

T.C DOGUS UNIVERSITY
Economics and Administrative Sciences
Business Administration Department

Football Finance

Graduation Project

Prepared By :

Şükrü Haskan
200125001

Under Supervision :

Prof.Dr. Cudi Tuncer Gursoy

Istanbul, June 2005

CONTENTS

	PAGE
CONTENTS.....	I
PREFACE.....	III
SUMMARY.....	IV
LIST OF TABLES	V
LIST OF FIGURES.....	VII
LIST OF ABBREVIATIONS.....	VIII
CHAPTER 1 INTRODUCTION.....	1
CHAPTER 2 FOOTBALL FINANCING.....	2
Chapter Overview.....	2
2.1 European Major Leagues.....	4
2.1.1 Europe's Major Leagues.....	4
2.1.2 What about the rest of Europe.....	6
2.1.3 What has caused booming incomes?.....	6
2.1.4 Wage Costs.....	8
2.1.5 Operating Costs.....	9
2.1.6 The importance of European Competition.....	10
2.2 Profitability of English Clubs.....	12
2.2.1 English professional football's financial performance.....	13
2.2.2 Growth in income.....	14
2.2.3 Premiership club revenue streams.....	15
2.2.4 How the TV revenue divided into clubs?.....	16
2.2.5 Which clubs are profitable?.....	16
2.3 Player wages and transfers.....	18
2.3.1 Total wages and salaries.....	18
2.3.2 Wages/turnover ratios.....	19
2.3.3 The impact of Premiership.....	22
2.3.4 Who does make money out of football?.....	22
2.3.5 Total transfer expenditure in 2001/02 season.....	23

2.3.6 The biggest spenders.....	24
2.4 Stadium development.....	25
2.5 Financing the clubs.....	33
CHAPTER 3 MANCHESTER UNITED.....	40
Chapter Overview.....	40
3.1 Strategic goals.....	42
3.2 Financial reviews.....	45
3.3 Financial statements.....	47
CHAPTER 4 BESIKTAS JK.....	57
Chapter Overview.....	57
CHAPTER 5 CONCLUSION.....	61
REFERENCES.....	62
INTERNET SOURCES.....	63

PREFACE

This project has been prepared in partial fulfillment of the requirements of the degree of BA in Business Administration at Dogus University. Project is about the football financing by focusing on European five major leagues, Manchester United and Besiktas JK. Football finance is selected as a project topic because in the near future, football club financing will be an important aspect for Turkish clubs in order to enter the UEFA organizations .

Manchester United especially is included in this project because Manchester United is a milestone of the football financing in the world. Manchester United markets its products worldwide and is the only club until now that cause investors to earn money from a football club in the stock market in the long term.

This project provides an extensive background about the European major leagues ,especially the English Premier league. After reading the Chapter 2,3, and 4, readers will have chance to compare the size of the European leagues with Turkey. Besiktas is selected as a Turkish team because it is the one of the biggest and it is the oldest club in Turkey. Also Besiktas is the club that open its share to public first as a football club in Turkey.

This project has given me a great opportunity to understand the financial structure of European clubs especially Manchester United and Besiktas JK. In addition, this project has enormous effects on the increasing of my knowledge on the accounting.

I would like to thank to my project adviser Prof. Dr. Cudi Tuncer Gursoy for his help, advice, suggestions, and interpretations during the preparation process of this graduation project.

Şükrü Haskan
Istanbul, June 2005

SUMMARY

The purpose of this study is to show how the football is financed throughout Europe and how the European leagues and clubs are bigger than Turkish league and clubs by giving the examples of Manchester United in chapter 3 and Besiktas JK in chapter 4.

During the field of study process, it is observed that there are some significant differences between Turkish league and European Premier League in terms of financial power. Especially England Premier League is more superior than the rest of all of the other leagues. Due to this diagnosis, English Premier League and English Division One is examined in detailed in Chapter 2.

As studied in Chapter 2, it is examined that major spenders in transfers and stadium or training facilities are the most successful ones in the sporting achievements. In another words, financial strength bring sporting successes. But the major problem in this study that is examined is how we can form a financially strong club. This financial strength can be formed by increasing the revenues by implementing modern marketing strategies. Turkish teams like Besiktas must use these modern marketing strategies in order to reach European clubs level. When this development in the club happens individually, in the future Turkish league can improve to European major premier leagues standards. But of course, this process is not a simple process. First of all, Turkish overall economic indicators must be begin to go well to find sufficient funds for football clubs.

Finally, Turkish clubs success in European football is strongly related with Turkish economy. A sustainable success with the current economic situations of the country and clubs cannot be achieved in European cups.

LIST OF TABLES

Table 2.1.1 The number of clubs in the top five division of the biggest five countries..	4
Table 2.1.4 Wages/Turnover Ratios.....	8
Table 2.1.6.1 The Big six European Football League.....	10
Table 2.1.6.2 UEFA Champions League centrally generated revenues, 2001/02.....	11
Table 2.2.1 Income and Profitability.....	13
Table 2.2.5 Top ten largest operating profits/losses : 2001/02.....	16
Table 2.3.2.1 Clubs where total wages/turnover ratios is over 70% and less than 100%.....	19
Table 2.3.2.3 Clubs where total/wages turnover ratio is less than 70%.....	19
Table 2.3.2.4 Clubs where total wages/turnover is at or less than 50%.....	19
Table 2.3.2.5 League Table based on total wages paid in 2001/02.....	20
Table 2.3.3 Estimated average player wages by League/division for 1992/93 and 2001/02.....	22
Table 2.3.4 Summary of Listed football recent financial result.....	22
Table 2.3.6 Overall transfer spending by Premier League Clubs:1996/97 to '01/02...24	24
Table 2.4.1 Capital Expenditure on stadium/facilities by English clubs.....	25
Table 2.4.2 Aggregate Capacity at Premiership Stadiums: 1997/98 to 2001/02.....	28
Table 2.4.3 Increases in stadium capacity at English clubs : 1997/98 to 2001/02.....	29
Table 2.4.4 Comparison of average attendances in major English cup competitions : 2000/01 to 2001/02.....	31
Table 2.5.1 Securitisation of football club revenues.....	33
Table 2.5.2 Overview of the financing of the Premier League in 2000/01 and 2001/02.....	34
Table 2.5.3 Overview of the financing of Football League Division One in 2000/01 and 2001/02.....	35
Table 2.5.4 Ranking of clubs by Net Debt, at the end of 2001/02 season.....	36
Table 2.5.5 Top Ten clubs by net bank borrowings and other loans, at the end of 2001/02 season.....	37
Table 2.5.6 Top ten clubs by league, by balance sheet player valuation at the end of 2001/02 season.....	38

Table 2.5.7 Top ten clubs by net assets and bottom ten clubs by net liabilities at the end of 2001/02 season.....	39
Table 3.3.1 Consolidated profit and loss account (for the year ended 31 july 2004)...	50
Table 3.3.2 Statement of total recognised gains and losses.....	51
Table 3.3.3 Consolidated balance sheet At 31 July 2004.....	51
Table 3.3.4 Company Balance sheet At 31 July 2004.....	53
Table 3.3.5 Consolidated cash flow statement For the year ended 31 July 2004.....	54
Table 3.3.6 Reconciliation of operating profit to net cash inflow from operating activities.....	55
Table 4.1 Asset side of the Besiktas JK balance sheet (01/01/2004 & 31/12/2004).....	58
Table 4.2 Liabilities side of Besiktas JK balance sheet (01/01/2004 & 31/12/2004).....	59

LIST OF FIGURES

Figure 2.1.1	Income growth of the big five European leagues : 1995/96 to 2001/02.....	4
Figure 2.1.2	Top 15 leagues' estimated market share.....	6
Figure 2.1.3	Revenue Breakdowns for European Leagues : 2001/02.....	7
Figure 2.1.4	Total wages and salaries in the big five European Leagues.....	8
Figure 2.1.5	Operating profit/loss in the big five European Leagues.....	9
Figure 2.2.2	Aggregate Income for Premiership and All Divisions.....	14
Figure 2.2.3	Premiership Clubs Revenue Streams.....	15
Figure 2.2.4	Financial Rewards for Premier League Position.....	16
Figure 2.2.5	Top ten clubs by aggregate operating profits:1992/93 to 2001/02.....	17
Figure 2.3.1	Relative growth of Premier League revenue, total wages and salaries... 	18
Figure 2.3.5	Total Transfer expenditure by English clubs : 1995/96 to 2000/02.....	23
Figure 2.4.1	Major Spenders on stadium/facilities: 1994/95 to 2001/02.....	26
Figure 2.4.2	Major spenders on stadium/facilities in Premiership : 2001/02.....	27
Figure 2.4.3	Major Spenders on stadium/facilities in the Divisions :2001/02.....	28
Figure 2.4.4	League Match Attendances at English Stadiums.....	30
Figure 2.4.5	Stadium Utilisation for Premiership Clubs 2001/02.....	31
Figure 2.4.6	Comparison of average league attendances in the big five European Leagues: 1995/96 to 2001/02.....	32

LIST OF ABBREVIATION

BSkyB	British Sky Broadcasting
CL	Champions League
FA	Football Associations
ITV	Interactive Television
JK	Jimnastik Klubu
LED	Light Emitting Diodes
MU	Manchester United
MUTV	Manchester United Television
TV	Television
UEFA	Union of European Football Associations
UK	United Kingdom
USA	United States of America

CHAPTER 1

INTRODUCTION

The purpose of this graduation project is to examine European five major leagues, Manchester United and Besiktas in Turkey in order to understand the economical differences of five major leagues, economically most valued football club and one of the best Turkish club, Besiktas. Economical datas of five major European leagues, Manchester United and Besiktas balance sheets are given in order to make comparison of these leagues and clubs.

This project contains five chapters, each of these chapters are on different topics that related with football finance. Following this introduction Chapter 2 will cover European five major leagues but mainly English Premier League. English Premier League is mostly focused on because in these five major leagues, England is the leading one. Chapter 2 also give some ideas to readers how stadium development is an important step for clubs financially and what to do for football clubs financing.

After that chapter, Chapter 3 is about Manchester United. Manchester United is the member of English Premier League and it is the financially most developed club in England and Europe. Manchester United is a milestone in football financing. Chapter 3 contains three parts as strategic goals, financial review and financial statements. This chapter will give readers chance to examine Manchester United in detail. The chapter 4 of the project provides brief financial information on Besiktas JK. By the help of Chapter 3, Chapter 4 also provides comparison chance of Manchester United and Besiktas JK.

Finally, Chapter 5 is the conclusion of the project. Additionally, Chapter 2,3 and 4 include a chapter overview in order to make understanding level of the project must easier.

This project is the end result of four years Business Administration education, both theoretical and practical knowledge obtained from this education was used in this project.

CHAPTER 2

FOOTBALL FINANCING IN EUROPE

CHAPTER OVERVIEW

The second chapter of this dissertation is prepared to examine football financing in Europe. The football financing has a deep concept so in order to clarify what is football financing, especially English premier and football league is used as an example. Beside English league, Italy, Spain, Germany and France leagues are considered to understand how big these five leagues are.

Firstly, Europe's Premier Leagues is examined and the importance of TV deals all around the Europe's Premier Leagues. The substantial increase in the wages ranging in France 6% to 24% in England threatens football financing all around the world. The importance of UEFA Champions League is also examined and the attendance level in major European stadiums are shown. It is easily understood that English Premiership League is the most developed league in the Europe and the gap between English Premiership League and other leagues continue to widen from day to day.

After major leagues examination, this dissertation is focused on English Premiership and football league profitability. Their turnover rates, matchday incomes, operating profits, pre-tax losses/profits, commercial revenues and UEFA competition effects on English clubs budget is explained widely in English Premiership and football league. Manchester United and Newcastle United in 2003 generated high profits due to their success in Premiership league. Manchester United with cumulative profit of £229 million is in the first place and in the next chapter, Manchester United success will be examined.

In addition to major incomes and profits of the clubs, the major cost item; wages and transfer is examined in detail. Premiership clubs' total wages and salaries grew by 26% to £706 million and it represents 62% of club income. Ten Premiership clubs reduced their wages/turnover ratio but eight suffered increases. The increase in the wages/turnover ratio mean low profit generation. The correlation between sporting performance and total

wages and salary levels remains relatively strong in the Premiership. The financial difficulties facing the clubs mostly occurs from the high wages and transfer spendings.

Finally, stadium development and financing clubs will be examined. Nearly all of the English Premiership and football league clubs invested on their stadium development because they know that in order to gain higher profits, their stadiums must be developed. The average stadium utilisation in the Premiership is above 90% but still there is £22 million worth of empty seats. Total Premiership stadium capacity by the end of 2001/02 season, was over 750.000. Beside stadium developments, clubs enlarged their financing methods and these methods will be examined which clubs used which financing methods.

2.1 European Major Leagues

2.1.1 Europe's Premier Leagues

Football, as with all industries, is operating in a difficult economic climate at present. In any business income growth is a key objective, and revenue generation is important for football clubs. The more income a football club generate, the more a football club can invest in its assets, primarily player transfer fees and wages but also stadium and other revenue generating sources.

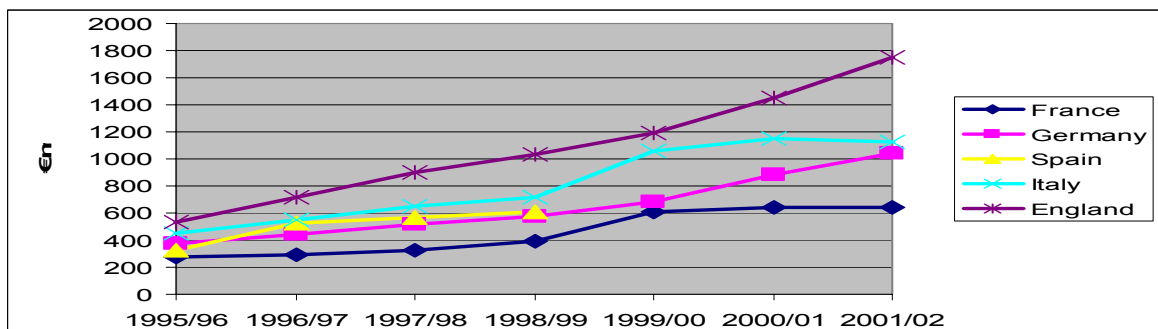
There is correlation between the level of wages and salaries and on-pitch success, and the more money a football club afford to pay, the better a football club chances of success (Deloitte & Touche Annual... 2002). Clubs need to spend wisely, but no club would argue with the statement that more income is better than less!

Table 2.1.1 The number of clubs in the top five division of the biggest five countries

Country	League/Division	Clubs
England	FA Premier League	20
France	LFP Premiere Division	18
Germany	Bundesliga 1	18
Spain	LPFP La Liga	20
Italy	Seria A	18

Source : *Deloitte & Touche Annual Review of Football Finance, 2003, page 9*

Figure 2.1.1 Income growth of the big five European leagues : 1995/96 to 2001/02



Source : *Deloitte & Annual Review of Football Finance; Deloitte & Touche Sport Analysis*

Figure 2.1.1 above illustrates trends in revenues for each of the big five leagues since 95/96. Since data after 1998/99 cannot be obtained for Spanish League, it has not been possible to analyse Spanish league. As a result, big five analysis will be considered as big four leagues.

