The German Bundesliga Clubs and Their Future

An Outlook on the Robustness of the Clubs in Times of Covid-19

Leipzig, May 14th, 2020
The research is led by Prof. Dr. Henning Zülch, Philipp Ottenstein and Ewald Manz as practical partner

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Team Introduction

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## Agenda

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The outbreak of Covid-19 in Germany reveals several challenges for the Bundesliga clubs

**Covid-19 and the Bundesliga**

December 2019: Outbreak of Covid-19 in Wuhan

January 27th: First case of Covid-19 in Germany

March 8th: Last regular matchday of German Bundesliga

March 13th: Decision on Bundesliga break

April 15th: Prohibition of larger events until August 31st German government

April 23rd: DFL publication of ghost game concept starting May 9th

January 14th: Mr. Seifert claims collective action for youth development during annual kickoff

March 11th: First ghost game in the 1. Bundesliga

March 31st: DFL web conference – 13 out of 36 clubs are acutely threatened by insolvency

April 17th: Agreement with broadcasters on the payment of the 4th broadcasting rate

May 16th: The Bundesliga is expected to restart in the form of ghost games
The study follows a top-down approach considering both the overall market and the single club perspective

<table>
<thead>
<tr>
<th>Objective</th>
<th>Why?</th>
<th>What?</th>
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<tbody>
<tr>
<td>Understanding the business model Bundesliga and the relevant success factors</td>
<td>Covid-19 hits German Bundesliga during booming</td>
<td>Market analysis and international benchmarking against other leagues (Premier League, La Liga, Ligue 1, Serie A)</td>
<td>Report of the leagues e.g. “DFL Wirtschaftsreport”</td>
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<table>
<thead>
<tr>
<th>Approach</th>
<th>Market Understanding</th>
<th>Financial Analysis</th>
<th>Multi-dimensional Analysis</th>
<th>Evaluation</th>
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<tbody>
<tr>
<td>Understanding the financial situation of the clubs as a result of the Covid-19 short-term effects</td>
<td>Understanding the financial situation of the clubs as a result of the Covid-19 short-term effects</td>
<td>Understanding the holistic long-term viability of clubs going beyond financial figures</td>
<td>Comparing the multi-dimensional performance of the clubs</td>
<td>Developing guidelines for overcoming challenges</td>
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<tr>
<td>Game break impacts liquidity and solvency</td>
<td>Short-term financing is ensured by broadcasters</td>
<td>Analysis of the clubs regarding three additional dimensions: sporting success, player-talents development and management quality</td>
<td>Identification of differences and trends</td>
<td>Ensuring future success and increasing crises resilience</td>
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<tr>
<td>Financial analysis of the clubs with respect to liquidity, solvency, investment management and operational management and profitability</td>
<td>Scorecard development based on relative importance of dimensions to create a unified ranking</td>
<td>Web-based research, external studies and rankings, interviews with clubs</td>
<td>Understanding pain points and comparing the strengths and weaknesses of clubs with potential challenges</td>
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<tr>
<td>Understanding the holistic long-term viability of clubs going beyond financial figures</td>
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Introduction and Motivation
To overcome the crisis and ensure sustainable business performance, different measures should be adopted.

**Short-Term***
- Cost-cutting
- Enable access for investors
- Facilitate data access
- Analyze internal processes & competencies

**Mid-Term***
- Diversify revenue streams
- Analyze board structures
- Professionalize financial reporting
- Reassess performance of player-talents development

**Long-Term***
- Strengthen equity position
- Professionalize player-talents development
- Enable transition to professional squad

*Short term: <1 year; Mid-term: 1-3 years; Long-term: >3 years*
Several recommendations will enable the clubs to improve their financial situation

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1. Cost-cutting</td>
<td>Improve profitability &amp; liquidity</td>
<td>Analyze cost structure &amp; employ opportunities</td>
<td>Short-term</td>
</tr>
<tr>
<td>2. Strengthen equity position</td>
<td>Improve stability</td>
<td>Retain share of broadcasting revenue</td>
<td>Long-term</td>
</tr>
<tr>
<td>3. Enable access for investors</td>
<td>Improve liquidity &amp; stability</td>
<td>Change legal form to corporation</td>
<td>Short-term</td>
</tr>
<tr>
<td>4. Diversify revenue streams</td>
<td>Weaken dependencies &amp; improve profitability</td>
<td>Create new business models (e.g. e-sports)</td>
<td>Mid-term</td>
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</table>
Several recommendations will enable the clubs to improve their management quality

