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Galactic Revenues – How Real Madrid Captured the Money Champions League

The world's most famous and successful football club Real Madrid was threatened by the most serious financial crisis in its history when Florentino Pérez became the club's president in 2000. Despite the fact that the team had won the European Champions League in 1998, the club was close to insolvency. Debts totalling € 245m exceeded the revenues of € 118m by more than 100%, which resulted in an all time high operating loss of € 65m. This situation was the outcome of the ruinous finance and transfer policies of Perez' predecessors Ramón Mendoza (1984-1995) and Lorenzo Sanz (1995-2000).

Despite being highly competitive on the football field, European clubs such as Manchester United, AC Milano or arch-rival CF Barcelona clearly pulled ahead of Real Madrid financially. Nonetheless Florentino Pérez had a vision. He envisaged the club as not only becoming the most successful football club worldwide, but also the wealthiest. "I want Real Madrid to become the best and richest club of the world", Perez said at the time.

Five years later he proudly noted that "we have now ensured that our income is greater than any other team, it is the highest in the world." Indeed, within one decade, Real Madrid's revenues increased by a staggering 350%, peaking at € 401,4m in 2009, which resulted in an operating profit of € 93m. Similarly, debts decreased to € 120m in the previous fiscal year leaving cash reserves of € 112m at the club's disposal. Moreover, it needs to be noted that as early as the end of 2005, Real Madrid sustainably took the place of England's long time leader ManU as the wealthiest football club in terms of revenues and profit. What were the secrets behind this impressive turnaround?

To examine Real Madrid's financial progress, it is helpful to analyze the composition of Real Madrid's revenues. Deloitte's annual report on the financial situation of the football leagues gives valuable insights. Real Madrid's success was heavily influenced by a tremendous increase in commercial and broadcasting revenues, which totalled € 299m in 2009. Each source of revenue now separately exceeded the total revenues of 2000. Today they represent 75% of the total annual income, which is a much higher percentage compared to any other major club in Spain, Italy or the United Kingdom. One may argue that these high earnings are a result of the club's strong domestic and international fan base, particularly in Asia. In effect, such a global fan base allowed for the generation of € 70m in revenues in 2009 from merchandising and licensing. Real Madrid's success is thus clearly influenced substantially by its strategy to find new markets for its merchandising and licensing products, as well as a strong presence in the global TV market.

In detail, its financial ascent began with the decision to enter the Asian market and the positioning of Real Madrid as a global brand. In 2007, BBDO estimated Real Madrid's brand value to be € 1.063 billion rendering the decisions very effective.

Traditionally organizations primarily grow within their home markets before going abroad. Consequently the main objective for enterprises to go international is to assure sustainable growth for the organization. The desire for implementing an international marketing strategy is thus not limited to multinational companies, but may also be present in smaller enterprises and even professional sports organizations. For decades the world of sports has been an international business. IOC's Olympic Games, FIFA's World Cup or FIA's Formula One-Series are by definition global

organizations, intending to enter new markets, gain new target groups and tap new resources.

In contrast to the organizations mentioned above, Real Madrid's origins are not international. Real Madrid is a national team that is playing in a national league with the exception for some annual appearances in the European Champions League. Nevertheless, the Deloitte reports summarize the financial success as a result of its strong position in the Asian market. "In Asia we are the number one" said Alexander Jobst, Real Madrid's former Manager for International Business Development in 2007. Consequently, Real Madrid must have entered the Asian market in a very successful manner. But why Asia?

Entering the Asian market was a result from both a market opportunity assessment as well as a market seeking approach. As hosts of the 2002 FIFA World Cup, Japan and South Korea were highly involved in the event. As the upcoming World Cup in South Africa is being marketed as the "African World Cup", the first World Cup on Asian soil was the pride of a whole continent with more countries involved than solely the two host countries. Hence, Football as a sport attracted the utmost interest in China, Malaysia and other Asian countries. As a result, Real Madrid recognized the existing opportunities and decided to conquer the Asian market, preceding any of its competitors. By transferring Figo and Zidane to the club in 2000 and 2001 respectively, Real Madrid invested in the best players available worldwide, while the acquisition of Ronaldo and Beckham 2002 and 2003 respectively was an investment into living sports brands.

Both may not have been the best players worldwide at the time, but still they were Real Madrid's key to globalization. Especially David Beckham, husband of Ex-Posh Spice Girl Victoria, was the first football pop star and a style icon for millions of young men. The strategy was a success. In addition, particularly in Asia, their sub brand "Galacticos" attained a highly recognized status. Today, Real Madrid still holds this strategy dearly, which crystallizes in the multi-million Euro transfers of Kaka and Cristiano Ronaldo.

Their globalization strategy is further visible in their choice of matches outside of the national league. From 2003 onwards, the team travelled to Asia each summer to play several friendly matches against local Asian teams. "It is not enough to travel there and play with a second team. The fans want to see their stars", Jobst explained, "and all stars have joined the tour since then." A TV-channel, named 'Real TV', reaching a total 200m people worldwide in conjunction with an interactive TV-channel, was launched in 2005 being especially designed for Asia, supports their successful endeavours. In addition Real Madrid's website can be viewed in Spanish, English and Japanese. The accumulated effects of all these marketing efforts were incredible. For example, the revenues obtained in 2004 solely from Beckham licenses exceeded the revenues CF Barcelona earned from its whole merchandising.

To support their goals Real Madrid signed strategic alliances with companies operating regionally and worldwide such as TV-stations and mobile phone providers, i.e. China Mobile. Since 2003 Real Madrid holds a strategic alliance with the car manufacturer Audi, thereby targeting the Asian market. What both parties call a premium partnership was a successful attempt to enter an important market in unison. Above all in 2005 Real Madrid signed an agreement with the Chinese investment group 'CITIC Guon' in order to extend the club's profile in Asia by supporting Chinese youth teams.

However, Asia is not the only market Real Madrid has in mind. India and Russia and the USA are also in their focus. According to Real Madrid, fans outside of Europe are unprejudiced, thereby facilitating the acquisition of new fans. Due to this fact, the club announced a close partnership with Real Salt Lake, a club in US Major League Soccer.

Clearly Real Madrid aims at sustaining its premium market position. Strategic and financial situation could currently not be much better. For example in 2007 Real signed a €1.1 billion TV contract through the end of 2013, thereby increasing the earnings from TV-licences by nearly € 100m p.a.

Despite everything one simple mistake has the potential to endanger any preceding and future successes. In the past years Real Madrid had to repeatedly admit early defeat in the European Champions League, thereby allowing FC Liverpool, CF Barcelona, FC Chelsea and Manchester United to pick up speed in emerging markets such as China, India

or Russia. Andreas Jobst commented, "it is our goal to win the unprejudiced fans in emerging markets, but unprejudiced fans won't give a cent for faded successes." Uli Hoeness, president of Germany's Bayern München, seconds this by stating that "Florentino Perez built his team only from a marketing point of view, not from a sportive one."

For the true football fan this at least may provide a reconciliatory prospect.
Peter Kexel

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