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## **The approach of the host cities to the issue of managing the stadiums following Euro 2012**

### **Introduction**

Until recently, most mega sports events were held by wealthy industrialised countries. Because of the high costs involved in the preparation of such projects, insufficiently developed sports and other infrastructure and the absence of appropriate legal basis, hosting such events was beyond the reach of developing countries. The beginning of the 21st century brought significant changes in this respect. On the one hand, countries with relatively weaker economies, aware of the benefits involved, submitted their bids more readily. On the other hand, institutions responsible for the selection of the host country began to promote less wealthy countries or those in the process of economic transformation, in order to provide a stimulus for development. Within less than a decade there have been a number of examples of sporting event hosts that confirmed the current trend, such as: Euro 2004 in Portugal, 2008 Olympic Games in Beijing, the decision concerning the staging of the FIFA World Cup in 2010 or, finally, Euro 2012 in Poland and Ukraine.

The different approaches to stadium management adopted by the individual cities have been presented in this paper. In this respect particular importance was attached to the sources of income that will enable maintenance of these venues and pay off the enormous debt incurred by the cities in connection with their preparation.

### **How to manage stadiums in the follow-up period**

The time of true test for the host cities came after the tournament finals ended. Management of huge facilities generating high maintenance costs is not an easy task. The hosts of earlier events of the type have already learnt the fact. Let us take Portugal, the host of the Euro 2004, for an example. The cities which had financed the construction of the stadiums from the public funds experienced

grave problems with retaining their profitability after the Championships. The problem grew to such scale that the government of Portugal put forward the idea of pulling down some of the stadiums, the generators of the highest costs, so as to reduce the budget expenditure [Zawadzki, 2010, p. 176].

Building the stadium business plan begins with selecting the operator to be in charge of commercialising the facility. The track record of the operation of the Euro 2012 dedicated facilities, though still short, shows that effective management of sports arenas is not easy. This is evidenced by the rapid succession of stadium operators in Gdańsk and Wrocław, as well as several dismissals of successive Presidents of the National Sport Centre (NCS) – the company acting on behalf and in the name of the State Treasury and responsible for execution of the tasks related to the construction of the National Stadium in Warsaw and unofficially its operator up to almost the end of the year 2012. Since 2013, the function has been taken over by PL 2012 +.

The fact symptomatic of Gdańsk and Wrocław is that the cities have resigned from cooperation with private investors giving preference to municipal companies. This is contrary to the trends observed in the United States or Western Europe, where sport facilities of that scale end up almost exclusively in private hands, typically specialised companies or sports clubs. Both Gdańsk and Wrocław made their decisions facing ineffective management of the facilities by Lechia Operator and the American SMG, respectively.

Poznań decided to entrust the management of the stadium to the consortium formed by Lech Poznań SA and Marcelin Management. At the moment, it is difficult to say which concept of the operator selection will prove best in the Polish reality. A comprehensive strategy to rule the use of the facilities is only in development. Nevertheless, one can identify the catalogue of the sources of income the operators put hope for. The options are connected with sports and non-sport activities, as well as funds from sponsors.

### **Sport events as a source of current financing of the stadiums**

The prime source of financing is seen as organisation of sports events, football matches in particular. Except for the National Stadium, the other three arenas have been out at the use of football clubs. The fact indicates that in spite of the multifunctionality of the facilities, the funds earned from the fans are assumed to remain the regular and important source of income. In practice,

