

## **THE ARENAS BUSINESS: SPORTS PROFESSIONALISM, CULTURE AND ENTERTAINMENT**

**José Rubens Camargo Gonçalves da Motta**

Fundação Instituto de Administração  
zerubensmotta@hotmail.com

### **ABSTRACT**

No matter how elaborate is any study, the point is that if it is not applicable, of little served the entire effort. In this way, the Business Plan of Multipurpose Arenas proposes to demonstrate marketing and financial viability of its concept. In the aspect of business return on investment, it was proved by three indicators that it represents a project with positive return and better than conservative investments. Moreover, the analysis were founded and applied by the theory that had its importance in the definition and validation of the proposed model of multipurpose arenas. As Blake (1985, *Image, Leisure Management*, pp. 14-15) "sports centers, theaters, art galleries, libraries, museums, are mere installations containing tangible and intangible products that have no value, except what the customers attribute". This is, in fact, the best way to represent what was intended to highlight through this study.

**Key-words:** Multipurpose arena. Business plan. Market positioning. Professionalization of sport. Entertainment. Culture.

### **RESUMO**

Não importa quão detalhadamente seja elaborado qualquer estudo, o ponto é que, se não for aplicável, de pouco serviu todo o esforço consumido. Nesse sentido, a proposta é analisar com este Plano de Negócios de Arenas Multiúso a viabilidade mercadológica e financeira do

seu conceito. No aspecto da atratividade do negócio, demonstra-se, com três indicadores, que realmente se trata de um projeto com retorno satisfatório e maior do aquele que se obtém com investimentos mais conservadores. Ademais, as análises foram embasadas por referencial teórico aplicado que teve sua importância na definição e validação do modelo proposto de arena multiúso. Segundo Blake (1985, Image, Leisure Management, pp. 14-15) "centros esportivos, teatros, galerias de arte, bibliotecas, museus são meras instalações que contêm produtos tangíveis e intangíveis que não possuem nenhum valor, exceto o que os clientes atribuem". Esta é, de fato, a melhor forma de representar o que se pretende evidenciar com este trabalho.

**Palavras-chave:** Arena multiúso. Plano de negócios. Posicionamento. Profissionalização do esporte. Entretenimento. Cultura.

## **1 INTRODUCTION**

Despite the fact that the paradigm concerning seriousness in terms of professionalization of sports in Brazil has not as yet been overcome, the generation of new sources of revenue at sports clubs and associations such as those devoted to martial arts, athletics, basketball, soccer and volleyball is a true and burning need. So as to ensure that this paradigm is a hurdle less in the rush to perpetuate Brazilian professional sports, the efficient management of resources cannot be overlooked.

It is within this context that the theme concerning the Management of Multipurpose Arenas arises, namely: modern centers that gather sports, leisure, culture and diverse services activities and structures. The intent is to introduce a business model that is capable of posing as a feasible alternative in the quest for sustainable sources of financial and infrastructural resources, for those organizations whose purpose is to generate surplus in both accounts and obligations. The ultimate target rests in the need to avoid resorting to the good graces of the government, whether these are of financial or tax exemption nature.

From a short term standpoint, given the preparations that are in course to ensure Brazil receives the 2014 World Soccer Cup and the 2016 Olympic Games (in the State of Rio de Janeiro), it is imperative that institutions promoting such events grasp and are capable of implementing an efficient sports arena management model that is applicable and aligned with Brazil's reality. For the sake of offering an example, consider the dimension of the impact of events such as the World Cup in Brazil: if one merely takes into account investments in the construction of 12 arenas in compliance with Fifa's (International Soccer Federation) standards and considers as base reference 2011 budgets, the venture may come to represent R\$ 7 billion in view of overall impacts.

Therefore, if one were to treat such sizeable investments as if they were advanced architectural and engineering works designed for a specific and spot purpose, i.e., to meet Fifa's and IOC's (International Olympic Committee) requirements within a two-year horizon, it would seem as if the potential of new businesses that may arise from investments of the kind were being entirely

ignored. Furthermore, organizations in charge of managing these premises would, in the future, be over-burdened.

## 1.1 RESEARCH ISSUE

It is our understanding that the legacy of soccer matches played during the 2014 World Cup and of the 2016 Olympic Games may very well end up being limited to the construction of multi-purpose arenas or in the worst case scenario, of several “white elephants”, i.e., colossal buildings that lack practical significance to society.

Thus, careful analysis establishing the business’s prime attributes and economic feasibility is mandatory in support of decisions concerning the very implementation or no-go of sporting arena projects. It is along this line of thought that this paper poses to guide interested parties by resorting to a Business Plan, even though it has not been prepared in an in-depth, exhaustive manner.

The study itself focused and ground on revenue, cost and operational expenses estimates related to the construction and operation of a hypothetical multi-purpose arena, including return on investment appraisals, considering a 30 year period.

Consumers currently prefer to watch games at home. Furthermore, one must take into account that the purchase of TV packages by this type of audience as opposed to watching matches *in loco*, also derives from difficulties involving travel between the cities involved in the events.

## 1.2 STUDY OBJECTIVES

This study's main objective is to evaluate a hypothetical case based on research focusing on investments in multi-purpose arenas, from the most widely acknowledged project attractiveness financial indexes standpoint, namely *Payback* (return on investment period), Internal Return Index (IRT) and Net Present Value (NPV).

Furthermore, to ensure the study is not limited to financial aspects, market variables shall also be covered given the fact that whatever the market segment, these do impact the strategic planning of both products and services. In alignment with this didactical guideline, the study employs both the five competitive forces model (Porter, 2004) and the strategic matrix (Campomar, 1983) and also details the phases involving the preparation of a Business Plan.

One of the intents of the study proposed herein is to draw attention to the need for the design and implementation of short, medium and long term plans, which are effectively capable of supporting projects involving the building and management of sports arenas. The prime beneficiaries - in addition to society as a whole which pays taxes and does not wish to witness these being applied to serve private interests - are the organizations themselves, such as associations, clubs and confederations and private managers who shall be responsible for the continuity of these future arenas.

## 1.3 JUSTIFICATION CONCERNING THE STUDY OF THE THEME

The overall situation of sporting centers in Brazil - or rather, considering this study's specific scope - of stadiums and multi-sports gymnasiums, is very poor in as much as the following requisites are concerned:

- a. comfort: visibility of the event, conservation and quality of the structure;
- b. ease of access: including internal movement, the surroundings of sporting squares, urban mobility modes and parking lots;
- c. safety: certainty as to ownership of purchased seat, monitoring of facilities and groups of prepared guards;

- d. services: the convenience of food, shopping and entertainment services in general;
- e. technology: the availability of information technology infrastructure;
- f. perceived value: the price of tickets increases every year whilst parity in terms of meeting the needs of users remains at relatively low levels.

