

A work project, presented as part of the requirements for the Award of a Master's degree in
Management from the Nova School of Business and Economics



Field Lab in Sports Management

in Collaboration with Sport Lisboa e Benfica



**Development of a Business Plan to Strategically Expand the eSports Branch
of Sport Lisboa e Benfica – Key Trends in the Industry and Entry Strategy**

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Date of Final Submission: 16/12/2022

Date of Defense: 26/01/2023

Abstract

In this paper, a business plan is developed to strategically expand the eSports branch of SL Benfica. It answers the challenge of how traditional football clubs can effectively reach a younger fan base and diversify their revenue sources through eSports. Based on a market and game analysis, a business plan with several scenarios to enter *CS:GO* has been developed and complemented with a five-year financial forecast. The most critical aspects of the project's economic success are sponsorship deals and competitive performance. Following a thorough analysis, this paper recommends expanding into the *CS:GO* eSports business considering the achieved medium-term profitability.

Keywords: eSports, Strategic Management, Business Model, Financial Forecasting

Acknowledgment

We want to express our sincere gratitude to our supervisor Pedro Brinca and Benfica representative Francisco Barreto for the continuous support we received during the realization of this work. From the initial drafting of the topic to regular interim presentations and feedback iterations, they extensively guided and helped us elevate our work's overall content to the present level. We also want to use this opportunity to thank our interview partners, who supported us through their valuable contributions and expertise. We are convinced of the validity and success of the project and wish Benfica all the best as they continue to pursue the project. Thank you!

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

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Table of Abbreviations

Benfica = Sport Lisboa e Benfica

CAGR = Compound Annual Growth Rate

CS:GO = Counter-Strike: Global Offensive

eSports = electronic Sports

EUR = Euro (€)

GDP = Gross Domestic Product

GHG = Greenhouse Gas

KPI = Key Performance Indicator

KPL = King Pro League

NFT = Non-fungible Token

NPV = Net Present Value

OECD = Organization for Economic Cooperation and Development

OTT = Over-the-top

PE = Private Equity

TP = Teleperformance

USD = US Dollar (\$)

VR = Virtual Reality

YoY = Year-over-Year

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1. Introduction

Nowadays, football clubs must deal with several challenges. First, the pandemic has forfeited a large portion of the commercial (such as sponsorship or licensing) and match-day revenues (World Football Summit 2020; Deloitte 2021a). Although these numbers may have recovered over time with loosened restrictions, many clubs still struggle to reach pre-pandemic levels again (Deloitte 2021a; Football Benchmark 2022; Wiacek 2022). Second, many football clubs struggle to reach and further expand their fan base. This holds true especially for the younger fans, as the already existing fan base is aging. Third, a change in consumer behavior, especially among the Gen Z¹, can be observed, namely that they value fan experience much more, demand shorter viewing periods due to shorter attention spans (World Football Summit 2019), are more interested in highlights and free live-stream material on streaming platforms or social networks (Euromonitor International 2021), or are also more actively engaged in social media (Nielsen 2022). Moreover, in the same study, Nielsen found that multi-screen viewing activities have increased by 5% in the last year (10% for Gen Z), so 47% of people who watch sports simultaneously consume other live content. Additionally, various trends, such as digital transformation or the appearance of new media channels, occupy the sports industry (World Football Summit 2019). To address those trends and challenges and possibly even turn them into a competitive advantage, football clubs must establish new revenue streams.

To investigate whether electronic sports (eSports) as a new revenue stream has the potential to counteract these challenges, this paper addresses the following questions:

- *How attractive is the eSports market for Sport Lisboa e Benfica (hereafter only stated as “Benfica”), and how can they further engage in the market? More specifically, which*

¹ Gen Z refers to the generation of people born between 1997 and 2012.

gaming area is most interesting for Benfica?

- *Which entry barriers and financial obligations would Benfica face when entering a new eSports game?*
- *How attractive is the project from a commercial perspective?*
- *What requirements must be met for the project to be worthwhile?*

2. Market Overview

To provide the reader with a deeper understanding of the eSports industry, first, the term eSports is defined before the market size, revenue streams, cost drivers, viewership, and current trends affecting the industry are outlined. Additionally, a PESTEL analysis is conducted to provide the reader with a deeper understanding of the market environment.

2.1 Definition

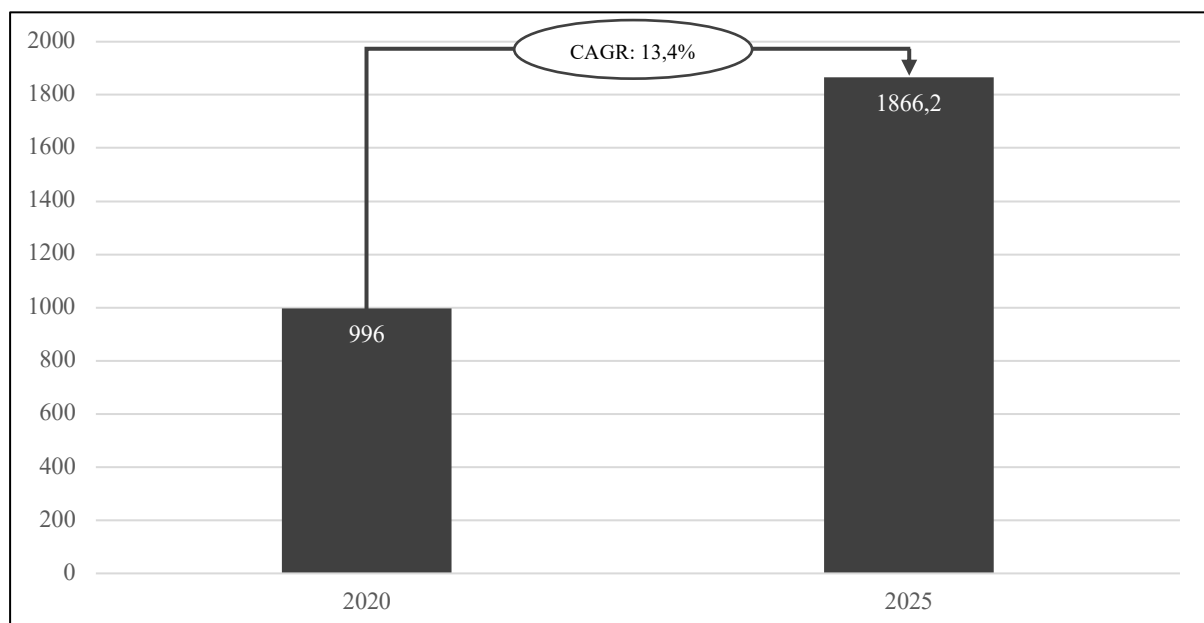
There are various definitions of eSports circling around in the literature, which show substantial overlaps at the core. Hamari and Sjöblom (2017, 211) define eSports as “a form of sports where the primary aspects of the sport are facilitated by electronic systems; the input of players and teams as well as the output of the eSports system are mediated by human-computer interfaces.” Their definition is further advanced by stating that the gamers “compete with each other in playing digital video games on computers using Internet or LAN” (Radman Peša, Čičin-Šain, and Blažević 2017, 122). To summarize, three criteria, namely organized, competitive, and professional, have to be met in order for it to be considered eSports (Mangeloja 2019). Throughout this paper, the term eSports refers to competitive video gaming with the objective of winning a title, league, or the like, which is also streamed online and can be watched by fans around the world.