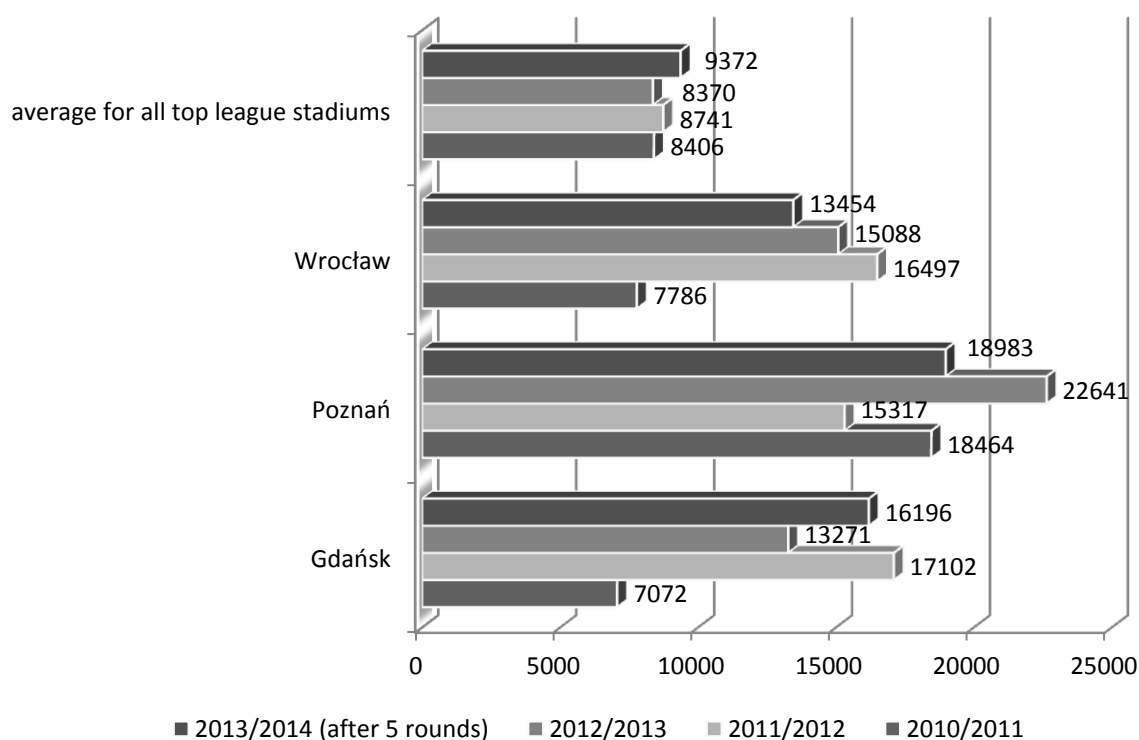
football clubs transmit contractually specified amounts to the operators, thus becoming a peculiar intermediary between the fans and the operator. Out of the analysed clubs, Lech Poznań is the only one to have disclosed the fee paid. The charge is made up of two components: the fixed amount of PLN 3.1 million a year, and the variable portion calculated as 7.5 percent of the income generated on match days. The two components in aggregate add up to the total fee of ca. PLN 4 million per year.

The National Stadium finds itself in the worst position, as it cannot count on support from any football club. The use of the arena for cup tournament matches may also pose a problem because of the tough safety requirements. The only hope for using the stadium to its designation lies in matches of the national representation. After the Euro 2012, the Prime Minister, Mr Donald Tusk, himself said he was pondering a legislative solution to the issue. The view has found support from Zbigniew Boniek, the newly appointed President of Polish Football Association (PZPN), who believes that all score-bearing matches of the national team should be played in the Warsaw arena.

In the case of the other stadiums, relying on funds from football clubs carries a serious risk of insufficient attendance at league matches. The UEFA requirements as to the stadium capacities do not correspond with the actual demand, which is many times lower. Figure 4.2 below shows the average attendance at Lechia's Extraclass matches in Gdańsk, Lech's matches in Poznań, and Śląsk's matches in Wrocław over the last three seasons. The results were compared against the average turnout for all clubs in the individual seasons.

The rapid increase in the attendance at Lechia's and Śląsk's stadiums in the season of 2011/12 compared to the 2010/11 figures was due to nothing else but their moving to the new facilities. Consequently, one can assume that the new location has pertained to an increase in the number of fans by ca. 7–10 thousand. Comparison with the average shows that the figures are satisfactory as for the Polish league, yet the observed increase results in attaining the use of 1/3 of the stadium capacity at best (of 1/2 in Poznań). Another alarming symptom may be seen in the fact that the increase observed for individual arenas is unsteady over the subsequent seasons. In the case of PGE Arena the peak attendance was reached at Lechia's league match with Cracovia in August 2011. The number of fans in the audience has never gone so high since then and in the 2012/13 season

the average attendance was lower by 3831 (22.4 per cent) than in the 2011/12 season. In Wrocław, the decrease in turnout at Śląsk matches is not so dramatic, but still substantial, amounting to 1409 people (8.54 per cent). In the same period the average for all stadiums also fell, but only by 371 fans (4.2 per cent).



