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External Investors in the German Football Bundesliga

Are they necessary or do they lead to a distortion of competition?

Term Paper presented by

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Table of Contents

1 Introduction

Football is unambiguously the national sport in Germany. No other sport attracts more people and has the power to connect more people of different ages, nationality or status. In football everyone is equal at least for 90 minutes. Having one favourite football club means having an emotional connection to it with celebrating the wins and suffering when the team loses. The German Bundesliga in particular is a magnet for fans coming into the stadium.

Football is not only about emotion or the sport success itself. According to Jones (2003) today, topics like the salaries of the players, the television revenues or especially the transfer fees made up about 60 per cent of football stories on average. It is no surprise that football became a big business as many football clubs transformed into enterprises and the money amount as well as the amount of industries that are related to football and therefore the amount of stakeholders increased (Bühler, 2006). More and more investors now see that there is a great potential to invest their money in football clubs and get a high return on investment or publicity as they can present their products on a big stage.

In the following, the different meanings of an investor will be explained as wells as their reasons for investing in a football club. Furthermore, the investor presence in the German Bundesliga and the English Premier League will be compared. Moreover, the clubs VfL Wolfsburg, Bayer 04 Leverkusen, the TSG 1899 Hoffenheim and RB Leipzig will be analysed and explained how they could achieve to be owned by an investor, although there is the 50+1 rule that says that clubs have to be owned by their members. Then, a closer look will be given to the question if investors are necessary to have a more competitive league or lead to a distortion of competition in the Bundesliga.

2 Investors

2.1 Investor Presence and their Reasons for Investing

There are two types of investors. The formal investors (natural person or legal entity) who obtains shares by providing money to the club and which also leads to contractual obligations and on the other hand, there are patrons who support the club financially without any service in return and therefore they are not contractually obligated according to Kindler (2014).

However, for many investors it is not the control or the profits that are interesting but rather something that brings them some esteem as it is “like buying a Picasso” (Szymanski, 2015, p. 6).

According to Birkhäuser, et al.(2015), sponsorship payments can also be seen as investor payments, but only if the sponsors are direct shareholders like in the case of FC Bayern Munich with the Adidas AG, Allianz SE and Audi AG that together hold about 25 per cent. Other than English clubs, German clubs are dependent on sponsorship income as they do not generate as much income on match days with ticketing or broadcasting rights as English clubs do. Many years ago, sponsorship deals were more a kind of patronage from local firms but with the increasing popularity of football with sometimes even national wide or international reach “clubs soon became marketing tools for companies” (Bühler, 2006, p. 32).