2.2 Market Size

Since its beginnings in the 1960s and 1970s, when the first video games came out, the eSports market has grown steadily (Larch 2022). Even though the overall trend of positive market development is evident in all sources available, the calculations of the market revenue, as well as the associated forecasts, differ enormously and range from 1.44bn USD in 2022 (Forecast: 6.62bn USD by 2030) (Fortune Business Insights 2022) to 2.57bn USD in 2022

(Forecast: 12.49bn USD by 2030) (Grand View Research 2022), for example. Similarly, there is disagreement in the literature about the quantitative calculation methods for market revenue (Ahn, Collis, and Jenny 2020). For this reason, this work refers to the latest study by Newzoo (2022), the world's largest games-related consumer research program. Here, the market revenue was valued at over 1.38bn USD in 2022, with a forecast to grow to approximately 1.86bn USD in 2025, resulting in a Compound Annual Growth Rate (CAGR) of 13.4% from 2020 to 2025 (see Graph 1). The regions with the highest projected CAGR in the same timeframe are Southeast Asia (27.6%), Central Southern Asia (23.4%), and Latin America (19.0%). Concludingly, it can be noted that the eSports industry is continually experiencing greater popularity and offers enormous market potential. Additionally, these numbers are supported by a survey about the future of football conducted by the World Football Summit (2019, 22), where the vast majority of the respondents (8.86 out of 10) predicted that eSports would “become established as one of the leading global sports.”

Graph 1: Growth of eSports Market Revenue From 2020 – 2025 (in m USD)

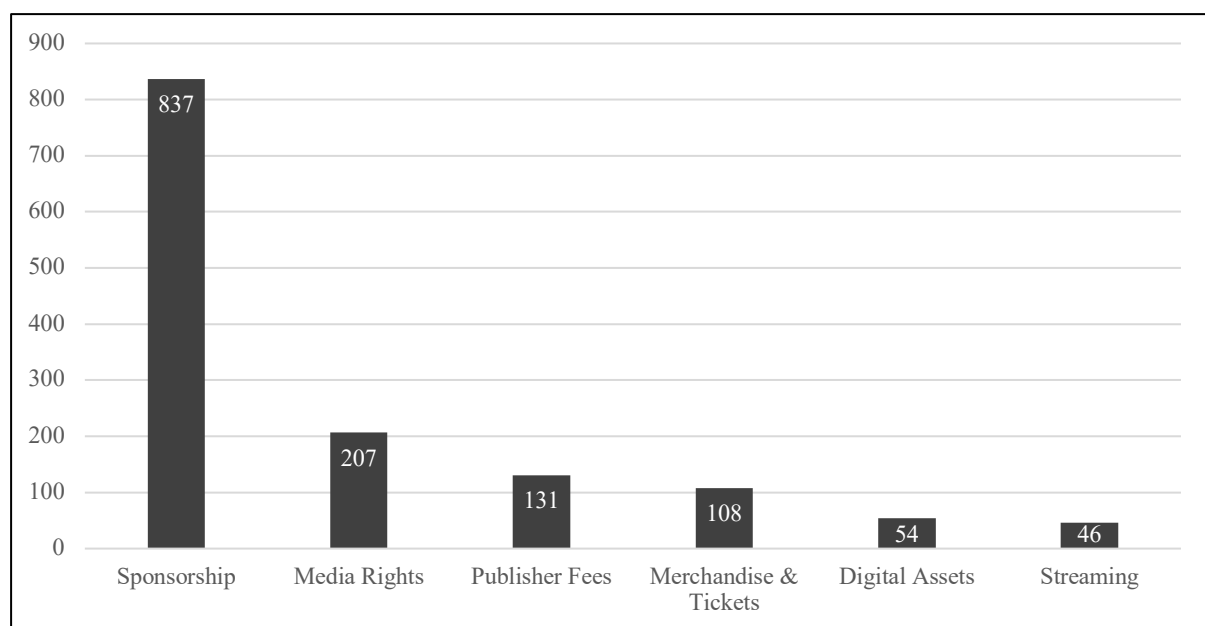


Source: Own contribution based on (Newzoo 2022)

2.3 Revenue Streams and Cost Drivers

The revenue streams in the eSports industry are manifold. According to the same study by Newzoo (2022), the most significant revenue stream is by far sponsorship (endemic as well as non-endemic sponsorship), which accounted for almost 60% of total market revenue in 2022 with 837m USD. Compared to 2021, a year-over-year (YoY) growth of 16.4% was observed here. The second largest position is media rights with 207m USD (+13% YoY), followed by publisher fees (131m USD, +52.6% YoY) and merchandise & tickets (108m USD, +66.8% YoY). Digital assets (54m USD, +23.7% YoY) like non-fungible tokens (NFTs) and streaming (46m USD, +17% YoY) are the smallest revenue streams; however, they are the fastest growing positions with a CAGR from 2020 to 2025 of 27.2% and 24.8%, respectively. The revenue streams are also depicted in Graph 2.

Graph 2: Revenue Streams in the eSports Industry in 2022 (in m USD)



Source: Own contribution based on (Newzoo 2022)

Additionally, there are many other revenue streams for eSports teams, several of which even emerge only over time. Prize Money is, of course, an essential revenue stream; here, however,

it is important to underline that most of the prize money belongs to the pro players and the coach(es), whereas only a smaller share of the prize money remains with the organization. The hosting of tournaments is also a potential revenue stream for which additional sponsorship, media rights, dedicated merchandise, ticket sales, or participation fees could be collected. Furthermore, royalty payments are made to the teams for participation in a tournament (e.g., at the Majors) from a certain tournament level onwards. Moreover, the existing eSports infrastructure can be leveraged to conduct individual academies or bootcamps for younger pro players or amateur gamers who live at the premises throughout a specific period and get intense training and coaching in a particular eSports game. eSports organizations can also accumulate revenue by scouting players or selling players to other organizations after improving their market values through academy training. Lastly, another vital revenue stream is content creation, respectively, the streaming of videos on various streaming or social media platforms, such as Twitch, YouTube Gaming, Instagram, or TikTok. Even though the generated revenue usually remains mainly with the streamer or pro player, it helps the organization to engage with its target audience and, ideally, even grow it. Here, it can be particularly beneficial to have a strong brand like Benfica at one's side, for example, to produce content with well-known football players and thus create synergies across the club. As this revenue stream represents a key element to growing revenue and boosting viewership, it is explained in more detail in the subsequent chapter.

