



## AN IN-DEPTH STUDY ON THE FINANCIAL MODELING OF VARIOUS FOOTBALL CLUBS: A COMPARATIVE CASE STUDY OF MANCHESTER CITY AND LIVERPOOL

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**ABSTRACT** Football is no longer just a sport; it is a business model in which players earn huge salaries, and clubs benefit from transfers, sponsorships, and ticket sales. Big tournaments and European leagues boost the sport's popularity, which in turn increases revenue. By researching the clubs Manchester City and Liverpool FC (both having adopted different strategies), there is a greater understanding of the different business models adopted to earn profit. **Research question:** The paper will attempt to analyze the financial model of football clubs. How did these clubs reach iconic status? What are transfer markets? On what basis are they positioned to pay high sums for footballers in various transfer windows? What are the reasons that these clubs face due to breaches of contract with the association? What are the factors adopted that lead to the continuous popularity of the sport? Is this a sport that is popular worldwide? What are the reasons?

**KEYWORDS :** Transfers, Revenue, Folk Football, Uniform Code, Industrialization, Professionalism, Football Leagues, Global Corporation, Scouting.

### Introduction

Football is a game in which two teams of eleven players using any part of their body except their hands or arms try to manoeuvre the ball into the opposing team's goal. It is the world's most popular ball game in number of participants and spectators. The beauty of this sport is that it can be played almost anywhere - from official football playing fields to gymnasiums, streets, school playgrounds, parks, and even beaches. Indication of the popularity of the sport is that - in 2010, a combined television audience of more than 3.2 billion watched football's premium tournament, the quadrennial month-long World Cup finals. This increased to 5 billion in 2022.

Figure 1: Football



Source: Britannica

Modern football originated in Britain in the 19th century. Industrialization and urbanization reduced both the leisure time and space available to the working class which led to it changing from destructive and violent forms of folk football to the present system. Winchester College, Charterhouse, and Eton College had their own rules for the game. In 1843, an attempt was made by the University of Cambridge to standardize the rules of the game.

The new rules were not universally accepted in Britain. By 1877, the associations of Great Britain had agreed upon a uniform code and 43 clubs competed.

Figure 2: The Oldest Surviving Club - 'Sheffield Football Club'



Source: Fifa Museum - Photograph taken in 1857

The industrialization of Britain led to the industrial workers seeking fresh forms of collective leisure. Most of them were off half of Saturday and Sunday and they used this time to turn to the new game of football whether to watch or to play. Rising adult literacy resulted in press coverage of the organised sport and the transport systems

enabled players and spectators to travel to football's games. Football's popularity resulted in the decline of interest in other sports, namely cricket.

Lancashire started charging admission tickets to spectators as early as 1870. It was the money earned from ticket sales that allowed them to attract highly skilled working-class players: a large number of them from Scotland. Money paid to these players took care of the loss in wages from their other work while they were practicing. It also covered the risk of injury.

The Football Association (FA) of that time was elitist in policy and they protected upper middle-class influence over the game.

The system of payment was dependent on the large support base that these clubs garnered, and with monetary purses, they were in a position to attract better players. Professionalism led to further modernization of the game through the establishment of the football league. These professional clubs (an entity that organizes sporting football either independently or as part of a larger organization) became limited liability companies primarily to secure land for the gradual development of stadium facilities. Most clubs in England were owned and controlled by businessmen and shareholders received very low dividends. The main reward was an enhanced public status through the running of the local club.

On 26th October 1863, representatives of several football clubs met in Covent Garden, in London. This was the first meeting of the Football Association (FA). Various rules were set which were discussed over several meetings. These rules concerned how a player is entitled to run with the ball, how separation or distinction between 'holding and hacking' at the same time, etc. At this time, the game also began to be known as 'Soccer', which remains a common description.

The original FA laws are no longer a part of association football, but some of them still exist in other games, for example - Rugby Union and Australian Rules Football. The laws laid down for the FA had an immediate effect on the game with Sheffield FC and Nottingham (now Notts County) playing an annual fixture based on the FA code. As more and more teams joined the code in the 1860s, the sport moved away from its origins in public schools.

1867 saw the introduction of the first competition and the oldest existing trophy in football called the 'Youdan Cup'.