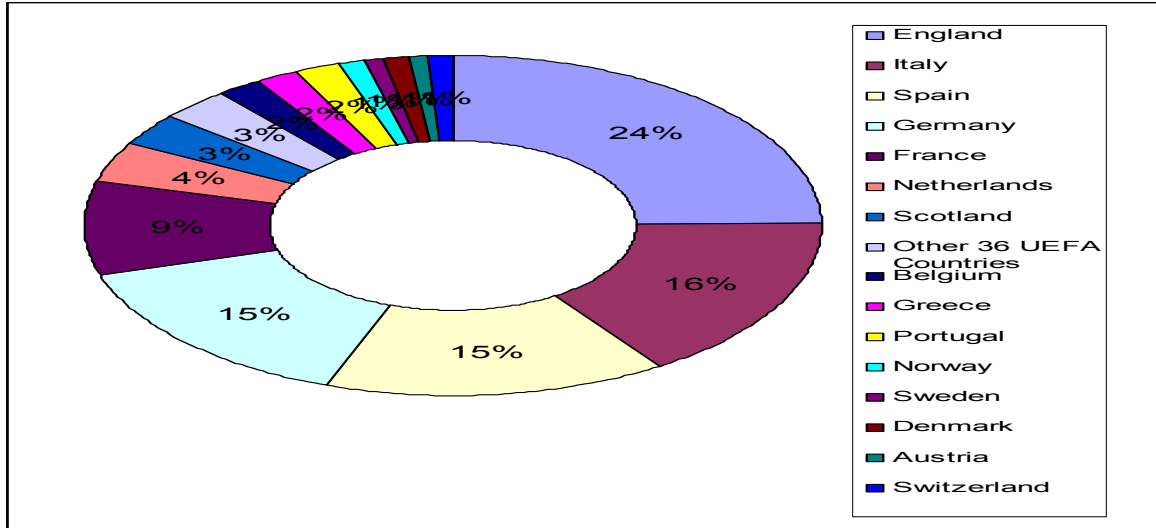
The combined revenue generated by the four big league in 2001/02 was €4.6 billion, an increase of almost 440€ million (11%) on the previous season. Since 1995/96, the four leagues' revenue has increased by a staggering €2.9 billion (179%).

The English Premier League remains the strongest European league in revenue terms, England's total income rose by 21% (the increase of over €300 million is comfortably the largest of any of the four leagues) to reach €1,748 million. In the last two years, the Premier League has clearly moved into a league of its own. The English Premier League has more revenue than France and Germany put together in 2001/02 and its revenues in 2001/02 were 55% greater than Italy's.

In Germany, Bundesliga revenues broke through the €1 billion for the first time, with total revenue growing by €163 million (19%) to reach €1,043 million. The competition between Germany, Italy and Spain for second place in the income league is very competitive. In Italy and France, the very strong level of growth achieved in the late 1990s due to huge broadcasting deals. In 1999/2000, revenues in both leagues increased by around 50%. The rate of growth slowed dramatically in 2000/01 (to 9% and 6% respectively). These two countries (heavily dependent on broadcasting income) demonstrate the importance of a diversity of sources of revenue growth. Over six years, the English league has been growing at the fastest rate (22%), followed by Germany (19%), Italy (16%) and France (15%). (Deloitte&Touche Annual... 2003 : 10)

2.1.2 What about the rest of Europe ?

Figure 2.1.2 Top 15 leagues' estimated market share



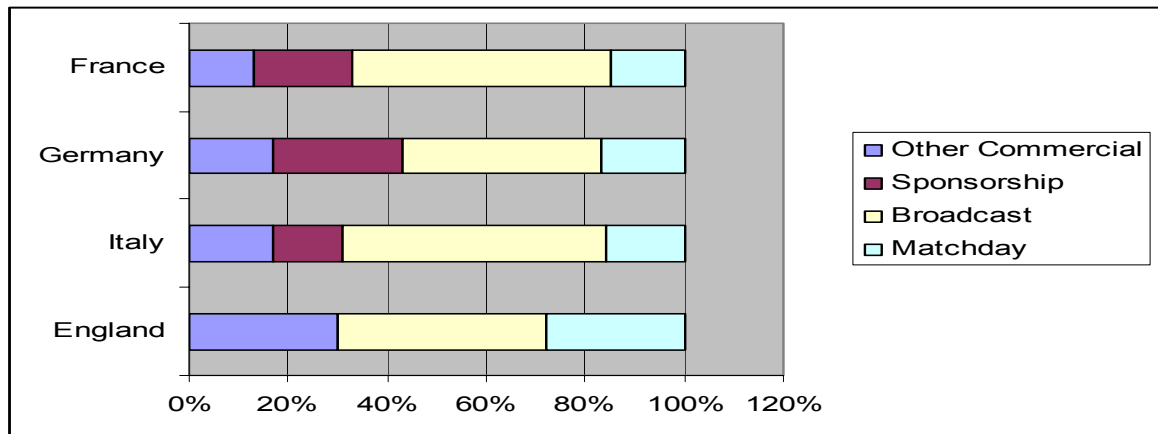
Source : *Deloitte&Touche Sport Analysis*

The total revenue of the top divisions across Europe is now €7.1 billion (%11) larger than in 2000/01. England has 25%, Italy has 16%, Spain has 15%, Germany has 15% and France has %9. Turkey is below 1% so Turkey cannot be seen in the ranking. The big five leagues have again the revenue increase. Their share of the European market has increased from 78% to 80%. Developing leagues into a more attractive product to attract the fans, broadcasters and sponsors to boost income is an ongoing imperative.

2.1.3 What has caused booming incomes?

For the 'big five' leagues in aggregate, broadcasting revenue is now the most important source of revenue. In smaller countries, where broadcast markets are less developed and lucrative, matchday and sponsorship revenues continue to be of greater importance.

Figure 2.1.3 Revenue Breakdowns for European Leagues : 2001/02



Source : *Deloitte&Touche Annual Review of Football Finance, Deloitte&Touche Sport Analysis*

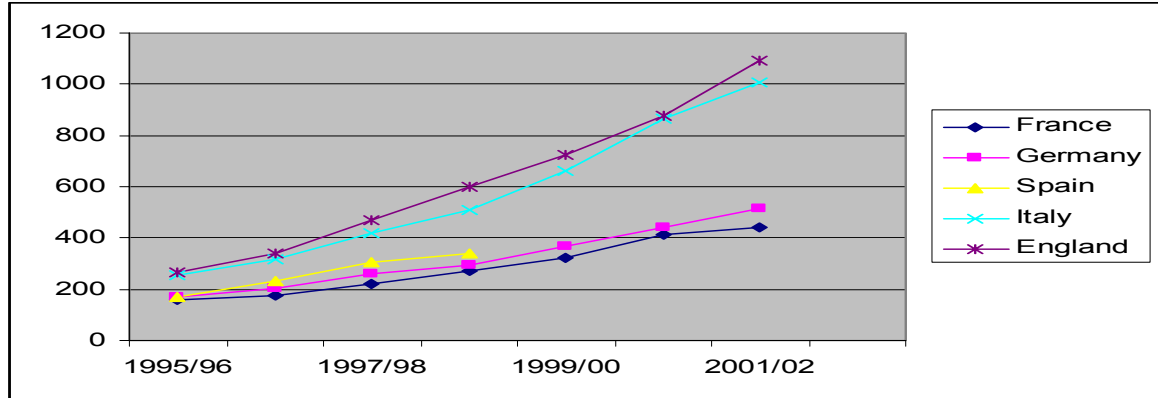
A key driver of the English Premier League’s 21% income growth in 2001/02 is the new broadcast deal with BSkyB and ITV. Broadcast revenue rose by 32% (€178 million) to reach 734€ million in 2001/02. The broadcast revenue alone, of FA Premier League clubs is now more than the total Premier League income in 1995/96, and is more than the entire turnover of the French first division in 2001/02.

Premier League clubs have maintained strong revenue growth across all revenue sources. Average attendances rose again in 2001/02 to more than 34,000 as a result, matchday revenues grew by 10%. The Premier League has the highest average attendance of any football league in Europe. In both France and Italy, following extraordinary increases in broadcast revenues in 1999/2000, the relative balance of revenue streams has not changed. Broadcasting revenue, in both leagues, contributes over half of total revenue. Matchday revenues in both leagues contribute less than 20% of total revenues, and have not grown for some years.

Germany is most lucrative sponsorship market in Europe, with population of over 80 million (40% more than third nearest rivals, Italy and France). Matchday revenues can be improved. Perhaps the renovating the stadiums in advance of Germany 2006 World Cup will precipitate an increase in matchday revenues. (Deloitte&Touche Annual... 2003 : 12).

2.1.4 Wage Costs

Figure 2.1.4 Total wages and salaries in the big five European Leagues



Source : *Deloitte&Touche Annual Review of Football Finance, Deloitte&Touche Sport Analysis*

Table 2.1.4 Wages/Turnover Ratios

Wages/Turnover Ratios	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
England	50%	47%	52%	58%	61%	61%	62%
Italy	57%	58%	64%	72%	62%	75%	90%
Spain	53%	44%	53%	56%	n/a	n/a	n/a
Germany	46%	46%	51%	51%	54%	50%	49%
France	58%	61%	69%	69%	53%	64%	69%

Source : *Deloitte&Touche Annual Review of Football Finance, Deloitte&Touche Sport Analysis*

While the turnover of the big leagues is now almost three times its values in 1995/96, wages have almost quadrupled. As a result, wages/turnover ratios have risen in all four countries. Revenue in Italy did not grow in 2001/02, which had led to the wages/turnover ratio reaching an alarming 90%. Germany's total wages and salaries grew by 17% in the year, while France saw the slowest rate of growth, with wages increasing only 6%.

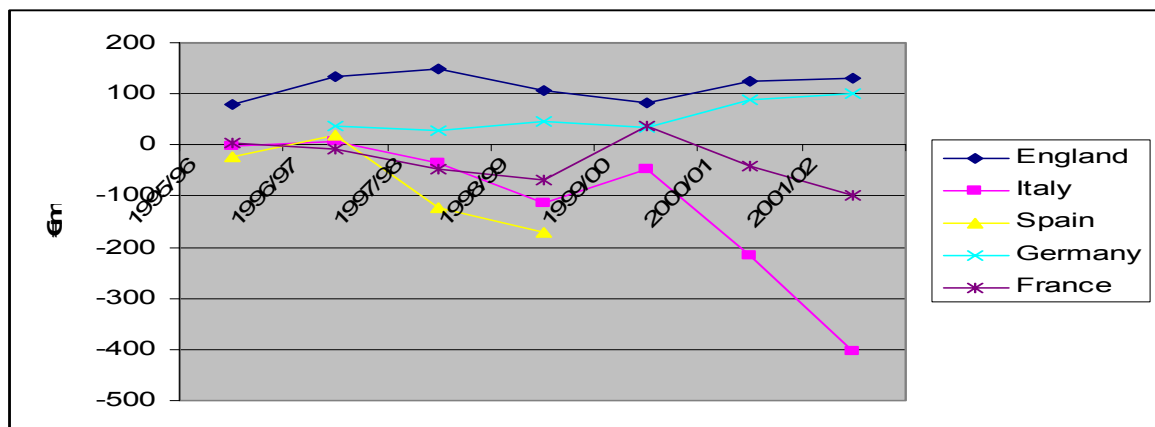
France's situation is totally different from others. It's clubs face a double problem. Not only do they have lower revenues with which to pay staff and players, but also the

difference in taxation regimes across European countries means that their clubs have to pay higher gross wages to allow the player to take home a similar amount. France's local tax premium may be up to 45% partly explaining the movement of many top French players to overseas leagues. In a number of European countries, initiatives have begun to attempt to tackle the problem of wages cuts. Firstly, G-14 groups of clubs agreed in principle to reach financial stability of clubs' operational accounts through self-regulation. In practice, this meant a voluntary agreement to move to limit players wages to around %70 of turnover. (Deloitte&Touche Annual... 2003 : 14).

2.1.5 Operating Profits

Operating profits gives an indication of the day to day financial success of a football club. It is the money left over which can be invested by clubs to develop (through squad and stadium improvement), or to safeguard the future, or to reduce the current debt burden. Consistently profit-making clubs should remain prosperous, while consistently loss-making clubs will, in time, require alternative funding methods to finance their increasing levels of indebtedness.

Figure 2.1.5 Operating profit/loss in the big five European Leagues



Source : *Deloitte&Touche Annual Review of Football Finance, Deloitte&Touche Sport Analysis*

In England and Germany, 2001/02 saw a continuation of a series of profitable years at the operating level, profits increased by €5 million and €13 million, to €130 million and €100

million respectively. Germany earned record operating profits and those in England were the highest for 4 years. By contrast the French and Italian leagues saw a continued increase in operating losses. Serie A suffered a collective loss of €404 million in 2001/02, which almost doubled 2000/01 losses (€206 million) while French losses more than doubled, rising by €57 million to reach €98 million.

In England, the strong commercialisation of clubs has ensured that they have been able to continually increase revenues from all sources – matchday, broadcast and commercial – and hence have sufficient scale to afford to outbid competitors in the global markets for players and still make operating profits. In Germany, however, it is discipline in keeping costs under control, that has meant profitability has remained solid.

The operating losses which have been accumulating in Italy and France cannot be sustained in the medium to long term. All other things being equal, in France a 22% pay reduction would clear the losses, in Italy a wage cut of 40% would be needed.

(Deloitte&Touche Annual... 2003 : 16).

2.1.6 The Importance of European Competition

Qualification for European competition on a regular basis is a key objective for all the largest clubs in Europe's premier leagues. Beside five big leagues, the UEFA Champions League is the sixth major European league.

Table 2.1.6.1 The Big six European Football League

Country	League	Average Attend. (2001/02)	Rank	Estimated Domestic Broadcasting Revenue €m	Rank
England	P.League	34,324	2	640	1
Italy	Seria A	25,945	4	515	2
France	Premiere D.	23,245	5	260	5
Spain	Primiera L.	21,737	6	n/a	

Germany	Bundesliga	31,047	3	300	4
UEFA	CL	34,361	1	420	3

Source : UEFA, Deloitte&Touche Sport Analysis

Champions League revenue is generated in two ways. First, UEFA markets broadcast and sponsorship rights centrally via its partners and distributes a portion of this to the participating clubs. The revenue for any one club is highly dependent on that club's progress and success in the competition.

A portion of UEFA's centrally generated revenue is distributed as solidarity payments to UEFA's national associations and funds many of UEFA's development activities. Secondly, gate revenue, sponsorship, and other commercial revenues are generated by the clubs themselves, and are obviously again dependent on progress in the competition. For qualifying round, clubs can also market their own broadcast rights.

Table 2.1.6.2 UEFA Champions League centrally generated revenues, 2001/02

€m	Borussia Dortmund	Juventus	Liverpool	Real Madrid
Stage Reached	1st round	2nd round	Quarter Final	Winner
UEFA Broadcast and Sponsorship	13.0	26.1	22.5	37.1
CL Matchday	2.9	3.0	7.6	7.2
CL Sponsor	6.2	5.7	5.9	3.9
CL Revenue	22.1	34.8	36.0	48.2
Club Revenue	111.7	175.0	153.6	152.2
CL Revenue/ Club Revenue	20%	20%	23%	32%
Operating Profit/Loss with CL	34.1	(13.8)	22.4	(59.7)

Operating Profit/Loss without CL	12.0	(48.6)	(13.6)	(107.9)
----------------------------------	------	--------	--------	---------

Source : UEFA, Deloitte&Touche Sport Analysis

Champions League revenue does not constitute the majority of revenue for any of the clubs, but it is a more than significant minority. In Liverpool's case, CL revenue is higher than the club's total matchday turnover from its 19 home Premier League matches. (Deloitte&Touche Annual... 2003 : 20).