**Figure 2.** Attendance at stadium in the Euro 2012 host cities

Source: The author's own study based on the data provided by the Ekstraklasa S.A. company.

The phenomenon can be partially attributed to the so-called *honeymoon effect* describing the situation where a newly opened facility initially attracts accidental spectators. The latter, not counting among zealous sport fans, come to see the new facility itself rather than to enjoy the event. Another problem that still haunts the Polish arenas is safety. The connotations with football stadiums are frequently negative in Poland, and football fans are often equated with hooligans and criminals. The image obviously discourages potential visits at football arenas. Alas, the new Polish stadiums have not stimulated a quality of fan behaviour in Poland. Any improvement in this respect requires determined action and broadly scoped cooperation between all football clubs, the Ekstraklasa SA sport company, and the Polish Football Association. The intention to secure safety sometimes translates to absurd requirements. The

stadium capacity offered to spectators at the league matches in Poland can serve as an example. It varies almost from match to match depending on the expected number of guest fans and the degree of risk assessed by the Police. In extreme cases the buffer zones separating the fans of individual football teams consume as many as 7–8 thousand seats.

Beyond any doubt, the future profitability of the new facilities will highly depend on participation of the football teams in the European tournaments, since this would intensify the frequency of the matches held, and boost interest in spectators wishing to see the famous footballers live. This, in turn, carries the need to build strong football club teams in the Euro 2012 host cities. The support given by the city authorities to the initiatives aimed at developing such teams is a factor that should not be underestimated. The above then implies that future use of the arenas for strictly sport-related purposes depends on the development of close cooperation between the clubs, sports organisations, and local authorities.

### **Non-sport sources of financing the stadiums**

Even if the fundamental condition of having a strong football club is met, other ways of generating income, not necessarily related to sport, should also be envisaged as early as in the concept-development phase. Multifunctionality of the erected facilities offers a plausible solution to the issue. Multifunctional arenas can be swiftly transformed from football grounds to a track and field stadium or concert hall. Poland resorts to the experience of other countries in this respect. The new facilities erected are intended to serve different functions, non-sport included. The plans envisage the arrangement of shopping and congress centres, cinema halls, recreational facilities etc. to attract people other than football fans. A rather unusual source of income of non-sport origin generated on all Euro 2012 areas are guided tours thereof. On an event day the car parks around the stadiums are tolled. Frequently too, opportunities to let the facilities out to companies for their business events are taken advantage of.

Gdańsk PGE Arena can serve as a good example of using the stadium to non-sport purposes. The city authorities had sought the answer to the question on the possible ways of managing a modern sports facility effectively long before the arena was handed over for operation. In search for solutions, they invited

operators administering large stadiums in Western Europe. It was assumed from the very start that the facility would also be used for non-sport purposes, music concerts in particular. Additional income is planned from the lease of VIP boxes and seats, and commercial space for shops, pubs and restaurants. Further plans envisage opening one of the Tri-City's largest fitness clubs on the stadium estate, a fan shop museum of the Lechia Gdańsk club, a sports shop, and a centre of entertainment. A professional rollerblade track planned to encircle in the arena is intended to provide an extra attraction.

The concept of using the Wrocław arena is somewhat different. The Wrocław 2012 company anticipates that the prime income-maximising components will consist in the sale of stadium-offered products through the lease of 10 000 m<sup>2</sup> of commercial floor. The tenants are free to develop the leased space in any desired way. The added value offered here is the facility's excellent location enabling quick access to it from all major quarters of the city and from abroad: Czech Republic and Germany. This is due to the site's vicinity on the Wrocław Motorway Ring Road. A major opportunity stems from the option of letting out the business club, i.e. the largest luxury banquet hall in this part of Poland, the especially fitted exclusive boxes perfectly suitable for holding birthday or wedding parties, or the conference centre. The operators see yet another valuable source of income in the modern Data Centre, the server room of which is fitted in the stands. The room is targeted to hold the servers of banks and insurance companies, protected and monitored, equipped with air conditioning and a special gas fire extinguishing installation. The Wrocław stadium is the only area in Poland which has more than half of its business boxes sold as early as in the initial stage of its operation. The operator emphasises that the lease of commercial space should be much more lucrative than, say, organisation of mass cultural events. Therefore, the lease of the facility for cultural events is ranked as a less significant source of income.