Figure 3

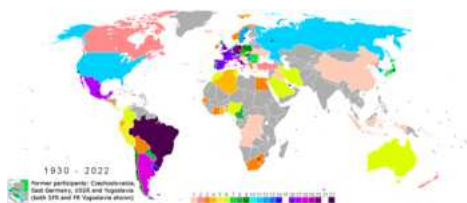


Source: Wikipedia

As the influence of working-class players increased in football, the upper class took refuge in games like cricket and rugby union. Professionalism in this sport led to the establishment of football leagues. In the early 20th century, football spread across Europe and now required an international organization. This was the start of FIFA (Federation Internationale De Football Association). This was founded in 1904 when representatives from the football associations of Belgium, Denmark, France, Netherlands, Spain, Sweden, and Switzerland were a part of the foundation of FIFA. FIFA members accepted British control over the rules of football. During World War I, Britain wanted its enemies to resign from the association, namely Germany, Austria, and Hungary. Britain remained outside FIFA till 1946. Due to this, they were not invited for the first three competitions (1930, 1934, and 1938). Despite acrimonious relationships between the countries due to the onsets of various world wars, FIFA grew steadily especially in the latter half of the 20th century when it strengthened its standing as the game's global authority and regulator of competition.

In the 21st century, there were more than 200 nations that were registered under FIFA, which is more than those registered under the United Nations (UN).

**Figure 4 - Participating Countries under FIFA - 1930-2022**



Source: Wikipedia - National Team Appearances in the FIFA World Cup

The World Cup final remains football's premium tournament, but others that have emerged under this umbrella are 'The World Youth Championship (20 years and younger)', 'The Women's World Cup', etc. FIFA membership is open to all national associations. All members have to accept FIFA's authority, observe the laws of football, and possess a suitable football infrastructure.

Until the 1970s, the control of FIFA was firmly in the hands of Northern Europeans. Very little was done to promote the sport in developing countries or to explore the game's business potential. FIFA's leadership was more concerned with regulation. The growth of African and Asian countries subsequently undermined European control. Under Havelange, who was elected president of FIFA in 1974, FIFA was transformed from an international gentlemen's club to a global corporation.

### THE MAKING OF THE 'TRANSFER MECHANISM'

The 'transfer system' is the movement of the football player from one playing club to another. The beginnings of this fool-proof system for both the player and the clubs began in 1885. This was a natural growth process in this sport as it attained world status concerning popularity. Demand for competent football players increased and the value of the clubs that they played for gained importance. After the FA recognized professionalism in 1885, it expected the players to follow a 'registration system'. The moment the players were being paid for playing and their job was only to play, it became necessary that there should be a fool-proof system in place which would be a win-win situation for both the club which had spent large sums to help the player better his sport and also for the player who had invested his time in bringing accolades for his club. Initially, the clubs in a manner 'owned' the player, which meant that once the player joined a club, he was made to join a contract with most of the terms tilted towards the club. This was specifically put into place after the English Football League in 1888.

The primary reason was that the sport had become a profitable business model and the number of clubs being a part of the Football Association started increasing. These clubs started a scouting network in various education systems as well as small towns and other recreational places to look for players who had the inherent ability to play the game. It is

under their stewardship that these players honed their skills. The club's main earnings in the beginning came from ticket sales and prize money. As the number of matches that the club won increased, so would their earnings, leading to them being in a position to hire competent football players. The hold of these clubs on the player was completely water-tight. The contract was tilted towards the club and the player was not allowed to play for any other football league club, whether a player was played for a match or not. The remuneration for the player was decided by the club, taking into account the number of matches he played, leading to the salary of the player increasing or decreasing accordingly. The contract was such that the player whose salary had been reduced could not join another club. This changed in 1990, after Jean-Mark Bossman, a Belgian footballer, wanted to move to a French team, Dunkerque. His earlier club, RFC Liege, refused to let him go even though his contract had expired. They demanded a 'transfer fee' from his new club. Dunkerque refused to pay and the player was left high and dry. He then took his legal battle to the European Court of Justice and they ruled that players were legally allowed to move to another club once their contract had expired. The ruling also changed the number of foreign players that the clubs could employ. From the earlier limit of only three, it became unlimited. Subsequently, there was a new 'transfer mechanism' in place which clearly stated that In professional football, a transfer is the action taken whenever a player under contract moves between clubs. It refers to the transferring of a player's registration from one football club to another. In general, the players can only be transferred during a transfer window and according to the rules set by a governing body (fulfilling the requirements of FIFA, continental, and national bodies regulating the purchasing and selling of clubs). A negotiated transfer fee is agreed and financial compensation is paid from an interested club to the club that possesses the player's exclusive contracted playing rights. When a player moves from one club to another, their old contract is terminated whilst the player and their new destination club will both negotiate on new contract terms (or have earlier mutually agreed on the personal terms). As such, the transfer fee functions as financial compensation (paid to the club that possesses the existing playing rights) for the early mutually agreed termination of the contract of a professional football player. Transfer fees are contingent on;

- the player's current football abilities
- future potential
- duration of the existing contract
- amount of future salary owed (within the remaining duration of the existing contract)
- willingness of clubs to agree on an economic equilibrium through supply and demand.

