

Financing a basketball club in Poland – the case of Twarde Pierniki S.A.

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Abstract:

The aim of the article is to investigate the determinants of financing a basketball club in Poland on the case of Twarde Pierniki S.A. The article presents the structure of the club's revenues and expenditures, indicates the importance of financing from the key sponsors and analyses the challenges of self-financing of the club (e.g. maximizing the revenues from organizing the games). We observe that an increase in financing by the local government and the commercial sponsors positively influence the sport results of the main men's team, and, on the other hand, that the successful sport performance helps to increase the involvement of supporters and sponsors. The trigger year in the development of Twarde Pierniki S.A. was 2014, when the club managed to obtain more financing from the City of Toruń and Krajowa Spółka Cukrowa S.A. company, and also the team started playing in a newly built modern sport hall. Our investigation led us to identify the key barrier associated with the financing of the club (not only Twarde Pierniki S.A., but also other basketball clubs in Poland), i.e. the lack of the essential source of revenues – sales of broadcasting rights to the TV operators. Basketball is gaining popularity in Poland, but it is still not popular enough to convince TV operators to broadcast all the games. It seems that without overcoming this limitation the club will find it hard to achieve substantial increase in financing and the team will not be able to compete successfully in Euroleague games. Our study is based on financial data about the expenditures and revenues made available by the management of the club as well as on interviews with the Organizational Manager and the Marketing Manager, who directly and indirectly shape financial situation of the club.

Key Words: sport club, sport financing, sport sponsoring, basketball.

Introduction

Modern sport is becoming more and more commercialized. Sport clubs are forced to adapt to the needs of market economy and use a variety of sources to finance their development. Clubs have to be increasingly aware of the new trends in the social and economic environments, identify the stakeholders and deliver value for them, as it is already the case in other industries (Breitbarth & Harris, 2008) and (Miragaia et al., 2013). Building strong, long-term relations with the key stakeholders seems to be essential for improvement of the club's performance.

A sport club has a distinguished set of stakeholders: supporters of the team, players, employees of the club, volunteers, sponsors, media, local governments, local societies, educational institutions, addressees of the sponsors' advertisements, other clubs, and the authorities of the league. On the one hand, the team supporters, their attendance during the games, their loyalty, also in times when the team is not winning, are very important. On the other hand, the role of the sponsors or media is vital, as they contribute substantially to the financing of the club and its facilities, and, eventually, they help to create an even better team. The supporters expect outstanding sport results, while commercial sponsors expect return on the capital they delivered and the club owners expect profits. In the given circumstances these expectations can be contradictory. Some researchers even argue that a sport club faces a trade-off between winning of the team and maximization of profits of the club (Fort, 2015), e.g. selling one of the top players can improve the financial position of the club, but it will probably negatively affect the performance of the team. Another puzzle arises from the fact that commercialisation of the club's activities, which supports its prosperity, can carry a risk of alienating supporters (Abosag et al., 2012). This risk results from the fact that the supporters do not like to think of their club as being ruled by commercialism and being reduced to nothing more than a brand. This is due to the extremely close relationship that the fans have with their team and club.

Twarde Pierniki S.A. is a basketball club based in Toruń, Poland. It was created in 2004 as a new sport initiative under the name of MMKS Pierniki Toruń. During the first 13 years of the club's existence the main men's team managed to improve its position from a beginner in the third league to the second-best basketball team in Poland. This spectacular success would not be possible without adequate financing of the club's activities. The article investigates the sources of finance of the club and its efforts to secure financial stability and continuous improvement of team's and club's performance.

Material & methods

The study is based on financial data from the club as well as on interviews with the Organizational Manager and the Marketing Manager of the club. These two persons are mainly responsible for the financial situation in the club. In particular, the Marketing Manager seeks new sponsorship opportunities, maintains relations with the current sponsors, and maximizes revenues from other sources, e.g. broadcasting fees and ticket sales, while the Organizational Manager is responsible for the general situation in the club, not only for the revenues, but also for the club's expenditures, e.g. on players and investments.

The Marketing Manager has been asked questions about the strengths, weaknesses, opportunities and threats of the club, success factors, the impact of marketing activities on the club's performance, the interdependence of the club's and the team's performance, managing relations with the sponsors and other stakeholders, and the prospects for the future. The interview with the Organizational Manager focused on the following issues: the way particular operations determine the performance of the club and the team, the key challenges the club is facing, strengths and weaknesses of the club, the success factors of the club's development, the importance of the new facility, the club's budget.

