

## The Strategic Development of the Manchester United Football Club

*Dezvoltarea strategică a clubului de fotbal  
Manchester United*

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### **Abstract**

*The entry in an informational society which is developing day by day has increased the importance of economics on the professional sports market. The ways of economy and sport have always met, but they were never so interdependent as in our days. In order to resist on the market, but especially in order to be competitive and to obtain sporting succes, a modern football club must consider managerial practices which to permit a good economic development. Manchester United is one of the most diversified football clubs in the world, earning income from various markets, such as the gambling, clothing, hospitality and alimentation or entertainment markets. The research presents some of the diversification forms Manchester United has used in order to grow its financial incomes.*

**Keywords:** *Manchester United, diversification, strategic alliances, cooperations, football management, development*

### **Rezumat**

*Intrarea într-o societate informațională care se dezvoltă pe zi ce trece a făcut ca economicul să aibă un rol tot mai important pe piața sportului profesionist. Drumurile economiei și ale sportului s-au încrucișat dintotdeauna, însă niciodată nu au fost atât de dependente ca în zilele noastre. Pentru a putea rezista pe piață, dar, mai ales, pentru a putea fi competitiv și pentru a reuși să obțină succesul sportiv, un club de fotbal modern trebuie să ia în considerare practici manageriale care să îi permită o cât mai bună dezvoltare economică. Manchester United este unul dintre cele mai diversificate cluburi de fotbal din lume, obținând venituri din afaceri pe piețele jocurilor de noroc, vestimentare, alimentare ori din industria divertismentului. Comunicarea prezintă câteva dintre formele de diversificare pe care Manchester United le-a folosit pentru a-și spori veniturile financiare.*

**Cuvinte-cheie:** *Manchester United, diversificare, alianțe strategice, cooperări, managementul fotbalului, dezvoltare*

**JEL Classification:** JEL: M21

## The Strategic Development of Manchester United

There is no secret any longer that without acting in a business-oriented managerial way, the football clubs can not raise the resources – especially the financial ones – which are needed for development. A need for proper founding can be found at most of today's football clubs (Roşca, 2010). For a football club, development can be presented as a positive modification with future effects – of the whole organization or just of singular departments – needed for obtaining economic success, but more important, sporting one.

A business-enterprise may be profit-oriented, a sports club targets both profit and sporting victory. Thus, the maximization of victories refers to the sporting development opportunities of the club (through the results obtained by the athletes), while the maximization of profits refers to the economic development possibilities of the club. Over the years, the importance of the two orientations has modified, but, eventhough, the maximization of victories remained the ultimate goal of the European football clubs.

The starting point for the development of a football club is the identification of an ascending trend. Then, if the club identifies growth opportunities in that trend, three actions are going to be implemented:

1. The stating of development targets. The development targets must be part of the club's objectives system.

2. The elaboration of a development plan. For writing the development plan, it is indicated to gather as many pieces of relevant information as possible. A SWOT analysis may be used for collecting information, thus giving a more solid background to the plan (Burduş, 2005).

3. Implementing the measures identified in the plan.

The ascending trend identified at the Manchester United Football Club was based on the transition from the industrial society to the informational society, to a services-based economy. Then, the managers of the club, drew a plan which foresaw a development based on new technologies, which had to allow the entry on new markets and the increase of the fan-base, eventhough Manchester United was not always physically present on the markets with growth potential, but just virtually, through the help of Internet or television, for example. Among the markets which Manchester United has used for its development since the 1980's, North America and Asia proved to be the most important ones.

For developing successfully, a football club must be active on the market. The club must not simply wait and adapt to the decisions of rival clubs or companies, but it has to try influencing the market by its own. An active relationship with the market may mean penetrating new markets, influencing social and environmental factors or innovating. The market activity may result in two measures which to help the club grow financially. One may be represented by the investments which may lead to an internal diversification, so at a growth strictly

within the boundaries of the club. A first important characteristic of the internal growth is that the rights of receiving the incomes remain strictly at the football club, which has the sole right of using them, while the second characteristic is the total or partial outsourcing of the non-sport activities of the club (for example, the club outsources the bookkeeping to an accountancy company). Whichever of the two characteristics it chooses, if it does not even combine them, the club has to make sure that the incomes surpass the expenditures, or at least equal them, otherwise the investment being non-profitable. The growth of Manchester United occurred in the same way as with the majority of the sport clubs: diagonally, through the diversification of the product range. The main product offered by a football club is the football game which the players produce on the field and which is sold to the spectators through entrance-tickets. But, with the passing of the years, the product range spread so much, that football clubs nowadays offer products or services which are more complex or which differ from the pure football-product on the field. Product diversification has reached such dimensions in football, that clubs as Manchester United offer services such as catering, banking, hospitality, betting, events staging (at Old Trafford, the home venue of the club, Manchester United organizes conferences, weddings and Christmas parties) or media services. All those “non-sporting” services sustain the economic development of Manchester United, where both internal and external growth is present. In the beginning, Manchester United offered non-sporting services with its own forces, but, over the latest years, the club has opted for outsourcing. For example, the “Betting and Gaming” service is offered by Betfred, a betting agency and business partner of Manchester United. Manchester United and Betfred followed the trend on the betting market (growing number of global on-line poker players) and identified an opportunity to win new clients, so that Betfred launched an online game entitled *Manchester United Poker* (Betfred Official Website). With all the existing outsourcing, it must be mentioned that, without offering the core product, which is the football game, a club wouldn’t be able to offer the secondary products, such as betting, because the latter ones are based on the brand of the football club and, moreover, the incomes generated by them are distributed, mainly, to the club.

