

## CASE STUDIES & TEACHING CASES

# Buying your way in: Brazil's biggest football club internationalization strategy

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### INTRODUCTION

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It was a Thursday evening, in February 2022, when David Altman's phone rang. It was Eduardo D'Angelo, a Brazilian investment banker.

– “David, I have found the opportunity you were looking for!” – Eduardo said.

David Altman was the Chairman of a large multibillion consumer goods conglomerate that lately had decided to diversify his investments by going into the sports business. He had recently invested in a basketball and a baseball team. Now he was decided to invest in a football team. He knew a lot about sports and football as a fan, now he needed to gather information on the teams as an investor. So, he called a few of the investment banks he already knew and trusted as a businessman and from his previous investments to start searching for his next target.

– “Great” – David replied – “any of the obvious targets? MLS<sup>1</sup>?”

– “Better! A Brazilian team – a great brand by the way – buying a European club and looking for a partner to finance and manage it.”

David had first initially thought about acquiring one of the MLS clubs, but now he was being offered an opportunity to invest cross borders, in Brazilian talent, a valuable brand and in a European club, all things he knew had value in this business. On the other hand, going into business with a Latin American partner he did not know and not having full ownership, brought some risks to the deal, risks he was not sure he was willing to bear he would have to carefully weight risks and returns on this one.

– “Wow, that's unexpected [...] I certainly want to have a look at the numbers and sit down to discuss it, but I don't know, it seems too good to be true, but why do I get the feeling that you haven't told me the full story yet? What's the catch? What's the deal structure?”

– “There is no catch, seriously! It is a good deal, the only thing is really the deal structure, which is indeed unusual, given the Brazilian Club's ownership structure and their regulatory issues. Why don't I send you the presentation for you to have an initial look during the weekend and we can sit down on Monday morning with the financial team representing them – a company called Win The Game – to discuss the details?”

– “Ok, see you Monday at 9 am.”

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<sup>1</sup> Major League Soccer.

## THE PROTAGONIST

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David Altman is an American businessman, investor, and philanthropist, despite being a devoted husband and father of four. He comes from a large and bonded family (a total of five siblings and twenty-two cousins) that loved sports. Since he can remember, weekends with his close family and holidays with the extended ones were celebrated with all sorts of games: basketball at the backyard, cousin football matches on thanksgiving, Super Bowl watching traditions, charades, or board games on family nights. These were his childhood sweetest memories, the ones he tried to recreate with his four kids now.

Also, David always had a special athletic talent, which made him captain of the basketball team during high school and earned him a scholarship at Harvard University (even though he did not need one, coming from a rich family). But a knee injury took him off the courts and into the family business before he could go professional. Even though he loved his job and the family business, he also loved sports, so after becoming Chairman of the family business – a multibillion global conglomerate with businesses in many industries and countries – thus having finally more time, plenty of money, and no pressure from investors, he decided to start diversifying his own money by investing in sports, his lifetime passion.

His first investment was, naturally, on an American basketball team, his original preferred sport. He invested – and earned money – in the Dallas Mavericks. After that, he got excited and got a larger stake along with another investor at the Los Angeles Dodgers (baseball). Now, one of his cousins got him addicted to and convinced him to invest in football as well. Over the past years, David started to watch almost every sport on television, including football (or soccer as the Americans would call it) more recently. He would fiercely follow and cheer for the European local leagues (La Liga, Premier League), the Champions League, the MLS (the Major League Soccer) and even some Latin American championships, when broadcasted. He also travelled to the last FIFA World Cup with his four sons and the mentioned cousin, all expenses paid. So now he was convinced to invest in football. He just had to find the right team to invest, as this time he wanted to invest solo. With investments in two sport teams and over 35 years managing a huge global conglomerate in the consumer goods segment, David felt he had all the needed capabilities and resources to successfully invest in a sports' team.

## THE INDUSTRY

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Football is the world's most popular sport, considering viewers and participants. According to the highest-level governing body in the industry, the Fédération Internationale de Football Association (FIFA), close to 300 million people play soccer regularly and billions more are soccer fans. The FIFA World Cup, played every four years between national teams, was covered by more than 350 television channels in 214 countries in its last edition in 2018, and watched by an estimated 3.6 billion people, making it the most watched event in television history.

The sport is structured in a hierarchical model. FIFA is the highest-level governing body in the industry, and it oversees seven continental confederations. These confederations, in turn, have authority over the national federations, which regulate football activities in each country. In several countries, the main national competitions are organized by leagues formed by clubs, which are independent from the national federations, but still operate with the federation's authorization.