According to FIFA, from January to September 2018 there were 15,049 international transfers of male players with fees totaling US\$7.1 billion and 577 international transfers of female players for US\$493,235.

**Figure 5: Notable transfers in history**



### REASONS FOR THE INCREASING POPULARITY OF THE GAME

The global reach of football is one of the main reasons for its popularity. Besides this, the accessibility of the sport, its integration into college culture, and media culture, and the rise of professional leagues have contributed to it becoming a world pass-time. It is a sport that transcends gender and Nielsen Sports' global research (2018) shows that it is the most popular sport among women globally. A recent study by them shows that 70% of women find the Men's FIFA World Cup very appealing. They surveyed eighteen major markets across the Americas, Europe, the Middle East, and Asia which showed the sport garnering interest amongst more than 40% of the population well ahead of its nearest rival sports.

This automatically creates a huge audience for television media and competitiveness among media companies for exclusive rights. On

social media, football stars are generating world-beating follower numbers and engagement of some of the biggest celebrities from music, film, and other sports.

The popularity of the game was adequately aided by FIFA which realised the need and thus decided to play an active role in developing and supporting football. They even went ahead in providing an analysis on the influence of psychosocial characteristics, frequency, and severity of injuries, analysis of risk factors, and predictors leading to a scientifically generated program of optimal training to reduce the incidents of injury and other symptoms. They also imparted education to both coaches and players regarding injury prevention strategies that include intervention as part of their regular training programs. Besides the above intrinsic factors, extrinsic risk factors were highlighted such as the quality of pitches and equipment. They instituted various laws of the game as well as strict observance of them, especially the spirit of fair play as well as involving referees and official representatives that would go a long way in making football a healthier game.

Despite 158 years of history, football continues to be a hegemonic sport even today. It is an industry where most interests right from political to public converge. Traditional and social media have increased their popularity worldwide, leading to football clubs generating increasing amounts of revenues. According to Deloitte, 20 clubs with the highest turnover (all of which belong to the 'big five' (Premier League - English, La Liga - Spanish, Ligue 1 - French, Bundesliga - German, Serie A - Italian) European football leagues) exceeded 9.200 Million Euro in revenue in the 2021/22 season, marginally below pre-covid revenues of 9.283 Million Euro in 2019/20.

**Figure 6:** Interlinking Factors of Football's Rising Popularity



Source: Ishan Gupta (Author)

**PROFITABILITY OF THE CLUBS**

Football has become a capital market where football clubs have mastered the art of generating revenue from multiple streams like

- Broadcasting deals
- Prize money
- Player transfers
- Matchday income
- Merchandise
- Kit sponsors

It has been researched that the impact of a great football event is felt on an economy. A study by ABN Ambro in 2006 indicated that the World Cup-winning country enjoys on average a bonus of 0.7% in its economic annual growth rate.

Three football clubs have made it to the fourth list of the top 20 most valuable sports teams worldwide. Football clubs continue to dominate the sports sector in terms of annual revenue. Out of the twenty sports teams with the highest annual revenue, fifteen of them are European top football clubs. Broadcasting revenue is driven by the number of viewers it gets and football is undoubtedly the world's most popular sport. For example, in 2019, in the ICC Men's Cricket World Cup, India vs Pakistan garnered 273 million viewers while 700 million people worldwide watched a regular Premier League clash between Liverpool and Manchester United. In the Premier League, the TV money is shared equally amongst the clubs.

As football is a fiercely competitive industry, each rank higher in its

standing is worth \$ 2.5 Million more. For example, finishing 7th vs 18th could make a \$ 27.5 Million difference. Prize money is not limited only to league positions, it extends to cup competitions too. This could be a financial lifeline for smaller clubs. For example, Lincoln City – a non-league team in the 2016/17 season earned half a million dollars plus gate receipts and television coverage as they had reached the quarter-finals.

