
“Build, Borrow or Buy” Your Talent?



By Laurence Capron , INSEAD, and Muhammad Mustafa Tousif

Germany’s two leading football clubs are about to go head-to-head in the final of the German Cup. The talent management principles that got them there went well beyond just buying players.

Bayern Munich and Borussia Dortmund are world renowned football clubs. Brimming stadiums in the Bundesliga, strong club performances in continental competitions, an influx of young talent into first teams, and an impressive rise in revenue have drawn no small amount of admiration. In less than a decade, Bundesliga clubs have nearly doubled their earnings, recording the second-highest revenue in Europe – 2.2 billion euros for the 2012/13 season (see data from 2014 Bundesliga report [here](#)).

The two teams are set to go head-to-head this coming weekend (May 17th) after facing off in an all-German final in the UEFA Champions League last season, hailed as testament to their leadership of European football.

So what has made these two clubs such standouts? Financial strength is only part of the story and is more a by-product of their success than a reason for it. Cash-rich clubs like Anzhi Makhachkala of Russia haven't reached the top in Europe, suggesting that success has multiple leadership ingredients that go beyond money. The leading clubs have shown agility in managing their talent by taking an integrated approach to building, borrowing and buying players.

Youth talent systems

In a [recent interview with HBR](#), Sir Alex Ferguson, former manager of Manchester United told Harvard Business School professor, Anita Elberse, that among core concerns such as making an honest assessment of the team and matching and reshuffling resources accordingly, setting clear objectives and giving timely feedback, there is one ingredient which stands out: building a strong youth talent system.

Manchester United is one of the best talent factories in the world. Internal innovation is engrained in the Red Devils. Players such as Duncan

As noted in the book, [Build, Borrow or Buy](#), firms which carefully select and balance those three modes of growth outperform those that stick to one single mode or grow opportunistically, as outlined below:

- **Build** - develop internal resources through training and internal innovation. For football clubs, this means bringing up players from their youth academies.
- **Borrow** - get access to resources for a certain period of time through contractual relationships or alliance. Football clubs accomplish this by shrewdly loaning out or bringing in loaned players.
- **Buy** - acquire new resources and talents through acquisitions. While buying players from other clubs might be equated with "external hiring", in fact it's more than a hiring process. The seller must agree to what the player thinks he's worth, just as the player must accept the new club's offer (wages/ bonuses/ buyout clause). Compared to a loan agreement, the acquisition is long-term - often three to six years - and may be renewed before expiry depending on the player's contribution.

Edwards, Bobby Charlton, George Best, Nobby Stiles, Mark Hughes, Ryan Giggs, Paul Scholes, David Beckham and Johnny Giles were all spotted as youngsters and came up through the ranks of the club. Yet, despite its internal development culture, Manchester United actively loans out its players to other clubs to accelerate their development, providing more game time and diverse sources of learning. And it has complemented its internal pool by buying high-profile players like Robin van Persie (from Arsenal), Shinji Kagawa (Dortmund) and more recently Marouane Fellaini (Everton).

While the “build” component is key, we argue that leading clubs must hone the critical ability to “borrow and buy” talent as well.

Build

One of the competitive edges of the Bundesliga is the promotion of home-grown talent. German players love to play in the Bundesliga, even if recent years have seen a number of them moving to England, Spain or Italy. Both Bayern and Dortmund have excellent club academies and a number of their key players have graduated from these. They both emphasise building the team from internal resources. Their internal resource development (“Build”) has played a fundamental role in shaping their success.

Former Bayern Munich president Uli Hoeness played a key role over the years working closely with the club’s successive managers to bring graduates of the academy up to the first team squad.

