

Overcoming the Corona Crisis

*A comprehensive recovery concept for
basketball clubs in Europe*

Prepared by: Cem C. Karamürsel

Date: April 30, 2020



Content

- **Corona Crisis - A Major Disruptive Event**
- **Situation of European Basketball Before Corona**
- **Impact of Corona on European Basketball**
- **Need for a Comprehensive Solution**
- **Future Outlook**

Content

- 🏀 **Corona Crisis - A Major Disruptive Event**
- 🏀 **Situation of European Basketball Before Corona**
- 🏀 **Impact of Corona on European Basketball**
- 🏀 **Need for a Comprehensive Solution**
- 🏀 **Future Outlook**

Corona Crisis – A Major Disruptive Event

- The **coronavirus outbreak** is a sudden and **major disruptive event** to all areas of life **affecting hundreds of thousands of people** around the world. More than 180 countries and territories have reported cases of COVID-19, the disease caused by the coronavirus (SARS-CoV-2).
- It is having a growing **impact** on the **global economy**. Many countries with large economies have enacted **quarantine policies**. This has led to the **disruption of business activities** in many economic sectors. Governments have launched unprecedented public-health and economic responses.
- The **IMF** described the decline as the **worst since the Great Depression of the 1930s**. Some economists estimate that China's economy may contract for the first time since the 1970s. Many advanced economies are expected to enter **recession** this year.
- **Sports** have **not** been **immune** to the adverse development caused by the spread of the virus and the measures taken to contain it. **All major leagues and sport events** have either been **suspended** pending a final decision or officially **cancelled** for the current season.

Corona Crisis – A Major Disruptive Event

- **Stock markets** have experienced their **worst crash since 1987**. Compared to other major crises like the **Global Financial Crisis in 2008-09**, the sudden impact of corona has been even more **significant**. There is uncertainty as to its mid-/long-term impact which will be **dependent** on the **actual recovery path** and its duration.

The impact of coronavirus on stock markets since the start of the outbreak

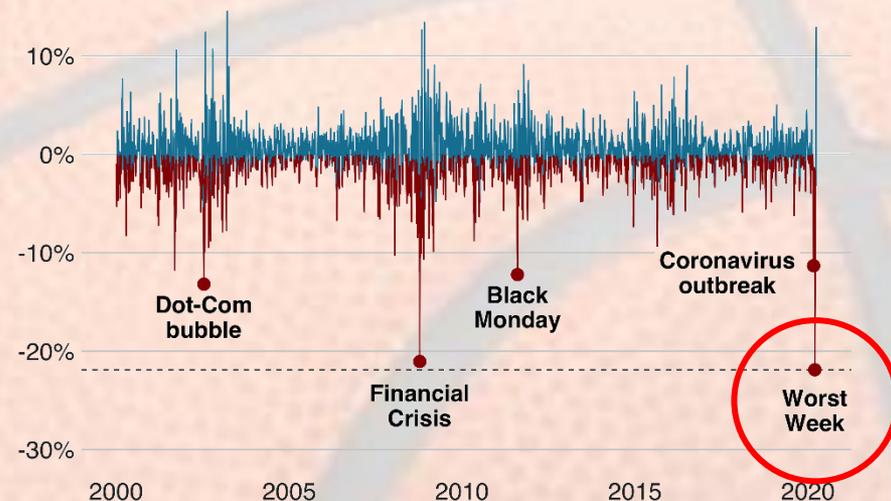


Source: Bloomberg, 24 April 2020, 11:00 GMT



FTSE 100 plunges on coronavirus fears

Week-on-week percentage change



Source: Bloomberg, 27 March 2020, 13:00 GMT

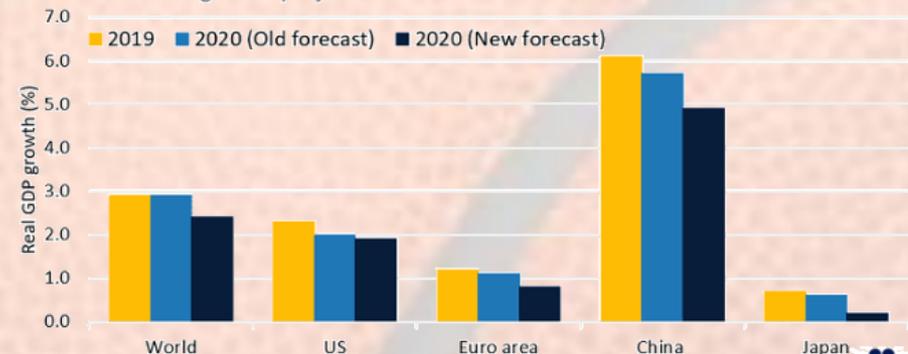


Corona Crisis – A Major Disruptive Event

- **Before corona**, the **global economy** has already been going through some stress, primarily caused by the US-China trade wars, Brexit as well as the recent oil crisis. A **recession had been anticipated** in the near future for many economies. **Corona pandemic** is having a major **accelerating/fortifying** effect on the downwards trend of the global economy.
- The impact is expected to be **different by country** (or even region) and **industry**. Economies that are heavily dependent on **services sector** (like the US and vast majority of Western European countries) and/or having a relatively high **foreign trade volume with China** (e.g. the US, Germany, Russia, France etc.) are likely to be impacted more.
- The **OECD** and many other leading institutions have already **downgraded their growth projections** for almost all economies in the world.