In general, setting up an eSports team should most likely be seen as a long-term investment, as various upfront investments must be taken next to the yearly costs of running the team and organization. First, individual pro players or an already existing team must be bought. Depending on the desired quality of the team, the amount to be paid drastically varies. Second, the salaries for the personnel must be paid; here, the quality of the team determines how high

the salaries are and how many people appear on the payroll. Highly advanced teams employ not only pro players and coaches but also physiotherapists, doctors, psychologists, content creators, managers, and other staff. Third, the training facilities and associated running costs (utilities, rent etc.) must be expensed, and the respective infrastructure (hard- and software) must be provided. Fourth, the preparation for and participation in tournaments comes with financial obligations, for instance, the tournament participation fee, travel expenses, and housing for the actual tournament, as well as for dedicated training bootcamps before the tournament. Fifth, besides the mere game-based costs, there are also expenses to attract and engage fans and subscribers, such as the costs associated with advertising, marketing, and content creation. Additionally, there can be further contractual obligations with the pro players, such as the provision of in-game tokens (e.g., *FIFA* points), which must be taken into consideration.

2.3.1 Content Creation / Streaming

Another important key aspect of the project is streaming, respectively the creation of content; on the one hand, to generate revenue, on the other hand, to reach the audience and engage with them. As stated earlier, streaming is also one of the industry's fastest-growing revenue streams, which underlines its importance (Newzoo 2022). In its basic form, content creation helps “promoting your brand [...] by sharing entertaining, educational, and enlightening information that will add value to your audience's lives.” (Geyser 2022a) Typically, however, the content is not created by pro players but by dedicated content creators. This is because pro players focus primarily on competitiveness, whereas content creators are geared more towards entertaining or educating the audience (Singer and Chi 2019). To effectively address a target group, finding the most engaging content is vital. This includes choosing the platforms on which content will be uploaded or streamed. The three largest

streaming platforms in the world are Twitch, YouTube Gaming, and Facebook Gaming. However, regarding the target group to be addressed, it is noteworthy that all these platforms are banned in China (Newzoo 2022). Additionally, content can also be uploaded on social media platforms, such as Instagram or Tik Tok. Throughout the platforms, there are different ways to monetize the uploaded content. Table 1 gives an overview of the different monetization methods.

Table 1: Monetization Methods for Digital Content

Type	Explanation
Direct Advertising	Ads can be displayed before or during the playing of the created content. However, it is essential to differentiate between ads chosen by the platform (e.g., YouTube or Instagram) and ads selected by an organization itself.
Sponsorship / Affiliate Links	Streamers can have sponsors appear in their videos or promote their products for a contractually defined payment. In addition, there is the possibility to place affiliate links in the content and thus generate revenue proportionate to the sales of the products sold.
Donations	Many platforms offer the possibility for viewers to donate money to the streamer to support and / or cheer him on. On Twitch, for example, donations can be made in the form of “bits” (1 bit = 0.0156 EUR, depending on the USD / EUR conversion rate).
Subscriptions / Premium Content	Depending on the type of content produced, it might be feasible to sell subscriptions for a better viewing experience. This could be ad-free content, exclusive in-depth content, or one-time downloads solely for subscribers, amongst others.
Partnerships	Partnerships with other organizations where one organization promotes the other. This can be done through giveaways or hosting contests, for example, and helps both organizations engage with their audiences.

Source: Own contribution based on (Carter 2020; Hirose 2022)

The monetization methods mentioned above not only help generate revenue but are also a great way to raise brand awareness and interact with the already existing fan base. To do so, it is crucial to thoroughly understand the audience’s viewing behavior and tailor the content according to their needs. Moreover, the monetization potential of the streamed content depends

on multiple factors. Besides the viewership size, the number of subscribers, the engagement rate, the image of the streamer, and the streaming frequency are decisive. In this context, it is essential to note that not one of these factors is particularly decisive, but rather the combination of them.

2.3.2 Viewership

Along with the market size, the viewership size is also increasing. However, it is essential to distinguish between occasional viewers and eSports enthusiasts. While occasional viewers only watch professional eSports content less than once a month, eSports enthusiasts watch it more than once a month. According to Newzoo (2022), in 2020, there were 220.5m occasional viewers and 215.2m eSports enthusiasts worldwide, which increased to 249.5m (2021) and 270.9m (2022) occasional viewers and 240.0m (2021) as well as 261.2m (2022) eSports enthusiasts. It is expected that by 2025 there will be 322.7m occasional viewers and 318.1m eSports enthusiasts, which means that the overall audience will experience a CAGR of 8.7% from 2020 to 2025. There are also considerable spikes in terms of live streaming hours watched. On Twitch, YouTube Live Gaming, and Facebook Gaming, 11.8bn hours of gaming content were watched in 2018, 15.8bn hours in 2019, 28.7bn hours in 2020, and 34.4bn hours in 2021 which yields a CAGR of 30.86% from 2018 to 2021. In 2021, fans consumed a total of 653m hours of live streams each week. Here it can be highlighted that Twitch was by far the most widely used channel, accounting for 71% of the total hours watched in 2021 with a YoY growth rate of 38% from 2020 to 2021 (Stream Hatchet 2022).

There are several reasons for the ongoing positive trend in viewership numbers, for instance, the gain in popularity of eSports or pandemic stay-at-home restrictions (Geyser 2019). In addition, there is also a shift in viewership from traditional sports to eSports, as a survey

revealed that 75% of the respondents (young Americans aged 21 - 35 years) said that “eSports takes away time from following traditional sports” (Football Benchmark 2019). However, even though streaming viewership is rapidly increasing, live eSports events are not to be underestimated, as they can be highly attractive for sponsors due to the in-person engagement (Singer and Chi 2019).

2.4 Key Trends in the eSports Industry – Individual Part Philipp Schauerte (48890)

The eSports industry is affected by many different trends. The following chapter aims to shed light on various key trends and how they could impact the development of the traditional sports industry.

2.4.1 5G and Cloud Gaming

Greater speed, security, and capacity are promised by the fifth generation of network technology, also known as “5G”. The next wave of digital technologies, like cloud gaming, will be supported by 5G, which will also serve as the foundation for the digital economy. Therefore, it is expected that there will be a high demand for 5G networks and a high level of rivalry among businesses and nations to satisfy that desire (Lewis 2018). Telecom providers will have a competitive advantage against the rising threats from over-the-top (OTT)² businesses thanks to the promise of 5G. From a commercial and technological standpoint, businesses must take crucial actions to benefit from the new technology. Network slicing and mobile edge computing will offer new services and interconnections over the 5G network. However, referring to a study by the accounting and consulting firm Ernst & Young (2018), it would require many fiber optic

² OTT stands for over-the-top and refers to content that is offered via an Internet connection without the Internet providers themselves having any influence or control over the content.

cables, sophisticated cloud and analytics capabilities, and updated support systems. 5G is a convergence strategy that has the potential to change the business environment.