The situation in the case of the Poznań stadium is similar. The operator is unwilling to hold non-sport mass events because of their sizable costs, uncertainty of income, and no sponsors or city's support in this respect. The solution adopted in Poznań, unique in the national scale, consists in the engagement of the local community of the neighbouring districts in making the

decision on the way the nearest vicinities of the stadium are to be developed. The issue was publicly consulted twice in the year 2012.

To complement the picture let us mention that the National Stadium offers a hall capable to accommodate two thousand people for the future conference centre, eight thousand square meters of office space, and floor designed for shops and restaurants. At the time of the European Championship the space served the tournament housing e.g. a huge media centre. The estate is also to be complemented with a fitness club. NCS, in its function of the site operator, focuses on large concert events, even though it sees conference space, much in demand, as the main source of income.

Concluding from the above, the concepts cherished by the operators of all four facilities are relatively similar. The prime source of income is seen to come from the lease of floor for non-sport purposes, and lease of commercial space.

However, in addition to the aforementioned, there are other commonly employed methods of income generation. The individual cities place their hope with the so-called Tax Increment Financing (TIF). The application of this source is connected with the expected future increase in the value of property in the neighbourhood of the venue. As a result, the municipality may count on an increase of the property tax base, translating into higher tax receipts for the budget. Thus, the land assigned as the project site is situated in less developed districts of the city, where property prices are relatively low and therefore more likely to increase, to the local government's benefit.

PGE Arena in Gdańsk is a good example in this context. The stadium was built in Letnica – a poor district, where property prices were among the lowest in the whole city. The presence of the stadium significantly increased the value of the surrounding areas, which has already translated into increased charges for perpetual usufruct of land.

### **Sponsoring as a modern form of financing sports facilities**

The third and last source of generating income, available to sport stadiums comes down to winning over sponsors, including the titular sponsor to whom the naming rights are granted. Name sponsoring in Europe has a relatively short history, as it evolved into a larger scale phenomenon only in the late 20. century. Still, this form of financing has won supporters relatively quickly, and today is



represented by the stadiums prepared for the World Football Championship 2006 in Germany, i.e.: the Allianz Arena in Munich, Commerzbank Arena in Frankfurt, AOL Arena in Hamburg, Veltins Arena in Gelsenkirchen, Signal Iduna Park in Dortmund, and the AWD Arena in Hanover. The Allianz group alone paid EUR 110 million for having the Munich stadium bear its corporate name for 30 years.

The development of name sponsoring in Poland has until recently only applied to clubs, league games, or events of lesser status. Sponsoring sports facilities comes as a new trend that has gained momentum with the construction of the Euro 2012 stadiums. PGE Arena in Gdańsk can serve as a good example. In December 2009 the competition for its titular sponsor was resolved. The power generators and distributors, Polska Grupa Energetyczna SA, will pay PLN 35 million for the right over the years 2010–2014. The terms of contract stipulate that the new sponsor enjoys the right to make use of the image and name of the stadium and use the facility under the granted advertising and commercial rights package. Since the annual operating costs of PGE Arena are estimated at PLN 12 million, the sponsorship means that at least 60% of the funds to cover the costs will come from the sale of the rights to the name alone.

In addition to the title sponsor, the stadium in Gdańsk has had a so-called technology partner since 2010. It is a company named TRIAS, which agreed to pay PLN 300 000 per year for the privilege of using the stadium's image in the promotion of its business.

In 2013, Poznań became the next city to have found a title sponsor. The largest alternative telecom operator in the Wielkopolska region – INEA and a consortium of Lech Poznań and Marcellin Management concluded an agreement for the term of 5 years. Apart from the new name of the stadium the package of sponsor's benefits includes the marking, marketing services connected with title sponsorship and execution of additional joint projects of the sponsor and stadium operator. For this privilege INEA agreed to pay to Lech an amount of PLN 3 250 000 in the first year of the term of the agreement and PLN 250 000 more each following year. Thus, the entire amount covered by the agreement is PLN 18 750 000 between 2013 and 2017. There are also clauses in the agreement that increase the extent of financing depending on the sporting achievements of Lech Poznań football club. For the title of Polish champion INEA shall pay an additional PLN 1 000 000. The same amount shall be paid for

entering the group phase of UEFA Europe League. For entering the group phase of UEFA Champions League the club will receive an additional PLN 2 000 000.