Global economic growth slowdown

The Organisation for Economic Co-operation and Development (OECD) downgraded its 2020 real GDP growth projections for almost all economies



SOURCE: OECD Economic Outlook Report (March 2020)



Content

- 🏀 **Corona Crisis - A Major Disruptive Event**
- 🏀 **Situation of European Basketball Before Corona**
- 🏀 **Impact of Corona on European Basketball**
- 🏀 **Need for a Comprehensive Solution**
- 🏀 **Future Outlook**

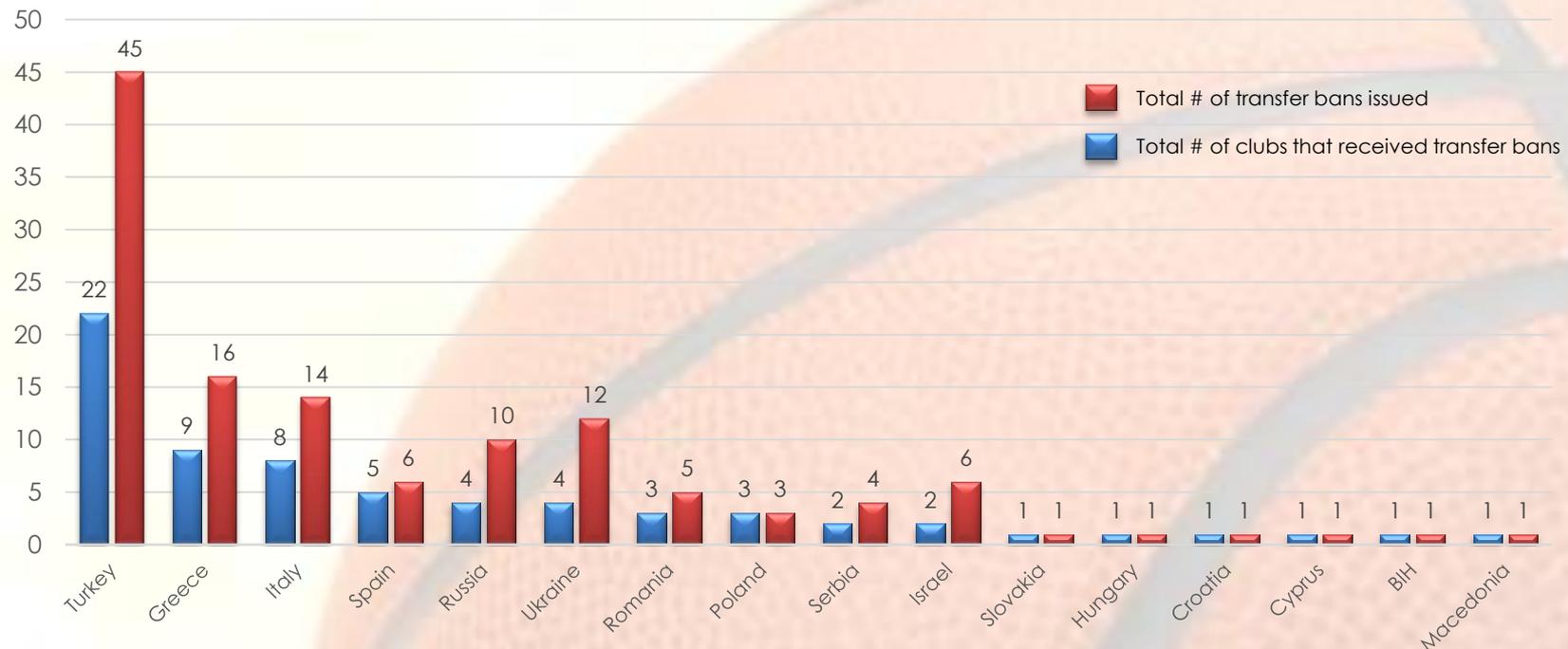
Situation of European Basketball Before Corona

- There is absolutely no question that the **corona pandemic** is a **major disruptive event** which is expected to have a significant adverse impact on basketball clubs in Europe too. However, in order to properly assess the impact of the corona pandemic on European basketball (and to read it in the right context), first the **situation of European basketball before the outbreak of the corona** disease needs to be analyzed.
- For several years, the European basketball has been going through a pretty **turbulent** period, especially in terms of **economic stability/sustainability** and **governance**. Despite some good efforts in recent years, primarily led by EuroLeague, **virtually all of the clubs** have still been in a **loss-making situation**.
- Typically, clubs' most **important income source** is **sponsoring** and/or **contributions from its shareholders**, i.e. compensation of incurred losses by club owners. Game day revenues and income from broadcasting rights are in general relatively small/negligible.
- Most of the clubs** have been struggling with **liquidity issues** on a constant basis that lead to overdue payables which is also visible in **transfer bans** and **sanctions** imposed by FIBA/BAT and EuroLeague.

Situation of European Basketball Before Corona

Below chart provides an overview of **all currently effective transfer bans** issued to the European clubs by FIBA for their **failure to honor an award** of the **Basketball Arbitral Tribunal (BAT)**. The red bars represent the number of bans, and blue bars show the number of teams that received those bans. For instance, in total 22 teams from Turkey have been issued a total of 45 bans, i.e. not allowed to register new players*.