On occasion, serious accidents due to the lack of conservation of sporting arena premises do occur in Brazil. In the state of Bahia, in 2007, at the *Fonte Nova* stadium, part of the seating stands collapsed and lead to the death of seven people; in Rio de Janeiro, in the year 2000, at the *São Januário* stadium, over 100 people were injured given the rupture of an isolating grid; in 1992, at the *Maracanã* stadium in Rio de Janeiro, a front protection grid collapsed and approximately twenty fans fell into the moat that separated supporters from the field, three of whom eventually died.

It is also hard fact that transportation conditions, comfort and convenience services, within and around sporting buildings are precarious. Most often, the delay to enter the premises (when one is able to arrive in good time and at the beginning of the event) originates from difficulties in finding efficient urban mobility means and because of terrible traffic jams that are formed in the surrounding areas.

To this add the fact that spectators are deprived of the possibility of having a meal with minimum comfort, whether before, during intervals or after matches since there are few available alternatives and the very ability to move around internally is limited. Furthermore, fact that it is highly probable that once one returns from the break, someone else might be there, occupying your original seat.

In as much as offering technological infrastructure to supporters is concerned, currently one might consider the same as being non-existent; even monitors are not offered transmitting the match itself, something that would prove to be of great use should the audience miss given details of the game. Recommendations include the use of technology not only to guide safety activities but also to promote added value services such as consumption suggestions at the stadium, i.e., promote the so-called purchase by impulse and convey a sense of proximity with the attending audience.

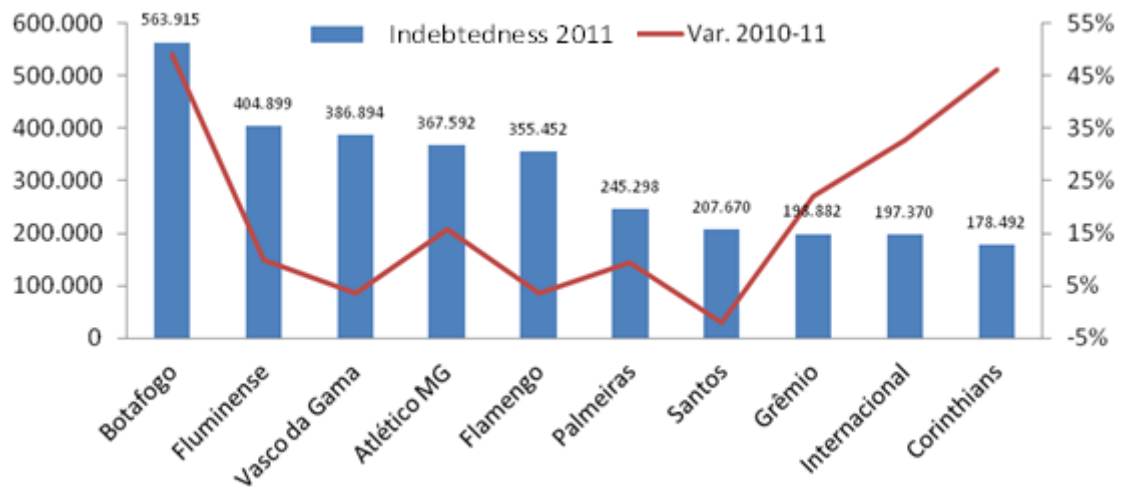
In addition to these issues, the financial situation of sporting centers is also a matter of serious concern. After hosting the 2010 World Cup, nine stadiums in South Africa presented deficits, the most expensive having been that known as Green Point, in Cape Town which consumes approximately R\$ 10,5 million a year whilst outsourced management prove to be incapable of covering expenses. In Portugal, deficits persist in maintaining the structure set up to host the 2004 Eurocup: of the ten stadiums used for the event, six were built using public resources at an approximate cost of R\$ 2,4 billion and none of the stadiums were outsourced to private management given the lack of interested parties (Época, 2011).

As far as building works involving the construction of arenas is concerned, the current scenario is one of indiscriminate use of public funds not only thanks to financing and subsidies but mainly given the fact that expenditures exceed, regardless, all planned budgets and are conducted without any prioritization criteria whatsoever, to the detriment of other, more urgent social investments. According to the magazine "O Empreiteiro" (2010) for instance, initially the Pan American Games held in Rio de Janeiro in 2007 were expected to require an investment of R\$414 million but once all was concluded, the final amount rose to no less than nine times more, namely R\$3,7 billion.

In as much as soccer clubs are concerned, despite the fact that organizations control some of the most important sporting centers and reap the largest media and sponsoring revenues, the overall financial situation is very poor and can in fact become even worse due to the cost of maintaining the respective professional structures.

According to BDO RCS Brasil, an auditing and consulting firm, their "Total Sports" business line in 2011 analyzed 20 soccer clubs. Findings revealed all clubs presented a net debt balance, whether with suppliers, financial institutions or government totaling R\$ 3,8 billion. This represented a 19% increase in relation to the R\$ 2,6 billion worth of net obligations verified in 2010, i.e., total liabilities without taking net equity into account, less total assets without taking fixed assets into account.

Next, Graph 1 presents the level of net indebtedness per club, in R\$ thousands.



**Graph 1: Soccer club indebtedness level**

Source: BDO RCS (2011)

Considering that the Sport Club *Corinthians Paulista* - the club that boasts the highest Brazilian soccer revenue - in the fiscal year ending on 31 December, 2001 (see the club's site) presented a Profit and Loss Balance of approximately R\$280 million worth of net revenue (including professional and amateur sports related and deriving from their social club) and an indebtedness level of approximately R\$178 million (as per the graph above) one concludes that 64% of the club's total revenue is committed to financial obligations.

On the other hand, given the quantitative characteristics of the Brazilian metropolitan centers and the respective sporting preference - i.e., for mass sports - it becomes quite evident that there is a demand that should be able to reverse this overall scenario of club indebtedness. According to an article published by the electronic journal *Meio & Mensagem* (2011), pay-TV channel's forecasts for transmission package sales of the 2011 Brazilian Soccer Championship, under the pay per view modality (a non-packaged payment system) totaled an estimated 1.200.000 subscribers (preliminary data).

Therefore, in as much as the building of arenas for the 2014 World Cup and the 2016 Olympic Games and other multi-purpose arenas that soccer teams are erecting is concerned, ample and serious planning, both in terms of budget and marketing is mandatory so as to generate tangible results for the



community, such as new entertainment alternatives and incentives involving both culture and the practice of sports. In other words, a profitable business model that makes optimized use of future multi-purpose arenas arises as the *sine qua non* condition for clubs to become self-sustainable.

