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The value pitch

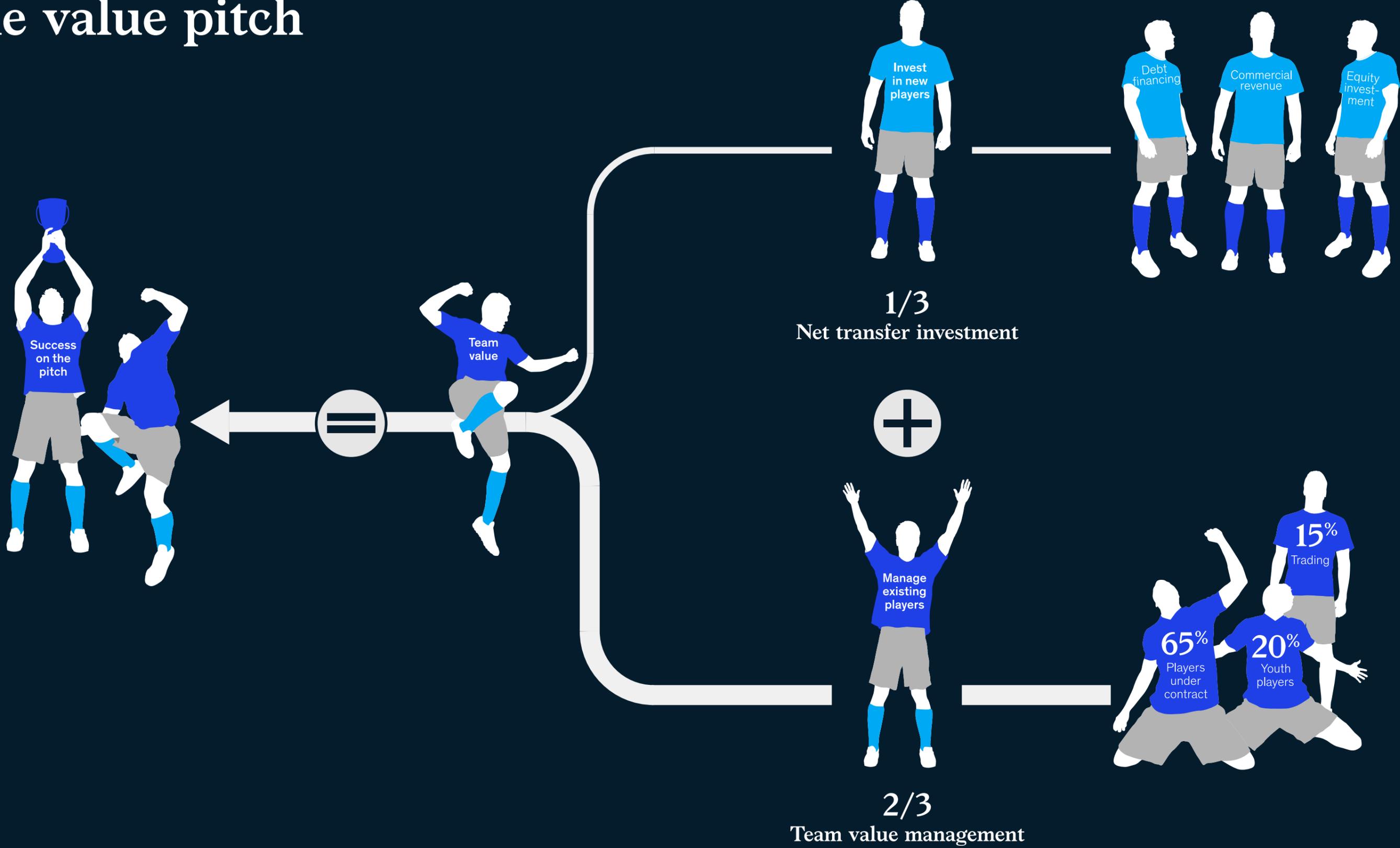
The importance of team
value management



**“Why couldn’t you
beat a richer club?
I’ve never seen a bag
of money score a goal.”**

—Johan Cruyff

The value pitch



In professional football, success on the pitch is the principal objective for clubs, fans, and players—and also a requirement for economic returns.

Maximising a team's market value is the best measure for success and should thus be at the core of a club's management strategy and planning.

Managing a team's market value is twice as important as investing in new players.

Each of the three team value management areas is sizeable enough to create a competitive advantage.

Contents

Introduction	8
Key messages	9
A winning club's financial performance indicator should be the increasing market value of its team	10
Winning on the pitch is the ultimate measure of success	10
Maximising a team's market value is the key performance indicator	10
A club's management only has limited control over its commercial revenue	12
Sports-related economic levers are highly influenceable and offer large economic value	12
Managing a team's value is more important than investing in new players	14
Over the last five years, team market values increased by more than 150 percent	14
Sources of team value creation differ across clubs and leagues	15
Team value management offers three options for building a competitive advantage	18
Top clubs' team value management has generated between €350 million and €700 million over the past five seasons	18
Each of the three value management areas is sizable enough to become a club's competitive advantage	20
For clubs with modest financial power, team value management is central to building a competitive position	23
Outlook: Getting started on the journey to team value management	24
Appendix: Methodology and limitations	26
Authors/contact	29

Introduction

At a time when investor and financial power is concentrated in a handful of football clubs and just a few leagues, most clubs face a structural economic disadvantage. Only a few clubs have the potential to significantly reduce financial shortfalls by generating revenue in commercial areas (for example, sponsorship, match-day revenue, merchandising). That's why the injection of investor funds has become the dominant reason underpinning clubs' success at establishing themselves in the top flight, both internationally and domestically.

Nevertheless, there are sports-related economic levers—such as the management of players under contract or youth development—that have the potential to significantly reduce commercial or financing gaps and directly contribute to the principal objective of success on the pitch. And even for clubs that do have financial advantages stemming from commercial revenue or the injection of capital, sports-related economic levers remain key to ensuring that investor money is used in ways that deliver sustainable results on the pitch over the longer term.

Based on an analysis of the value generated by the 69 most valuable European clubs over the past five years (see the “Key definitions and methodology” sidebar), “The value pitch”

identifies the most important ways in which club management can create sporting and economic success within the current competition structure.* This study showcases how several clubs have managed to create hundreds of millions of euros in value over the past five years. Each has successfully implemented a strategy based around creating a clear competitive advantage by optimising “team value management” in order to increase the team's market value.

Building on this research, the latest McKinsey analysis in this report will help to answer three pressing questions that are at the top of the agenda for most professional football clubs in Europe:

- What should the main measure of success be for a club's management, beyond winning on the pitch?
- How (financially) important are sports-related management decisions for a club's overall success?
- Which areas of activity offer clubs the potential to build a competitive advantage, allowing them to compete with top clubs at the national or even international level?

Key messages

Almost all stakeholders in the world of professional football, including clubs' principal shareholders, see success on the pitch, rather than economic returns, as the principal objective of their club. Even from a purely commercial standpoint, this is increasingly true—the revenue share resulting directly from sporting performance is rising, whereas the share that can be influenced by a club's financial management decisions is declining.

In this report, we argue that maximising a team's market value is the best measure of success; accordingly, it should lie at the heart of a club's management strategy and planning. Team value correlates closely with success on the pitch; however, it is more manageable and less exposed to the vagaries of fortune than winning matches and titles.

