Foreword

The 2019 football season ended with Kobe and their star player Iniesta winning their first title at the Emperor’s Cup final at the new National Stadium. Kobe also became the first 10 billion-yen club in the J League, in a season that heralded the arrival of a new era in football.

On the pitch, FC Tokyo battled Yokohama F-Mall all the way through to the final match week, and while a J League team failed to win a third consecutive ACL title, three teams still remained by the final tournament, showing the league’s underlying strength this season.

On the business front, the league began in earnest this year to lay the groundwork for a Japanese-style human resource development system as an investment in sustainable growth.

In terms of operations, the effects of digital marketing and other measures the league has been taking became apparent with an average attendance of 20,000 for J league games, approaching the figure of 24,000 set out in the league’s vision for attendance by 2030. Although the vision had to be revised due to the outbreak of the new coronavirus, the J League’s response to the risk posed by the coronavirus in the immediate aftermath of the outbreak attracted considerable public attention and acclaim.

The numerous actions taken by the J League in the face of unprecedented environmental changes are unmistakably characteristic of the J League’s DNA, which had already set the bar for professionalism and success 25 years ago.

To help the J League build on its accumulated experience for future sustainable growth, Deloitte Tohmatsu’s Sports Business Group is pleased to present the J League Management Cup 2019, the fifth report to date, which highlights the business ranking of all J League clubs.

I sincerely hope that the J League Management Cup, which provides an objective, fixed-point view of the results of specific initiatives undertaken by the J League and J Clubs, will prove a talking point within the J League and among individuals involved in sports business. Further, I hope this report furthers discussions on the state of the sports business during and after the current coronavirus era.

As one of the largest groups of business advisors in Japan, the Deloitte Tohmatsu Group set up its Sports Business Group in April 2015. Since then, we have been working as a team to help expand markets for sports businesses in Japan and the rest of Asia, following the lead of the Sports Business Group in the United Kingdom. At the global level, Deloitte UK, our member company, has run its own Sports Business Group for more than 25 years, contributing to the development of the sports business market centered on the English Premier League.

Through our activities, we are offering new insights into the sports business market, and I am confident they will help us bring more dynamism to the business of sports moving forward.

Kazuhiro Fukushima
CEO
Deloitte Tohmatsu Financial Advisory LLC

Creative collaboration: Megumi Hiraga

Databook

The J League Management Cup 2019 Databook, which contains the main data used for this report, has been made available free of charge by Deloitte Tohmatsu’s Sports Business Group at the following website:

URL: www.deloitte.com/jp/sportsbusiness
Introduction
Growing Expectations for the Evolution of Sports in Japan

The Beginning of the Next 25 Years
In the 2019 J.League season, 25 years after the inception of the league, the league has been working on its first mid-term plan, which will cover the next 25 years. The plan will describe how the league will invest in human resources and networks around the five pillars of (1) social cooperation, (2) football, (3) fans, (4) business reinforcement, and (5) management foundations in order to achieve full attendance (more than 80% of the possible attendance) in every game (in), as set out in Vision 2030.

With regard to the first of these pillars, social cooperation, the league is looking to make its social collaboration platform, SHARE!, which was revamped on the 25th anniversary of the J.League, more effective and sustainable rather than just a call to action.

Regarding the second pillar, football, “Project DNA” will be launched to establish the J.League as an important base that can supply football players and personnel to the world.

As for the third pillar, fans, the league will improve the customer experience of fans and supporters through further use of digital marketing methods based on MKDB (Marketing Database) at all clubs.

With regard to the fourth axis, business reinforcement, the league will create and provide new J.League values through activation measures including “Partners MTG.”

With respect to the fifth pillar, management foundations, the league will achieve a stable supply of sports business personnel by leveraging Sports Human Capital (SHC).

These five pillars will build on the achievements and foundations that Chairman Mitsuru Murai has constructed since taking office, and will serve as a solid framework for the future of the J.League.

The mid-term plan is important for the J.League to finally put it on a stable track for fully-fledged growth, having steadily built up a system for executing the PDCA cycle—embodied by the J.League as an important example for business world by those who have practiced sports.

The OODA Loop as a Tool for Crisis Management

Turning Human Resources into Human Capital

As for the third pillar, fans, the league will improve the customer experience of fans and supporters through further use of digital marketing methods based on MKDB (Marketing Database) at all clubs.

Much of the experience and expertise that exist in sports can have a tremendous effect when applied to the business world by those who have practised sports.

Turning Human Resources into Human Capital

The Effectiveness of the OODA Loop as Embodied by the J.League

However, the original mid-term plan had to be put on hold.

The J.League, as well as sports entertainment activities around the world, are facing a threat to their very survival due to the coronavirus pandemic that began between the 2019 and 2020 seasons. In a completely unexpected situation and with the future uncertain, the J.League has continued to implement crisis response under the leadership of Chairman Murai, ahead of many other business entities and national policy decisions, using an approach similar to the OODA loop and that could be called an evolved version of the PD(M)CA cycle.

The OODA loop is a strategic approach that involves the following processes: (1) Observe, (2) Orient, (3) Decide and (4) Act. It is particularly effective when the future is uncertain and it is difficult to make plans. The fact that the J.League, led by Chairman Murai, has been able to continue to take decisive action in the midst of the unprecedented turmoil caused by the coronavirus is due to the experience and characteristics of the J.League as a business entity whose commercial product is an intangible item: sport. The OODA loop naturally lends itself to sport, given the necessity therein to monitor your opponent’s actions and condition (Observe) in order to instantly judge your own situation (Orient), choose your option (Decide) and take action (Act).

In today’s society, where the external environment is uncertain and rapidly changing, many issues have arisen that are difficult to deal with through the PDCA cycle. In particular, the J.League’s actions in the case of an emergency such as the coronavirus pandemic prove that the OODA loop is more likely to lead to appropriate decisions and demonstrate the potential of sport to make a significant contribution to business as a whole.

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Overview

Four Perspectives of the J.League Management Cup (JMC) 2019

In the J.League Management Cup 2019, we conducted a comprehensive evaluation of the business management (BM) of each J.League club from four perspectives—Marketing, Efficiency, Management, and Finance—mainly based on financial information and related data for each club published by the J.League.

1st Stage: Marketing
For this category, we focused on spectator-related data to evaluate the success of measures taken by J.League clubs to fill their stadiums. While marketing is an essential factor in business in general, there is still room for all of the clubs in the J.League to unlock the potential of marketing initiatives. As individual clubs and the J.League itself have recognized the importance of customer relationship management in recent years, marketing should be a useful benchmark for measuring the performance of club management. The specific KPIs for this category are listed as follows:

- Average Attendance
- Stadium Capacity Utilization Ratio
- Social Media Followers
- Social Media Follower Fluctuation
- Profits from Merchandise Sales

2nd Stage: Efficiency
For this category, we primarily looked at financial information and related data for each club published by the J.League.

3rd Stage: Management
For this category, we focused on the management of spending and revenue in order to evaluate how effective clubs were in generating profits. In spectator sports, the main sources of profits are revenue from sponsors, ticket sales, television broadcast rights and merchandise sales. By analyzing these revenues relative to their associated costs, we hope to shed light on the business policies pursued by each club’s management. The specific KPIs for this category are listed as follows:

- Wage Bill to Total Revenue (%)
- Social Media Followers
- Social Media Follower Fluctuation
- Profits from Merchandise Sales

4th Stage: Finance
For this category, we primarily examined club finances to evaluate the business scale, financial stability and growth potential of each J.League club. Financial data is important for understanding how effectively each club gained a return on its investment. By being aware of their results in each category, clubs should be able to generate a positive feedback loop between the FM and BM sides of the business. The specific KPIs for this category are listed as follows:

- Total Revenue
- Year-on-year Revenue Growth Rate
- Equity Ratio

Evaluation (BM points)

- J1: 18 points for 1st place – 1 point for 18th place
- J2: 22 points for 1st place – 1 point for 22nd place
- J3: 15 points for 1st place – 1 point for 15th place

In this document, we will refer to each of these perspectives as a “Stage.” J1 division clubs will be analyzed alongside those in the J2 and J3 divisions.

Our method of evaluating clubs is based on key performance indicators (KPIs) defined by Deloitte Tohmatsu for each of the four stages. Clubs in each division were ranked according to their KPIs results and awarded BM points corresponding to their respective division rankings.

For instance, a club ranked at the top of J1 for a certain KPI received 18 BM points, since there were 18 clubs in the division. Likewise, a top-ranked club in the J2 division received 22 BM points. In the J3 division, a top-ranked club received 15 BM points. As clubs move down the ranking, they receive fewer points, with the lowest-ranked club receiving one point. We ranked the clubs on a division basis because the number of matches and possible accumulated points differ across J1, J2 and J3.

Our analysis does not include information on club or league activities that has not been made publicly available. Please note that the rankings in this report do not reflect all the accomplishments of the clubs, such as local initiatives in the clubs’ hometowns.

While examining the business management of each J.League club from the four perspectives described above, our aim is not to assess the superiority or inferiority of any given club, but rather to compare the clubs using the same indicators. Generally speaking, while the business management of an individual club can be hard to gauge, by comparing the performance of all the clubs together, we are more likely to gain insights into their effectiveness of their business initiatives.

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Average Attendance

In 2019, the average attendance rose slightly in the J2 division but fell slightly in the J1 and J3 divisions, compared to last year. Average attendance in J1 decreased by 1.6% in the previous year, partly due to the inclusion of the Levein Cup in the totals from this year. This is a glimpse into the reality that J1 clubs are struggling to attract more fans, as opposed to last year. This is a glimpse into the reality that J1 clubs are struggling to attract more fans, as opposed to last year. In J3, the average attendance increased by 1.4%, which is an improvement compared to the previous season.

Stadium Capacity Utilization Ratio

According to the average utilization ratio, J1 and J2 have a trend, but in J3, there is a noticeable upward trend in J1 and J3, indicating no major differences in revenue between the three divisions. In J1, the utilization ratio for the matchday revenue per league point won, which measures the commercial value of a single league point, increased by 3.7% in J1 (+3.7%), 0.9% in J2 (+0.9%), and 2.7% in J3 (+2.7%). This KPI is significant in terms of the theoretical wage bill, as it represents the theoretical amount that a club would have to spend on players in order to win its division, as shown in the diagram. This data also indicates that clubs need a solid financial footing if they are to generate results placing them at the top of the table. Compared to last season, this theoretical value increased in J1 and J2 and remained more or less constant in J3, indicating that the wage bill required to earn one point is rising across the entire J.League. It will become increasingly important for clubs to determine the correlation between FM measures and BM measures, particularly as the budget available for club investment has increased due to changes in the distribution system, and due to new options regarding the player wage bill owing to an increase in the number of international player registrations and quotas.

Matchday Revenue per Spectator

The average matchday revenue per spectator can be broken down into revenue from ticket sales and revenue from merchandise sales. In J1 and J2 divisions, approximately 70% of revenue came from ticket sales and 30% of revenue came from merchandise sales, while in J3 the revenue from each was approximately equal. In comparison with the J3 division, the J1 division obtained 3.3x more revenue from ticket sales, and 1.8x more revenue from merchandise sales, which represents only a small inter-division difference, as has been seen for several years. No major differences in revenue from merchandise sales were seen between J2 and J3. Next season, all eyes will be on how the new coronavirus will affect the average matchday revenue per spectator, and in the meantime it will be necessary to implement BM measures to increase the unit price of both tickets and merchandise, by adding value to the ticket price and through e-commerce, respectively.

Comparison of average matchday revenue per spectator by division

- J1: 3.457 million yen
- J2: 2.345 million yen
- J3: 1.122 million yen

Although the acquisition of world-class star players and Friday Night League did have an effect, their impact on the increase of new spectators to total attendance decreased.

Matchday revenue per point won

Matchday revenue per point won indicates the commercial value of a single league point. In 2019, division averages were 20.6 million yen in J1 (+3.5 million yen), 3.4 million yen in J2 (+0.9 million yen) and 0.7 million yen in J3 (-0.1 million yen), showing a slight widening of the gap between the J1, J2 and J3 divisions. Matrdhy revenue per league point won depends on matchday revenue, which is derived from attendance. Overall, an increase was seen in J1, while J2 and J3 did not experience any significant changes.