So as to provide proof of the benefits and advantages the efficient management of multi-purpose arenas would promote, the proposal herein is to design a Business Plan comprising three possible models for analysis so as to determine that which demonstrates the greatest financial attractiveness and alignment with the Brazilian reality.

The models that will be characterized in this study are:

- I. multi-purpose arena with a sports only focus: the purpose is to exclusively promote sports competitions of both collective and individual nature such as soccer, basketball, volleyball, athletics and martial arts;
- II. multi-purpose arena to be used both for sporting events (as per item I above), entertainment such as music shows and corporate activities (e.g. conventions, trade fairs, etc.) and religious celebrations.
- III. Multi-purpose arenas for: sports, entertainment, business, culture and trade. This would be the most complete model because it would include all item I and II components and also comprise commercial activities such as bars, restaurants, stores, permanent and itinerant exhibitions and so forth.

## **2 2 THEORETICAL REFERENCE**

The preparation of a Business Plan is a complex task given the nature and the volume of data and information required. However, it is of great value for the development and launch of a new idea, product or service. The importance of a well ground and carefully prepared Business Plan becomes evident not only both for the fields of corporate Marketing and Strategic Planning at companies of the most varied segments but also at loan and financing desks of financial institutions when, for instance, an entrepreneur seeks additional sources of resources.

## 2.1 2.1 BUSINESS PLAN OBJECTIVES

"If you do not know yourself or your enemy, you shall lose all battles. If you know yourself but not your enemy, you shall lose half of the battles. If you know your enemy and yourself, you need not fear the outcome of one hundred battles". These phrases, extracted from the book *The Art of War* – a military treaty that was written during the IV<sup>th</sup>. Century before Christ are attributed to the Chinese general, strategist and philosopher Sun Tzu. In a very precise manner it is our understanding that the quotation expresses the need for the use of a well prepared Business Plan.

As highlighted by Campomar,

Objectives must be specific, measurable, realistic, challenging, harmonious and jointly established by management and those in charge of attaining the same. They must comprise all aspects of subject to control marketing activities. Marketing objectives must be compatible with the organization's strategic objectives. (Campomar, 1977, p.6)

Furthering along this line of thought, Kaplan and Norton (1997, p.25) reinforce that "that which is not measured cannot be managed", a statement that demonstrates the relevance of preparing a plan that can be quantitatively monitored and, according to the market's behavior, adjusted, throughout execution.

To identify and generate value to customers, Business Plans must be guided by holistic marketing, i.e., take into account stakeholder interdependencies to thus form lasting relationships with clients and manage a continuously evolving high performing value chain.

In as much as multipurpose arenas are concerned, when designing a Business Plan concerns must derive from a corporate target audience-driven orientation. As of the end of the XX<sup>th</sup>. Century, business management theories have increasingly focused on meeting customer expectations since these are deemed responsible for guiding both efforts and resources at efficient corporations. In other words, offering increased value to customers has effectively become a company's prime task given that the same no longer are satisfied with the same service level as that offered in the past.

In the specific case of sports and leisure, this finding is reinforced by the range of industries that are committed with these segments, comprising from textile and food supply chains to equipment manufacturers and companies engaged in the real estate business. According to the British Leisure Industries Research Centre, in 2008 expenditures in entertainment in the UK represented 25% of consumer expenses with all sorts of products and services. In terms of Brazil, Nielsen's Institute local branch published a research entitled "Consumer Trust and Expenditure Intent" presenting 2011 results whereby conclusions stated that 42% of Brazilians whenever they have surplus resources, also prefer to spend it with entertainment.

Given the above, the importance of treating sporting, cultural and leisure activities with a professional perspective becomes quite evident so that new business opportunities spruce within the corporate environment.

## 2.2 BUSINESS PLAN STAGES

The underlying reason for a plan to be prepared in stages arises from the need to systemize the same. Furthermore, this approach also mitigates the risk of overlooking given items that are relevant to analytical research.

Kotler and Keller (2006) propose a new approach with the lowest possible level of complexity to enable both ease of understanding and feasibility. They divided Business Plans into the following stages:

- Executive summary and abstract – goals and upper management recommendations plus brief detailing of operational aspects.
- Overview – market data, macro-environment and trends.
- Marketing strategy – general objectives, strategies and market positioning.
- Financial projections – sales, expenses, costs and business breakeven point forecasts.
- Control – plan monitoring, including budget and goals.

Campomar (1983) developed a model that supersedes the traditional SWOT analysis. Here, environmental analysis is conducted in an in-depth manner, i.e., variables that are internal and external to the corporation are plotted into a matrix so that two threats and two opportunities perspectives are

defined. This is the so-called Strategic Matrix whereby potentially favorable environmental situations combined with the company's strong points emphasize market opportunities that must be exploited. Potentially unfavorable situations plus corporate weaknesses shape market threats or points for improvement so as to avoid negative impacts on the company's future performance. Furthermore, there are other combinations that reveal relative potential opportunities or favorable situations with weak points that must be overcome. These indicate the company's ability in overcoming systemic challenges. That's why topic number 4, named "Business Plan" focuses on a strategic matrix as applicable to the arenas business.

In as much as the Business or Marketing Plan is concerned, Campomar (1977) highlights the stages of a complete and classic model. Nevertheless, one cannot take for granted ample and unrestricted application of this model because it is exhaustive. If strictly followed - and especially in the case of market segments with incipient history - results may cripple the launch of a new product whether because of time or cost to collect and process all the suggested data and analysis. The proposed stages include:

- 1) Overview – comprises the diagnosis of the market's current standing and the prognosis of future situations. This analysis must be prepared based on information that is internal and external to the organization which should be obtained from a Marketing Information System. A selection of relevant items that must be developed in this stage includes:

- 1.1) Internal Analysis: characteristics of the organization and its general policies. These are deemed restrictions and serve as input for the Marketing Plan. They also comprise the organization's structure, strategic definitions, objectives and the company's ideal-driven mission. A description of the product or service as currently offered is also required providing details as to advantages, the current marketing program, competitive strategies, action plans and 4P policies (or product positioning, price, promotion and place).

Internal analysis further defines cost, profit and performance indicators, presenting historical figures covering the past recent years, a

margin over sales analysis, breakeven analysis (point of intersection between cost and revenues whose net result is zero), relationships between resources (or assets) and finally, return over investments.

1.2) External Analysis: comprises the definition of the target audience and its behavior; the mapping of segments and market niches, with the respective sizing and competitor shares, as well as their most relevant characteristics and strategies. Furthermore, focus is placed on environmental conditions, namely: the market's economic situation and possible changes, the legislation and variations, cultural aspects and respective trends.