A team's value can be increased in two ways: by managing existing players or by investing in new ones. Looking at the 69 most valuable European clubs over the past five years, we found that the

value generated from managing an existing team—what we call “team value management”—has been twice that of team value increases derived from investing extra money in new players. This is true for clubs both large and small. In other words, for the creation of value, it is what you do with your players on the pitch that matters most.

When managed appropriately, each of the three team value management areas—development of players under contract, integration of youth players into the senior team, and excellence in player trading—brings with it enough value on its own to systematically generate higher value, thus enabling teams to outperform their competition both on and off the pitch.

That said, while clear examples of team value management do exist, most clubs would benefit from a clear articulation of how this route leads to a competitive advantage.

Key definitions and methodology

We define team market value as the sum of the market value of all players under contract with a club at the end of a season's summer transfer period. This sum does not include players on loan from other clubs but does include players on loan to other clubs.

We conducted our analysis according to the following parameters:

- **Time span.** Our analysis tracks the development of market values over a five-year period as an indication of longer-term value creation.

- **Number and profile of clubs.** Our analysis covers 69 clubs, comprising the 50 clubs with the highest squad market value at the end of the 2019 summer transfer period. This is supplemented with the remaining clubs from the 2019/20 season across the Bundesliga, English Premier League (EPL), La Liga, and Serie A that missed a maximum of one season in their respective highest domestic league over the five cycles since 2014/15.

For further details on the methodology, please refer to the appendix.

* Please note that the analyses for this report were conducted before the outbreak of the COVID-19 pandemic and cover the seasons from 2014/15 to 2018/19. The findings therefore represent the value generated by football clubs in normal, non-crisis times. However, the crisis experience has emphasized the importance of a strategic and forward-looking approach to managing team financials, as it turned out that players' salaries and deferred transfer payments have challenged clubs' overall financial stability during the COVID-19 crisis.

A winning club's financial performance indicator should be the increasing market value of its team

Most stakeholders in the world of professional football, including clubs' main shareholders, see success on the pitch, rather than economic returns, as the principal objective.

Maximising the team's market value should be the principal performance indicator for a club's business management—team quality is what delivers sporting success. Financial targets are and should be subordinate; for most clubs, sound financial results are the consequence of strong performance on the pitch, rather than vice versa.

Winning on the pitch is the ultimate measure of success

While the business of football in Europe is professionalising—including through the attraction of financial investors—the ultimate measure of success for owners and club management will always be winning on the pitch.

This is not just the case because many clubs are owned by their members and fans; it is also because most commercial owners are driven to invest by ambitions beyond mere return on investment.

Moreover, even in economic terms, the importance of sporting success increasingly outweighs any financial contribution that can be delivered by commercial areas managed away from the pitch.

Maximising a team's market value is the key performance indicator

Club owners and top management should use their team's market value as their primary measure of success.

A team's financial value has been found to be an accurate predictor of success in both domestic and international competitions (see also the "Player salaries as a predictor of sporting success" sidebar). In the 2019/20 season, in each of the eight UEFA Champions League groups, the two

clubs with the highest team values reached the round of 16.¹ All 16 clubs come from the top five leagues.² This is no coincidence: in 2018/19, 15 of the 16 teams with the highest team values also qualified for the round of 16. In a larger study across all European leagues, researchers have shown a strong correlation between team value and sporting performance, which is confirmed by our analysis (Exhibit 1).^{3,4}

Using the team's market value as a performance indicator offers several advantages:

- **Measurability.** While existing player valuations may not be perfectly accurate, research has found a high correlation⁵ between the values we used⁶ and the transfer fees that were negotiated within the same year.⁷
- **Link to management decisions.** Compared with purely competition-related success factors (like winning titles, qualifying for international competitions, or not being relegated), a team's market value is more structural and less prone to the vagaries of fortune (such as referee decisions or hitting the goalpost too often), and can be translated into concrete tasks and objectives for club management.
- **Link to commercial activities.** A team's market value also reflects the contribution from commercial activities, which are important to a team's market value in two ways: by funding players' salaries and by enabling net investment in new players. Indeed, commercial revenue (net amount of direct costs) can be a significant contributor to increasing a team's market value.
- **Determiner of financial success.** With the increasing importance of sporting success as the foundation of commercial revenue, strategically managing and optimising a team's financial value not only helps the team win on the pitch, it also helps boost a club's commercial revenue.

¹ "Champions League: 16/16 Teams mit höherem Marktwert weiter – Novum bei Verteilung", Transfermarkt, 12 December 2019, transfermarkt.de.

² Top five football leagues in Europe: English Premier League, Bundesliga, La Liga, Serie A, and Ligue 1.

³ Michal Klobučník, Martin Plešivčák, and Milan Vrábel, "Football clubs' sports performance in the context of their market value and GDP in the European Union regions". *Bulletin of Geography. Socio-Economic Series* 45, no. 45 (September 2019): 59–74, <http://dx.doi.org/10.1515/19327>.

⁴ Jürgen Gerhards and Michael Mutz, "Who wins the championship? Market value and team composition as predictors of success in the top European football leagues". *European Societies* 19, no. 3 (2017): 223–242.

⁵ A correlation coefficient of 0.93.

⁶ Transfermarkt, transfermarkt.com.

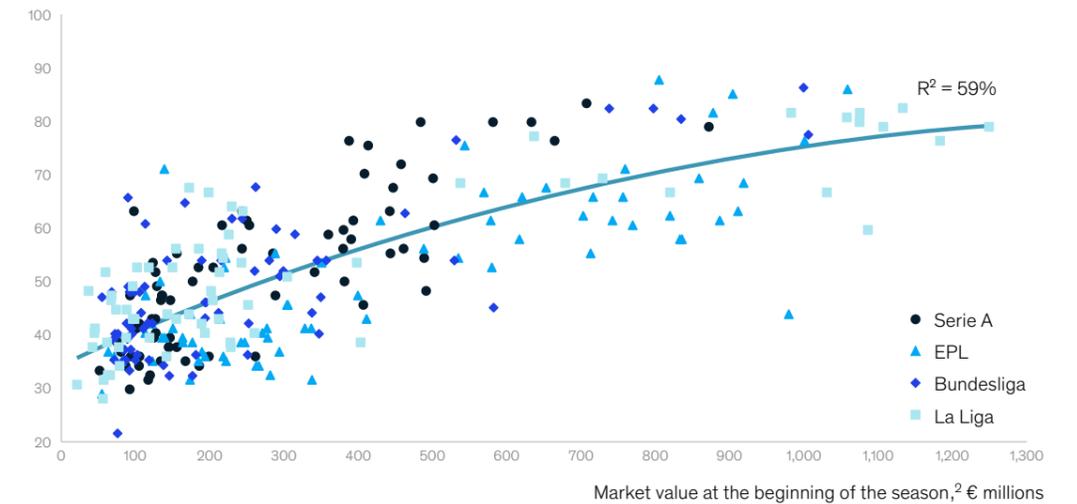
⁷ Clubs should still feel encouraged to develop their own logic for assessing player values, especially as the value of a player may differ depending on the tactical approach of the club.

Exhibit 1

Team market value is strongly correlated to sporting performance in the top 4 European leagues

Relationship between points at the end of a season and team value at the beginning of the season, 2014/15–2018/19¹

Share of possible points reached at the end of the season, percent



¹ Included teams from Bundesliga, English Premier League, La Liga, Serie A.
² Team values adjusted to 2018/19 season average.