The fact that attendance drops gradually moving down from J1 to J2 and on to J3 is consistent with the fact that the topicality and exposure of the clubs decrease moving down the divisions, but we can see that J1 is increasingly using digital marketing to attract its target audience without relying on topicality and exposure.

If clubs can use BM measures to create spaces where spectators can enjoy a special experience away from daily life and generate topicality, they will be able to create a positive feedback loop that increases new spectators. This will further stabilize management by turning spectators into loyal customers, in turn providing the resources to fund further BM measures. To create this kind of positive feedback loop, it’s important to continuously invest in stadiums that spectators can enjoy, whether or not their club wins.

Matchday revenue per point won

<table>
<thead>
<tr>
<th>Club</th>
<th>J1</th>
<th>J2</th>
<th>J3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max</td>
<td>264</td>
<td>4</td>
<td>35</td>
</tr>
<tr>
<td>Min</td>
<td>109</td>
<td>4</td>
<td>35</td>
</tr>
<tr>
<td>Avg</td>
<td>180</td>
<td>13</td>
<td>25</td>
</tr>
</tbody>
</table>

The fact that attendance is decreasing matches the decrease in clubs’ newsworthiness and exposure.
The wage bill to total revenue ratio indicates the extent that club resources are used to pay for players and clubs. Social networking sites (SNS) are an effective way to connect with fans who do not actually attend games. Regardless of the division, investment in SNS creates a valuable asset for clubs and players, so the number of SNS followers and social media networking sites (SNS) are an effective way to connect with fans who do not actually attend games.

Social Media Follower Fluctuation

This KPI is one indicator showing the social impact of a club, including the impact on fans who do not come to games in person. The number of followers for each social networking site shows that J1 accounts for nearly 80% of social networking site usage in all divisions. Considering that J1 clubs have been using these social networking sites for many years, it is unlikely that this percentage will change dramatically in the future, thus it appears that the ratio for J1 is more or less set at this level.

Social Media Follower Fluctuation
In the 2019 season, there was a slowdown in follower growth compared to last year. Looking in more detail at individual social networking sites, this downward trend in growth was most pronounced for Facebook and Twitter. In addition, while Instagram continued to record high growth from last season, the growth rate of Instagram in J1 has already started to decrease. In the rapidly changing world of social networking sites, staying on top of global trends and utilizing them in a timely manner will be required as a BM strategy skill.

Profits from Merchandise Sales
This KPI is characterized by the fact that it is strongly influenced by attendance. Profits from merchandise sales were Sx% higher in J1 than J2 and J3, and J2 higher in J2 than J3, with the gap between J1 and J2 being larger than in the previous year. Although there was no significant change in average attendance in any division, J1’s profits from merchandise sales were down, partly due to the clubs that had been selling well achieving promotion and being replaced by other clubs. On the other hand, J1 has maintained steady profits from merchandise sales, and is expected to show growth in this area in the future.

The wage bill to total revenue ratio was 51.6% for J1 (+3.2%), 44.2% for J2 (+0.9%), and 35.6% for J3 (+0.5%). This KPI reflects the management strategy of each club, and it is likely easier to achieve stable management if it is kept below a certain level. Generally speaking, the ratio will be high if clubs take the strategy of reinforcing their ability to produce short-term results, while a focus on training from a medium- to long-term perspective tends to generate a lower ratio.

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Urawa capture fourth win by slim margins after two years off the top spot!

Urawa were the winners of the 2019 Management Cup in the J1 division. The club came first in management, and fourth in marketing, efficiency and finance, showing consistent strength in each of these areas. Despite being only one point ahead of the second-placed club, Urawa emerged victorious in a close race.

Urawa are notable for having matchday revenue nearly double that of the second-placed club. The fact that the fans and supporters are the ones that generate this revenue shows their strong commitment to the club and in turn indicates that this revenue is of high quality.

The coronavirus has made it difficult for Urawa to leverage their unique capacity to attract spectators, and it remains to be seen how the club will create a system to get support from fans outside the stadium as well as inside.
### J1 Analysis

#### 1st Stage: Marketing

Filling up stadiums is the most basic goal of sports entertainment. However, due to the coronavirus, it is very likely that for some time stadiums will not be able to attract spectators as they previously did, so it will be more important than ever for clubs to implement BM measures in a well-balanced manner both for the spectators who do come to the stadiums and for the fans and supporters who do not.

#### Average Attendance

Average attendance for J1 in the 2019 season was 18,759, down 302 (-1.6%) year-on-year. Starting this year, to more closely approximate the average matchday revenue per spectator, we have decided to calculate average attendance for league games and the Levain Cup. Since the qualifying league games for the cup are often held on weekdays, the number of spectators tends to be lower than for regular league games, and this brings down average attendance, at least on the surface. When the impact of cup matches is taken into account in last season’s KPI, average attendance becomes 17,905, which, when calculated over a full stadium at most matches, we have decided to calculate approximation the average matchday revenue.

Average attendance for the 1st Stage was 37,460, down 22,751 (-37.4%) year-on-year, an overall upward trend. When the impact of cup matches is included, the average attendance had taken into account (-5.0%) year-on-year. However, if last season’s average attendance had taken into account cup matches it would have been 20,138, making this year’s figure a significant increase of 2,884 (+10.8%) year-on-year. Together with data analysis experts from Panasonic, their main sponsor, they have analyzed customer data from spectators and used it in marketing and event planning at game venues, an effort that is steadily bearing fruit. This is a good example of how, since 2017, the J. League has been utilizing spectator data gleaned from the league clubs.

#### Stadium Capacity Utilization Ratio

The average stadium capacity utilization ratio in J1 for the 2019 season was 59.3%, a slight decrease of 3.4% (5.4%) year-on-year. Average attendance in J1 increased overall, but stadium capacity utilization ratio decreased at 11 clubs. The biggest growth rate outside of the clubs promoted from J2 was at Yokohama FM, who were up 13.8P, or 52.9% (+35.3%) for this KPI. This increase in the 2019 season was likely due to the club’s positive results on the FM side as well as aggressive measures on the BM side, including a ticket pricing strategy featuring dynamic pricing, and the development of digital marketing using the J League digital common platform.

Another notable J1 club is Kawasaki F, which boosted a consistently high stadium capacity utilization ratio. Of the 16 league matches, all but one match held on a Friday achieved a stadium capacity utilization ratio of over 80%. This has resulted in a demand for season tickets that outstrips the number available, indicating that the number of fans and supporters who are loyal to the club is steadily increasing.

#### J1 Average Attendance

<table>
<thead>
<tr>
<th>Club</th>
<th>Average attendance</th>
<th>Average attendance (including cup matches)</th>
</tr>
</thead>
<tbody>
<tr>
<td>G-Osaka</td>
<td>23,322</td>
<td>23,485</td>
</tr>
<tr>
<td>Urawa</td>
<td>20,194</td>
<td>20,138</td>
</tr>
<tr>
<td>Kawasaki F</td>
<td>19,269</td>
<td>19,194</td>
</tr>
<tr>
<td>Kawasaki M</td>
<td>18,759</td>
<td>18,795</td>
</tr>
</tbody>
</table>

#### Ratio of new spectators to total attendance

Due to COVID-19, BM initiatives to attract new spectators will be forced to charge specifically, and it is likely that clubs will sink or swim based on their ability to handle this situation.

#### Average revenue per spectator (yen)

- **Urawa**: 3,819 yen (30%)
- **Shonan**: 3,457 yen (20%)

#### Matchday Revenue per Spectator

Matchday revenue per spectator for J1 clubs in the 2019 season was 3,457 yen. In 2018, the unit price of tickets was down by 229 yen (-6.2%) year-on-year. Looking in detail at this KPI, the unit price of tickets was down by 31% while the unit price of merchandise was down by 12.3%, indicating a particularly large decline in the unit price of merchandise.

#### Merchandise revenue per season

- **Urawa**: 4,199 yen (22%)
- **Shonan**: 3,819 yen (20%)

#### Ticket price

- **Urawa**: 1,705 yen (50%)
- **Shonan**: 1,499 yen (40%)

#### Ratio of new spectators to total audience

- **Urawa**: 163 yen (20%)
- **Shonan**: 113 yen (20%)

#### Average revenue per season per spectator (yen)

- **Urawa**: 1,499 yen (20%)
- **Shonan**: 1,705 yen (20%)
J1 Analysis

2nd Stage: Efficiency

Wage bill per point won and matchday revenue per point won are important KPIs for making substantive comparisons, and highly relevant benchmarks for comparing leagues and clubs. The BM side is always facing the trade-off of how to improve efficiency and raise customer satisfaction while placing the FM element of winning points at the forefront. It is an important BM task to find an optimal solution for each club, as this KPI has no solution that works in every case.

Wage Bill per Point Won

This KPI allows us to visualize how efficiently the wage bill—the biggest cost for a club—is linked to results on the pitch. The J1 average for the 2019 season was 55.2 million yen, up 6.4 million yen (+13.0%) year-on-year. Oita won their points most efficiently, winning each point with 18.3 million yen. In contrast, at the bottom of this category, Kobe used 147.3 million yen to win each point, more than eight times the amount used by Oita.

While a lower value for this KPI is desirable, it should be considered and analyzed in relative terms. This is illustrated by the case of Oita, which had the smallest value for this KPI at 18.3 million yen. Oita were in J2 last season, of Oita, which had the smallest value for this KPI. This is illustrated by the case of Kobe, which used 147.3 million yen to win each point, more than eight times the amount used by Oita.

Matsumoto's wage bill per point won was 38.3 million yen, up 18.1 million yen (+16.4%) year-on-year. Despite winning just 31 points to 383 million yen (+16.6%) this year, the team were champions of J1 for the first time in 15 years, an impressive FM result. This is a good example of an effective wage bill investment leading to FM results. The biggest improvement in this KPI was seen at Yokohama FM at 38.3 million yen, a decrease of 17.8 million yen (-31.7%) year-on-year. Their wage bill increased by just 29 points to 383 million yen (+16.6%) this year, yet the team were champions of J1 for the first time in 15 years, an impressive FM result. This is a good example of an effective wage bill investment leading to FM results. The average for this KPI in 2018 was 34.4 million yen, but the J1 average for the 2019 season was 55.2 million yen, suggesting that the wage bill required to win points is rising. Since investing in the wage bill can improve FM and in turn BM, it is meaningful to keep track of this KPI and confirm the relative position of the club within the division.

Matchday Revenue per Point Won

This KPI expresses (1) how much a league point can be bought for (from the club’s perspective) and (2) how much a league point can be bought for (from the supporters’ perspective). In other words, the relative value of a league point. All else aside, a club would like this KPI to be as high as possible, while the supporters would prefer it to be low, thus necessitating a trade-off.

The average matchday revenue per point won in J1 in the 2019 season was 20.5 million yen (+24.5%) year-on-year. Division winners Urawa increased average matchday revenue per point won by 24.5 million yen (+64.9%) year-on-year to 62.2 million yen, and opened up a large gap for this KPI to the clubs ranked second and below. The main reason for increase in this KPI at Urawa was a reduction in points from 51 to 37 at the same time as a significant increase in matchday revenue to 377 million yen (+16.4%) year-on-year, partly as a result of their advancing to the ACL final. Matchday revenue increased by 285 million yen (+30.4%) year-on-year to 1,221 million yen at Nagoya, and by 420 million yen (+50.0%) year-on-year to 1,260 million yen at Kobe, despite the fact that Nagoya and Kobe recorded small changes in points scored (Nagoya: 41 to 37, Kobe: 45 to 47). At Nagoya and Kobe, the figures for this KPI were up 10.2 million yen (+44.4%) and 8.1 million yen (+43.6%) year-on-year, respectively.