Even though football is played and watched around the world, Europe is by far the most lucrative market. The European football market reached 28.9 billion euros in 2018/2019 (the last year without impact from the COVID-19 pandemic), according to a Deloitte report. The 'Big 5' leagues, comprising the first division of England, Germany, Spain, Italy, and France, are responsible for 60% of the total revenue. The main revenue streams are the sale of broadcast rights, which accounts for over 50% of the total income, commercial activities such as sponsorships and merchandising and matchday income. Media rights are usually sold by a league, which distributes the revenue to that league's clubs. Each of the Big 5 leagues have between 18 and 20 teams, and there is, unlike American sports leagues, a system of promotion and relegation in which the worst-placed clubs in each season swap places with the best-placed clubs in the "second division" leagues.

The main clubs in Europe, such as Spain's Real Madrid and Barcelona, Germany's Bayern Munich and England's Manchester United and Liverpool have revenues surpassing 500 million euros. The 2020/2021 season was the first one in the 21<sup>st</sup> century that did not have Real Madrid, Barcelona or Manchester United at the top of the revenue's ranking (FIFA, 2018). Manchester City, the club leading the ranking, is a product of the entrance of Middle East investors linked with sovereign funds into the football industry. France's PSG, which ranked 6<sup>th</sup>, is another example of such phenomenon.

Player's transfer between clubs before the expiration of a player contract usually involves a transfer fee to the selling club. In general, the main clubs in Europe operate at a 'deficit' in the transfer balance (transfers fees paid surpasses transfer fees received).

## THE COMPANY

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Flamengo is a multi-sport club structured as a civil association and located in Rio de Janeiro. With an estimated fanbase exceeding 40 million people in Brazil (Datafolha, 2019), Flamengo is the most popular football club in the country.

Flamengo's revenue is based on four pillars: (i) sale of broadcast rights, which includes both fixed payments and prizes for performance; (ii) commercial revenue, which includes sponsorships and licensing; (iii) matchday, which includes tickets, food and beverages, and season ticket subscriptions, giving priority and discounts on the purchase of tickets; and (iv) last but not least, player transfers, which includes the fees paid by other clubs to sign players from the Flamengo squad. While player transfer income is not considered to be a recurring revenue by many analysts in the football industry, its importance for the business model of clubs from peripheral markets is undeniable.

Approximately 32% of Flamengo's revenues are due to player transfers. Although this source of income is volatile and many analysts in the football industry do not consider it to be a regular operational revenue, many clubs base their business model on it. This is the case for most Brazilian teams, but also for clubs in other markets (Dias, 2021). For example, according to the financial statements of the three biggest clubs in Portugal, SL Benfica, Sporting, and Porto earned a combined net revenue of 872 million euros in the last 5 seasons from player transfers.

### Short history of Flamengo

Flamengo was founded in 1895, originally a boat racing club. It was not until 1914 that the club began its activities in football. In that era, football was viewed as game for the rich. Flamengo – along with most Brazilian clubs in the beginning of the 20<sup>th</sup> century – espoused aristocratic values linked to European "civilized refinement".

In the 1930s, under the presidency of José Bastos Padilha, a former advertising agent, Flamengo reinvented itself, creating the image of a popular club, the "most beloved," with a fanbase describing itself as a "nation." Coutinho (2014) explains how the club used radio transmissions and newspaper campaigns to capitalize on the nationalistic sentiment of the time and turn Flamengo into a national team. Since then, Flamengo has enjoyed the position of the most popular club in Brazil.

Such success in attracting the crowds did not always translate into sporting success. In fact, save for the 1980s, when the club won four national championships and one Libertadores Cup (South America's continental tournament), the club did not figure among Brazil's most accomplished teams until recently.

This pattern differs substantially from what is observed in other countries, even in South America, where generally the most popular teams are also the most successful. Although such pattern can be partially explained by the fragmented nature of Brazilian football due to its unique tradition of state tournaments mismanagement played a significant role in the underachievement of Flamengo, especially in the 1990s and 2000s.

Thus, in the early 2000s, despite occasional successes, such as 2009 national league title, Flamengo was in a very fragile financial situation and had no expectations of achieving sustainable success. Indeed, the 2010 national league campaign when the club ended up in 14<sup>th</sup> place – only 2 points above relegation a year after becoming champion – is good evidence of the club's prospects at the time.

## Management turnaround

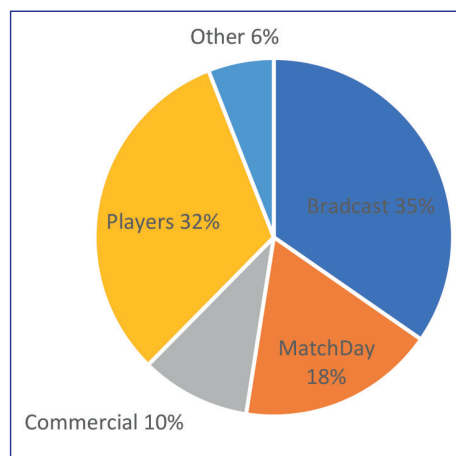
In 2012, a group of members with extensive business experience in different sectors was formed to run in the Flamengo board elections. Known as the *Chapa Azul*, they were inspired by the successful case of FC Barcelona, in which a group of executives won associative elections and changed the status of the Catalan club.