UEFA Cup revenues are lower than those for the Champions League, but the structure of the competition does give the clubs more control over their revenues. The participating clubs own broadcast and advertising rights for the competition themselves, in addition to the matchday revenues and sponsorship bonuses that accrue from progress in the competition. UEFA has recently changed its structure of the competition from the 2004/05 season with the introduction of a group stage, giving participating clubs more security and revenue earning potential. (Aigner, 2003)

2.2 Profitability of English Clubs

Football clubs are relatively simple organisations in accounting terms. The profitability of a football club is by and large driven by a few discrete but interrelated factors:

- Broadcasting
- Commercial
- Matchday income

These are collectively known as turnover; less costs, the major ones are:

- Wages and salaries
- Financing costs, including the interest cost on debts for investments in stadiums
- Profits and losses from players

- The amortisation of player transfer fees paid

2.2.1 English professional football's financial performance

Table 2.2.1 Income and Profitability

	Turnover £'000	Operating Profit / (Loss) £'000	Pre-tax profit / (Loss) £'000
Premiership	1,132,011	84,395	(137,378)
Division One	298,162	(14,088)	(35,736)
Division Two	104,176	(29,074)	(27,562)
Division Three	64,437	(2,205)	(3,000)
Total Football League	466,775	(45,367)	(66,298)
Overall	1,598,786	39,028	(203,676)

Source : *Deloitte&Touche Sport Analysis*

The top 92 English clubs generated turnover of £1,599 million in 2001/02, a fantastic increase of £330 million (%26) on the previous year. The 20 Premier League clubs contributed almost 60% of this growth, increasing turnover by £195 million, while the Football league grew by £135 million. In 2001/02, the total income for Division One (twenty-four clubs) at £298 million is just 26% of that for the 20 Premiership clubs. The Premiership clubs shared over £800 million more income than their Division One counterparts in a single season. The Premiership clubs saw their operating profits as a percentage of turnover drop further to 7% (from 9%) in 2000/01. Even though turnover increased by £195 million, operating profit only increased by £3.7 million. This means the clubs retained only 2% of this incremental income. (Deloitte&Touche Annual... 2003 : 24)

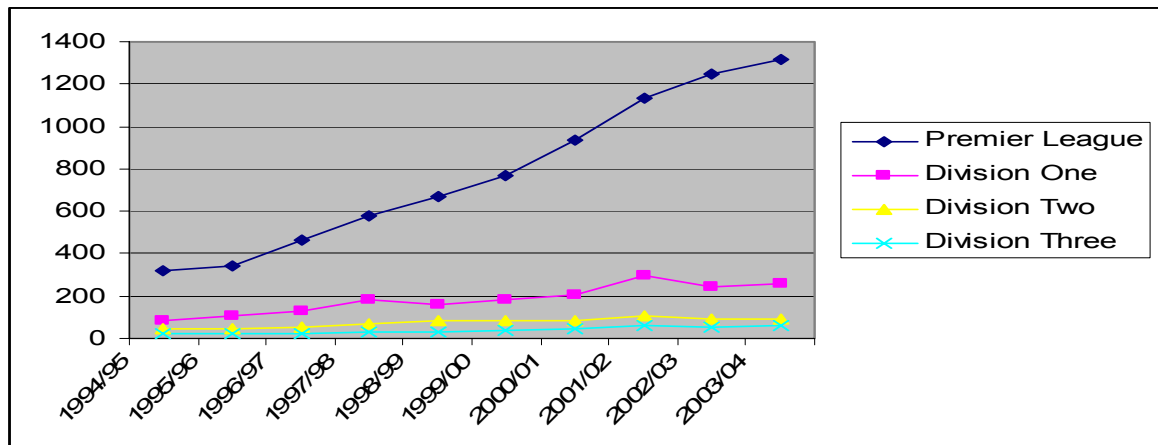
The premier League clubs reported operating profits of £84 million with 83% of clubs making an operating profit. By contrast pre-tax losses grew dramatically from £22 million to £137 million. Only 28% of clubs reported a pre-tax profit. The five clubs with the biggest pre-tax losses were Fulham (£40 million), Leeds United (£34 million), Arsenal (£22 million), Chelsea (£17 million) and Middlesbrough (£16 million).

Due to this debt burden on Leeds United, Leeds United sold his best valuable player , Rio Ferdinand for a record of fee of 30 million £ to Manchester United. But it didn't help much. After selling Rio Ferdinand, they also sold Jonathan Woodgate to Newcastle United, their training ground and their stadium, Allen Road. (Chronology of Leeds... 2005). At last, former Chelsea chairman Ken Bates completed a 10 million £ takeover of Leeds United on 21 January 2005, lifting the threat of debt-ridden club going into financial administration. (Ken Bates takes... 2005)

Whilst the year under review has shown good signs of improvement in the finances of the Football League, 2002/03 will have seen a significant reversal in fortunes. The demise of ITV Digital and the associated loss of an annual £105 million of TV income has only been partially compensated for by the subsequent deal with BSkyB. The clubs have in many cases entered into player contracts and financing commitments on the basis of anticipated ITV digital income. In the current transfer market, clubs are finding it difficult to reduce those commitments. (Deloitte&Touche Annual...2003:24)

2.2.2 Growth in Income

Figure 2.2.2 Aggregate Income for Premiership and All Divisions



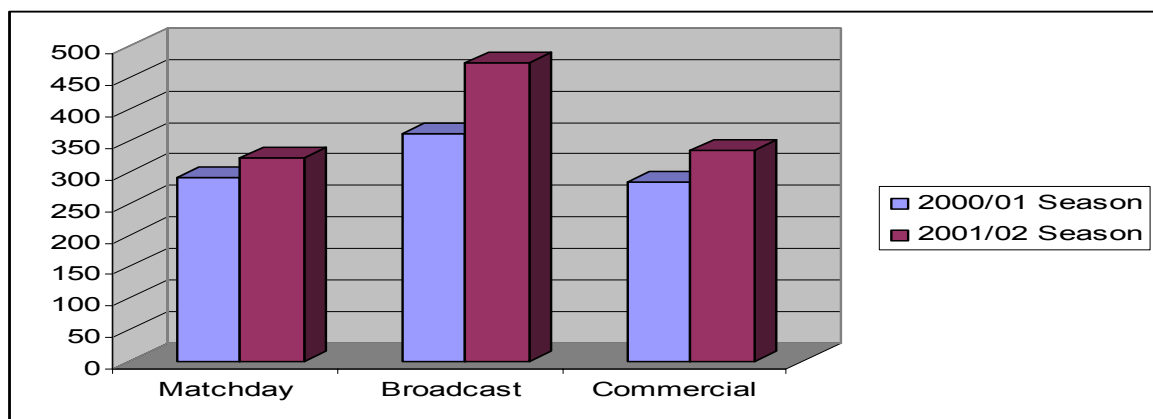
Source : *Deloitte&Touche Sport Analysis*

The Premier League's TV deal with BSkyB ended in June 2004 as did its sponsorship deal with Barclaycard (£16 million per annum). The new deal between 2004-2007 has been

signed and the values didn't changed much.(TV winner and ... 2003).But due European commission pressure,from 2007,Premiership matches will not sell to single company in order to avoid a monopoly.(Premiership settles TV... 2003).BSKyB's four-year deal with Football League was worth £95 million in 2001-2004 and was slightly lower on a per annum basis than the five-year one signed for 1996-2001.In 2002/03 and 2003/04,Football League clubs received nearly £43 million from BSKyB as against £178 million they were due to received from ITV Digital. (Deloitte&Touche Annual... 2003 : 25)

2.2.3 Premiership club revenue streams

Figure 2.2.3 Premiership Clubs Revenue Streams



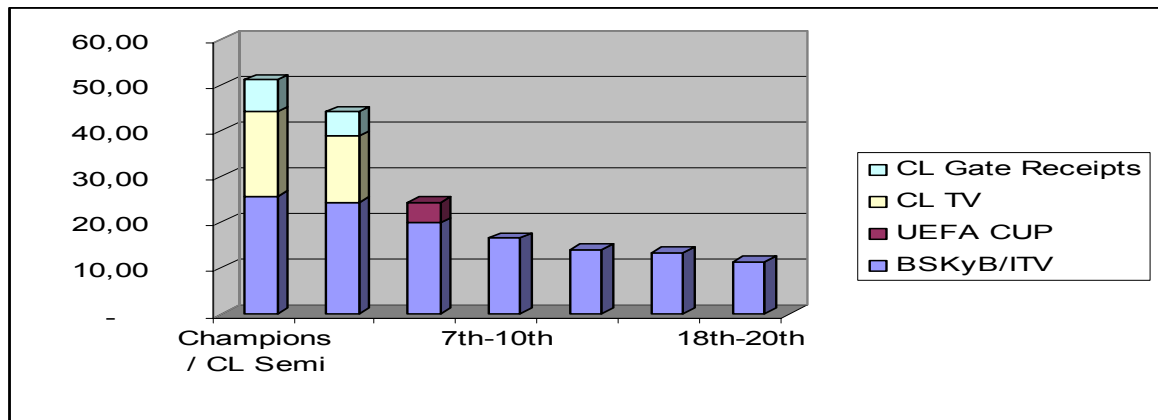
Source : *Deloitte&Touche Sport Analysis*

All three main income category grew impressively. Since 1995/96, broadcasting revenues have moved from the smallest revenue stream %12 (£43 million) to the largest %42 (£475 million). Matchday income grew more slowly than either broadcasting or commercial income,at 10%. The average attendance for a Premiership match (at 34,324 in 2001/02) is higher than in any other European league. The importance of commercial income for the clubs is indicated by the %18 between 2000/01 and 2001/02.In order to grow more, clubs needed to increase stadium capacity and at that time, they must use their stadium in the space time by conferences and banqueting offices and corporate hospitaliy. (Deloitte&Touche Annual... 2003 : 26)

2.2.4 How the TV revenue divided into clubs?

The bulk of the Premier League clubs do not compete in either the Champions League or the UEFA Cup. Their share of the BSKyB/ITV broadcasting deal averages £14 million each. Half of the SKyB/ITV broadcasting money is shared by rewarding success, be it final placings in the League competition or how many times a club is shown on TV. Each point won and each place climbed in the table can have a dramatic impact on revenues. One place higher could mean funds of players or slashing the pre-tax loss the club makes. In the top three positions in the Premier League get £44 million to £51 million. (Deloitte&Touche Annual... 2003 : 27)

Figure 2.2.4 Financial Rewards for Premier League Position



Source : *Deloitte&Touche Sport Analysis*

2.2.5 Which clubs are profitable?

Table 2.2.5 Top ten largest operating profits/losses : 2001/02

Rank	Club	Operating Profit (£m)
1 (1)	Manchester United	33.9
2 (10)	Newcastle United	14.8
3 (2)	Liverpool	14.5
4 (4)	Tottenham Hotspur	9.2
5 (74)	Chelsea	8.1
6 (7)	Arsenal	7.3

7 (13)	Southampton	4.7
8 (5)	Sunderland	4.6
9 (12)	Aston Villa	4.4
10 (8)	Ipswich Town	2.5

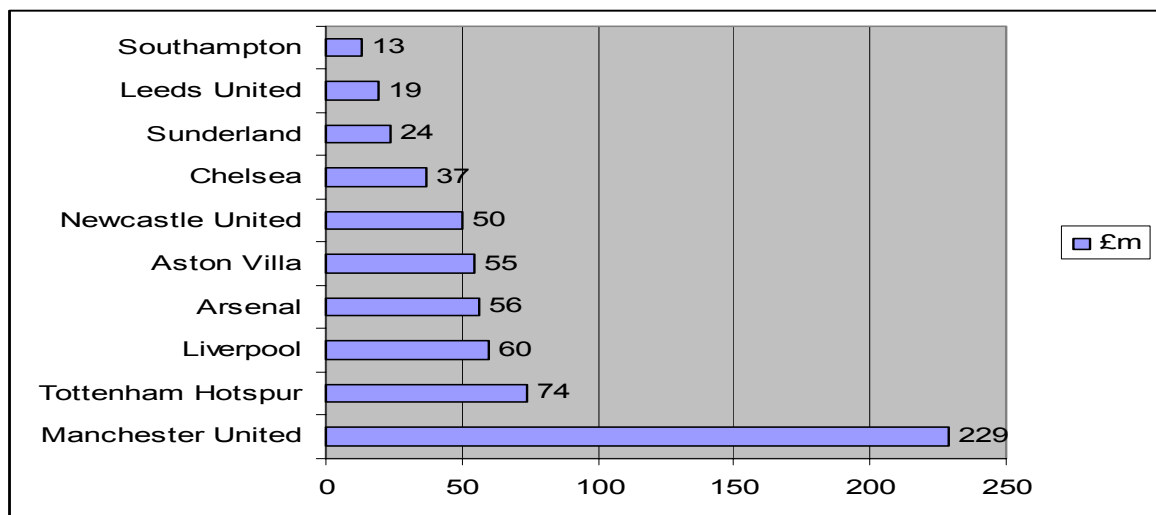
Source : *Deloitte&Touche Sport Analysis*

All the top ten profit earning clubs in 2001/02 were in the Premiership that season. Manchester United again top the table as they have done in every year since the Premiership started in 1992/93. (Deloitte&Touche Annual... 2003 : 30)

Above the table, you can Chelsea has an operating profit of £8.1 million. But recently in early 2005, they declared £87 million loss. (Chelsea Unveil £87... 2005)

The competitive advantage enjoyed by Manchester United during the Premiership's existence is their cumulative operating profits being over three times greater than their nearest rival Tottenham Hotspur (or £155 million greater in absolute terms.) Manchester United, on their own, have earned %36 of all Premiership profits during the 10 years of the Premier League's existence. (Deloitte&Touche Annual... 2003 : 30)

Figure 2.2.5 Top ten clubs by aggregate operating profits:1992/93 to 2001/02



Source : *Deloitte&Touche Sport Analysis*

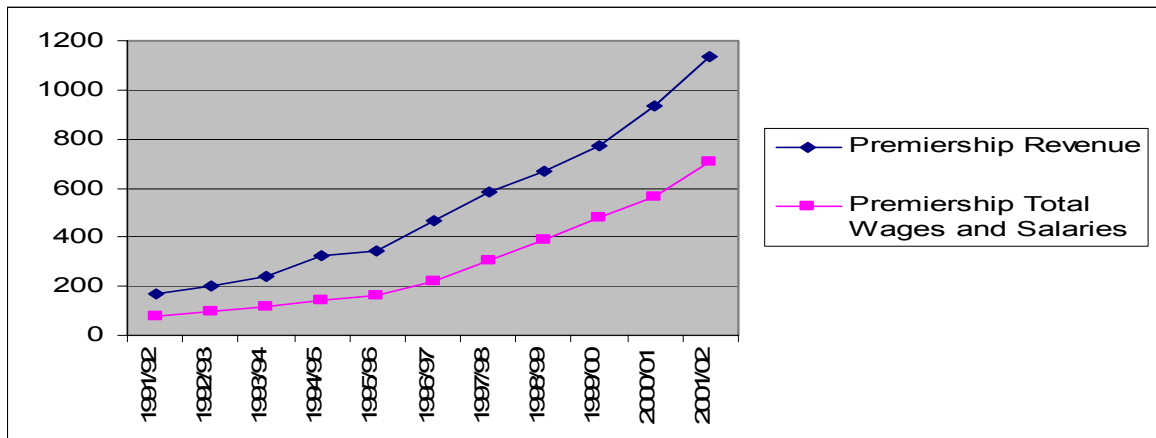
Promotion from Division One to Premiership at the end of the 2000/01 season was worth a minimum of \$16 million extra income. In 2001/02, Blackburn Rovers benefited by £21 million, Bolton Wanderers saw their income increase by £22 million and Fulham gained by £23 million. The relegation to be a £12 million reduction in revenue.

2.3 Player Wages and Transfers

Clubs mutually agree a transfer fee for a player and then the buying club agreed personal terms and these two fees added up to find the total cost for that player.