## Recommendations – Management Quality

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<thead>
<tr>
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<tbody>
<tr>
<td>Analyze board structures</td>
<td>Improve supervisory board quality</td>
<td>Strive for independent board members</td>
<td>Mid-term</td>
</tr>
<tr>
<td>Professionalize financial reporting</td>
<td>Attract investors</td>
<td>Establish investor relations department</td>
<td>Mid-term</td>
</tr>
<tr>
<td>Facilitate data access</td>
<td>Improve transparency</td>
<td>Publish current data &amp; reports online</td>
<td>Mid-term</td>
</tr>
<tr>
<td>Analyze internal processes and competencies</td>
<td>Improve internal communication processes</td>
<td>Check best practices, also from other industries</td>
<td>Mid-term</td>
</tr>
</tbody>
</table>
Several recommendations will enable the clubs to improve their player-talents development

Recommendations – Player-Talents Development

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Professionalize player-talents development</td>
<td>Increase pro production</td>
<td>Allocate more budget to youth department</td>
<td>Long-term</td>
</tr>
<tr>
<td>Enable transition to professional squad</td>
<td>Improve internal transformation rate</td>
<td>Integrate promising youth players earlier</td>
<td>Long-term</td>
</tr>
<tr>
<td>Reassess performance of player-talents development</td>
<td>Improve controlling concerning target markets</td>
<td>Incorporate pro production rate</td>
<td>Mid-term</td>
</tr>
</tbody>
</table>

1. Professionalize player-talents development
2. Enable transition to professional squad
3. Reassess performance of player-talents development

Recommendation 1: Professionalize player-talents development

- Increase pro production
- Allocate more budget to youth department
- Long-term

Recommendation 2: Enable transition to professional squad

- Improve internal transformation rate
- Integrate promising youth players earlier
- Long-term

Recommendation 3: Reassess performance of player-talents development

- Improve controlling concerning target markets
- Incorporate pro production rate
- Mid-term
The actions recommended for the previous dimensions will also impact future sporting success.

As sporting success is hardly predictable, realizing the previous recommendations is expected to pay off in terms of sporting success in the long run.
In order to be viable in the future, it is strongly recommended to install a DFL-Taskforce when considering the analysis’ findings.

Answers to Research Question

1. Besides the five flagged clubs, another seven clubs perform mediocre regarding the four analysis dimensions.

2. The high revenue dependence on match operation indicates insufficient management professionalization.

3. The lack of data transparency reveals deficits in financial communication.

4. The significant differences in management quality imply a lack of overall Bundesliga governance standards.

The findings of this study strongly support the idea of installing a DFL-Taskforce to develop respective incentives.

How robust are the German Bundesliga clubs in times of Covid-19?
The guiding principles of the DFL-Taskforce should be based on strong leadership pillars

Leipzig Leadership Model - Application for German Football

It is time to bring football back to its base!

To do that, football clubs should learn ...

... to know their **purpose** and direct all their actions towards it,
... to be **effective** in terms of strategic action,
... to be innovative in the sense of **entrepreneurial** action and
... to be **responsible** in a holistic sense.

The Bundesliga clubs have to establish professional financial communication and ensure credibility as well as transparency.

Disclaimer

The data represented in this study was collected and analyzed in the best knowledge and belief. However, the data and especially recommendations are to be understood without prejudice to not available or reliable data.

As aforementioned the transparency of financial as well as organizational data was limited, however, every club was asked to participate in this study and provide up-to-date data. Therefore, transparency and credibility of data disclosure can be identified as one major deficit of German Bundesliga clubs.

Due to the Bundesliga clubs’ role as protagonists in German business reality, solving this deficit should be considered as major imperative. The hereby generated transparency and credibility should be comparable to the one implemented on capital markets.

Quote Translation: There is a lack of credibility and transparency.
Considering its revenue diversification and personnel expenses, the German Bundesliga is the most stable European league

Market Analysis Before Covid-19

- Compared to the European top leagues, Bundesliga displays best diversified revenue profile

- Compared to the European top leagues, Bundesliga displays lowest personnel expense ratio to revenue

German Bundesliga displays the **most diversified revenue profile** and **lowest ratio of personnel expenses** to revenue
The development of revenues and transfer activities indicates a strong growth of the Bundesliga during the last decade.