Once elected, the new board put in place a strategic plan developed in collaboration with the consulting company, Ernst & Young. The vision of the eight-year plan (2013 to 2020) was to “Be the greatest and best football club in Americas and among the ten greatest football clubs worldwide”. The plan emphasized that only by implementing professional, transparent management processes would Flamengo reach its desired position. Although the greatness of any football club is subjective, whether measured by traditional financial data or sporting performance, it can be said that Flamengo achieved the first part of the goal (to become the greatest football club in Americas), as it ended 2020 with back-to-back triumphs in the national league, and the largest revenue in Brazilian Football, according to an Itaú BBA (2021) industry report.

The second part of the vision, though, is still to be accomplished. Flamengo’s turnaround in the domestic and regional market occurred concomitantly with an increasing concentration of economic power in global football. The top five leagues (England’s Premier League, Germany’s Bundesliga, Spain’s La Liga, Italy’s Serie A, and France’s Ligue 1) dominate the rankings of the largest revenues (which is a direct consequence of the money from broadcast rights, negotiated by all clubs in the league collectively). Also, the top clubs from these five leagues are increasingly differentiating themselves from the rest of competition. If in 2011/2012, according to Deloitte Football Money League Report 2014 (Deloitte, 2014), the 10<sup>th</sup> largest revenue was 1.7 times larger than the 20<sup>th</sup> largest revenue. This multiplier increased to 2.3 in 2019/2020. The attempt to create a European Super League, although failed, is also evidence of such concentration.

Besides this phenomenon of concentration of economic power, Flamengo’s plan of rising to prominence in the world landscape was severely undermined by the macroeconomic situation of Brazil and the weakening Brazilian real. According to Deloitte Football Money League 2014 (Deloitte, 2014), Corinthians, a Brazilian club with the second largest fan base in the country (Datafolha, 2019), had the largest revenue in Brazilian football in 2012/2013, and the 24<sup>th</sup> largest revenue worldwide. Its revenue of R\$ 325 million translated into 113 million euros. Flamengo’s revenue (without player transfers, to keep the same criteria used by Deloitte) in 2019 was R\$ 650 million (twice Corinthians’ revenue in 2013), but it corresponded to 150 million euros. Since then, the Brazilian real has devalued further, increasing the revenue gap between Brazilian club and European ones.

**Graph 1**  
**Flamengo’s income in 2019**



Source: Elaborated by the authors.

## Flamengo's internationalization project

Flamengo has generally engaged in some sort of international activities for many years. Flamengo has been internationalizing – to some degree – in respect to (a) business activities, by playing in official continental competitions and off-season tournaments abroad and (b) players and managers, by signing foreign players and managers. An example of the latter is the Portuguese manager Jorge Jesus, arguably the most successful manager in the club's recent history and who managed to win in the same year a national league title as well as Copa Libertadores, the most important competition on South America.

Since 2008, the club runs a fan embassy program, which are formed by fans living outside Rio belonging to the *sócio-torcedor* program. Although this project was created with a focus on Brazilian fans living in other Brazilian cities, the project now has embassies in more than 20 countries.

The idea of internationalizing has been around since the beginning of the *Chapa Azul* administration, slated as the next step after successful completion of first phase of the project. According to the VP of Finance, "this seed had already been planted in 2013, when we got in. But we did not know how. It was a goal we did not know how [to achieve], and over time we have been learning, looking, investigating, and watching how others were doing it."

In 2020, the club studied opening an outpost the United States under its brand. The project involved buying the Las Vegas Lights, a club in the United Soccer League, a lower division of American soccer. According to a news source, the idea was pitched to Flamengo by some real estate investors who were looking for a project to increase the value of Cashman Center, a complex in Las Vegas, Nevada. The Las Vegas Lights project was not planned but was, rather, an opportunity that was brought to Flamengo. At the time, the VP of Finance was living in the United States and was contacted with the proposal.

The project never got off the ground due to problems with funding. but the idea of buying a club outside Brazil to internationalize the brand stuck with Flamengo. Since then, the club has been studying alternatives of places and clubs to establish its new franchise. There are other initiatives regarding the internationalization of the Flamengo brand, mainly through the search for new commercial partners in China and the United States. However, the acquisition of a foreign club is currently still among the club's major projects.

