Evaluation of Sports Organization Worth

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When the level of funding for sport compared to the overall state budget, or be related to the gross domestic product can be ascertained that in the past twenty years, the money directed to this area is constantly decreasing. In the imaginary scale of the European Union are under study, some country is among the lowest rungs. The analysis is not only taking the top sport, but also activities in the field of sport for all, support for youth, sports and similar construction. This article aims to report on funding opportunities in sport. What are the possible ways of acquiring money from different sources: public, private and international (public budget, entrepreneurial appropriation, bank credits, EU sources of physical training).

Keywords: sport, financing worth, sport organization

Introduction

Company evaluation presents complex dilemma to which it is necessary to have enough theoretical, but also practical knowledge and skills relating to company function, because this knowledge create valuation quality. The purpose of company valuation is the statement of it’s market value. Different evaluating methods are used, these methods vary in process, methodology. Process result depends on many elements. Mainly on the purpose for which the valuation is ordered, on the evaluator’s knowledge and also on the quantity and quality of available information. The principle for valuation is independent organization. There is not unique and correct acknowledgement at valuating. And more it applies at sport’s club valuating where the most important part of evaluation is the human factor itself. At that moment, valuation deals with specific activity – to find out financial value of players, according to their talent, skills, abilities and other specific human features. All the more is sport’s clubs valuation difficult.

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Company evaluation

We understand evaluation as a service, which is ordered by the client, because it brings him profit.

Order is made from different kinds of impulses:

a) purchase and sale of company
b) company fusion
c) company deposit into the newly found OS
d) change of OS law form
e) bringing the company into the stock market
f) loan offer
g) decisions about possibilities of saving or clearance
h) valuation of real firm standing
i) expropriation compensation
j) payments of different types of taxes (real-estate transfer tax, gift tax, inheritance tax)

Valuation in fact answers the following questions: How much is ordinary interested person willing to pay, how much we could get on the market? What is the market value then? What value does company have according to concrete purchaser? What value is it possible to consider as unquestionable?

And based on these questions we distinguish 3 accesses to firm valuation in principle. These are:

a) market value
b) subjective value
c) objectified value

Market value: It is estimated sum for which the property should be exchanged to date of valuation between voluntary buyer and voluntary seller with transaction between separated and independent partners after proper marketing.

Subjective value: „Kolínská school“ is based on this stance. “Kolínská school” supports the opinion, that it has no sense to modify valuation in dependence on separated items, but on general functions, which valuation has for users of its results.

Maximum price: Price, which can be paid by the buyer without loosing on the transaction.
Minimum price. Price, which can be accepted by the seller without loosing on the sale.

Objectified value: should follow these rules with calculation:

a) keep the substance
b) free profit
c) useless property
d) possibilities of changes in the firm
e) clear and explicit method

Company. Collection of material, immaterial as well as personal units of business. To business belong law matters and other property values, which belong to businessman and which are in service to firm operation and according to their character they should serve to this purpose including manpower and its knowledge and abilities. Company belongings are divided to assets and debts.

Business assets. It is the collection of business belongings and obligations incurred to businessman in connection with business.

Business property. a) collection of property values (things, claims and other laws, money valuable values), which belong to businessman and which serve or are meant for trading; b) important in FO (warrants with all it’s property, can loose everything, must divide it)

When assessing, the physical aspects of property are not prime, but mainly law to use this property is considered, it means to have the benefit through ownership right. Each firm is distinguished by something special (each is different), low market organization rate and singularity. Company value is not equal to price. (Kislinger, 2001)

Business market value definition. Estimated amount (responses to the price estimated in money), for which the property should be exchanged to valuation date – “A” value is more estimated than pre-stated price (time limited to which day it is made) between the willing to buy buyer (motivated, not forced and he buys according to the market reality) and willing to sell seller (not forced to sell it for any price) with the transaction of separated and independent partners (both sides do not have mutual relationship), after proper marketing (property value will be presented on the market in the most suitable way), in which both sides act in informed and reasonable way (adequate information about firm body and features) and without pressure (any of the side is not incorrectly pushed to realization).
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Valuating: a) experts; b) adjusters

Adjuster. a) may be free business; b) may be bound by qualification; c) are businessmen, d) can not have round stamp, make the same as signs (sometimes it is necessary to know the judgement, sometimes estimation is enough).

