

SBJ/Aug. 3-9/In Depth

## Rio's economy is a work in progress

As construction continues on Olympic venues, Brazil's once red-hot economy is in a tailspin. What difference will a year make in the countdown to Rio 2016?

By **Ben Fischer**, Staff Writer

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Back in 2009, days after Rio de Janeiro won the right to host next year's Summer Olympics, Bloomberg News called Brazil a "potential economic powerhouse." Future events seemed to back up the claim. South America's largest economy rocketed back from the global recession, expanding 7.5 percent in 2010 as the U.S. and other developed countries limped along.

But Brazil is a very different place as it marks one year until the Games. The country's economy is contracting at a pace unseen in Brazil in a quarter century. Unemployment grew 43 percent in a year to hit 6.9 percent in June; the value of its currency, the real, is down 48 percent from a year ago.



This photo taken in July shows construction underway at the Olympic Park, which will play host to 16 Olympic disciplines and be the heart of the 2016 Summer Games.

Photo by: Getty Images

It could yet get worse. In June, heavily indebted state-owned oil company Petroleo Brasileiro SA announced a 37 percent reduction in new investments through 2020, cutting \$76 billion in planned spending from the economy. A corruption investigation around that same company is now focused on political allies of deeply unpopular Brazilian President Dilma Rousseff.

This is the backdrop to the Summer Olympics, the world's largest sports platform for corporate marketing, hospitality and sponsorship. Experts expect sponsorship activation to be down across the board compared with London 2012. Even those companies aiming high

are moving cautiously, sensitive to the perils of spending money in a down economy, said Kirsten Hunt, vice president at IMG, which is handling General Electric and Visa Olympics work, though she was not speaking specifically about her clients.

“I would say it’s worse than you read in the news,” said Celso Schvartz, the Latin American chief for GMR Marketing, which represents Visa, Procter & Gamble, General Electric, Cisco and Ernst & Young. “Not only is our GDP going to decrease at approximately 1.5 percent compared to the previous year, but there’s a lot of buzz around unemployment and people not being able to pay for their loans. This is a very sensitive moment, and I’m not sure how many people really understand what’s going on in depth.”

Enthusiasm for Brazil is resilient, though, and major Olympic partners aren’t about to pull up stakes. After all, the Games have been successfully executed in all manner of economic and political climates over the years. It’s not as if a recession — even a potentially severe one — invalidates the long-term fundamentals of Brazil or the worldwide brand equity of the Olympics.

Furthermore, Brazil already hosted the Confederations Cup in 2013 and the FIFA World Cup in 2014. Major corporations that use sports as a marketing vehicle are well into a five-year Brazil strategy in the country, and they aren’t turning back now.

“There’s nothing that’s going to sway us from staying the course and doing what we’ve done best over the course of 30 years [as an Olympic sponsor],” said Eduardo Solis, senior director of global sponsorship marketing for Olympic and FIFA sponsor Visa. “We know what works and we’re confident in what we’re doing in Brazil.”

Another worldwide Olympic sponsor, GE, already has bet heavily on Brazil. It opened a long-planned \$500 million research center in Rio in November. The center is focused on the energy industry over the long term but is now providing data analytics expertise to the Brazilian Canoe Confederation in a two-year partnership.

Even as the economy has cooled, Brazil’s identity as the home of global sports this decade has kept clients dedicated to it as a platform for building business relationships, said Adam Lippard, GMR executive vice president.

Solis, Visa’s top marketer in Rio, said Brazil is already the payment processor’s third-largest market and executives believe both the consumer and merchant side of the business is ripe for rapid expansion. Visa will use the Games as a platform to show off its advanced payment tech tools.

“It’s an emerging market,” Solis said. “It’s still pretty immature. But it’s such a big country, and there are so many people here, there’s still a lot of room for growth.”

The timing of this recession is better than it might appear at first glance, having started only after the two soccer tournaments were over. The Rio 2016 organizing committee appears short of its goal of \$1.5 billion in

## Brazil, by the numbers

- **Population:** 202,659,812
- **President:** Dilma Rousseff
- **Largest cities:** São Paulo, 11.9 million; Rio de Janeiro, 6.45 million
- **Capital:** Brasilia, 2.85 million
- **Population growth rate:** 0.77%
- **Population below poverty line:** 21.4%
- **Unemployment rate:** 6.9 percent (June 2015); 4.8 percent (July 2014)
- **GDP:** \$2.346 trillion\*
- **GDP per capita:** 2010, \$11,318; 2011, \$13,279; 2012, \$12,148; 2013, \$11,939; 2014, \$11,613
- **GDP growth:** 2010, 7.6%; 2011, 3.9%; 2012, 1.8%; 2013, 2.7%; 2014, 0.1%; 2015, -1.5% (projected)
- **Exchange rate to U.S. currency:** 3.36 reals to \$1 (as of July 28)

\* 2014

Sources: CIA World Factbook, World Bank, Brazilian Institute of Geography and Statistics, Bloomberg markets, SportsBusiness Journal research

local sponsorship sales and lacks key categories such as mining, agribusiness and utilities, but it easily cleared \$1 billion in local deals by locking them up while the economy was still growing.