Flamengo is pursuing this multi-club project for three reasons: to increase revenues in a strong currency; to further explore its brand; and to create a showcase for its youth academy prospects abroad.

Increasing revenues in a strong currency was seen as a necessity, since the club competes in the market for players with clubs in Europe and North America. As previously mentioned, despite its financial position unrivalled by local competitors (South American clubs), the gap between Flamengo and the world's richest clubs is very large and increasing because of the decline in the value of the Brazilian real.

Arguably, Flamengo's main competitive strength is the size of its fan base, which effectively consumes the club's products, be it buying a new jersey, going to a game, or watching a game on television. But the exploration of such a customer base is limited by the fact that there is only one Flamengo team. "If today we have Flamengo supporters consuming jerseys, consuming game tickets, consuming 'n' products and entertainment of teams like Manchester City, Liverpool, Arsenal, why can't they consume another club product, given that they cheer for Flamengo? The logic is to increase the portfolio." A new club means a new platform for the brand, in turn opening space for sponsors to showcase their brand, for example, and generating additional content to post on Flamengo's social media.

The focus of the club is to increase its product offering to current fans, who are mostly based in Brazil. Management's perception is that the club does not explore the full potential of its current client base, and that it should focus on maximizing such exploration before venturing into expanding the client base.

Also, Flamengo, like many clubs in South America and lesser leagues in Europe, have a business model in which youth academies are essential. The club's model is centered around developing players through its academies, selling them to richer clubs, and then using the revenues to buy more experienced players to win championships. Such a model has a structural flaw, however: with the success of such strategy, the team can sign better, more experienced players with the money from youth player sales. The first team squad becomes "packed" with experienced players, which means there are less minutes available

to youth prospects. These players cannot develop properly and can't show off their talents to scouts, which decreases their market value. Thus, the club starts to sell its prospects for lower values, which hinders its ability to maintain a first-class squad. By using a club outside Brazil as a showcase for its youth academy talents, Flamengo aims to solve this issue by offering more minutes to its prospects, while maintaining the level of first team squad.

## Country market selection

Even after the failure to sign a deal in the Las Vegas Lights project, Flamengo management kept the idea alive of buying a foreign club. The club spent the second half of 2020 designing the strategy and looking for the right place to start the project. In early 2021, the club's management decided on Portugal, which has three main features making it a good target.

First, it is "the place to be in terms of selling player." Indeed, according to data from FIFA, Portugal's balance on player transfers (the value received from outgoing transfers minus the value paid for incoming transfers) between 2011 and 2020 was USD 2.9 billion, almost a billion dollars higher than the next-ranking federation (Brazil), 1.7 billion dollars more than the third (Netherlands), and over two billion more than the fourth, Argentina.

Among the top four federations, there are two types of countries when it comes to transfer behavior. Brazil and Argentina tend to develop a lot of players in their local youth academies and then sell those players to foreign clubs. Portugal and Netherlands, albeit having a fair share of locally grown players, focus on finding talent in less developed leagues in South America and Africa, develop such talents and, and then resell them at a profit to clubs in the "Big 5" leagues. Evidence of this dynamic can be seen in the Brazilian National Team squad for the 2021 edition of Copa América. Among the 20 athletes playing for European clubs in the squad, 6 (30%) followed this pattern: a transfer from a Brazilian club to a Portuguese one, and then another transfer to a Big Five club (see Box 1).

**Box 1**  
**Brazilian players (CopaAmerica2021) that a) currently play in Big 5 teams and b) were first transferred to a Portuguese team**

Player	First team in Europe	Current team
Alex Sandro	Porto	Juventus (Italy)
Danilo	Porto	Juventus (Italy)
Éder Militão	Porto	Real Madrid (Spain)
Ederson	Rio Ave	Manchester City (England)
Fabinho	Rio Ave	Liverpool (England)
Felipe	Porto	Atletico Madrid (Spain)

Source: Elaborated by the authors.

Flamengo's idea is to use a Portuguese club as a showcase to improve the value of its youth academy players, and thus capture the value that currently remains with clubs in Portuguese and Dutch leagues.

The second reason to choose Portugal is the combination of relative strength and accessibility of the Portuguese League. The country grants 6 spots to European Competitions in 2021-2022 season, which is more than any other country outside the Big 5 leagues, the structure of the league, heavily concentrated at the top 3 clubs, means that a relatively low investment can result in a team competing in European Competitions by placing among the six best clubs in the league.

The third factor favoring Portugal in the country market selection is its strong connection with Brazil. The two countries share the same language and have a shared history, since Portugal colonized Brazil for over 300 years. There are over 180,000 Brazilians living in Portugal by official accounts from SEF, a number severely understated according to news reports by the Brazilian Ministry of Foreign Relations, since it does not consider Brazilians who hold dual citizenship due to Portuguese heritage.