Live broadcasting of eSports events could increase with the development of 5G infrastructure, creating captivating possibilities for augmented reality gimmicks. The possibilities 5G presents to produce a more participatory and dynamic broadcast, along with the interest in eSports being shown by mainstream media, is what makes this combination so intriguing. The *League of Legends* game used the “Pro View” feature, which allowed fans to see the game from various perspectives, including other players’ perspectives and stacked feeds. It will be interesting to see how the consumption of live-stream material changes as a result of the better data-flow infrastructure. The potential functionality of portable devices is one of the fascinating aspects of gaming with 5G. Better visuals, lag-free multiplayer first-person shooter or sports games, working location-based features and events – all made possible by 5G’s quick and reliable connection that almost everybody can use. Nowadays, intensive video game computations do not require a lot of computing power anymore, as these computations are done in the cloud. This, in turn, might also minimize the burden on battery life, device, and internet cost. As a result, since more sophisticated computers or gaming consoles are no longer necessarily needed, it might decrease the entrance barrier for competitive gaming. Empowering an already enormous mobile gaming industry should boost interest in competitive mobile gaming and eliminate some of the restrictions mentioned earlier (Mobile Marketing 2019).

2.4.2 Mobile eSports

As just introduced, mobile eSports match other eSports titles in practically every way in the modern era of improved mobile connectivity and better access to the internet, especially in developing nations. The top-ranked competition in the eSports charts regarding viewership

is a mobile game. With a high viewership of 5,414,990 viewers, the *Free Fire World Series* Singapore now retains that record (esports.net 2022). Mobile gaming is introducing many smartphone internet users to multiplayer action gaming. According to the Global Web Index (2020), 8 out of 10 who do not list gaming as an interest are still playing games on their smartphones. This is one of the reasons why mobile gaming has spearheaded the ranks of the gaming community to such a great extent. If franchised leagues, like the Overwatch League (OWL), and the North American League of Legends Championship Series (NA LCS), are the standard by which eSports are judged to be “serious,” then mobile eSports also follow this pattern. The *King Pro League* (KPL) is the world’s largest franchised mobile eSports league. Only Chinese teams are permitted to compete in the KPL, which is the international version of the battle royale game called Arena of Valor. The KPL is the first commercialized franchised league of the Arena of Valor, in which a franchised spot in the 16-team league was sold for more than 8.6 million USD in 2020. It should come as no surprise that mobile gaming is growing more slowly in the Western Part of the World, as gamers in developed countries often have access to more expensive devices, such as consoles or PCs, which offer better graphics and more precise input methods (esports.net 2022).

2.4.3 Virtual Reality Expansion

Virtual reality (VR) is a word that has been popular in recent years to describe activities that entail putting a screen-based digital device on one’s head to have a sensory experience of an imagined environment (Schmidt 2020). However, due to its relatively small viewership and limited selection of compatible games, the VR scene is not as popular as communities like *Fortnite* or *League of Legends*.

With a new layer of reality that brings an additional dimension to games, its evolution is

strikingly similar to that of other popular eSports platforms in their early years. Although still in its infancy, VR eSports has the potential to grow over time. According to Graham Wheeler, general manager of Europe, Middle East, and Africa at HTC, who was interviewed by Fiske (2020): “We’re supporting the expansion of VR eSports throughout the full vertical spectrum from producing gear.”

However, there are certain difficulties to overcome as well. The first is the actual VR headgear, which may cost hundreds of dollars (as of 14.10.2022, market primus Oculus Rift 2 set costs around 500 USD), as much as a new gaming system. VR is a restrictive platform where not everyone can hop in and participate since the entrance expenses are so high, which is a crucial element in developing a robust eSports ecosystem. Accessibility for viewers is the second main issue. Consider *Fortnite*, which can be played on even the most basic computers or mobile devices; the ease of use encourages spectator participation and draws in new participants. Viewers need to have one screen, such as a smartphone or computer, that would display a Twitch (or another platform) broadcast of their favorite gamer / streamer presumably practicing or playing. After studying their moves and techniques, the viewers play the game with their friends. Engagement grows through involvement. The accessibility of *Fortnite* cannot be matched by VR. Therefore, it is good for VR streamers to add a moderator that allows people to chat on Twitch while playing a video game. However, players themselves cannot engage to the same extent since they must possess a VR headset to be totally immersed. As Fiske (2020) mentioned in his journal about the use case of VR in eSports, the interest wanes when involvement is complex.

2.4.4 Co-Streaming

A tournament host can use co-streaming, commonly referred to as watch party, to

increase the number of spectators on other platforms by working with content producers or gaming influencers. Not everybody is permitted to co-stream. Therefore, contractual obligations are made between the organizer and the co-streamers to ensure adequate moderation at large events. Co-streaming is typically used to increase viewership, not just among English-speaking viewers. In the past, there have been various occasions where the same event was co-streamed in different languages to grow viewership and reach a broader audience. This is used to attract people who do not speak English but still follow the broadcast's happenings. However, businesses need to make sure that every broadcast related to their brand adheres to their guiding principles. Concerns about investing in co-streaming of eSports events may arise from the possibility that a brand may unintentionally mistarget its audience (esportsguide 2021).

2.4.5 Implications for Professional Football Clubs

Traditional sports teams are aware that eSports and traditional sports fans have different characteristics and that a unique engagement approach is required. Classic sports leagues host digital tournaments, such as the Spanish football league La Liga or the German Bundesliga, bringing many people into contact with digital competitions who have not had any previous exposure to eSports. As a result, established sports franchises are increasingly using eSports to expand their brand awareness across user categories that differ significantly from their core fan base in terms of interests, habits, and other characteristics. As already outlined earlier, eSports enthusiasts are primarily youthful, digital natives, and interested in highlights and free material streamed live on social networks or streaming platforms, as opposed to traditional sports fans, who are often older and watch sports events live on TV. Influencers and sports organizations may expand their reach by using these streaming platforms for purposes other than eSports. Since video game streamers have the most followers on Twitch, they are extremely popular among viewers even though most of them are not competing in eSports events. As a result, both

conventional and eSports teams may utilize these platforms to stream their original content and material primarily geared toward the younger generation that uses streaming services (Euromonitor International 2021).

2.5 PESTEL Analysis – Individual Part Philipp Schauerte (48890)

To shed light on the whole market environment, a PESTEL analysis is conducted. PESTEL is a framework to evaluate external factors like political, economic, social, technological, environmental, and legal factors (Vasileva 2018). Matovic (2020) further specifies that the PESTEL analysis is carried out for market entry strategies into new markets as well as for potential investments in order to know the macroeconomic conditions in advance. In the following, each framework dimension is explored in more detail.

Since 2016, the Portuguese political scene has been led by Socialist António Costa, who was re-elected to a four-year term in February 2022. Particularly striking in this election was a shift of votes from extremes towards the center, which now gives the Socialist Party an absolute majority (Gregorio 2022). According to the Worldwide Tax Summaries conducted by PwC (2022b), residents in Portugal are taxed on their income at progressive rates varying from 14.5% to 48% for 2022. For 2022, an additional solidarity rate between 2.5% and 5% applies to taxpayers with a taxable income exceeding 80,000 EUR. Corporate profits are taxed at a rate of 21%, which is slightly below the European average of 21.7 % (2022a).