2.3.1 Total Wages and Salaries

Figure 2.3.1 Relative growth of Premier League revenue, total wages and salaries



Source : *Deloitte&Touche Sport Analysis*

The wages/turnover ratios from 1991/92 to 2001/02 has been increased. In 1991/92, it was 47% and in 2001/02 it was 62%. As the wages/turnover ratios become closer to %100, the profit margin of the clubs are decreasing. But the numbers become greater, clubs began to earn more profits than before. As it can be seen from the graph, from 1991/92 there is huge increase in the revenues and wages. In 2001/02 season, the Premiership clubs recorded 1,132 £m revenue and 706 £m wages and salaries. This amount increased from 937 £m revenue and 562 £m wages and salaries in 2000/01.

2.3.2 Wages/turnover Ratios**Table 2.3.2.1 Clubs where total wages/turnover ratios is over 70% and less than 100%**

Premiership	Division One
Fulham 94%	Portsmouth 97%
Middlebrough 85%	Watford 89%
Blackburn Rovers 77%	Birmingham City %87
Everton 77%	Manchester City %87
Charlton Athletic 70%	Nottingham Forest %81
	Sheffield United %71

Source : *Deloitte&Touche Sport Analysis***Table 2.3.2.3 Clubs where total/wages turnover ratio is less than 70%**

Premiership	Division One
West Ham United 68%	Burnley 68%
Arsenal 67%	Wolverhampton Wdrs 68%
Aston Villa 66%	Grimsby Town 64%
Leeds United 66%	Walsall 62%
Ipswich Town 65%	Sheffield Wednesday 62%
Southampton 60%	Preston North End %60
Chelsea 60%	Millwall 59%
Sunderland 59%	Norwich City 54%
Liverpool 56%	West Bromwich Albion 54%
Tottenham Hotspur 56%	Gillingham 53%

Source : *Deloitte&Touche Sport Analysis***Table 2.3.2.4 Clubs where total wages/turnover is at or less than 50%**

Bolton Wanderers 50%	Rotherdam United %50
Manchester United 47%	Stockport County 48%
Newcastle United 45%	Crewe Alexandra 43%

Source : *Deloitte&Touche Sport Analysis*

The overall increase in the Premier League wages/turnover ratios to 62% shows us that how clubs profit margin has been decreased over time. When we look club by club to wages/turnover ratios, we see that the most successful ones on the field are the ones with low or medium wages/turnover ratios. For example, in the Premier League Manchester United recorded 47% wages/turnover ratios and this shows the success on the field also brings the success off the field. When we especially look at high wages/turnover ratios, mostly we see underachieving clubs. By contrast, Manchester City in Division One in 2001/02 has been relegated to Premier League, but they had a high wages/turnover ratio in that year. This was caused from the high wages and salaries in order to be achieved in Division One and low television and other revenues.

As a result, we can state that with high wages and salaries, clubs mostly gain high sporting performance on the field. When we looked at the figure for 2001/02, Ipswich Town, Bolton Wanderers, Charlton Athletic, Southampton, Middlesbrough, Fulham, Everton and Sunderland spent low wages and salaries and gain low sporting performance. By contrast, Tottenham Hotspur, Liverpool, Leeds United, Chelsea, Manchester United and Arsenal spent high wages and salaries and gain high sporting performance. There are also some clubs; Blackburn Rovers, Aston Villa, Westham United and Newcastle United that they spent low wages and salaries and gain high sporting performance. When we look at these figures, we can state that the most actual successful ones are the Blackburn Rovers, Aston Villa, Westham United and Newcastle United because they gain more according to their investment ratios when compared by the other clubs. (Deloitte&Touche Annual... 2003 : 38)

Another interesting point for the 2001/02 season is there is no club in the Premier League that by spending high wages and salaries and gaining low sporting performance. This shows that there is strong correlation between sporting performance and wages and salaries.

Table 2.3.2.5 League Table based on total wages paid in 2001/02

Club	2001/02 Wages	2001/02 League	Variance	2001/02 Total	2000/01 Total Wages £'000
------	------------------	-------------------	----------	------------------	------------------------------

	Rank	Position		Wages £'000	
Manchester United	1	3	(2)	69,999	50,002
Arsenal	2	1	1	61,453	40,651
Liverpool	3	2	1	56,031	48,880
Chelsea	4	6	(2)	55,917	50,223
Leeds United	5	5	0	53,612	43,329
Tottenham	6	9	(3)	36,576	25,322
Premiership Average	6,5	10,5	4	35,300	28,100
WestHam United	7	7	0	33,130	31,588
Newcastle United	8	4	4	32,055	26,686
Aston Villa	9	8	1	30,872	24,880
Fulham	10	13	(3)	30,863	19,308

Source : *Deloitte&Touche Sport Analysis*

When we look at the table above, we can state that for the 2001/02 season, Newcastle United is the most successful clubs by comparing their rank in the wages and league position. Manchester United spent almost 70 million £ for the 2001/02 season and still their wages/turnover ratio is less than 50%. This shows how they are good at in the marketing of their brand. In the next chapter, due to their financial success, Manchester United case will be briefly explained. The other interesting point is that, as Manchester United can spent just 70 million £ only for the wages, Besiktas JK has much less budget 2004/2005 for with more than 10 sport branches. This huge wages and salaries are paid due to huge television revenue from BSKyB deal as it has been explained before.

2.3.3 The Impact of Premiership

Since the foundation of Premiership, the average annual salary of players across four divisions has increased significantly.

Table 2.3.3 Estimated average player wages by League/division for 1992/93 and 2001/02

Division	1992/93 Estimated Average Gross Player Wages £'000s	2001/02 Estimated Average Gross Player Wages £'000s	Growth %
Premier League	75	600	700%
Division One	50	200	300%
Division Two	20	70	250%
Division Three	15	42	180%

Source : *Deloitte&Touche Sport Analysis*

When we look at the table 1.3.3 above, we can see that especially the wages in the Premiership has increased significantly by %700 from 1992/93 to 2001/02. There is also increased in the wages in the divisions but of course not as much as the Premier League.

2.3.4 Who does make money out of football?The agents?

Players' agents are making alot of money all across the world and in the world football when stock market for the football clubs decrease, investment mostly turned to agents shares.

Table 2.3.4 Summary of Listed football recent financial result

Company	Year End	Turnover £'000s	Gross Profit £'000s	Operating Profit £'000s
The Sport Entertainment	30/06/2002	3,800	2,350	n/a
Proactive	31/08/2002	5,876	n/a	1,151

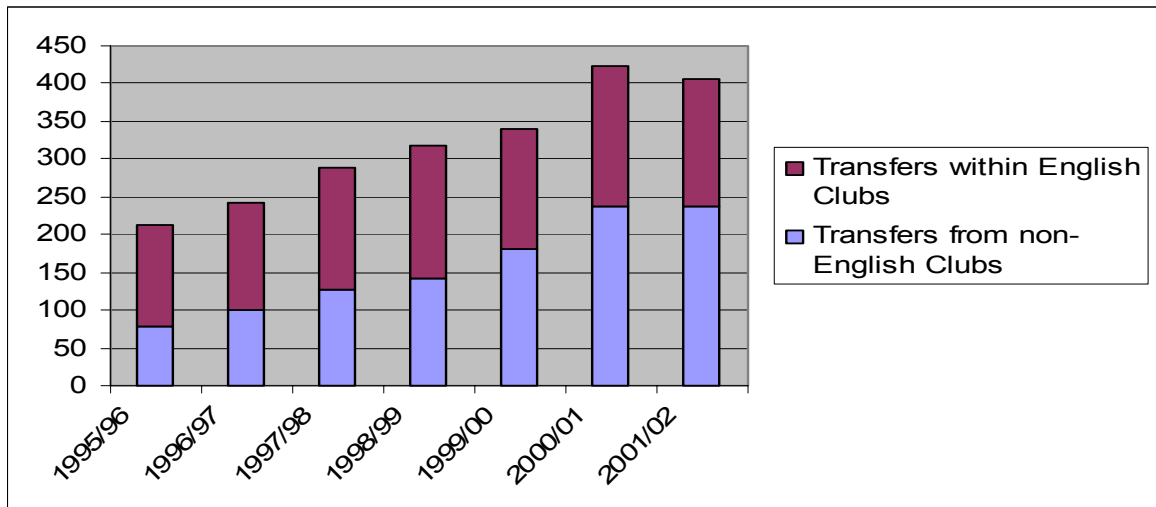
Sports Group				
First Artist Corporation	30/06/2002	6,700	n/a	2,009

Source : *Company Financial Statements, Deloitte&Touche Sport Analysis*

Nowadays, it is important for a player to have a good agent because it is more difficult than before to market a player in this giant market. The market capitalisations of agent business is nearly £3 million at June 2003, where the average market capitalisation of ten Premiership League clubs (excluding Manchester United) was £24 million at June 2003. The turnover generated by the companies can be seen small when it is compared with the clubs but still they are not very small.

2.3.5 Total transfer expenditure in 2001/02 season

Figure 2.3.5 Total Transfer expenditure by English clubs : 1995/96 to 2000/02



Source : *Deloitte&Touche Sport Analysis*

As you can see from the figure 1.3.5, the transfers from non-English clubs has been increased significantly over time. Total spending in the 2001/02 season was over £400 million and it was decreased down by %4 from 2000/01 season. In 2001/02 season the total spending of overseas transfers were 58%. The transfers within English clubs has not been changed much in five seasons. The arrival of billionaire new owners like Chelsea owner, has increased the total transfer expenditure very much. Chelsea spent over £120m

(aggregate of summer 2003 and January 2004) and that means total spending in transfer spending for Chelsea rised to around £260 million. However, this is below the peak of £364 million in 2000/01. (Deloitte&Touche Annual... 2004)

The spending between Premiership clubs stands at £93.5 million with an average of £3.2 million per transfer for the 2001/02 season. The level of spending for the Football League (Divisions) declined to £18 million. Very significant amounts of cas continue to leave English game to overseas clubs. A net out of flow £190 million was recorded, consisting of £159 million from the Premiership and £31 million from the Football League.

2.3.6 The biggest spenders

Table 2.3.6 Overall transfer spending by Premier League Clubs: 1996/97 to 2001/02

Rank	Club	Cumulative net transfer fess paid 1996/97 to 2001/02 £ m	Cumulative pre-transfer operating profit/(loss) £m	Cumulative surplus/(deficit) £ m
1	Manchester United	(99)	178	79
2	Leeds United	(91)	12	(79)
3	Chelsea	(84)	29	(55)
4	Liverpool	(81)	40	(41)
5	Tottenham	(53)	41	(3)
6	Newcastle	(50)	40	(10)
7	Fulham	(50)	(54)	(104)
8	Middlebrough	(47)	(17)	(64)
9	Aston Villa	(44)	39	(5)
10	Manchester City	(32)	(4)	(36)

Source : *The Football League, Deloitte&Touche Sport Analysis*

When we look at the table 1.3.6, Manchester United, Leeds United and Chelsea are the biggest spenders in the Premier League between 1996/97 and 2001/02 seasons. But among three, Manchester United also earned transfer profit as the other two clubs have deficit from the transfer. The highest deficit occurred due to transfers is in Fulham with £104 million and the lowest deficit occurred due to transfer is in Tottenham Hotspur with £3 million, Manchester United is the only club that can have surplus from the transfer between these periods. Besides Manchester United and Tottenham, we can state that Aston Villa has a balanced book in terms of transfer.

2.4 Stadium Development

Many of the Europe professional sports organisations recognized that converting stadiums into profit centres like British teams help one step more closer to gain success. As an example, England enjoys €307 million on matchday and that means %161 more outperformed than Italy. And this gap is widening year by year. In 1996/97 the gap between Italy and England matchday revenue was just €95 million.

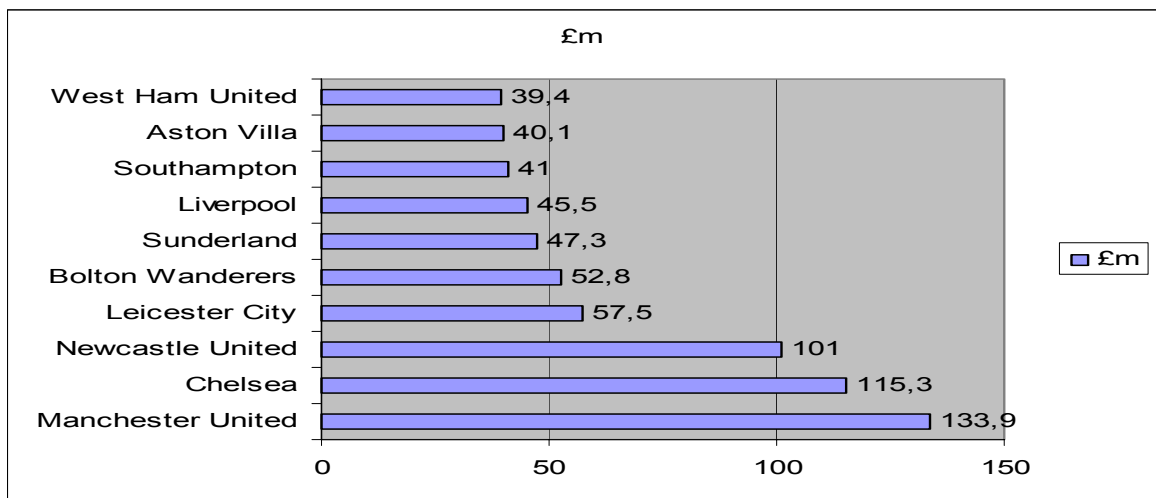
Table 2.4.1 Capital Expenditure on stadium/facilities by English clubs

Season	Premiership	Division 1	Division 2	Division 3	Total
1991/92	26	6	1	1	34
1992/93	50	28	3	2	83
1993/94	58	22	2	2	84
1994/95	98	19	6	2	125
1995/96	61	17	8	6	92
1996/97	91	30	8	1	130
1997/98	117	57	10	2	186
1998/99	105	23	20	4	152
1999/00	141	26	15	7	189
2000/01	160	27	4	4	195
2001/02	144	29	11	7	191
Total	1,051	284	88	38	1,461

Source : *Deloitte&Touche Sport Analysis*

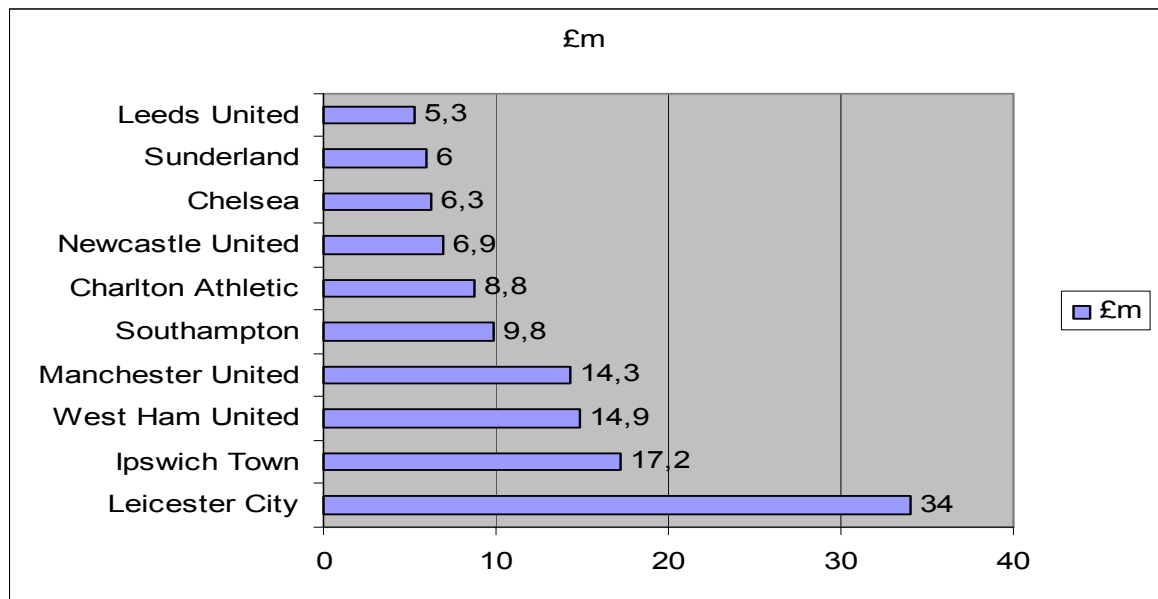
Total expenditure made by English club from 1991/92 to 2001/02 was £1,4 billion, an average of total investment of £133 million per year. Premiership clubs alone account for over £1 billion of the total expenditure. The amount £1 billion as an average accounts for £4.7 million by each Premiership club for a year. It can be also seen from the table 1.4.1 that in 2000/01, the investments on stadiums and facilities is at the peek point.