A factor that is not formally presented by the club as a reason to choose Portugal but did influence its decision was the strength of Flamengo brand in Portugal since the tenure of head coach Jorge Jesus. The Portuguese manager was already popular in Portugal for stints at Benfica and Sporting, the two most popular Lisbon clubs and his hiring greatly increased Flamengo's presence in the European country. "In Portugal everyone knows Flamengo. And after Jorge Jesus, Flamengo became much more popular. The games are broadcast in free-to-air television, which greatly enhances our deal."

Portugal is thus seen as the best place to start the project, but Flamengo's plans include additional clubs in a subsequent phase, in the United States, China, and other European countries. These next forays, however, will only be taken if the Portuguese project succeeds.

## Deal structuring

In 2021, the club hired Win The Game, a partnership of BTG, Brazil's largest investment bank, and Cláudio Pracownik, a former member of Flamengo's management, to structure the project of buying a club in Portugal. The firm was responsible to oversee the deal, design the governance structure, and look for investors.

Flamengo's multi-club project was unique since the club did not intend to contribute with financial capital. Instead, the idea was that the club would license its brand to a new holding company in Portugal and provide other services and assets related to football operations, while investors would provide the funding. This arrangement was unique insofar as the Brazilian club remained a separated entity, in contrast with the usual models, such as City Football Group or United World.

Governance related themes have been the main concern of potential investors Win The Game had talked to. To protect the project from political movements, given the Club's *sui generis* structure (a civil association that elects a new management every three years), Flamengo would hold a minority stake in the new company, with the investors controlling 60% to 65% of the company. Win The Game was looking for investors with experience in the football or other sports market or experience in establishing a brand abroad. Brazilians living in Portugal, who have experience with both cultures, were also being contacted. By late mid-2022, no investor had signed a deal, although negotiations were ongoing.

## Next steps

It is now Monday morning, 9am, time for David Altman's meeting with Eduardo D'Angelo, his Brazilian investment banker, and Win The Game, the company structuring the deal. After the usual greetings, Altman starts right away:

– "Ok, I have to admit, you got my attention; After learning more about Flamengo, its history, internationalization process and plans, I am certainly intrigued about this deal. But on the other hand, I can't ignore the risks involved in the project. Governance issues apart – which in case we move forward we will set up a special team to discuss – I wonder if this is a good investment business-wise. For Flamengo and for myself."

Claudio, from Win The Game, responded:

– "What are your main concerns David?"

– "Well, to start with, is it a good strategy? Should you be internationalizing at all? I could not think or find any similar successful cases [...] And even if you convince me Flamengo should go international, why start by acquiring a Portuguese team? Have you analyzed all alternatives? Why not start with Latin America, like most companies? As you can see, I have a lot of questions [...] and we have not yet started talking numbers!"

They all laughed.

They are all valid concerns David, that we have asked ourselves already obviously. Let's start our discussion, focusing on your main questions:

1. Why are major football clubs/brands from the developed world?
2. Why did Flamengo decide to internationalize?
3. Why did Flamengo choose Portugal?

## TEACHING NOTES

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### *Buying your way in: Brazil's biggest football club internationalization strategy*

#### *Abstract*

Currently, most successful football clubs are global brands, but mostly from developed regions. This teaching case concerns an emerging market football club wanting to become a global brand. Flamengo, a Brazilian football club with a long history and tradition in football, not to mention a large fanbase, was one of the powerhouses of Brazilian football and felt ready to take the next step. But how could they become a global brand when they are not part of a major global league? How and where should they begin? With these discussion questions as background, students will learn about two important internationalization theories: the Eclectic Paradigm and the Network Approach.

**Keywords:** Internationalization. Internalization. Football. Networks. Teaching case.

### *Comprando sua entrada: a estratégia de internacionalização do maior clube de futebol do Brasil*

#### *Resumo*

Atualmente, os clubes de futebol mais bem-sucedidos são marcas globais, mas em sua maioria provenientes de regiões desenvolvidas. Este caso de ensino é sobre um clube de futebol de mercado emergente que queria se tornar uma marca global. O Flamengo, um clube brasileiro com longa história e tradição no futebol, sem falar em uma grande base de torcedores, era uma das potências do futebol brasileiro e se sentiu pronto para dar o próximo passo. Mas como se tornar uma marca global quando não faz parte de uma grande liga global? Como e por onde começar? Com essas questões de discussão como pano de fundo, os alunos aprenderão sobre duas importantes teorias de internacionalização: o Paradigma Eclético e a Abordagem de Redes.