On the other hand, the largest drop in this KPI was seen at Yokohama FM, down 9.1 million yen (-33.2%) year-on-year to 18.4 million yen. The main reason for this was a significant increase in points, from 41 to 70, due to improved competition results. However, although it pales in comparison to the increase in points, it should not be overlooked that matchday revenue also increased by 159 million yen (+14.1%) from the previous year-on-year, to 1,286 million yen. This is the second highest matchday revenue after Urawa. This illustrates that the teams in contention for the top spot are not missing out in success in competition, and are generating a solid revenue stream from matchday revenue. Clearly, improving the performance of a club improves satisfaction among fans and supporters, while at the same time creating a positive feedback loop in which the club receives compensation in the form of matchday revenue, and then invests in new measures to strengthen its players and improve the customer experience, making stable management possible.
J1 Analysis

3rd Stage: Management

Optimizing the allocation of club assets is the key to successful club management. The "wage bill to total revenue ratio" is important as it indicates the amount of investment on the FM side, while increasing the number of social media followers and raising social media follower fluctuation indicate a club’s social impact. Likewise, “profits from merchandise sales” can be regarded as an investment in branding and club funding. These indicators show how a club’s resources can assist club management by being in the aspects of business other than the spectacle of the matches themselves.

Wage Bill to Total Revenue Ratio

In J1, the wage bill to total revenue ratio is a range that does not exceed half of total revenue is ideal; however this year, for the first time since the JMC was first issued in 2014, the average exceeded 50%. J1 as a whole saw an upward trend in the wage bill to total revenue ratio, especially at Tosu at +36.0% (2018: 62.7% to 2019: 98.7%), both of which have been acquiring international star players for some time.

Social Media Followers

Top-ranked Sendai, with 64.6% of the total, achieved their spot due to the club’s originally small number of followers (just under 350,000) and the opening of a new Twitter account.

Social Media Follower Fluctuation

C-Osaka, which has dominated in terms of Facebook followers, will take in the future.

Profits from Merchandise Sales

The J1 average for the 2019 season was 127 million yen, up 3 million (2.8%) year-on-year. The J1 average for profit rate was up slightly at 29.7%, up 2.5P (+9.3%) year-on-year.

Profit from merchandise sales

Kobe retired veteran and popular players such as Hotaru Yamaguchi to launch high value-added, original merchandise, resulting in merchandise sales of 531 million yen, up 143 million yen (+36.9%) year-on-year. Their profit ratio improved significantly from last season’s 7.2% to 24.5%, and profits increased significantly.
The highlight of the 2019 season was Kobe, which surpassed 10 billion yen in total revenue, the highest operating revenue ever recorded by a J1 Club. Kobe achieved a significant increase in revenue of 1.77 billion yen over the previous year, well above the 10 billion mark. The breakdown of the increase in operating revenue was as follows:

- Sponsorship revenue up 1,197 million yen, matchday revenue up 420 million yen and merchandise sales up 143 million yen, representing an increase in the overall total. Kobe was able to increase revenue because it had acquired star players. Meanwhile, with total revenue of approximately 8.2 billion yen, second-ranked Urawa were about 3.2 billion yen behind Kobe.
- While overall J1 revenue was on an upward trend, four clubs—Kashima, C-Osaka, Shonan and Tosu—experienced a decline. In particular, Tosu experienced a significant decline in revenue, down 1,696 million yen (39.8% year-on-year), with sponsorship revenue declining by a particularly large amount, down 1,486 million yen. The risk of relying on sponsorship revenue, which is easily influenced by the external environment, was made prevalent.

**J1 Analysis 4th Stage: Finance**

**Within the J.League club license system, “financial standards” are an important benchmark for ensuring a stable financial structure for the J.Cubs. J1 is becoming bigger as a business, however the impact of the coronavirus is likely to cast a significant shadow over the future. Therefore, it will be imperative that the division make greater use of the digital marketing strategies they have been preparing along with the league.**

### Total Revenue

The J1 average for the 2019 season was 4,951 million yen, up 195 million yen (+4.1%) year-on-year. Looking in more detail, the main factor behind this increase was matchday revenue, which was up 122 million yen.

The breakdown of the significant increase in revenue of 1,774 yen.

**Year-on-year Revenue Growth Rate**

The average for J1 in the 2019 season for this KPI was 9.7%. Compared to last season’s figures, the growth rate slowed in 2019, dropping by 13.8P (-58.6%). Last season saw a particularly high growth rate, mainly due to increases in sponsorship and matchday revenue. Oita posted the highest growth rate at any club, as it recorded a strong growth rate of 65.4%, up 5.5P year-on-year, mainly due to increases in sponsorship and matchday revenue. Oita also embarked on initiatives to further increase revenue, including the establishment of a wholly owned subsidiary for marketing purposes in December 2019. Sponsorship revenue is expected to increase as a result of the strengthened sales structure, and we expect to see the benefits of this realized through digital marketing in the fan and supporter-facing business.

**Equity Ratio**

The average equity ratio for J1 in the 2019 season was 34.8%, down 1.2P (-3.3%) year-on-year. FC Tokyo were top in this KPI for a second season in a row at 83.4%, while C-Osaka were at the bottom with 1.3%. In J1, the majority of clubs (11) had positive retained earnings, while seven had negative retained earnings.

The biggest change was at Tosu. Last season, the club had retained earnings of -2,193 million yen and a combined capital and capital surplus of 2,229 million yen, resulting in an equity ratio of 2.5%. As a result of a 2,014 million yen final loss after tax for the 2019 season, their retained earnings were -4,207 million yen, which could have resulted in the club having excessive liabilities. However, as they were able to raise 1,999 million yen in capital through a third-party allocation of new shares and other means, their capital stock and capital surplus totaled 4,228 million yen, and net assets came to 21 million yen, allowing them to avoid excessive liabilities with an equity ratio of 3.0P.

Tosu had been experiencing a large deficit as a result of a sharp drop in advertising revenue due to the withdrawal of their main sponsor, while their wage bill has increased due to large-scale reinforcements over the past few years. Although the wage bill is expected to decrease due to the retirement of highly paid players and other factors, the impact of the coronavirus is also expected to reduce matchday revenue and other revenues, so the club’s ability to secure sponsorship revenue and avoid excessive liabilities through BM measures will once again be tested.

**Management Cup**

J.League Management Cup 2019 | Sports Business Group September 2020 | J1 Analysis 4th Stage: Finance

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**Total Revenue**

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<tr>
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**Year-on-year revenue growth rate (%)**

The highest growth rate at any club was achieved by Oita, promoted from J2. They recorded a strong growth rate of 65.4%, up 5.5P year-on-year, mainly due to increases in sponsorship and matchday revenue. Oita also embarked on initiatives to further increase revenue, including the establishment of a wholly owned subsidiary for marketing purposes in December 2019. Sponsorship revenue is expected to increase as a result of the strengthened sales structure, and we expect to see the benefits of this realized through digital marketing in the fan and supporter-facing business.

**Year-on-year revenue growth rate (millions of yen)**

- Sponsorship: 65.4% increase
- Matchday revenue: 21.9% increase
- Other revenue: 16.8% increase

**Year-on-year revenue growth rate (millions of yen)**

- Sponsorship: 49.4% increase
- Matchday revenue: 85.8% increase
- Other revenue: 30.7% increase

**J1 average:**

- Total Revenue: 4,951 million yen (+4.1%
- Sponsorship: 1,197 million yen (+18.0%
- Matchday revenue: 420 million yen (+12.2%
- Merchandise sales: 143 million yen (+19.0%
- Other revenue: 2,218 million yen (+4.2%
J1 Cup Winner’s Analysis
Urawa Red Diamonds

On the FM side, the 2019 season was full of ups and downs for Urawa, who came within a whisker of winning their third international AFC Champions League title, second stage being called up in a relegation battle in the domestic league. On the other hand, the club won the J.League Management Cup for the fourth time. This success was thanks to different measures that leveraged the club’s ability to attract spectators, and although the average attendance was down slightly from its peak, it was still nearly double the J1 average. Urawa was at the top of the J.League for the 14th year in a row, with a high average matchday revenue per spectator and revenue from merchandise sales, about three times the J1 average. It appears that the club certainly understands the key aspects of management. However, the coronavirus has seriously challenged the club’s management. We interviewed Yoichi Tachibana, president of the club since the 2019 season, about Urawa’s efforts to date and the future prospects of the club.

Returning to a New Starting Point
Tachibana, who took over from former long-term president Keizo Fuchita, has been involved in the management of Urawa as a non-executive director since November 2016, coinciding with the change in Urawa’s parent company to Diamond F.C. Partners, Co., Ltd. Tachibana played at one time for Mitsubishi Heavy Industries Football Club and was involved in the establishment of Urawa when the J.League was launched.

Through this interview, we obtained a glimpse of Tachibana’s deep understanding of Urawa’s philosophy, including its history. In the 2019 season, when he became president, he reaffirmed the origins of the club’s founding and steadily implemented BM measures that helped the club not only recover but ascend to the next level, against the backdrop of the club’s growing size and a drastically shifting external environment.

“That is why,” says Tachibana, “we must not forget that the Urawa Reds are a club that has grown not only through their own efforts, but also through the support of the town of Urawa and the club’s fans.”

While Tachibana was pleased to see Urawa secure such a high place in the J.League Management Cup, he is keenly aware that other clubs in the league were working even harder and achieving improved results, so the Urawa Reds need to continue to work even harder in the future.

Comprehensively Promoting Communication
After Tachibana became club president, he immediately began taking BM measures to ensure that all club staff were aware of what the club stands for, as part of his strategy of promoting communication within the club. Since then, he has strengthened this strategy through ‘hard’ and ‘soft’ initiatives.

In terms of ‘hard’ initiatives, he has made investments in the IT environment for club staff and is flattening the organizational structure to promote communication.

The Saitama Stadium 2002 in Midori Ward, Saitama City, the Oshara Soccer Stadium in Urawa Ward, near Saitama New Urban Center, and Reds Land in Sakura Ward are all located at different sites. Urawa is active at multiple locations, and this has slowed down the speed of decision making and presented challenges to essential communication. Tachibana, with the help of a local PC manufacturing and sales company that sponsors the club, set up an online conference system to connect all club staff members, making it possible to hold daily general manager meetings, saving time and strengthening horizontal cooperation. As a result, when telework became necessary due to the coronavirus, all staff members were able to smoothly transition to working from home, and the quality of communication among the club’s staff members was maintained.

When Tachibana took over as president, Urawa was organized on a departmental basis. This system was generally suitable for clarifying the roles of each department head, and efficiently carrying out a number of routine tasks, yet at each individual department became more familiar with its tasks, the organization tended to specialize too much in departmental roles and lost sight of overall goals. Tachibana therefore abolished the system, and reduced the number of departments under the general manager to flatten the organization. By doing so, he deliberately raised the profile of the club’s staff, looking to develop outstanding staff members who could act independently and maintain the relationship between the Urawa community and its supporters.

In terms of ‘soft’ initiatives, Tachibana implemented project team activities to increase the club staffs’ independence.

Based on the idea that “only an attractive club with outstanding staff can provide appealing matches and value,” Tachibana believes that in today’s rapidly changing external environment, developing outstanding staff that can adapt to changes in the external environment is paramount. As such, he has been promoting a number of measures to stimulate communication.

One of the most interesting of these measures is to try something new every day. Urawa, which has won the J.League championship four times in the past, appears at first glance to be a stable club in terms of management, but the BM policy of encouraging the club to embrace new challenges—even if that means taking risks and remaining unsatisfied with stability—is a very courageous move from the perspective of top-level management.

Urawa has been able to implement these measures due to rapid development of digital technology in recent years and the diversification of fans and supporters’ needs due to increased attention to social concerns, as exemplified by a number of environmental issues. To deal with these issues and maintain growth, the club felt an urgent need to rediscover its origins and aim for the next stage. Another important initiative to keep in mind is Tachibana’s review of the club’s management philosophy that was carried out by Tachibana’s predecessor and former president. This review was not performed from the top down, but rather by a project team led by young individuals. This team spent two years putting together a new club philosophy that incorporated the opinions of all club members. It was precisely because this new philosophy was firmly established that President Tachibana’s BM measures could be implemented so effectively.

Signs of Change and the Coronavirus Crisis
The gradual change in the relationship between the club and its supporters is not only due to the efforts described above, but also in part to the effect of the club’s BM measures. While the club places great importance on passionate supporters, in order to allow a wide range of fans and supporters to experience the attractive atmosphere inside the stadium, the club has implemented the largest seat allocation reform in its history, revised its zoning policy, and introduced a number of special seating packages at the initiative of the club staff. In addition, outside the stadium, the club is hosting events for families, which have given less prominence in the past, alongside social experiments in regard to transportation that improves stadium access, and petitions for extensions to the Saitama Express Railway. Further, the impact of front office reforms has recently spread to the players, and Urawa is beginning to see signs of gradual changes in attitudes and behavior.