Source: McKinsey analysis based on Transfermarkt data

Player salaries as a predictor of sporting success

Using data from Global Sports Salaries surveys,⁸ we also found salaries to be a good predictor of sporting success. However, a club's business management will be aware that simply seeking to maximise player salaries is not in itself a guarantee of success on the pitch, and there are clear implications around affordability. Actively managing player salaries is still of the utmost importance for maintaining financial stability.

Predictors of success

	Fit as management's key performance indicator	Limitations
Team market value	✓	Measurability
Revenue	?	Limited control of management
Player salaries	✗	Wrong incentives for management

⁸ "Global Sports Salaries Survey 2019", Sporting Intelligence, 10 February 2020, globalsportssalaries.com.

A club's management only has limited control over its commercial revenue

Club management should not use revenue as its primary economic measure of success.

The largest and (in absolute terms) fastest-growing revenue streams in European football are domestic television rights and UEFA's revenue distribution—this is especially the case following the more than 50 percent increase in TV money distributed during the 2018/19 UEFA Champions League competition.⁹ From a club's perspective, neither of these revenue streams can be actively managed because the club's share of this money is a direct consequence of its association with a specific national league and—most importantly—the result of success on the pitch.

The largest commercial revenue streams that clubs can directly manage are sponsorship (approximately 25 percent of revenue in the Bundesliga during the 2018/19 season) and match-day revenue (at around 16 percent of revenue for Bundesliga clubs in 2018/19).¹⁰

However, the importance of these two income streams can be significantly higher for the top brands compared to the majority of clubs.

For those who own or manage one of football's elite global brands, management decisions relating to sponsorship and match-day revenue can make a difference of more than €200 million a year. For example, sponsorship revenue for the top six clubs in the English Premier League ranged between approximately £110 million and £280 million for the 2017/18 season, while these same six clubs achieved match-day revenue of some £60 million to £110 million.¹¹ Yet, this is not the case for almost all other clubs. While professionalising the management of sponsorship and match-day revenue offers highly positive returns, there are still some important limiting factors on management's room to manoeuvre:

- Sponsorship revenue is dependent on economic performance in the locality of the club as well as the national economy: if a team is lucky and is located in an economically very successful

city in a large country, say London in the UK, it can expect its sponsorship revenue to be higher than if that club were in a less economically successful city in a smaller economy—even if management is doing a great job.

- Match-day revenue is limited by (sometimes external) factors such as stadium capacity (and, once again, the size of the city, taking SC Freiburg as an example of a club in a city with comparatively small stadium capacity and crowd size), as well as considerations around fair ticket pricing that may prevent revenue and profit maximisation.

The same principles hold true for merchandising. Merchandising revenue is very significant for the few truly global football brands. For most other clubs, merchandising revenue and profit margins are limited, and as such, do not add a significant contribution to the overall financial strength of a club. In addition, other revenue streams are still too small or have margins that are too low to matter significantly (for example, e-sports, membership fees) for a club's overall financial position.

Sports-related economic levers are highly influenceable and offer large economic value

Compared to the largest traditional commercial revenue streams, sports-related management decisions are both highly influenceable and present greater opportunities to increase economic value for almost all clubs (see the "Deep dive on revenue ranges and team value management" sidebar). Our analysis compares the range of economic returns across the two largest and most influenceable commercial revenue streams to the value ranges of the two most important sports-related management decisions. The comparison reveals that, for two reasons, sports-related management decisions are more important to most clubs' overall financial health than traditional commercial management decisions—almost irrespective of the club's size:

- **Higher influenceability.** The range of annual outcomes is much wider for sports-related

management decisions, indicating the degree to which outcomes are influenceable by club management.

- **Higher absolute values.** The annual absolute economic value attached to these areas, especially team management, is higher, too.

In short, strategically managing a team's market value, via transfers and development of the potential of a club's players, is financially more important than traditional commercial revenue streams.

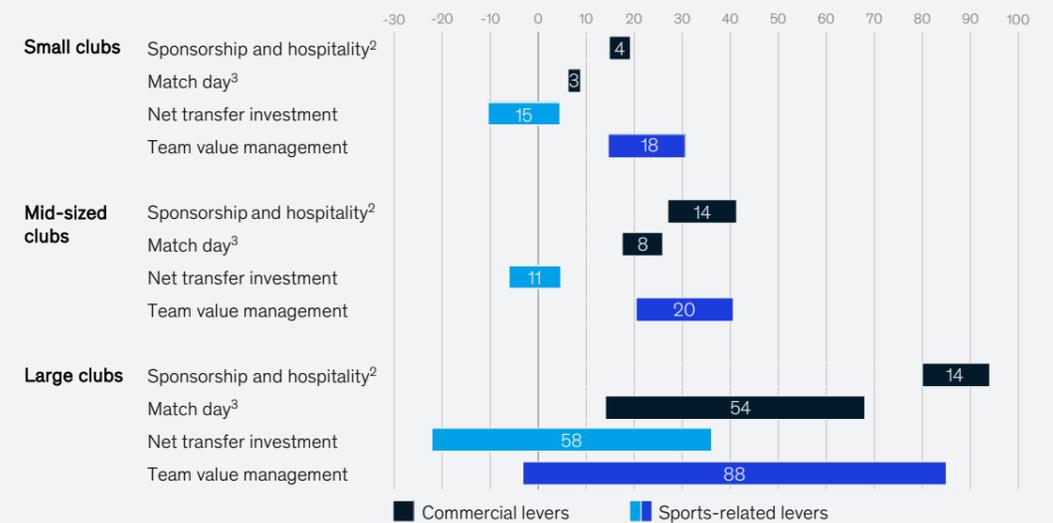
Deep dive on revenue ranges and team value management

A look at a selected group of Bundesliga clubs illustrates the larger outcome ranges and absolute

values from sports-related management decisions compared to traditional commercial areas.

Sports-related management levers have larger outcome ranges compared to traditional commercial levers

Revenue ranges/team value increase of selected Bundesliga clubs,¹ € millions p.a.



1. Small clubs: SC Freiburg, FC Augsburg, 1. FSV Mainz 05; mid-sized clubs: Eintracht Frankfurt, Werder Bremen, Hertha BSC Berlin, Borussia Mönchengladbach; large clubs: Borussia Dortmund, FC Schalke 04, RB Leipzig.
2. Sponsorship revenue includes shirt, sleeve, stadium, kit, and hospitality for 2017/18.
3. Match day revenue includes ticketing and catering for 2017/18.

Source: McKinsey analysis based on SPONSORS and Transfermarkt data

Across **smaller clubs**, net transfer investment and team value management resulted in four-to-six-times wider revenue ranges than those from commercial levers of sponsorship and match-day revenue.

Mid-sized clubs had increases in player values ranging between €20 million and €40 million, a range that is significantly wider than their traditional commercial revenue streams.

For **larger clubs**, these differences in range were even larger. Net transfer investments ranged between a net cost of €35 million and a net surplus of around

€20 million, and team values either increased by more than €80 million a year or decreased slightly. This compares to the four-to-six-times smaller ranges in sponsorship. Match day ranges were similar to net transfer investment ranges, but 40 percent smaller than the ranges in team value management.

These results also hold true for English Premier League clubs—with the exception of sponsorship revenue for the six largest clubs, which showed a range similar to the sporting levers, due to the high significance of international commercial activities.

⁹ "Broadcasting revenue landscape – big money in the 'big five' leagues", KPMG Football Benchmark, 6 August 2019, footballbenchmark.com.

¹⁰ DFL Wirtschaftsreport 2020.