Based on economic data from the Organization for Economic Cooperation and Development (OECD), Portugal has a Gross Domestic Product (GDP) per capita of 36,457 USD in 2021, with a projected growth of 1.7% for 2022. Income equality is reasonably balanced with a Gini

coefficient³ of 0.31, but household debt is very high at 125.6% of disposable income (2022). As measured by the 2018 PISA study, the Portuguese population is above the OECD average in Mathematics, Reading, and Science, suggesting the availability of well-educated individuals. Furthermore, as of Q2 2022, 71.6% of the working-age population is employed, and 15.5% is self-employed. These figures are also above the OECD average (OECD 2022).

To evaluate social factors, the demographics are briefly reviewed, with a population in Portugal of 10.2 million people in 2020, with a projected decrease of 0.29% per year (about 30,000 inhabitants). In 2050, the population is projected to be 9.08 million; by 2099, the population is expected to decrease to 7.01 million. The fertility rate in Portugal is 1.29 births per woman, which contributes to an aging society that is currently, on average, 46.2 years old. Based on estimates, Portugal would need to admit 75,000 immigrants annually to keep the population size constant. The government is working on policies to generate an attractive offer (World Population Review 2022).

Regarding technology, 87.3 % of households are supplied with internet access. Investment in new technologies reached 1.6% of the GDP in 2021, which is below the OECD average of 2.7% (OECD 2022). The Portugal News (2022) headlines that Portugal, particularly the two largest cities, Lisbon and Porto, is becoming a new European hub for technology. Reasons such as the high quality of life, low cost of living, and the settlement of large tech companies such as Google and Amazon are cited.

³ The Gini coefficient (or Gini index) indicates the degree of inequality in the distribution of income, e.g., in a country or region, according to per capita household income and ranges from 0 to 1, while 0 stands for a completely equal distribution and 1 indicates that wealth is concentrated on only one person.

In terms of the environment, Portugal has a significantly lower consumption of emissions, air, and GHG⁴ of 3.3 tons / capita than the OECD average of 8.7 tons / capita in 2021. In the same year, municipal waste was 517.7 kilograms per capita, almost precisely at the OECD average. In 2020, Portugal could already cover its energy needs with 28% (which increased by 12.5% compared to 2019) from renewable energies, while this ratio was only 11% on average for the OECD (OECD 2022). Further, Portugal aims to reach carbon neutrality by 2050 (RNC2050 2019).

PLMJ (2022), a Portuguese law firm, describes the legal system in Portugal in their definition as a “civil law legal system based on the Roman law tradition [...], with no restrictions on foreign shareholders” and where the same rules apply to both Portuguese and foreign investors. Transparency.org (2022) assigns Portugal a Corruption Perception Index of 62 / 100 (the higher the score, the more corrupt the country), ranking it 32 / 180 countries in 2021. This score has barely moved in recent years as it was in 2019 also 62, which ranked 30 / 180 at the time (Transparency.org 2020). An overview of the PESTEL analysis can be found in Appendix 1.

⁴ GHG (Greenhouse gas)

3. Methodological Approach

To develop a suitable business plan for advancing into the eSports environment, an understanding of Benfica's initial situation, eSports history, and future goals was necessary. For this purpose, the material provided by Francisco Barreto (Marketing Manager at Benfica) was screened and used as a basis for the business plan. Through the subsequent extensive literature research, further information on the market environment and development was found, and an entry strategy was created. A PESTEL analysis complements the entry strategy to consider environmental factors. Considering various criteria, a benchmark of different tier 1 games revealed that *CS:GO* is the most suitable option for Benfica to grow their eSports business. Here, a SWOT analysis sheds light on Benfica's associated potential and risks entering the *CS:GO* universe. By conducting expert interviews with João Duarte (Founder of the YNG Sharks *CS:GO* eSports team) and Guilherme Fontes (Industry expert with experience setting up eSports teams for football clubs), further first-hand insights were gained. These insights could be used not only for benchmarking purposes but also as best practices. The interview guideline used for the interview conduction can be found in Appendix 2.

Using the insights gained from the interviews, the provided material, and desk research, a financial projection has been developed with a particular focus on the profitability and break-even of the project. Upon the determined financial figures, scatter plots / graphs were generated to visualize the commercial development of the respective revenue streams. These graphs are reflected with a formula. To account for unexpected developments, a worst-case and a best-case scenario have also been created. Based on the evaluation of the financial projections and the accompanying business plan, strategic and operational recommendations for Benfica are given. Additionally, limitations of the business plan are also considered to highlight the specifics of the project and the requirements that must be met to ensure its success.

4. Entry Strategy – Individual Part Philipp Schauerte (48890)

The purpose of this section is to determine which eSports game is the best to enter, based on several factors and the fit with Benfica's objectives. In addition, the perception of first-person shooter games in the literature is examined, and eventually, one tier 1 game is recommended. A SWOT analysis complements the section to illustrate the strategic implications of the entry decision.

4.1 Entering a Tier 1 eSports Game

As already outlined, this work aims to develop the business plan for Benfica to set up a tier 1 eSports team. To do so, it is first essential to understand the client and their needs. Founded in 1904, Benfica grew to be the most decorated club in Portugal (Football History 2022) and the club with the second-largest fan base worldwide with 290,000 club members, surpassing apart from FC Bayern Munich every other football club in the world (Statista 2022c). Currently, the club ranks 22nd in the official UEFA club coefficient ranking (UEFA 2022). To live up to the club's DNA credo of always winning, it is vital to proactively engage with and strategically align with business trends to ensure continued success. As described in the previous chapters, the eSports industry offers enormous market potential and is gaining in popularity, particularly among Benfica's target group of the younger generation. Hence, the following chapter addresses how and on which scale it is possible to seize market shares.

As taken from the initial briefing, Benfica follows several goals in the eSports industry. First, on the commercial side, Benfica aims to monetize the project and wants to reach profitability through diverse revenue streams. Second, they seek to internationalize the brand and consolidate their national position even more. Third, they want to approach younger audiences. Fourth, they strive to continuously digitalize their brand and transition towards a digital

ecosystem with which they can leverage various other digital trends, such as entering the Metaverse or selling NFTs. To reach those goals, Benfica also already showed a willingness to shift from *FIFA* (which is a tier 2 game) to a tier 1 game, as, amongst others, the viewership, brand exposure, sponsorship size, prize pools, and total overall commercialization potential are higher in those games.

It is challenging to select which tier 1 game to enter, considering that the games significantly differ in gaming content and entry requirements. As such, a tradeoff must be found between the financial obligations a game requires and the potential revenue it will bring. More popular games have higher prize pools, viewership numbers, brand exposure, and consequently sponsorship and revenue potential, but also, the competitions are much more intensive, and the tournament fees, as well as the pro players' and coaches' salaries, are higher. Moreover, there are no official rankings about which games are considered tier 1 games. Nevertheless, there are definite tendencies that *Dota2*, *League of Legends*, *Rocket League*, *CS:GO*, *Overwatch*, and *Fortnite* belong to the current tier 1 games (Petermeier 2022; Nordland 2022). Table 2 shows an overview of the worldwide (excluding China) viewership numbers (peak in 2021 and average in September 2022), the hours watched (in September 2022), the prize pool, and the main tournament per game. *FIFA* has been added to this list for benchmarking purposes.

