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# The Effect of Professional Football Clubs' Legal Structure on Sponsoring Revenue

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**Abstract:**

Professional football clubs earn most of their revenues from four sources: sale of broadcasting rights, matchday revenues, merchandising, and sponsorship. The relative importance of these sources differs among clubs and leagues. Economists often argue that the ability of professional football clubs to generate revenues depends to a large extent on their legal structure. In this paper we analyze the effect of different legal structures, such as private company, public company, members' association, on sponsorship. Based on the platform theory we introduce a model of value creation in professional football. After elaborating the property rights situation for each of the legal structures we show the direct and indirect effects on the generation of sponsorship revenues. We theoretically proof the members' association to be the favorable legal structure with regard to sponsorship. The lack of hold-up risks for the stakeholders and the strong position of the fans are the major reasons for the superiority of this non-profit legal structure.

**Keywords:** Organization, Sponsorship, Network Effects, Platform, Property Rights

## 1. Introduction: Varying revenue and legal structures in football

In 2008/2009, the overall revenue in European football grew to an all-time high of almost 16 billion Euros.[1] The clubs generate this revenue from four major sources: sales of broadcasting rights, match-day revenue, merchandising and sponsorship. However, the relative importance of each of these sources differs significantly among clubs and leagues. Broadcasting and match-day revenue, for example, contribute 75% toward the overall budget (€327M) of the leading English club, Manchester United, while merchandising and sponsorship account for only €83M or 25%. For the German market leader, Bayern Munich, with a comparable overall budget of €290M, broadcasting and match-day revenue contribute only 45% of the total revenue. In turn, merchandising and sponsorship revenue account for 55% or €159M. This huge difference in the importance of merchandising and sponsorship is even more remarkable because the brand value of Manchester United exceeds that of Bayern Munich by 27%.[2]

What are the reasons for these differences? The ownership or legal structure seems to be one major factor impacting the generation and composition of revenue. In European professional football, many different specific legal forms are used.[3] Neglecting the slight variations due to different national legislations and the clubs' peculiarities, three basic types of club constitutions remain:

(1) Clubs governed as classic capitalistic, privately owned firms
(2) Clubs governed as public stock corporations
(3) Clubs governed as members' associations with own legal personality (including private companies dominated by those members' associations)[4]

Depending on the respective legal form, the property rights are distributed differently among the stakeholders. The differences in residual control, residual claim and transfer right as well as the resulting incentive structures impact the opportunities to tap each of the four revenue sources.

There has been extensive research on the various aspects of financing in football.[5] In this paper, we add to this field of research and provide an explanation of how the choice for a

[1] Deloitte (2010).
[2] BBDO (2007).
[3] Information taken from the websites of leading European football clubs such as Real Madrid (www.realmadrid.com), FC Barcelona (www.fcbarcelona.com), Manchester United (www.manutd.com) and others.
[4] For a deeper discussion on this issue, see Franck (2010a).

specific legal structure influences the chances of professional football clubs to generate sponsoring revenue. We will introduce the platform theory to explain the general mechanisms of value creation for professional sports clubs. This theory has been applied to sports leagues[6] but is new for professional clubs. We then combine the results with a property rights analysis of the different legal structures. To date, there has been research on the different legal structures in general,[7] but little with regard solely to professional football clubs.[8] The presented overall approach has not yet been implemented to the best of our knowledge.

The remainder of the paper is organized as follows. In section 2, we introduce the platform theory. In section 3, we apply the theory of property rights to categorize and analyze economic differences between alternative legal forms. In section 4, we provide the multidimensional effects of the legal structure on value creation in football. In section 5, we summarize the results and state our conclusions.