Ever since the 1980’s, an important goal of Manchester United was to obtain new financial incomes, which to be further invested in the development of the club, in order to satisfy the fans. According to Goldstein, there must exist a continuous flux between investment, sporting success and economic income in the football club (Goldstein, 1999, p. 22). If it invests in the football teams it has (creating extra-value in the sporting activities), the club reaches a qualitative competitive advantage. The sporting performances of the competitors will be beneath those of the club which made investments. Thus, the higher chances of success are to be found at the clubs which manage to continuously invest. Through the obtained sporting success, the reputation of the club will improve. Aware of the success of the club, the business-partners are going to further help the club, which will reinvest the incomes in its football team(s). From that moment on, the cycle

presented by Goldstein repeats itself. It has to be mentioned that a football club has a variety of sources from where it draws its incomes, and that investments aren't being made just in the sporting activity, but also in the marketing and in the management of the club. It is important to grant continuity for the "investment – sporting success – financial income – investment" circle. By doing so, the managers of Manchester United have laid the basis for the development which the club meets nowadays. By assuring the continuity of the circle, Manchester United has raised its incomes from 2.25 million sterling pounds in 1985 to more than 200 million pounds in the first decade of the 21<sup>st</sup> century.

### The Diversification of Manchester United

As many other English football clubs, Manchester United has both a sporting and an economic status. Manchester United is a holding whose main offer is based on football game sold to the spectators. Responsible for making this core offer is Manchester United Football Club Ltd., while the non-sporting services of the club have been outsourced. Figure 1 presents the structure of the Manchester United holding. Manchester United PLC (Product Limited Company) controls nine subsidiaries, among whom only

Manchester United Football Club Ltd is under direct management of the club. The other eight subsidiaries have been established by Manchester United with the help of business partners, the PLC having the role of a controller.

Lechner and Müller-Stevens (2005, p. 280) define diversification as "the entry of a company in a new business area". So, a club diversifies its offer by managing other businesses as well, not only the sporting activity.

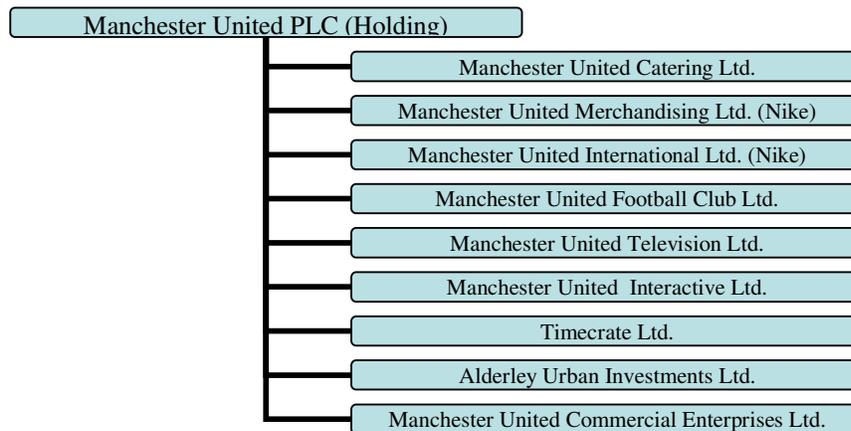


Figure 1 The structure of the Manchester United Holding  
(Kupfer, 2006, pp. 294 - 297)

One advantage of diversification is that it helps football clubs to financially develop without depending on the sporting results. Although the sporting results influence the value of other club-branded products, the lower the influence of sporting results in generating incomes, the better it is for the club. Sporting results are characterized by imprevisibility, which also make financial incomes unpredictable. At a club without a holding structure, the financial incomes depend on the sporting results. If the team wins, incomes will flow in, for example from the increased number of fans attending the match or from prize money. But, if the team loses, the incomes will drop. The solution for having stable incomes is reorganizing the club in a holding company, where the flow of incomes does not depend any more just on the sporting results, but on connex businesses as well.