The three men behind the re-emergence of Borussia Dortmund were their CEO Hans-Joachim Watzke, Sporting Director Michael Zorc, and charismatic manager Jurgen Klopp, who was appointed in 2008. The new manager started to build the team around young players. At that point Dortmund did not invest much in the transfer market, a conservative approach that paid off. Lesser known signings included Robert Lewandowski (from Lech Poznan, Poland in 2010), Shinji Kagawa (from Cerezo Osaka, Japan in 2010) and Ilkay Gundogan (from Nurnberg, Germany in 2011) – all in their early twenties when they started their Dortmund careers. The buying approach built the squad even further, complementing its build mode, and as such was somewhat different from other clubs.

While Ducksch spent his entire youth career at Dortmund academy, Hofmann came from Hoffenheim at the age of 19, Sarr from Leverkusen at 18, and Durm from Mainz at the age of 20. This buying of players at early

stage of their career is an approach we call *buying to build*.

Borrow

The 'first team' elite can sometimes make it difficult for younger players to break into the squad. That's why clubs resort to loaning in order to continue a player's development. Bayern Munich's Philipp Lahm (to VfB Stuttgart), Toni Kroos (to Leverkusen), David Alaba (to Hoffenheim) all came back and are now key players for the club. Loaning out players to lesser known clubs at an early stage of their career not only offers the player more game time, but intense exposure to league competition and more responsibility, all crucial for their development.

In recent years, Bayern Munich's loaning approach has complemented its build strategy. At the time, they couldn't make the first team, but they each played a significant role for their respective 'borrower' clubs during the loan period, becoming better players in the process. Lahm is now at the peak of his career as captain of Bayern Munich. Kroos and Alaba are still growing but are already integral members of the team.

A club's financial strength plays a key role in having a big squad and that's why rich clubs have the luxury of loaning out players. However, Dortmund, even with limited resources, has used the mode by bringing in Nuri Şahin on loan from Real Madrid and loaning out Moritz Leitner to VfB Stuttgart (until June 2015). Şahin's is a particularly interesting case. A graduate of Dortmund youth academy, Şahin made his debut at the age of 16 years), the youngest player to ever have played in the Bundesliga. In 2007, he was loaned out to Dutch club Feyenoord for a year. He returned to Dortmund in 2008, and was instrumental in Dortmund's Bundesliga triumph in 2010-11.

Home-grown talent at Bayern and Dortmund

Club	Players from the club's academy or reserve team (currently playing for the club)
Bayern Munich	Philipp Lahm, Bastian Schweinsteiger, Toni Kroos, Thomas Müller, Holger Badstuber, David Alaba, Diego Contento + Mats Hummels (moved to Dortmund in 2009)

Dortmund

Marco Reus, Kevin Großkreutz, Nuri Şahin (currently on loan from Madrid), Marcel Schmelzer, Jonas Hofmann
+ Mario Götze (moved to Bayern Munich in 2013)

Buy

Needless to say, money is important in the transfer market given the intense worldwide competition. The financial strength of Bayern Munich has enabled them to spend more on key acquisitions.

Yet buying superstars is not enough. Anzhi Makhachkala of Russia built a “dream team” that stagnated as a fragmented portfolio of individual stars, spending more money on players than the club’s annual revenue. Had Anzhi invested in building a stronger internal academy to complement its expensive acquisitions, its efforts might have paid off. As in a corporate environment, acquisitions are often misleading – a seemingly convenient shortcut but one that rarely fixes the long-term strategic issues in core domains.

The ability to leverage and integrate acquired talent effectively, and the foresight to balance the skill portfolio are two traits Bayern and Dortmund have. They have both refrained from targeting superstars. Like corporations such as Johnson & Johnson or Cisco, most acquisitions are about picking up early winners and bringing them on through their powerful internal development systems.