Player transfers, though not always considered a part of a club's income, can bring in substantial sums, eg. Barcelona saw their finances increase in 2017 when Neymar Jr. moved to Paris Saint Germain (PSG) for \$ 240 Million. Smaller clubs can secure a decent return on their investments by including a sell-on clause in player contracts.

Matchday revenue is a visible income for football clubs which includes ticket sales, revenue from food, drinks, and merchandise sales. Eg. Arsenal's Emirates Stadium with its 60000 seats generates substantial income through ticket sales. Clubs that perform well experience increased ticket sales.

Football clubs partner with sportswear giants striking lucrative deals. For example, Cristiano Ronaldo's move to Juventus in 2018 resulted in half a million Ronaldo jerseys sold in just a week, resulting in \$ 68 Million in revenue for Juventus.

Sponsorship deals are everywhere in football from jersey branding to advertising boards.

**Fig 7:** Branding on Player Jerseys



Source: Sportsquake

**CASE STUDY OF FOOTBALL CLUBS**

Given that football is such an important sport and its popularity has been continuously increasing, it is important to document some football clubs and the way they function. Amongst them, Manchester City FC and Liverpool FC are considered important landmarks of this game.

**MANCHESTER CITY**

Manchester City traces its history to 1880 when it was founded by members of St. Marks Church in Manchester. This club was earlier known as the Ardwick Association Football Club in 1887 and became known by its present name in 1894. From 1894 to 2008, the club was in the upper league of English football. eg. They won many accolades during this period namely

- Football League First Division Championship
- Football Association Challenge Cup
- English League Cup
- European Cup Winners

This club has the tenacity to move to the top tier English Premier League, which it did in 1998/99 and 1999/2000, and then be relegated to the second tier after their lackluster 2000/01 season. The club returned to the Premier League in 2002 and has remained there since then.

In 2003, Manchester City moved from Maine Road to the City of Manchester Stadium, now called 'Etihad Stadium'.

The Abu Dhabi United Group, owned by Sheikh Mansour ibn Zayed Al Nahyan, purchased the controlling stake in Manchester City FC in 2008 from Thaksin Shinawatra (former Prime Minister of Thailand). Mansour, a senior member of Abu Dhabi's ruling family and one of the foremost businessmen of the United Arab Emirates invested heavily and the team's performance improved. They won the Premier League in 2013/14, English League Cup in 2013/14 and 2015/16.



The appointment of the new manager Pep Guardiola in 2016 led the club to expand on its success. They won the Premier League in 2017/18, 2018/19, 2020/21, 2021/22, 2022/23, and 2023/24, and the UEFA Champions League in 2023. Notable players who joined Manchester City are Vincent Kompany, Yaya Toure, David Silva, Kevin De Bruyne, and Sergio Agüero.

In 2023, the Premier League announced 115 charges against Manchester City for violations of financial regulations during the period 2009-2018, which the club has vehemently denied.

Guardiola instituted strict discipline and professionalism among the players, introducing fines for those who did not follow his rules.

The main financial charges against the club are Failure to provide accurate details of player and manager payments from 2009/10 to 2017/18; Failure to provide accurate financial information from 2009/10 to 2017/18; Failure to comply with UEFA rules that include Financial Fair Play from 2013/14 to 2017/18. These notices were sent to them on February 6th, 2023, and have been referred to an independent commission. The club has responded by saying they had a comprehensive body of irrefutable evidence to prove that they had done nothing wrong. To date, there has not been any conclusion to the above charges.

**Figure 8:** Manchester City winning the Premier League



Source: Britannica

**LIVERPOOL FOOTBALL CLUB**

This club was founded in 1892 and joined the football league the following year. It has played its home games at Anfield (this stadium is named after the surrounding area Anfield - the word originated in the combination of Old and Middle English words which mean 'a field on a slope') since its formation. It is one of the most decorated, valuable, and widely supported clubs in the world. It won its first League Championship in 1901. In December 1959, Bill Shankly was appointed manager of Liverpool FC. The Scotsman's impact was instant and he transformed the club into one of the strongest teams in Europe. Many believe that he was the greatest manager in the history of the Reds. It was Bill who replaced the white shorts in 1964 with red ones as he felt that an all-red kit strip would make his players look more scary to the opposition.

In 1983, Bob Paisley, after 44 years as player, coach, and manager, retired. The popularity of the club was so immense that in 1989, 25000 fans traveled to Hillsborough for the FA Cup semi-finals. 96 of them never returned. The motto is and was 'You'll Never Walk Alone'. The sole owner of Liverpool FC and Athletic Grounds Ltd. is Fenway Sports Group LLC, through certain subsidiaries managed by John Henry and Tom Werner.