**Market Analysis Before Covid-19**

**Revenue & Expenditure**

- Continuously growing revenues with a CAGR of 8.9%
- Proportional growth of expenses

**Transfer Cashflow**

- Steep increasing transfer cashflows
- Several years with deficits in transfer balance

Even though transfer market might be overheated, the overarching circumstances in a booming market should have enabled Bundesliga clubs to successfully drive business.
Have the Bundesliga clubs been leveraging the booming market in order to stabilize their financial situation?
A Kicker article raised several questions that provided the impetus for the analysis of the Bundesliga clubs.

Key Questions

- Which clubs are affected?
- Why are these clubs at risk?
- What are the implications?

”13 der 36 Profivereine droht wegen der Corona-Pandemie die Insolvenz noch in dieser Saison"

03.04.2020

Quote Translation: 13 of 36 clubs face bankruptcy this season due to the corona pandemic.
Compared to the Kicker statement, this analysis shows that five 1. and 2. Bundesliga clubs face financial distress.

### Financial Analysis

**Research Method**

- Analysis of ratios in the following categories
  - Liquidity
  - Solvency
  - Investment Management
  - Profitability & Operating Management

**Flagged Clubs**

- **1. Bundesliga**
  - FC Schalke 04
  - 1. FC Union Berlin
  - SC Paderborn 07
- **2. Bundesliga**
  - VfL Osnabrück
  - Karlsruher SC

**Limitations**

- Conservative interpretation of the respective ratios
- Restricted financial transparency of 1. and 2. Bundesliga clubs
- Dark figure significantly higher due to restricted financial transparency

Five clubs of the 1. and 2. Bundesliga are financially unstable. The dark figure might be significantly higher due to missing financial transparency of clubs.
The deal with broadcasters ensures the short-term survival of German Bundesliga clubs

Broadcasting Deal

Germany’s Bundesliga could be the first major football league back playing amid the coronavirus pandemic

24.04.2020

Rettungsgeld von Sky: 230 Millionen Euro sollen Bundesligaclubs das Überleben sichern

21.04.2020

Takeaways

Broadcasters will ensure short-term liquidity

Financial view is not enough to evaluate the clubs’ business forecasts

A holistic approach is necessary to assess the clubs’ future viability

20

Quote Translation: Rescue money from Sky: 230 million euros should ensure the survival of Bundesliga clubs
The final ranking is based on four dimensions namely sporting success, financial situation, management quality and player-talents development.

### Methodology

- **Data limitation:**
  - **Data availability:**
    - Due to the different legal forms, disclosure is heterogeneous across clubs.
  - **Data reliability:**
    - The usage of external studies reveals the risk methodological errors or biased results.
  - **Punctuality:**
    - Different fiscal years, external study origins and the timeliness of data might result in deviations.

- **Process limitation:**
  - **Relative ranking and corresponding baseline:**
    - For the ranking on different dimensions, a relative approach was used.
    - While the best club received the score of 36, all clubs that did not publish any data, received one point less than the worst club that published data.
    - The reasoning is that transparency of clubs is already accounted for in management quality.