Experts. a) are nominated by the Ministry of justice or by the regional court judges according to Law 36/1967 Coll. b) there are no limits stated for nominating according to law.

Expert’s statement. Can be ordered by the Court, Police. The Court can not be denied. Further clients, participants. The firm chooses it’s expert and the Court must confirm and nominate him/her. There are different business conditions for adjusters in different countries. In principle it is free business. It is obeyed by the valid trading law.

Experts make business based on the specific rules. Experts stand out in public sale order no. 365/1786 Coll. Further also in law patent from 1815 and emperor patent no. 208 from 1854, direct tax law no. 76/1927 Coll. Today they must follow valid law 36/1967 Coll. about experts and interpreters. The Court experts (as individuals) are nominated by the applicable regional court. Beyond the court experts, there are also so called Expert institutes. These institutes are recorder as juridical persons by the Ministry of Justice. (Dluhos, 2006)

Financial Analysis. Financial statement analysis usually involves a common size analysis, ratio analysis (liquidity, turnover, profitability, etc.), trend analysis and industry benchmarking. This allows the analyst to compare the valuation of the subject company to other firms in the same or similar industries, and to identify trends affecting the Company and / or industry over time. Comparing the company’s financial statements in different time periods, the valuation expert can see the growth or decline in revenues or costs, changes in capital structure or other financial trends. As the subject company compares with the industry to help with risk assessment and ultimately help to determine the discount rate and selection of market multiples.

Sport’s clubs evaluation specifications

Sports clubs and organizations line of business is generally: a) sport activity – exercise and operation of sport activity – is generally the main subject of sport activity, b) distribution and organization of sport events – competitions, matches, etc.; c) purchase in order to following sale and sale – for example football clubs operate FAN shops with sport equipment (dresses replications, shawls, flags, etc.) and
promotion articles; d) advertisement and marketing – is made in connection with competition and matches distribution and also in connection with promotion of club itself. Clubs, which act the highest level competitions in their sports, sell the TV and radio broadcasting rights. They also produce company and products advertisements by promoting the brand of contract partner at public matches. Fruitfulness of this activity is directly addicted on sport fruitfulness, mainly related to “A” teams in competitions, e) inn-keeper activity – it is connected with restaurants operation, with providing refreshment during the sport match. (Novotný, 2008)

Estimated property in sport organizations. As a line of business, which is different in sport organizations compared to production companies, as well as property itself is different.

Long-term immaterial property – LICENCES – relate to main line of business. Licenses are issued by sport federations, which collect financial resources from the clubs and also because the highest level competition is diversified. By this is also arranged fairness and competition is played only by full-valued, financially ensured clubs. One of the requests for getting the license is that clubs can not have any financial obligations towards any other subjects. License is provided based on the fixed amount. It means it doesn’t matter for example whether the club is more significant or economically stronger.

Long-term material property – is created mainly by the constructions and lands (playgrounds, courts, down hill courses, playgrounds equipment etc.) serving to main line of business.

Material things and collections of material things themselves – separate material articles include all stock, machines, technical equipment and other material property. Into this group also belong transport facilities and industrial machines.

Sportsmen evaluation. It is specific kind of evaluation, because we valuate mainly specific features, skills, abilities of individual players, whether the player was a member of representation team in one of the junior draft, etc.

Sportsmen are important factor for club operation and they play big part in club success or non-success in sport competitions and also in club’s position on home or international scene. Sportsmen valuation is not a typical event however they also increase company quality itself.
Sportsmen valuation can be done only in some kinds of sports. Mainly in football, ice-hockey, basketball, volleyball etc. It means mainly team sports, where sportsmen values are stated by their capacity and by height of transfer charges. Indeed it does not mean that this is not possible in other sports which are not meant here. It just does not have practical meaning. For example in Tennis or Athletics the valuation of sportsmen would not be very effectual. Here the athlete passes from one coach to another. Former coach will get some allowance, but we can not expect any high amounts for transfer. The sportsmen evaluation has meaning mainly in team sports and public watched sports also from this point of view.

