

# ORDER AND PROGRESS

**Bernardo Domingues** picks out the main factors driving Brazil's football market as the Soccerex conference visits the host of the 2014 FIFA World Cup this month.

**DOMESTIC BRAZILIAN** football business is dominated today by new stadium projects, record sponsorship agreements and the prospect of an enhanced domestic broadcast deal.

But only two years ago Brazilian clubs signed a rescue package with the federal government to refinance part of their debts, which amounted to around \$1 billion for the 20 biggest outfits.

A national lottery game, in which clubs allowed the use of their brands in exchange for a cut of revenues, helped pay off the money owed to the government; however the number of lottery bets has not actually lived up to expectations, and club debts continue to rise, according to the Crowe Horwath RCS consultancy.

We know this partly because Brazilian football club finances have become more transparent as an outcome of the lottery scheme: the clubs who opted in (the vast majority) were forced to meet a number of requirements such as disclosing their yearly financial reports - something they were not obliged to do under federal legislation as non-profit sports societies.

But the light at the end of the tunnel is becoming clearer for domestic Brazilian football



Santos were victorious in this year's Cup - Alves

thanks to the next World Cup. New state-of-the-art arenas, mostly built or refurbished for 2014, could prove to be the ultimate boost to gate receipts and corporate hospitality revenues, reducing the clubs' reliance on the transfer of homegrown players overseas and broadcasting fees.

In 2009, Brazil's top 20 clubs made combined annual revenues of \$1 billion (1.9 billion Brazilian reais) for the first time ever and Amir Somoggi, head of the sports business unit at Crowe Horwath RCS in Sao Paulo, forecasts this amount to surpass R\$3 billion (\$1.9 billion) in four year's time.

"This would represent a much smaller growth than what was registered from 2003 to 2009 [40 per cent] because seven years ago the football market in Brazil was not properly developed and maximised," he says.

"Now we notice a diversification of revenue streams, which is what happens in most of the world, whereas in the past Brazilian club turnover has come mainly from player transfers and television rights."

In a way, the World Cup can impact Brazil in a similar fashion to how the Taylor report

impacted stadia in the UK. Modern venues are primed to attract renewed audiences - and occupancy rates for several Brazilian clubs stands at only 40 to 50 per cent, with some even struggling to move past 15 per cent.

"What is still missing is a marketing vision for the management of stadia, plans to exploit those venues and their business potential," says Somoggi, noting that after the World Cup in Germany non-ticketing revenues increased from 11 per cent to 30 per cent of Bundesliga clubs' matchday sales.

#### **Sponsorship revolution**

It is not only in stadium construction and management that the World Cup is set to revolutionise Brazilian football. Some of the new sponsors that will certainly land in the country for 2014 are expected to arrive earlier and stay permanently afterwards, recognising the sport as a valuable channel to reach a sizeable chunk of the local market (it is estimated four-fifths of Brazil's 190 million population follows football).

At the beginning of this year, a shirt sponsorship agreement signed by Corinthians

- Sao Paulo's most popular club with the second largest fanbase in Brazil - with consumer brands conglomerate Hypermarcas. It was hailed as a landmark because along with other smaller deals it meant the club would make \$30 million in kit sponsorship alone in 2010, topping major European contracts such as the recently-announced partnership between Emirates and AC Milan, worth €15 million (\$20 million) per season.

The difference, however, is that the Emirates-Milan deal is for five seasons, while Hypermarcas-Corinthians is only for one year and the club, similar to most of its Brazilian rivals, does not know which brands will be on its shirt in 2011.

"Further sponsorship growth in Brazilian football will depend on brands changing their mentality with regards to commercial involvement with clubs and dissociating part of their return on investment from on-pitch performance," explains Somoggi.

"Football sponsorship in Brazil is still intrinsically linked to media exposure. Metrics used to monitor those sponsorships are 'How



much have I got in brand exposure? For how long has my brand been shown on TV? How many column inches have I got on the newspaper?"

"But those metrics really should be 'How many new customers have the sponsor attracted? How many new relationships have been forged? How many incremental sales have been generated? How many new marketing campaigns have been developed as a result of its involvement with a football club?'"

In an environment where exposure is widely favoured over other forms of sponsorship evaluation, most Brazilian clubs decided to cast aesthetics aside to sell as many advertising spaces on their shirts as possible. Corinthians' deal with Hypermecas gives the brand space to expose four of its products on the front, back, sleeves, shoulders and armpits of the team's uniform. Additionally, under other two other agreements, the Panamericano bank brand is displayed on the shorts and the bottom of the shirt and a Telecom Italia logo appears inside the players' numbers.

Even though marketing revenues have increased from nine per cent of Brazilian clubs' turnover in 2003 to 14 per cent in 2009, there is a lot of room for improvement. And sponsorship outside shirt deals is still unexploited in the country: main shirt deals account for 70 to 80 per cent of the clubs' marketing revenues, as opposed to 10 to 20 per cent in Europe, according to Crowe Horwath RCS.