**Palavras-chave:** Internacionalização. Internalização. Futebol. Redes. Caso de ensino.

### *Comprando su entrada: la estrategia de internacionalización del club de fútbol más grande de Brasil*

#### *Resumen*

Actualmente, los clubes de fútbol más exitosos son marcas globales que, en su mayoría, provienen de regiones desarrolladas, pero este caso de enseñanza trata sobre un club de fútbol de mercado emergente, que quería convertirse en una marca global. Flamengo, un club brasileño con una larga historia y tradición futbolística, sin mencionar su gran base de fanáticos, que era una de las potencias del fútbol brasileño y se sentía preparado para dar el siguiente paso. Pero, ¿cómo convertirse en una marca global cuando no se forma parte de una gran liga global? ¿Cómo y dónde empezar? Con estas preguntas de discusión como antecedente, los estudiantes aprenderán sobre dos teorías importantes de la internacionalización: el paradigma ecléctico y el enfoque de red.

**Palabras clave:** Internacionalización. Internalización. Fútbol. Redes. Caso didáctico.



## Purpose

The purpose of this teaching case is to help students understand international business theories through the internationalization strategy of an emerging-market football club, Flamengo – the wealthiest and most popular Brazilian club. Throughout discussion, students learn two of the most important internationalization theories: the Eclectic Paradigm (Dunning, 2001), and the Network Approach (Johanson & Mattson, 1993).

## Sources of information

The case was built based on primary (in-depth, semi-structured interviews and participatory observation) and secondary (press releases and newspaper articles) data, collected during the internationalization planning process of the company/sport club. The protagonist's name, biography and dialogues are fictional (although inspired in true characters) to allow confidentiality but still inspire students. All other information is real.

## Target audience

This teaching case was designed for international business and international strategy courses at a graduate level. With some adaptations, it can also be used at undergraduate courses.

## Suggested teaching plan

### 1. Assignment questions

- d) Why are major football clubs/brands from the developed world?
- e) Why did Flamengo decide to internationalize?
- f) Why did Flamengo choose Portugal?
- g) (optional) Do you agree with the choice? What other market could they have chosen?

### 2. Discussion plan and analysis

This teaching plan assumes previous case reading and preparation by students and a class session of two hours length. Suggestion of class time allocation is as follows:

- Beginning of class section (5 minutes).
- Discussion of assignment questions in small groups – 4 to 5 students each (25 minutes).
- Case introduction (15 minutes).
- Analysis of the case (about 60 minutes).
- Closure (about 15 minutes).

## Introduction

After welcoming students back from their small groups' discussion, instructor should warm up discussion. A good way to start the case is by asking the audience questions such as: Do you like football? Do you regularly watch football and consume football merchandize? Have you heard of Flamengo? If not, probably there are not many Brazilians in the audience. The instructor should then ask: if Flamengo allegedly has the largest fan base in the world (Silva, 2011), how come is it not as known as Barcelona, Real Madrid, Paris Saint-Germain, etc.?

**a) Why are major football clubs/brands from the developed world?**

The instructor should stimulate discussion and take notes of students' ideas on the board. After writing everything on the board, the instructor can organize the ideas, around these main groups, and to each of them, ask a provoking question:

**Box 2**  
**Main ideas and thought-provoking questions regarding assignment question A**

Main idea	Thought-provoking question
Economic power to invest (in marketing, players training, players' acquisition, etc.).	Are any of the main clubs/brands from the US or Japan? Aren't these rich enough countries?
Europe: longer/stronger tradition in the sport (birth of football).	Doesn't colonized countries already have football tradition? E.g., Brazil, Argentina, etc.?
Talent/culture (somewhat related to the above).	Doesn't Brazil or Argentina have talent? Did you know that 40-68% that major league players are not from their clubs' countries? <sup>2</sup>
Institutional environment (legislation, ownership structures, leagues, etc.).	Don't you have good institutional environment in the US?
Consolidated consumer base with economic power.	Did you know that a great part of revenues from major football clubs are global?

Source: Elaborated by the authors.

The answer lies in having all that at the same place, which allowed for the emergence of a major and strong leagues, that act like powerful networks.

Johanson and Mattsson (1993) introduced the network model to explain the internationalization of firms. Their core idea is that markets are networks of relationships between firms. Firms have long-term relationships, acting as suppliers, customers, or partners, and that such relationships are relevant to the firms for social and technical reasons. Firms also have indirect relationships with the components of the networks of its counterparts (its customers' customers, etc.). In this framework, relationships are established, maintained, developed, and broken in a gradual manner, which renders a cumulative nature to the firm's activities, while also making networks both stable and at the same time constantly changing.