Just as the club was planning to accelerate these initiatives across the board, the coronavirus hit, forcing them to drastically revise their original plan. In addition, in terms of its profit structure, Urawa has a far higher ratio of revenue from merchandise sales than other clubs, so the impact of the coronavirus was far greater than elsewhere.

However, it appears that the initiatives undertaken before the outbreak of the coronavirus led to effective measures that allowed the club to cope with the virus. The membership of the REX CLUB fan club, which has been in operation for five years, has continued to increase despite the coronavirus and currently exceeded 100,000 members. It remains important for the club to determine how to leverage this membership when implementing BM initiatives in the context of the coronavirus and work on activation with the partners that bring in the league’s largest sponsorship revenue.
In this special feature, we focused on the financial structure of each club and its relationship to league results and J1 rankings. The structure of the profit and loss (PL) statement is unique to each club, and depends on the club’s revenue sources and key investment items. For example, if a club performs well in a tournament or other event, the winnings earned are recorded in the revenue category “other income.” On the other hand, clubs that aim for high performance by attracting star players often have a heavy burden for the “wage bill” in the expenses category. These factors may relate to the financial health and viability of the club. Therefore, we conducted a clustering analysis and grouped clubs according to this financial data. Based on the results, we considered which teams have a similar PL structure and what characteristics are present in clusters of clubs that are able to manage their business and league results.

Clustering based on the Revenue Share and Cost Share per Item

In this analysis, we used three items to characterize each club’s PL structure: operating revenue, operating expenses, and operating profit ratio. In the case of operating revenue, the percentages for the component parts—sponsorship revenue, matchday revenue, distribution, academy-related revenue, merchandising revenue and other revenue—is calculated. The same applies for operating expenses, with percentage calculated for the team wage bill, match-related expenses, first team operating expenses, academy administrative costs, women’s team operating expenses, merchandising expenses, selling expenses and general administrative expenses. The operating profit ratio (operating profit divided by operating revenue) is also taken into account as a measure of revenue efficiency. Using these figures, we employed hierarchical clustering to create club clusters. Hierarchical clustering is a method of analysis in which the most similar clusters are first connected to each other to form a cluster, with the process being repeated until the elements are finally aggregated into a single cluster.

For example, Figure 1 shows the results of a hierarchical clustering of clubs in J1 based on their operating revenue and expenses ratio and operating profit ratio for the 2019 season. The results show that one cluster contains clubs like Nagoya and Kobe, which have a high level of sponsorship revenue and invest heavily in the wage bill. On the other hand, we also see clusters formed by single teams with no similarities to other teams, such as Tosu at the bottom of the division.

We performed the hierarchical clustering in Figure 1 based on the financial data of J1 clubs over the six-year period spanning the 2014–2019 seasons. The results indicated that three common clusters emerged over the six-year period. (1) clubs with balanced management (high operating profit ratio), (2) clubs with balanced management (low operating profit ratio) and (3) clubs with high sponsorship revenue and high wage bill. Figure 2 summarizes the clubs in each of these clusters for each season. Figure 3 shows the position in the J1 league standings for each club for each season. The size of the circle represents the number of clubs in that cluster. In the figure, the higher the cluster’s position on the right, the higher the level of management as appraised by the JMC and the higher the league performance.

First, let’s look at the most distinctive cluster, Cluster (3) clubs with high sponsorship revenue and high wage bill (colored gray). Clubs in this cluster have a very high percentage of their operating revenue coming from sponsorship revenue. At the same time, a higher percentage of their expenses is accounted for by the wage bill. Thus, it appears that clubs in this cluster tend to use their large sponsorship revenues to acquire star players in order to improve their league performance.

The remaining clusters (1) clubs with balanced management (high operating profit ratio, colored green) and (2) clubs with balanced management (low operating profit ratio) and (3) clubs with high sponsorship revenue and high wage bill (colored orange) do not have a distinct PL structure bias. For this reason, we refer to them as having balanced management. The difference between (1) and (2) lies in their operating profit ratio and their ratio of “other income” to operating revenue. The operating profit ratio in (1) is higher than that in (2), and the ratio of “other income” is also higher. As a result, we can see that the structure of (1) is such that revenue is generated from merchandise sales and prize money while costs are kept to a minimum.

Figure 3 shows that (1) clubs with balanced management (high operating profit ratio) is a cluster of clubs that maintain a high rank in the JMC and have a good record in the league on average, and are able to succeed in terms of both business management and league results. On the other hand, (2) clubs with balanced management (low operating profit ratio), is a cluster of clubs that are ranked in the middle of the JMC but have yet to produce any league results. Lastly, (3) clubs with high sponsorship revenue and high wage bill is a cluster in which clubs invest heavily in the wage bill but do not generate much return (in terms of league results, operating revenue, etc.), resulting in a low JMC ranking.

For the management point of view, the ideal goal is to be part of cluster (1), which contains the clubs with balanced management (high operating profit ratio) resulting in a combination of good business management (BM) and good field management (FM). Figure 3 shows that Yoyama FM and G-Osaka realized the transition to cluster (1) in the 2019 season.

The Key to balancing Business Management (BM) and Field Management (FM)

One of the most important factors in the financial health and viability of a club is managing business management. However, while this is ideal, how can clubs “rebalance” themselves to move beyond the current stage and compete in the next stage of the positive feedback loop?

The results of this analysis indicate that the transition from cluster (2), clubs with balanced management (low operating profit ratio), to cluster (1), clubs with balanced management (high operating profit ratio), may be the next step in clubs’ evolution. What makes cluster (1) unique is that, as mentioned above, the teams in the cluster have a high percentage of “other income” within total revenue. This “other income” includes revenue from tournaments, prize money, so Kashima and Kawasaki-F, which have a consistent record at the top of J1, naturally have a high percentage of other income, and the same is true for Yoyama FM, G-Osaka in the 2019 season.

In particular, the impact of the coronavirus is causing concern at many clubs in regards to securing existing sponsorship and matchday revenues. In this environment, securing new revenue streams when entering a growth cycle is one possibility that could serve as a model case study for future club management.

In the J1 league, the players who transferred are all graduates of the G-Osaka Academy, a true example of Gamba’s ability to develop players. Coincidentally, the J1 league launched the Project DNA academy reform project in 2019 with the vision of becoming the league with the best human resource development in the world. The league is aiming to generate profits through developing players, which will give clubs further opportunities to earn transfer fee revenue. In line with the direction the league is heading, increasing the level of human resource development and securing new revenue streams when entering a growth cycle is one possibility that could serve as a model case study for future club management.
Nagasaki shows their potential and narrowly takes a first victory!

Nagasaki were the winners of the 2019 Management Cup in the J2 division. Although they did not exceed 12th place in the efficiency category this season, the club finished 4th in marketing and finance and tied for 1st place for strategy, making them this year’s winners, albeit by a small margin.

Last season the club had been promoted to J1 for the first time for their prowess on the FM side, and this in turn positively impacted the club in terms of BM. In contrast, in the 2019 season their task was to minimize the negative impact of demotion to J2 while maintaining a stable financial base, a challenge they successfully overcame.

Although the club continues to be constrained by the coronavirus, which is a factor no club has ever experienced in its growth period, the new president has a plan for a new home stadium, and it will be interesting to see what happens in the future at this club.

### BM point 2019

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<th>Club</th>
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<tr>
<td>Ehime</td>
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*The ranking in the division for the 2018 season is given.

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J2 Analysis

1st Stage: Marketing

The J2 division is greatly affected by clubs moving up and down from the other divisions. Especially in this 1st stage, we can see how the characteristics of the clubs that are promoted or demoted into J2 affect the business environment.

On the other hand, J2 is the division where the disparity between clubs is the largest, and there are many clubs that have room for significant growth depending on their BM measures. Accordingly, the relationship between BM measures and each KPI is also of interest.

Average Attendance

- Average attendance for J2 in the 2019 season was 7,137, up by 70 (+1.0%) year-on-year. Among the 18 clubs that were neither promoted nor demoted, average attendance was up by 298 (+6.4%), making 2019 a strong season in terms of attendance across the division.
- Of the ten clubs that have increased this KPI, nine have improved their FM ranking to a significant growth depending on their BM measures. Accordingly, the relationship between BM measures and each KPI is also of interest.

Stadium Capacity Utilization Ratio

- The average stadium capacity utilization ratio in J2 in the 2019 season was 38.9%, an increase of 4.9P (+14.4%) year-on-year. This ratio in J2 is approaching the J1 average of 59.3% in the 2019 season. This can be attributed to the effectiveness of unique BM measures, such as the “Kattara Moshihiki!” event held to allow fans to share in the joy of a win for the team, and the “Gomenni Garapon” event, where prizes are given out in the event of a team loss, in addition to consistent PR activities by coaches and players to attract spectators out on the street.

Ratio of New Spectators to Total Attendance

- The ratio of new spectators to total attendance for J2 in 2019 was 6.0%, up 2.1P (+54.5%) year-on-year. Both Kagoshima and Gifu (3rd for this KPI) were relegated to J3 due to their poor performance, but the fact that they were in danger of being demoted may have attracted attention and helped to increase the number of new spectators.

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J2 Analysis

2nd Stage: Efficiency

Because of the business structure of J League clubs, the club wage bill tends to be set from the initial estimate of total revenue at the beginning of the fiscal year. The budget for club wage bills is lower in J2, and BM measures must be tied to results on the pitch, especially as clubs are at risk of demotion.

Wage bill per Point Won

This KPI allows us to visualize how efficiently the wage bill—the biggest cost for a club—is linked to results on the pitch. The J2 average for the 2019 season was 12.9 million yen, up 1.2 million yen (+9.9%) year-on-year. Mito won their points most efficiently, with each point coming in at just 35.0 million yen, up 1.2 million yen (+9.9%) year-on-year. Kashiwa spent 35.0 million yen for every efficient, with each point coming in at just 4.8%. In contrast, on the bottom end, Kagoshima spent 35.0 million yen for every point won, more than seven times the amount used by Mito.

Mito allocated 321 million yen for their matchday revenue this year, up 46 million yen (+16.7%) year-on-year, Kashiwa spent 35 million yen for every efficient the wage bill—the biggest cost for a club would like this KPI to be as high as possible, while the supporters would prefer the opposite. Kashiwa spent 296 million yen on the wage bill in the 2019 season after being demoted to J2, and achieved promotion in just one year. Although there are many uncertainties about this strategy from a BM perspective, it is likely to lead to the strengthening of the team, which is the club’s greatest asset. Taking the risk of investing in the wage bill is a BM strategy that can be adopted if it is combined with the financial wherewithal necessary. On the other hand, Kagoshima, which was promoted to J2, spent 296 million yen on the wage bill, an increase of 117 million yen (+65.4%) year-on-year, but obtained just 40 points, were ranked 21st and were demoted to J3 after one year.

In some cases, the investment in wage bill does not pay off in terms of FM in the course of a single year. It is important to continually evaluate the effectiveness of management decisions related to this important BM measure of investment in the team. In this sense, this KPI should be monitored in the medium to long term as a yardstick for measuring club investment and related impact.

J2 average:

<table>
<thead>
<tr>
<th>Club</th>
<th>Wage bill (millions of yen)</th>
<th>Matchday revenue per point won (millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mito</td>
<td>321</td>
<td>12.9</td>
</tr>
<tr>
<td>Kashiwa</td>
<td>35.0</td>
<td>765</td>
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Matchday Revenue per Point Won

This KPI expresses (1) how much a league point can be sold for (from the clubs’ perspective) and (2) how much a league point can be bought for (from the supporters’ perspective). In other words, the relative value of a league point. All else equal, a club would like this KPI to be as high as possible, while the supporters would prefer it to be low, thus negating a tradeoff. The J2 average for the 2019 season was 3.4 million yen, the same as last year. This figure has remained more or less constant since the 2017 season. Overall, clubs’ league results tended to be linked to the attendance of fans and supporters at stadiums, with most clubs not showing any significant changes.

On the other hand, Mito and Yamagata, which increased their matchday revenues by 35.7% and 35.4%, respectively, to 114 million yen and 241 million yen, increased their points from 57 to 70 and 66 to 70, with KPIs up slightly by 0.2 million yen and 0.3 million yen. Despite this small increase, from the clubs’ point of view, matchday revenue increased, and from the fans’ point of view, customer satisfaction increased along with their teams’ results. We can see that these clubs are managing themselves well.

