

## **Corporate ownership model: Should Borussia Dortmund take on an equity partner?**

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### **ABSTRACT**

Following the third corporate partnership by Bayern Munich, rival Borussia Dortmund seeks to keep pace with a corporate partner of their own. CEO Hans-Joachim Watzke has to decide whether leaving a fully member owned model and intertwining with a major corporation is what's best for his football club. This case provides students the opportunity to analyze the pros and cons of partnering with a major corporation. It provides a background of the culture of German football and asks the question of whether allowing corporations to own part of the football club would tamper with this culture. This article allows students to discuss the issues with running a major sports entity focusing on sponsorship and ownership structure as it affects the fan support and the overall culture of the organization.

Keywords: ownership, structure, clubs, soccer, Borussia Dortmund

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## **A. NOTE TO INSTRUCTORS**

This case explores ownership structure in the top German football (soccer) league Bundesliga. Students are placed in the role of the CEO of Borussia Dortmund. Borussia Dortmund is one of the top teams in the Bundesliga. However, they are clearly chasing the premier team in the league, Bayern Munich. Bayern Munich is not only more successful on the pitch (field), but also more successful financially. The case details Bayern Munich's shift into selling equity stakes to its sponsors. Students must decide whether Borussia Dortmund should follow Bayern Munich's lead, and if so, who they should choose as their first partner.

The case is best utilized in a sports management or strategic management course. It would be appropriate for undergraduate or graduate students. A teaching note is available by contacting the lead author via e-mail.

## **B. INTRODUCTION**

It was February of 2014, Bayern Munich, the leading soccer club in Germany, had just sold 8.33 percent of the club to Allianz Insurance for 110 million euros. This would be Bayern's third equity partner after signing contracts with Adidas and Audi (Reuters, 2014). Hans-Joachim Watzke, the Chief Executive Officer of Borussia Dortmund, was preparing for a board meeting to vote on whether to follow Bayern's corporate ownership model. Since the club's formation, Dortmund has been – like the majority of German soccer clubs - member owned (BVB, 2015a). Therefore, the members owned the equity in the club and chose the club's leadership. Despite a shaky financial history and narrowly avoiding bankruptcy in 2004, the club had seen a sharp increase in revenue in recent year (Whitney, 2014). Following the near bankruptcy, numerous changes had been made to insure the club's financial stability. Since the early 2000's, the Bundesliga punished clubs that failed to manage their finances properly by not granting a license to participate in the prestigious Bundesliga.

Since Bayern's equity partnership with Adidas and Audi they had positioned themselves among the ranks of Real Madrid, Barcelona, and Manchester United as one of the top football clubs in the world. With total revenue's around half of Bayern's, Dortmund is looking to find a way to compete not only on the football field but also financially with its main rival in the Bundesliga (B.C., 2013).

Partnering with corporations has faced resistance from club members who would have to give up some of their ownership shares to the corporate partner, as well as, allow the firm to sit on the club's advisory board. With this in mind it was very important to have the right partner. Evonik had been a corporate sponsor of Borussia Dortmund since the 2007/2008 season and would be the likely partner if the club votes to pursue this opportunity (Evonik, 2015a). The partnership had already been discussed and Evonik was ready to move forward with the deal if the membership voted in favor. As CEO, Mr. Watzke had to decide whether he wanted to give up member control to pursue this model. Was Evonik the right partner choice? Could Dortmund benefit the same way as Bayern Munich has by "intertwining with corporate titans" (Whitney, 2014)?

## **C. BORUSSIA DORTMUND'S FOOTBALL LEGACY**

Founded in 1909, Borussia Dortmund, known to German soccer fans as BVB, consisted of 18 Borussen who were frustrated at how the church treated the footballers. Originally a member of the West German FA, German FA, and German Athletics Association, Borussia fielded its original constitution in 1919 (2).

It wasn't until 1924 that the club truly had a stadium, with the Weisse Wiese being named "Borussia Sport Park." This move gained the club recognition in Germany. In 1947 Borussia won its first Westphalia Championship beating Schalke 04 by a score of 3-2. It wasn't until 1956 that the club brought home its first German Championship. Ten years later in 1966 the club beat Liverpool to win its first European title (2).