## 2. Football clubs as platforms for value creation

Value creation in professional football occurs on a club as well as on a league stage.[9] The two discrete levels have a strong affiliation with each other. The teams of specific clubs attend games. These games act as input for the league. The existence of a league or championship, in turn, is a prerequisite for value creation when considering the individual club because every team needs at least one opponent to create a marketable product. Previous research on value creation in professional football mainly focused on the league stage.[10] The results show that value creation is primarily driven by the interactions between and among the different stakeholders - fans, teams, media and sponsors. In England, for example, the sponsor Barclays Bank PLC aims to interact with the fans. The bank pays €78,9M (£65,8M) for a three-year contract on the naming rights of the Premier League.[11] The league itself acts as the underlying platform. As with every other platform, for example, credit cards[12], which enable the interaction of merchants with consumers, a football league provides the infrastructure

5 Annual reports on football finance are broadcasted, e.g., by Deloitte (2010) and Ernst & Young (2010); financial details for different leagues and clubs can be found, e.g., at Andreff & Szymanski (2009) and DFL (2010); a discussion of specific aspects of football finance can be found at Franck (2010a) and Karlowitsch & Michaelis (2005).
6 See Dietl & Duschl (2009).
7 See Picot (1981) or Picot & Michaelis (1984) for early examples.
8 For an analysis on the governance structures of football clubs, see Franck (2010b).
9 See Dietl et al. (2009a).
10 For a detailed discussion on leagues as platforms see Dietl & Duschl (2009).
11 BBC (2006).
12 For additional examples on two-sided markets, see Eisenmann, Parker & Van Alstyne (2006).

enabling the different market sides to interact with each other.[13] Figure 1 shows the basic mechanism of value creation for platforms.

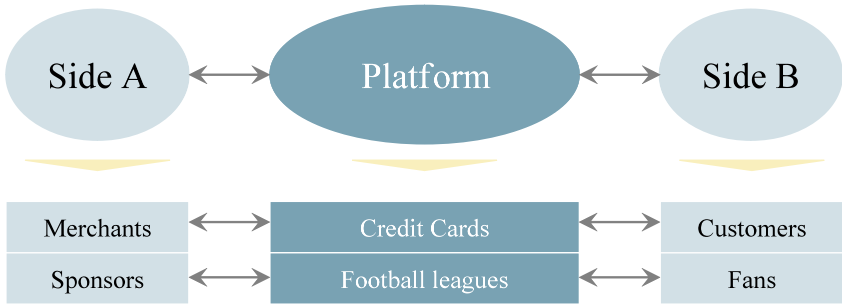


**Figure 1: Platform with two market sides**

The platform concept can be transferred and applied to the club level.[14] For every professional football club, there are different market sides that use the club as infrastructure to interact with each other. Those market sides can be (1) players, (2) fans, (3) media or (4) sponsors. The value creation mechanisms of markets with more sides, in general and in football clubs in particular, can be characterized by the occurring network effects[15] and by the platforms' strategic decisions.[16]

Network effects occur whenever an increasing demand on one market side leads to a higher demand or willingness to pay at the same or at a different market side.[17] Same-side effects occur when increasing the size or improving the quality of one market side attracts others to join the same side. Typical same-side effects occur on the player side of football clubs. The better the existing players of a team are, the better the chances are that other excellent players will be attracted to that team. This is due to the fact that quality teammates maximize the chances to win international titles, the goal of every professional player. The Brazilian Manchester City striker Robinho, for example, expressed his wish to play for FC Barcelona in an interview: "Of course I'd enjoy playing for Barca. […] It would be a pleasure to play alongside Messi, my compadre Dani Alves, Xavi, Iniesta, Ibrahimovic, with them all!"[18] Similar effects can be found on the fan side when, for example, the atmosphere in the crowded stadium attracts other people to attend and watch the game live. Cross-side effects, on the other hand, occur when an increasing size of one market side leads to a higher attractiveness of other market sides. The most obvious example is the effect of the players' quality on fan attendance at the stadium. In the 2009/10 season, for example, all the home

[13] For a deeper discussion on platforms and platform competition, see Armstrong (2006).
[14] See Dietl et al. (2009b)
[15] See Rochet & Tirole (2003) or Eisenmann, Parker & Van Alstyne (2008).
[16] Some discussion on this topic can be found in Rochet, Tirole (2006) & Rysman (2009).
[17] See Dietl (2010).
[18] MailOnline (2008).

games of Bayern Munich in the Allianz Arena were sold out, while 2nd league city rival TSV 1860 Munich, playing in the same stadium, only sold 31.9% of the per game capacity of 69,000 tickets.[19] Figure 2 shows the market sides and possible network effects with regard to football clubs.