1.3) Favorable and Unfavorable Situations and Strong and Weak Points: unfavorable environmental situations must be defined in the most precise manner, making a clear distinction between causes and symptoms. Unfavorable situations of the kind must be identified in the environment's current state or in its future possible variations. Favorable environmental situations are those that might bring benefits to the organization, as long as they are exploited.

1.4) Threats and Opportunities: the conjunction of a favorable environmental situation with a strong corporate point gives rise to a market opportunity that can be exploited as long as the organization develops marketing actions combining its controllable variables so as to make best use of the same. On the other hand, the combination of an unfavorable situation with a corporate weak point gives rise to a market threat, generating an issue that demands solutions.

2) Objectives – once having analyzed the situation and becoming aware of the threats and opportunities the organization might encounter, corporate boundaries and objectives can be determined. The latter must be established under common agreement between upper management and those accountable for attaining the objectives and comprise all marketing activities that are subject to control. Marketing objectives must be compatible with the company's strategic objectives. When objectives are set for the plan, the following aspects must be taken into account: corporate policies and objectives, type of organization, field of operation

and the company's future project. Based on this information the list of objectives that are associated with numerical results must be presented within a given time frame.

3) Action Plan: must detail all measures, priorities and actions pertaining to each objective and respective breakdowns, identifying deadlines, costs and owners held accountable for the execution of the actions defined. This program comprises:

3.1) Marketing Structure: with shifts in personnel, task attribution and action owners.

3.2) General Marketing Strategy: with market segmentation and target audience.

3.3) Definition of the Marketing Mix: comprising actions that are associated with controllable marketing variables that have to do with quality (style, brand name, packaging, warranties, level of support, etc.), price (price level, discounts and retention programs plus modes of payment), promotion (propaganda, publicity, individual sales and sales promotion), distribution (place or point of sale, distribution channels, distribution coverage, site of ownership or proprietorship transfer, stock levels, transportation and the like). The mix further takes into account the scheduling of resources such as an expense budget, profit and loss forecasts and a project plan presenting actions and expected results.

4) Control: the plan must contain control conditions employing comparative parameters to assess actual results obtained such as: feedback for the information system and performance measurement, the frequency with which each information component is supplied and how they must be presented.

The conclusion is that for a Business Plan to be functional it must be prepared in simple wording and provide clear and direct information. It must introduce a large amount of new ideas, engage and commit the team that is responsible for executing it - not only after but during the preparation of the plan - and it must be revised and improved during the entire period of preparation and while in force.

### **3 3 METHODOLOGY**

Hypothetical models of multi-purpose arenas were employed; data presented arose from secondary research conducted between the months of June and August 2012 at organizations of the sports club segment, construction firms and market associations such as the Brazilian Franchising Association (ABF) in addition to bibliographical sources pertaining to the themes sports and leisure marketing.

The most accurate and specific information mentioned in this study concerning professional soccer is disseminated by “*Futebol Finance*”, a Portuguese company that conducts research, analysis and publishes data on soccer economy and finance with views to promoting new business in the world soccer industry.

The author’s own use, for over 30 years, of local services and sporting facilities for professional soccer purposes is also taken into account. This kind of experience is vital to shape critical interpretation of available information on multi-purpose arenas.

### **4 4 BUSINESS PLAN**

The Business Plan for Multi-purpose Arenas herein proposed comprises demographic and market macro-environment analysis and financial attractiveness assessments.

In alignment with definitions laid forth in this study’s Introduction, these are the models subject to analysis:

- arenas with a sports-only focus;
- arenas used both for sporting events and for entertainment and corporate activities;
- arenas for sports, entertainment, business, commerce and cultural purposes.

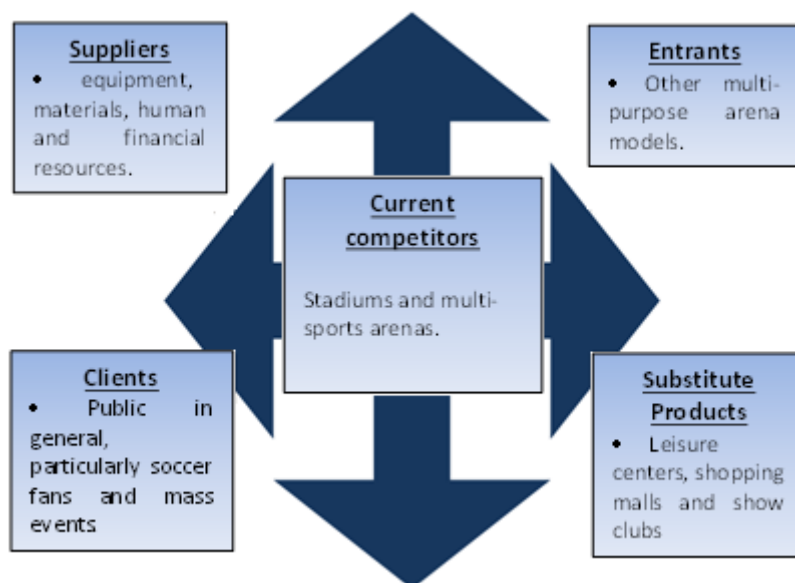
#### 4.1 ENVIRONMENT

The idea of a latent demand is of great interest when examining the current situation in Brazil in terms of the availability of sporting facilities and of large sized events. This is about a real potential demand which nevertheless is not addressed either because of supply or resource restrictions (Varian, 2006).

The lack of quality transport, parking and food services at sporting premises, the criminalization process of organized fan clubs and the generalized urban insecurity make citizens – particularly those most wealthy – feel intimidated to honor mass events, in particular soccer matches.

That’s precisely when relevant opportunities arise to introduce the very concept of multi-purpose arenas, i.e., facilities that offer adequate infrastructure for, in addition to the practice of professional sports, the hosting of private celebrations, trade fairs and congresses, commerce and leisure in general, educational, cultural and religious activities.

This panorama concerning the positioning of multi-purpose arenas on the market can be analyzed as of Michael Porter’s (2004) five competitive forces perspective, as pictured in Figure 1 below:



**Figure 1: The five competitive forces**

Source: Prepared by the author as of Porter (2004)



The analysis of competitive forces emphasizes the competitive environment at multi-purpose arenas and allows one to infer that there are numerous business opportunities given that currently, there is no direct competitor that meets the multi-functionality and complementarity requisites of the supply of multipurpose arenas. Furthermore, it is a given fact that the concentration of events and services at a single location offers greater convenience to target markets.