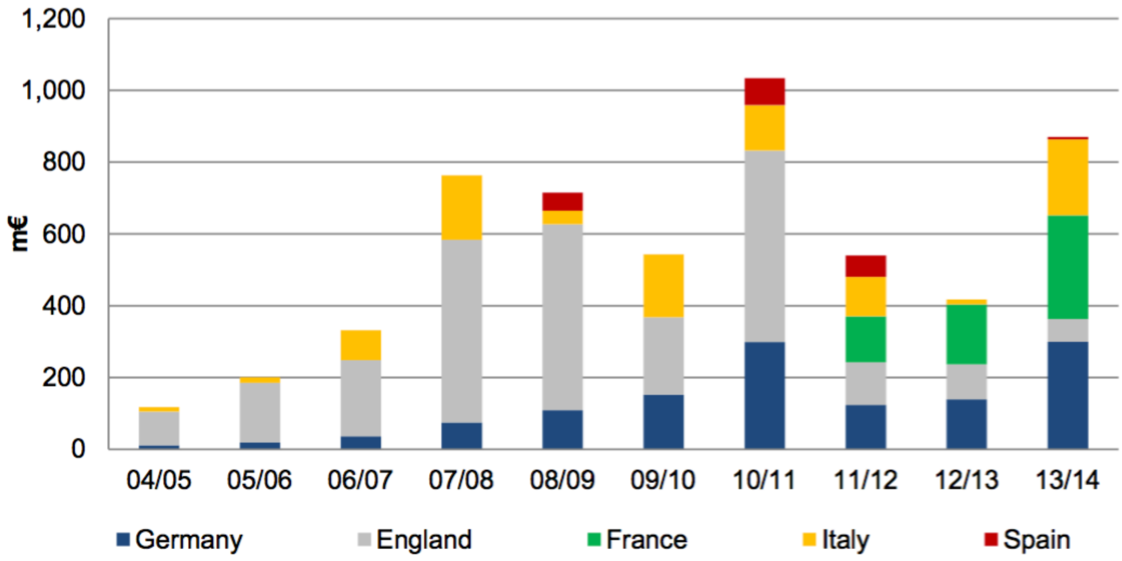

Figure 1: Payment of investors to clubs of major European football leagues (Birkhäuser, et al., 2015, p. 8)

When having a look at figure 1, it can be seen that the investor payments play the most significant role in England but also in Germany, France and Italy the payments have become more important. The payments for German clubs raised continuously after a decline in the season 2011/12. With about 95 per cent, especially clubs from the highest leagues of the countries receive the most money (Birkhäuser, et al., 2015). They have the power to reach a much wider range of audience and are therefore more interesting for investors like companies that want to place their products or brand names on the jerseys, busses or at the stadium for example.

2.2 Comparison of the Investments in England and Germany

According to Key Note (2002), especially in England as well as in Germany football is regarded as a national sport while at the same time being part of the most business-driven football leagues. There are four professional leagues with 92 clubs in England compared to two professional leagues in Germany with 36 teams (Bühler, 2006). These professional clubs have one in common, they need capital to survive.

Investor payments always have something to do with the ownership of shares and voting rights. At this point, a huge difference of the ownership structure of professional football clubs between England and Germany can be emphasized. Other than in England, many German clubs only outsourced their professional team in a company in recent years while in England most of the clubs have been Public Limited Companies for many years, many of them even since their foundation according to Bühler (2006). The clubs of the English Premier League seem to be very attractive to investors as they are very popular even in foreign countries around the globe. It is therefore not surprising that nearly all Premier League clubs have an external investor.

Asian or Arabic business people invest their money in the Premier League as even clubs that are lower ranked in the league receive secure television revenues and are more popular in Asia or the Middle East than most of the German clubs (Goff, 2007). The most famous investors are the Russian Roman Abramowitsch who bought FC Chelsea for about €210 million and sheik Mansour bin Zayed Al Nahyan from Abu Dhabi who bought all shares of Manchester City in 2009 with his company ADUG. He has invested more than €1billion until now (Heun, 2016). In the other top clubs of the Premier League, investors can also be found like Malcom Glazer (Manchester United), George Gillet and Tom Hicks (FC Liverpool) and Stan Kroenke who payed €100 million to buy shares of Arsenal London (Pfeil, 2008).

The German investor payments to football clubs are small peanuts compared to those of the Premier League. A huge imbalance can be found with only FC Bayern, VfL Wolfsburg, Bayer 04 Leverkusen, TSG 1899 Hoffenheim and RB Leipzig having external investors and Burussia Dortmund being the only German football club on the stock exchange. Since last year, Hertha BSC has also received investor payments by finance investor KKR of €61.2 million for about 10 per cent of the shares of the Hertha BSC GmbH & Co. KGaA. With this money the club is able to rebuy marketing rights and television rights for example. But on the other hand, a finance investor like KKR only invest for a duration of five to seven years and then tries to sale the shares with a profit (Dierig, 2014) but then, Hertha has no influence in the decision process to who the shares are sold to.

3 The Club Ownership Rule in Germany

3.1 The 50 +1 Rule

Such high foreign investments like in England cannot be found in Germany except of Hertha with KKR from the United States and the TSV 1860 Munich that plays in the second highest football league and that has given 49 per cent of the voting rights to a business man from Kuwait. Therefore, scenarios like those in England have not been possible so far. In German professional football (for 36 teams) exists a unique rule that cannot be found in any other football league.