Transfer Bans issued by FIBA*

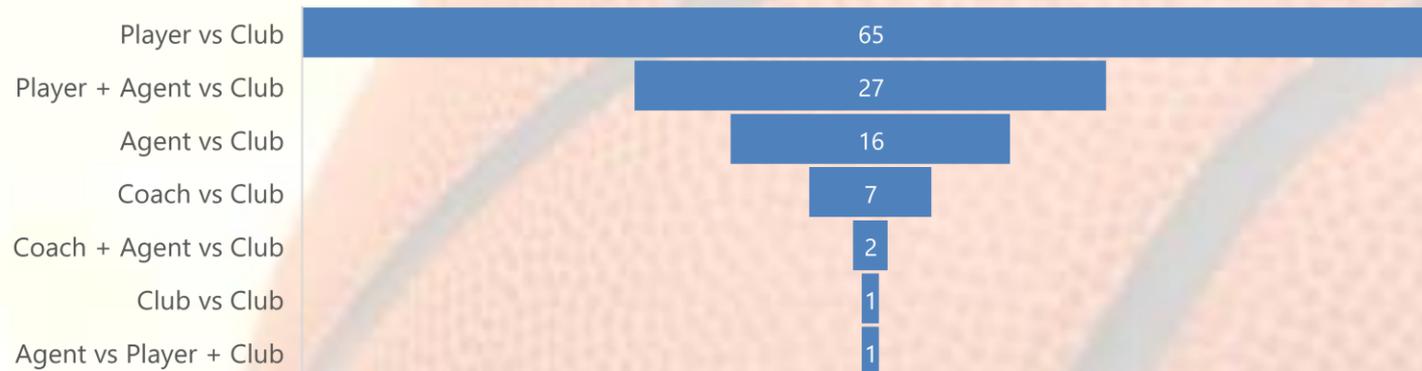


*) Source: EBAG analysis based on information obtained from <http://www.fiba.basketball/bat/sanctions> as of April 22, 2020

Situation of European Basketball Before Corona

- 🏀 In the period from **January 1, 2019 through March 18, 2020**, **BAT** announced a total of **170 awards** for the cases that were processed. Of these 170 cases, **24** were related to **non-European clubs**, **11** dealt with claims of **agents vs players or coaches**, **12** were related to **women basketball clubs** and **4** claims were **dismissed**. As such, a total of **119 cases** were related to a total of **47 different basketball clubs** (men) in Europe. Below chart demonstrates the number of cases raised against clubs by different types of claimants.
- 🏀 For instance, in **65 cases players** raised their claims against clubs to BAT in almost all cases due to **outstanding salaries and bonus payments**. In **27 cases**, they were supported by **their agents who were also claiming their outstanding agent fees**. In 9 cases coaches (in 2 cases with agents) went to BAT for outstanding salaries*.