Table 2: Overview of tier 1 video games

Game	Genre	Peak Viewership 2021	Ø Viewership September 2022 (only on Twitch)	Hours Watched September 2022 (only on Twitch)	Prize Pool (in m USD)	Main Competition
Dota2	Multiplayer Online Battle Arena	2,741,514	66,100	47,584,734	47.79	The International
League of Legends	Multiplayer Online Battle Arena	4,018,728	159,084	114,496,320	8.13	League of Legends World Championship
Rocket League	Sports simulation	280,226	9,189	6,614,138	6	Rocket League Championship Series
CS:GO	First-person shooter	2,748,434	81,301	58,520,224	21.89	CS:GO Major Championships
Overwatch	First-person shooter	134,320	8,125	5,209,782	4.66	Overwatch World Cup
Fortnite	Battle Royale	294,477	56,221	40,471,804	19.96	Fortnite World Cup
FIFA	Sports	188,033	7,284	5,240,923	2.1	FIFAE World Cup

Source: Own contribution based on (Petermeier 2022; Statista 2022a; Nordland 2021; eSport Charts 2022; Streams Charts 2022; Statista 2022b)

In the past months, there have already been attempts to enter *Rocket League* with a partner; however, these attempts have been put on hold for the meantime. All the remaining tier 1 games belong to the overarching genre of shooting and battle, which Benfica initially did not want to identify with. Nevertheless, studies have shown that in this genre, consumption is higher, and the games are followed more frequently and intensively (Deloitte 2021b). Especially in the age

group of 16 to 44 years, shooting games have been the most popular video game genre in 2021 (Statista 2022d).

4.2 Scientific Research About the Impact of Shooting Games in the Literature

In the literature, there is no consensus on the effect violent games might have on younger people. On the one hand, several studies show that playing violent games harms the development and behavior of young people (Greitemeyer and Mügge 2014; Chang and Bushman 2019). On the other hand, however, several other studies neglect these findings. For example, Smith, Ferguson, and Beaver (2018) discovered in a longitudinal study that exposure to violent games is unrelated to adolescent conduct disorder or criminal behavior. Another more recent study showed that “the cross-lagged association between game time [of violent games] and aggressive affect was virtually zero” (Johannes et al. 2022, 1). Also, researchers from the Oxford Internet Institute found no relation between the consumption of violent games and the aggressiveness of young people (Przybylski and Weinstein 2019).

Several other international football clubs have already entered first-person shooter games, such as the South American clubs Santos FC, River Plate, and Boca Juniors. Also, European clubs like Club Brugge, Real Betis, or Olympique Lyonnais have their eSports teams compete in first-person shooters (Scope 2021). As such, the authors of this work see no significant issues for Benfica to consider entering first-person shooter games. Following that, the subsequent chapter will highlight these games’ commercial aspects.

4.3 Selection of a Tier 1 Game

When determining which game to enter, the monetization potential, along with the associated costs and entry barriers, are key parameters. Benfica pursues a conservative strategy

here, focusing on medium- and long-term goals rather than short-term high returns. In addition, the choice of the game can also depend on which target group should be reached.

A recent study conducted in Germany by Allenstein et al. (2020) shows that fans can be clustered into categories and what characteristics they have: Fans of mature eSports (e.g., *League of Legends*, *CS:GO*) tend to like e-commerce and business, fans of newer eSports (e.g., *Fortnite*) attach particular importance to their appearance, fans of sports simulation games (e.g., *FIFA*) care a lot about personal health, and fans of niche games (e.g., *StarCraft II*) enjoy a high level of comfort and are keen to build up knowledge. Nevertheless, to have the best negotiation power for possible sponsorship deals, which accounts for the most significant revenue stream in the industry, the viewership size is the most critical point.

As seen in Table 2, *Dota2*, *League of Legends*, and *CS:GO* had by far the highest peak viewership in 2021, and alongside *Fortnite*, they also have the highest average viewership and hours watched in September 2022. As such, the remaining games, *Rocket League* (where further steps have been put on hold) and *Overwatch*, should be disregarded due to the lack of sufficient viewership. Of the remaining four games, *League of Legends* has the lowest prize pool and, as Table 3 shows, the highest average salaries. Referring to Table 3, it is important to mention that the figures do not account for the Portuguese market but are based on a global assessment. Moreover, in the expert interview, it appeared that for *League of Legends*, the operational costs are also in no relation to the associated revenue potential and desired profitability. Following Benfica's conservative strategy, *League of Legends* should also be disregarded. Next, *Dota2* has a very high risk / reward ratio, as it has by far the highest prize pools of all games (for the ninth year in a row), but also, the salaries of the pro players who compete in those competitions are very high, ranging from 120,000 to 180,000 USD per year (Raghuram 2020; Fonger 2022).

Despite its high viewership numbers and monetization potential, *Dota2* should also be disregarded as entering it is very expensive and, as such, does not align with Benfica's strategic approach. Comparing *Fortnite* with *CS:GO*, *CS:GO* is better in terms of peak and average viewership as well as hours watched. Further, since its release in 2012, it has always been a classic tier 1 game with a solid viewership base and has not gained short-term popularity due to specific hypes. Additionally, in a typical *Fortnite* match, 100 players compete, which lowers and rather randomizes the chances for success, as emerged in the expert interviews. In summary, based on the exclusion process, *CS:GO* is considered the game that best suits Benfica's strategic approach, as it has high viewership and corresponding brand exposure, offers high prize money, belongs to one of the most popular genres, and enjoys high prestige in the community.

Table 3: Overview of Average Annual Salaries in Tier 1 Video Games of Mediocre Players (in USD)

Dota2	League of Legends	Rocket League	CS:GO	Overwatch	Fortnite	FIFA
80,000	105,000	56,000	60,000	50,000 ⁵	50,000	40,000 ⁶

Source: Own contribution based on (Raghuram 2020; Todorov 2021; Charlton 2022; The Global Gaming 2022; Kaurinovic 2022; Reuters 2021; Gulati 2022)

All in all, *CS:GO* serves as a powerful launch into tier 1 games and has a very high potential for monetization and brand exposure to a growing community. Moreover, first-person shooters are one of the most popular gaming genres for attracting the younger generation and are, therefore, indispensable. For these reasons, *CS:GO* is chosen as the game to expand Benfica's eSports offering further.

4.4 SWOT Analysis

Benzaghta et al. (2021) describe the SWOT analysis as an important technique companies use for strategic planning to measure internal indicators like strengths and weaknesses as well as external factors like opportunities and threats. The SWOT analysis fills the information gap in strategic planning and provides managers with valuable information to improve their strategic decisions.

Benfica can leverage several strengths for incorporating *CS:GO* in their eSports organization.

