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CUSTOMER RELATIONSHIP MANAGEMENT FIELD LAB:

INTERNATIONALISATION OF SPORT LISBOA AND BENFICA'S FOOTBALL SCHOOLS AND ACADEMIES

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Abstract

As part of the Customer Relationship Management Field Lab, this document intends to advise SL Benfica on the most adequate entry mode to expand its football schools and academies to China, the US and India. Literature about internationalisation strategies, internationalisation of sports and internationalisation of football is reviewed. Recommendations for each market are then formed, based on the insights generated from a thorough macro and micro analysis performed in group and from a reviewed internationalisation framework. It is concluded that SL Benfica should opt for a joint venture with a local entity in each one of the target markets.

Keywords: Internationalisation; entry mode; SL Benfica; football

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1. Introduction

Sport Lisboa e Benfica (SL Benfica) is one of the Big Three football clubs in Portugal. Despite its financial success, SL Benfica is currently looking for new opportunities in foreign markets as part of its growth strategy. The club, currently the Portuguese champion, counts with a wide and worldwide spread fanbase, having more than 200,000 members, the highest number in Portugal, and over 80 prizes, including 36 Portuguese Championships and 2 Champions Leagues. One of SL Benfica's core strengths is its high-quality youth training and development. In this sense, the club is planning to enter countries such as China, the United States of America and India, which are considered high-potential markets due to the internal growth of football, through football schools and academies.

Internationalisation is a topic of interest for SL Benfica, as it is for businesses in every industry. Shaping forces in politics, economics and technology have increased the number of potential markets and created new opportunities for companies. In this context, the sports industry is no exception, since what before was considered as a local business, has become an increasingly global activity (Richelieu & Desbordes, 2009).

Considering this growing trend, this paper intends to support SL Benfica choosing the most suitable entry mode for its football schools and academies. Subsequently, it is organized in two different parts: a literature review and a practical application to the club, built upon that review and a thorough market analysis conducted as a group in the Field Lab in Customer Relationship Management.

2. Literature Review

2.1. Internationalisation Strategies and Entry Modes

When discussing international strategy, choice of entry mode is of upmost importance. Accordingly, several studies have pointed out the importance of the chosen entry mode , namely due to its complexity, since it is affected by both external and internal factors, its implication for the performance of a firm (Brouthers, 2002), and the fact that it is difficult to change once chosen (Brouthers & Hennart, 2007).

An entry mode can be defined as “an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country” (Root, 1987). Research on this topic traces back to 1970s, even though it has only gained momentum over the last two decades (Brouthers & Hennart, 2007), being one of the most researched areas in international management (Canabal & White, 2008).

Entry mode decision is largely seen as trade-off between risk and return. Accordingly, theory suggest that firms choose an entry mode that provides them the highest risk-adjusted return on investment (Anderson & Gatignon, 1986; Brouthers, 2002). However, existing literature on the topic seems to focus on the degree of control provided by each entry mode, recognized as an antecedent for determining both risk and return (Anderson & Gatignon, 1986; Canabal & White, 2008). Indeed, in order to gain control, companies carry out strategies that involve higher resource commitment and, thus, have more risk involved. At the same time, control is a way to get higher proceeds, since it provides the entrant a larger share of the foreign-generated profits (Anderson & Gatignon, 1986). By acknowledging the inter-relation between these variables (risk, return, control and commitment), many authors have suggested a different array of entry methods (Brouthers & Hennart, 2007).

Doole *et al* (2016), identified 14 mode types, which are clustered in four different groups according to risk and control (**see Appendix 7 of the Group Report, page 115**): Indirect Exporting, Direct Exporting, Cooperation Strategies and Direct Investment.

<u>Indirect Exporting</u> consists on having other entities selling firm’s products overseas. Despite entailing low cost and risk, this method grants the firm little control over the way its products are sold (Doole *et al*, 2016). Indirect exporting can be done by using domestic purchasing; an

export management company (EMC) or export house (EH); piggyback operations and trading companies.

Direct Exporting occurs when the firm is directly involved in the process of exporting. Direct exporting involves more resources and more risk than indirect exporting, but facilitates influence over international activities, providing the firm with greater control.

Cooperation Strategies involve a business relationship between two or more companies, which work together in order to exploit new opportunities. This category encompasses two different modes: Strategic Alliances and Joint Ventures. Cooperation Strategies involve shared risk and shared control. However, picking the right partner is an essential, albeit difficult, decision that companies need to make (Root, 1987).

Direct Investment occurs when a firm enters in a foreign country through investment. Direct Investment includes Assembly, Acquisition and Own Subsidiary. These strategies are usually more long-term oriented since they demand higher involvement, higher resource commitment, and, consequently, higher risk.