This model is called the 50+1 rule and says that the majority of 50 per cent plus one more voting right must be in the hands of the club members. There are also high investment opportunities but as a result of the rule clubs should be prevented to be controlled by their investors. That means that the club board should still be made up of by shareholders selected delegates. The shareholders or supporters are viewed as participant and not just as a fan. It is also a protection against unserious investors who could use a club generated surplus for paying off other debts that could be resulted from a non-football business (Kindler, 2014).

It is important to be mentioned that the voting rights of an investor are limited to 49 per cent due to the 50+1 rule while a patron officially does not own any voting rights but as “the club must continuously earn the patron’s goodwill, his intensions have to be considered even without formal controlling rights” (Kindler, 2014, p. 38). That means that a patron has control over the club more or less and this could also be more than 49 per cent although, as mentioned before, a patron officially does not have any voting rights and therefore no control.

There are also some exceptions like Bayer 04 Leverkusen or VfL Wolfsburg that are 100 per cent company-owned or the TSG 1899 Hoffenheim that is now officially owned by Dietmar Hopp, its patron for many years. FC Bayern Munich still owns 75.01 per cent whereas the Audi AG, Allianz SE and Adidas hold 8.33 per cent, respectively. The insurance concern Allianz payed €110 million to Bayern in exchange for the shares, for example (Dierig, 2014).

3.2 VfL Wolfsburg and Bayer 04 Leverkusen

An exception of the 50+1 rule is called LEX Leverkusen and is applied to two clubs of the Bundesliga. This rule says that an investor is allowed to own a football club if he has helped the club financially for 20 years without any interruption and the support has started before 1st January 1999. This is the case with the club VfL Wolfsburg and Bayer Leverkusen that have been company-owned since their foundation in the VfL Wolfsburg Fußball GmbH and the Bayer 04 Leverkusen Fußball GmbH. The VfL Wolfsburg is now 100 per cent owned by the German car manufacturer Volkswagen AG and Bayer 04 Leverkusen is 100 per cent owned by the pharmaceutic company Bayer AG (Kindler, 2014).

Other than Bayer, Volkswagen is a big investor in the German football league. Alongside the ownership of Wolfsburg, the company owns 20 per cent of FC Ingolstadt and 8.33 per cent of Bayern Munich. The rule of multiple ownership says that an investor is allowed to own shares of three teams but it is only allowed to hold shares higher than 10 per cent on one club. The shares of the other two clubs must be under 10 per cent (Kindler, 2014).

3.3 TSG 1899 Hoffenheim and RB Leipzig

With Hoffenheim and Leipzig, two other clubs achieved to go round the 50+1 rule. The members of the two clubs officially have the majority of the voting rights but unofficially their investors, Dietmar Hopp (Hoffenheim) and the energy drink supplier Red Bull (Leipzig) have already owned the clubs for many years.

The TSG Hoffenheim, a club from a small village with about 3,000 inhabitants, was founded with the fusion of the gymnastics club Hoffenheim and a football club Hoffenheim. Only with the financial investment of Dietmar Hopp, their patron, the club has promoted from an amateur club in the ninth tier, the Kreisliga A, to the highest football league in Germany, the Bundesliga, in only 18 years (Humphreys, 2016). Hopp is the most famous patron in German football and is known to be one of the wealthiest Germans. The software entrepreneur made his money especially as co-founder of the SAP AG. When he was younger, he played for the youth team of TSG Hoffenheim and now being a billionaire his intention is to develop the Rhein-Neckar region to a sport region.