Matchday revenue per point won

The club has balanced management, driving an increase in matchday revenue along with an improvement in match results.

Customer satisfaction rose

Matchday revenue increased

Top-ranked Niigata dropped 1.5 million yen (+1.2 million yen) from 1,153 million yen to 500 million yen. Fans and supporters are of course happy to see matches where their club obtains points, so the BM challenge for clubs will be raising the level of supporter satisfaction while also making as much profit as possible.

Customer satisfaction rose

Matchday revenue increased

Matchday revenue increased

Customer satisfaction rose
J2 Analysis

3rd Stage: Management

The clubs in J2 are still much smaller than those in J1 in terms of business scale, thus need to carefully consider how best to use their limited assets. In this sense, BM measures are more important in J2 than in J1, but quality results can also be obtained in J2, depending on the club’s approach.

Wage Bill to Total Revenue Ratio

The average wage bill to total revenue ratio for J2 in the 2019 season was 44.2%, up 0.9% (+2%) year-on-year. With the exception of Kashiwa, Ehime and Tokushima, 19 clubs spent 50% or less of their total revenue on their wage bill, which indicates that the clubs are financially sound. One club that stands out is Kashiwa, which increased its wage bill to total revenue ratio by 26.0%, from 67.6% last season to 93.6% in 2019. Last season, Kashiwa was demoted to J2 due to their performance on the field, and despite the prospect of a significant drop in revenue, they were determined to get back to J1 within a year and increased their wage bill by 134 million yen, eventually achieving their goal.

However, the club used up almost all of its retained earnings in just one year in the 2019 season due to aggressive investment, giving them a victory that stands on thin ice. The BM policy of making the right moves at the right time is an important management decision, but given that the club is a public social institution, financial provisioning will be urgently required.

Social Media Followers*

The average number of followers on social media in the 2019 season in J2 was 78,046, an increase of 11,611 (+18.0%) year-on-year. As J2 is likely to have less widespread exposure than J1, a club has competed for the top spot in J1 in the past or is a regular contender for promotion, it can be assumed that the majority of social networking followers will be local fans who support the club regardless of their exposure.

From this perspective, when we calculated the percentage of clubs’ hometown population that are 300K followers of the club, Niigata stood out with 18.7%. In contrast, Kofu, which has the historical connection of being located in the base of the Echigo Leag clan’s arch-rival Talega, was relegated to J2 in the 2019 season—alike the season as Niigata. Despite having a hometown population of around 830,000 people, just 9.4% of the local population support the club through social media. Niigata has long been an integral part of the region through its extensive hometown activities. In fact, Albirex Niigata posters and flags can be found throughout Niigata City.

Midway through the 2019 season, Niigata expanded its hometown from Niigata City to the entire prefecture, bringing the percentage of social network followers to 6.7% of the prefectural population. The challenge now is how to extend their reach to every corner of the prefecture.

Social Media Follower Fluctuation

The social media follower fluctuation in J2 in the 2019 season was 18.5%, a decrease of 23.1% (+55.9%) year-on-year. This significant slowdown can be attributed to the use of Instagram in the 2019 season, following its introduction by several clubs last year. This KPI generally tends to increase when clubs are involved in attention-grabbing promotion and demolition battles. Against this backdrop, Okayama recorded a steady increase of 28.9% over the previous year despite dropping out of the promotion battle. Okayama has been strategically using Instagram as a BM measure, focusing on the fact that young people, who are the club’s target when acquiring new fans, use it extensively. In fact, the club’s Instagram follower growth rate of 74.3% is overwhelmingly higher than that on Facebook and Twitter, which are 3.8% and 33.1%, respectively.

Each social networking service has its own unique user base, and it is important to take this into account when choosing which one to use. The case of Okayama is a good example of how to use social networking services to reach a target population.

Profits from Merchandise Sales

The average profits from merchandise sales in J2 in the 2019 season were 24 million yen, down 4 million yen (-14.0%) year-on-year. This KPI was down across the whole of J2, partly due to the impact of Matsumoto’s promotion to J1, as their merchandise related profits were above the J1 average last season. Kashiwa, which was promoted from J3 to
J2 Analysis

4th Stage: Finance

Within the J.League club license system, "financial standards" are an important benchmark for ensuring a stable financial structure for the J.League clubs. Likewise, clubs in J2 are required not to have excessive liabilities. For this reason, it is very important to maintain and expand total revenue and net assets.

Fewer clubs in J2 were in the red this year, and some clubs received investment from new owners, however it is more important than ever for clubs to take BM measures that ensure profitability even in the face of the coronavirus.

Total Revenue

Average total revenue in J2 in the 2019 season was 1,655 million yen, up 114 million yen (+7.4%) year-on-year. Looking in more detail, while the sponsor revenue (+118 million yen) increased, other revenue remained at approximately the same level as last year, causing an increase in the composition ratio of the sponsor revenue.

Regarding revenue from sponsors, 15 of the 22 clubs in J2 saw an increase in the 2019 season, accounting for the majority of the clubs’ total revenue. Considering that sponsorship revenue accounts for 44.7% of the average J1 revenue, it is evident that J2 clubs are more dependent on their sponsors. To continuously increase sponsorship revenue, it is necessary to increase the value of the content at the source of sponsor value. This essentially means increasing the value of the matches. This leads to stable growth, as matchday revenue should increase as matches offer spectators ever-greater value.

The ability to earn high levels of sponsorship revenue is a virtue unto itself, but for further growth, clubs must take the BM measure of investing this revenue in matches and other club-related content to increase their value.

Year-on-year Revenue Growth Rate

The average for J2 in the 2019 season was 10.9%, a year-on-year increase of 2.0% (+25.0%). On a club-by-club basis, Ryukyu and Kagoshima, both promoted from J3, saw particularly strong growth rates of 96.4% and 60.2%, respectively. On the other hand, the two clubs that were demoted from J1 had contrasting results. Kashima was down 24.3% for this KPI due in large part to the decline in the J.League distribution, while Nagasaki saw positive growth of 10.4%. Nagasaki’s increase in sponsorship revenue (+31.6%) far outweighed the decline in revenue from matchday revenue (-36.9%).

Eleven of the 18 clubs that were neither promoted nor demoted achieved positive growth, while seven clubs experienced negative growth. Looking at individual revenue categories, it is clear that the main driver of negative growth was decline in sponsorship revenue. Fukuoka (-19.5%) and Ehime (-13.0%), which had the largest negative year-on-year revenue growth rates, showed a particularly pronounced decline in sponsorship revenue.

Moving forward, the coronavirus is likely to limit clubs’ opportunities for exposure, and increasingly innovative BM strategies will be required to highlight the benefits of sponsorship.

Revenue Distribution

■ Equity Ratio

The average equity ratio for J2 in the 2019 season was 33.0%, down 5.1P (-13.5%) year-on-year. Top rank for this KPI was Machida at 87.2%, while Kashima was at the bottom with 0.6%.

In J2, equity ratios are divided into three categories: (1) less than 10%, (2) between 10% and less than 50% and (3) 50% and above. These differences can be attributed to differences in top management’s attitude toward retained earnings. For group (1) in particular, even though there is a strong demand from fans and supporters that funds be used to strengthen the team rather than increase retained earnings, in the current uncertain business environment, it is particularly important to appropriately control the balance between strengthening the team (FM) and the financial stability of the club (BM).

Kashima, with the lowest equity ratio, had net assets of 1,031 million yen and an equity ratio of 40.6% at the end of the previous fiscal year, but this year their net assets were 18 million yen and equity ratio 0.6% as a result of posting an after-tax net loss of 1,013 million yen. In order to avoid excessive liabilities in the future, they will surely need to implement BM measures for sustainable growth.
In the 2019 season, Nagasaki won the J2 division of the JMC for the first time in their history. In Field Management (FM) terms, it was their first season after being demoted from J1, and although they did not return to J1 within a year, in terms of Business Management (BM) it was a good season for the club.

When we think of Nagasaki, the image of Mr. Akira Takata, the founder of Japanet Takata, comes to mind, however 2019 was his last season as president of the club. In this interview, we speak to Haruna Takata, Akira Takata’s daughter, who has taken the baton for managing the club from her father. In this interview with Deloitte Tohmatsu, Haruna looks back on the 2019 season she spent as a member of the board of directors and discusses her initiatives for the new season. It’s often said that taking over for a charismatic manager is a difficult task. We tried to find out to what extent this is true, and delve into the mindset of a club manager who is not usually in the spotlight.

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Communicating the Value of Community through the Club

At the beginning of the 2017 season, Nagasaki got a new lease of life as a member of the Japanet Holdings group. It’s well known that in that season Nagasaki started at the bottom of the division, but after Akira Takata (Japan Takata President until 2015) took over as president, the club was promoted to J1. This is a miracle that will go down in J.League history, marking a truly dramatic season of reform for the club. Last season, the club managed to capitalize on its promotion to the J1 division, and in terms of FM, were the top-ranked club in J1 for four key performance indicators, including ratio of new spectators to total attendance, wage bill per point won, wage bill to total revenue ratio and year-on-year revenue growth rate. On the pitch, despite being demoted to J2 again after just one year, the new Nagasaki reliably impressed its fans and supporters. Making the best of this good impression, as they battled in 2019 to reliably impress its fans and supporters. Making the best of this good impression, as they battled in 2019 to

The Ideal Relationship between Club and Sponsor Company

The first issue in an ideal relationship between a club and its sponsor company is sponsorship activation. Normally, a club mostly gains exposure to spectators on match days, which constitutes its main business, and to viewers through live broadcasts. However, by maximizing Mr. Takata’s strength as a high-profile influencer, Nagasaki received media coverage on both non-match days and match days through news and other special programs. These methods allowed the club to provide unique exposure in a way that other clubs could not easily imitate. In this regard, we believe that the foundation of a three-way relationship between the club’s sponsors, the club’s parent company and the club itself allowed Mr. Takata to manage the club without diminishing its value, even after the demotion to J2. In fact, the club’s total revenue was higher than it was in J1. prices due to a drop in the level of their opponents. However, Nagasaki didn’t do any of these things. This may sound like a bullish BM strategy that can only be used in the first year of demotion for a club aiming to return to J1, but listening to the club president Haruna, we discovered this was far from the case. Of particular interest here are the different club-based activations that the Japanet Group implemented.

Creating a Group Company rather than a Private Entity

These achievements seem to have underscored Nagasaki’s potential as a club to Haruna Takata. Forty percent of the people who attended Nagasaki’s home games live in Nagasaki City, but considering that there are 21 cities and towns within Nagasaki Prefecture, there is still room for further promotion and support. A change of ownership can make fans and supporters very nervous. Yet in the case of Nagasaki in 2017, the change was not only way to help the club out of its predicament—it was welcome in general because of the Japanet Group’s status of the club as a major sponsor for many years. Japanet’s acquisition of the club was not just focused on adding value to its business, but on supporting the club alongside the club to increase value. Further, Mr. Takata, the founder of the Japanet Group—a national brand headquartered in Nagasaki Prefecture—personally led the charge and demonstrated a sincere commitment to the management of the club. These were major factors that allowed Nagasaki’s fans and supporters to feel confident about the change in ownership at their club.

Based on what we learned from speaking to Haruna, the true purpose of Japanet Holdings’ decision to make Nagasaki a group company was to quickly and directly reflect the company’s intention to give something back to the local area.

The Future of the Club

The club started out its position in 2018 through a grand slogan extolling the virtues of fair play and peace in Nagasaki and beyond, and the entire club has since embodied this motto today.

One of the symbols of this commitment is the Nagasaki Stadium City Project, which is currently being developed with an eye to completion in the 2024 season. The venue is being prepared as a stadium complex with commercial, office and accommodation spaces in a prime location directly connected to Nagasaki Station. While the project will likely be affected by the coronavirus, the plan seems to be moving forward steadily while taking into account different scenarios regarding the pandemic’s influence of lack thereof.