BAT Awards against Clubs by Claimant Type*

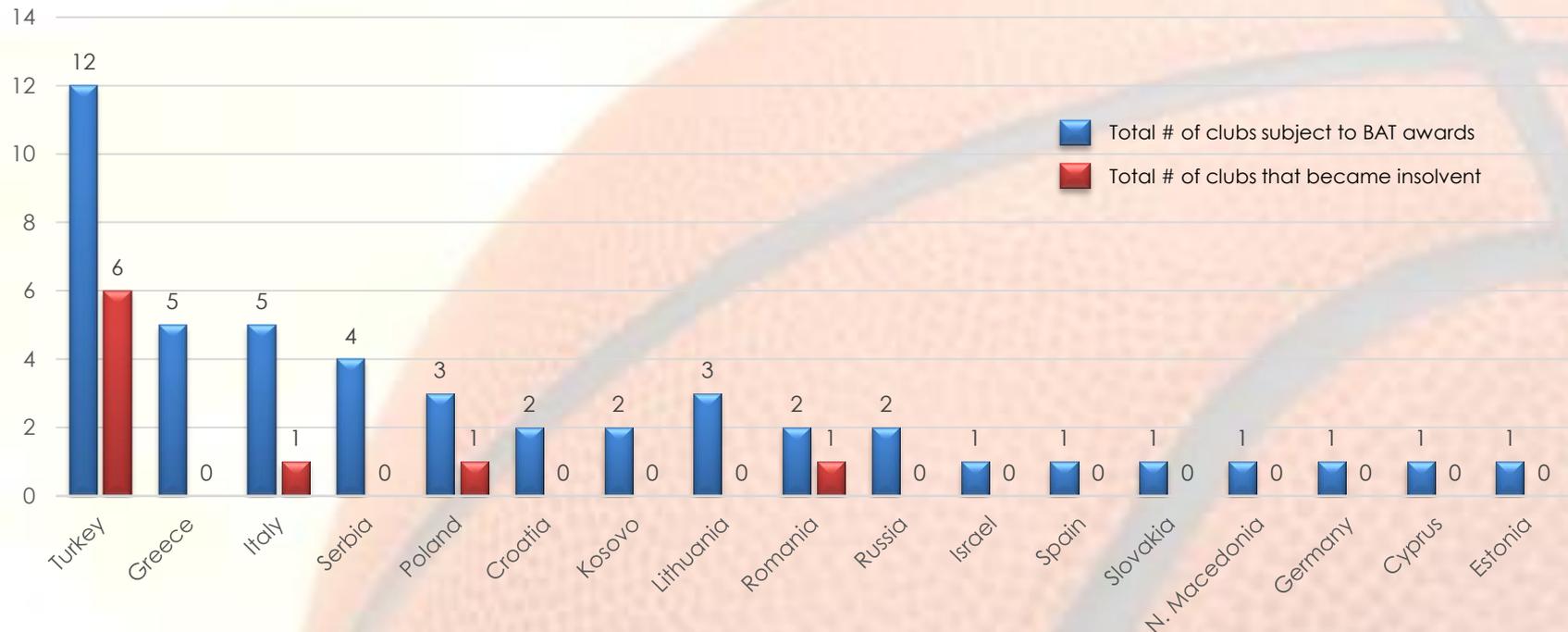


*) Source: EBAG analysis based on information obtained from <http://www.fiba.basketball/bat/awards> as of April 22, 2020

Situation of European Basketball Before Corona

As mentioned above, a total **47 clubs** were subject to BAT awards during the analysis period. Below chart breaks down the **total number of clubs into national federations**. The blue bars show the total number of clubs that lost a claim against players, coaches and/or agents. The red bars demonstrate the number of teams (included in the total number) that became insolvent and ceased their (basketball) operations in the meantime*.

BAT Awards by National Federation*



*) Source: EBAG analysis based on information obtained from <http://www.fiba.basketball/bat/awards> as of April 22, 2020

Situation of European Basketball Before Corona

- 🏀 In summary, it can be argued that in European basketball **almost all clubs have been operating in a loss-making situation**, i.e. their revenues/income are less than their expenses. The most important revenue/income source is sponsoring and/or shareholder contributions. Essentially, in majority of the cases, losses incurred by clubs on an ongoing basis have been compensated by club owners.
- 🏀 Another general characteristic of European basketball clubs is their **high dependency on a single or small number of sponsors and/or shareholders**. In the past, several (also in sporting terms successful) teams had ceased to exist, mainly due to the decisions of sponsors and/or owners to withdraw their support.
- 🏀 **Cash flow issues** have been on the agenda of many teams that were dealing with consequences of overdue payments as indicated by the relatively **high number of BAT cases and sanctions**. It is a known fact that not every overdue payment is taken to BAT, hence the liquidity issues, in reality, are supposed to be more frequent and common in European basketball.
- 🏀 In business literature, **crisis** is defined as a **situation in which companies/ organizations lose one of the two fundamental equilibria in their business**: (i) **economic equilibrium**: ability to be profitable and return yields to shareholders in mid-/long-term, or (ii) **financial equilibrium**: reflecting their balance of working capital, assets vs. liabilities and cash flow. As such, technically, it would not be wrong to conclude that the **European basketball has already been in a crisis for several years, before the outbreak of the corona pandemic**, since not only one of the equilibria but rather both of them have been out of balance for a long period of time.

Content

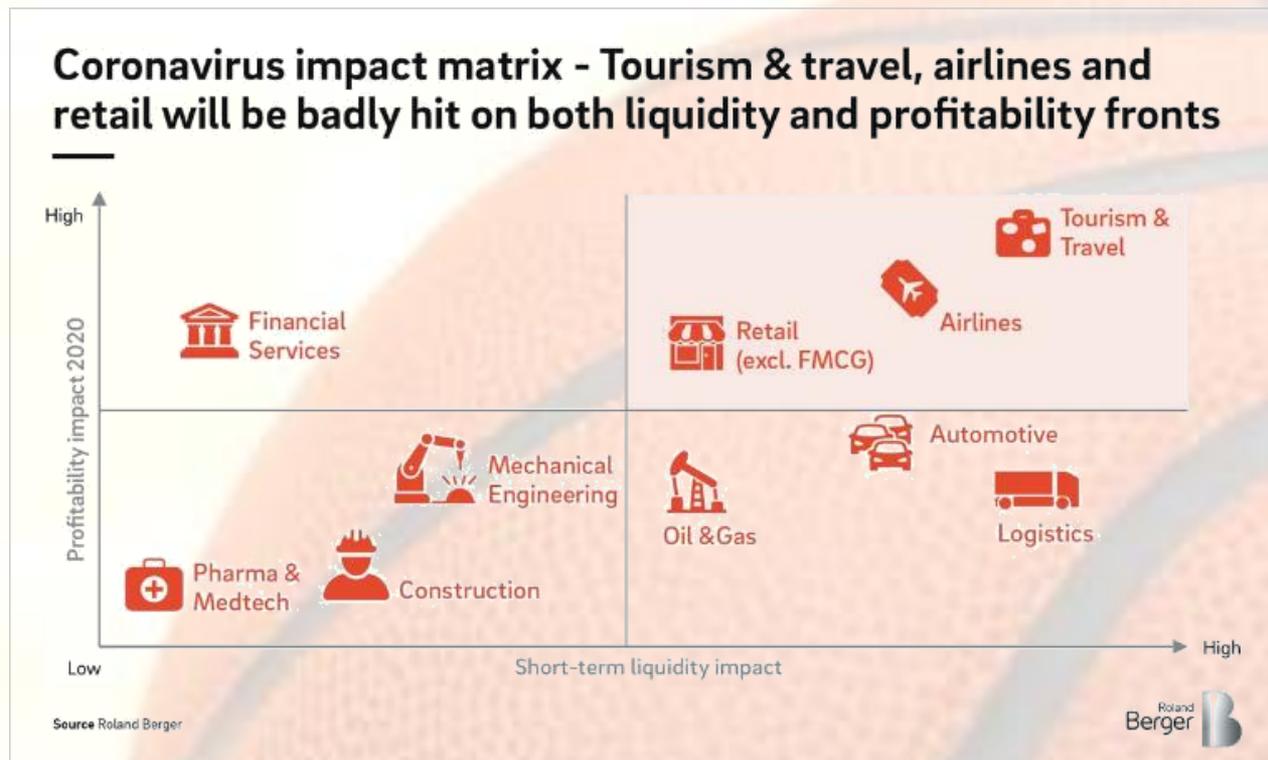
- **Corona Crisis - A Major Disruptive Event**
- **Situation of European Basketball Before Corona**
- **Impact of Corona on European Basketball**
- **Need for a Comprehensive Solution**
- **Future Outlook**