⁵ Minimum salary

⁶ NBA2K is used as benchmark

As Benfica is already engaged in eSports since 2019 (*FIFA*), they have built up know-how for managing eSports teams. Additional synergies can also be generated in the areas of content creation or the sharing of the existing infrastructure. Moreover, Benfica has the second-largest fan base of any football club worldwide, with approximately 290,000 members. This makes it a well-known brand and thus offers enormous monetization potential through sponsorship deals, viewership numbers, merchandise sales, or others (Statista 2022c).

However, Benfica must also deal with some weaknesses. Despite the experience already gained with *FIFA*, Benfica has no knowledge yet about participating in tier 1 games such as *CS:GO*, where the whole ecosystem around the game (in terms of target audience, competitions, viewership numbers etc.) differs. Further, *CS:GO* is classified as a first-person shooter game, which contradicts Benfica's original values and beliefs not to promote violence. Moreover, setting up a team in *CS:GO* needs more funding than can be achieved with the profits generated by *FIFA*. As such, the financing of the project is highly dependent on external parties such as sponsors or investors.

The external circumstances present numerous opportunities, yet at the same time, they also entail certain threats. On the one hand, the eSports market offers huge potential as the market size continuously rises, viewership numbers skyrocket, and trends boost the industry development. By tapping into new markets, the overall audience increases, which ultimately helps Benfica to grow their brand awareness within their target group of the younger generation. Further, due to the market potential, the project is very likely to turn break-even and thus reach profitability after two to three years, depending on the scenario.

On the other hand, Benfica's brand reputation might be negatively affected due to their

involvement in first-person shooter games, especially amongst generations similar to or older than millennials. Besides the risk of reputational damage, a recent study found that there is also the risk of brand dilution, as the diversification may be perceived negatively by parts of the fan base and can potentially lead to their dissatisfaction and a reduced willingness to identify with Benfica (Ke and Wagner 2022). Moreover, other organizations might enter the *CS:GO* business with larger budgets, increasing competition and making it difficult for Benfica to gain a relevant share in the market. An overview of the SWOT analysis can be found in Appendix 3.

5. Discussion

This section summarizes the results and identifies the most significant factors for the success of the project. After that, the limitations of the work and risk mitigation measures are discussed, and a final recommendation is presented. By doing so, this chapter also answers the following initial questions:

- *How attractive is the eSports market for Benfica, and how can they further engage in the market? More specifically, which gaming area is most interesting for Benfica?*
- *Which entry barriers and financial obligations would Benfica face when entering a new eSports game?*
- *How attractive is the project from a commercial perspective?*
- *What requirements must be met for the project to be worthwhile?*

5.1 Summary

In summary, it can be stated that a further expansion of eSports activities by entering *CS:GO* should be considered for Benfica. This decision can be justified by the profitability and the reach of the younger audience as well as further vital factors outlined in the following.

In the most recent study by Newzoo (2022), the eSports market is valued at a total revenue volume of 1.38bn USD. By 2025, the market is expected to grow at a CAGR of 13.4% to reach a revenue volume of 1.86bn USD. Moreover, most experts agree that eSports will establish itself as one of the global sports types (World Football Summit 2019). In addition to the growing market size, the number of viewers is also growing, with a CAGR of 8.7% in the same period. Moreover, the number of hours streamed on various streaming platforms such as Twitch, and YouTube is rising steadily, resulting in the growing popularity of eSports (Stream Hatchet 2022). These factors underline the overall attractiveness of the eSports market for Benfica.

Based on the research conducted, it was revealed that the game *CS:GO* would be a great addition to Benfica's eSports portfolio. The game's high viewership numbers, brand exposure, and attractive prize money are all factors that align very well with Benfica's strategic approach. Further, *CS:GO* is a game in one of the most popular genres (first-person shooters) in the gaming industry and is highly recognized in the community. Regarding the fit with Benfica's values and beliefs, some researchers find that first-person shooter games have a negative impact on the personal development of young people (Greitemeyer and Mügge 2014; Chang and Bushman 2019), whereas other researchers believe that exposure to violent video games does not affect or increase the criminal behavior or aggressiveness of young people (Smith, Ferguson, and Beaver 2018; Przybylski and Weinstein 2019). As such, there is currently no consensus in the literature about the effects of violent video games on adolescents. Additionally, one can enter the *CS:GO* scene throughout the year, lowering the entry barriers and making it even more attractive for Benfica to enter the game.

For evaluating the financials and elaborating a 5-year financial forecast, a business plan with a base-case, worst-case, and best-case scenario was developed based on expert interviews, research, and the benchmark from the already existing Benfica eSports *FIFA* team. In each scenario, an upfront investment of 506,000 EUR is needed to buy the team and to finance initial operational costs. This money can be raised either internally at Benfica or through external investors such as private equity or venture capital firms, considering repayment plus interest in the case of external investors. In both the best- and base-case, the upfront investment can be refinanced from the expected cash flow; however, in the worst-case scenario, this is not possible as the operating costs are not covered. In short, depending on the support of partners, the financial obligations are moderate, and the commercial perspective is highly attractive.

Critical success factors in this context are the collection of sponsorship money of at least 500,000 EUR in the first year and the general qualification for and achievement of major tournaments in the 5-year period. To find one or more appropriate sponsors, the entire Benfica brand must be leveraged, and, similar to Schalke 04, the whole club must be committed to the project. Based on the conducted interviews, the sponsor at Schalke 04 at the time used the arena for sponsoring events and organized events with players from the traditional football team. Reaching the Majors is an essential milestone in both competitive and financial terms, comparable to qualifying for the UEFA Champions League, and should be Benfica's aspiration.

In addition to the two main revenue drivers of sponsorship and royalties from qualifying for the Majors, Benfica can try new ways besides the established revenue streams. Here, content creation and streaming seem to be very appealing and can help to stand out from competitors. It is common for streamers to keep 100% of their revenue, but a new approach would be to train a currently unknown, talented gamer to become a streamer and make him known through the Benfica brand and reach. In return, the gamer receives a small basic salary, which offers him financial security and independence, but in turn, allows Benfica to profit (with a to-be-determined percentage) from the generated revenue. Although this approach is currently not commonly used in the streaming industry, it aligns with Benfica's DNA of encouraging and developing new talents.

5.2 Limitations & Practical Implications

Although the insights and findings generated during this work provide a solid basis for Benfica to expand their eSports business with *CS:GO*, several limitations remain to be addressed. Here it must be emphasized that the limitations have not been examined in detail

and would have to be explored further in the future.

All data used is based on the conducted expert interviews, desk research, and the information Benfica provided either on the eSports business in general or the *FIFA* business. Even though the data has been calculated conservatively and validated regularly, unexpected circumstances in the eSports industry may still cause actual developments to deviate from the generated forecast. All financial figures are made assuming that the TP Arena, which is currently only used by the *FIFA* team, can also be used by the *CS:GO* team. Thus, before making further arrangements, Teleperformance as the main sponsor should be consulted to discuss any *CS:GO* plans. If the facilities are not allowed to be used, this will impact the financial figures, as further investments would be necessary, especially for rent payments to the TP Arena or in the acquisition of new infrastructure (premises, computers, consoles, tables, chairs etc.).