According to an article by Jackson (2008), he has not only invested in the professional football team but also in the whole infrastructure. He invested in the stadium (30,000 seats), the training centre and especially in the youth-development centres. As Hopp is emotionally connected with the club his investment is sustainable although 51 per cent has to be owned by the members. He also owns the stadium and the training centre which is both rented by the TSG Hoffenheim (Jackson, 2008). Hopp owned 49 per cent as a sleeping partnership of the TSG 1899 Hoffenheim Fußballbetriebs GmbH while according to Keoghan (2014)**,** it is believed that he had far more influence in the club. Since 2015, he has officially owned the club as he has supported the professional team as well as the amateur team for more than 20 years without interruptions. The members of the club voted unanimous to become Hopp as owner. Since 1989, he has invested about €350 million (Heun, 2016).

RB Leipzig is a complete different example as it is financed by Red Bull, a big company that also uses the presence that comes with the sponsorship of a football club for marketing its products on a big stage as it is primarily a marketing company (Heun, 2016). Except of Leipzig, Red Bull bought a club in Salzburg, New York and clubs from Brazil and Ghana. Red Bull initially tried to take over the FC Sachsen Leipzig which failed and lead to an interest of the company to a small club named SSVMarkranstädt in 2009 (Bidwell, 2015).

As Red Bull was prohibited by the German Football League to rename the club to Red Bull Leipzig, it found a solution with the name RasenBallsport Leipzig which has the same short version, RB Leipzig. Another sign that Red Bull uses the football to market its products is that all the five clubs play in a stadium which is renamed Red Bull Arena, have RB in their names and are called The Bulls.

Since there is the 50+1 rule in Germany, Red Bull is not allowed to own the majority of the voting rights. It therefore found a loophole that does not violate the rule. The club is a supporter-owned club, in German “Eingetragener Verein”, and has eleven members, all of them are employees of Red Bull who work in the headquarters. That is why Red Bull unofficially holds 100 per cent of the voting rights. They also have the right to reject any other membership requests without giving an explanation (Bidwell, 2015). With the investment of Red Bull boss Dietrich Mateschitz, the club, that was just formed seven years ago, is now part of the Bundesliga since it has promoted from second Bundesliga in the season 2015/16.

4 Distortion of Competition?

As examined in this paper, there are already quite a few a football clubs in Germany that have an investor. But does it automatically mean that these clubs are more successful than clubs without an investor and what does it mean for their dominance in their domestic leagues?

According to an article (Quitzau, 2014), football would tend to go in the same direction as it goes now if investors would only invest in traditional clubs that have a high fan base. With Hoffenheim and Leipzig in the Bundesliga and 1860 Munich in the second Bundesliga, the opposite is true. It is more and more invested in smaller clubs with no tradition, a small fan base and where it is easier for investors to control the club and where they think they can increase their profits in a short time for example due to a promotion in the Bundesliga. That is the reason why the German Bundesliga could develop in another direction with more plastic clubs (company-owned or investor-owned with no tradition) and the traditional clubs finding themselves in lower leagues like the Karlsruher SC with the relegation into the third league just after it had relegated into the second Bundesliga in the previous year. This can also be shown on two recent examples, as the two traditional clubs without these high external investments namely the VfB Stuttgart and Hannover 96 fell back from the Bundesliga into the second Bundesliga in the season 2015/16 although alone the VfB Stuttgart has more fans coming to the stadium on match days than Hoffenheim and Leipzig together.

In the season 2015/16 Leipzig was in the second Bundesliga but with tens of millions for transfers, the club was able to invest more money in new players than most of the other teams in the second highest football league. One player of these transfers was Davie Selke who were bought for about €8 million from Werder Bremen which played in the Bundesliga, one league higher than Leipzig did at that time (Nordmann, 2016). At the end of the season, Leipzig achieved to promote into the Bundesliga.

It can therefore be stated that the money especially helps lower-league teams like Hoffenheim, Leipzig or Ingolstadt (Volkswagen owns 20 per cent) to become more dominant in their leagues and the possibility to promote into a higher league also increases which can be proved as all of the three clubs have achieved the promotion into the Bundesliga within a few years after they had been supported by an investor. If the clubs that are supported by an investor are in the highest football league, then to become dominant just because of the money by investors is more difficult as there the traditional revenues are also higher than in lower leagues.