Results and discussion

At the very beginning, in 2004, the club owned only a senior men's team playing in the third league in Kujawsko-Pomorskie region in Poland. In the following year a new sponsor – the SIDEn company, got involved in the club and, thanks to extra financing, the team managed to qualify to the second league, where it had been performing until 2011. In 2010/2011 season, a new strategic partner of the club emerged, Krajowa Spółka Cukrowa S.A., and in the same season the team qualified to the first league. From this time the team has been performing under the name of SIDEn Polski Cukier. It is important to note that the team has its own name as well as the club does. The name of the team under which it performs in the league, Polski Cukier Toruń, is determined by the sponsorship agreement with the strategic sponsor – Krajowa Spółka Cukrowa S.A. (Polski Cukier – Polish Sugar – is a brand name of the products of this company).

The name of the club under which it is registered, Twarde Pierniki S.A., is more connected to operational and marketing activities concerning all senior and youth teams. In 2014 Krajowa Spółka Cukrowa S.A. became the main sponsor and under a new name – Polski Cukier Toruń – the team qualified to the highest Polish professional men's basketball league. In the same year the team started playing in a newly build modern sport hall – Arena Toruń. Since then the sport results have been improving further – Polski Cukier Toruń achieved the 9th place in the extra league in 2015 and the 5th place in 2016. This trend continued in the period 2017-2019 when the team was highly successful ending all seasons with medals: silver, bronze, and then silver again. In 2019 Polski Cukier Toruń was very close to winning the championship, eventually losing 4:3 to Anwil Włocławek in play-off games.

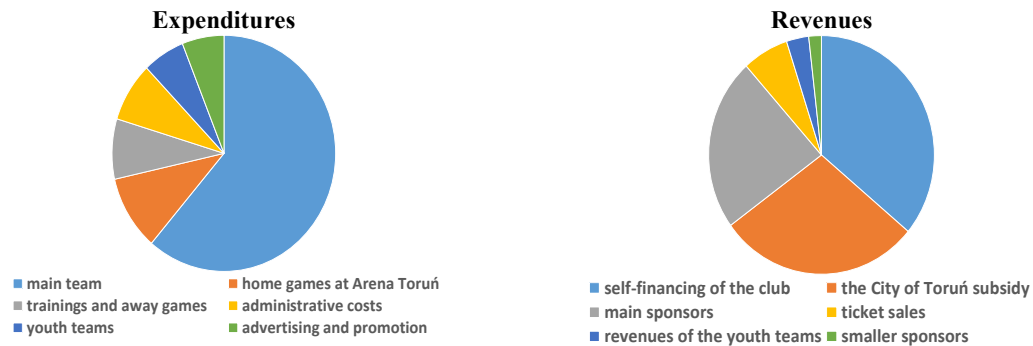
According to the opinion of the Organizational Manager the change of the facility from 2014 has been the most important element of the club's development. The Arena Toruń is one of the most modern facilities of this type in Poland. It has a capacity of 5804 places including seats for disabled and it is family and media friendly. One of the distinctive features of the new hall is that the supporters can bring their children with them, as there is a special area for children there.

The new facility not only helped the team to train on the professional court and improve its performance, but also influenced the marketing activities by expanding the scope of operations and increasing the attendance significantly. This opinion of the Organizational Manager supports the notion from the literature that a facility is an essential resource of a sport club and it influences the quality of a game-day experience significantly (Covell & Walker, 2013).

The team's sport success has been closely related to the club's financial situation. The structure of Twarde Pierniki's budget is typical for a Polish basketball club. The key contributors to its funding are: the owner of the club – Maciej Wiśniewski, the City of Toruń and the sponsor companies. In 2016/2017 season, more than half of the budget of over 5.5 million zloty was financed by the local government and the sponsors. Ticket sales accounted for less than 7% of total revenues. In comparison with the top European and American clubs budgets one essential position on the revenues side of Twarde Pierniki's budget is missing – an income from selling broadcasting rights to the TV operators.

Due to still relatively small popularity of basketball in Poland, TV stations interest in broadcasting the Polish basketball league games is rather limited. One disadvantage which results from this fact is a lack of long-term financial stability. The club has only one long-term contract – the one with the local government, based on the act of the City Council. This contract only covers 1/3 of its financial needs.

The rest of the sponsorship agreements are negotiated each year after the end of the season. In these circumstances the club has to secure its financial position mainly through reaching as many potential commercial sponsors as possible and through diversification of the sources of capital. According to research, diversification of the sources of funding could be a good strategy for maintaining financial stability of a sport club (Cordery & Baskerville, 2013) and (Wickeret al., 2015).



Expenditures		Revenues	
all amounts in thousands Polish zloty			
Main team expenses	3,450	Self-financing of the club	2,000
Home games at Arena Toruń	580	The City of Toruń subsidy	1,600
Trainings and away games	465	Main sponsors	1,300
Administrative costs	458	Ticket sales	365
Youth teams	345	Revenues from youth teams	179
Advertising and promotion	340	Smaller sponsors	100

Source: own elaboration based on Twarde Pierniki S.A. data.