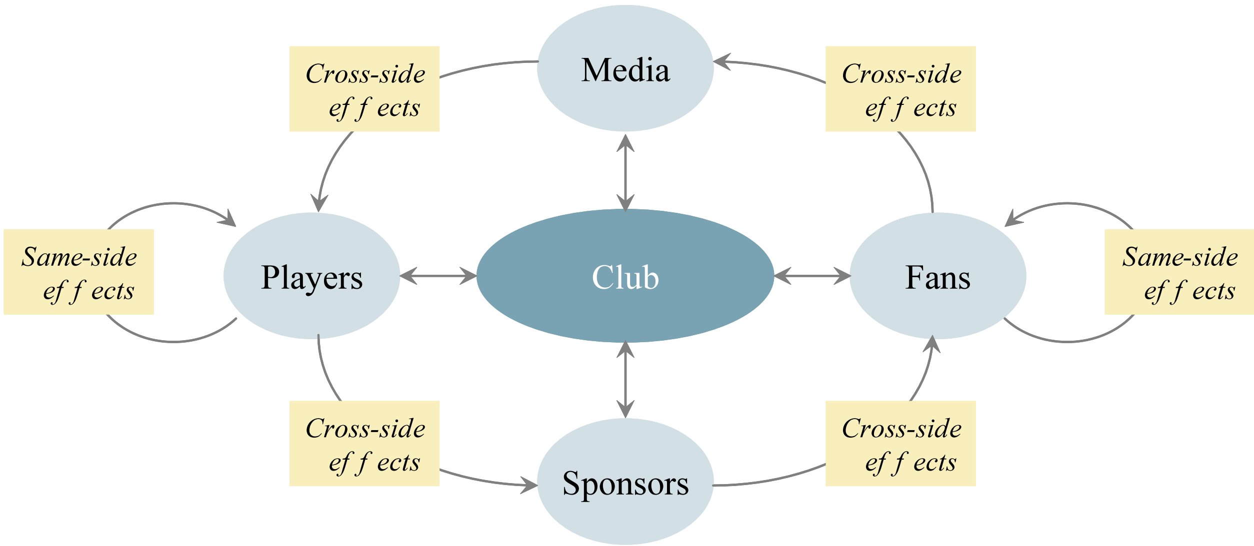


**Figure 2: Network effects and market sides of a football club**

The success of a platform depends, to a large extent, on the chosen strategy. One of the most important parts to the overall strategy is the openness of a platform.[20] Openness describes the possibility of participating in using, developing or commercializing a platform.[21] A specific platform-mediated network can be considered as "open" if there are either no restrictions or restrictions that are applied uniformly to all potential users. "Closed" platforms, on the other hand, impose limitations with regard to platform entry or usage. But platform-mediated networks are not always fully open or fully closed. The degree of openness may vary across the different market sides, in which case the platform-ownership must also be examined.[22] With regard to football clubs, the fan-side can basically count as open because there are minimal, if any, restrictions. The openness of this market side is only limited by the price of entry tickets. The sponsor-side, however, is usually relatively closed, and sponsorship rights are given to only a very few hand-picked companies.[23] The major differences in the degree of openness among the various football clubs reside in the platform ownership, which is highly dependent on the legal structure.

19 Transfermarkt.de (2010).
20 See Rysman (2009).
21 See Eisenmann, Parker & Van Alstyne (2008).
22 See Eisenmann, Parker & Van Alstyne (2008).
23 For a deeper discussion on the selection of willing entry candidates, see Hagiu (2009).

In general, closed platforms improve value appropriation due to a concentration of property rights. Open platforms enhance network mobilization by attracting more users on all sides due to missing entry barriers.[24] In addition, open platforms are better at overcoming hold-up problems.[25] A hold-up problem occurs when a platform-specific investment of any market side locks the participant to a specific network, thus making him vulnerable for hold-up attacks. All market sides of a football club make such investments to a certain extent. Sponsors and players sign long-term contracts, journalists invest in the relationship with the management of the club, and fans make an intangible investment with their loyalty to the club. Due to these investments, the different market sides are, at least temporarily, locked to a specific club. Imagine a fan who invested in the club by building up loyalty. If the club raised the ticket prices dramatically, the fan would be caught in a hold-up situation. The fan could either pay the higher prices or stop attending the games. Due to his investment in the specific club, the fan cannot simply change allegiance and support another team. A rational participant, however, will anticipate the danger of a hold-up situation upfront and refuse to join the network. The only credible commitment to signal the market sides that their platform-specific investment does not result in hold-up attacks is to open the platform. Opening the platform, in this example, would mean integrating the stakeholders into the decision-making process for the levying of the ticket prices.