In the network model, internationalization occurs when a firm establishes relationships with foreign networks. Markets, understood as networks, also have different degrees of internationalization. Combining the degree of internationalization of the firm and its market, the authors propose a four-quadrant framework, with four archetypical situations: 1) the Early Starter, when internationalization is low both at firm and market levels; 2) the Lonely International, when the firm is highly internationalized, but its network is not (an advantage hold by the firm, being easier to enter new markets and international integration a source of competitive advantage); 3) the late starter, when the network is internationalized but the firm is not (nearby markets can already be occupied by competitors); and 4) the international among other, when both firm and network are internationalized.

Johanson and Vahlne (2009) explore the concept of liability of outsidership for firms that do not hold a position in a relevant network (late Starters, for example), therefore outsiders. The outsider usually does not know how business actors are or how they relate. The main insight is that a firm's problems and opportunities are less influenced by country-specific factors, and increasingly influenced by network-specific factors. Firms will take actions, thus, to develop their positions in relevant networks to gradually surpass the liability of outsidership.

<sup>2</sup> 43% of LaLiga and a limit of 17 out of 25 players of the premier league according to publications (Mukherjee, 2022; Transfer Markt, 2023).

The Network Approach (Johanson & Mattsson, 1993) helps to understand the reason behind Flamengo's commercial strategy. The club is aiming at its current fans (customers), rather than looking to expand its fan base. This strategy is heavily influenced by the fact that *Brasileirão*, the Brazilian National League, is not internationalized, and neither is the Americas' league (Copa America). Thus, Brazilian fans already follow the highly internationalized European competitions – watching games, buying merchandise, and so on – but the reverse is not true.

The isolation of the Brazilian League contributed to the structure of the project. The characters talked about the challenges of internationalizing the Brazilian league, given the historic lack of coordination among the clubs playing the tournament. Even if the parties involved (clubs, confederations, etc.) agreed to make a coordinated effort to internationalize the Brazilian League, the competition would still be a Late Starter in the framework described by Johanson and Mattsson (1993), arguably the most challenging of the four states described by the authors. The main advantage for internationalization of the football industry (the almost unlimited reproducibility of its core service through broadcasting) is thus severely impaired in a hostile environment, leading clubs seeking internationalization to look for other, less straightforward ways to do so. Flamengo is, in summary, an outsider in the global network of football, playing in a league that is itself an outsider. The path the club chose to overcome the liability of outsidership (Johanson & Vahlne, 2009) is to buy insidership directly, by acquiring an already established club in a league relatively well positioned in the global football network. Flamengo is thus buying not only a Portuguese club but a ticket to the major league and its attendant fan base and viewers.

Networks also play a significant role in the Flamengo case, either as paths to finding and choosing partners or as the underlying reason for some decisions. Like most clubs in South America, Flamengo is an association (Giulianotti, 2002). This fact means that members – called *sócios* – who are regular supporters of the club, take the decisions that are usually taken by the owner of a club structured as a company. These members act on a volunteer basis and generally have professional lives outside the football industry. Such structure creates an informal network that often brings opportunities. In Flamengo's internationalization process, this can be perceived in (1) The Las Vegas Lights project (project presented to a club VP by an acquaintance when he was living in the United States); (2) the choice of Win The Game, a company created by a former Flamengo VP to structure the deal; and (3) the search for investors, as some, though not all, of the potential investors contacted were introduced by members of the club with no formal role in Flamengo.

### *b) Why did Flamengo decide to internationalize?*

Flamengo's strategy has two main goals:

1. To create another product for its current fans. "The logic is based on the customers we already have, [...] to offer a new product for them." The project, in this sense, is akin to product diversification rather than geographical diversification, since the targeted customers are the ones living (mostly) in Brazil. The acquisition of new customers abroad, while a possible outcome of the project, is regarded as incidental".
2. To increase players' development/transfer pricing. Flamengo's goal is to use a well-positioned club as a showcase for the players developed in its academy. The logic is not only to increase the exposure (playing time) of players but to introduce them to a higher level of competition to increase their market value.

Flamengo's strategy is clearly based on exploring its two competitive advantages: fan base (brand) and youth academy. The brand and the fan base are highly connected and can be analyzed as a single advantage, since the club plans to use the Portuguese club as a new product consumed by its existing fan base, rather than expand its fan base (expanding the brand instead). The youth academy combines the raw talent of Brazilian young players (who are selected through a scouting network) with the expertise Flamengo has to develop these athletes. Strength also comes from a home country advantage, since Brazilian players are generally well regarded in the international transfer market (Kuper & Szymanski, 2018). These two advantages guide the country market selection by indicating which Location advantages are more useful when coupled with the advantages the club has.