In the case of Liverpool, the appointment of their manager Jurgen Klopp in 2015 resulted in a turnaround of success at the club. They won the Premier League in 2020, ending an over thirty-year drought, along with adding a sixth Champions League title in 2019. Notable signings of the club are Virgil Van Dijk, Mohammed Salah, Sadio Mane, Allison Becker, and Andrew Robertson. The sole owner of Liverpool FC and Athletic Grounds Ltd. is Fenway Sports Group LLC, through certain subsidiaries managed by John Henry and Tom Werner, with high-profile celebrities like Lebron James investing.

**Figure 9:** Fenway Sports Group



Source: Britannica

**CONTRAST BETWEEN THE FINANCIAL FUNCTIONING OF MCFC AND LFC.**

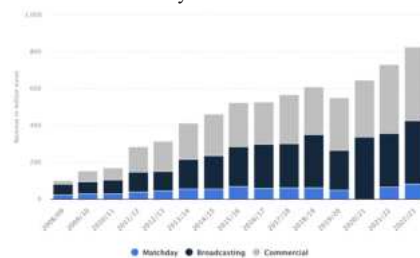
Manchester City and Liverpool FC have been the most prominent clubs in the English Premier League for the past decade, both having immense on-field success and being title contenders season after season.

However, it is noticeable that both clubs have distinct financial strategies in terms of revenue, profits, and expenditure. Manchester City has experienced significant revenue growth, partly driven by substantial investments from its ownership group, the Abu Dhabi United Group, along with broadcasting rights, partnerships, and matchday revenue. Liverpool on the other hand has had a more stable but still strong revenue growth, with its most substantial earning being its matchday revenue from its Anfield Stadium. The commercial revenue of both clubs has excelled, due to their high-profile athletes and large and rapidly growing following.

Manchester City has been known for its high spending on player transfers and wages. The club has made several high-profile signings and invests heavily in squad depth and quality. This spending reflects its aggressive strategy to maintain competitive superiority. Their wage bill is also amongst the highest in Europe. Liverpool's transfer spending has been more strategic, but still allowing them to make high-impact signings despite not having the same financial back as Manchester City. While the club's wage bill is lower than City's, it has increased with successful performances and player signings. The club's wage structure is often cited as more sustainable compared to the top-spending clubs.

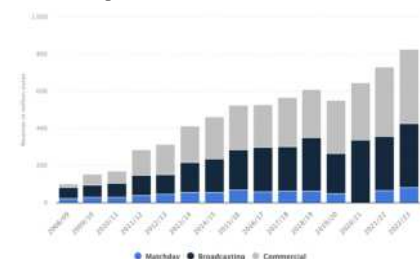
Manchester City has historically operated at a financial loss or a thin profit margin due to its high expenditure on transfers and wages. However, their financial health is supported by strong revenue growth and substantial ownership backing. Though they have faced scrutiny and investigations related to Financial Fair Play regulations, it has generally been able to manage these challenges due to its strong financial backing. Liverpool on the other hand is known for its robust financial management, demonstrating a more balanced financial approach, achieving profitability through a combination of revenue growth and controlled spending. Their financial stability is often cited as a result of strategic investments and successful performances on and off the pitch. Their on-field success contributes to this. Both clubs have leveraged their financial strategies to achieve considerable success, but their approaches reflect different priorities and financial philosophies.

**Figure 9:** Manchester City Revenue from 2008/09 to 2022/23



Source: Statista

**Figure 10:** Liverpool Revenue from 2008/09 to 2022/23



Source: Statista

**CONCLUSION**

Football being one of the most popular sports in the world has evolved

into a very well financially lucrative industry. The sport involves huge sums of money that are being paid to the players for their skills. The system that has evolved involves transfer pricing of players which is beneficial for both the club as well as the player. The viewership leads to sponsorship, gate money, as well as profits for the club. Along with the club culture, European and World football tournaments have further led to the popularity of the sport. There seems to be a close relationship between viewership and the other forms of revenue collection. Analyzing the manner of working of Manchester City and Liverpool FC has indicated different business models leading to high profitability of the clubs. Thus proving that the final goal is profitability but it cannot be achieved without the shrewd working of all stakeholders, namely the audience, the skill of the players, the manager, the advertisement revenue, and sponsorship.

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