“By becoming a hub for fans, supporters and sponsors, the club will be able to revitalize the Nagasaki area in a way that Japanet, as a single company, would be unable to do,” noted Haruna. This is the most important role that professional sports clubs can play in a local community, and by extension, becomes an important social role, too. Haruna’s leadership is different from Mr. Takata, an entrepreneur who stood on the front lines and indicated the club’s direction. Haruna will leverage experience and know-how cultivated in the human resources domain of the Japanet Group to improve organizational capabilities at Nagasaki by involving others and making the most of their abilities. This leadership will be a key strength in the current environment, in which the club faces an uncertain future due to the effects of the coronavirus and other factors. We are looking forward to seeing how Nagasaki fares in the years to come.
To What Extent are Fans Interested in Multiple Sports? Japan first hosted the FIFA World Cup in 2002. The sight of Japan’s national soccer team struggling to compete against the world’s best on the global stage was a sight that captured the attention of not only J. League fans and supporters but also many people around Japan. Similarly, the sporting event that excites many Japanese people is the Olympic Games, which, despite the postponement of the Tokyo 2020 Games due to the coronavirus, has always been a great source of excitement for Japan’s athletes as they have represented their country against the world, transcending the boundaries of competition. Many media outlets have reported on the support for the event, and this trend of sports fans crossing sporting boundaries has been particularly evident at the most recent Rugby World Cup. Many viewers of the Rugby World Cup were not previously fans of the sport or particular athlete, yet the success of Japan’s national team in the event led to many “uninitiated” fans following information online and on social networking sites, and the very term “uninitiated fan” has risen in popularity. Looking solely at this kind of qualitative data, the hypothesis described above seems to have a certain amount of credibility, but is there any quantitative data available to support the hypothesis? If our original hypothesis stated at the beginning of this Special Feature is correct, it should be the case that J. League fans view not only soccer-related content, but also a lot of content from other sports. With the cooperation of Sportsnavi, Japan’s largest sports website in terms of number of page views (PVs), we narrowed down our analysis to the types of pages viewed by J. League fans and supporters on Sportsnavi, based on the behavior of Sportsnavi users.

Analysis of Sportsnavi User Behavior Sportsnavi provides us with data on the aggregate number of monthly visits from January to December 2019 for users logged in with a YDID (Yahoo Japan ID) among all the Sportsnavi monthly visitors. Our focus was on the trends in user page transitions between competitions. We asked Sportsnavi to determine from the above data whether users browsing J. League-related sites were also browsing other sports sites, and if so, which sports they were mainly watching. We found the following trends among J. League fans and supporters.

(Trend 1) Most users who view J. League-related sites also view other sports

On annual average, about 15% of users who visit J. League-related websites also visit J. League sites in a given month. More than 8 out of 10 J. League fans and supporters check information on competitions other than the J. League in a given viewing session, suggesting that few people use Sportsnavi purely for information related to the J. League. This trend was consistent throughout the year, and it seems to be a strong data point that partially supports the hypothesis stated at the beginning of this Special Feature.

Based on this data, we can assume that about 80% of J. League supporters are interested in other sports as well. As a rough calculation, if we assume that 80% of the 11 million people who attended J. League matches in the 2019 season are also highly interested in other sports, this would equal approximately nine million people. This number is just over three times the total attendance in the B.League (BT1 and BT2) of approximately 2.5 million people for the 2018-19 season. From a business perspective, this is a number that shows business potential in terms of “cross-marketing,” and is pertinent data that should not be ignored.

(Trend 2) NPB is the sport most often viewed by those viewing the J. League

As shown in Table 1, the NPB (Japanese Professional Baseball) sites had the highest rate of concurrent browsing with the J. League sites. On average, more than one in two (58%) J. League users visited NPB-related sites and J. League-related sites in a given browsing session over the course of a year. Analyzing by month, this trend was consistent from March through October, the period when J. League teams are in action, with an average concurrent browsing rate of 69% over that period. In particular, the concurrent browsing rate increased towards the end of the NPB pennant race in October, with 78% of users viewing NPB-related sites at the same time as J. League-related sites in October. As the hypothesis stated at the beginning of this feature suggests, there is a certain portion of J. League fans who support other sports.

We went on to analyze whether a similar trend could be seen for basketball, which also has a professional league in Japan. The results did not show any significant changes between the period when the NPB is active (October to May) and the rest of the year. Only 17% of users browsed the B.League at the same time as the J. League on an annual average basis. However, the figures for September, when the FIBA Basketball World Cup was held in China, are of interest.

During September, 42% of users browsed basketball-related sites at the same time as the J. League sites. This shows the high level of interest in Japan’s national basketball team, which went from four straight losses to a miraculous eight straight wins in the Asian qualifying round. Even more interesting is that after the World Cup, the rate of concurrent viewing of J. League and basketball games more or less doubled, from 12% to 21%. It is possible that J. League fans and supporters discovered the appeal of basketball thanks to the efforts of Japan’s national basketball team, and became fans of both sports rather than simply switching to basketball. Compared to the NPB, which has a history of more than 85 years as a professional league, the B.League has been around for just three years, and it has a lot of room for growth.

(Trend 3) There is a strong correlation between the J. League and soccer-related sites

It was not a surprise to discover that users who browse J. League websites also browse sites related to national and international soccer at the same time. Approximately 41% of J. League users browsed national and international soccer sites alongside the J. League, and approximately 38% of users browsed international soccer sites during a given browsing session.

Table 1: Concurrent viewing rates in 2019 (January–December)

Table 2: Ratio of concurrent viewing by month in NPB, 2019

Table 3: Ratio of concurrent viewing of tennis by month, 2019

To What Extent are Fans Interested in Multiple Sports?

Behavioral Analysis of J. League Fans and Supporters

The hypothesis that Japanese people aren’t tied to a particular sport and tend to support athletes who represent Japan against the rest of the world is one reason behind the decision of James Rushton, CEO of the streaming company DAZN, to expand the help of Japan’s largest sports website, Sportsnavi, we conducted a simple analysis to see if this hypothesis could be supported, and the results are in.
Kitakyushu wins for the second straight year, gaining over 30 points more than second place!

Kitakyushu were the winners of the 2019 Management Cup in the J3 division. The club achieved great results in all areas, ranking first in marketing, strategy and finance and second in efficiency, gaining them an impressive second consecutive victory.

In the 2019 season, the effects of the club's BM measures were revealed, including organizational restructuring and a transformation in employee mindset, and this has spilled over to the FM side of the business. Kitakyushu ranked high in almost every index, unmatched by any other club. This was true also on the FM side, where we witnessed an explosion of Kitakyushu’s underlying strength.

The coronavirus may continue to make it difficult for the club to attract spectators to the stadium, but the synergy between BM and FM, which is Kitakyushu’s defining characteristic, will allow them to continue to achieve results even in a difficult environment, and we expect them to perform well in the future.

**BM point 2019**

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<th>2018 ranking</th>
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*The ranking in the division for the 2018 season is given.*
In general, the lower divisions of professional sports tend to struggle more to attract customers than the top divisions. Teams in the lower divisions lag behind those in the upper divisions in terms of competitiveness and the degree to which their competitors have garnered attention. As such, BM measures are even more important for clubs in the lower divisions. However, by being competitive with higher division teams in terms of business practices, J3 teams energize the league as a whole and offer enlightening indicators.

**Average Attendance**

Average attendance for J3 in the 2019 season was 2,262, down 74 (-3.4%) year-on-year. Eight of the 15 clubs in J3 had a lower average attendance than in the previous year, and the league as a whole saw poor attendance. A major factor in this decrease was Aita, which had an attendance of just under 2,500 last season, and had an attendance of 1,540 in the 2019 season, down by 927.

However, Kitakyushu significantly increased their average attendance, up 1,548 (+34.4%) year-on-year to 6,049. This was due largely to the fact that the team maintained its position at the top of the rankings throughout the season and eventually won the championship. However, Kitakyushu maintained its position at the top of the league largely due to the fact that the team (+34.4%) year-on-year to 6,049. This was down by 927.

**Stadium Capacity Utilization Ratio**

The average stadium capacity utilization ratio for J3 in the 2019 season was 18.2%, down 1.3P (-5.9%) year-on-year and failing to reach 20%.

Despite this overall trend, Kitakyushu increased this KPI 10.1P to 39.5% year-on-year, and saw the highest rate since the opening of Mikuni World Stadium Kitakyushu. The club's strong FM performance also had a positive impact on spectator numbers, with one match achieving more than 80 percent of spectator capacity at the stadium and two matches at the end of the season exceeding 50 percent. Kitakyushu's home stadium is dedicated to ball games and has a capacity of 15,000 spectators, meeting the 2019 season, their average attendance three consecutive years, indicating that it is an "Giravanz Summer Festival," has far exceeded J3 average.
J3 Analysis
2nd Stage: Efficiency

Matchday revenue per point won

Fujieda

Each point, more than eight times more than season. In contrast, at the bottom of this coming first for this KPI as was also true last year. This KPI shows how efficiently invested resources can be linked to victories on the pitch.

Wage bill per point won

YSCC Yokohama were top for this KPI for the third year in a row, but this is more likely due to a low wage bill than FM results. The total wage bill was 3.2 million yen, which was down 27.3% year-on-year and far below the average J3 wage bill of 169 million yen. Since Sanuki were demoted from J2 last season to third place in 2019. This KPI expresses (1) how much a league point can be sold for (from the clubs' perspective) and (2) how much a league point can be bought for (from the supporters' perspective). In other words, the relative value of a league point. All else equal, a club would like this KPI to be as high as possible, while the supporters would prefer it to be low, thus necessitating a trade-off. The average total matchday revenue per league point won in J3 in the 2019 season was 0.7 million yen, down 0.1 million yen (-9.6%) year-on-year. Like last season, the top J3 club was Kitakyushu, but this KPI decreased significantly for the club the 2.1 million yen (-52.6%) year-on-year to 1.9 million yen. A major factor in this decrease was that although matchday revenue increased by 17 million yen (+15.9%) year-on-year to 124 million yen, on the FM side, the team increased their points from 27 to 66, a 2.5x increase that was enough to win them the J3 league.

On the other hand, Fujieda, who finished the 2019 season in third place in terms of FM, increased their points from 27 to 66, a 3.5x increase that was enough to win them the J3 league.

J3 Analysis

Wage bill per point won and matchday revenue per point won are two KPIs that vary greatly depending on FM performance. Management resources are particularly limited in J3, and this makes these KPIs particularly important, as they show how efficiently invested resources can be linked to victories on the pitch.

Wage bill per point won

This KPI allows us to visualize how efficiently invested resources can be linked to victories on the pitch. Wage bill per point won and matchday revenue per point won are two KPIs that vary greatly depending on FM results. Another club that steadily led the way in FM results through its investment in the wage bill was Fujieda. They increased their wage bill by 45 million yen (+37.8%) to 164 million yen, and their FM performance improved significantly from 16th place last season to third place in 2019. This KPI decreased at Fujieda by 0.9 million yen (-25.6%) year-on-year to 2.6 million yen, obtaining one point. Unfortunately, this did not lead to promotion to J2, but it does illustrate a successful example of efficiently connecting the wage bill to FM results.

Wage bill per point won

Since Sanuki were demoted from J2 last season, the team's wage bill went down by 27.3% year-on-year and far below the J3 division average, bringing their score for this KPI to the bottom of the table at 0.2 million yen, down 25.8% year-on-year. From the clubs' point of view, it is important to raise the satisfaction level of fans and supporters by achieving good results in competition, and at the same time, to maintain or increase the number of loyal supporters that come to games no matter whether their team wins or loses. The key here is whether clubs can entice fans and supporters to the stadium through BM measures, including events and attractive stadium facilities, while also raising the level of satisfaction for existing and new spectators.

Known as the "Football City," enthusiasm for football runs high in Fujieda City, and there are likely many potential customers. The question is how to turn these potential customers into loyal customers in the years to come.

Four factors are important to customer satisfaction: (1) keeping the support of fans and supporters, (2) the value generated in competition, (3) the quality of the stadium experience, and (4) the sense of community that fans feel when they attend games.

Customer satisfaction rose to maintain or increase the number of loyal customers in the years to come. For football runs high in Fujieda City, and there are likely many potential customers. The question is how to turn these potential customers into loyal customers in the years to come.

J.League Management Cup J3 Analysis 2nd Stage: Efficiency
In professional sports club management, it has been common to spend a large amount of funds to increase the wage bill and thereby make the team more competitive. However, in order to be sustained by individuals and the community, investments in other areas are also important. In particular, as the teams in J3 are not as strong as the teams in higher divisions, it is important to invest in raising the value of clubs as well as their competitive strength.