### The value of skill

As other revenue streams gather pace, Brazilian football's economic model becomes less contingent on the sale of its finest talent abroad. The country continues to export an impressive number of players - a record 1,443 were sold this year according to sports marketing consultancy Euroamericas, who estimate 5,000 play for teams across all five continents. But for the first time in over a decade, this year Brazil was replaced by Argentina (with 1,716 players sold) as the biggest exporter of football talent.

Player transfers represented 37 per cent of Brazilian clubs' total turnover in 2007 - their main revenue stream. This was down to 19 per cent last year (see chart above), despite the net number of transfers actually increasing - an indication that the economic downturn has taken its toll on transfer fees and European clubs, the main buyers of Brazilian talent, are no longer prepared to pay monstrous sums for the next step-over king.

Another contributing factor has been the depreciation of currencies such as the dollar, the euro and the pound against the Brazilian real, mainly due to the recession but also due to the resilience shown by the Brazilian economy in the past few years.

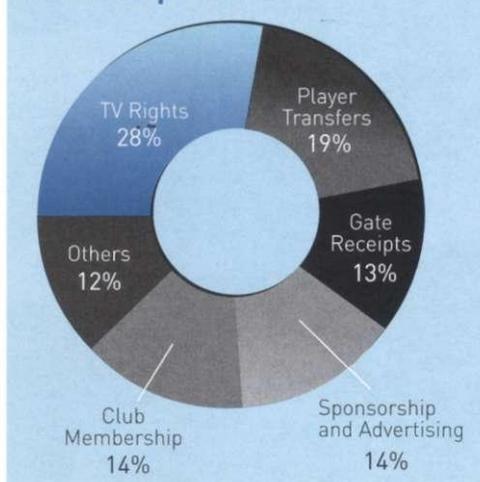
In fact, there has been the situation where trade has moved in the opposite direction in recent years. Weaker foreign currencies,

### Revenues and debts for Brazil's 10 biggest football clubs (2009)

Club (City)	Revenues (\$)	Debts (\$)
Corinthians (Sao Paulo)	103m	57m
International (Porto Alegre)	101m	84m
Sao Paulo (Sao Paulo)	100m	38m
Palmeiras (Sao Paulo)	71m	67m
Cruzeiro (Belo Horizonte)	69m	56m
Flamengo (Rio)	68m	176m
Gremio (Porto Alegre)	63m	78m
Vasco da Gama (Rio)	48m	187m
Santos (Santos)	40m	103m
Atletico Mineiro (Belo Horizonte)	38m	163m

Source: Crowe Horwath RCS

### Revenue breakdown for Brazil's top 20 clubs



Source: Crowe Horwath RCS

availability of sponsorship money to bankroll "repatriation projects", and of course the constant longing for home found in nearly every Brazilian footballer, meant 2009 was the year when a total of 707 Brazilian players returned home. This included former World Cup stars Ronaldo and Adriano, with Robinho following during the second half of the 2009-10 season.

"It's been increasingly harder for a mature player to be persuaded to leave Brazil, mainly because of wages," says Jochen Losch, president of international business at Traffic Sports, the country's leading marketing agency and an investor in player trade.

"Top footballers in the country are earning a lot of money and paying less tax than abroad. The rise of the local currency has also had an impact and when players compare net earnings, they opt for staying put.

"But if international transfers have slowed down, the domestic market has proven to be very lucrative. The majority of our recent million-euro transfers have been agreed in Brazil."

The rise in sponsorship and gate receipts

might lessen the clubs' dependence on broadcasting fees, but that does not mean television rights for domestic football in Brazil have reached a plateau.

The adoption of a points-based system in 2003, akin to the main European leagues, means every club has been guaranteed the same number of matches until the end of the season. It has also given commercial broadcaster Globo, the country's largest media group and Brazilian Campeonato rights-holder, the consistency needed to launch and market pay-per-view content.

Although the Campeonato is still organised by the Confederation of Brazilian Football (CBF), its marketing and media rights is sold by the Clube dos 13. Despite the name, it represents the nation's 20 biggest clubs and recently re-elected its president Fabio Koff in a closely-fought vote against CBF-backed candidate Kleber Leite.

Following his election Koff indicated a desire for a new broadcasting deal to be discussed immediately.

The current three-year agreement, which gives Globo exclusive media rights across all platforms, is worth around R\$ 500 million (\$277 million) per season and expires at the end of 2011.

Clube dos 13 aims to double that value by tendering separate rights packages (free-to-air, pay-television, pay-per-view, mobile, internet and international) and possibly breaking the exclusivity of its most valuable package - the free-to-air rights - by splitting it in two.

Clube dos 13 believes it can profit from competition, especially from Globo's commercial rivals Record, which did not bid when the rights were last available.

"We have conducted a study on the value of our various broadcasting properties, so that we know what we can achieve," says Ataide Gil Guerreiro, president of the marketing committee at Clube dos 13.

It seems in all aspects of the football business, Brazil has finally uncovered the potential of its domestic football market.