Despite this notion of risk-return being widely accepted, several theories and frameworks have been elaborated to explain international entry mode choice (Wulff, 2016). Transaction Cost Theory (TCT) and the Eclectic Framework (OLI) are amongst the most used in literature (Brouthers & Hennart, 2007; Wulff, 2016).

Transaction Cost Theory (Williamson, 1985) is the most commonly applied theory in entry mode decision research (Brouthers & Hennart, 2007; Canabal & White, 2008). According to this theory, entry mode choice is affected by the costs of finding, maintaining, and monitoring the actions of potential partners (Brouthers, 2002; Williamson, 1985) and companies should choose the most cost-efficient entry mode. Under the Transaction Cost Theory, if internalisation costs are lower than the costs of entering through the market, then firms should internalise their foreign operations (Wulff, 2016). Conversely, if transaction costs (of finding, negotiating and monitoring a partner) are low, firms tend to show higher reliance on the market, opting for lower control entry modes (Anderson & Gatignon, 1986; Brouthers, 2002).

Over the years, several scholars have worked to develop the Transaction Cost Theory. Brouthers (2002), expanded the model by incorporating cultural and institutional context variables. According to the author, institutional context can influence the entry mode chosen and firms which adopt entry modes considering both transaction cost efficiencies and institutional variables tend to outperform organisations adopting other entry modes (Brouthers, 2002).

The Eclectic Paradigm, developed by Dunning (1979), is also one of the most widely applied frameworks in entry mode choice studies (Brouthers & Hennart, 2007; Canabal & White, 2008). According to this framework, the choice of entry mode is made according to three factors (Dunning, 1988): ownership (or firm-specific) advantages – assets and skills that are specific to the firm and that give it an advantage over competition –, location advantages and internalisation advantages – making up the so-called OLI. As OLI advantages that a firm possesses increase, the higher the propensity to adopt high-control level entry modes (Wulff, 2016). The Eclectic Paradigm, or OLI-Framework, is argued to be a complete theory, which surpasses the shortfalls of other theories, such as the resource-based, the institutional and transaction cost theory, once it combines them (Brouthers & Hennart, 2007).

We may, therefore, ascertain that theories have evolved past analysing a multitude of organisations across different industries. It is important, however, to see the specific case of sports and football in order to support SL Benfica's decision making.

2.2. Internationalisation of Sports

Internationalisation of sports is a reality of today's world. It has been intensified over the past decade (Ratten & Ratten, 2011) even tough international player recruitment traces back to 1920s (Dickson & Santos, 2016). Nevertheless, academic research on this topic lacks, particularly research linking sports management and sports marketing with international business theories and models (Kozma & András, 2014; Ratten & Ratten, 2011).

Sports' internationalisation has been driven by globalisation and by the rapid development of information technology, in particular due to the emergence of global media such as global satellite channels, the internet and digital radio, which allow for global broadcasting of sport content (Beech & Chadwick, n.d.). Furthermore, traditional Western markets are reaching a maturity stage (Bodet & Chanavat, 2010), which has caused sports companies to actively seek new customers in different international markets, in an attempt to achieve long-term economic and financial sustainability (Ratten & Ratten, 2011). Example of this, is the National Basketball Association (NBA), which currently presents an aggressive internationalisation strategy in Asia, as ticket sales in the US have been decreasing and consumers in those new markets show an increasing interest in basketball. Indeed, Asian countries, such as China and India, have been strongly targeted by sports companies, due to their large population, increase in purchasing power, and high potential for commercialization, since these are avid consumers of sports, merchandising and media (Desbordes, 2007).

According to Dickson & Santos (2016), sports globalisation is reflected in the following five activities: international scouting and recruitment of talent; broadcasting of games and other media content (online); scheduling of games in foreign markets; sales of merchandise around the world and cross-border investing in team ownership.

2.3. Internationalisation of Football

Football is the leading sport worldwide and has become a multi-billion Euro industry. Due to the recognized international profit potential, numerous clubs are currently looking for foreign markets (Bodet & Chanavat, 2010).

As mentioned, Asian markets have been the focus of sports' companies in general, and football clubs are no exception. In an attempt to take advantage of the economic growth and passion for football in Asia, numerous European football clubs have started to implement strategies to compete against other big clubs, in order to gain more fans, new sponsors and new commercial partners (Bodet & Chanavat, 2010).

The internationalisation of football was initiated by Manchester United, the first club to recognize the potential of international expansion. As such, the club has engaged in several operations across borders, including the establishment of stores to sell merchandising, pre-season tours and participation in Asian-based tournaments, partnerships with other global brands, the establishment of a football school and scouting of Asian players (Hill & Vincent, 2006). Subsequently, the club was followed by some of the most successful European clubs which have also internationalised to Asian markets, such as Real Madrid CF or FC Bayern Munich, even though Manchester United is still benefiting from a first-entrant position.