¹¹ David Conn, "Premier League finances: the full club-by-club breakdown and verdict", *The Guardian*, 22 May 2019, theguardian.com.

Managing a team's value is more important than investing in new players

When seeking to increase the value of a football team, managing team value is more impactful than investing in it.

About two thirds of team-value increases over the past five years are linked to team value management, while the remaining third relate to net investment. The split of total value increases between team value management and net investment is club specific, as it is directly linked to management decisions.

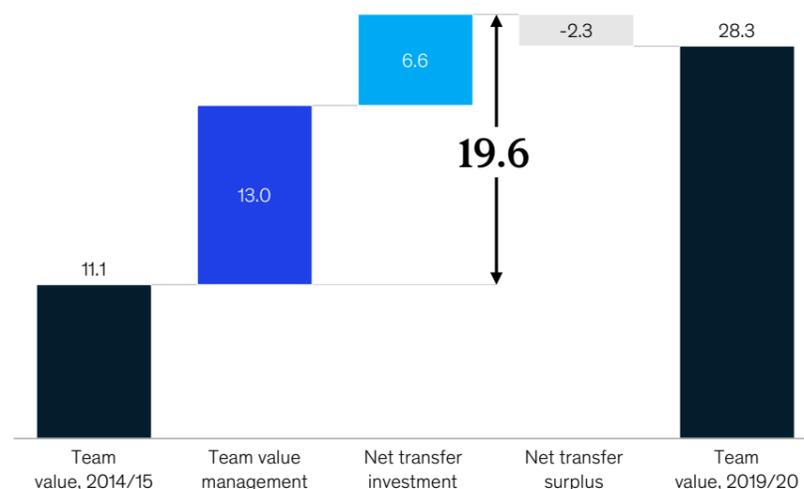
Over the last five years, team market values increased by more than 150 percent

Over the past five years, the total squad value of the 69 European clubs we analysed¹² increased by around €17.2 billion or 155 percent (Exhibit 2). This increase in player value reflects football's growing revenue streams, most importantly through rising domestic and international media and sponsorship revenue.

Exhibit 2

Over the last 5 years, among 69 top European clubs, team value management has accounted for 2/3 of total team value increases

Total team financial value, 2014–19, € billions¹



1. Due to rounding, numbers presented here do not add up precisely to the totals indicated; hand money, loan fees, and player advisor fees not included.

Source: McKinsey analysis based on Transfermarkt data

¹² For details on club selection, see the appendix.

¹³ Payments to players (such as salaries, signing bonuses) or agent fees are not included in the analysis.

There are two ways of increasing a team's financial value: (i) net investments in new players, and (ii) team value management. Under team value management, we include the three most important options for increasing a team's value beyond net investment: developing players under contract, bringing in players from the club's own youth team, and acquiring players for a transfer fee below market value (or selling players above market value). While those clubs that have a structural financial advantage can invest more into new players, clubs that wish to close the gap from a position of structural disadvantage must outperform other clubs on team value management.

Of the two main avenues for growing a team's financial value, team value management adds twice the amount of value as net transfer investments. Our analysis finds that only a third of the increase in team financial value is based on net investments in players, while two thirds is based on team value management (Exhibit 2):¹³

- About €13 billion in value has been generated via team value management—on average, some €190 million per club over the past five years. Almost all clubs (64 of the 69 clubs analysed) managed to increase the value of their teams by developing the value of players under contract, integrating youth players into the senior team, and excelling at player trading (that is, acquiring or releasing players for a transfer fee below or above the market value, respectively).
- About €6.6 billion in value has been added to teams via net investments in new players. This surplus has been reinvested back into the squad by 45 of the 69 clubs. The remaining 24 teams have generated a transfer surplus of about €2.3 billion by earning more from selling players to other clubs than they invest in new players.

Sources of team value creation differ across clubs and leagues

The potential increase of a team's market value differs significantly by team, indicating the possibility for management to strategically manage team value and compensate for commercial or financial disadvantages. For example, while Manchester City FC and Liverpool FC are the teams with the largest increases in team market value (Manchester City FC: €840 million; Liverpool FC: €830 million), the sources of value creation differ significantly: 85 percent of Manchester City's value increase is based on net investment, while Liverpool generated 85 percent of its value increase via team value management (Exhibit 3).

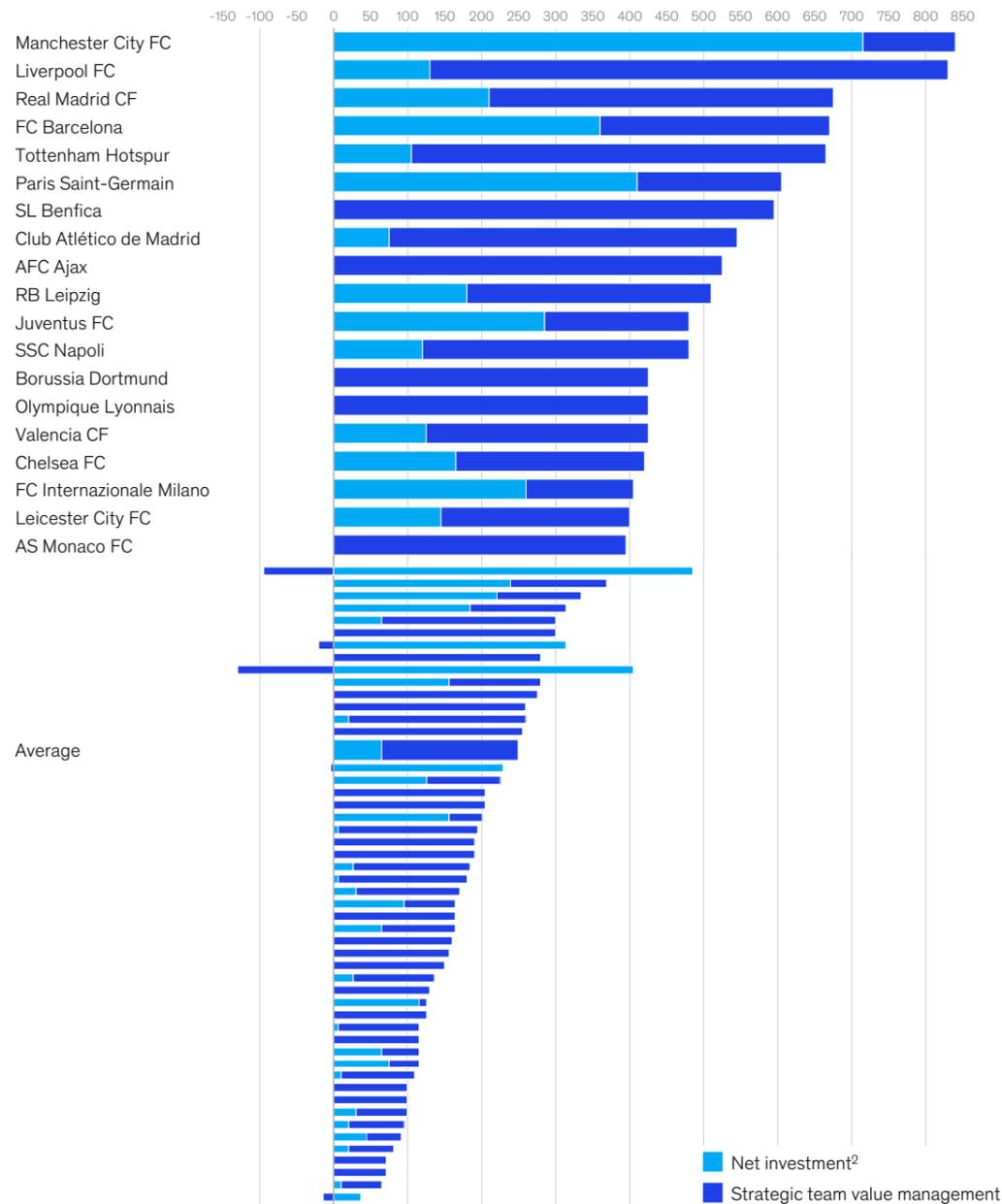
“Hard work will always overcome natural talent when natural talent does not work hard enough.”