- **Insights from financial analysis:**
  - As the financial position is highly affected by liquidity and solvency, flags for those two dimensions are introduced.
  - Flags did not impact the score itself, but rather the future financial stability.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Elements</th>
<th>Reasoning for importance</th>
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<tbody>
<tr>
<td><strong>Sporting Success</strong></td>
<td>Recent Success, Market Value, National Players, Trainer Team</td>
<td>Key performance indicator, Impact on public visibility and thus revenues, Core business of soccer clubs</td>
</tr>
<tr>
<td><strong>Financial Situation</strong></td>
<td>Liquidity, Solvency, Investment Management, Profitability and Operating Management</td>
<td>Base for all other dimensions, Highly affected by Covid-19, Premise for future club success</td>
</tr>
<tr>
<td><strong>Player-Talents Development</strong></td>
<td>Pro Production, Average Age, Pro Transformation, DFB Youth Players</td>
<td>Revenue generation, Long-term impact on sporting success, Attraction of new talents</td>
</tr>
<tr>
<td><strong>Management Quality</strong></td>
<td>Board Quality, Governance, Public Disclosure, Financial Transparency</td>
<td>Deployment of resources, Coordination of all other dimensions, Company-like structure requires strategy and risk management</td>
</tr>
</tbody>
</table>
A combined analysis shows that certain 2. Bundesliga clubs perform better than some 1. Bundesliga clubs.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Club</th>
<th>Total Points</th>
<th>Prognosis</th>
<th>Rank</th>
<th>Club</th>
<th>Total Points</th>
<th>Prognosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FC Bayern München</td>
<td>31,6</td>
<td></td>
<td>19</td>
<td>1. FSV Mainz 05</td>
<td>20,3</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Borussia Dortmund</td>
<td>30,3</td>
<td></td>
<td>20</td>
<td>SV Werder Bremen</td>
<td>20,0</td>
<td></td>
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<tr>
<td>3</td>
<td>Eintracht Frankfurt</td>
<td>28,1</td>
<td></td>
<td>21</td>
<td>FC St. Pauli</td>
<td>19,8</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>TSG 1899 Hoffenheim</td>
<td>25,5</td>
<td></td>
<td>22</td>
<td>Fortuna Düsseldorf</td>
<td>19,7</td>
<td></td>
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<tr>
<td>5</td>
<td>Hertha BSC Berlin</td>
<td>25,5</td>
<td></td>
<td>23</td>
<td>1. FC Union Berlin</td>
<td>19,6</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Bayer 04 Leverkusen</td>
<td>25,3</td>
<td></td>
<td>24</td>
<td>VfL Bochum</td>
<td>19,1</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>FC Augsburg</td>
<td>25,2</td>
<td></td>
<td>25</td>
<td>DSC Arminia Bielefeld</td>
<td>18,0</td>
<td></td>
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<tr>
<td>8</td>
<td>RB Leipzig</td>
<td>24,8</td>
<td></td>
<td>26</td>
<td>SV Darmstadt 98</td>
<td>17,7</td>
<td></td>
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<tr>
<td>9</td>
<td>Borussia Mönchengladbach</td>
<td>24,5</td>
<td></td>
<td>27</td>
<td>Dynamo Dresden</td>
<td>17,3</td>
<td></td>
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<tr>
<td>10</td>
<td>Hamburger SV</td>
<td>23,4</td>
<td></td>
<td>28</td>
<td>SSV Jahn Regensburg</td>
<td>16,8</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>FC Schalke 04</td>
<td>23,3</td>
<td></td>
<td>29</td>
<td>SC Paderborn 07</td>
<td>16,3</td>
<td></td>
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<tr>
<td>12</td>
<td>1. FC Köln</td>
<td>22,8</td>
<td></td>
<td>30</td>
<td>SpVgg Greuther Fürth</td>
<td>16,2</td>
<td></td>
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<tr>
<td>13</td>
<td>VfL Wolfsburg</td>
<td>22,6</td>
<td></td>
<td>31</td>
<td>FC Heidenheim</td>
<td>15,5</td>
<td></td>
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<tr>
<td>14</td>
<td>VfB Stuttgart</td>
<td>21,5</td>
<td></td>
<td>32</td>
<td>FC Erzgebirge Aue</td>
<td>13,6</td>
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<tr>
<td>15</td>
<td>SC Freiburg</td>
<td>21,1</td>
<td></td>
<td>33</td>
<td>SV Wehen Wiesbaden</td>
<td>13,1</td>
<td></td>
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<tr>
<td>16</td>
<td>Hannover 96</td>
<td>21,0</td>
<td></td>
<td>34</td>
<td>VfL Osnabrück</td>
<td>12,2</td>
<td></td>
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<tr>
<td>15</td>
<td>Holstein Kiel</td>
<td>21,0</td>
<td></td>
<td>35</td>
<td>SV Sandhausen</td>
<td>11,9</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>1. FC Nürnberg</td>
<td>21,0</td>
<td></td>
<td>36</td>
<td>Karlsruher SC</td>
<td>11,7</td>
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</tr>
</tbody>
</table>

Flagged: Regardless of the overall situation of the club, the financial situation requires special attention. For example, FC Schalke 04 shows financial instability, but its overall structure, especially the development of player-talents, can be considered stable and positive.
While five clubs show urgent financial deficits, additional seven clubs reveal an overall insufficient performance.