Impact of Corona on European Basketball

- Due to the suspension or cancellation of competitions, clubs have **immediately lost game day revenues** (i.e. ticketing, merchandising, food/beverage sales) and **other game related (commercial) revenues** (i.e. broadcasting, display advertising, betting rights, competition premiums/prize money etc.). Depending on the final decision for suspended leagues, **only a (small) portion or none of these revenues** might be **recovered**.
- It would not be wrong to argue that in general **game day** and **other game related (commercial) revenues** represent a **relatively small share** of total club budgets. However, some serious **liquidity issues** are likely to occur, especially when:
 - **Game day and commercial revenues** represent a **significant income source** for a club and/or
 - A club's **main sponsor and/or shareholder** is **significantly hit** by the immediate financial impacts of the pandemic on the industry it is operating in.
- **Sponsoring and shareholder contributions** are in most of the cases **decisive** as to the further existence of a club. Therefore, the ultimate impact of the pandemic and its magnitude will primarily be dependent on to what extent the club sponsors/shareholders would be suffering from the consequences of the corona pandemic. Therefore, the **primary focus** of the impact analysis in this section is on the **industries** that appear relatively more **vulnerable** as explained on next slides.

Impact of Corona on European Basketball

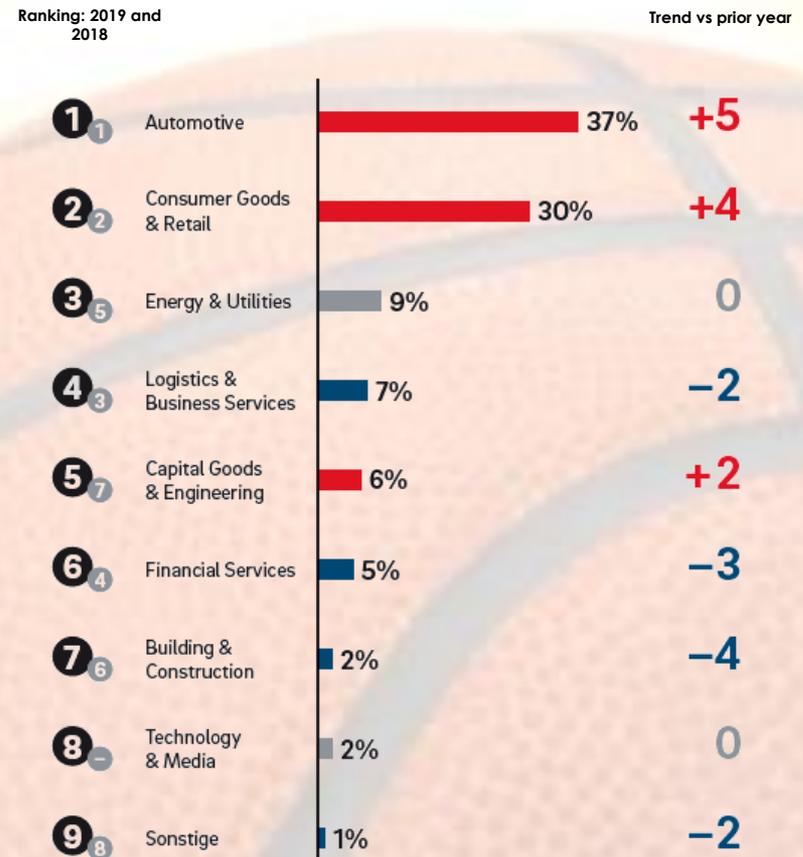
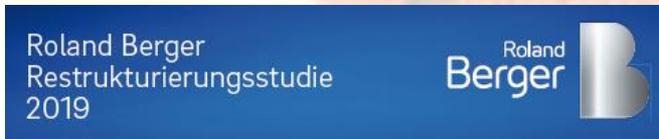
- Below chart provides an overview of some **major industries and the expected impact of the coronavirus pandemic** on their **profitability** (y-axis) and **liquidity** (x-axis). **In addition, following industries** are also expected to bear the significant **adverse consequences** of the coronavirus outbreak: Entertainment incl. sports, restaurants, bars etc., sports betting, education (in-classroom) ...etc.