Fig. 1. The structure of expenditures and revenues in Twarde Pierniki club's budget in the season 2016/2017

On the expenditures side the most significant position is players' salaries and other main team expenses – they account for more than 60% of the budget. In the season 2016/2017 the planned budget was exceeded by more than one million because of the extra expenses on a new player from Senegal (Cheikha Mbodja) as well as some extra organizational costs associated with playing in the league finals. Player's salaries will have to remain the main position of expenditures if the team is determined to reach the finals in next seasons. Although Peter Sloane - the European father of sports economics, once noted that the acquisition of star players does not translate into team success with certainty (Buraimo et al., 2015), in the case of Toruń's club, attracting new players from foreign leagues proved to be very effective and directly resulted in an improvement of the team's performance.

It has to be noted that the budgets of the top Polish basketball clubs of approximately 5-6 million Polish zloty (about 1.2-1.4 million euro at the 2019 exchange rate) are very small comparing to those of the top European clubs, not to mention the NBA clubs. FC Barcelona, CSKA Moscow, Real Madrid all have budgets reaching 40 million euro (Askounis, 2019). Even budgets of some Eastern European clubs, like Lithuanian Zalgiris Kaunas (11.9 million euro) or Serbian Crvena Zvezda (8.3 million euro) are significantly higher than that of Twarde Pierniki. Limited budget is the main reason why Polish basketball teams find it very hard to compete in the Euroleague games. It is common that in basketball clubs most of the budget is spent on team's salaries, and having a small budget, a club is not able to attract top players. Twarde Pierniki can offer its players only a fraction (as low as 5% or 10%) of what the top European clubs offer. The best performing foreign clubs finance more than half of their budgets by selling broadcasting rights to TV operators. This is not possible yet in case of Twarde Pierniki. According to the Organizational Manager and the Marketing Manager the club and the league have not yet achieved the level when they are able to sell the rights to the media. The interest of the public is still not sufficient to convince TV operators to purchase broadcasting rights. Some hope comes from the present global trend – the growth of consumption of sport (Beech & Chadwick, 2013). Wojczyński (2020) argues that the club at the present stage of its development has three alternatives to substantially increase the budget: to find a new key sponsor, to convince current sponsors to increase funding, or to sell one/some of the players. Obtaining more funding from the local government is not going to be easy, because of the high level of indebtedness of the City of Toruń. During the interview the Organizational Manager admitted that one of the main goals of the club is to increase the revenues through commercial sponsorship. He pointed out the benefits for the potential and current sponsors from the co-operation with the club: building the market position and the market value, positively influencing the image of the brand of the sponsor and presentation of the logo type in various places as well as on-line. The study by Grohs, Wagner & Vsetecka (2004) confirms the notion that the main reasons why companies engage in sport are improving recognisability of the sponsor and the transfer of image from the sponsored event to the sponsor.

Twarde Pierniki S.A. maintains cooperation with several dozens of sponsors of different sizes. Naturally the sponsors are interested in publicity. This is why the club cooperates with a wide range of media organizations: Przegląd Sportowy (the sport magazine), websites dedicated to basketball in Poland: PLK and Polski Kosz, other popular websites such as: onet.pl, wp.pl, interia.pl and sport.wp, the Third Program of Polish Radio, local TV Toruń, local newspaper „Nowości”, which has a daily circulation from 20 to 22 thousand, and Radio Gra – the most popular local radio station with 23,6% coverage. Looking at Twarde Pierniki S.A. and the

role of TV in their promotional activities the management highlights that the local society is the main addressee. Current sponsors do not insist on being on the national TV, they want to be promoted locally. Therefore, the cooperation with TV Toruń is perceived as one of the priorities.

The Marketing Manager has identified the following goals for sponsor relations managements and for the future financing of the club:

- diversification of advertisers/sponsors and introduction of a new model of sponsorship, as an attempt to oppose the law of Pareto 80/20, which says that 80% of income comes from 20% of sponsors,
- gaining four titular sponsors (now there are two) – creating a strategy of the club’s development with a transparent idea of sport sponsorship, examination of the needs and preferences of the cooperating local authorities and the companies and tailoring the offer to their expectations,
- securing financial stability from the sponsors for a longer period by signing contracts for at least 3 years with the key sponsors and for at least a year with the small sponsors,
- creating more value added for sponsors by cooperation with other clubs in order to expand the marketing offer in other parts of Poland,
- change of the business model from strictly sport organisation to a company resembling a marketing agency,
- local promotion of the players, the training staff, the cheerleader group and the club’s mascot in order to increase the club’s recognisability.