—Sir Alex Ferguson

Exhibit 3

The contribution of team value management vs. net investment differs significantly from club to club

Team value increase, 2014/15–2018/19,¹ € millions



1. Hand money, loan fees, and player advisor fees not included.
 2. Negative net investment not taken into consideration as it represents monetisation of value increases.

Source: McKinsey analysis based on Transfermarkt data

Sources of value creation differ across the top four leagues. While English clubs translate their commercial advantages into higher team values via net investment (approximately €150 million to €200 million higher net investment per club compared to the other leagues; Exhibit 4), Spanish clubs have been able to bridge more than a third of their gap to English clubs via higher value creation stemming from team value management (some €60 million to €75 million higher than the other leagues). Serie A and the Bundesliga

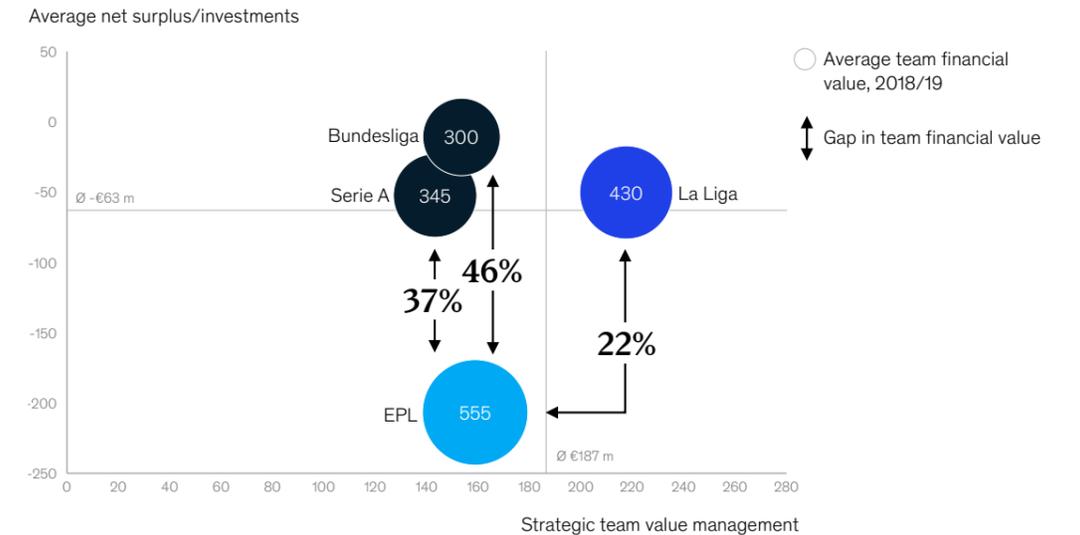
values are trailing along both dimensions, with a resulting value gap of approximately €200 million for Serie A (at 37 percent of the average English Premier League team financial value) and some €250 million for the Bundesliga (46 percent).

We should note at this point that our results are influenced by the current competition structure, as well as by the total revenue distributed via national leagues and international competition. Changes to both may result in differing outcomes in the future.

Exhibit 4

La Liga achieves the highest average value generation via team value management while EPL clubs make larger net investments

Average value generation via team management, net investments per league, 2014/15–2018/19, € millions



Source: McKinsey analysis based on Transfermarkt data

Team value management offers three options for building a competitive advantage

Each of the three principal areas of focus for team value management is sizable enough to become a team's sole competitive advantage.

When managed appropriately, each area individually—development of players under contract, integration of youth players into the senior team, or excellence in player trading—delivers enough value on its own to systematically generate higher total value, thereby enabling teams to close the gap with the top clubs.

The 12 most valuable clubs have generated between €300 million and €700 million over the past five seasons through team value management

Six different approaches to increasing team market value can be derived from the performance of top clubs over the past five years (Exhibit 5). While some of these models may not be suitable or successful in some leagues (for instance, a focus on sustained revenue surplus in smaller leagues), these six approaches offer a comprehensive picture of potential ways of increasing team market value (see the "Overview of approaches to financial net investment" sidebar).

Exhibit 5

Six approaches to increasing team market value can be derived from the performance of top clubs over the past five years



Source: McKinsey

Of these, three approaches are relevant to creating value via team value management:

- Development of players under contract
- Integration of youth players into the senior team
- Player trading excellence

The top 12 teams have generated between €300 million and €700 million in value over the past five years using these approaches. These teams represent seven different leagues, indicating that team value management offers the possibility to compensate for the structurally lower commercial revenue streams typical outside the English Premier League. Moreover, two of the four best-performing clubs in this area are not among the 20 clubs with the highest revenue.

Top clubs by contribution of team value management	
Range of value increases through team value management, € millions	Club
>500–700	AFC Ajax, Liverpool FC, SL Benfica, Tottenham Hotspur
>400–500	Atlético de Madrid, Borussia Dortmund, Olympique Lyonnais, Real Madrid CF
>300–400	AS Monaco, FC Barcelona, RB Leipzig, SSC Napoli

Overview of approaches to financial net investment

In addition to team value management, there are three financial approaches to increasing a team's value through net investment in new players: sustained revenue surplus from commercial activities, investor-led upgrading, and debt financing. The last two approaches might not be sustainable in the long term due to regulation (either by the domestic league or UEFA's Financial Fair Play Regulations) or limits on debt loads. These two approaches can still be effective when financing a step change in team value that translates into systematically better performance and, therefore, revenue.

More than half of the 12 clubs with the highest net investments are from England, reflecting the high broadcasting revenue as well as strong investor interest in the English Premier League. What is also remarkable is that there are three Italian clubs among the highest ranked and that some of the most successful clubs of the past decade are not part of this list, including two of the five highest-ranked clubs according to the UEFA ranking (Atlético de Madrid and FC Bayern Munich), as well as last year's UEFA Champions League winner, Liverpool FC.

Top clubs by contribution of net investment	
Range of value increases through net investments, € millions	Club
>400	AC Milan, Manchester City FC, Manchester United FC, Paris Saint-Germain
>300–400	Arsenal FC, FC Barcelona
>200–300	Brighton & Hove Albion, Everton FC, FC Internazionale Milano, Juventus FC, Real Madrid CF, Wolverhampton Wanderers FC

Each of the three value management areas is sizable enough to become a club's competitive advantage

Clubs have very different profiles when it comes to the share of value generation contributed by each of the three team value management areas. Analysing the contribution of the three areas demonstrates that each of them alone is sizable enough to be a club's competitive advantage.