In 2002 Dortmund brought home its 6th German Championship. But, its recent renovations to the beautiful Westfalen Stadium put the club in financial straits. On the verge of bankruptcy, Dortmund risked being kicked out of the Bundesliga. The club even had to accept a 2 million Euro loan from rival Bayern Munich in 2004 to pay its players (Taylor, 2013). In order to get the club back on its feet, CEO Hans-Joachim Watzke was elected. He and a team of professionals cleared Dortmund of 126 million Euros worth of debt by 2011. The financial crisis also devastated the club on the field, not having won a title since 2003. With the shirt sponsorship from Evonik coming during the 2007/2008 season the club was able to bring in some new players and for the first time in 8 years won the Bundesliga in May of 2011. In 2012 they continued to have success winning the Bundesliga and going on to win the European Cup (BVB, 2015d).

#### **D. OWNERSHIP STRUCTURE IN BUNDESLIGA**

Germany's top soccer league, known as the Bundesliga, was formed in 1963 to address a lack of professionalism in German Football. At the time the best players in German were only semi-pros who practiced two days a week. It took the top clubs and made the clubs into professional German football organizations, paying its players a small salary (Chase, 2013). It did not take long before the Bundesliga was one of the most recognized leagues in all of Europe.

Currently, the Bundesliga operates with 36 clubs divided into two separate leagues, Bundesliga 1 and Bundesliga 2, which are truly clubs in the traditional sense. In other words, the clubs are owned and operated by their members, which is very different from the model North American professional sport organizations utilize. The clubs operate under the 50 + 1 rule. This rule requires that clubs be controlled by its members with at least 50% + 1 of all votes on important decisions being member votes. This rule was put in place to discourage outside – either foreign or corporate ownership - interests from taking control of the German clubs. There are two exceptions to this rule in the Bundesliga. Wolfsburg, which is wholly owned by the German auto maker, Volkswagen and was started as a corporately owned sporting club, and Bayer Leverkusen, which has been owned by Bayer, the German chemical/pharmaceutical company, since its formation. Both of these ownership groups date back to the early 1900's. The 50 + 1 model is in place to keep the clubs "rooted in their cities and traditions" (Conn, 2012).

The Bundesliga is very focused on the culture of German football. They want to keep the fans involved and bring the community together across all classes and ages. In recent years, the league has had the lowest ticket prices of all the major football leagues. Christian Seifert, CEO since 2005, spoke out to The Guardian about these values stating,

"We are the last of the big leagues with standing areas and nobody wants to touch these standing areas. The clubs are committed to having many cheap tickets,

because it is considered very important in Germany that people who do not have very much money are able to come to the stadium.... football is one of the last activities which really brings people together, across all ages and all classes of income. Politics does not do it, the church does not make it happen. Most chairmen and chief executives have been very much involved with football, they have been supporters and players. They see from a pure business perspective they could raise prices and make more money. But they have decided to take less money and enable people whose families have supported the club for generations, and young people, to keep coming. We want to have our whole society as a part of our football, in our stadiums (Conn, 2012).”

This commitment to culture is seen across the league and makes German football so successful. Club supporters routinely purchase shirts, flags, or other team apparel. This has brought additional revenues to all Bundesliga clubs. However, one club rises above all other German clubs as both the financial and on-the-field leader, Bayern Munich.

## **E. BAYERN MUNICH'S CORPORATE FINANCES AND OWNERSHIP MODEL**

Bayern Munich has won 23 titles, making it the most successful club in the Bundesliga and one of the most successful in the world. Its success on the pitch is unparalleled by any other team in the league. Although tremendously successful on the pitch equally impressive is their outstanding financial situation. The club's finances are stark contrast to other big clubs who routinely spend more than they generate. It is the fourth richest club in the world and the most financially stable in Germany. Most of Bayern's revenues are commercial, which signals that it has committed sponsors and fans. Whereas most successful European clubs have sizable television contracts, Bayern generates less than the typical big clubs from media revenues. Another key to Bayern's success is its philosophy “not to spend more than [they] generate,” as CEO Karl Heinz Rummenigge mentioned to Bloomberg. Since his takeover in 1991 Bayern has been strictly following this philosophy (Cummings, 2013).

Despite committed fans and sponsors, it is Bayern's ownership structure that differentiates it from other Bundesliga clubs. While most clubs are owned solely by the members, Bayern partnered with German sports apparel firm Adidas in 2002, selling the corporate giant 9.1% ownership and a seat on the board for 75 million Euros. As a local company, Adidas had been the apparel sponsor for Bayern Munich for years and was a clear fit when the organization sought to bring in a corporate owner. Then in 2010/11 season a deal was struck with another local corporation, automobile manufacturer Audi, which provided them a 9.1% ownership stake for 90 million Euros. These deals not only brought money into the organization, but also put members on the board who knew how to run a business. This, in turn, made Bayern's business model more sustainable.