European football clubs have deployed different internationalisation strategies. Nevertheless, some strategies are common across different teams.

Firstly, the strategy applied by several clubs encompassed the recruitment of international players, so as to increase brand awareness and generate interest in those markets, boosting the sense of belongingness to the club (Desbordes, 2007). This was the case of Manchester United, with Dong Fangzhuo (Chinese), of Manchester City with Sun Jihai (Chinese) and of many other European clubs. However, and as mentioned in the article by Bodet & Chanavat (2010), more than recruiting Chinese players, the role played by them seems to be important in generating interest amongst fans – “if Chinese players seldom play for the team, this cannot keep on influencing fans’ choice and loyalty” (Bodet & Chanavat, 2010).

Secondly, to drive their internationalisation strategy, many clubs organise promotional tours in the targeted markets. Once again, English football clubs were amongst the first clubs to implement this strategy, which usually combines football matches with other marketing operations (Desbordes, 2007). Promotional tours in other regions attempt not only to strengthen the relationship between clubs and fans, in order to drive clubs' popularity and interest, but also to achieve short term objectives, such as the enhancement of sales.

Lastly, other strategies such as the development of football schools and academies or partnerships/equity participations in other clubs have also been deployed, which, ultimately, entail a greater commitment from football clubs. Such strategy came, for instance, from Sheffield United, which, in 2005, in order to enter the Chinese market, acquired an equity stake of the Chinese Club Chengdu Blades (Richelieu & Desbordes, 2009).

Nowadays, cross-border investment has been undertaken in many European Football clubs, which have been acquired by foreign groups (Dickson & Santos, 2016). In fact, over the past few years, Chinese ownership of European football clubs has grown significantly, which can give an advantage to those clubs in the Chinese market (Bland, 2017).

2.3.1. Internationalisation of Football Schools and Academies

According to Darby *et al* (2007), football academies can be defined as "facilities or coaching programs designed to produce football talent". These can be differentiated from football schools, in the sense that the latter is usually targeted to younger children, who enjoy playing football and do it as a leisure activity, whilst the former is strongly focused on top-level young players with potential to integrate a first team squad in the future. This internationalisation strategy, which is long-term oriented, has as main objective scouting and nurturing talent and future professional players (Darby et al., 2007). In Africa, for instance, the "Big Three" Portuguese clubs (Sporting CP, SL Benfica and FC Porto) have invested in infrastructures in Mozambique and Angola to develop players for the Portuguese League (Darby *et al*, 2007).

When implementing football schools and academies in foreign markets, clubs usually opt for one of the following options: franchising, cooperation strategies/partnerships (strategic alliances or joint ventures) or wholly built academies (Zhou, 2013). Partnerships with host-country football clubs or companies provides clubs with an opportunity to reduce their costs, whilst having access to local market knowledge, facilities, and resources. Many examples of partnerships can be found between Chinese companies or Chinese football clubs and European football clubs. Chelsea and the Chinese club Guangzhou R&F FC, for instance, have launched in 2013 the R&F Chelsea FC Soccer School in the Guangdong Province of China (Chelsea FC, 2014). Likewise, FC Internationale in 2016 opened its third academy in China in partnership with Yihai Group - Inter Academy Yihai Beijing (FC Internazionale, 2016).

3. Conclusions and Recommendations for SL Benfica

The following sections aims at summarising SL Benfica's internationalisation challenge, describing how market data was collected and analysed, followed by recommendations for each individual market based on both those insights and a reviewed internationalisation framework.

One of the pillars guiding SL Benfica's current strategy is internationalisation. Since Portugal is a small country, it is difficult for the club to generate enough profits to compete with the big European clubs. Hence, internationalisation appears as an alternative to mitigate that. According to Luís Bernardo (Record, 2017), SL Benfica's Communications Director, the club's internationalisation comprises three main objectives that will positively impact the financial growth of the club: the enhancement of the SL Benfica brand; the acquisition of new members and fans; and the acquisition of new sponsors.

Over the years, SL Benfica's football academies have developed several players, currently playing for some of the biggest football clubs. In addition, its youth academy was awarded "Best Academy in the World" by the Global Soccer Awards 2015. As such, the club's strength relies on the quality of its youth training and development, which will be the basis of its internationalisation, namely through the establishment of football schools and academies.

In terms of markets, China, the United States of America and India were the countries considered for this international expansion strategy, since football is growing in these markets and, thus, are currently the ones being considered by the club.