Among the first steps made by Manchester United in its diversification process were the listing at the stock exchange, in 1991, and the creation of an own trademark. If entering the stock market was not anything new for football clubs, brand management represented an innovation. Manchester United called "*The Trade Marks Department*" into life, with the role of managing and protecting the Manchester United Brand. The department enables the club to have exclusivity rights for its own brands, thus better controlling the external influences on its business. The department fights brand-piracy and makes sure that the incomes generated by the commercialization of the Manchester United brand enter only the accounts of the club or of its business partners, not those of the black market dealers, which try to speculate by faking the club's brand and selling products as in the name of the club. For diminishing the power of such dealers, the club registered four official trademarks (Manchester United, Man United, Man Utd, MUFC), having the sole right of using them (Trade Marks – Brand Protection, n.d.).

In its diversification process, Manchester United uses internal development and cooperation for economic growth. Although many activities have been outsourced, internal development still plays an important role in the club. The club develops internally by investing in the football teams and increasing its sporting value. Manchester United Football Club Ltd. is part of the club's holding and is managed since November 7<sup>th</sup>, 1986, by Sir Alex Ferguson (White, 2009). Manchester United Football Club Ltd. has to grant the development of the football game in the club being the subsidiary where the Manchester United PLC, the mother company, has the most influence.

Cooperation and strategic alliances are two diversification instruments used by Manchester United, with the goal of developing the brand's presence on foreign markets. In what concerns cooperation, the club comes with its products or services, and a partner helps distribute them in its market. Often, Manchester United doesn't even produce the goods or services, but it only gives the right of using the brand to its partners, and the latter ones both produce and distribute the goods on foreign markets. The advantages of cooperation for football clubs are an increased speed of economic development, sharing of risk with the business partners, direct entrance on new markets, obtaining greater market shares and the possibility of using the partner's know-how. Among Manchester United's partners there are some well-known brands, as Nike, BSKyB or the New York Yankees, for

example. For example, Manchester United and the New York Yankees have entered a strategic alliance, which is based on the principle that the clubs have better chances of development if they use each other's resources. Football clubs and other sport clubs or business enterprises enter strategic alliances when they identify a common vision, common objectives or needs, which they can easier fulfill if they cooperate. By entering a strategic alliance, the football club gains more stability on a professional sport's market which is characterized by uncertainty. Also, the club diversifies its business with the help of the partner and accesses more income sources. A good alliance is characterized by a win-win situation, where both the club and the partner gain. One risk that clubs have to avoid is identity loss due to the overtaking of too much decision power and control by the partner. A strategic alliance must be based on honesty, trust, clear communication and the common vision and goals already mentioned.

One of Manchester United's strategic alliances is with the New York Yankees, a Major League Baseball franchise. The two clubs share information about the market they are active in, they sell one another's merchandise products and they have common advertising and PR campaigns. Moreover, YankeeNets, the owner of the New York Yankees, helps Manchester United plan and stage its summer tours to the USA.

As mentioned earlier, Manchester United is an active player on the poker market. The market entrance was not done just through the club's own forces, but with the help of Playtech, one of the biggest online gaming companies in the world. In the year 2006, Manchester United and Playtech reached an agreement which resulted in the launch of a poker and casino-games webpage. The management of Manchester United has identified a trend which promised financial incomes for the club: more and more people play poker and make bets on the Internet. Among them, Manchester United fans. Betferd was an intermediary company which surveilled the good functioning of the project and, when, finally, the webpage was launched, it was done by taking into account Manchester United's brand: the domain was named *www.mupoker.co.uk*, with "mu" standing for Manchester United (Manchester United Poker, Playtech Builds Manchester's Poker Site, n.d.).

Another joint-venture of Manchester United, this time an equity one, grants access to the club on the food and beverage market. Manchester United Food and Beverage Products (MUFB) was launched as a result of the joint-venture between FJ Benjamin (50% share) and Rowsley Company (50%), two Asian companies (1999, Investor relations). Manchester United sold the right to use the brand to the Asian joint-venture, and both parties had a winning situation: the joint venture could boost its sales and incomes thanks to the customer-attraction-force of the Manchester United brand, while the football club received money for the sell of the rights. The contract between the club and the Asian companies stipulates that one hundred Manchester United restaurants are going to be opened all over Asia, some of them already existing in Singapore, Hong Kong, China, India, Japan, South Korea or Brunei (Manchester United restaurants to hit Asia - Company News - FJ Benjamin Holdings - Brief Article, May 23, 2002).

## Conclusions

Taking into account the economic orientation of modern sport, football clubs have to seek ways which to allow them increase their financial resources. Having resources is important as costs continue to grow. Clubs may use the managerial principle of diversification in order to explore new income sources, which are important for assuring the capital needed for investment and strategic development. Manchester United has used diversification and the club was reorganized as a holding integrating the football teams (Manchester United Football Club Ltd.) and other eight commercial enterprises, each of them having separated economic activities. If the club does not want to explore the market by itself, then it can enter partnerships or strategic alliances with organizations, be those sporting or business ones.

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