And even Brazil-based companies, seemingly with the most to lose in the recession, see a chance to tap into the budding excitement over the first South American Olympics. In raising money for the torch relay, Rio 2016 signed nearly \$200 million in deals with Coca-Cola and newcomers Nissan and Brazilian bank Bradesco, and rejected other willing sponsors to avoid hurting the symbolism of the relay.

“It is an expensive program, but they didn’t have much trouble to sell it,” Schvartz said.

## ‘The Carioca way’

Rio might not be as comfortable as London, a world corporate capital that played host to the ultimate luxury sports party in 2012. It might not offer quite the business upside that Beijing did in 2008. But it’s a destination synonymous with party, mystique, sex appeal and the good life, and the demand for corporate travelers to attend the Games is soaring.



Graffiti calling for respect is scrawled on a wall of property destroyed to clear way for the Olympic Park, shown in the background. Most residents in the affected area have moved out after receiving compensation for their properties.

Photo by: Getty Images

“Rio is in a great situation because so many people want to go to Rio,” said Tom Shepard, a partner at 21 Marketing and a former Visa Olympics marketer. “It’s still considered a huge prize for a consumer or a guest of a company to be able to go to Rio. That value remains, I think, constantly.”

That goes for potential television ratings, too, Shepard said. Imagine viewership on the last Thursday of the Games if, as organizers hope, Brazil takes on the U.S. in the gold-medal beach volleyball match from Copacabana Beach at midnight.

“It’s the Carioca way,” Shepard said, using the word used locally to describe the fun-loving ethos of the city. “And people are very, very fascinated by the Carioca way.”

Brazil’s currency troubles are an international business problem but a boon to visitors. One dollar buys you about 3.36 reals today, up from 2.26 reals just a year ago. “From the standpoint of food, beverage and ancillary services you’re paying for, that’s tremendous,” said Don Dow, president of Dow Events, which has organized trips to the Olympics and other major events since 1992. “The difference is most hoteliers are smart enough to price things in dollars or euros.”

A lot can happen in a year. Right now, the rising economic problems have not translated into political unrest like the country saw prior to the two major soccer tournaments, but corporate strategists are watching carefully for any signs of that changing.

Low-priority city infrastructure projects are good bets to languish as debt becomes harder to buy and energy flows into wrapping up crucial Games venues. Olympics business consultants are dubious the city will finish in time projects to clean up polluted Guanabara Bay, rehabilitate a main port and build a key subway line linking Ipanema Beach and Barra da Tijuca, the center of the Olympics operation. Rio organizers insist the subway will be done, and even the biggest skeptics say the Games' sports venues will be done on time, if not any earlier.

But this much is still true: Brazil will host the Games, the world's major sponsors have committed to Rio, and few destinations in Olympic history have been more anticipated.

"All things being equal, everyone would love Brazil's economy to be flying high and you ride the wave," said Scott McCune, who led Coca-Cola's sports marketing efforts for 16 years before starting his own consultancy. "That would be ideal. Having said that, you don't have a lot of choices. It's not like Coca-Cola isn't going to leverage the Olympics.

It's been leveraging the Olympics in Brazil for four years now. It's not like they're not going to continue to do that. And hopefully, in some way, lift the spirits of the people of Brazil. Just look at it as a positive spin."