Explanation of Shortcomings

### To Be Reformed

Analysis of all four dimensions shows deficits in clubs’ business model regarding:

- Sporting Success
- Financial Situation
- Player-Talents Development
- Management Quality

### Flagged Clubs

- Analysis of financial situation reveals significant deficits regarding liquidity and solvency.
- These shortcomings in one dimension are expected to overshadow the clubs’ performance in other dimensions.

### Clubs ‘To Be Reformed’

- FC Heidenheim
- SV Wehen Wiesbaden
- SSV Jahn Regensburg
- SpVgg Greuther Fürth
- Dynamo Dresden
- SV Sandhausen
- FC Erzgebirge Aue

### Flagged Clubs

- FC Schalke 04
- 1. FC Union Berlin
- SC Paderborn 07
- VfL Osnabrück
- Karlsruher SC

Five 1. and 2. Bundesliga clubs reveal an unstable financial performance. Additional seven clubs show an unsatisfactory performance regarding the four analysis dimensions.

Please note in this regard the limited data access and limited financial transparency.
Future sporting success requires an effective and efficient player-talents development in terms of a high pro production rate

Deep Dive Player-Talents Development – Pro* Production Rate

„Das Ziel eines Trainers darf es nicht sein, die meisten Spiele zu gewinnen, sondern die meisten Spieler zu entwickeln.“ - Markus Krösche, Sportdirektor RB Leipzig (2019)

New KPI - Pro Production Rate

**Formula (Ratio)**

Total youth players that reached 1./ 2. Bundesliga, European top leagues**

Number of years that the club has been in the 1./ 2. Bundesliga

**Evaluation**

Effectiveness – Pro production in European top leagues as target market

Efficiency – Pro production in terms of clubs’ professional history

**Results**

SV Wehen Wiesbaden
TSG 1899 Hoffenheim
Holstein Kiel

FC St. Pauli
SpVgg Greuther Fürth
SC Freiburg

Several established Bundesliga clubs fail in producing European top players whereas younger clubs perform better considering player-talents development since joining the Bundesliga

*Pro=Professional ** Premier League, La Liga, Serie A, Ligue 1; Source: Rblive (2019)

Quote Translation: A coach’s goal should not be to win most games, but to develop most players
Consolidated key findings resulting from the four-dimensional analysis are the foundation for future recommendations

**Key Findings**

- Clubs with higher recent national and international success tend to have a **higher national player quota**
- Clubs with higher recent national and international success tend to have a **higher team market value**
- **Newcomer** perform relatively better than established clubs
- Several clubs fail in producing **pro players** for European top leagues
- Overall, 1. Bundesliga clubs perform better than 2. Bundesliga clubs

**Bundesliga Scoring Model**

1. **Sporting Success**
2. **Financial Situation**
3. **Player-Talents Development**
4. **Management Quality**

- Overall, five clubs show **flags** indicating financial instability
- Clubs organized as **corporations perform better**
- Majority of clubs shows **sufficient stability** to overcome the crisis
- **Opaque data landscape** likely leads to underestimation of the number of clubs under pressure

- Majority of board members is **not independent**
- Variety of **legal forms** does not ensure consistency
- The majority of **Bundesliga clubs lack transparency**
“Ist die Krise überstanden, wird ein Umdenken stattfinden müssen. Ein 'Weiter so' kann es nicht geben.”

Robin Dutt, Ex-DFB Sports Director

“Ein 'Weiter so' kann und darf es nicht geben.”

Lutz Pfannenstiehl, Sports Director Fortuna Düsseldorf

Quote Translation:
Once the crisis is over, a rethink will have to take place. There can be no 'business as usual'. There can and must not be 'business as usual'.

Source: Sport Bild (2020), WDR (2020); Picture: Frankfurter Neue Presse (2019)
“Es muss ein Konzept für den neuen Fußball geben und der beinhaltet für uns zum Beispiel eine gerechtere Verteilung von Fernsehgeldern, aber ganz klar auch die Verpflichtung, nachhaltig zu wirtschaften.”

Helen Breit von der Faninitiative “Unsere Kurve”

Source: Helen Breit as interviewed in ZDF (2020); Picture: Veltins-Arena (2020)
The German Bundesliga Clubs and Their Future

An Outlook on the Robustness of the Clubs in Times of Covid-19

Leipzig, May 14th, 2020