When using Marcos Campomar’s (1983) strategic matrix as per Figure 2, on one hand assumptions rest on two different scenarios for the coming 30 years: favorable – latent demand and sustainable economic growth along the current and coming decades, i.e., at least a 3% annual increase in Brazil’s gross national product; and unfavorable – deterioration of the European financial crisis and of political tensions in Arab countries, with impacts on the Brazilian economy. On the other hand, the assumption involving market positioning of a multipurpose arena is that if set in an efficient manner, it shall enhance the venture’s strong points – physical infrastructure and intangible aspects such as emotional appeal and modern environment – or, in a negative case, its weak points – the operational and maintenance costs of the facilities as a whole. Opportunities and threats are presented in Figure 2 below:

<b>FAVOURABLE SCENARIO</b>	<p><b><u>OPPORTUNITIES</u></b></p> <ul style="list-style-type: none"> <li>• demand favors innovative offering of services associated with entertainment and events</li> </ul>	<p><b><u>RELATIVE OPPORTUNITIES</u></b></p> <ul style="list-style-type: none"> <li>• analysis of repositioning alternatives</li> </ul>
	<p><b><u>RELATIVE THREATS</u></b></p> <ul style="list-style-type: none"> <li>• dependence on partnerships to maintain operations</li> </ul>	<p><b><u>THREATS</u></b></p> <ul style="list-style-type: none"> <li>• offer of substitutes and cost of operation require repositioning</li> </ul>
<b>UNFAVOURABLE SCENARIO</b>	<b>STRONG POINTS</b>	<b>WEAK POINTS</b>

**Figure 2: Strategic Matrix**

Source: Prepared by the author as of Campomar (1977)

It’s worth noting that multi-purpose arenas as a product is characterized by both tangible and intangible aspects, namely:

- tangible: facilities and equipment, furniture, functional team;
- intangible: emotional appeal involving the association or club that it represents, or the very city that hosts it, whether via symbolic or cultural values which are augmented by the level of technology employed.

Thus market positioning must be a consequence of this mix of benefits, with the prime purpose of offering a differentiated alternative that does not follow the same standard of other entertainment and cultural options. The latter would lead to the so called “red ocean” condition, according to Kim and Mauborgne (2005), whereby competitors position themselves in a similar manner and the customer’s bargaining power increases excessively, shaping the price of the market’s prime variable, thus reducing profit margins.

#### 4.2 OBJECTIVE

Given this context of potential advantages that give rise to business opportunities and competitive threats, next the assumptions that ground the financial objectives that in turn drive the planning of a multi-purpose arena in a 30-year operation are detailed, given that this is a complex project and also an innovative concept still to be introduced in Brazil.

This business plan takes into account an average attendance per match of 15.000 payers in the arena’s first year of operations with an annual growth of 2.000 payers for the next two years and an increment of another 2.000 payers in the fourth and fifth years, totaling 25.000 payers per match as of the six year of operation. Table 1 demonstrates how this total number of payers is effectively within world standards considering the overall circumstances laid forth and how 25.000 payers per match would represent the fourth largest average, if one takes into account attendance averages of the largest national championships.

#### **Table 1: Average attendance per professional soccer championship**

Competition	Average Audience	Capacity Usage
Bundesliga	42.680	94,43%
Premier League	35.278	91,33%
La Liga	29.120	74,22%
Championship	17.526	69,52%
Ligue.1	19.867	68,80%
Serie A	23.970	54,76%
Campeonato Brasileiro	17.542	37,81%

Source: *Futebol Finance* (2011)

In as much as the average ticket value per payer is concerned, during the first year, R\$ 30,00 was used following data estimated for those arenas that are undergoing construction. This is a reasonable amount since it is equivalent to a current, non-booked grandstand seat, followed by increases per match until the amount of R\$50,00 is reached as of the third year of operations. Thereafter, additional increases considered derive exclusively from monetary correction according to a 5,5% per annum inflation rate during the first ten years and of 4,5% per annum during the last 15 years, thus assuming that the trend is one of greater economic stability. The rationale employed follows an annual inflation trend in and around 6%, between the years 2010 and 2011.

In the VIP or cabin sectors and exclusive areas, the criteria to estimate values was 50% of the total amount collected from tickets sold to the remaining sectors given that these areas accommodate less people.

The list of financial equity or participation in bars and restaurants assumes that there will be two facilities featuring famous brands that will take up a given amount of space and in turn will transfer 25% of total revenues to the arenas management. Projections concerning this percentage are based on existing market negotiations and are subject to the entity who detains rights over the arena's arbitration. Furthermore, this figure (25%) is also mentioned by Rio de Janeiro's newspaper *Jornal do Comercio* (Cecchetti, 1999), in as much as the high rental costs at shopping centers is concerned. Estimates indicate that expected revenues shall be of approximately R\$100.000,00 per month and this amount is in line with information posted by the Brazilian Franchising Association in its electronic portal.

The parking area will accommodate 3.000 cars and charge R\$20,00 per car at times of sporting events and R\$30,00 for other events or for those who wish to enter the arena and use the services and entertainment facilities. These prices refer to an average use of two hours on days matches or sporting events are held and of three hours for other events. It is understood that purchasing and leisure activities are included and this usually demands more time than that of the event itself so estimates consider an extra R\$10,00 per hour. Management's equity for this service is estimated at 30% of revenues, in alignment with market practices. That's higher than the percentage charged for other services but takes into account the fact that exclusivity will be granted to the operator of the parking lot.

Participation in events and commercial activities as well as on possible entertainment options will be 25% of the lessee's revenues. An average of 90 events per year is estimated, in addition to the sporting matches. The market usually estimates more than 100 annual events when it comes to multi-purpose arenas, according to interviewee Rogério Dezembro - the New Business Director of WTorre, a construction company- and an article published on the 26<sup>th</sup>. of July, 2012 by the electronic portal UOL (*Universo on Line*).

The calendar of events taken into account in this business plan totals five large-sized annual events, each generating R\$4.000.000,00, ten mid-sized annual events whereby each generates R\$800.000,00 and 75 small events, each generating R\$100.000,00 worth of revenue. These estimates refer to an average audience of 50.000 people at the large events and average tickets costing R\$ 80,00 each; mid-sized events consider 15.000 people at an average R\$ 50,00 per ticket. Smaller events consider the same average price per ticket (R\$50,00), but a total audience of 2.000 people per event.

In as much as the arena's naming rights are concerned, assumptions were based on the average value estimated for 12 arenas that are being built in Brazil. Furthermore an additional overprice of 20% was applied to the average because this study's hypothetical area would be built in São Paulo, the city that hosts the largest share of the population holding high buying power. Chart 1 presents arena or naming right figures for arenas which are mostly located in other regions and states of Brazil.