Figure 2.4.1 Major Spenders on stadium/facilities: 1994/95 to 2001/02



Source : *Deloitte&Touche Sport Analysis*

In the figure 2.4.1, it can be seen the major spenders on stadium/facilities from 1994/95 to 2001/02. Manchester United with £133.9 million , it is the highest spender. After Manchester United , we see Chelsea, Newcastle and Leicester City. Top three higher investor clubs invesment on stadium/facilities development is over £350 million and these three clubs all invested in capacity expansions at their traditional home stadium. Chelsea also have used some of invesment techniques in this period in order to diversify the business and attempt to generate revenue streams not totally dependent on football. Manchester United and Newcastle United enjoy playing with the full capacity and right now they have the largest stadiums in English football with 1 million matchday spectators annually. It is interesting that while Bolton Wanderers and Sunderland spent around £50 million, they were the members of Division One. This information actually proves how English football league is developed financially when compared with the Turkey.

Figure 2.4.2 Major spenders on stadium/facilities in Premiership : 2001/02

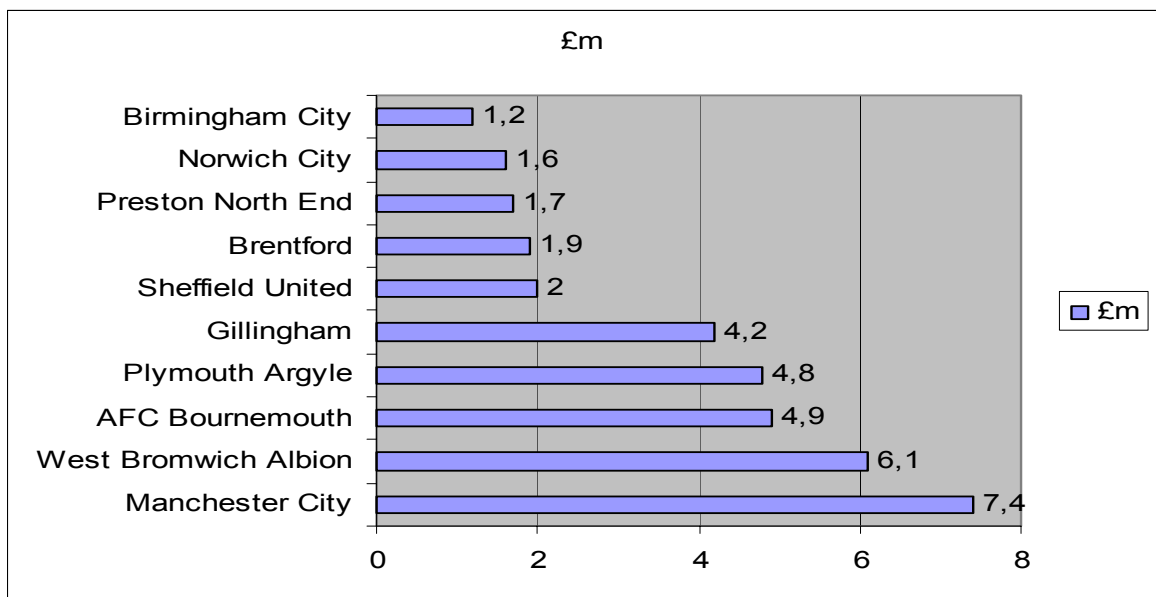
Source : *Deloitte&Touche Sport Analysis*

Leicester City spent most of its investment on stadium/facilities development in 2001/02. They have built 32,000 capacity Walkers Stadium. After the opening Walkers Stadium , they have increased their attendance average by 9,000 per match during 2002/03. Ipswich Town, West Ham United, and Southampton spent nearly £86 million in two seasons and increased the combined capacity of their home stadium by 54%. In another words, they have increased their volume capacity by 34,400 seats when we combined their total investments. They expect to earn profit from matchday revenue in 7 years when the payback period for these investments are finished.

The calculation of cost per seat for each club's investments when it is compared with the cost of redeveloping is higher than the cost of relocation. Southampton moved its stadium to new location while Ipswich Town and West Ham United redeveloped their traditional homes. Also Arsenal is thinking to move from Highbury Stadium. Clubs mostly choose the redevelopment option as a time saving decision, thinking that the cost may be higher but the payback can be enjoyed sooner. For example ; In Turkey, Besiktas JK has choosed this method.

One of the highest spender in 2001/02, Charlton Athletic spent £8.8 million not only on their stadium but also on their training facilities and academy. Charlton Athletic is one of the club in England which continue to set one of the highest standards for regeneration and community relations. Manchester United and Newcastle United also invested like Charlton Athletic invested on their trainign facility. (Deloitte&Touche Annual... 2003 :51)

Figure 2.4.3 Major Spenders on stadium/facilities in the Divisions :2001/02



Source : *Deloitte&Touche Sport Analysis*

Of the £47 million investment made in the Football League clubs, Manchester City, West Bromwich Albion and AFC Bournemouth accounted for over three quarters of the total. Sheffield United invested on non-matchday facilities, Brentford invested on potential development of new stadium and commercial facilities, Norwich City invested on stadium and training ground improvement and finally Birmingham City made general investment on facilities. Gillingham and Sheffield United stadium can be used for conferences and banqueting after these investments. (Deloitte&Touche Annual... 2003 :52)

Table 2.4.2 Aggregate Capacity at Premiership Stadiums: 1997/98 to 2001/02

Season	Total Capacity at Premiership	Increase Over Previous Year
1997/98	649,586	6,175 0,9%
1998/99	671,863	22,277 3,4%

1999/00	674,325	2,462	0,4%
2000/01	696,836	22,511	3,4%
2001/02	740,848	44,012	6,3%

Source : *Deloitte&Touche Annual Review of Football Finance, 1998-2002; England's Premier Clubs 1998-2001; Deloitte&Touche Sport Analysis*

As it can be seen from table 1.4.2, every year aggregate capacity at premiership stadiums increased. Still Fulham, Blackburn Rovers and Bolton Wanderers did not have a stadium by Premiership stadiums. The average capacity for 2003 was over 37,000 in English Premiership. In 2001/02 Southampton increased its capacity by 17,299 seats, Chelsea by 7,028 seats and Aston Villa by 3,784 seats. The total capacity in the Premiership reached to around 750,000 in May 2002. Assuming an average ticket price of £25 and a 19 match league season, the potential revenue increase due to capacity expansion, it equates nearly £18 million. (Deloitte&Touche Annual... 2003 :53)

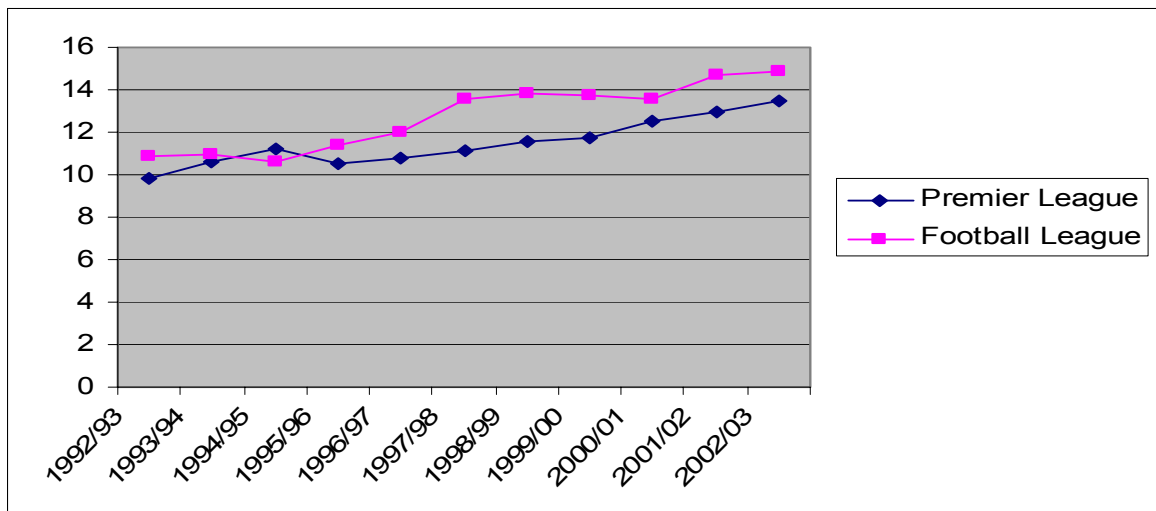
Table 2.4.3 Increases in stadium capacity at English clubs : 1997/98 to 2001/02

	Clubs with capacity over 10,00	Clubs with capacity increases over 5,000	Clubs with capacity increases over 2,500
Premiership	Manchester Utd.	Chelsea	Aston Villa
	Newcastle Utd.	Sunderland	Bolton Wanderers
	Southampton	West Ham Utd.	Charlton Athletic
			Derby County
			Ipswich Town
			Liverpool
Football League	Wigan Athletic	Bradford City	Barnsley
		Cardiff City	Birmingham City
		Reading	Bristol Rovers
		Wrexham	Crewe Alexandra
		Wycombe Wander	Fulham
			Hull City

			Manchester City
			Mansfield Town
			Oxford United
			Stoke City
			West Bromwich

Source : *Rothmans Football Yearsbook; Deloitte&Touche Sport Analysis*

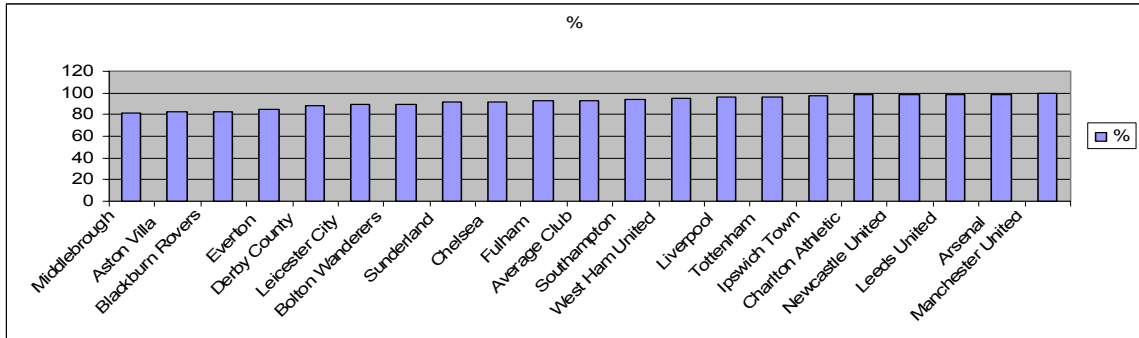
Figure 2.4.4 League Match Attendances at English Stadiums



Source : *Rothmans Football Yearsbook; Deloitte&Touche Sport Analysis*

As Premiership succeeded in attendance growth, Football League also succeeded in attendance growth. For the Football League attendances in 2001/02 hit 14.7 million and 2002/03 hit 14.9 million. The Premiership attendances in 2001/02 hit 13 million and 2002/03 hit 13.5 million. As it can be seen from the figure 1.4.4, there is a continuous increase in the attendances. For the 2002/03 season, FA Premier League attendances approached the 13.5 million with an average attendance per match of 35,000.

Figure 2.4.5 Stadium Utilisation for Premiership Clubs 2001/02



Source : *Rothamans Football Yearbook; Deloitte&Touche Sport Analysis*

The average stadium utilisation was 92.7%. Manchester United had the highest stadium utilisation rate with 99.1%. Arsenal (98.6%), Leeds United (98.7%) and Newcastle United (98.4%) followed Manchester United in 2001/02. Middlebrough had the lowest stadium utilisation rate with 81.2%. Aston Villa (82.2%), Blackburn Rovers (82.8%) and Everton (84.7%) was also among the lowest owners of stadium utilisation. It can more easily be understood that how English stadiums uses their potential capacity well if you compare these rates with Turkish stadiums.

As aggregate league attendance at Premiership stadium grew by 4.6% in 2001/02, aggregate stadium capacity grew by 6.3%. That means supply exceeded demand. With bigger stadium capacities, the average unused seats per match increased to 2,718. If £25 a ticket, that equates to £22 million across the season for the Premiership. The reasons English clubs are not showing 100% due to lack of take up by away supporters and the segregation policy at the stadium which remove a number of seats from the inventory.

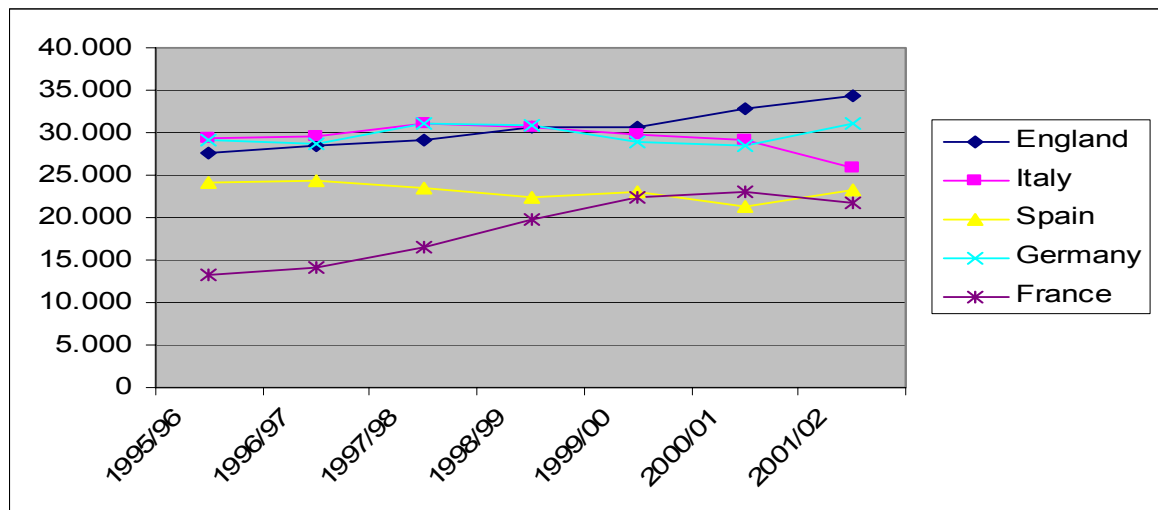
Table 2.4.4 Comparison of average attendances in major English cup competitions : 2000/01 to 2001/02

	FA Cup		Football League Cup	
	All Stadium	Premiership	All Stadium	Premiership
Season 2000/01	11,951	27,390	9,749	21,203
Season 2001/02	12,968	28,468	10,937	19,864
Annual Difference	+8,5%	+3,9%	+12,2%	(6,3%)

Source : *Deloitte&Touche Sport Analysis; Football Associations ; Football League*

Although attendance levels at Premiership stadium for FA Cup matches were increasing in 2000/01, it was still lower than for Premier League. The 2002/03 FA Cup competition has seen 26 matches at Premiership stadium with a total attendance of 759,304, which equates an average of 29,204. Football League Cup attendances at Premiership stadium rose in 2000/01 by 25%. However, League Cup attendances were still over 35% lower than Premiership league fixtures. (Deloitte&Touche Annual... 2003 :57)

Figure 2.4.6 Comparison of average league attendances in the big five European Leagues: 1995/96 to 2001/02



Source : *Deloitte&Touche Sport Analysis; Rothmans Football Yearbook*

In 2001/02 season, England has the highest attendance level with 34,324. In the second place for the attendance level, Germany can be found with 31,047. After Germany, Italy is seen with 25,946. As it can be seen from the figure 1.4.6, as Italy in 1995/96 has the highest attendance level, the attendance level for the Italy is declining sharply. Lazio, Roma, Udinese and Fiorentina declining supporter number and relegation of Napoli contributed to this sharp decline. After Italy, Spain is the fourth highest attendance level with 23,245. Finally, France is the fifth highest attendance level in the Europe with 21,737 and France has an increasing function for the attendance level.

