of Fenway Sports Group Teams: Pittsburgh Penguins], (n. d.), <https://bit.ly/3Nv7ZV4>.

FSG were set up as part of the successful bid for the Boston Red Sox, the sale of which was completed in 2002. The tenure of FSG has been relatively prosperous for the Red Sox, and it has included four MLB titles since the takeover, having previously not won one since 1919. They are trying to repeat the trick with another American major league team, this time in ice hockey, and their recent acquiring of the Pittsburgh Penguins.

FSG came to the wider public attention in Europe when they purchased a controlling stake in English Premier League side, Liverpool. Enjoying similar success to their ownership of the Red Sox, Liverpool have won the Champions League and the Premier League during FSG's ownership. FSG's motivation for adopting a multi-club approach is different from CFG, and it is solely focused on profit. For each of the organisations purchased, the owners behind FSG viewed their acquisitions as being undervalued in the modern world of sport. They have set about developing the organisations and associated facilities to make them more attractive to potential investors, and to increase their value.

Unlike CFG, FSG operate their multi-club model across a range of sports, allowing them to benefit from economies of scale across multiple sports and fans. Fans of one organisation under their ownership may buy merchandise of another, plus sales and marketing techniques could also be shared across the group. There are, of course, other benefits, including sharing knowledge for better performance on the field, or on the rink in this case. All of these will aid in their aim of increasing value of the organisations individually and the group as a whole.

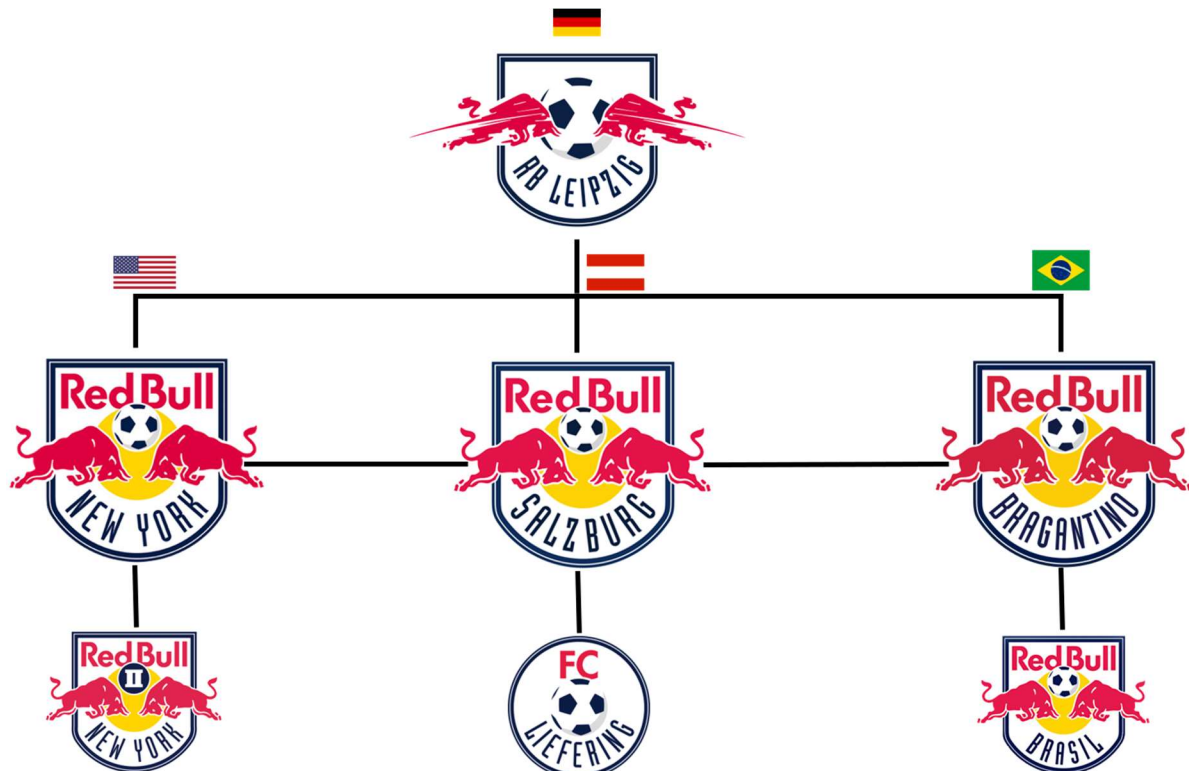
## **Red Bull Group**

For our final case study, we will focus on the Red Bull group. The Red Bull group is funded by the sports energy drink corporation of the same name. The group operates across various sports, including football and Formula 1 racing, but it also hosts events such as cliff diving and soap box racing.

Whereas CFG and FSG are operating for reasons of nation state diversification and profit respectively, Red Bull are doing something different. Their main profit comes from their energy drink empire, and they use their sporting interests as a marketing tool to further drive funds towards that business. The focus of this particular study will be their footballing arm. The below figure shows the clubs that are now part of their football program, which has developed over the last few decades.



Figure 8. Red Bull Group Teams



Source: Montoto, 2020, <https://bit.ly/3LNyzaG>.

In much the same way as FSG, Red Bull are trying to increase value, not primarily of their clubs but of their staff. They are using their club network as a way of nurturing talent so that their group can be a 'one-stop shop'. While benefiting from the economies of scale others do, they are one of the original designers of creating value from the field.

It is perhaps fair to say that they were not the first; other clubs had formal and informal relationships with each other to train and play younger players with the aim of giving them game time; some examples are Manchester United and Antwerp, or Dinamo Zagreb and Lokomotiva Zagreb. However, Red Bull took it to another level, a structure which has now been copied by Manchester City and CFG.

As we can see from the figure, Red Bull have now teams all over the world, and they have managed to create an almost continuous path for footballers from their early career to their retirement. A player can start in one of their reserve teams before moving to up the system, before eventually reaching the main club, Red Bull Leipzig. They can, then, as they approach the end of their careers, move back down the ladder.

This, of course, has the advantage—as noted for CFG—that players and coaches can benefit from best practice, with the overall organisation saving money in the hunt for new training methods, which also reduces the need to spend on transfers.



## Summary

In this section, we have covered a range of topics, beginning with economies of scale and group ownership in sport, before combining these factors and outlining why they are important for multi-club organisations. We have then added in further benefits and drawbacks of this approach, before outlining how and why it is used in the sporting world by providing case study examples.

There are some who view this model as unfair, and they even consider it is ruining the sports industry, as it allows powerful organisations to become even more powerful, limiting the chances for smaller or newer organisations to break through. Yes, it provides the organisation running a multi-club operation with a competitive advantage, but is not it that the way business operates? Always seeking the next possible advantage in their quest to be at the top?

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