Of winning the championship this year despite coming in last in the 2018 season. While investment in a team is often seen as the key to its PM performance, it is also a reminder of the difficulties of the sports business that FM performance is not simply a function of the amount of money invested.

Social Media Followers

The average number of followers on social media in the 2019 season in J3 was 34,786, an increase of 3,074 (10.6%) year-on-year. In J3, where there is relatively little geographical area, it can be assumed that the majority of social network followers are local fans. In other words, the number of SHS followers is an indicator of a club’s penetration in the community. From this point of view, when calculating percentage of social media followers against hometown population, Numazu came in at 11.5%, despite being only 10th place in total number of followers. This is ahead of Sagamihara, who leads in J3 total followers with 11.0% of the hometown population. Despite being an upstart club that joined the J.League in 2017, Numazu seem to have a lot of locals on their side. This is due to the fact that Numazu’s parent club is one of the country’s leading all-round regional sports clubs. Many players play while still working a job and the club continually makes efforts to get closer to the community through dedicated hometown activities. Numazu is one of the top 3 clubs in terms of connection to social network followers.

Social Media Follower Fluctuation

The social media follower fluctuation in J3 in the 2019 season was 15.2%, a decrease of 4.3% (74,998) year-on-year. The main reason for the slowdown in growth is that Sagamihara, which gained more than 60,000 new followers last season with the free streaming of matches on its Facebook page and set a record of +188% year-on-year for this KPI including other social networking sites, recorded an increase of just +1.8% for the 2019 season.

Looking solely at the number of Facebook followers of Sagamihara, we can see that the figure is down by almost 2,000. Among the followers they gained last season, many followed the club because they were offering a free service, but stopped following them as soon as the free service was no longer available. Social networking sites are accessible and easy-to-use tools, which is why not all followers are passionate fans. It appears to be important to not only increase followers but also to maintain a close relationship with them.

Profits from Merchandise Sales

The average profits from merchandise sales in J3 in the 2019 season were 7 million yen, down 0.6 million yen (8.4%) year-on-year. The top earning club was Tottori, at 35 million yen, while the lowest was Iwate, at 8 million yen.

Tottori’s unique e-commerce strategy seems to be paying off, as it sells local products through the Yajin, or "wild man" project, the nickname of the club’s general manager Masayuki Okano. However, merchandise sales profits averaged around 7 million yen in J3 this season, indicating that merchandise sales have not yet become a pillar of earnings. That said, club merchandise does not just bring profits—it also helps cultivate club loyalty. Clubs in J3 are small and have limited resources, and they have some concern regarding where to invest their management resources. The hope is that merchandise sales will increase through cooperation between the league and the clubs, using measures including a common e-commerce platform.
J3 Analysis

4th Stage: Finance

It is relatively difficult for J3, which is small in terms of business size compared to J1 and J2, to satisfy the financial requirements of the club license system. On the other hand, for that same reason, if they can put together a solid foundation for growth, they can expect it to be exponential. While all clubs must take the coronavirus pandemic into consideration, stabilizing club finances through sound management is a crucial first step.

Total Revenue

Average total revenue in J3 in the 2019 season was 464.4 million yen, up 20 million yen (+4.5%) year on year. Looking in more detail, sponsor revenue (+11 million yen, +45.9%), matchday revenue (+6 million yen, +21.4%) and revenue from merchandise sales (+4 million yen, +19.7%) were the main factors for the increase.

Matchday revenue accounted for 7.6% of its games. Despite the impact of the club revenue, a positive trend but still lower than the 8.5% of distribution from the J. League. Matchday revenue is the base for achieving stable growth as a professional sports club. Despite the impact of the coronavirus pandemic, the immediate task for J3 is to increase matchday revenue through BM measures that increase fans and supporters. In terms of matchday revenue by club, Kitakyushu tops the list with 124 million yen (+15.9%) about 3.4x the J3 average. In addition to the high-quality environment provided by a dedicated ball game stadium, their results in terms of FM are driving a positive feedback loop. As J3 clubs continue to improve their stadia, the division can be expected to attract more fans and supporters and see an increase in the quality of its games.

Year-on-year Revenue Growth Rate

The average year-on-year revenue growth rate for J3 in the 2019 season was -1.0%, down 12.3P (+108.5%) year on year. J3 experienced negative growth for the first time since the division’s inception. In particular, Sanuki and Kumanoto, the two clubs that were demoted from J2, showed negative growth of -20.3% and -8.9%, respectively, while Iwate’s figure was the lowest for this KPI, at -45.9%. This result for Iwate was due to a sharp decline in other revenue.

Meanwhile, Hachinohe, in its first year in the J.League, had the highest value for this KPI at 39.8%. Although Hachinohe’s home stadium has a small capacity of 5,205, it is the first club to build a full-scale soccer stadium before applying to join J3.

In J3, Kitanakasu built the new Mikiur World Stadium Kitanakasu two years ago, which had a positive impact on a number of KPIs, including attracting spectators. For this reason, it will be interesting to see what kind of BM measures a club like Hachinohe, which has an asset in the form of its stadium, will come up with, and whether they will be able to overcome the challenges of the coronavirus pandemic and achieve stable growth.

Equity Ratio

The average equity ratio for J3 in the 2019 season was 25.3%, up 0.1P (+0.5%) year-on-year. The club with the highest value for this KPI was YSCC Yokohama at 71.6%, while the lowest was Tottori at 0.8%.

While J1 and J2 showed a trend of decreasing average equity ratios, only J3 increased its equity ratio in the 2019 season. This is due to the fact that six (6) of the 15 clubs increased their net profit for this season and seven clubs (+2) increased their equity. However, none of the 14 clubs, except for YSCC Yokohama (a non-profit organization) had positive retained earnings, which are a part of net assets. All clubs had accumulated deficits, and covering deficits during a fiscal year by increasing capital is not an essentially easy way to manage a club.

To achieve healthy management that enables them to maintain profitability and generate positive retained earnings, clubs will need to contribute to the local economy through community-based management that makes the most of their hometown locales. They must also implement BM measures to strengthen their earning power, attract spectators to games and boost advertising exposure, all despite limited management resources.

Revenue

The proportion from matchday revenue continues to be lower than that from J.League distributions.

Annual revenue (millions of yen)

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First negative growth

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<tr>
<td>Fujieda</td>
<td>15</td>
</tr>
<tr>
<td>Sagamihara</td>
<td>10</td>
</tr>
<tr>
<td>Nagano</td>
<td>6</td>
</tr>
<tr>
<td>Tottori</td>
<td>25</td>
</tr>
<tr>
<td>Kitakyushu</td>
<td>57</td>
</tr>
</tbody>
</table>

Total net assets

<table>
<thead>
<tr>
<th>Club</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iwate</td>
<td>40</td>
</tr>
<tr>
<td>Fujieda</td>
<td>35</td>
</tr>
<tr>
<td>Sagamihara</td>
<td>20</td>
</tr>
<tr>
<td>Tottori</td>
<td>17</td>
</tr>
<tr>
<td>Kitakyushu</td>
<td>70</td>
</tr>
</tbody>
</table>

Year-on-year revenue growth rate

Change in J3 average

The year-on-year revenue growth rate was negative for the first time since the JAC began publication, partially due to the decrease in income of demoted clubs.

Year-on-year revenue growth rate (%)

<table>
<thead>
<tr>
<th>Club</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>YSCC Yokohama</td>
<td>53.5%</td>
</tr>
<tr>
<td>Sanuki</td>
<td>42.8%</td>
</tr>
<tr>
<td>Fukuoka</td>
<td>38.3%</td>
</tr>
<tr>
<td>Akita</td>
<td>33.0%</td>
</tr>
<tr>
<td>Fukuoka</td>
<td>32.0%</td>
</tr>
<tr>
<td>YSCC Yokohama</td>
<td>29.8</td>
</tr>
<tr>
<td>North club</td>
<td>25.5%</td>
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</table>

J3 average:

<table>
<thead>
<tr>
<th>Club</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>33.8%</td>
</tr>
<tr>
<td>Matchday</td>
<td>34.5%</td>
</tr>
<tr>
<td>Revenue from merchandise</td>
<td>34.5%</td>
</tr>
<tr>
<td>Academy and others</td>
<td>29.8%</td>
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Year-on-year revenue growth rate (%)

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</tr>
</tbody>
</table>

Equity ratio

The 5 clubs that did not see an increase in capital have excessive liabilities.

<table>
<thead>
<tr>
<th>Club</th>
<th>Equity ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iwate</td>
<td>21%</td>
</tr>
<tr>
<td>Fujieda</td>
<td>15%</td>
</tr>
<tr>
<td>Sagamihara</td>
<td>10%</td>
</tr>
<tr>
<td>Nagano</td>
<td>6%</td>
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<td>Tottori</td>
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J3 average:

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J3 Cup Winner’s Analysis

**Giravanz Kitakyushu**

For the second year in a row, Kitakyushu achieved the highest result in the J3 division of the JMC for the 2019 season. After a turnaround from last season and the best possible result in terms of field management (FM) with a win in the division, we spoke again to President Yukito Tamai after his second year in charge and asked him about his reaction to the club’s success. Tamai reflected on the 2019 season in a personal interview with Deloitte Tohmatsu’s Sports Business Group, and also discussed the impact of the coronavirus pandemic on the club’s management.

**Results Born of a New Mindset**

Kitakyushu underwent a dramatic transformation in the 2019 season, from finishing at bottom of the J3 division last year to winning the championship and being promoted to J2. It’s not hard to imagine that fans and supporters who were disappointed with last season’s performance were doubly delighted at this year’s victory, but perhaps it was President Tamai who was the most pleased. Although much attention has been put on the ability of head coach Kobyashi, who has been at the helm since the 2012 season, President Tamai’s wisdom in bringing Kobyashi on board not just as a coach, but also as a sports director responsible for the business management (BM) side of the club’s operation, is something that deserves a closer look. This is also because signs of Kitakyushu’s rapid progress were already evident in the JMC 2018.

Although Kitakyushu was the lowest-ranked (3rd team in terms of FM last season), they won the BM championship, setting a firm foundation for 2019. After witnessing last season’s dramatic results on the FM side, President Tamai declared drastic reforms—on the BM side as well as the pitch—and comprehensively instructed a club philosophy of pursuing the distinctive style of Kitakyushu in all of the club’s employees, players and coaches. In turn, this necessitated taking BM measures that reflected the identity of Kitakyushu as a club (see the JMC 2018 interview with the J3 winning club for details).

The effect of these BM measures was shown in the 2019 season through the best possible FM result of winning the championship, and also through the synergy that resulted in a JMC win by superforming other J3 clubs in terms of BM. This is truly an example of a positive feedback loop. In other words, this result is very important in the sense that it provides the legitimacy of the idea that enhancing BM leads to strengthened FM, which in turn again further strengthens BM. This is in juxtaposition with the conventional view that simply strengthening FM leads to enhanced BM.

**A Club Anchored by its Ability to Attract Spectators**

In the 2019 season, Kitakyushu’s results on the BM side were greatly underpinned by its ability to attract the largest number of spectators in J3, just like last season. President Tamai notes the club’s four consecutive wins were a huge factor in the 2019 season FM getting off to a great start. In addition to the impression that last season’s poor FM performance had been wiped from memory, many fans and supporters viewed President Tamai’s fundamental reforms through his New Year’s address as a true statement of intent, and had high hopes for the club. In the end, the result of winning the J3 championship and achieving promotion was accompanied by a season-long attendance of over 100,000 for home games. This was the second highest in J3 history and the best in the club’s history, making Kitakyushu the top-ranked team in J3 in terms of these KPIs: average attendance, stadium capacity utilization ratio and matchday revenue per point won.

One of the initiatives addressed in our interview was the revitalization of the “Support Shop” system, a BM initiative outside the stadium that takes advantage of Kitakyushu’s ability to attract spectators. The “Support Shop” is a network consisting principally of restaurants in the region. Shops that want to support the club register with the club and can then conduct club-approved sales promotion activities using the club’s properties. The system itself has existed for some time now, but was rarely used, with only about 30 stores registered last season.