## 3. Legal structures' differences

The choice for a specific legal structure depends on the allocation of property rights. These rights can be highlighted as:[26]

a. The right to make any decisions on usage or change of a specific good (residual control)
b. The right to retain the earnings from a specific good after all liabilities are paid (residual claim)
c. The right to sell or transfer the property rights to a third person (transfer right)

Because these rights are directly linked to a specific object, a football club in our case, it is possible that these rights are shared among different people or institutions. It must be assumed

[24] See Eisenmann, Parker & Van Alstyne (2008).
[25] See Dietl & Duschl (2009).
[26] Milgrom & Roberts (1992).

that every owner of any property right will act so that his own utility is maximized.[27] This assumption, together with the consequences of the varying distribution of property rights, leads to different incentive structures for the different legal forms.

For the property-right evaluation of the legal structures, we assume that clubs with an identical starting situation have identical revenue and costs. The clubs only differ by their choice of a legal structure. We evaluate the basic legal structures of the private company, public company and members' association, along with some relevant variations.

*The club governed as a private firm:*

The legal structure of the classic capitalistic private firm is used mainly by clubs in the English Premier League and the Italian Serie A. Famous examples are the Chelsea London, with Roman Abramowitsch as owner, and the AC Milan, with Silvio Berlusconi as owner. Sometimes, ownership is shared among two or more individuals, as is the case with the FC Liverpool, where Tom Hicks and George Gillet each own 50% of the organization. This variation does not impact the allocation of property rights, however. The key characteristic of a club structured as a private firm is the concentration of all property rights at the level of the owner.

Although the residual control is with the owner, s/he rarely assumes an official role on the management board of the club. Rather, s/he exercises residual control by acting as chief of a parent single-purpose company.[28] The owner exerts influence on all the important issues of the club such as investments and contracts with players. Roman Abramowitsch, for example, overruled his team manager by denying Michael Ballack a new contract for the 2010/11 season.[29]

As a residual claimant, the owner bears the full financial impact of his decisions, just as s/he would with any industrial company. This also includes the equation of losses, as in the case of Manchester City, where the owner Sheik Mansour bin Zayed al Nahyan took over the €103M in operational losses after the team's last season to prevent insolvency.[30]

A football club's proprietor holds the transfer rights, which enables him to sell his residual rights to other people. Currently, for example, Tom Hicks and George Gillet are searching for

[27] Schewe (2009).
[28] Chelsea London and Roman Abramowitch are good examples. Information taken from the "club info" section of the official website of Chelsea London FC.
[29] Focus.de (2010b).
[30] Focus.de (2010a).

a new owner for the FC Liverpool due to the fans displeasure with the owners and the financial failure of the club.

The owner of a club organized as a private company derives his utility from financial as well as from competitive success. As an investor in the club, the owner aims for profit maximization. As the football club leader who is subject to public scrutiny, s/he can benefit from win maximization through a possible spillover of the club success to other businesses and/or through an increase in social and political acceptance.[31] For some of the wealthier club leaders, owning a club is more of a consumptive activity. Depending on the owner's personal situation, the indifference curve for a club organized as a private firm falls somewhere between profit and win maximization.

*The club governed as a public company:*

Until the mid of the 2000th many clubs, especially British clubs, were listed with widely spread stocks. Manchester United (until 2005) and Chelsea London (until 2003) are two well-known examples. In recent years, however, there has been a strong trend for public companies to become private because football clubs have rarely yielded a profit for the investors on a consistent basis.[32] The remaining public companies are primarily dominated by a small group of people. Juventus Turin, for example, is listed at the Italian stock exchange, but 60% of the shares are owned by the Agnelli family. This domination leads to a slightly different allocation of property rights. Whereas the separation of property rights is a key characteristic for a club organized as a public company with widely held shareholdings[33], this is not fully true for public companies in which the majority of shares are owned by a single individual.