The continued success of English clubs in the growth of attendance level directly related to the strategic decision taken by clubs to invest considerable amounts in their stadiums and match day facilities. In Germany, the success of increase in the attendance level is directly related to Schalke 04 new stadium which experienced %38 increase in attendance levels, Borussia Dortmund and Bayern Munich loyal supporters. England is ahead of all European leagues with 28% of revenue on matchday. Germany is just %17 of revenue is generated from matchdays and in France less than 20% of their revenues from matchday. (Deloitte&Touche Annual... 2003 :59)

2.5 Financing the Clubs

Since football is a new industry, new financing options have opened up for football clubs. So football clubs financing have become more complex and diverse. For the big clubs methods such as securitisation and player financing deals have begun to use whereas for the small clubs, they mostly use bank and loan finance. Other financing methods like stock exchange listings and soft loans have become almost non-existent due to the bad experiences of investors. At this point, it can be said that English clubs mostly gain from the stock exchange listings but right now due to investors bad experience, they cannot use this method. It is important to notice that in Turkey, a lot of clubs especially in the near future Trabzonspor will go to stock exchange listings. As an investor, the experiences that happened in England must be investigated in order to prevent possible losses.

Table 2.5.1 Securitisation of football club revenues

Club	Amount	Date	Term
Newcastle United	£55m	Dec 1999	17 years
Southampton	£25m	Dec 2000	25 years
Leicester City	£28m	Aug 2001	25 years
Ipswich Town	£25m	Aug 2001	25 years
Leeds United	£60m	Sept 2001	25 years
Everton	£30m	Mar 2002	25 years
Manchester City	£30m	Jun 2002	24 years
Tottenham	£75m	Nov 2002	20 years

Source : *Deloitte&Touche Sport Analysis*

In most cases, securitisation has been used to finance stadium development or to refinance existing debt. The securitisation process can be compared with the municipal bonds in order to finance a project. The securitisation have tied clubs to significant interest payments over a long period of time. Clubs and financiers must be thinking carefully before settling on a football club securitisation because this process can be harmful for both sides. These securitisations must be backed by assets. Nowadays, Liverpool is thinking to finance the construction of their new stadium by securitisation. Arsenal has already done it and they have secured £357 million and their attendance level should go up from an average of 722,795 to 1,140,000 a season. (Arsenal secure stadium... 2004)

Table 2.5.2 Overview of the financing of the Premier League in 2000/01 and 2001/02

	2001/02 £m	% of total	Change £m	2000/01 £m	% of total
Bank Borrowings	122.6	11%	40.1	82.5	8%
Other Loans	457.9	42%	173.8	284.1	28%
Hire Purchase/Leasing	18.0	2%	6.9	11.1	1%
Total Borrowing	598.5	55%	220.7	377.7	38%
Share Capital & Retained Profits	499.0	45%	(125.4)	624.4	62%
Total Capital Employed	1097.5	100%	95.4	1002.1	100%
Borrowing/equity:Ratio	120%			60%	

Source : *Deloitte&Touche Sport Analysis*

Banks borrowings increased by £40.1 million to £122.6 million. The refinancing at Leeds United and Everton combined to help decrease bank borrowings at those clubs by over £50 million. Other loans increased by £173.8 to £457.9 million. This increase mostly occurred due to increased use of securitisation deals and the presence of Fulham in the Premiership. As it can be seen from the table 1.5.1, securitisation deals mostly done by Everton, Ipswich Town and Leeds United. The presence of Fulham increase the total other loans in the total

of Premiership clubs because Fulham held £92 million soft finance at the year-end. Also the equity erosion has begun due to increased use of other loans with the current level %120 ratio.

Table 2.5.3 Overview of the financing of Football League Division One in 2000/01 and 2001/02

	2001/02	% of	Change	2000/01	% of total
	£m	total	£m	£m	
Bank Borrowings	80.0	38%	23.2	56.8	23%
Other Loans	82.7	40%	(72.8)	155.5	64%
Hire Purchase/Leasing	8.3	4%	(2.5)	10.8	5%
Total Borrowing	171.0	82%	(52.1)	223.1	92%
Share Capital & Retained Profits	36.6	18%	16.3	20.3	8%
Total Capital Employed	207.6	100%	(35.8)	243.4	100%
Borrowing/equity:Ratio	467%			1098%	

Source : *Deloitte&Touche Sport Analysis*

The level of bank borrowing for Football league division one increased by £23.2 million. Most of this comes from the clubs which has been relegated from the Premier League 2001/02 (Manchester City and Coventry City). Just only two clubs increased their equity in Football league division one (Watford and Millwall).

There are two important cashflows for the football clubs and these are trading cashflow and financing cashflow. For the Premiership 2001/02 season; the trading inflows were; Commercial/other income with £335 million, Matchday income £321 million, TV income £475 million, Players-sold (Non-Uk) £36million, Players-sold (within UK) £110 million. The trading outflows for the same season were; Player spendings (UK) £128 million, Player Spending (Non UK) £195 million, total wages&salaries £706 million, and other operating costs £287 million. As a result the Premiership clubs had trade deficit £38 million in 2001/02 season. The trading deficit £38 million in 2001/02 is significantly lower than £69 million in the 2000/01 season .

For the Premiership 2001/02 season; the financial inflows were; trade to deficit funds £38 million, new shareholder investment £1 million, grants received £3 million and new loans/leasing £272 million. The financial outflows for the same season were; tax paid £14 million, net interest £30 million, decreased working capital £15 million, borrowings repaid £79 million, dividends £11 million and stadium expenditure £134 million. As a result for the Premiership clubs in 2001/02 season, their cash stock has been decreased by £44 million. (Deloitte&Touche Annual... 2003 :64)

Table 2.5.4 Ranking of clubs by Net Debt, at the end of 2001/02 season

Premier League	£m	Football League	£m
Fulham	107.9	Wolverhampton	37.9
Chelsea	80.7	Manchester City	27.0
Leeds United	77.9	Coventry City	26.2
Middlesbrough	53.6	Reading	24.1
Newcastle United	45.2	Nottingham Forest	18.7
Bolton Wanderers	33.9	Wigan Athletic	18.3
WestHam United	33.4	Sheffield W.day	17.0
Ipswich Town	31.4	Portsmouth	16.7
Everton	27.6	Cardiff City	12.2
Southampton	25.7	Sheffield Utd.	9.7
Total	517.3		207.8

Source : *Deloitte&Touche Sport Analysis*

From the table 1.5.4, it can be seen the net debt of the Premiership and Football League easily. In the premiership; Fulham, Chelsea and Leeds United are the top indebted clubs while Wolverhampton, Manchester City and Coventry City in the Football League are the most indebted clubs. The amounts when compared with the Football League, Premiership is significantly higher.

Table 2.5.5 Top Ten clubs by net bank borrowings and other loans, at the end of 2001/02 season

Rank	Net Bank Borrowings	£m	Rank	Other Loans	£m
1	Middlesbrough	40.5	1	Leeds United	92.6
2	Westham Utd.	30.5	2	Fulham	91.9
3	Bolton Wanderers	24.4	3	Chelsea	73.9
4	Sunderland	21.2	4	Newcastle United	62.9
5	Liverpool	19.7	5	Everton	36.5
6	Coventry City	17.9	6	Wolverhampton	34.9
7	Manchester City	17.9	7	Southampton	24.5
8	Sheffield W.day	16.9	8	Ipswich Town	24.4
9	Charlton Athletic	14.0	9	Reading	21.0
10	Nottingham Forest	10.7	10	Portsmouth	15.3
Total Top Ten		213.7	Total Top Ten		477.9
Others withn Net Bank Bor.(41 clubs)		84.8	Others(50 clubs)		15
Subtotal		298.5			7.1
Others with net cash at bank(18)		(71.8)			
Total		226.7	Total		635.0

Source : *Deloitte&Touche Sport Analysis*

Middlesbrough, Westham United and Bolton Wanderer were the top bank borrowers in 2001/02 season while Leeds United, Fulham and Chelsea. Everton, Leeds United, Ipswich Town, Newcastle United and Southampton loans are based on securitisation while Chelsea issued eurobonds. Higher borrowing clubs mostly depend on one source of borrowing and especially Everton made a successful securitisation in 2000/01. The table proves that football is actually focus on few clubs.

Table 2.5.6 Top ten clubs by league, by balance sheet player valuation at the end of 2001/02 season

Rank	Premier League	£m	Rank	Football League	£m
1	Manchester United	82.2	11	Manchester City	23.0
2	Leeds United	66.5	16	Wolverhampton	13.0
3	Liverpool	61.2	17	Coventry	12.7
4	Chelsea	57.6	19	Birmingham City	11.5
5	Newcastle United	53.2	22	Portsmouth	5.2
6	Arsenal	53.1	23	Cardiff City	4.9
7	Aston Villa	38.0	24	Wigan Athletic	4.3
8	Middlesbrough	31.5	25	West Bromwich	3.8
9	Fulham	28.6	26	Nottingham Forest	3.6
10	Tottenham Hotspur	27.7	27	Watford	3.4
Total Top Ten		499.6	Total Top Ten		85.4
Others (8 Clubs)		126.8	Others (41 clubs)		20.0
Total		626.4	Total		105.3
Average per club		34.8	Average per club		2.5

Source : *Deloitte&Touche Sport Analysis*

Manchester United, Leeds United and Liverpool has the most valuable balance sheet according to their players in the 2001/02 in Premiership while Manchester City, Wolverhampton and Coventry has the most valuable balance sheet according to their players in Football League in the same season. Home grown players like Scholes, Owen, etc. do not feature on the clubs' balance sheets. When the table 1.5.6 is looked

carefully, the big difference between Aston Villa and Arsenal can easily be seen. This difference occurs due to involving in Champions League and European competition.

Table 2.5.7 Top ten clubs by net assets and bottom ten clubs by net liabilities at the end of 2001/02 season

Rank	Net Assets	£m	Rank	Net Liabilities	£m
1	Manchester United	137.4	1	Fulham	89.6
2	Chelsea	83.4	2	Middlebrough	24.1
3	Arsenal	72.2	3	Wigan Athletic	15.6
4	Aston Villa	62.1	4	Coventry City	14.3
5	Liverpool	51.5	5	Portsmouth	13.1
6	Blackburn	39.5	6	Wolverhampton	12.4
7	Tottenham Hotspur	37.7	7	Cardiff City	9.0
8	Newcastle United	36.5	8	Brighton	6.5
9	Sunderland	30.8	9	Nottingham Forest	5.5
10	West Ham Unied	18.6	10	Southend United	4.7
Total Top Ten		569.7	Total Top Ten		194.8
Others (32 Clubs)		155.8	Others (17 clubs)		21.1
Total		722.5	Total		215.9
Average per club		17.3	Average per club		8.0

Source : *Deloitte&Touche Sport Analysis*

The top ten clubs in net asset terms at the end of 2001/02 were all in the Premier League. The highest ranked Football League club was West Bromwich Albion in the 12th with £16.3 million of net assets. Manchester United's continued impressive profitability has continued to open the gap with the second placed club Chelsea. The majority of the Premiership clubs appear as healthy position with significant levels of net assets.

CHAPTER 3

MANCHESTER UNITED

CHAPTER OVERVIEW

The third chapter of this dissertation is focused on Manchester United. It is focused on Manchester United because as a success story in football financing, Manchester United is a milestone in the world. The chapter will mostly focus on 2004 operations of Manchester United with the comparison of 2003.

Manchester United's vision is to be the best football club both on and off the pitch. As to implement this vision, they really work hard. Manchester United had big sponsors like Nike and Vodafone in 2004. They increased their turnover from £173 million to £169 million in 2004 and this increase mostly occurred due to the strong demand for their games at Old Trafford. The importance of media revenue must not be forgotten. The success of the team brings also much media revenue.

The group operating profit before depreciation and player amortisation increased from £55.1 million to £58.3 million in 2004. This increase also mostly occurred due to media revenues as well as Manchester United's cost discipline. Total staff costs were £76.9 million down from £79.5 million in 2003. Player amortisation, which means the spreading cost of acquiring new player registrations over the player's contract period rose to £21.8 million from £21.0 million. During the year, Manchester United totally made net cash payment of £28.8 million. The Manchester United board offered final basic dividend of 1.4 pence per share which would bring the total basic dividend to 2.65 pence per share. In 2003, the total basic dividend was 2.5 pence per share. Manchester United started to expand its stadium and they have already spent £2.8 million on preliminary works to divert services and develop the detailed plans. This finished project will cost £39 million and the projected seat increase is 7,800. By the help of this project, the stadium capacity will be 75,600 at the beginning of 2006/07 season. The company's success is dependent on the cash generation capabilities of the business, without the use of long-term debt.

Manchester United have some medium-term strategic plans like; maintaining playing success, treating fans as a customers, leveraging the global brand, developing media rights and maximising the use of Old Trafford. To main these strategic plans, they follow a very diciplined path. In 2004, Manchester United membership reached to 193,000 and Vodafone renewed its 4-year contract with a value of £36 million. Manchester United built MU Mobile business by offering new services to mobile phone users who want to stay in tune with the latest news and events at the club just like Besiktas did last year with an aggrement with Turkcell. Manchester United is still working on the maximising the use of their stadium with non-matchday and matchday experiences.

3.1 Strategic Goals

In order to be the best on and off the pitch, Manchester United put five strategic goals. These goals are; mainting playing success, treating fans as customers, leveraging the global brand, developing media rights and maximising the use of Old Trafford.

First goal; maintaing playing success, MU planned a USA tour to enlarge their relationships with their key sponsor Nike and to developed the view of their brand in the United States. After the season started, they won Community Shield against Arsenal. They also won their 11th FA Cup but they could not achieved in the Premier League in 2003/04 season. They bought Wayne Rooney for £20 million plus conditional payment and costs. Beside Rooney, Alan Smith and Lois Saha had been bought.

Secondly, in order to develop media rights, through their two interactive websites, in 2004, 13 million view had been made per month and 6,16 minutes average time online per visit. This figure in 2003 was, 14.9 million view per month and 8.43 minutes average times online per visit. This decrease can be named due to the winning Premier League title in the 2002/03 season. Sponsorship, e-commerce, betting and on-demand services revenues are being developed from these web sites. In July 2004, this figure has been reached to £1.5 million. With the aggrement of Vodafone, they generated a new business MU Mobile, that delivers enhanced services to mobile phones for Manchester United fans. Manchester United is unique in the Premier League with its pay TV channel,MUTV. In 2004, subscriptions to MUTV was averaged 95,000. MUTV has been funded by their partners,BSkyB and MU have no liability to meet the ongoing cost of this venture.