Country	Most wins by one club 1964/65–1988/89	Most wins by one club 1989/90–2013/14	Number of winners 1964/65–1988/89	Number of winners 1989/90–2013/14
England	11	13	9	7
Germany	10	13	9	6
Spain	14	12	6	5
Italy	10	8	10	7
France	7	7	8	11
Russia	11	10	11	7
Turkey	9	11	4	4
Netherlands	12	11	4	5
Switzerland	7	9	8	7
Portugal	15	17	3	4
Norway	6	17	9	8
Scotland	15	16	5	2
Poland	9	8	9	8
Romania	8	11	8	7
Hungary	9	6	6	10
Finland	6	10	9	8
Republic of Ireland	6	6	11	9
Luxembourg	13	11	8	6
Faroe Islands	10	9	6	9

Figure 2: Most wins by one club and number of winners during the last 50 years (Szymanski, 2015)

As figure 2 shows, in the last fifty years, there was one team that won almost the half of the national championships in Germany, that means that this team (FC Bayern) nearly won the title in the domestic league every two years. In the last quarter of the year, the number of wins has increased by this team. At the same time, the number of winners fell from nine to six in the last twenty-five years compared to the previous twenty-five ones. Szymanski (2015) also concentrated on the fact that during the period of the last quarter with 79 per cent one of the top three teams were always the winner of the championships in the domestic leagues. Compared to the previous twenty-five years where it was 73 per cent. That shows that a type of dominance has always been there also before there were external investors. However, as the dominance of the top clubs tended to increase, the external investor payments can help the other clubs to become more competitive and thus it could lead to a more competitive league.

A fact that is true for clubs that have more money available is that they are able to buy players from other clubs, especially from the most competitive clubs like Bayern also did with Mario Götze or Robert Lewandowski from Dortmund. This also means that without the help of external investors not many or even no club can compete with the FC Bayern nor win the national championship. According to Szymanski (2015), the money that external investors bring into the league is almost shared by the clubs as the team that sells the player for a high transfer fee can also benefit from the transfer revenues.

5 Conclusion

In the future, more football clubs are dependent on investor payments as the traditional revenue streams like selling television rights, sponsoring, ticketing or merchandising won't have a high potential to increase (Dierig, 2014). According to the same article (Dierig, 2014), especially clubs like Hertha BSC Berlin attract the interest of investors as they have a good infrastructure, many fans and there is a positive prediction that revenues could increase in a short time. As a conclusion of this paper external investors should not be seen as the trigger that leads to a distortion of competition but rather as a possibility for the Bundesliga to remain and to become more competitive.

However, as long as the 50+1 rule still exists in Germany it is unfair as there are some exceptions of the rule a few clubs can benefit from but other clubs have a disadvantage from. Many clubs want to have external investors that even own them but are not able because they cannot benefit from the exceptions of the rule as they have not been supported for more than 20 years by the investors. Hannover 96 tried it for many years and were not allowed to sell shares of more than 49 per cent. Last season the club were relegated to the second Bundesliga and is finally allowed to be owned by the company of Martin Kind, their president, in 2008 (Heun, 2016). The view of Martin Kind is that the rule should be abolished or at least adapted to the modern football otherwise many clubs of the Bundesliga won't be able to compete in the national championship nor compete internationally (Jackson, 2010).

On the other hand, the clubs must be careful because they often do not have a high profit as their main goal is to win the maximum of its matches and therefore put the whole money they have and sometimes even more in that goal. The results are high debts that bring the risk of disappearing along (Szymanski, 2015). Clubs that are supported by an investor are especially affected as it is expected that they have to win because of the high investments. It is therefore very important to find serious investors because most of the clubs owe their debts to their owners (Szymanski, 2015) and thus it seems that they are debt free because these debts are not to be found in their accounts but when the investor leaves the club, it does not matter because of which reason, the club has a big problem.

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