There is a broad consensus in the literature that anonymous minority stockholders do not hold the residual control function because their influence is very limited and they have no control over investment decisions or company strategy.[34] More often, the residual control is amended to the management board, with slight differences depending on the respective national legislation.[35] The board has the power to decide all important issues such as transfers, player compensation and facility changes. If there is any majority owner, the residual right of control

[31] For a deeper discussion on the different objectives of club owner, see Dietl et al. (2011), Franck (2010b) and Zimbalist (2003).
[32] Reuters (2009), for a detailed discussion on the problem of overinvestment in professional football, see Franck (2010b).
[33] Milgrom & Roberts (1992).
[34] Milgrom & Roberts (1992).
[35] For a detailed comparison of different governance structures for public companies, see Schewe (2009).

is amended to him because he is able to influence all important decisions, mainly through his position on the board of directors.

The stockholders – no matter whether minority or majority – remain the residual claimants. They benefit from the distribution of dividends. On the other hand, in the case of losses or insolvency, they bear the financial risk of the football club through their investments.

Each shareholder also holds the right to sell his rights to others by transferring the shares at the stock exchange; thus, the stockholders benefit by an increase of stock prices.

In a club with diversified holdings, the typical shareholder remains anonymous and does not strive for a position in the club other than that of a passive investor. As an investor, he is only interested in profit maximization and compares his investment in a football club to other possible investment opportunities, including other industries. Because the management is interested in satisfying the needs of the shareholders, profit maximization is the only goal of the club. If there is a majority holder, he faces a similar situation as he does with private companies. In addition to the profit, he can benefit from positive effects due to team success. However, because he must satisfy the remaining shareholders as well, profit maximization remains the priority target.

*The club governed as a members' association:*

The legal form of members' associations with their own legal personality (Verein) is used by Spanish clubs such as Real Madrid or the FC Barcelona. For professional football clubs in Germany, there is the "50+1 directive".[36] This directive ensures that clubs are either pure members' associations, such as the FC Schalke 04, or at least a capitalistic structure dominated by members' associations, such as the FC Bayern Munich. A "Verein" has "members" instead of "owners" and is, in contrast to a capitalistic private or public company, a non-profit-only organization. This results in no residual claim or transfer rights in pure members' associations. For clubs dominated by members' associations, these rights exist, at least theoretically, but only for a maximum of 49.9% of the club.

The residual right of control is, in both cases, assigned to the members, most of whom are fans.[37] They discuss all important strategic issues during a regular membership meeting. At

36 With Bayer Leverkusen and VFL Wolfsburg, there are two exceptions to this rule. However, neither parental companies (Bayer AG and Volkswagen AG), each currently owning 100% of the respective club, are allowed to sell more than 49% to other investors.
37 Franck (2010b).

this event, they transfer the operational power to a management team by electing a president and other representatives. For the election, every member has one vote, and selling voting rights is not legal.[38] Due to the large number of members (the FC Barcelona, for example, has 162,000 members[39]), the chances of a single person or a small group to taking control are very low. The elected representatives are responsible for running the club, making decisions on transfers, determining player compensation and handling other managerial issues. The supervising power, however, remains with the voice of the fans. Depending on the statute of the club, members can call for an emergency membership meeting if enough of them support a specific petition. This occurred at the Hamburger SV, where the largest fan organization, called "Supporters", forced management to hold an emergency membership meeting because they were not satisfied with the information they had received regarding management's transfer policy.[40]

As stated above, the residual claim and transfer rights do not exist in a pure members' association. In a club dominated by a members' association, the minority owner or shareholder is the residual claimant; however, fans will usually vote against a profit distribution to any investor. Therefore, there is no real residual claimant in such clubs. The shareholders effectively only own the transfer rights to sell their minority shares.

The non-profit status of pure members' associations deters investors from getting involved. Without the possibility to distribute any profits or benefit from increasing stock prices, utility can be derived only from win maximization. This meets the utility function of the members as holders of the residual control rights. The fans are interested in maximizing the fame and competitive success of their favorite club, but without risking the failure of the club due to repeated overspendings. Although there might be investors in a club dominated by a members' association, the residual control of the fans ensures that the priority target remains win maximization.