Development of players under contract. The largest absolute contributions with more than €100 million per annum (more than €500 million over five years) can be expected from the development of players under contract. Success in this area structurally depends on the age profile of a squad and the overall size of the team, as well as on the distribution of playing time across players. Many clubs that excel in the development of players under contract can offer a clear value proposition to young players with high potential who are wooed internationally by multiple clubs, have a track record of acquiring players with high potential for an increase in market value, or both. Clubs with large squads often rely on rotation and loaning players to other clubs to ensure their development. Of course, the quality of coaching that these players receive and, ultimately, their sporting success play a significant role here. Selection of the coach is therefore likely a club's most important business decision and should fit its strategic approach to team value management.

Integration of youth players into the senior team. This can generate value of up to €60 million per year (up to €300 million over five years). Establishing a reputation as a platform for promising talent is critical to a team's ability to excel and attract high-potential players who still play on the youth teams. This requires a clear value proposition to present to the best young players (for example, having excellent youth coaches, offering a clear perspective of which team to play for at what age, and so on), ideally supported by a track record of successful former youth players. Therefore, it is important to offer regular opportunities for young talent to advance to the first team as well as strategic loan periods.

Player trading excellence. Trading excellence can generate up to €25 million annually (up to €125 million over five years) and can be a sufficient competitive advantage for smaller to mid-sized clubs. It relies on market inconsistencies, which allow clubs to acquire or sell players at below or above market value, respectively. In the context of players leaving a club, sound contract management is vital, not just for achieving trading excellence and ensuring that optimal transfer fees are paid; it is especially important for preventing players with a high market value from leaving a club on a free transfer, as this would result in a complete loss of the player's value for the club. Our analysis does not include signing bonuses or agents' fees (see the appendix for more details); however, both are growing year on year¹⁴—especially agents' fees—which can shift the value generated by clubs into the hands of players and their agents.

Exhibit 6 lists the top-performing clubs (differentiated between clubs with team market values above and below €100 million in the 2014/2015 season) in each of the three strategy archetypes for creating value via team value management.

To illustrate how these strategies can work in practice, we have taken a closer look at three clubs: each one represents a best-practice example of how a club can take advantage of one of the three archetypes for team value management.

Development of players under contract—Olympique Lyonnais' principle-based approach

It has been a while since Lyon famously claimed seven successive Ligue 1 titles between 2002 and 2008. However, despite its current lack of silverware, Lyon is still very successful, especially when it comes to developing acquired talent and selling players to clubs that have higher financial and sporting credentials. Among a long list of profitable transfers, a few stand out. In 2005 and 2006, the club sold Michael Essien and Mahamadou Diarra for €38 million and €26 million, respectively—two players who they acquired for €12 million and €4 million, respectively, a few years earlier. A more recent example is defender Ferland Mendy, who was acquired from AC Le Havre for €5 million in 2017 and subsequently sold to Real Madrid CF

Exhibit 6

Best-practice clubs illustrate how to create value via team management

2014/15–2018/19 seasons

■ Best-practice examples detailed in the following

	Large clubs Team value >€100 million, 2014/15 season			Smaller clubs Team value <€100 million, 2014/15 season		
		Absolute value created, € millions	Share of financial team value increase, ¹ percent		Absolute value created, € millions	Share of financial team value increase, ¹ percent
Development of players under contract (Ø €160 m)	Liverpool FC	>500	~75	RB Leipzig	>400	~85
	Tottenham Hotspur	>500	~90	Olympique Lyonnais	>300	~75
	Manchester City FC	>400	~50	LOSC Lille	>200	~80
Integration of youth players into the senior team (Ø €57 m)	SL Benfica	>200	~40	AFC Ajax	>200	~55
	Chelsea FC	>150	~40	Valencia CF	>150	~35
	AS Monaco FC	>150	~40	Olympique Lyonnais	>75	~25
Player trading excellence (Ø €-29 m)	SL Benfica	>100	~20	Real Betis Sevilla	>100	~35
	Borussia Dortmund	>100	~30	Eintracht Frankfurt	>50	~45
	Athletic Bilbao	>50	~40	CFC Genoa	>50	~35

1. Negative net investment not taken into consideration as it represents monetisation of value increases.

Source: McKinsey analysis based on Transfermarkt data

for €48 million only two years later. Similarly, Lyon acquired Tanguy Ndombélé from SC Amiens for €8 million in 2018 only to sell him to Tottenham Hotspur for €60 million a year later.

Lyon could have kept these players to reap the benefits of their performance in competition. Instead, the club followed clear principles. Lyon consistently exploits inefficiencies within the transfer market and releases players if another club offers significantly more than the player is worth to Lyon. Then, when reinvesting proceeds from player sales, Lyon tends to invest in five new promising players rather than spending it all on a single individual,¹⁵ and mostly acquires players who are in their early twenties.¹⁶ At the same time, the club ensures secure replacements before releasing key players (for example, Lyon acquired Thiago Mendes from LOSC Lille before selling Tanguy Ndombélé).

Through this strategic squad planning, based around young players with potential for value increases, Lyon has created a strong competitive advantage.

Integration of youth players into the senior team—AFC Ajax's systematic approach

AFC Ajax has a long history of being at the forefront of young player development and integration into the senior team. Its famous youth academy spawned players such as Johan Cruyff, Frank Rijkaard, Patrick Kluivert, Dennis Bergkamp, Edwin van der Sar, and the like. All these players had the opportunity to play on the senior team at a young age, which boosted their capabilities and market value. This competitive advantage is still in play today, with former Ajax youth players such as Matthijs de Ligt or Frenkie de Jong recently being sold to top ten clubs.

¹⁴ "Intermediaries in international transfers 2019", FIFA, December 2019, fifa.com.

¹⁵ Conor Ketley, "Aulas: Lyon can spend €100m per year if required", Goal, 30 June 2019, goal.com.

¹⁶ Simon Kuper and Stefan Szymanski, *Soccernomics*, (New York: Nation Books, 2009).

Several strategic decisions helped Ajax reach this leading position, including systematic scouting following the TIPS¹⁷ model, a consistent style of play (4-3-3) across all teams, and the continual promotion of the best players to the first team.¹⁸ The dedicated focus on player development soon created an unparalleled reputation, making Ajax the number one launchpad for young players in the Netherlands and beyond. Ajax's regular qualification for the UEFA Champions League is an essential requirement for the club's continued success—not only because it provides the necessary funding to run the club, but also because Champions League appearances serve as a shop window for players to be sold.

Another strategic approach to identifying and developing youth players is Ajax's affiliation with other football clubs.¹⁹ Ajax is currently partnering with more than ten major league clubs around the world as well as several minor league teams in and around Amsterdam.²⁰ These international links allow Ajax to scout youth development hotspots on other continents; Ajax officials regularly organise youth tournaments at their partners' sites to identify local talent. In return, Ajax offers support for youth academy infrastructure, scouting processes, and training methods, or even offers resale shares, in cases where a talented player moves from a partner club to Amsterdam as, for example, Steven Pienaar or Maxwell²¹ did.