The most recent partnership was confirmed on Feb 11, 2014. This deal gave Allianz Insurance, another regional Bavarian corporation, an 8.33% stake in Bayern Munich football club. This deal closed for 110 million Euros and was to be used to pay down debts on the new Allianz stadium and to redevelop the club's youth academy. At the same time Allianz extended its naming rights of the stadium to 2041. Bayern Munich board member responsible for finance, Jan-Christian Dreesen spoke on the sponsorship saying, “FC Bayern Munich has thus once again set in place the basis of a solid, financially secure future for the club.” With the money acquired



from the partnership Bayern was able to completely pay off the debt from the new stadium, and develop plans to reconstruct their youth and junior facility (Reuters, 2014).

After the Allianz purchase, each of the three corporations (Adidas, Audi, and Allianz) held an 8.33% equity stake in Bayern (Adidas and Audi's stakes were diluted by the inclusion of Allianz). The other 75% of the club is still owned by its members in accordance with the 50+1 rule. Some have questioned the benefit to the corporations from this type of sponsorship, but it is important to remember that each of these corporations are based in Bavaria, a region of Germany. From a local perspective, these Bavarian based companies benefit from the goodwill association with Bayern Munich. They are perceived as giving back to their local community through the sponsorship of an elite football club. Globally, the companies benefit from the worldwide media presence that Bayern Munich has received due to its success on the pitch.

## **F. MEMBER OWNERSHIP VERSUS CORPORATE OWNERSHIP**

Historically, the corporate ownership model has faced resistance in the Bundesliga. Most clubs were founded and have continued to be owned by their members. This member based model has driven the success of football clubs. For Germans, the club was not just a place to go to watch the game. The club was a functioning workout facility, a recreation center, and a place to socialize. While football drives a lot of the revenue for these clubs, other sports were played as well, including basketball, tennis, and gymnastics. The culture of these organizations was very important in Germany where everyone is welcome to join for a small membership fee. As such, the clubs encompasses entire communities. These organizations foster an important support base for the club.

One of the main concerns of the corporate ownership model was a feared loss of control over what members perceived as "their" club. Often in business when large firms take partial ownership of smaller ones there is an attempt to control the organization. With large corporations having board seats, members were concerned about a possible abuse of power, and a loss of their voice in the club.

To date, this fear has been unfounded. As shown by the Bayern Munich model corporate ownership, when done correctly, has led to unprecedented financial success, and in return success on the pitch. The benefits can be seen through the business approach that corporations bring to the board. Many club members, while well intentioned, do not think like businessmen. Bringing in business people from successful corporations puts a voice on the board that has knowledge and experience in running a business.

One of the greatest benefits from the partnership is the infusion of funds. Once a corporation buys an ownership stake in a club the deal brings millions of Euros into the organization. This money can be used to pay off debts, renovate stadiums, attract talent, and invest in the future by building strong youth academies. The financial stability that these partnerships create is the driving force for any club to intertwine itself with a corporate entity.

## **G. BORUSSIA DORTMUND'S FINANCIAL SITUATION – PAST AND PRESENT**

Until the last decade or so Borussia Dortmund struggled financially. Their problems began back in 1924 with the construction of the Borussia Sport Park, formerly the Weisse Wiese. This 18,000 capacity stadium was funded with an investment of 50000RM. After the stadium was built the organization wanted to make some waves on the field. In order to do this they had

an insurance policy underwritten for 12000RM and bought 11 players. This landed them in court when they couldn't pay off this debt in 1929 and almost got them kicked out of the DFB (BVB, 2015b).

After the court date the club was relatively stable. They followed German values when it came to finances, and kept a balanced budget. Their financial decisions did not come into question again until 1974 when the club, in preparation for the 1974 World Cup built the Westfalen stadium. The stadium was by far the most beautiful in Germany, but it had a bill to match, costing 32 million Marks. The stadium was funded "with the council having contributed six million, the rest of the funding coming from lottery, the FA and principally from the regional government of North-Rhine Westphalia" (BVB, 2015c). The stadium was highly criticized by those who thought the money would have been better spent elsewhere.

The recent financial struggles for Dortmund came with the 1995 renovations of Westfalenstadion. The stadium expansions would cost 60 million. To fund the venture, the stadium was leased to a property developer with plans to buy it back. By the spring of 2005 when the stadium was finally complete, BVB was narrowly escaping bankruptcy, and it was very doubtful the club would ever be able to buy back the stadium. With budget cuts the team was only able to pay the players about half of what it could in previous years, and Borussia Dortmund's play suffered.

Six years later the club was back on top. After the financial crisis, Hans-Joachim Watzke led a group of advisors which brought financial stability back to the club. The club managed to clean up 126 million Euros of debt in that time period, and the club as a whole has posted profits over recent years (BVB, 2015d).