38 VNR.de (2010).
39 Barcelona.de (2010).
40 Hamburger Abendblatt (2010).

Table 1 summarizes the findings regarding the distribution of property rights and the resulting incentive structure for the three basic types of legal structures and their variations.[41]

| | **Private firm** | | **Public company** | | **Members' association** | |
|---|---|---|---|---|---|---|
| | **with single ownership** | **with multiple ownership** | **with stocks widely spread** | **with majority owner** | **pure** | **dominated by** |
| **Residual right of control** | Owner | Owner | Manage-ment | Majority owner | Fans | Fans |
| **Residual claim** | Owner | Owner | All stock-holders | All stock-holders | n/a | n/a[42] |
| **Transfer right** | Owner | Owner | All stock-holders | All stock-holders | n/a | Stock-holder/ Owner (max 49,9%) |
| **Resulting incentive/ target** | Between profit and win maximi-zation | Between profit and win maximi-zation | Profit maximi-zation | Profit maximi-zation | Win maximi-zation | Win maximi-zation |

## 4. Influence on sponsoring revenue

Sponsors in professional football aim for clear advantages when beginning a business relationship with a football club. Typical targets of a sponsorship commitment are to increase the market share or to generate additional sales.[43] The attention of potential customers is crucial to reach this target and, therefore, the first consideration for the sponsor when deciding which club to support.[44] The more attention his brand gets, the higher the reward will be for the sponsorship contract with the respective club. Attention is mainly driven by the number of

[41] See also Dietl et al. (2009c) who analyze the effects of the clubs' objective function (win vs. profit maximization) on social welfare in a sports league.
[42] Stockholders of the (maximum) 49.9 percent share are the residual claimants. However, due to the fans' voice, no distribution will take place.
[43] Bruhn (2003).
[44] Franck (2010b).

fans and the extent of the media coverage a club has to offer. To the extent that sponsorship is a capital expenditure, the sponsor aims for a secure investment. Therefore, the sponsor seeks to avoid hold-up problems and their adverse impact on the sponsoring company. The lower the possibility of ending up in a hold-up situation is, the more likely the sponsor will sign a highly remunerated sponsorship deal.

The varying distributions of property rights due to different legal structures influence the possibility of such hold-up problems as well as the level of attention from the fan base for the sponsors. These effects can be proven by evaluating the impact of the varying property right allocations on the proposed model of value creation.

*The effect of the allocation of the right of residual control:*

The distribution of the residual right of control favors the members' association over other legal structures with respect to sponsorship revenue. It drives the attention for the sponsor in two ways: first, it prevents hold-up problems for the fans; second, it utilizes the positive effect of the fans' voice or opinion.

The allocation of the control rights to the fans secures their influence. They can impact all major decisions, and nobody can lock them into a hold-up situation. Therefore, they will be more inclined to increase loyalty. The resulting network mobilization leads to an increase in the number of loyal spectators and, subsequently, to an increase in attention for the sponsor. Other legal structures, in turn, impose the possibility of hold-up problems for the fans. The holder(s) of the residual control in public or private companies can initiate a hold-up attack against the fans by selling the club's best players, for example, thus leading to higher short-term profits but a very poor competitive performance. Rational fans anticipate this possibility and, therefore, refuse to invest increased loyalty with the club.

Additionally, the fans' voice in a members' association will positively affect the sponsor's attention by impacting ticket prices and broadcasting deals. The utility-maximizing fans, holding the residual control rights, will vote for the lowest possible ticket prices, leading to an increase in spectators. As a subsequent cross-side effect, the broader fan base will attract greater media attention; hence, the greater the media attention is, the more attention will be given to the sponsors. A second effect is that fans will vote for television deals that allow a maximum of free television broadcasting. This is possible especially in those leagues where the selling of broadcasting rights is decentralized or in leagues with centralized selling if the majority of the clubs are members' associations. The high television audience ratings drive the attention for the sponsor and, with it, the sponsorship revenue for the club. A decrease in ticket prices and a television deal with a high free television rate lead to an increase in sponsorship revenue, but not necessarily to higher overall profits. In other legal structures, the management or the owner, as holder of the residual control rights, aims, at least partly, for profit maximization. Lacking the fans' input in the control function, they have no reason to decrease ticket prices or sign television deals with a high free television rate. The effect of the fans' voice in European football becomes obvious when looking at the ticket prices, the television deals of a German members' association and a privately owned British club. Whereas the FC Bayern Munich offers season tickets from €120 to €650, Manchester United's tickets range from €613 (£513) to €1,112 (£931).[45] The selling of television rights is centralized in both the German Bundesliga and the British Premier League; however, the English deal imposes higher restrictions with regard to free television broadcasting. For example, the highlight show "Match of the Day" on BBC is not allowed to begin broadcasting its summary of the games until 10:30 pm on Saturday evening, whereas the "Sportschau" on ARD in Germany is allowed to begin broadcasting at the conclusion of the final game, which is usually 6:30 pm.[46]