**Characterization of sportsmen evaluation**

It is necessary to consider many factors when evaluating sportsmen. For example age, player’s career (whether he played for significant clubs), whether it is or foreigner hosting player, etc. Last but not least his achievement, abilities and skills.

Sport clubs spend a lot of financial and material device on sportsmen mainly in football, ice hockey, NBA. No matter if it is own pupil or player bought from other club. Own player, it means the player who is in the club from the early age, it is arrangement of material device as football boots, training things, matches’ transport and sometimes also training, concentration training, etc.

With players who join the club as adults or as juniors, there are financial device for players’ purchase and following also financial device connected with their professional contracts. Of course including other cost as it is with own players. The fact at present may be also that club buys young players at school age for no small amounts. This did not used to happen in the past.

In some cases exits also option that school age players have professional contracts. The example for us may be foreign clubs, which have own football academies, in which they try to bring up the best players for the future “A” team. Of course these clubs have enough money to do this, but it is the main club philosophy. They want their own players to represent the club instead of buying too expensive foreign players.

As I mentioned in the introduction, it is necessary to have the respect to sportsmen, because they also increase total value of the company. When evaluating sportsmen, we often make use of knowledge and experience of sport specialists, who apply in given sport. That is why values of sportsmen may differ in reality, because it only depends on the club which player and for what price is willing to sell and will sell the player.
Last but not least it also depends on the fact whether the club sells the player into the foreign or home club. Nowadays the philosophy of all clubs is similar. To sell the player into the foreign club because there is a probability of higher price offer. Even though that our hockey teams have high sport level they still can not financially equal with Russian or NHL teams.

According to available information it is very hard to set up the sportsmen price. As I pointed out before, it is very hard to estimate the selling and offering club’s value of the player. Transfer fees changed a lot in the past 20 years. There were also many studies dealing with these inadequate transfer fees.

Contracts

Also player’s contracts may play important role when evaluating. The contract contains important information relating to basic criteria. Contract efficiency plays important role and also player’s financial evaluation.

• introduction regulation
• subjects (club – player), player is usually represented by agent
• efficiency – timing - options

Contract efficiency can be 1 year, multiannual, seasonal. Contract is usually signed for fixed period. Sometimes there can be exception made and contract is signed for non-limited time period. Option is preference right for the club.

• financial proprieties of sportsmen + premium regulations

What kind of financial valuation sportsman gets, it may differ according to environment (home – outsider – neutral), according to results (win bonus – draw – loss), according to competition type (lowest – domestic – cup – national – international). Premium regulations may be also worked out according to role of individual in the team.

• contract termination
• rights and duties of sportsman
• signatures of both parties (Kosík, Pacut, 2009)

Valuation and sport teams in the world

Sports franchises often boast values of striking magnitudes. The Yankees, for example, are nearing the $1 billion mark. Football teams have an average value of $530 million and even the less popular and less prosperous NHL teams
exceed $150 million on average. I find these numbers astonishing, but at the same time, ambiguous. What exactly determines the value of a professional sports team? What assets, qualities, and accomplishments account for the differences between the values of teams? How big of an impact do the venue, ticket price, concession sales, broadcasting revenue, and performance make in terms of overall value? Furthermore, do these variables interact with value differently among leagues? Can revenue sharing schemes, payroll limits, and unique features of the sport account for these differences? In this paper, I use econometric analysis to model team values for four leagues: the NFL, NBA, MLB, and NHL.

**Approaches to Valuation.** The value of any business is based on its potential for future earnings. There are three common approaches to valuation. First is the cost or asset-based approach, centering on the principle that an investor will be unwilling to pay more for an asset than it would cost to obtain another asset that produce the same future cash flows. Common measures of cost are replacement cost and reproduction cost—both indicating the amount an owner is willing to pay to obtain the same cash flow from the asset. For professional sports franchises, the cost approach is not as helpful or reliable as the other two valuation methods. The prevalence of intangible assets in these franchises makes the replacement and reproduction cost approaches inadequate for future cash flow or value predictions.