Source: Roland Berger

Impact of Corona on European Basketball

- As mentioned above, already **before the corona pandemic**, the **global economy** has already been going through some **stress** due to certain macroeconomic factors which was anticipated to lead to a **recession** for many of the leading economies in the world.
- According to a study performed by *Roland Berger*, a leading consulting firm in corporate restructurings, **industries shown in the table on the right** needed to adjust their strategies and/or business models amid significantly and rapidly changing (external) factors. In other words, these industries were expected to have a **major negative economic impact in the near future** and go through a restructuring process **even before the corona pandemic broke out**.



Impact of Corona on European Basketball

- Below table shows the **industries of the main sponsors/jersey sponsors** of all teams competing in the **highest level of basketball competitions in Europe**, i.e. EuroLeague, EuroCup and Champions League. Combining both information sources explained on the two preceding slides, such industries that are likely to be impacted by the corona pandemic are highlighted in red below.

	 BASKETBALL CHAMPIONS LEAGUE	 EuroCup	 TURKISH AIRLINES EuroLeague	Total
Banking/Financial Services	5	5	-	10
Energy	3	3	1	7
Food & Beverage	4	3	-	7
Betting/Lottery	3	1	3	7
Retail	2	2	1	5
Chemicals/Agriculture	2	1	1	4
Telecommunication	3	-	1	4
Automotive	2	1	-	3
Health/Pharmaceutical	-	2	1	3
Hospitality	1	-	1	2
Waste Mngmt/Recycling	1	-	1	2
Transport/Logistics	-	2	-	2
Construction	-	2	-	2
Fashion	-	-	2	2
Other	3	2	4	9
N/A	3	-	2	5
Total	32	24	18	74

Source: EBAG analysis based on information obtained from club and sponsor websites

- Please note that this might **only be indicative of estimated impact**. However, for assessing the **exact impact**, more **clarity** about the future developments is needed taking into account some unique characteristics of decision makers in sports.

Impact of Corona on European Basketball

- While the **impact of corona pandemic** on European basketball is **obvious** and **cannot be disregarded**, as discussed above, in majority of the cases the clubs got caught **off guard** due to certain **structural problems** which have already existed for a long period of time. Thus, in many cases **corona pandemic** will have an **accelerating/fortifying impact** on already existing issues.
- In **mid-/long term** and depending on the actual recovery path, the pandemic can have **more significant impact on club budgets**, most probably leading to **budget reductions** if the recovery is delayed and a **significant increase in overdue payments**.
- Additional macroeconomic factors** in certain economies (such as historically low oil prices and devaluation of certain currencies) are **likely to create sudden shifts and additional headwind** which might lead to additional contraction and financial stress for certain clubs. The **risk of bankruptcy/going out of business** for basketball clubs competing in the **highest competition levels in Europe** might be deemed **low**, whereas the **existence of small/mid-sized clubs** might be at a **significantly higher risk**.
- The **ultimate impact** of corona on European basketball **will directly and heavily depend on how clubs will respond** to it. If club managers choose to **“hide”** behind the corona pandemic and see in it **the one and only root cause** for the crisis of European basketball, then the future of basketball in Europe will not be rosy. Overcoming current challenges requires a way more **holistic approach**.

