

Real madrid harvard case

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Real Madrid (RM) has been worldwide-known as one of the best soccer club in the world. From its beginnings in 1902, this Spanish soccer club has set the standards of a championship soccer organization and in 1905 had his first international game. A major turning point in the club's history came with Bernabeu, Real Madrid CF appointed president (1943). He created the strongest brand in soccer synonym of prestige and champions, winning 6 European Cups. He coined "best in Europe" by international press and acquiring the best soccer talent at any cost.

Soon after his death in 1978, the club declined for nearly two decades on the field and financially. Through the 1990's under president Lorenzo Sans, Real Madrid CF was financially restructured. The organization constantly sold players and crucial core operating assets such as stadium rights and media rights to cover operating losses and minimize its significant debt. The club gradually recovered on the field, winning the 7th European Cup in 1998 and in 2000 Perez achieved the club presidency and announced his further plans in order to sanitize the club's finances.

The constant focus of Real is not on the traditional business model which emphasizes on gate receipts and local corporate sponsorships. The main goals of the club include giving Real Madrid the financial flexibility to acquire Talent and expand its brand reach. This could establish the brand globally and maintain supremacy of this brand with continuing to maximize profits and enhance their corporation. They are led to focus on a strategy of maximizing merchandizing and television revenues and in some cases stock values, on an international basis.

This business model is not unique as Manchester United and Disney's Lion King have already adopted it. Manchester United was of course main inspiration because it is master of this new globalization and commercialization model with million supporters worldwide. They have developed subbrands and products targeted to each segment of the market and all the brands are featured in the team's Web Site which is part of the club's value. Moreover, in order to "hit" Asian market they organized preseason tours and opened a coffeehouse chain in southeastern Asia.

Not only this example, but also the example of Disney's Lion King is something that Perez emulated. Lion King costed 50 \$ to make, grossed over 766\$ million at the box office worldwide in his first year and also generated over 1, 5 billion in merchandizing revenue. Therefore, Real Madrid realized that it is important to generate long-term entertainment brands and not just invest in the experience during the match and the gate receipts.

Taken into consideration these two examples, Real Madrid focused on match-day, broadcast and pay tv, marketing (merchandise sales, sponsorships) and international competitions. First of all, match-day gate receipts are vital sources of revenue. However, VIP packages and season tickets as well as the construction of new, comfortable stadiums are very important for the club. Merchandizing is also the key to modern management as the sales of branded goods (ex caps, watches etc) and the video games with the interactive applications have helped the development of the club.

Sponsorship accounts up to 20% of revenue, with Adidas and Siemens considered to be major sponsors. Also, Audi has provided a car to players and team officials. Real Madrid saw also opportunities in specialized publishing, audiovisual rights and Internet. The club's site RealMadrid.com had 1.5 million visitors each month in 2004 and has interviews of players, live feed, etc. Managers can also have one-to-one relationship with fans by mobile telephony, wireless Internet, etc.

The role of RealMadrid Television is also very important as it has daily coverage from training, soccer and basketball matches. TV rights is the largest revenue earner cause deregulation of the media industry in Europe in the 1990s resulted in competitive bidding for TV rights, providing an important revenue stream for most teams. Finally, international competitions (ex Champions League, Toyota Cup) and international expansion where soccer has a large appeal (ex. Asia) are vital for the reputation of the brand.

The business model of Real Madrid is essential to its development but in order to be implemented effectively there has to be market segmentation. In 2003 over half of the Spanish people considered themselves soccer fans, are nearly 80% men. About 60% of soccer fans in Spain followed Real Madrid and about 30% of spectators were women. The market in this case is segmented by behavior and geographic criteria. As far as behavior is concerned we have: sports fanatics, club and team loyalists, star-struck spectators, social viewers, opportunistic viewers and sports indifferent.

Sports fanatics are the most loyal fans of Real who follow news, scores and statistics, usually they have season tickets and discounts and tend to spend

a lot on merchandise and related products. They visit the website very often and try to be connected to the club with mobile technologies and personal computers. After sports fanatics, club and team loyalists are also likely to watch football matches, and generally attend sports events, and always try to obtain information about the team through the club's magazine, TV, Web site, radio, etc.

Then, star-struck spectators are actually fans of “Galacticos”, superstar players, and do not pay attention to the whole team that much. These fans take part in online interactive fantasy sports, play video games and try to get information about their favorite players. So, the main goal for the club in that case is to transfer their interest from the “star-players” to the whole team. Even less fanatics are the social viewers who are loyal to no team and attend matches whenever they can and use them as means of socializing.

Moreover, there are opportunistic viewers who see sports as a form of entertainment and only attend typically in order to have fun with their friends and spend on food and drinks. They only get informed about the teams and the scores randomly, most of the times while watching TV. Finally, there are sports indifferents who are not interested in team sports generally unless it is a big event organized. Of course, the fans should be also segmented by geographic criteria. The system has allowed to spread the team's name and reputation globally.

Therefore, there are the fans in the limits of the country but also the international fans. (For example, soccer is growing very fast in Asia and tours are organized often.) After pointing out how the market is segmented it is

important to mention who is Real Madrid's customer. This customer, no matter where he lives, he could be either a sports fanatic, a club and team loyalist or a star-struck spectator. He wants to get information about Real and follow the star-players of his team.

He is willing to watch a match in the stadium or on TV and have a real connection with the team or with the players' careers in the particular team. He buys Real Madrid's accessories and somehow makes this brand part of his everyday life. Furthermore, Real's customer not only sees football as a form of entertainment with friends, good food and beverages but also has the need to be part of the "football community", has the need to 'breathe' football. Finally, the business model that Real has implemented has many advantages but also includes some serious risks.

Under Perez management, Real Madrid had mission to nurture and project the club brand worldwide. But Perez had thought of specific problem which led him to think twice about his management decision. First of all, buying a worldwide class player and including that in Real's strategy can cause worries about the talent which becomes older and older. In order to achieve high game performance and try to pass the values of "excellence" and "prestige" to the audience, unique players with amazing skills are needed.

There are always worries whether great players will cease to exist though so far new talents are still discovered. Of course, the soccer cannot be standardized as there is an uncertainty factor- such as lose the match or get knockdown from the big competition- and this is another problem that Real faces as well as any other team. Furthermore, competition between

professional club, such as Chelsea, in buying players is another important threat for Real.

In this case Chelsea can bring a world class player with extraordinary price to the club and that can have a general impact on player salaries and transfer prices and therefore cause problems to the team balance. Finally, Real's managers are worried about overexposure and excessive commercialization of the brand as this could lead to opposite results-such as criticism for exploiting the team's fans and overstretching the brand. Summarizing, all these risks should be taken into consideration and examined carefully in order to be solved long-term and therefore Real's reputation will not be damaged.