ARENA RIGHTS (in R\$)		
Stadium	State	Annual Forecast Value
Itaquerao	SP	15.000.000
Maracanã	RJ	15.000.000
Mineirão	MG	11.000.000
Fonte Nova	BA	6.000.000
Mané Garrincha	DF	4.500.000
Beira-Rio	RS	4.500.000
Arena Baixada	PR	4.500.000
Arena Recife	PE	4.500.000
Vivaldão	AM	3.500.000
Castelão	CE	3.500.000
Verdão	MT	3.000.000
Arena das Dunas	RN	3.000.000
<b>Total</b>		<b>78.000.000</b>
<b>ARENA RIGHTS (in R\$)</b>		<b>65.500.000</b>

### Chart 1: Naming Arena Rights per Stadium

Source: *O Estado de S.Paulo* (2011) newspaper

Insurance expenses for this study's purpose were estimated to start at R\$5.000.000,00 per annum in Year One and this amount was subsequently corrected according to inflation estimates. The amount may be considered relatively low but given that the arena's operations by then will have already started, the risk of insolvency is lower than that of unfinished constructions, which can easily represent as much as R\$15.000.000,00 per annum worth of insurance costs. Operational expenses comprise both start-up expenses and those required to maintain the operation, such as asset depreciation.

Next, the Profit and Loss Statement of the hypothetical multi-purpose arena is presented. Six charts offer a better visualization of the analysis of results.

The first two years are typified by an investment of R\$336.200.000,00. This results from a cost of approximately R\$9.600,00 per seat and a capacity to house 35.000 people at sporting events. This cost is pretty close to the R\$10.000,00 foreseen in projects involving Brazil's Soccer World Cup arenas. According to information published in the newspaper *O Estado de S.Paulo* on

September 17, 2011 estimates for arenas at the cities of Belo Horizonte (MG) and Recife (PE) are also approximately R\$10.000,00 per seat.

Ano	0	1	2	3	4	5
Average audience per match				15.000	18.000	18.000
Matches				35	35	35
Ticket per match (R\$)				30	47	50
Collection				15.750.000	29.880.000	31.500.000
Cabins and VIP areas				7.875.000	14.940.000	15.750.000
<b>Total Sports Revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>23.625.000</b>	<b>44.820.000</b>	<b>47.250.000</b>
<i>Equity on Bars and Restaurants</i>				600.000	600.000	600.000
<i>Equity on Parking Lots</i>				3.060.000	3.060.000	3.060.000
<i>Equity on Events</i>				8.875.000	8.875.000	8.875.000
<i>Equity on Commerce and Services</i>				1.500.000	1.500.000	1.500.000
<b>Total in Participations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14.035.000</b>	<b>14.035.000</b>	<b>14.035.000</b>
(+) Arena Rights				7.800.000	7.800.000	7.800.000
(-) Operational Expenses				4.245.500	7.424.750	7.789.250
(-) Insurance on Operations				5.000.000	5.000.000	5.000.000
Profit before Tax				36.214.500	54.230.250	56.295.750
Tax				34,73%	34,73%	34,73%
<b>Net Profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>23.637.204</b>	<b>35.396.084</b>	<b>36.744.236</b>
(-) Investment	-100.000.000	-130.500.000	-105.700.000	0	0	0
<b>Final Result</b>	<b>-100.000.000</b>	<b>-130.500.000</b>	<b>-105.700.000</b>	<b>23.637.204</b>	<b>35.396.084</b>	<b>36.744.236</b>
Discounted Result (MRA = 13%)	-127.690.000	-147.465.000	-105.700.000	20.917.880	27.720.326	25.465.599

**Table 2: Profit and Loss Statement from Year 0 to Year 5**

Source: prepared by the author

**Table 3: Profit and Loss Statement from Year 6 to Year 11**

Ano	6	7	8	9	10	11
Average audience per match	20.000	20.000	25.000	25.000	25.000	25.000
Matches	35	35	35	35	35	35
Ticket per match (R\$)	50	50	53	56	59	62
Collection	35.000.000	35.000.000	46.156.250	48.694.844	51.373.060	54.198.578
Cabins and VIP areas	17.500.000	17.500.000	23.078.125	24.347.422	25.686.530	27.099.289
<b>Total Sports Revenue</b>	<b>52.500.000</b>	<b>52.500.000</b>	<b>69.234.375</b>	<b>73.042.266</b>	<b>77.059.590</b>	<b>81.297.868</b>
<i>Equity on Bars and Restaurants</i>	600.000	600.000	633.000	667.815	704.545	743.295
<i>Equity on Parking Lots</i>	3.060.000	3.060.000	3.228.300	3.405.857	3.593.179	3.790.803
<i>Equity on Events</i>	8.875.000	8.875.000	9.363.125	9.878.097	10.421.392	10.994.569
<i>Equity on Commerce and Services</i>	1.500.000	1.500.000	1.582.500	1.669.538	1.761.362	1.858.237
<b>Total in Participations</b>	<b>14.035.000</b>	<b>14.035.000</b>	<b>14.806.925</b>	<b>15.621.306</b>	<b>16.480.478</b>	<b>17.386.904</b>
(+) Arena Rights	7.800.000	7.800.000	7.800.000	7.800.000	7.800.000	7.800.000
(-) Operational Expenses	8.576.750	8.576.750	11.125.503	11.737.405	12.382.962	13.064.025
(-) Insurance on Operations	5.000.000	5.000.000	6.534.800	6.534.800	6.534.800	6.534.800
<b>Profit before Tax</b>	<b>60.758.250</b>	<b>60.758.250</b>	<b>74.180.997</b>	<b>78.191.366</b>	<b>82.422.305</b>	<b>86.885.946</b>
Tax	34,73%	34,73%	34,73%	34,73%	34,73%	34,73%
<b>Net Profit</b>	<b>39.656.910</b>	<b>39.656.910</b>	<b>48.417.937</b>	<b>51.035.505</b>	<b>53.797.039</b>	<b>56.710.457</b>
(-) Investment	0	0	0	0	0	0
<b>Final Result</b>	<b>39.656.910</b>	<b>39.656.910</b>	<b>48.417.937</b>	<b>51.035.505</b>	<b>53.797.039</b>	<b>56.710.457</b>
<b>Discounted Result (MRA = 13%)</b>	<b>24.322.325</b>	<b>21.524.182</b>	<b>23.256.032</b>	<b>21.693.185</b>	<b>20.236.287</b>	<b>18.878.051</b>