Player trading excellence—SL Benfica's focus on “perfect timing”

Benfica is known for supplying Europe's top clubs with great talent. Its success in talent development is based on an excellent scouting network, trading excellence, and state-of-the-art training facilities at the Benfica Futebol Campus. Since 2006,

Benfica has produced over 400 “U” national players. Many of them have become well-known, established players and, remarkably, many of them were sold by Benfica at significantly above market value. To name just a few examples: Bernardo Silva for €16 million to AS Monaco (€12 million above market value), Gonçalo Guedes for €30 million to Paris Saint-Germain (€21 million above market value), Renato Sanches for €35 million to Bayern Munich (€15 million above market value), Axel Witsel for €40 million to Zenit St. Petersburg (€20 million above market value), Ederson Santana de Moraes for €40 million to Manchester City (€18 million above market value), and Joao Felix for €126 million to Atlético Madrid (€56 million above market value).²²

Moving such players reliably brings the Portuguese club millions of euros in revenue and is anything but a coincidence; it is a consequence of Benfica's “trading mindset”. Due to this concept that has proven itself over the years, Benfica now has the flexibility to trade players at exactly the right time. Given continuing access to high-calibre players and long contract durations of existing players, the club does not have to release players at the first bid, but can keep them under contract until a high-enough offer is received, making the sale worthwhile.^{23,24} Moreover, thanks to excellent scouting and youth development, Benfica is often in a good position to sell highly promising players at very early stages in their professional careers—at significantly above market value—because acquiring clubs pay for the upside potential that successful player development offers. In this way, Benfica can even capitalise on players who do not end up being as successful as anticipated; in such cases, the loss in value is carried by another club.

For clubs with modest financial power, team value management is central to building a competitive position

While most of the clubs in our sample used net investments as one source of increasing team value, there are 24 clubs that have a net transfer surplus—this often helps clubs maintain a competitive position either regularly in the UEFA Champions League or in the national leagues, despite comparatively low income from other revenue sources. For nine of these clubs, the value

created through team value management over the past five years is even higher than their current team market value, indicating the importance of team value management for clubs that use it to compensate for comparatively low commercial income. This perspective reveals how team value management is not only important for large clubs, but also for those with less financial muscle. Interestingly, five of the nine clubs with the highest relative value increases are from outside the top four European leagues. Of the remaining four, two play in the Bundesliga and two in Serie A.

Top clubs by relative contribution from team value management	
Range of contribution of team value management to current team market value, percent	Club
>150	SL Benfica
>125–150	AFC Ajax, Genoa CFC
>100–125	1. FSV Mainz 05, AS Monaco FC, Atalanta BC, LOSC Lille, Olympique Lyonnais, TSG 1899 Hoffenheim

¹⁷ Technical skills, intelligence, personality, and speed.

¹⁸ “Youth Academy”, AFC Ajax, ajax.nl.

¹⁹ “List of AFC Ajax-affiliated clubs”, Wikipedia, wikipedia.org.

²⁰ “Partnership Ajax and Sagan Tosu”, AFC Ajax, 25 January 2018, ajax.nl; “Ajax proud of unique collaboration”, AFC Ajax, 16 December 2007, ajax.nl; “Sydney FC sign historic partnership with Ajax”, Sydney FC, 3 April 2018, sydneyfc.com.

²¹ Maxwell Scherrer Cabelino Andrade.

²² Transfermarkt, transfermarkt.com.

²³ In Benfica's current team of 24 players, only five contracts expire over the next two seasons, three of which are for players above the age of 30, Transfermarkt, transfermarkt.com.

²⁴ “Talente-Produzent Benfica: Die Akademie als Goldgrube”, *Süddeutsche Zeitung*, 17 December 2019, sueddeutsche.de.

Outlook: Getting started on the journey to team value management

Most teams would benefit from a clear identification and articulation of their competitive advantage.

A few clubs have managed to establish sustained competitive advantages based on team value management. Most teams, however, would benefit from a fact-based analysis of their current competitive positioning followed by a rigorous and long-term-oriented implementation of team value management. Due to the high potential of value creation via team value management, clubs should ensure that enough sporting and management expertise is available and can be combined.

In the high-stakes world of professional football, team value management offers the best opportunity to maximise a club's overall value—as such, it should be an explicit priority for every club. And, irrespective of whether market dynamics change in future, this report should

be encouraging for less affluent clubs, because team value management offers an opportunity to compensate for structural disadvantages in relation to commercial revenue or access to financing. Of course, team value management is also vital for the most economically successful clubs to ensure that financial advantage translates into what matters the most: success on the pitch.

To capture the opportunity presented by team value management, clubs should focus on four areas:

Analyse. Conduct a fact-based analysis of a club's current competitive positioning in relation to team value management, and, importantly, come to a consensus between management and owners. Having understood the current situation, clubs should ensure that a foundation of processes (for example, strategy processes and periodic performance reviews) and the necessary resources on which to build a competitive advantage are in place.

Focus. Clearly articulate and strengthen a club's competitive advantage across at least one of the three areas of team value management. The objective of this step is to develop a strategy that allows the club to build or sustain a structural competitive advantage. The developed strategy should be used as the foundation of club performance management.

Plan. Engage in long-term planning, overcoming the strong tendency to only focus on the next match day or the current season. This requires applying tools and processes that embed team

value management across all relevant areas on the sporting side (scouting, youth academies, coaching) in collaboration with the commercial side (especially ensuring clarity on budgets for salaries and net investment).

Lead. While it is evident why sporting expertise is beneficial, clubs should consider configuring their leadership to ensure a blend of sporting and business management expertise. This is especially important in situations where new owners provide additional investments aimed at a lasting improvement in a club's performance on the pitch.



Football is a business unlike any other—winning on the pitch matters more than economic success. Yet, while money is certainly part of the winning formula, improving the odds may be less about the immediate availability of big budgets for investment in new players. Instead, it seems to be about sound management of a club's most important asset over the longer term: its team.

Questions to guide the identification of competitive advantages across the three areas of team value management:

1. Development of players under contract

- How do you identify and contract the ideal coach for your strategy? (For example, internal development of coaches, coach scouting, a clear value proposition guiding coach development)
- What is your target squad size and characteristics per position? (For example, age profile, potential starter/backup, character)
- How do you ensure proper support for player development? (For example, integration, enough playing time, fit with the head coach's expertise and approach, injury prevention)

2. Integration of youth players into the senior team

- What is your competitive advantage in attracting young talent? (For example, coverage of home region, network of partner clubs, image as main talent platform)

- What is your competitive advantage in developing youth players in your academy? (For example, systematic approach, quality of coaching, facilities)

- How is their transition into professional football facilitated? (For example, enough playing time, development on a loan, second team)

3. Player trading excellence

- What is your competitive advantage in scouting? (For example, superior knowledge about source markets, collaboration with player agents, club image, superior usage of data)

- How does your contract management/negotiation process ensure that value stays with the club? (For example, long contract durations, buy-back rights)

- How do you maximise value for player releases? (For example, timing of sales, promotion, sales channels, knowledge of target markets)

Appendix: Methodology and limitations

Methodology

For the purpose of this study, we have developed a methodology that allows us to assess a team's financial value and its development over previous years, and to identify what has driven this development at a granular level. The analyses presented are based on data from the online football news and statistics platform Transfermarkt and cover the seasons

from 2014/15 to 2018/19. Our study comprises 69 European clubs, including the 50 clubs that had the highest squad market value at the end of the 2019 summer transfer period. To this group, we added the remaining clubs from the 2018/19 season across the Bundesliga, the English Premier League, the Spanish La Liga, and the Italian Serie A that missed only a maximum of one season in those leagues during the seasons analysed.