### c) *Why did Flamengo choose Portugal?*

The choice of Portugal is grounded on three 'L' (as in Location) advantages (Dunning, 2001):

1. The country is seen as a hub for players' development/value enhancing. The Portuguese league provides high visibility, which is essential to increase their market value.
2. There are also cultural similarities between Portugal and Brazil, given the common historical heritage, which smooths players' adaptation, a key factor to allow them to play good football and to value.
3. Last, but not least, the league structure, with wide disparities between the top three clubs and the rest of the league, renders relatively more access into European competitions, an essential step in the business plan to increase commercial and broadcast revenues.

Flamengo is planning to internationalize primarily to internalize (I) part of the player transfer market and thus capture higher value in the global player chain.

Regarding commercial and broadcast revenues, the club-owning strategy also means having more control over the kind of opportunities the club can pursue in Portugal, rather than merely licensing the brand to a third investor. Flamengo is thus looking to internalize (I) such opportunities and activities.

### Eclectic paradigm

Having gone through questions B and C, the instructor can now recap them in explaining one of the main internationalization theories: the eclectic paradigm, by Dunning (2001).

The eclectic paradigm is a theoretical perspective seeking to explain the reasons behind firms' decisions to execute activities in other countries. It is based on three types of advantages/fundamental questions that together form the OLI triad: why firms engage in international activities (O); where such firms so engage (L); and how firms organize international activity (I).

Foreign direct investment will thus be determined by three sets of forces (Dunning, 2001): first, the competitive advantage of firms from a given country over "foreign" firms from other nationalities in supplying another market. Such competitive advantage may originate from the privileged access to or ownership of a set of income-generating assets (Oa, or from their ability to coordinate these assets with other assets across national boundaries in a way that benefits them – Ot). A second factor is the extent to which firms perceive it to be in their best interests to internalize the markets for the generation and/or use of these assets; and by so doing add value to them (I). Lastly, the extent to which firms choose to locate these value-adding activities outside their national boundaries (L).

The eclectic paradigm has been the main reference framework (Ferreira, Pinto, Serra, & Santos, 2013) for international business research, since it offers a clear framework allowing for analyses in distinct levels (micro-meso-macro) and inter-disciplinary approaches. Given that each of the three sets of advantages can include a long list of explanatory variables, researchers can choose the preferred variables that adapt best to the context studied. Ietto-Gillies (2005) recognizes that such wide applicability can be a weakness of the framework since a theory that is always applicable can be tautological and loses its usefulness. The prevalence of the framework was accompanied by copious criticism, which led to increasingly complex modified versions of the OLI taxonomy (Wagner, 2019), attenuating the "analytical and intellectual elegance" of the framework (Narula, 2010).

Among recent developments of the theory, there is the contribution of institutionalism. Scholars influenced by the work of North (1990) extended the framework to consider the effects institutional regimes have on the interplay of the OLI triad, especially on the L component (Cuervo-Cazurra, 2008; Dunning, 2009). A significant strand of literature also focused on the dynamic interrelation of the triad and focuses on how each kind of advantage relates to another and how they can be endogenized.

Despite the “perplexing abundance of changes and adaptations” (Wagner, 2019), the core of the eclectic paradigm – the triad answering the *why* (O), *where* (L) and *how* (I) have demonstrated persevering validity, and its original form remains useful, since it can be taken as an initial framework to be complemented with other theories and concepts as needed (Narula, 2010).

*d) (optional) Do you agree with the choice? What other market could they have chosen?*

If the instructor has time, or chooses to extend the case to another section, he/she can explore other form of market choices, thus having the opportunity to explore other theories such as Transaction costs (Buckley & Casson, 2014; Williamson, 1981) and the Uppsala Model (Johanson & Vahlne, 1977, 2009).

## Closure

After the discussion of the case, the instructor can finally prompt the question to students: would you invest in the Flamengo's project of acquiring a European club? This can take the form of a poll, as there is no right or wrong answer to it, and so far, no epilogue.

Also, the instructor can, if there is time available, stimulate the question of whether Flamengo's strategy is replicable to other Emerging market clubs that seek to create a multi-club ownership platform.

Instructors should point that, although Flamengo's strategy is apparently a great way to buy network insidership fast and directly, without having to gradually develop a position in the global football network, it has limited replicability as it assumes Flamengo's fan base will consume the new club products to be profitable – so it requires a significant domestic fan base. The other aspect of internationalization is, however, widely applicable for emerging-market clubs. Clubs with good youth academies would benefit from an external showcase in a privileged location. In this aspect, it is important to also remember that clubs with good youth academies are the kind of asset clubs from advanced economies seek when pursuing an internationalization strategy involving acquisition of a club. Thus, clubs with small domestic fan bases – lacking the commercial incentives to be the parent club of a group of clubs – could end up being acquired.

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