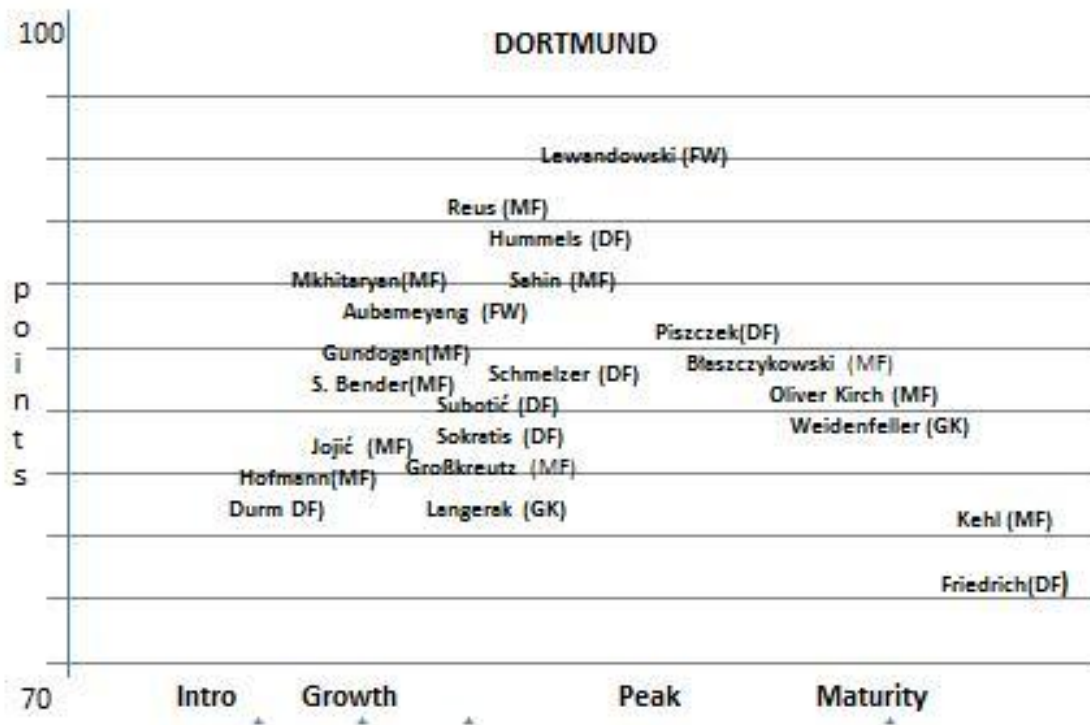
When sourcing, training, blending internally-grown, loaned and acquired players, football teams must balance the skills along the “player life cycle” which is structured around four career stages as follows:

1. *Introduction.* This is where a player comes on the scene of the professional career. Due to stiff competition within the team, there are few opportunities for young players to play at leading clubs, although extraordinary players do shine at this stage.
2. *Growth.* A player is set to continuously grow in his career until he reaches his peak. This stage can come as early as age 19 or 20 and continue until the player’s thirties.

3. *Peak*. A player has reached his peak. Sustaining performance depends on fitness level and hard work.
4. *Maturity /Decline*. A player has passed his peak, and may be unhappy with limited game time. Players often leave for other clubs in search of more regular opportunities to play.

The diagrams below illustrate the composition of the teams of permanent players for Bayern and Dortmund along their career life cycle, indicating a balanced portfolio of talents. The vertical axis (70-100 points) accounts for points assigned to each player (based on our own assessment of players' performance based on their FIFA 2013 and 2014 scores and other relevant sources). The horizontal axis indicates the stage of their career based on our assessment of their fitness level, age, and exposure to injury. In general, a player is in introduction stage at the age of 20/21 or less, the growth to peak occurs from 21+ to 30 years age. A player is usually at his peak at 30 (+/-2) and then declines.





While Bayern and Dortmund do not compete on equal footing at the financial level, it seems that Dortmund has used a smart “Build, Borrow, Buy” approach and has become the undisputed number two in Germany, turning into a serious challenger for Bayern. It will be an interesting game this weekend.

Find article at

<https://knowledge.insead.edu/strategy/build-borrow-or-buy-your-talent>

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