As a third goal, global brand leveraging is coming to scene. Manchester United global fans exceed 75 million, and this opportunity provide MU to develop and enhance their partnership relationship. The agreegement with the Vodafone with the value of £36 million shows this strong relationship. Manchester United signed 13-year aggrement with Nike in 2003, and in 2004 it is the second year of this aggrement. In then first 22 months of the aggrement with Nike, Manchester United home and away shirt sales exceed 3.8 million. Manchester United also launched soccer schools in Disneyland Paris and Hong Kong to

provide a new revenue opportunity. Manchester United other sponsors, contributed a total of £5.5 million during 2004 as it was £5.2 million in 2003. With the end of Terra Lycos sponsorship in June 2004, MU signed with Audi for the season 2004/05 and 2005/06. Besides these, MU installed LED digital board around three sides of the pitch at a cost of £2 million. (Manchester United Annual... 2004 :19)

The fourth goal is treating fans as customers. MU created customer relationship management database in order to segment fans into groups to tailor communication and product offerings to their individual aspirations and needs of 2,5 million fans. This system inform fans what's happening in the stadium on matchday, let fans to buy foods and drinks from cafe or kiosk and shop in the megastores with discount. MU is targeting 3,5 million fans in their customer relationship management database by the end of 2005. The membership of One United reached to 193,000 and MU aim 200,000 by the end of 2005. The new credit card that is rolled out internationally reached 32,000 while the domestic card is in 2004 by over 60,000.

The last goal and a very important goal is to maximise the use of Old Trafford. MU created fans' forum which meets four times a year its members. In 2004/05 season, there is in the 48 kiosks and 19 suits around the stadium. The electronic point of sale equipment which is a £700,000 investment, is designed to improve both the speed of service and the internal controls relating to the cash and stock passing through those facilities. In the 2003/04 season, MU's 19 Premier League, four Champions League and two domestic cup games at the Old Trafford totalled 1.68 million attendance. In 2003/04 season, the lowest priced adult ticket was ranged £20 to £28. Due to high demand for MU matches, MU will add 7,800 seats and then the total capacity will be 75,600. The project cost, including the preliminary expenses already incurred, would be £39 million. MU museum and tour attraction had 235,000 visitors during 2004, a combination of conference and event visitors and general public. The museum and tour is more than a record of the heritage and history of Manchester United, it is the opportunity to interact with various exhibits and to see behind the scenes of Old Trafford. Manchester United have 500 permanent staff and up to 1,300 matchday staff for games at Old Trafford, MU have developed human resources

activities to support this important resource.

Besides these five strategic goals, as a global organisation, the community Manchester United serves can be said to be much broader than most other football clubs. Manchester United heavily invest in both time and resources in discharging Manchester United's corporate social responsibilities. The club has annual agreements with 10 national charities. Each receives a consignment of signed items for them to auction to raise funds. Also Manchester United receives thousands of requests for charitable donations. Throughout the year 2004, discounts and free facilities were given to events held on behalf of countless charities. This contribution totalled some £20,000 in 2003. Each year, Manchester United hosts a Football Aid event to raise funds for the youth diabetes charity, a partnership which has raised over £90,000 in the last three years. Throughout the generosity of our fans, cash collections at Old Trafford on selected matchdays in aid of local charities averaged some £20,000 per game. In addition to corporate social responsibilities, Manchester United also support annual anti-racism week. As total, charitable donations during the year 2004 amounted to £68,410 which was £55,520 in 2003.

In order to reach these strategic goals of Manchester United, some components of remuneration is implemented. Basic salary, annual performance bonus, long term incentive plan, executive share option plan and other employment benefits are the basic components of remuneration.

Management has also aim and responsibility for the identification and evaluation of significant risks applicable to their area of business, together with the design and operation of suitable internal controls. The risks are assessed by management on a continual basis. Social, environmental and ethical-related risks are also considered. A Group risk register is maintained and this is reviewed by the Group's Risk Management Steering Committee which in turn reports to the Audit Committee. (Annual Report, 2004: 22)

3.2 Financial Review

There is a fall in revenues from the 2002/2003 financial year of £4 million.

For matchday revenues, during the 2003/04, 25 games played at Old Trafford produced average matchday ticket revenue of £2 million, a 17 percent increase over the average achieved in the previous financial year, reflecting the mix of games and ticket price rises for the year. Matchday revenues consist of seven items; which are season tickets by £28.5 million, league match by £12.2 million, European games by £4.9 million, other by £4.8 million, matchday catering by £4.1 million, domestic cup by £3.6 million and membership and travel by £3.1 million. Matchday membership package revenues were £3.1 million reflecting the growth of applications for membership to 193,000. As a result, matchday revenue forms £61.2 million total matchday turnover in 2004 which was £70.6 million in 2003. The percentage of total turnover represents 36% in 2004 which was 41% in 2003.

For media revenues, the total value of Manchester United's receipts from the UK domestic tv contracts was £33.8 million (2003 £33.5 million). The value of the overseas FAPL TV distribution deal was £2.7 million, an increase of 29 percent over the previous year, again reflecting the final year of a three year contract. MU participation in the Group and first knockout stages of the European Champions League produced £20 million of media revenues, compared to £17 million in the previous year. Like matchday revenues, media revenues also consists of seven items; which are UK domestic TV live by £22.7 million, Champions League by £20 million, UK domestic TV equal share by £11.1 million, domestic cup games by £3.7 million, overseas by £2.7 million, MUI by £1.5 million and UK radio by £0.8 million. The consequence of finishing third in FAPL in 2003/04 is that MU share of pool based on domestic league position reduces to 15 percent in 2004/05 by £6 million. In domestic cups, MU received media revenues of £3.7 million (2003 £1.3 million), reflecting the three live FA Cup games, two live Carling Cup games and MU prize money for participating in and winning the FA Cup final at the Millenium Stadium. MU Interactive continues to grow its revenues, reaching £1.5 million for the year, a rise of 6 percent over 2003. As a result, media revenues forms £62.5 million total media turnover

in 2004 which was £56.2 in 2003. The percentage of total turnover represents 37% in 2004 which was 32% in 2003.

For commercial revenues, stripping out the £3.5 million Nike revenue, MU commercial revenue was up 6 percent on the prior year as a result of the increase in the last year of the Vodafone contract and further increases in Platinum sponsorship agreements and MU Finance revenues. Commercial revenues also consist of seven items which are ; Nike by £20.8 million, Vodafone by £9 million, Platinums by £5.5 million, non-matchday catering by £3.5 million, other by £3.2 million, MU Finance by £2.2 million and FA Premier League sponsors by £1.1 million. Nike paid an additional £1.1 million in August 2004, which is the amount by which MU 50 percent share of the profits of the partnership exceeded the minimum guarantee payments. Non-matchday conference and catering business grew by 13 percent to £3.5 million and the financial services business grew by 21 percent to £2.2 million. Other commercial revenue includes income from the Museum and Tour, together with royalties from MU Travel and MUTV. As a result, commercial revenues forms £45.3 million total commercial turnover in 2004 which was £46.2 million in 2003. The percentage of total turnover represents 27% in 2004 which was the same as 2004 in 2003.

For profit on ordinary activities, group operating profit before depreciation and player amortisation was £58.3 million (2003 £55.1 million). This increase can be attributed to a more beneficial mix of revenues with a larger proportion of media income being received and a lower proportion of matchday income. Group operating profit by competition which is also considered as profit on ordinary activities consist of three items which are premiership and other activities by £30 million, champions league by £23.6 million and £4.7 million by domestic cup. In 2004, the percentage ratio of wages to turnover was 45 percent compared to 46 percent on 2003. However, the impact of the new Premiership domestic TV deal and a lower level of Champions League revenues, increased this ratio in the 2004/05 to around 50 percent.

The current trading market suggests that interest in acquiring all but the very top players is failing and transfer fees are reducing for squad players. The net loss on disposal of players

in the year 2003 was £3.1 million. During the year 2004, MU terminated the contract of the player, Fabien Barthez, requiring a write off of £2.6 million of unamortised intangible asset at the termination date on 30 June 2004, and a payment of £2.5 million in partial compensation for the remaining two years of his six year contract. In addition, a provision was made against the carrying value of Diego Forlan of £1.9 million at the year end, prior to the sale of his registration in August 2004. These losses were offset by the sale of Nicky Butt and further net income totalling £2.4 million being recorded in respect of payments from Real Madrid for David Beckham, from Chelsea in respect of Sebastian Veron and from Blackburn in respect of Andy Cole and Dwight Yorke.

Manchester United share of the operating losses of MUTV, which was 33% joint venture throughout the year, were £0.1 million, although MU shareholder agreements Manchester United continues to bear no exposure to the funding of these losses. During the year 2004, the gross interest receivable was £1.3 million on average cash balances of approximately £31 million. This interest income was partially offset by our one-third share of interest charges on MUTV of £0.2 million. The net assets of the group increased by £16.9 million and capital expenditure during the year 2004 amounted to £8 million. (Annual Report, 2004: 29)

3.3 Financial Statements

The financial statements have been prepared under the historical cost convention and have been drawn up to comply with applicable accounting standards. Consolidation depends on the accounts that combine the results of Manchester United PLC and its subsidiary undertakings using acquisition accounting. Undertakings, other than subsidiary undertakings in which the Group has an investment of at least 20% of the shares, and over which it exerts significant influence, are treated as associates. Entities in which the Group holds an interest on a long-term basis, and which are jointly controlled by the Group and other parties, are treated as joint ventures. The result for the joint venture and associate are based upon management accounts for the period ended 31 July 2004. The Group profit and loss account includes the Group's share of turnover, operating loss and interest of the joint venture. The investment in the joint venture is shown in the Group balance sheet

using the gross equity method. The gross equity method records the Group's share of gross assets and gross liabilities in its joint venture. The Group profit and loss account includes the Group's share of operating result and interest of the associate. The investment in the associate is shown Group balance sheet using the equity method. The equity method record the Group's share of the underlying net assets of the associate. Turnover represents income receivable from the Group's principal activities excluding transfer fees and value added tax. Turnover is analysed between Matchday, Media and Commercial revenue streams.

Income from matchday activities, media and commercial contracts, which has been received prior to the year end in respect of future football seasons is treated as deferred income. Tangible fixed assets are stated at cost less depreciation. Stocks comprising raw materials, consumables and goods held for resale are valued at the lower of cost and net realisable value. The cost associated with the acquisition of player's registrations are capitalised as intangible fixed assets. These costs are fully amortised over the period covered by the player's initial contract. Where a playing contract is extended, any cost associated with securing the extension are added to the unamortised balance at the date of the amendment and that book value is amortised over the remaining revised contract life. Where a part of the consideration payable on acquiring a player's registration is contingent on a future event, this amount is recognised once it is probable, rather than possible, that the event will occur and is amortised from the start of the year in which the contingent payment becomes probable. Staff costs include signing on fees payable to players representing part of their remuneration which are charged to the profit and loss account evenly over the period covered by the player's contract. Grants receivable from the Football Trust and the former Football Grounds Improvement Trust in respect of capital expenditure are treated as deferred income and released to the profit and loss account so as to match the depreciation charged on the fixed assets purchased with the grant. Deferred grant income in the balance sheet represents total grants received less amounts credited to the profit and loss account.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation

to pay more tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in financial statements. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities held at the year end are translated at year and exchange rates, or the exchange rate of related forward exchange contract where appropriate. The resulting exchange gain or loss is dealt with through the profit and loss account. Provision is made for the anticipated net costs of onerous leases on non-trading properties. The provision will be represented by the payment of costs, shortfalls on sub-tenanted property and expenses of early termination.

Investments in subsidiary undertakings in the company balance sheet are included at cost less any provision for impairment in value. The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates. Derivative instruments utilised by the Group include forward currency contracts. Such contracts are accounted for as hedges, with the instrument's impact on profit deferred until the underlying transaction is recognised in the profit and loss account. Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term. Contribution to money purchase pension schemes are charged to the profit and loss account as they fall due. Investments in the company's own shares held by the Employee Share Ownership plan are included as a deduction from shareholder's funds. The value of the award is charged to the profit and loss account over performance period with any related credit entry also being reflected in shareholder's funds. The charge is adjusted each period end to reflect lapses of awards and re-estimates of the number of awards likely to vest in relation to performance conditions. (Annual Report, 2004: 61)

Table 3.3.1 Consolidated profit and loss account (for the year ended 31 july 2004)

	2004	2003
	£'000	£'000
Turnover: Group and share of joint venture	171,500	174,936
Less: Share of joint venture	(2,240)	(1,935)
Group Turnover	169,080	173,001
Operating expenses – other	(139,170)	(144,033)
Operating expenses – exceptional costs	-	-
Total operating expenses	(139,170)	(144,033)
Group operating profit before depreciation and amortisation of intangible fixed assets	58,340	55,072
Depreciation	(6,591)	(7,283)
Amortisation	(21,839)	(21,018)
Group operating profit	29,910	26,771
Share of operating loss in :		
- Joint venture	(147)	(407)
- Associates	(11)	(47)
Total operating profit: Group and share of joint venture and associates	29,572	26,317
Profit on disposal of associate	173	409
(Loss)/profit on disposal of players	(3,084)	12,935
Profit before interest and taxation	26,841	39,661
Net interest receivable/(payable)	1,066	(316)
Profit on ordinary activities before taxation	27,907	39,345
Taxation	(8,486)	(9,564)
Profit for the year	19,421	29,781
Dividens	(6,974)	(10,391)
Retained profit for the year	12,447	19,390
Basic and diluted earnings per share (pence)	7.4	11.5
Basic and diluted adjusted earnings per share (pence)	14.1	14.3

Source : Manchester United, *Annual Report*, 2004, page 54

Group turnover is decreased from £173,001,000 in 2003 to £169,080,000 in 2004. Operating expenses also decreased from £146,230,000 to £139,170,000 in 2004. As a result, group operating profit is £29,910,000 in 2004 which is higher than £26,771,000 in 2003. But in 2003, profit on disposal of player was high as in 2004 there was a loss on this item. That's the main reason why profit of 2004 after taxation is £19,421,000 and it is lower than 2003. In 2003, it was £29,781,000. Due to these, earning per share in 2004 is lower than in 2003. Group made total £6,974,000 dividend payment in 2004.

Table 3.3.2 Statement of total recognised gains and losses

	2004	2003
	£'000	£'000
Profit for the financial year	19,421	29,781
Share of increase in joint venture reserves	100	-
Credit in relation to long-term incentive awards	365	208
Consideration paid for purchase of share held by ESOP trust	(231)	(623)
Profit for the year and total recognised gains and losses in the year	19,665	29,366
Prior year adjustment	(415)	
Total gains recognised since last annual report	19,240	

Source : Manchester United, *Annual Report*, 2004, page 54

In the table 3.3.2, adjusted gains in 2004 is shown. Before the adjustment, profit of the 2004 is £19,421,000. With the adjustment, it decreased to £19,240,000.

Table 3.3.3 Consolidated balance sheet At 31 July 2004

	2004	2003
	£'000	£'000
Fixed assets		
Intangible assets	78,233	55,299
Tangible assets	125,093	125,526
Loan to joint venture	1,000	1,000
Investment in associate	178	189
Current assets		

Stocks	216	208
Debtors-amounts falling due within one year	39,487	30,756
Debtors-amounts falling due after more than one year	1,760	13,219
Intangible assets held for resale	1,382	11,941
Cash at bank and in hand	36,048	28,576
	78,893	84,700
Creditors-amounts falling due within one year	(44,635)	(50,202)
Net current assets	34,258	34,498
Total assets less current liabilities	238,762	216,512
Creditors-amount falling due after one year	(8,795)	(2,391)
Provision for liabilities and charges		
Deferred taxation	(5,330)	(5,506)
Other provisions	(1,550)	-
Investment in joint venture:		
-Share of gross assets	260	375
-Share of gross liabilities	(4,760)	(4,641)
Accruals and deferred income		
Deferred grant income	(856)	(1,011)
Other deferred income	(44,377)	(46,920)
Net Assets	173,354	156,418
Capital and reserves		
Share capital	26,219	25,977
Share premium account	4,013	-
Other reserves	600	500
Profit and loss account	142,522	129,941
Equity Shareholders' funds	173,354	156,418

Source : Manchester United, *Annual Report*, 2004, page 55

Intangible asset consist of individual player contract, its asset values, payment to agents during the year and player registration trading summary. In detail, all player contract expiration dates, and their salaries can be seen from intangible asset. In the tangible asset item, subsidiaries, joint ventures, and associates are listed. As a result, fixed assets

increased from £182,014,000 to £204,504,000 in 2004. In the current assets, there is stocks, debtors amounts falling due within one year and after more than one year, intangible asset held for resale and cast at bank and in hand. As a result, total asset less current liabilities is £238,762,000 in 2004 while it was £216,512,000 in 2003. After examining table 3.3.3, net assets is decreased to £173,354,000 which was £156,418,000 in 2003. This £173,354,000 consists of share capital with £26,219,000, share premium account with £4,013,000, other reserves with £600,000, and profit and loss account with £142,522,000.