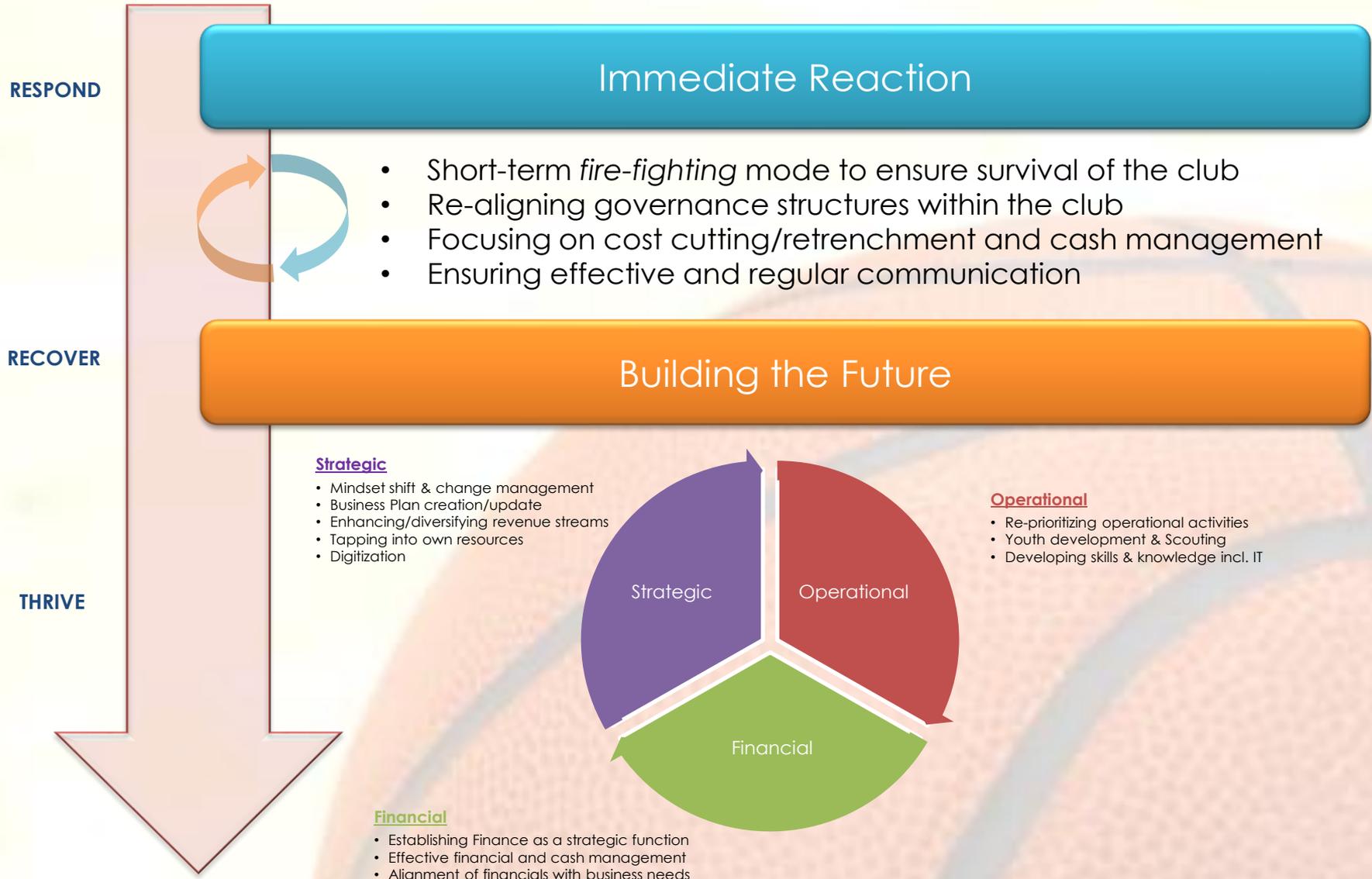
Content

- 🏀 **Corona Crisis - A Major Disruptive Event**
- 🏀 **Situation of European Basketball Before Corona**
- 🏀 **Impact of Corona on European Basketball**
- 🏀 **Need for a Comprehensive Solution**
- 🏀 **Future Outlook**

Need for a Comprehensive Solution

- There is still **uncertainty about the future of European competitions**. Current discussions seem to **circle around two main topics**: (i) **whether or when to resume playing** and (ii) **how much the salary cuts should be for players, coaches, other employees etc.**
- While it is understandable that almost all clubs are concerned about their financial situation, **imposing salary cuts** (or similar short-term actions for *fire-fighting*) should **not be the only measure** that club managers are thinking about implementing.
- Successfully overcoming crises requires a **comprehensive concept** that ensures a timely first-response to **stop the “bleeding”**, a **thorough analysis of root causes**, **measuring the exact impact**, **development of appropriate restructuring measures**, and **effective execution of set plans**.
- Despite all the significant challenges coming along with the corona pandemic, clubs should grasp this situation also as an **opportunity** to do the **right thing**. **Ensuring survival** is currently by far the highest priority. However, any measures aimed at achieving this goal in the short-term must be **well-thought** and be fully **in line with mid- and long-term strategic goals** of the club.
- Below concept can help clubs take a more **holistic approach** in effectively addressing this challenge rather than coming up with **short-sighted solutions** that might work in the short-term **but jeopardize clubs' future**.

Need for a Comprehensive Solution



Need for a Comprehensive Solution

Immediate Reaction

Short-term *fire-fighting* mode to ensure survival of the club:

- Actions aimed at ensuring club's existence should always be the first priority in the initial response phase. Entire focus should primarily be dedicated to performing a quick (economic) impact assessment and developing immediate measures to initially counter against the crisis situation.

Re-aligning governance structures within the club:

- Club's top management including the board members should form a task force with regular touch points and clear agendas as well as action items on a daily basis. Support and involvement from highest management level is key for an efficient and effective *fire-fighting* in this critical phase.

Focusing on cost cutting/retrenchment and cash management:

- Cost cuttings/retrenchment are among the first measures to take in a crisis situation. However, this step should be well-thought and planned. Especially in the case of planned salary cuts, clubs should be well aware of the fact that players and coaches are their most important „assets“ that can also help the club overcome the crisis. As such, constructive negotiations and mutual understanding/consent should be the basis for enforcing possible salary cuts. Furthermore, such critical decisions should always be in full alignment with club's mid-/long-term strategies.

Ensuring effective and regular communication:

- All key stakeholders must be kept up-to-date with regard to club's overall situation, developments observed as well as decisions taken by the club's management.

Need for a Comprehensive Solution

Building the Future

Strategic



Mindset shift & change management:

- Club management should focus on creating added value for each stakeholder rather than taking a passive role and waiting for “donations” or “contributions” from shareholders and/or sponsors which essentially represent loss compensation. Defining, producing, presenting and selling a “product” in the best way possible to the best-matching audience should always be the overarching objective.

Business Plan creation/update:

- A business plan is a written document that describes in detail how an organization is going to achieve its goals. It lays out a written plan from a marketing, financial and operational standpoint. An organization without a business plan is like a ship without a compass. It ensures that club management is always aware of the business context of any sporting goals set for clubs or any decision made.

