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Rules of the Game: Strategy in Football Industry

İrge Şener [a*], Ahmet Anıl Karapolatgil [b]

[a,b] Çankaya University, Ankara, 06810, Turkey

Abstract

Being one of the most popular sport industry in the world, football attracted interest not only for being a globalized sport and its impact on national identities, but also due to generation of high revenue from matchday, broadcast and commercial sources. With this study, strategic groups among the 50 global football club brands, based on these revenue is identified and the common main strategies of the groups are analyzed. Although many research is undertaken about strategic groups in various industries, similar research in sports industry is still at infancy. The findings indicate three different strategic groups, with member clubs of each group following similar strategies. In addition, brand value forms mobility barriers among strategic groups.
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1. Introduction

"Football is not just a game". Although this quote seems to be a very famous cliché, it is real that professional football has developed into a huge industry, becoming a business more than entertainment. It is not all about winning the game but also earning money, so that sometimes acquisition of a club by a financially powerful investor or a new sponsorship contract becomes much more important. New stadiums, broadcasting networks, new materials, efficiency of players, success of the technical team, rapidly changing supporter requirements and expectations including transfers of popular players, cup glories and more commercialized products makes the football industry an attractive one, and football the most popular sport in the world. According to Fédération Internationale de Football Association (FIFA) Survey in 2006, approximately 243 million people play football professionally which accounts to %4,1 of world population. Regarding World Cup 2014, 3 billion messages via Facebook and 672 million twits via Twitter were posted (statistics of ESPN TV Channel). This indicates the development of football to a global sport, from an English Football League which was the first professional association established in 1888 (Inglis, 1988). Due to the increasing importance of football industry, football clubs turned into brands. Since there exists a positive relation between the budget of the football club and team performance, financial position of the clubs is important. There are mainly three sources for generating revenue for football clubs. Revenue for the clubs is derived from matchday (including ticket and corporate hospitality sales), broadcast rights (including distributions from participation in domestic leagues, cups and European club competitions) and commercial sources (including sponsorship, merchandising and other commercial operations) (Deloitte, Football Money League Report, 2015). Since the sources of revenue are limited, the competition in the football industry is becoming more intense.

In order to understand the competitive structure of the industry, identification of strategic groups is helpful. A 'strategic group' is defined as the group of companies following same or similar strategies in an industry (Porter,

* Corresponding Author: Tel. + 90-312-233-1226, Fax. +90-312-233-1027

Email address: irge@cankaya.edu.tr

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1980: 129). Therefore, a strategic group can be seen as a set of firms within an industry that are similar to one another and different from firms outside the group on one or more key dimensions of strategy. With this study, it is aimed to identify the main strategic groups based on revenue generation and understand the main strategies of football clubs in different strategic groups. This research is very significant in that, it is the first of its kind that classify the mainframe strategies implemented by football clubs within each strategic group.

2. Literature about Strategic Groups

Strategic group research originated from industrial organization field (Caves and Porter, 1977; Porter, 1979) which concentrates on the relationship between market structure and firm performance and is rooted in classical and neo-classical economics. Industrial organization research suggests that, competitive advantage is derived from the factors such as industry structure, which exists external to the organization (Porter, 1980). On the other hand, it is proposed by strategic group research that, firm behavior influence industry structure and performance as a whole and the strategy and performance of each firm within the strategic group (Thomas and Pollock, 1999). According to Porter (1980), the profitability of a company depends on industry characteristics, strategic group characteristics, and the relative position of the company within the strategic group.

'Strategic group' concept was first introduced by Hunt (1972); Hunt observed that companies within the household appliance industry followed similar strategies that are vertical integration, product diversification and product differentiation, which resulted in four strategic groups (McGee and Thomas, 1986). Since then, many research conducted on the existence of strategic groups (McGee and Thomas, 1986) and strategic groups developed as a popular research field for analyzing diversity of intra-industry and cross-industry behavior.

The main idea of strategic group theory is based on the fact that within an industry, there exists diverse group of companies characterized by similar strategic actions and each industry consists of one or more strategic groups (Porter, 1979). Therefore, companies within the same strategic groups are homogenous in terms of similar strategic actions, and heterogeneous between groups (Barney and Hoskisson, 1990). According to Porter (1979), this is mainly because of the members of strategic groups facing similar threats and opportunities. Thomas and Pollock (1999), on the other hand, suggest similar resources of firms, as a precondition of similar strategies within strategic groups.

In the previous literature, strategic group concept has been applied to diverse industries and similar strategy types had been identified for brewing (Hatten et al, 1978), chemical process (Newman, 1978), consumer and industrial products (Galbraith and Schendel, 1983), paints and allied products (Dess and Davis, 1984), insurance (Fiegenbaum and Thomas, 1990), banking (Mehra, 1994) and even agriculture (McLeay et al, 1996) industries.

Apart from their strategic similarity, strategic groups can also be identified by mobility barriers (Porter, 1979; McGee and Thomas, 1986). According to McGee and Thomas (1986: 150), "a firm within a group makes strategic decisions that cannot readily be imitated by a firm outside the group without substantial cost, significant elapsed time, or uncertainty about the outcome of those decisions". With this definition, the authors propose that there exist barriers that prevent the companies moving from one strategic group to another. Mobility barriers defined as "structural forces impending firms from freely changing their competitive position" by Caves and Porter (1977: 246) is similar to the concept of barriers to entry into an industry. Mobility barriers prevent firms moving from one strategic group to another, and according to Porter (1979), mobility barriers insulate companies against potential entrants and preserve their strategy for imitation as well. According to Cool and Schendel (1988), strategic groups in the industry are differentiated by mobility barriers that represent resource allocation committed by the strategic group members.

Mobility barriers are defined based on three sources by McGee and Thomas (1986: 151). These sources are market-related factors, industry-supply characteristics and firm characteristics. Market related factors include, product-line, user technologies, market segmentation, distribution channels, brand names, geographic coverage, selling systems; whereas industry-supply characteristics include relevance of economies of scale for production, marketing or administration, manufacturing processes, R&D capability, marketing and distribution systems. In addition, firm characteristics include ownership, organization structure, control systems, management skills, firm boundaries (degree of vertical integration or diversification), firm size and relationships with influence groups.

Performance differences within an industry can be explained by the mobility barriers between strategic groups (Caves and Ghemawat, 1992). Accordingly, most of the research related with strategic groups is related with the group membership and performance relation (McGee et al, 1986).

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