Table 3.3.4 Company Balance sheet At 31 July 2004

	2004	2003
	£'000	£'000
Fixed assets		
Tangible assets	21,999	24,050
Investments	2,271	2,271
	24,270	26,321
Current assets		
Stocks	216	208
Debtors	92,428	92,101
Cash at bank and in hand	31,341	19,929
	123,985	112,238
Creditors-amounts falling due within one year	(14,454)	(23,112)
Net current assets	109,351	89,126
Total assets less current liabilities	133,801	115,447
Provision for liabilities and charges	(1,550)	-
Accuals and deferred income		
Deferred income	(6,968)	(10,022)
Net Assets	125,283	105,425
Capital and reserves		
Share capital	26,219	25,977
Share premium account	4,013	

Profit and loss account	95,051	79,448
Equity Shareholders' funds	125,283	105,425

Source : Manchester United, *Annual Report*, 2004, page 56

Fixed assets consist of tangible assets and investments while current assets consist of stocks, debtors and cash at bank and in hand. As a result, we find net assets as £125,283,000. In the capital and reserves side, £125,283,000 consist of share capital by £26,219,000, share premium account by £4,013,000 and profit and loss account by £95,051,000. Table 3.3.3 is an consolidated balance sheet while table 3.3.4 is a company balance sheet. When we carefully examine these two tables, Group net asset and equity shareholder's fund is £173,354,000 in table 3.3.3 while this figure is £125,283,000 in company balance sheet. This figures gives us chance to interpret that company forms the most of the profit that Group generated. In table 3.3.3. profit and loss account is £142,522,000 and in table 3.3.4, it is £95,051,000. This figures prove the interpretation that company forms the most of the profit that Group generated.

Table 3.3.5 Consolidated cash flow statement For the year ended 31 July 2004

	2004		2003	
	£'000	£'000	£'000	£'000
Net cash inflow from operating activities		58,769		57,939
Returns on investments and servicing of finance				
Interest received	1,169		316	
Interest paid	(112)		(167)	
Net cash inflow from returns on investments and servicing of finance		1,057		149
Taxation paid		(11,052)		(10,602)
Capital expenditure and financial investment				
Net proceeds from sale of players' registrations	16,009		11,122	
Purchase of player's registrations	(44,813)		(18,983)	
Purchase from sale of tangible fixed assets	2,154		2,235	
Purchase of tangible fixed assets	(6,922)		(6,425)	

Net cash flow outflow from capital expenditure and financial investment		(33,572)		(12,051)
Acquisitions and disposals				
Proceeds from sale of investment in associated company	173		962	
Net cash inflow from acquisitions and disposals		173		962
Equity dividends paid		(11,927)		(8,131)
Cash inflow before management of liquid resources and financing		3,448		28,266
Financing				
Issue of ordinary share capital	4,255		-	
Purchase of share held through ESOP trust	(231)		(623)	
Net cash inflow/(outflow) from financing		4,024		(623)
Increase in cash in the year		7,472		27,643

Source : Manchester United, *Annual Report*, 2004, page 57

Table 3.3.5 represents consolidated cash flow statement. Net cash inflow from operating activities is £58,769,000. Interest received is £1,169,000 while interest paid is £112,000. Most of the spending is occurred in the purchase of player's registrations with £44,813,000. After the purchase of player's registrations item, the second most spending occurred item is net cash outflow from capital expenditure and financial investment. As a result, net cash inflow from the financing is £4,024,000 in 2004 while it was £623,000 outflow in 2003. In 2004, increase in cash is £7,472,000.

Table 3.3.6 Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	£'000	£'000
Net cash generated from operating activities		
Group operating profit	29,910	26,771
Depreciation charges	6,591	7,283

Amortisation of players' registrations	21,839	21,018
Credit in relation to long-term incentive awards	365	208
Profit on disposal of tangible fixed assets	(275)	(691)
Grants released	(155)	(183)
Increase in stocks	(8)	(12)
Increase in debtors	(285)	(5,357)
Increase in creditors and deferred income	787	8,902
Net cash inflow from operating activities	58,769	57,939

Source : Manchester United, *Annual Report*, 2004, page 57

Net cash generated from operating activities increased in 2004 from £26,771,000 to £29,910,000. After making necessary calculations, net cash inflow from operating activities is found £58,769,000 in 2004. This figure was £57,939,000 in 2003.

CHAPTER 4

BESIKTAS JK

CHAPTER OVERVIEW

Besiktas is the one of the biggest sporting club in Turkey. Football branch of Besiktas JK is involved in the Besiktas Futbol Sinai ve Yatirimlari A.S and %85 of this company is owned by the Besiktas JK. In the new transfer season in 2004, Besiktas bought Veysel Cihan, Ibrahim Toraman, Okan Buruk, Fatih Sonkaya, Cagdas Atan, Mustafa Dogan, Ali Gunes, Murat Sahin, Ibrahim Akin, Berkant Goktan, John Carew, JuanFran, and Tayfun Korkut. Beside Besiktas Futbol Sinai ve Yatirimlari A.S, Besiktas JK has Besiktas Sportif Urunler A.S, Besiktas Televizyon Yayincilik A.S, Besiktas Sigorta Aracilik Hizmetleri A.S, Besiktas Turizm Isletmeciligi ve Yatirimlari Sanayi ve Ticaret A.S, Besiktas Eglence ve Organizasyon Hizmetleri Sanayi ve Ticaret A.S and Besiktas Insaat ve Ticaret A.S.

Besiktas has many sponsor due to its popularity in Turkey and in the world. Besiktas main sponsor is Turkcell. Its co-sponsor is Shubuo, which is a Turkcell product also. Special sponsors are Carlsberg, Pepsi Co., Dogus Otomotiv and Volkswagen. Other sponsors are Puma, TVS Media, Cacharel, Intercity Rent a Car, Memorial Hospital, Medline, Gatorade Sport Drinks, GNC Nutritional Supplements, JohnsonDiversey, Aquafina, and Digiturk. As it can be interpreted from these sponsors, Besiktas is a highly developed football club. But still professional management is not functioning properly.

Most of the clubs have founded their professional companies but they are managed by old fashioned management techniques in Turkey. Due to unprofessionality in managing these companies, from the beginning of the trading in the stockmarket, all shares of the football clubs have been decreased. Actually Besiktas have two balance sheets. One of them is for the club and the other one is for the Futbol Yatirimlari Sinai ve Ticaret A.S. In this chapter, it will mainly focus on the balance sheet of the club because Futbol Yatirimlari Sinai ve Ticaret A.S balance sheet mainly cover the letter of recommendation of the football players and players wages and cost as the clubs balance sheet covered the overall of the club transactions except the football branch income and expenditure.

Table 4.1 Asset side of the Besiktas JK balance sheet (01/01/2004 & 31/12/2004)

Current Assets		14,604,630,010,018 TL
Cash	74,302,711,600	
Check Received	342,820,966,351	
Bank Accounts	7,652,170,318,298	
Other Valued Items	27,661,268,000	
Security	550,413,483,452	
Receivables	1,499,303,927,163	
Other Receivables	4,457,957,335,154	
Long-Term Assets		130,541,006,224,717 TL
Financial Fixed Assets	41,759,389,847,028	
Tangible Assets	51,309,880,790,201	
Fixed Assets under construction	3,266,240,959,310	
Rights	26,525,915,042,471	
Special Costs	7,679,579,585,707	
Other Assets		75,012,148,863 TL
Prepaid expenses	74,339,944,263	
Income Relating to Future Months	672,204,600	
Retained Earnings		29,638,498,091,774
Retained Earnings	29,638,498,091,774	
Profit of the period		12,801,841,544,697
Profit of the period	12,801,841,544,697	
Total		187,660,988,020,069

Source : Besiktas Jimnastik Klubu, *Annual Report 2004, 2005*, page 98

Cash account is 74,302,711,600 TL and check received account is 342,820,966,351 TL. In the bank account, Besiktas has bank account in the Akbank Etiler, Denizbank Karakoy, Finansbank Merkez, Garanti Bank Kabatas, Halkbank Besiktas, Isbank Besiktas, Kocbank Merkez, Vakifbank Besiktas, YapiKredi Akaretler, and Ziraat Bankasi Besiktas and Beyoglu. In the total, in these bank Besiktas has 7,652,170,318,298 TL in Turkish liras and foreign currency. Other valued items account is 27,661,268,000 TL. Security account is 550,413,483,452 TL. In the receivable account, Galatasaray Sporting Club, Spor Toto

Teskilat Mudurlugu and some other companies is involved. This account total is 1,499,303,927,163 TL. Other receivables account is 4,457,957,335,154 TL. Up to now, these all accounts were current assets.

In the long term assets, financial fixed assets, tangible assets, fixed assets under construction, rights and special costs account are included. These accounts cover all shares in the Besiktas Futbol Sinai ve Yatirimlari A.S, lands owned by the clubs, sport saloon, Besiktas Inonu Stadium, training facilities, cars, and all Besiktas clubs rights. As a total, long term assets are 130,541,006,224,717 TL.

Other assets account contains prepaid expenses and income related to future months and this account value is 75,012,148,863 TL. Other two accounts left in the asset side are; retained earnings and profit for the period is 29,638,498,091,794 TL and 12,801,841,544,697 TL respectively.

Table 4.2 Liabilities side of Besiktas JK balance sheet (01/01/2004 & 31/12/2004)

Current Liabilities		47,356,681,486,817
Credit Received	6,710,500,000,000	
Debts	40,341,973,369,711	
Taxes payable and other fiscal liabilities	304,208,117,106	
Long-term Liabilities		0
Long-term credit received	0	
Long-term debts	0	
Other Liabilities		3,741,133,920,408
Other Liabilities	3,741,133,920,408	
Income related to future periods		42,127,654,353,077
Advances Received	0	
Royalty Income	25,361,103,945,252	
Sponsorship and Commercial Income	347,791,519,395	
Rent Income for the future periods	16,418,758,888,430	
Revaluation Fund		8,889,091,800,000
Revaluation Fund	8,889,091,800,000	

Revaluation of tangible fixed assets		82,900,352,760,158
Revaluation of tangible fixed assets	82,900,352,760,158	
Losses from previous years		2,446,073,699,609
Losses from previous years	2,446,073,699,609	
Total		187,660,988,020,069

Source : Besiktas Jimnastik Klubu, *Annual Report 2004, 2005*, page 99

Current liabilities consist of credit received, debts, taxes payable and other fiscal liabilities accounts. Credit received from Kocbank Merkez and it is a 5 million dollar credit which is equal to 6,710,500,000,000 TL. Debt account amount is equal to 40,341,973,369,711 TL. Besiktas has debt to in this account to Yildirim Demiroren (President of the club) 6,533,954,120,111 TL. Taxes payable and other fiscal liabilities account is 304,208,117,106 TL. Other liabilities account covers 3,741,133,920,408 TL. Income related to future periods covers royalty income, commercial and sponsorship income, and rent income for the future periods. Royalty income and rent income for the future period is an important income accounts for Besiktas with 25,361,103,945,252 TL and 16,418,758,888.430 TL respectively. Marketing department of Besiktas must improve the income of commercial and sponsorship. It is just 347,791,519,395 TL. Revaluation of tangible fixed assets is 82,900,352,760,158 TL while losses from previous years is 2,446,073,699,609 TL. As a total, assets side and liability side of the balance of Besiktas JK is 187,660,988,020,069. If dollar/TL is calculated at 1,300,000 TL, this figure means that Besiktas JK balance sheet has a value of around 144 million US\$. This figure can be seen as a very large amount but in reality, when it is compared with Manchester United, Real Madrid or other top European clubs, it is a very small amount. Chelsea has spent around £300 million in two year just for the transfer fees after Abromavich takeover Chelsea.

CHAPTER 5

CONCLUSION

In this project, European five major leagues, Manchester United and Besiktas is examined in order to understand the economical differences of five major leagues, economically most valued football club Manchester United and one of the best Turkish club, Besiktas.

When it has been carefully examined, it can be easily understood that Besiktas and Manchester United both have branch companies in order to earn more revenues. As Manchester United is one of the world's largest clubs, Manchester United branch companies by themselves are very big revenue generating companies. Besiktas have these similar companies but due to small Turkish economy when compared with the United Kingdom's, Besiktas branch companies cannot generate revenues like Manchester United's as some of them are also in loss.

This project also proves that biggest spenders in transfer and stadium development are the most successful ones in their own leagues and European cups. Chelsea success in 2005 is a good example of this proof. But still more spending does not guarantee success but it increase the probability of success. The important thing to is to reach success with an optimum spending like Liverpool in 2005 who had won the title of Champions League.

Finally, wages/turnover ratios is a very important indicators of football clubs financial strength. As this ratio gets higher, financial problems in the near future can be seen. The important thing to implement the most suitable marketing and sporting strategies to decrease this value. For Turkish clubs, Turkish clubs success in European football is strongly related with Turkish economy. A sustainable success with the current economic situations of the country and clubs cannot be achieved in European cups

REFERENCES

- **Aigner, G.** (2003), *Changes will redress the balance*
- **Aksar, Tugrul,** (2005), *Endustriyel Futbol*, 1st Edition, Literatur Yayincilik
- **Authier, Christian,** (2002), *Futbol A.S*, 1st Edition, Kitap Yayınevi
- *Besiktas JK Annual Report 2004*
- **Boon, G., Jones, D.,** (2003), *Deloitte&Touche Annual Review of Football Finance*
- **Boon, G., Jones, D.,** (2004), *Deloitte&Touche Annual Review of Football Finance*
- *Manchester United Annual Report 2003*
- *Manchester United Annual Report 2004*

INTERNET SOURCES

- http://news.bbc.co.uk/sport1/hi/football/eng_prem/3325603.stm (accessed on 15.03.2005 19:40)
- http://news.bbc.co.uk/sport1/hi/football/eng_prem/3309871.stm (accessed on 15.03.2005 20:00)
- http://www.sportinglife.com/football/news/story_get.dor?STORY_NAME=soccer/05/01/31/SOCCER_Chelsea_Kenyon.html (accessed on 02.05.2005 01:50)
- <http://news.bbc.co.uk/sport1/hi/football/teams/a/arsenal/3512841.stm> (accessed on 17.04.2005 17:00)
- <http://www.deloitte.com/dtt/article/0,1002,sid%253D70402%2526cid%253D56148,00.html> (accessed on 22.04.2005 23:00)
- <http://sportsillustrated.cnn.com/2005/soccer/wires/01/21/2080.ap.eu.spt.soc.leeds.taakeover/> (accessed on 27.04.2005 01:00)
- <http://sports.yahoo.com/sow/news?slug=reuleedschronology&prov=reuters&type=1gns> (accessed on 30.04.2005 10:00)
- <http://www.uefa.com/uefa/news/Kind=128/newsId=83975.html> (accessed 02.02.2005 21:30)
- <http://www.bjk.com.tr> (accessed on 12.03.2005 22:00)
- <http://www.manutd.com> (accessed on 10.05.2005 02:00)
- <http://ir.manutd.com> (accessed on 10.05.2005 02:10)