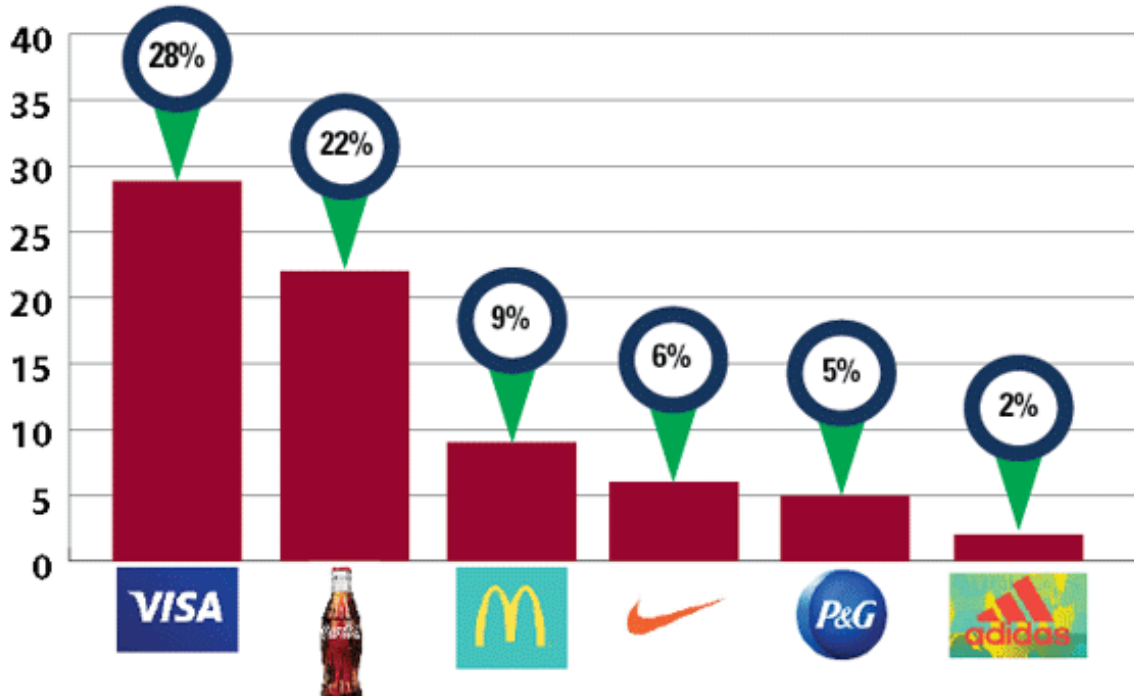
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**EDUARDO SOLIS**  
VISA

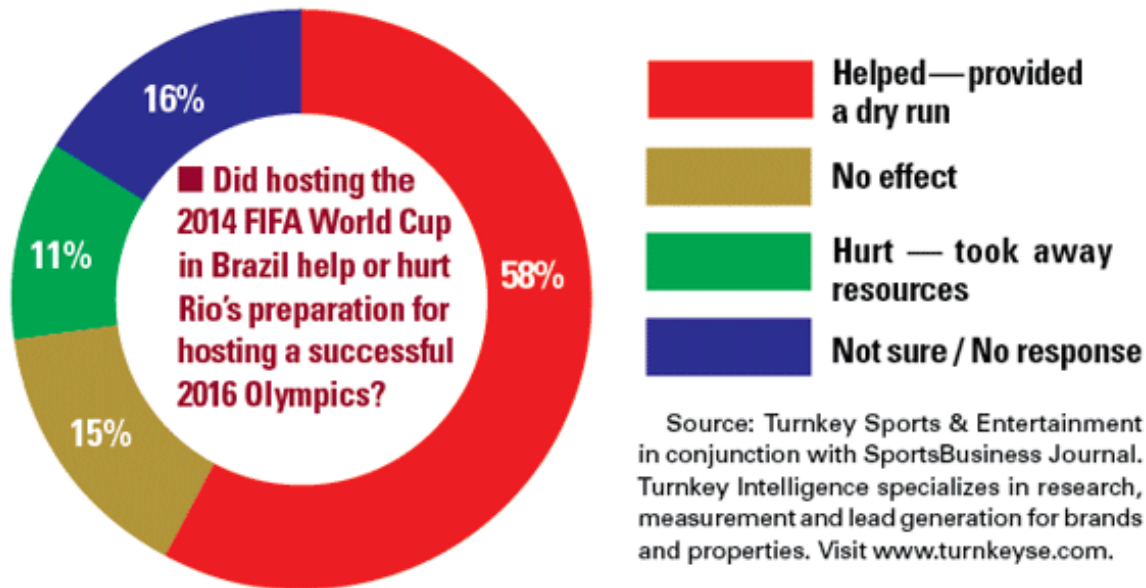
# Turnkey Sports Poll

The following are results of the Turnkey Sports Poll taken in July. The survey covered more than 2,000 senior-level sports industry executives spanning professional and college sports.

## ■ Without looking them up, which one Olympics sponsor first comes to mind?



Note: Open comments; brands listed received at least 1% of the mentions.



Source: Turnkey Sports & Entertainment in conjunction with SportsBusiness Journal. Turnkey Intelligence specializes in research, measurement and lead generation for brands and properties. Visit [www.turnkeyse.com](http://www.turnkeyse.com).

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