The negotiations in the two other host cities of the Euro 2012 are still in progress, and as at the close of 2012 have not been resolved. The most difficult situation seems to arise in the case of the National Stadium in view of the decision made by the Sejm to name the facility after Kazimierz Górski. After all, it is difficult to imagine that the potential sponsor will be willing to have its name appear next to the patron's name and the word "national".

## **Resume**

Table 1 provides an overview of the stadiums against the criteria of the generated costs and the plausibility of having them covered from different sources of income. Alongside such obvious elements such as the existence of the titular sponsor or the number of the VIP boxes offered, the table provides information on e.g. the size of the estate. The erection of any public facility, i.e. the category that all four arenas prepared for the Euro 2012 in Poland are classified in, entails the loss of income from real property tax. Bearing in mind the sizable expanse of land the structures occupy, this translates to a tangible depletion of the city budget income. Admittedly, the local authorities attempted to locate their arena projects in less developed city areas (Gdańsk and Wrocław, for instance) counting on increase in the value of the neighbouring property and an increase in the tax base that will translate to higher cash flow from the income tax to the entity's budget in the future. This, however, is a time consuming process that may yield benefits years after the stadium has been opened for use.

Obviously enough, management of a facility of the football stadium size requires not only searching for sources of income, but also reducing the operating costs, especially media consumption and work organisation of the labour employed to maintain the site. Even a single unconsidered action, to name e.g. turning on the lights in the stadium, can cost PLN 30 thousand [Pyrzcz, 2012]. In order to develop the optimal plan of managing energy use, it is necessary to understand how the demand of the site changes depending on the types of its use and the times of the day. Implementation of integrated management systems is very helpful in this respect, as they enable attaining

maximum functionality, comfort and safety whilst minimising the stadium operating costs. Systems of the kind can be exemplified by the Building Management System (BMS), which manages the building – i.e. distribution of power, cool or hot air, and enables central control of the site. Manual operation of the control panel typically studded with thousands of switches is time consuming, costly, and builds the risk of error.

**Table 1.**

Characteristics of the stadiums in terms of their maintenance costs and the potential sources of income following the end of the Euro 2012

Item	National Stadium	PGE Arena	City Stadium in Poznań	City Stadium in Wrocław
Monthly projected maintenance costs	PLN 1.5 million	PLN 1 million	PLN 0.5 million	PLN 1 million
Titular sponsor	no	yes	yes	no
Number of VIP boxes (box-offered seats)	69(800)	40(496)	45(480)	30 (2130)
Additional infrastructure, commercial space included	<ul style="list-style-type: none"> <li>- conference hall for 2 thousand,</li> <li>- four restaurants,</li> <li>- shops,</li> <li>- office space,</li> <li>- - fitness club.</li> </ul>	<ul style="list-style-type: none"> <li>- catering outlets,</li> <li>- shops,</li> <li>- pubs,</li> <li>- restaurants,</li> <li>- fitness club,</li> <li>- Lechia Gdańsk shop and museum,</li> <li>- rollerblade track.</li> </ul>	<ul style="list-style-type: none"> <li>- 34 catering outlets</li> </ul>	<ul style="list-style-type: none"> <li>- a luxury banquet hall,</li> <li>- sport bars,</li> <li>- drink bars,</li> <li>- catering outlets at the stadium and the esplanade,</li> <li>- conference rooms,</li> <li>- Data Center.</li> </ul>
Estate size	18 ha	27 ha	25.5 ha	16.5 ha
Capacity of the parking facilities	1765	2171	1600	4466

*Source: Zawadzki 2013.*

Little time has passed since the close of the Euro 2012, hence arriving at a clear opinion on the operators' efforts is difficult. For the time being, all arenas are generating a deficit, yet the representatives of their operators emphasise that the effectiveness of managing sites of that size should be assessed in a long time perspective. Each of the operators has adopted the deadline of at least 3 years to reach the break-even. In order to attain the set goal, the operators strive at maximizing the income from sports and non-sports activities, reducing the operating costs, increasing the durability of the facility and consequently making

it more attractive to event organisers. All those elements determine the potential of generating income in the long term.

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