The sponsors of sport clubs can be divided into two groups: commercial and philanthropic. According to the study by Demir & Söderman (2015) there is a growing potential in the philanthropic sponsorship. The above goals indicated by the Marketing Manager show that the financing strategy of the club will rely heavily on attracting commercial sponsors. The club should not ignore other potential sources of revenues, such as philanthropic sponsorship. The Organisation Manager mentioned financial transparency of the club as an important factor influencing relations with sponsors. Each year the club conducts an audit to present the potential and current stakeholders that they are investing in the club they can trust. The manager stresses that the club does not have any debts, which could stop it from further development.

Even though the ticket sales are a minor position of the budget and its share is not going to change significantly in the nearest future, the club makes an effort to maximize the revenues from the games. The key variables which are important in this segment of income are: the attendance – the average number of spectators per game, and the average revenue from one attendee. The attendance during Polski Cukier Toruń games is excellent – in 2017 the club managed to attract the third highest number of spectators in the league – 2500 persons per game on average. A record-breaking attendance in the game – 4011 spectators – was noted in Toruń during the semi-finals game between Polski Cukier Toruń and Energa Czarni Słupsk (Wasiek, 2017). The revenue from an average spectator is something that needs to be improved. The spectators in Poland are used to going to the games only for watching the game itself and they usually do not attend the full event. As Marketing Manager says, the club is trying to convince the spectators to come to the game even one hour earlier to enjoy additional attractions, e.g. a competition of throwing a ball from the middle of the court, some physical activities, checking health parameters, education quizzes for children, lotteries, etc. The aim of those extra activities is not only the maximization of revenues from an average fan. They create a nice memory of the whole event and this is what attracts even more supporters to the sport games (Brady et al., 2008).

When it comes the games-related revenues of the club the Marketing Manager points out the key challenges:

- attracting more ‘family fans’ by offering special activities for children in children zone during the games,
- gaining fans who lead active lifestyles by organising mass sport events, for instance running, cycling or Nordic walking competitions for local inhabitants,
- gaining VIP fans (they are also potential sponsors) by creating VIP zone, where special guests can be invited,
- gaining young fans, employees and volunteers by offering internships for students,
- further increasing the value of the games for current fans by developing attractions before and after the games,
- strengthening the relations with fans beyond the games by inviting them to the decision-making process, e.g. voting for the motto for a new season, organising competitions with prizes in social media, organising opinion polls about selected issues important to the club’s operations,
- integration of current fans by organizing meetings with team members, helping the fan club, organization of trips to the games played away, organising co-operation among fans in supporting the team during the games, awarding prizes to the most engaged fans.

One disadvantage of Twarde Pierniki club when it comes to attendance results from the fact that the club is not the owner of the Arena Toruń. The owner of the hall – Toruńska Infrastruktura Sportowa (Toruń’s Sport Infrastructure), organises many other events at the facility. The Organisational Manager says that: ‘The PLK (Polish Basketball League) gives the schedule of the games quite late so the club is in a bad situation, as the facility is already booked for some weekends when the team could play. Other teams playing in the hall get their schedules earlier so the club needs to adjust.’ The Marketing Manager adds: ‘A game on Friday gives us about three thousand spectators, while a game on Tuesday, against a team at the foot of the league table, a half of this number. Also, in a month when we have three games, we need to understand that people cannot afford to attend all events. Consequently, we noticed that the schedule has a huge influence on ticket sales.’

Conclusions

Twarde Pierniki S.A. club and Polski Cukier Toruń team both have been very successful during the latest decade. The turning point in the club's development was the year 2014 when the club managed to obtain increased financing from the City of Toruń and from the key commercial sponsor – Krajowa Spółka Cukrowa S.A., and the team started playing in a newly built Arena Toruń. Undoubtedly, these factors played the key role in the club's outstanding performance.

Our analysis has shown that in Poland the most effective way of generating outstanding sport results of the basketball team and securing financial stability of the club is by finding strategic sponsors and by the diversification of the sources of revenues. Higher income from cooperating companies makes it possible to "purchase" better players and further improve the performance of the team. And better sport results will bring more supporters to the game and more publicity to the club, what will attract even more sponsors in the next seasons. This is a feedback loop which helped the Twarde Pierniki club to develop step by step. In the long term the key challenge for the club is to increase the interest in basketball, not only regionally, but on a national level. It is important that the team competes in a professional league and the games attract new fans to all competing clubs. Only this way it will be possible to gain substantial funding from selling national TV broadcasting rights – the financing source that is virtually non-existent at this stage of development of the Polish basketball league.

Conflicts of interest – The authors declare that there is no potential conflicts of interest with respect to the research, authorship, and publication of this article.

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