With the move toward financial stability, and the success of Bayern Munich's equity partnerships, Dortmund was looking for a partner to join its club as a partial owner. They knew from Bayern that regional or local firms were their best bet, but who would make the best partner?

## **H. EVONIK INDUSTRIES AND OTHER POTENTIAL EQUITY PARTNERS**

Evonik Industries is a global chemical company located in Essen, Germany, just a quick 30 minute drive from Westfalen Stadium. As noted on their website, the corporate values of Evonik are "courage to innovate", "responsible action" and "sparing no effort". Evonik stands for "economically successful, ecologically responsible and socially appropriate behaviour," (Evonik, 2015b). The company prides itself on its innovation and specialty chemicals with products ranging from animal nutrition to biodiesel.

Evonik operates in a business to business (B2B) environment, meaning they sell their products to other businesses not directly to consumers. Initially, Evonik's partnership with Dortmund secured the rights for the company to be the club's marquee apparel sponsor. This sponsorship brought significant cash flow to Dortmund but also allowed Evonik to promote itself on a national level. Evonik saw itself as creative, powerful, and courageous, and wanted to partner with an area sport organization that exemplified these qualities. Being the most popular sport in Germany, football was the obvious choice. As a fairly young corporation, Evonik wanted to develop a bond with area fans. Dortmund used the resources from the Evonik sponsorship to pay down debts and recruit better athletes.

Evonik was the number one choice if an equity partnership were to take place. Funding from the deal would likely be used in any number of areas including attracting senior level talent

in the player transfer market, strengthen the talent in the youth level academy, or expand the club's presence in Asia.

Other potential partners included Puma and Signal Iduna. Puma is a German sports apparel company founded in Herzogenaurach, Germany in 1924. Currently, Puma serves as the apparel sponsor for Dortmund, having started its relationship in 2011. Signal Iduna is a conglomerate of insurance companies headquartered in Dortmund and Hamburg, Germany. However, these two firms did not have a long standing relationship with the club, and were looked at as potential future possibilities.

## I. CONCLUSION

As Mr. Watzke prepared for his meeting he weighed the positives and negatives of the corporate equity ownership model. He had seen it done successfully in the past. All of Bayern's partners had been around for decades and were extremely successful companies with longstanding reputations. Could Dortmund get the same benefits from a corporation that had only been founded less than a decade ago? What if the club members' concerns were valid and this corporation came in and started trying to take control of the club? Is Evonik the right company to partner with or should they be more open to Puma which has a long legacy in Germany and has made itself a name in football? What were the ramifications of partnering with a business to business (B2B) company versus a business to consumer (B2C) company? How should they spend the new found money? Should the club consider non-German companies for an equity partnership? Maybe partnering with a large corporation would bring a professionalism to the German soccer club that so many European clubs don't seem to have. Mr. Watzke walked out the door prepared to make his proposal to the board, based on what he believed was in the best interest of the club in order to maintain financial stability in the years to come.

**APPENDIX A:****Borussia Dortmund's Income Statements – 2009 to 2013**

(Millions of Euros)

	2009	2010	2011	2012	2013
Revenue	114.7	110.1	151.5	215.2	305.0
Gross Profit					
+ Other Operating Income	2.2	2.1	4.3	7.6	2.8
- Operating Expenses	117.4	112.7	140.9	181.5	242.7
Operating Income	-0.4	-0.5	14.9	41.4	65.1
- Interest Expense	5.8	5.8	5.7	5.0	5.2
- Foreign Exchange Losses (Gains)	0.0	0.0	0.0	0.0	0.0
- Net Non-Operating Losses (Gains)	-0.2	-0.1	-0.3	-0.2	-0.1
Pretax Income	-6.0	-6.2	9.5	36.6	60.0
- Income Tax Expense	-0.1	0.0	4.1	9.1	8.8
Income Before XO Items	-5.9	-6.1	5.4	27.5	51.2
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0
- Minority Interests	0.1	0.0	0.1	0.1	0.4
Net Income	-6.0	-6.2	5.3	27.4	50.8
- Total Cash Preferred Dividends	0.0	0.0	0.0	0.0	0.0
- Other Adjustments	0.0	0.0	0.0	0.0	0.0
Net Income Avail to Common Shareholders	-6.0	-6.2	5.3	27.4	50.8

**Source: Bloomberg**



**APPENDIX B:**

**Map of Bayern Munich's Stadium and Location of Corporate Owners Companies**



**APPENDIX C**

**Borussia Dortmund and Location of Potential Partners**



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