*The effect of the allocation of the right of residual claim:*

The allocation of the rights of residual claim emphasizes the advantage of the members' association. The non-existence of any residual claim decreases the risk of hold-up problems for the sponsor. Additionally, it drives attention through a lack of hold-up problems for the fans, and it provides for the opportunity to invest all funds into playing strength, leading to win maximization.

The non-distribution constraint de jure or the power of the voice of the fans makes it impossible to distribute profits. The sponsor does not have to fear that part of the club's money, money gathered, at least in part, through sponsorship, is being distributed to a third shareholder. A club organized as a public company is required to distribute the profits to the stockholders as residual claimants, while in privately owned clubs, there is a possibility that some of the profits will be skimmed from the top. Sponsors will refuse to partner with a club that risks this type of hold-up.

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[45] Information taken from the websites of the clubs.
[46] Chalk (2010).

The same issue can lead to an increase in the number of fans because no money netted through the sale of tickets can be distributed to an investor. This lack of hold-up leads to network mobilization, especially on the open fan side, resulting in greater attention for the sponsor. The attention rises even more because all funds, including sponsorship money and entry ticket proceeds, can be reinvested in the playing strength of the team. A strong team drives competitive success, leads to a larger spectator base and results in an increase in media coverage due to a cross-side effect. This results in increased attention for the sponsor. The positive correlation between invested funds and competitive success is irrefutable.[47] The effect of competitive success on spectator base and media coverage can be seen when looking at the German VFL Wolfsburg. Starting at the end of the 2008/2009 regular season, just before winning the championship for the first time, the news coverage and media attention devoted to the German VFL Wolfsburg grew significantly.[48] The demand for tickets also increased. The average number of tickets sold for home games in the VW-Arena grew by 20% from 24,000 to 29,000 during this period.[49]

*The effect of the allocation of the transfer right:*

The allocation of transfer rights confirms the favorable position of the members' association. The inability to sell the majority of the shares and, therefore, the property rights prevents hold-up problems for the sponsors and also for the fans, which, in turn, leads to an increase in the number of fans and, therefore, an increase in attention for the sponsor.

The strategy and development of a professional football club is often linked to a specific person, the president in a members' association, the owner in a private company or the CEO in a public company. In members' associations, the president is elected by the fans, and ownership changes are impossible due to legal restrictions. This eliminates the possibility for rapid strategy changes, which could result in hold-up attacks against a sponsor who had signed a long-term contract. The other two legal structures allow for relatively fast ownership changes, thus enabling hold-up situations. In a private ownership company, the private owner can simply sell the club to someone else. In a public corporation, someone can quickly take over the majority of shares. A new owner or dominant majority shareholder can then start selling the crowd favorites and top players or stop recruiting new, young talents. These

[47] See Frank (2010a).
[48] Information taken from Google Trends (search: „VFL Wolfsburg“).
[49] Information taken from the website of the stadium.

actions might decrease fan support or lead to negative media attention, either of which could result in a hold-up attack against the sponsor.

With regard to the transfer right situation, sponsors share their situation with the fans. The stability and predictability of the strategy in members' associations again prevents hold-ups for the fans. This, in turn, drives the attention for the sponsor. Rapid strategy changes in other legal structures can enable hold-up situations. No fan likes to see the crowd favorites being sold. Similarly, if a new owner is disliked by the fans, the fans can choose to either remain in the situation and support the club or withdraw their support from the club, leading to a decrease in attention for the sponsor. This occurred in 2005 when Malcolm Glazier took control of Manchester United. Many fans withdrew their support for Manchester United and founded a new club, United of Manchester, in protest against Glazier.