3.1. Methodology

To understand which entry mode was the most suitable for SL Benfica in each country, a country screening analysis for each one of the markets was performed, so as to understand which country-specific factors could affect this choice. Subsequently, an industry analysis of football in those markets was conducted, with the objective of identifying customers as well as competitors and the entry modes applied by those. Considering the insights of these analysis, an entry mode was then suggested having as a basis Doole's (2016) risk-control framework and taking into account the advantages and drawbacks of each entry strategy.

3.2. Recommended Entry Mode for each Target Market

3.2.1. China

SL Benfica is already present in China through 12 football schools in partnership with local governments. Thus, an entry mode will be suggested to expand this number.

After performing an analysis of the Chinese market (**see Group Report, page 19**), several factors were considered as determinants of entry mode choice. Firstly, despite strong political support, as President Xi Jinping is an avid fan of football, government plays a crucial role in business-related issues, which brings risks to companies internationalising. Additionally, the country ranks only 78 out of 190 in the Ease of Doing Business ranking (World Bank, 2017), mainly due to the difficulty in obtaining construction permits, which may detract firms from pursuing direct investments. In line with this, there is a central idea in the Chinese society, called *Guanxi*. *Guanxi* is one of the most important factors when doing business in China and refers to the networks and relationships in the country that may influence business (Rugman & Collinson, 2006). By possessing strong *Guanxi*, companies can gain advantages or benefit from favours, particularly in a political context such as the one existing in China. Considering all these factors and particularly the latter, the entry mode suggested for SL Benfica's expansion involves a cooperation strategy. By cooperating with a local entity, SL Benfica can easily access to government entities, benefit from current infrastructures and facilities besides improving its market knowledge. Out of the possible cooperation strategies, SL Benfica should create a joint venture with a Chinese entity (governmental or non-governmental), as this entails more control and security to the club. Nevertheless, it is important to highlight the difficulties that may arise from this decision, such as the coordination between partners, being of extreme importance an alignment of values and of strategic priorities.

3.2.2. United States of America

In the USA, no factors were identified as restricting SL Benfica's entry mode choice (**see Group Report, page 34**). In fact, the country ranks 6 in the Ease of Doing Business ranking (World Bank, 2017) and there are no substantial restrictions imposed by the government regarding foreign investment in the country. As such, the recommended entry mode for the company in this market, had solely in consideration the level of control and risk desired by the company, and its financial and marketing risks. Since engaging in direct investment would demand a high level of resource commitment from Benfica, and given the high risk arising from the uncertainty of success of its academies, direct investment strategies were not considered a viable option, being excluded from the set of options considered. Thus, and after performing a competitor analysis to see the entry modes chosen by other clubs, two strategies remained as possible: franchising and a cooperation strategy. A franchising strategy was considered, since it would allow the company to deploy a lower amount of resources, while facilitating the scalability of Benfica's football schools and academies. However, and contrary to what happens with FC Barcelona, which uses this strategy for some of its football schools in this market, SL Benfica does not possess such a strong and recognized brand. Moreover, since the club's competitive advantage rely on its high-quality training, this strategy could not give to the club the level of control desired and needed to sustain this advantage. Therefore, a cooperation strategy, namely a joint venture with an American company is the suggested strategy for SL

Benfica. By doing so, the club can keep control of its training methods, guaranteeing its quality, while benefiting from market knowledge and assets from its partner.

3.2.3. India

When thinking about the best strategy to enter the Indian market one should consider the poor infrastructures in the country, which may hinder foreign operations (**see Group Report, page 50**). India ranks 100 out of 190 in the Ease of Doing Business ranking (World Bank, 2017) being under the 150 position in “Starting a Business”, “Dealing with Construction Permits”, “Registering Property” and “Enforcing contracts”. Moreover, and as is the case of China, there is considerable political interference from the government. Having said that, direct investment modes are not advisable, especially considering the high risk of such decisions, and the fact that the Portuguese League is not as recognized in the country as other leagues. Consequently, the establishment of a joint venture with a local club or a local football-related company seems to be the adequate entry mode, since it overcomes the mentioned issues, implies lower risk and resource commitment and, at the same time, allows SL Benfica to keep control of its training quality. In fact, this strategy is in line with the one employed by all the clubs that have entered with football schools and academies in the Indian market, which so far, have proved to be successful. However, it should be highlighted the importance of finding a partner aligned with SL Benfica’s values and philosophies, given the existing cultural differences.

As described in this document, there is a substantial body of knowledge on internationalisation available to organisations such as SL Benfica. Hence, the challenge relies on understanding how the specific situation and the strategic focus of each organisation, as well as the macroeconomic context of each target market, make different internationalisation strategies more or less adequate. As such, it is recognized that the conclusions and recommendations presented in this document should be periodically reviewed, in accordance with the dynamism of the variables involved.

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