Enhancing/diversifying revenue streams:

- Developing new ways of generating income, from micro sponsoring, crowd funding, special events, organizations to better and more effective use of social media. Diversifying income sources to minimize club's dependence on a single or small number of sponsors/shareholders.

Tapping into own resources:

- Making more use of own resources and invest more in youth development programs. Focus on talent identification, development and retention, not only for the basketball team but also for the office.

Digitization:

- Fully embracing the digitization initiatives, from social media to e-sports and club operational systems.

Need for a Comprehensive Solution

Building the Future

Operational



Re-prioritizing operational activities:

- Restructuring the club into a more “customer”-oriented organization by further elevating sales and marketing functions. Ensure operational effectiveness by a proper (re-)allocation of resources to more strategically important and relevant areas.

Youth development & Scouting:

- Going back to the roots and elevating player development and talent identification (incl. for the professional team via effective scouting) to one of the absolute highest strategic priorities of the clubs. By doing so, achieving multiple key objectives in terms of financial stability (i.e. lower player salaries and fees for players' agents), and increasing popularity of basketball (i.e. access to basketball via grass root programs being one of the most important ways of increasing popularity).

Developing key skills & knowledge incl. IT:

- (Basketball) world is getting more and more complex. To be able tackle today's challenges, certain skills are required. Club management and office personnel should be very keen on developing their knowledge and expertise. New generation of managers and employees should be given more and more opportunities to join the clubs (also on voluntary basis) to ensure a smooth transition and a strong bench of skilled managers and employees for the future.

Need for a Comprehensive Solution

Building the Future

Finance



● **Establishing Finance as a strategic function:**

- Financial management should not be reduced to “bookkeeping” and “creation of a budget at the beginning of the season”. It should rather be positioned as a strategic partner to the club management providing key support on developing the right strategy, finding alternative revenue sources, assessing their profitability as well as future growth potential.

● **Effective financial and cash management:**

- Club's budget should have a direct impact (as an important constraint) on defining season goals from a sporting perspective. This requires deploying certain tools and techniques such as scenario planning and different budgeting methods. The main rule should always be “do not spend more than you can earn”. It sounds easy but it requires a systematic effort and use of expertise in financial management. Do not forget that having budget overruns have nothing to do with the size of the budget but rather with (lack of) budget discipline!

● **Alignment of financials with business needs:**

- Clubs should prepare financial statements (balance sheet and income statement at a minimum) on a regular basis. Strategic decisions and strong execution are required to align club's financials (based on the financial statements prepared) with its business needs, and vice versa.

Need for a Comprehensive Solution

Possible Pushbacks and Reluctance from Club Managers:

“We don't have budget for this!”

- Vast majority of the items/ideas presented here do not require a big budget, nor would they lead to an overspend. Instead, key message here is about the necessity (even the urgency) to change the mindset and *doing the right thing*.

“We don't have the required knowledge/expertise!”

- In today's world it is very easy to reach to knowledge or at least find people who have that expertise and required skill set. In that context, do not underestimate the power of sports (particularly basketball) to fascinate and motivate people. You can engage and mobilize skilled and talented people not necessarily with money, but rather by addressing their enthusiasm and passion for sport.

“We already know all of this, nothing new!”

- With all due respect, knowing is not the same as executing. If you believe that you know all the details and have the necessary skill set, you should start applying them ASAP. Otherwise, it would be a huge waste of resources!

“This is all nice but the reality in our country is totally different!”

- While business practices may indeed vary by country, main principles do apply in all circumstances. Even if the majority of clubs may not be following these, it does not mean that they are doing the right thing. You can set the right example and start applying the correct rules. By doing so, you will start positioning your club for a way more secure and successful future.

Content

- 🏀 **Corona Crisis - A Major Disruptive Event**
- 🏀 **Situation of European Basketball Before Corona**
- 🏀 **Impact of Corona on European Basketball**
- 🏀 **Need for a Comprehensive Solution**
- 🏀 **Future Outlook**

Future Outlook

- As of today, it is still **not clear** when the corona crisis **will be over** and what the **exact consequences** will be. What is certain though is the fact that many things in our lives have already changed and will most likely **continue to change** in the future. Many behaviors and/or actions that were deemed strange and unsocial might become the new normal. **Similar epidemics/pandemics** might arise more often in the future.
- All these **changes** will most likely have a **significant impact** on how **professional sports** will be “produced” and “consumed” in the future, too. It is also very likely that these challenges **could not be tackled with methods** that were applied in the **past**, but rather will **require new and smarter solutions**.
- Effective financial management** and **operating on a self-sustaining model** will become more important than ever, as companies’ budgets will get tighter due to even **higher pressure on results** (in the short run triggered by the corona crisis) and it will get more **difficult to find sponsors and/or shareholders** who keep **“injecting” money** into basketball **without having any expectations** with regard to return in investment (in financial terms).
- If clubs and other stakeholders **do not take necessary measures** and **adapt**, they will **not be able to survive** in the future. **Basketball managers** should get more **agile, versatile** and **knowledgeable** to be able to address future challenges of European basketball. This document is meant to make a small contribution to this (obligatory) change process.



EUROPEAN BASKETBALL **ADVISORY GROUP**

www.eb-advisorygroup.org