**Market/Sales Comparison.** The market/sales comparison uses principles of competition in a free market and relies on the assumption that, in an equilibrium, the price of an investment will apply to similar investments, with some modification. Looking at actual data from sales and other transactions, an analyst can make comparisons by noting the differences between the franchise to be valued and other recently traded franchises. Important for consideration are market size, location, demographics, venue ownership or lease terms, venue revenue, and local television agreements. This approach to valuation is made more difficult because of a lack of available data on comparable franchises and variability in value adjustments.

**Income Approach.** With the income approach, the value of the team is based directly on the present value of the expected net cash flow earned for the duration of the enterprise. The most common estimate of value based on future cash flow uses the discounted cash flow method. By making assumptions about how different value drivers might contribute to future earnings, an analyst can work backward and make a calculation of present value. Both the income approach and the market/sales comparison often are used to make calculations about the value of sports franchises. In addition, both of these approaches employ the
several different factors I identified as possible contributors to value, such as stadium attributes, ticket sales, and team performance.

Method. Forbes Magazine publishes independently-determined valuations of all franchises in the NFL, NBA, MLB, and NHL each year. I started my analysis of value with these data for the 2001-2002 seasons. From that point I collected data quantifying the various factors I thought might affect value such as the revenue of the team, the payroll, the age of the team’s home stadium, home attendance, ticket price, and the number of television-owning households in the major metropolitan area, among other variables. I collected these data for every team in all four of the major leagues. I applied simple regression analysis and developed a model to explain differences in value within a league, with one model for each league. From that point I sought to work out explanations for the coefficients in each league model and explain what varied between models.

Table 1. The most valuable teams in sports (Forbes, 14.01.2010)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Title of the team</th>
<th>Value</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manchester United</td>
<td>$1.87 bilion</td>
<td>English Premier League</td>
</tr>
<tr>
<td>2</td>
<td>Dallas Cowboys</td>
<td>$1.65 bilion</td>
<td>NFL</td>
</tr>
<tr>
<td>3</td>
<td>Washington Redskins</td>
<td>$1.55 bilion</td>
<td>NFL</td>
</tr>
<tr>
<td>4</td>
<td>New York Yankees</td>
<td>$1.5 bilion</td>
<td>MLB</td>
</tr>
<tr>
<td>5</td>
<td>New England Patriots</td>
<td>$1.36 bilion</td>
<td>NFL</td>
</tr>
<tr>
<td>6</td>
<td>Real Madrid</td>
<td>$1.35 bilion</td>
<td>La Liga</td>
</tr>
<tr>
<td>7</td>
<td>Arsenal</td>
<td>$1.2 bilion</td>
<td>English Premier League</td>
</tr>
<tr>
<td>8</td>
<td>New York Giants</td>
<td>$1.18 bilion</td>
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</tr>
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<td>9</td>
<td>New York Jets</td>
<td>$1.17 bilion</td>
<td>NFL</td>
</tr>
<tr>
<td>10</td>
<td>Houston Texans</td>
<td>$1.15 bilion</td>
<td>NFL</td>
</tr>
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Conclusion

Sport’s organization evaluation is really very complicated activity. While long-term property of sport’s clubs is little different from manufacturing corporations, with its evaluation according to different kinds of methods isn’t very often big problem. The problem starts with valuation of human factor where it is necessary to evaluate specific qualities. In my opinion the current value of the best sportsmen got out of hand a little. It is not possible for the value to keep rising. Each year appears the most expensive football player in the
world, what more the transfer fees are incredible. There are clubs, which want to sell their best players for the highest possible price on one side and on the other side there are clubs which are willing to buy these players for this price. I think that current trend will not last long and again there should raise such situation as in NHL, where incredibly high salaries of players were solved by financial ceiling.

References


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