Despite the overall attractiveness of the project, several requirements must be fulfilled for the project to be worthwhile. In fact, the competitive success of the purchased team is an important criterion for the success of the project. While this is also strongly linked to the competitive performance and further development of other teams, the initial selection of the first team is crucial. Therefore, it is necessary to scout a team or to find an external partner to help select a team. In this work, the availability of reasonably skilled teams to acquire was considered as given. In contrast, the availability on the market, as well as the accessibility of external partners for scouting support, was not further investigated. Moreover, the pro players are assumed to remain loyal to the club and stick to their contractual obligations. Nevertheless, although in the expert interviews *CS:GO* players were referred to as loyal, spontaneous roster changes can still happen and are very hard to predict.

The calculation of the revenues generated from transfer fees is based on the assumption that the entire transfer amount remains with the club. Here, however, the individual contract terms will determine the distribution of the transfer fee between the pro player and the club. For the calculation of merchandise revenue, it is assumed that 100% of the merchandise is sold. To this end, the costs of warehousing and distribution of the merchandise were disregarded. Hence, the costs for this are either included in the profit margin or not considered.

Ultimately, in a highly dynamic environment like the eSports industry, the future of a game is never guaranteed. Even though *CS:GO* has had a stable position as a tier 1 game for a very long time and enjoys a growing fan base and rising tournament prize money, this does not prevent other games from appearing on the market and causing *CS:GO* to become less popular.

To overcome these limitations, it is essential to address a few key aspects. First, securing one or multiple good sponsors is essential to build a strong team and jointly ensure early success. Here, again, it is important to highlight that the project must be seen as a long-term investment. Second, it is vital to set different goals for the project. The goals can be purely financial, for example, concerning break-even, cash-flow, or profitability. However, at the same time, the goals can also be of a competitive nature, for instance, to participate in or win national or international tournaments, such as the Majors. Third, it is advisable to measure several other KPIs, such as the number of fans reached through *CS:GO*, the average viewership, or the engagement rate of the audience, in order to adjust the content creation based on the insights and to achieve Benfica's goal of reaching the younger generation more effectively.

In short, the *CS:GO* project is a highly recommendable way to achieve Benfica's goals of competitive success, audience growth, and increased brand awareness among the younger

generation. Here it is also highly advantageous that Benfica has already gained experience in the eSports industry with their *FIFA* team, which they can utilize to establish the *CS:GO* team. There is no required entry date, as *CS:GO* tournaments are held throughout the whole year, and no explicit entry periods for specific leagues apply, making Benfica's entrance easier.

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7. Appendices

Appendix 1: PESTEL Analysis

P ^o litical	E ^e conomical	S ^o cial
• Since 2016 led by António Costa (Socialist Party) • Income tax ranges between 14.5% and 48% • Corporate tax is with 21% slightly below European average	• GDP per capita of 36,457 USD and a projected growth of 1.7% • Fairly balanced income equality • Employment rate is above OECD average	• Population of 10.2 million people but with expected decrease of 0.29% per year • Fertility rate of 1.29 births per woman • Average age of 46.2 years with aging society
T ^e chnological	E ⁿ vironmental	L ^e gal
• Widespread Internet access • Investments into new technologies are below OECD average • Tech giants such as Google and Amazon use Portugal as new European tech hub	• Lower emission consumption than European average • 28% of energy consumption comes from renewables with expected increase • Goal to reach carbon neutrality by 2050	• Civil law legal system based on the Roman law tradition • (Foreign) Investors are treated equally • Fairly balanced corruption index

Appendix 2: Interview Guideline

General:

- Can you briefly explain your current job position and your relationship to eSports?
- When and why did you enter the eSports business?
- Which experiences have you already gathered in setting up eSports teams?
- What are the primary reasons you choose to enter the eSports game you currently compete in?
- Which aspects must be considered when selecting and acquiring a team?
 - o Why is the same native language so important?

Revenues:

- Is it possible to get sponsorship from the first year on, or must the team first show off their capabilities to get (big) sponsorship?

- Which prize money wins can be expected in the first years, and how is the prize money split between the players and the club?
- How large is the media right monetization potential? Which differences are there between national and international tournaments?
- How attractive is it to sell merchandise to fans?
- Are ticket sales a revenue stream for all teams or only for tournament organizers?
- How important is it to have streamers / content creators on the team? Respectively, is the focus on winning competitions or on entertaining fans?
 - o How do you forecast the revenues generated from streaming? (How) do you use the data to engage more with your fans or even catch a broader audience?
- How lucrative can a club develop young players and sell them later?

Costs:

- How much money is needed to buy a *CS:GO* team with the potential to participate in the Majors after only a few years?
 - o How is the transfer fee for a team calculated, and what are the decisive factors?
- Would it be possible to set up a team from scratch without spending money at all?
- How high are the salaries for players, coaches, and content creators? How does the salary vary for youngsters? How high are the differences between players within a team?
- How many players, coaches, and content creators are usually in a team?
- How high is the fluctuation rate of eSports players? Also, how long is the average length of contracts?
- Which cost items must be considered to cover the operations of a *CS:GO* team?
- How high are the usual expenses for the infrastructure (hardware and software)?
- How high are the traveling expenses typically, and for which occasions is traveling

needed?

- How do bootcamps typically work, and how expensive are they?

Other:

- Is the focus rather on competitive success or on entertaining fans? Respectively, how important is content creation for an eSports team?
- How easy is it to play tournaments in other countries, e.g., Brazil? Are there specific entry requirements?
- Did you have any unforeseen challenges when building the team, and how did you overcome them?
- How important is it to have the best equipment, or is pure talent more important?
- Are there any unwritten rules or Do's and Dont's in the eSports world, respectively, the *CS:GO* world?

Appendix 3: SWOT Analysis

Strengths	Weaknesses
• Low entry barriers, as Benfica is already engaged in eSports (FIFA, since 2019) and therefore has an existing infrastructure as well as the know-how to manage (e-)Sports teams • Second largest fanbase worldwide with approx. 290,000 members leads to a well-known brand and huge monetization potential, especially among younger audience • Experience in content creation can be leveraged throughout the eSports organization	• Less experience in <i>CS:GO</i> or other tier 1 games which requires a new infrastructure (team, coach, processes etc.) to be set up • Integration of first-person ego shooter games contradicts with original beliefs and values of Benfica • Financing of investment is highly dependent on external parties (sponsorship / external investor)
Opportunities	Threats
• Huge market potential as market size continuously rises, viewership numbers skyrocket, and trends boost the industry development • Brand reputation and awareness can be strengthened through access to new markets (independent of region or time) • Break-even can be achieved after only few years, making it a profitable investment with diversified revenue potential	• Benfica brand may be negatively affected by the first-person ego shooter image of <i>CS:GO</i> • Other big players could with larger budgets could enter the to increase competition and reduce chances of success for Benfica • Benfica brand may be further diluted, which fans might perceive negatively and thus interact less with the club