Table 2 summarizes the situation for the sponsor regarding hold-up prevention mechanisms and drivers for attention.

| | Private firm | Public company | Members' association |
|---|---|---|---|
| **Secure investment for the sponsor** | *High risk of hold-up for sponsor*<br>▪ Distribution of money gathered (partly) through sponsoring [residual claim]<br>▪ Possibility of rapid strategy changes [transfer right] | *High risk of hold-up for sponsor*<br>▪ Distribution of money gathered (partly) through sponsoring [residual claim]<br>▪ Possibility of rapid strategy changes [transfer right] | *Low risk of hold-up for sponsor*<br>▪ Non-distribution constraint [residual claim]<br>▪ No rapid strategy changes [transfer right] |
| **High attention for the sponsor** | *Decrease of attention*<br>▪ High risk of hold-up for fans [residual control, residual claim, transfer right] | *Decrease of attention*<br>▪ High risk of hold-up for fans [residual control, residual claim, transfer right] | *Increase of attention*<br>▪ No hold-up risk for fans [residual control, residual claim, transfer right]<br>▪ Positive effect of fans' voice [residual control]<br>▪ Increasing sportive success due to reinvestment of all funds [residual claim] |

In summary, the results of this analysis prove the members' association to be the favorable legal structure for generating sponsor revenue. This can be confirmed when looking at the various incentive structures of the legal forms. A members' association only aims for win maximization. This target is fully in line with the aim of a potential sponsor because competitive success always drives the attention of fans and media. The concentration in whole or in part on profit maximization does not reflect the sponsor's aims. Therefore, the members' association out-performs the other two legal structures with regard to securing sponsorship.

The only, albeit rare, exception to this logic occurs if the sponsor is simultaneously the owner. This is the case with Zenit St. Petersburg, where the Russian oil and gas company Gazprom acts as owner and sponsor at the same time. In this case, the sponsor does not have to fear any hold-up attacks due to his ownership of the property rights.

In every other case, the legal structure of a members' association brings advantages with regard to sponsoring. To be able to experience similar benefits, clubs that are currently organized as private or public companies would have to change their strategy in terms of platform openness. Changing the legal structure to a members' association means opening the platform with regard to ownership. For members' associations, there are no restrictions regarding ownership except for a negligible annual membership fee. Because initiating or terminating membership is easy to do, the legal form can be characterized as open in this regard. Public and private companies, in contrast, place high restrictions on ownership. Buying shares from the owner of a club governed as a private company is highly unlikely unless the owner is interested in selling the club. Because it is the owner who must decide on the opening of the platform, in the event of a transformation from a private company to a members' association, it is the owner who would ultimately forfeit his ownership and his power, which rarely occurs. A possible way to force such a change is the introduction of new regulations such as the "50+1 directive" in the German Bundesliga. It is often argued that this directive is disadvantageous to the funding of a football club. In fact, it is actually more a trade-off between sponsorship revenue and other types of funding.

## 5. Conclusion

Football clubs act like professional leagues as platforms for value creation in professional sports. They provide the infrastructure that enables the interaction between and among the various market sides such as fans and sponsors. However, the resulting revenue structure for European football clubs differs significantly among clubs and leagues. Varying legal forms are one factor impacting the ability of a club to generate sponsorship revenue. Clubs organized as members' associations constantly outperform those rivals that are governed as public or private companies in this respect. The various legal forms entail diverse distributions of property rights, resulting in varying incentives for each of the legal structures. These incentives are either profit maximization (as with public firms), win maximization (as with members' associations) or a combination of the two (as with private firms). The concentration on competitive success and the resulting strong fan orientation of clubs organized as members' associations prevent hold-up attacks and lead to positive effects on the achievable attention for sponsors. The profit maximization target of private or public companies is not in line with the sponsors' aims and, therefore, hinders high sponsorship revenue. The choice of a specific legal structure can also be considered as a choice for a specific strategy regarding the openness of the platform. Whereas members' associations can be considered as open, private or public companies are closed.

The analysis of clubs from a platform theoretical approach and the related discussion of the differences regarding the allocation of property rights for diverse legal structures provide a new perspective in understanding the mechanisms of revenue generation in professional football. The legal structure's effect on sponsorship revenue was the first evaluation using the platform theory on that level. This approach can form the basis for further evaluations.

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