Club	League	Club	League
1. FC Cologne	Bundesliga	Olympique de Marseille	Ligue 1
1. FSV Mainz 05	Bundesliga	Olympique Lyonnais	Ligue 1
Bayer 04 Leverkusen	Bundesliga	Paris Saint-Germain	Ligue 1
Borussia Dortmund	Bundesliga	AFC Bournemouth	EPL
Eintracht Frankfurt	Bundesliga	Arsenal FC	EPL
FC Augsburg	Bundesliga	Brighton & Hove Albion	EPL
FC Bayern Munich	Bundesliga	Burnley FC	EPL
FC Schalke 04	Bundesliga	Chelsea FC	EPL
Hertha Berlin	Bundesliga	Crystal Palace	EPL
RB Leipzig	Bundesliga	Everton FC	EPL
SC Freiburg	Bundesliga	FC Watford	EPL
SV Werder Bremen	Bundesliga	Leicester City FC	EPL
TSG 1899 Hoffenheim	Bundesliga	Liverpool FC	EPL
VfL Borussia Mönchengladbach	Bundesliga	Manchester City FC	EPL
VfL Wolfsburg	Bundesliga	Manchester United FC	EPL
AFC Ajax	Eredivisie	Newcastle United FC	EPL
Athletic Bilbao	La Liga	Southampton FC	EPL
Club Atlético de Madrid	La Liga	Tottenham Hotspur	EPL
FC Barcelona	La Liga	West Ham United FC	EPL
Getafe CF	La Liga	Wolverhampton Wanderers FC	EPL
Levante UD	La Liga	AC Milan	Serie A
RC Celta de Vigo	La Liga	ACF Fiorentina	Serie A
RCD Espanyol	La Liga	AS Roma	Serie A
Real Betis Sevilla	La Liga	Atalanta BC	Serie A
Real Madrid CF	La Liga	Bologna FC	Serie A
Real Sociedad de Fútbol	La Liga	Cagliari Calcio	Serie A
SD Eibar	La Liga	FC Internazionale Milano	Serie A
Sevilla FC	La Liga	Genua CFC	Serie A
Valencia CF	La Liga	Juventus FC	Serie A
Villarreal CF	La Liga	SS Lazio	Serie A
FC Porto	Liga NOS	SSC Napoli	Serie A
SL Benfica	Liga NOS	Torino FC	Serie A
AS Monaco FC	Ligue 1	UC Sampdoria	Serie A
LOSC Lille	Ligue 1	Udinese Calcio	Serie A
		US Sassuolo Calcio	Serie A

In the following, we present our methodology for identifying the key parameters of our analysis—team market value and value generation via team value management and net investments—along with limitations to our approach.

Team market value

For each season, we identified the individual market value for each player on each team for each club. We excluded players on loan from other clubs, as their primary contracts were with other clubs, but included players on loan to other clubs, as they were part of the portfolio of contracted players and therefore count towards team market value. The financial value of a team is always calculated at the end of the summer transfer period, which is typically a few match days after the beginning of a season. The timeframe for our analysis begins at the end of the 2014 summer transfer period, covering until the 2019 summer transfer period.

Value generation via team value management

Development of players under contract. For the list of players under contract who are not classified as youth players for a club during a season, we calculated the difference between the market value at the beginning of one season and at the beginning of the next season. This dimension also includes players who were acquired and subsequently saw increases in their market value.

Integration of youth players into the senior team. Contracted players who are new to a club and are not transfer arrivals (either from another club or players who were without club) are classified as youth players. The sum of their market value at the time when they joined the club's senior team and their market value development in the following seasons constitutes the club's value generation through the development of youth players. In our classification of youth players, we only included players who were not on the senior team in the 2014/15 season, which is the first season in the period we investigated.

Trading excellence. This dimension is the sum of differences between the transfer fee and the market value for players who were new and acquired from other clubs (or were without a club), as well as for players who were sold to other clubs or whose contracts were terminated. For player acquisitions, a transfer fee below the market value and, for player releases to another club, a transfer fee above the market value, are both sources of value creation.

Net investments

Every transfer is listed with its market value and transfer fee on Transfermarkt. In cases where the transfer fee was unknown (marked as “?”), we assumed the transfer fee to be the market value of the player at the time of transfer. As only players with low market value and probably also relatively low transfer fees were marked as unknown, this approach was unlikely to have a significant impact on the results. We added the transfer fees paid to other clubs and subtracted the transfer fees received from other clubs to calculate net investments.

Limitations

This report and all findings and numbers presented in this report are subject to the following limitations:

Data based on market values using Transfermarkt

Player market values are very difficult to measure and often do not reflect the full value that a player contributes to a club. They might include systematic errors, such as differences in market values depending on leagues and competitions. There are many different approaches to estimating market value published by companies and research institutions, but it is difficult to judge which one is most accurate. For our analysis, to ensure consistency across our data on market values and player transfers, we used Transfermarkt (which some researchers encourage to use)²⁵, as it offers both estimated market values of players and data on transfers, including transfer fees and market value at the time of transfer. These values are estimates from expert site contributors

²⁵ Franziska Prockl and Bernd Frick, "Information precision in online communities: Player valuations on www.transfermarkt.de", *International Journal of Sport Finance*, 13, no. 4 (2018).

and, while these data may not always be precise, we have no reason to believe that the values are not comparable across clubs—that is, by adopting these values, it would introduce bias against any particular club or one of the top European leagues. (However, systematic errors might be more common for smaller leagues or second divisions.) Additionally, researchers have assessed the data quality by comparing values with actual transfer fees and found a 90 percent accuracy rate.²⁶

Reverse causality between sporting success and higher market value not isolated

While the results of national and international competitions show that market value is one driver of sporting success (for example, in the 2019/20 UEFA Champions League season, the two teams with the highest value in each group qualified to reach the round of 16²⁷), the opposite effect is also true, where sporting success drives market value. Thus, teams that have been extremely successful or unsuccessful from an on-the-pitch perspective might be overvalued or undervalued, respectively. In our analysis, we do not separate these effects from one another.

Increase in market value

Over the five seasons covered, the revenue streams of the football ecosystem have reached new record levels, mainly driven by increased broadcasting and sponsorship revenue (especially in the English Premier League and the UEFA Champions League) and the injection of investor funds, which have resulted in a significant increase in transfer fees and overall market values. This development is one of the key drivers behind the findings presented in this study. As a result of the increase in market values, the variation between team value management performance among clubs has grown in terms of absolute numbers.

Excluded from the analysis

Due to a lack of access to data, we did not include a full picture of the financial value generated outside of football clubs' sporting departments. This full picture would have included:

- Salaries of players and staff
- Discounted player values depending on remaining contract length
- Costs for youth development
- Revenue from prize money earned in national and international competitions
- Revenue from other commercial areas linked to players
- Sustainability of financing and potential deficits.

Additionally, we did not include certain revenue streams and cost drivers that are directly linked to our analysis—mostly ones related to payments around player transfers. These have an impact on our results but due to a lack of public availability of these data, we could not include them. Among the drivers that we did not include are:

- Hand money
- Agent fees
- Compensation fees for any club that has contributed to a player's education and training
- Third-party ownership and shares on resale for previous clubs
- Taxation on profits from the acquisition and sale of players.

While agent fees in particular have grown rapidly in recent years, reaching roughly €600 million globally,²⁸ we are still confident that including these data would not change the overall picture drawn from our analysis, because even if the absolute values were to change, the relative differences between the clubs would remain in most cases.

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²⁶ Steffen Herm, Hans-Markus Callsen-Bracker, and Henning Kreis, "When the crowd evaluates soccer players' market values: Accuracy and evaluation attributes of an online community", *Sport Management Review*, 17, no. 4 (2014): 484–492.

²⁷ "Champions League: 16/16 Teams mit höherem Marktwert weiter – Novum bei Verteilung", 12 December 2019, Transfermarkt.

²⁸ "Intermediaries in international transfers 2019", FIFA, December 2019, fifa.com.