Source: prepared by the author



**Table 4: Profit and Loss Statement, from Year 12 to Year 17**

Ano	12	13	14	15	16	17
Average audience per match	25.000	25.000	25.000	25.000	25.000	25.000
Matches	35	35	35	35	35	35
Ticket per match (R\$)	65	69	73	77	81	85
Collection	57.179.500	60.324.373	63.642.213	67.142.535	70.835.374	74.731.320
Cabins and VIP areas	28.589.750	30.162.186	31.821.107	33.571.268	35.417.687	37.365.660
<b>Total Sports Revenue</b>	<b>85.769.250</b>	<b>90.486.559</b>	<b>95.463.320</b>	<b>100.713.803</b>	<b>106.253.062</b>	<b>112.096.980</b>
<i>Equity on Bars and Restaurants</i>	784.176	827.306	872.807	920.812	971.457	1.024.887
<i>Equity on Parking Lots</i>	3.999.298	4.219.259	4.451.318	4.696.141	4.954.428	5.226.922
<i>Equity on Events</i>	11.599.270	12.237.230	12.910.278	13.620.343	14.369.462	15.159.782
<i>Equity on Commerce and Services</i>	1.960.440	2.068.264	2.182.019	2.302.030	2.428.641	2.562.217
<b>Total in Participations</b>	<b>18.343.184</b>	<b>19.352.059</b>	<b>20.416.422</b>	<b>21.539.325</b>	<b>22.723.988</b>	<b>23.973.807</b>
<b>(+) Arena Rights</b>	<b>7.800.000</b>	<b>7.800.000</b>	<b>7.800.000</b>	<b>7.800.000</b>	<b>7.800.000</b>	<b>7.800.000</b>
<b>(-) Operational Expenses</b>	<b>13.782.547</b>	<b>20.032.518</b>	<b>21.134.306</b>	<b>22.296.693</b>	<b>23.523.011</b>	<b>24.816.777</b>
<b>(-) Insurance on Operations</b>	<b>6.534.800</b>	<b>8.540.722</b>	<b>8.540.722</b>	<b>8.540.722</b>	<b>8.540.722</b>	<b>8.540.722</b>
<b>Profit before Tax</b>	<b>91.595.087</b>	<b>89.065.378</b>	<b>94.004.713</b>	<b>99.215.712</b>	<b>104.713.316</b>	<b>110.513.288</b>
<b>Tax</b>	<b>34,73%</b>	<b>34,73%</b>	<b>34,73%</b>	<b>34,73%</b>	<b>34,73%</b>	<b>34,73%</b>
<b>Net Profit</b>	<b>59.784.114</b>	<b>58.132.972</b>	<b>61.356.876</b>	<b>64.758.096</b>	<b>68.346.382</b>	<b>72.132.023</b>
<b>(-) Investment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Final Result</b>	<b>59.784.114</b>	<b>58.132.972</b>	<b>61.356.876</b>	<b>64.758.096</b>	<b>68.346.382</b>	<b>72.132.023</b>
<b>Discounted Result (MRA = 13%)</b>	<b>17.611.703</b>	<b>15.155.129</b>	<b>14.155.393</b>	<b>13.221.304</b>	<b>12.348.588</b>	<b>11.533.244</b>

Source: prepared by the author



**Table 5: Profit and Loss Statement, from Year 18 to Year 23**

Ano	18	19	20	21	22	23
Average audience per match	25.000	25.000	25.000	25.000	25.000	25.000
Matches	35	35	35	35	35	35
Ticket per match (R\$)	89	93	97	102	106	111
Collection	78.094.229	81.608.470	85.280.851	89.118.489	93.128.821	97.319.618
Cabins and VIP areas	39.047.115	40.804.235	42.640.425	44.559.245	46.564.411	48.659.809
<b>Total Sports Revenue</b>	<b>117.141.344</b>	<b>122.412.705</b>	<b>127.921.276</b>	<b>133.677.734</b>	<b>139.693.232</b>	<b>145.979.427</b>
<i>Equity on Bars and Restaurants</i>	1.071.007	1.119.202	1.169.566	1.222.196	1.277.195	1.334.669
<i>Equity on Parking Lots</i>	5.462.134	5.707.930	5.964.786	6.233.202	6.513.696	6.806.812
<i>Equity on Events</i>	15.841.972	16.554.861	17.299.830	18.078.322	18.891.847	19.741.980
<i>Equity on Commerce and Services</i>	2.677.516	2.798.005	2.923.915	3.055.491	3.192.988	3.336.673
<b>Total in Participations</b>	<b>25.052.629</b>	<b>26.179.997</b>	<b>27.358.097</b>	<b>28.589.211</b>	<b>29.875.726</b>	<b>31.220.134</b>
(+) Arena Rights	7.800.000	7.800.000	7.800.000	7.800.000	7.800.000	7.800.000
(-) Operational Expenses	25.933.532	27.100.541	28.320.065	29.594.468	30.926.219	39.616.870
(-) Insurance on Operations	10.643.294	10.643.294	10.643.294	10.643.294	10.643.294	13.263.481
<b>Profit before Tax</b>	<b>113.417.147</b>	<b>118.648.867</b>	<b>124.116.015</b>	<b>129.829.183</b>	<b>135.799.445</b>	<b>132.119.210</b>
Tax	34,73%	34,73%	34,73%	34,73%	34,73%	34,73%
<b>Net Profit</b>	<b>74.027.372</b>	<b>77.442.116</b>	<b>81.010.523</b>	<b>84.739.508</b>	<b>88.636.298</b>	<b>86.234.208</b>
(-) Investment	0	0	0	0	0	0
<b>Final Result</b>	<b>74.027.372</b>	<b>77.442.116</b>	<b>81.010.523</b>	<b>84.739.508</b>	<b>88.636.298</b>	<b>86.234.208</b>
<b>Discounted Result (MRA = 13%)</b>	<b>10.474.595</b>	<b>9.697.140</b>	<b>8.976.963</b>	<b>8.309.895</b>	<b>7.692.061</b>	<b>6.622.657</b>