In the 2019 season, however, the number of registered shops grew tenfold in just one year to around 370, thanks in part to the positive effects of President Tamai’s reform of the identity of the club and proactive efforts by club staff. As a result, fans and supporters who visit the stadium tend not to go straight home from Kokura station after the game. Rather, they migrate into the city south of Kokura Station to use discount tickets at support shops, following up on the fan recommendations from the club, creating a lively atmosphere at the support shops and throughout the city in the process. In particular, through collaboration with JRF Kiyosu—one of the club’s official partners—the restaurant area in Kokura Station building has been transformed into “Gira Alley” and “Gira Dining.” The club has developed a system in which spectators can redeem special deals if they wear a jersey or team staff or have a ticket stub on match days. In addition to making things easier for fans and supporters, these activities help support shops and sponsor companies solve business challenges such as attracting customers, contribute to solving social issues by creating buzz for local governments and help build local communities.

**Another Reset, Thanks to the Coronavirus**

Unfortunately, the coronavirus has made it difficult to attract fans and supporters to the stadium, which is the pride of the club, and additional planned BM measures have been put on hold for the time being. However, the club philosophy that Tamai instilled in the club’s staff inspired many of them to act on their own initiative, and the club is now increasingly involved in projects not directly connected to football matches.

One of the club’s most popular initiatives is the “With!! KITAKYUSHU” project. After the interruption of league matches due to the coronavirus, the first project initiative illuminated certain guest rooms of the JR Kiyosu Station Hotel to send a message to fans and supporters on the day before matches resumed. The second initiative was a joint effort to raise funds and revitalize local shopping areas alongside fans and supporters who were unable to come to the stadium. Original polo shirts and t-shirts were made available for purchase on an e-commerce site. Interestingly, these polo shirts and t-shirts are not typical products with the club’s colors in the foreground, but are more simple designs that can be used every day. This is part of efforts by the club to contribute to communities that are suffering. Each purchase includes a sticker signed by the players, and the front office staff, players and the club, alongside fans and supporters, are working together on this initiative that embodies the identity of Kitakyushu. In addition, a third round of crowdfunding was recently launched to produce the “Big Flag.” The target of 2.5 million yen was hit as soon as the project was launched, and an additional 16.13 million yen was collected in support from 685 fans and supporters, exceeding the 10 million yen target.

Additionally, the club created math drills for elementary school students that can be downloaded from their website as part of the “Home Learning” program for children nationwide whose schools have been closed due to the coronavirus. These drills were created in cooperation with Kitakyushu Municipal Nakai Elementary School, the University of Kitakyushu and the players. They happened to become a valuable part of the club’s legacy due to the coronavirus, and serve a valuable link between the club and community children who may become future fans and supporters.

**The Club as a Community Hub**

Kitakyushu’s home is Kitakyushu City, home of one of the highest-aged average populations in Japan. Many elderly people come to the stadium, and the average age of spectators is the third highest among all clubs. As such, the impact of the coronavirus has been particularly significant for Kitakyushu, which used to boast the highest number of spectators in J3. Even after the spectator ban was lifted, elderly fans and supporters continue to face a high psychological hurdle due to the risk posed by coronavirus infection. Even if they want to come to the venue, they are still unable to do so. However, despite this difficult situation, fans and supporters are still very attached to the club, which provides the community first. It looks likely that the club will overcome this predicament together with its fans, supporters and local sponsors.

We believe that Kitakyushu will become an indispensable hub for creating new connections between fans, supporters, the local community and sponsors, especially in light of how existing physical ties have been cut due to the coronavirus.

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**Results of the New Mindset**

Erasing BM leads to strengthened FM, which in turn
again further strengthens BM.

**Steady ability to draw customers supports the club**

370 stores

30 stores

2018

2019

**With!! KITAKYUSHU project**

Stage 1

Illuminated building messages

Stage 2

Sale of fan polos and t-shirts

Stage 3

Big Flag project (crowdfunding)
The Transition from Sponsor to Partner

The nature of sponsorship in the sporting world is at a major turning point. We are beginning to see a shift from traditional sponsorship, which focuses on advertising exposure, to sponsorship that focuses on contributing to the resolution of management and social issues. Of course, the value of advertising exposure will not disappear, but the shift from sponsorship to partnership is anticipated to become the standard in years to come.

Changes in the External Business Environment

The global outbreak of the coronavirus pandemic that began around March 2020 has dramatically changed the business environment of the sporting world. While the opening games of the 2020 season in J1 were played, the J.League was suspended and took four months to resume. Even afterwards, J.League clubs were forced to play matches without any spectators or with strictly limited attendance, and this is expected to continue for the foreseeable future.

As such, the basic principle of filling up stadiums in the sports business, which JMC has consistently advocated, has been overturned. Today, we would like to cast an eye on a post-coronavirus business model that J Clubs should aim to adopt in the future.

In response to the strict conditions under which the J.League matches have been held due to the coronavirus and other entities have been focusing on the decline in matchday revenue and merchandise sales at stadiums and other venues. Certainly, this is an important issue that has a direct and visible impact on sponsors.

However, a second look at J Clubs’ revenue structure shows that the majority of their income actually comes from sponsorship revenue. In most cases, sponsorship deals for the year are completed by the start of the season in February, and in that sense, many of the clubs in the league have a reasonable grasp of the sponsorship revenue they can expect for the 2020 season.

However, with spectators restricted at matches due to the coronavirus, a situation expected to continue for the foreseeable future, it will be impossible for clubs to fill their stadiums and will also dissolve leagues of clubs who rank at the “extraordinary atmosphere created by the spectators” that maximizes the value of the clubs’ biggest product: the matches. As a result, the value of advertising for the media and sponsors will be significantly reduced, and many J Clubs will lose their “weapon” in the form of the advertising value that they have been offering to their corporate sponsors.

In addition, in light of the expected economic impact of the coronavirus, which is forecast to be even worse than the financial crisis of 2008, we can assume that many J Clubs need to solve this crisis of 2008, which is forecast to be even worse than the financial crisis of 2008, we can assume that many J Clubs need to solve this crisis.

Given that it is becoming increasingly difficult to obtain sponsorship contracts through advertising alone, clubs must solve non-conventional management issues, such as improving the visibility of their sponsors, to obtain sponsorship contracts. To do so, clubs will need to:

1. Understand the management issues relevant to the sponsor company
2. Propose solutions to management issues by leveraging the club’s tangible and intangible assets

Sponsorship activation is a collaborative process between content holders and sponsors, utilizing the rights of sponsorship and fulfilling both sponsors’ and clubs’ needs.

Sponsorship activation involves bespoke initiatives that address the management issues peculiar to a given sponsor rather than one-size-fits-all solutions. Among these, one type of activation is marketing. In particular, branding initiatives, which can be considered an element of long-term marketing strategy, are expected to be one of the pillars of sponsorship activation in the future.

For example, one of the most important aspects, a sponsorship that utilizes a database of fans and supporters, a data on stadium-going fans and supporters, as well as the demographics of fans and supporters linked to the J Club by J League IDs and other means, has not been used proactively in sponsorship in the past. In the post-coronavirus environment, the value of digital marketing, including when targeted at fans and supporters who cannot visit stadiums, will increase when compared with the past.

Since digital marketing requires a system-based infrastructure, it may be difficult for J1 and J2 clubs, which are not as large as J clubs, to get involved in this area. However, this is an area where the J League has been working for several years now, and where the MKDB (marketing database) is expected to be highly useful. We believe that the league’s efforts have the potential to become the basis for critical post-coronavirus sponsorship activation.

Solving Social Issues through Community-based Activities

Another way for sponsorship activation to keep an eye on is the “SHAREN!” social cooperation activities announced by the J League on the occasion of its 25th anniversary. These activities will not only resolve management issues for the sponsors, but also allow the J Clubs, which proclaim themselves to be community-based, to solve social problems relevant to local governments.

The problem with this kind of social cooperation is that neither the J League nor the J Clubs have secured a budget for this kind of activation. Particularly as sponsors are losing their strength due to the coronavirus, it may seem unlikely that these social partnership activities will continue.

However, the system that is expected to be utilized here is a regional revitalization project that utilizes a corporate version of the hometown tax system, which was amended in 2020.

Due to the restrictions of the hometown tax system, some J Clubs such as those in Tokyo are unable to make use of it. However, by combining the corporate version of the hometown tax system with community revitalization projects that are carried out jointly with local governments, local governments can secure budgets for their activities through corporate donations. For this reason, by participating in community revitalization projects in cooperation with their local governments, J Clubs will be able to turn social cooperation activities, which were previously funded by the clubs, into a new source of income.

Companies that donate money can expect branding effects through their support of social cooperation activities and tax benefits of up to 90% of the donation amount. In addition to keeping the costs of participating in these activities lower than they have been in the past, it should be possible for companies to give back to their core business by participating in community revitalization projects run by local governments through open recruitment.

In this type of activation, the J League and J Clubs act as a hub that aims to resolve both local social issues and management issues concurrently. For this reason, it has the potential to become the new normal in the post-coronavirus sports business world.

Example of corporate hometown tax combined with the use of sports

The funds required for transforming a city into a Smart Wellness City centered around sports can be raised using the corporate version of the hometown tax system.

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Editorial Postscript

We are delighted to issue the J-League Management Cup (JMC) 2019, the sixth report in this series since the first was released in March 2016. We received positive feedback from many readers regarding the 2018 report, and we feel that with each new publication, JMC is becoming more widely known. The fact that the JMC is now picked up by a wider range of people is wonderful news for us at the Deloitte Tohmatsu Sports Business Group.

We plan to continue our work in this area and to contribute to expanding the sports business markets in Japan and the rest of Asia. Moreover, we plan to continue our initiatives to energize other markets, as well.

Since the first issue of the JMC, we have focused on covering the following two points:

1. Providing information that contributes to fixed point observations based on consistent indicators
2. Presenting KPIs that we consider effective in conducting practical benchmark analyses

We have carefully adhered to the principles above while creating this 2019 JMC edition. Due to the fact that results are slow to manifest for the KPIs that management relies on in the Japanese sports industry, we will continue to help interested parties visualize different KPIs through the JMC. Tohmatsu now provides tools for measuring both the J.League and B.League with the same yardstick.

In this sense, we hope JMC will serve as a link that connects all our readers, including stakeholders who are currently not directly connected to sports with the sports business market.

We continue to look forward to receiving your comments and feedback on the JMC.

Deloitte Tohmatsu Sports Business Group
dtfasbg@tohmatsu.co.jp

J.League Management Cup Back Issues

B.League Management Cup Back Issues

Greeting

Deloitte has had a unique focus on the sports sector, led from the UK and regularly liaising with other Deloitte colleagues around the world. For more than a quarter of a century, across over 40 countries, we have worked with more organisations in sport than any other advisor. Our experience, long standing relationships and understanding of the industry means we bring valuable expertise to any project from day one.

Our work with international and national sports governing bodies, federations, leagues, clubs, governmental organisations, event organisers, sports marketing agencies, media, sponsors and rights holders means we are widely acknowledged as the leading industry experts. We provide a wide range of consulting and financial advisory services including strategic, commercial, financial, regulatory, taxation and general business knowledge from major sports.

The Sports Business Group also publish thought leadership that is recognised as authoritative analysis within the sports industry. 2020 saw the 29th edition of the Deloitte Annual Review of Football Finance, documenting the business and commercial performance of English professional football as well as profiling the wider European game, provide a snapshot of the revenue peak before the impact of COVID-19 pandemic as well as some warning signs for the challenges to come.

In addition, each year our Deloitte Football Money League profiles the highest revenue generating clubs around the world. To find out more about our publications, services and experience, please visit

www.deloitte.co.uk/sportsbusinessgroup

2019 saw Yokohama F. Marinos become J League Champions for the fourth time in their history, and the first time since they became part of the City Football Group in 2014.

The success of J League clubs in winning the AFC Champions League in 2017 and 2018 could not quite be matched in 2019, as Urawa Red Diamonds were beaten by Al Hilal Saudi Football Club in the Final.

We hope that the re-arranged Tokyo Olympic and Paralympic Games in 2021 will provide the ultimate platform for Japan to showcase its sporting development and inspire the next generation of talent.

The fifth edition of the J League Management Cup provides an interesting and useful update on the relationship between the football and financial worlds.

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