Source: prepared by the author

**Table 6: Profit and Loss Statement, from Year 24 to Year 29**

Ano	24	25	26	27	28	29
Average audience per match	25.000	25.000	25.000	25.000	25.000	25.000
Matches	35	35	35	35	35	35
Ticket per match (R\$)	116	121	127	133	139	145
Collection	101.699.001	106.275.456	111.057.852	116.055.455	121.277.950	126.735.458
Cabins and VIP areas	50.849.501	53.137.728	55.528.926	58.027.727	60.638.975	63.367.729
<b>Total Sports Revenue</b>	<b>152.548.502</b>	<b>159.413.184</b>	<b>166.586.777</b>	<b>174.083.182</b>	<b>181.916.926</b>	<b>190.103.187</b>
Equity on Bars and Restaurants	1.394.729	1.457.492	1.523.079	1.591.618	1.663.240	1.738.086
Equity on Parking Lots	7.113.119	7.433.209	7.767.703	8.117.250	8.482.526	8.864.240
Equity on Events	20.630.369	21.558.735	22.528.878	23.542.678	24.602.099	25.709.193
Equity on Commerce and Services	3.486.823	3.643.730	3.807.698	3.979.044	4.158.101	4.345.216
<b>Total in Participations</b>	<b>32.625.040</b>	<b>34.093.166</b>	<b>35.627.359</b>	<b>37.230.590</b>	<b>38.905.966</b>	<b>40.656.735</b>
(+) Arena Rights	7.800.000	7.800.000	7.800.000	7.800.000	7.800.000	7.800.000
(-) Operational Expenses	41.399.629	43.262.613	45.209.430	47.243.855	49.369.828	51.591.470
(-) Insurance on Operations	13.263.481	13.263.481	13.263.481	13.263.481	16.528.710	16.528.710
<b>Profit before Tax</b>	<b>138.310.431</b>	<b>144.780.257</b>	<b>151.541.225</b>	<b>158.606.437</b>	<b>162.724.354</b>	<b>170.439.742</b>
Tax	34,73%	34,73%	34,73%	34,73%	34,73%	34,73%
<b>Net Profit</b>	<b>90.275.218</b>	<b>94.498.074</b>	<b>98.910.958</b>	<b>103.522.422</b>	<b>106.210.186</b>	<b>111.246.020</b>
(-) Investment	0	0	0	0	0	0
<b>Final Result</b>	<b>90.275.218</b>	<b>94.498.074</b>	<b>98.910.958</b>	<b>103.522.422</b>	<b>106.210.186</b>	<b>111.246.020</b>
<b>Discounted Result (MRA = 13%)</b>	<b>6.135.399</b>	<b>5.683.538</b>	<b>5.264.556</b>	<b>4.876.108</b>	<b>4.427.174</b>	<b>4.103.614</b>

Source: prepared by the author

In the next chart the final result of a multi-purpose arena project is presented. It provides evidence that with a minimum attractiveness rate of 13%, the project is valid, so much so that the positive present net value is R\$41.903,30.

The rate of attractiveness or opportunity cost of 13% per annum arises from a risk bonus equivalent to slightly more than 2% per year. This prize or bonus derives from comparing a conservative investment (such as a fixed income investment fund of the pension kind) with the investment suggested in this study. According to a periodic report issued by *Porto Seguro Seguros* on July 21, 2012, this alternative, conservative investment was generating an annual profitability of 10,88%.

**Table 7: Profit and Loss Statement, from Year 30 to Year 32**

Ano	30	31	32	Total
Average audience per match	25.000	25.000	25.000	
Matches	35	35	35	
Ticket per match (R\$)	151	158	165	
Collection	132.438.554	138.398.289	144.626.212	2.364.522.753
Cabins and VIP areas	66.219.277	69.199.144	72.313.106	1.182.261.377
<b>Total Sports Revenue</b>	<b>198.657.831</b>	<b>207.597.433</b>	<b>216.939.317</b>	<b>3.546.784.130</b>
Equity on Bars and Restaurants	1.816.300	1.898.034	1.983.445	33.409.958
Equity on Parking Lots	9.263.131	9.679.972	10.115.570	170.390.785
Equity on Events	26.866.107	28.075.081	29.338.460	494.188.958
Equity on Commerce and Services	4.540.750	4.745.084	4.958.613	83.524.894
<b>Total in Participations</b>	<b>42.486.288</b>	<b>44.398.171</b>	<b>46.396.089</b>	<b>781.514.595</b>
(+) Arena Rights	7.800.000	7.800.000	7.800.000	234.000.000
(-) Operational Expenses	53.913.086	56.339.175	58.874.438	839.203.967
(-) Insurance on Operations	16.528.710	16.528.710	16.528.710	302.555.033
<b>Profit before Tax</b>	<b>178.502.322</b>	<b>186.927.719</b>	<b>195.732.258</b>	<b>3.420.539.725</b>
Tax	34,73%	34,73%	34,73%	1.187.953.447
<b>Net Profit</b>	<b>116.508.466</b>	<b>122.007.722</b>	<b>127.754.445</b>	<b>2.232.586.279</b>
(-) Investment	0	0	0	<b>- 336.200.000</b>
<b>Final Result</b>	<b>116.508.466</b>	<b>122.007.722</b>	<b>127.754.445</b>	<b>1.896.386.279</b>
<b>Discounted Result (MRA = 13%)</b>	<b>3.803.304</b>	<b>3.524.621</b>	<b>3.266.049</b>	<b>41.903</b>

Source: prepared by the author

As to the remaining financial feasibility indexes, this project's payback is of 8 years and 11 months and the internal rate of return is 13,0%, both of which are deemed satisfactory. The assessment rests on the fact that the internal rate of return is not below the minimum rate of attractiveness (13%) and as to payback, a mid-term result seems reasonable considering that the concept of what would be long term starts as of 10 years.

These indicators are very important. However, the best investment analysis criterion is always the net present value (or NPV). According to Ross, Westerfield and Jaffe (2010), the NPV is better because it takes into account all the project's cash flows and discounts these according to the value of money along time.

In as much as the tax and duties portion is concerned, the assumption was 34,73% of taxes over profit, a rate that arises from adding 25% of corporate entity income tax, 5% of taxes over services, 1,08% of social contribution over net profits and 3,65% of additional social taxes known as *PIS* and *Cofins*.

As to other types of arenas that were mentioned at the introduction of this study, the result is that for both arenas with a merely sportive intent and for those that also invest in entertainment and corporate events, the NPV would be more than R\$80.000.000,00 negative in the former case and over R\$8.000.000,00 negative in the second project objective, by the end of the 30 year term.

## **5 5 CONCLUSIONS**

It is a major challenge to develop a study of the multi-purpose arena business given the non-existence in Brazil of real examples of this kind of venture. Fact is that there are spot initiatives to form arena management models at some soccer stadiums that seek to adapt to different modalities of events yet often without meeting the expectations of audiences in terms of quality of the event itself.

Possibly one of the main reasons for this gap in the market having endured is the very absence of in-depth analysis shaping opportunities in such a manner that the latent demand is addressed. For decades, Brazilians have been used to delegating to government the responsibility of planning and building the largest mass entertainment premises. At the time, this made sense because the level of professionalism was not as advanced or widely known as is the case nowadays.

Furthermore, traditionally, the State has been the supplier of entertainment and culture infrastructure because most of both sports and media segments (both of which are currently booming) were not managed in an efficient manner or, alternatively, were managed by the centralizing authority of a handful of leaders with a high level of empiricism. This does not mean that currently the level of management in the field of sports is not satisfactory but rather that, given the level of criticality that the largest sporting organizations

are facing, it seems both essential and mandatory that these entities seek new sources of income to ensure their own survival.

Opportunities of success within the arenas business are plentiful given the range of services that can be offered and the emotional aspects that surround the events that are held at sites of this kind.

Finally, the profitability of operations - despite the extended 30 year term for one to reap a consistent return - was demonstrated in this business plan featuring a 13,0% return (a rate that is higher than that of most conservative financial investments) and a positive net present value of R\$41.903,30.

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