

Analyzing the NBA Business Model: Feasibility for the CBA

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Abstract. With the changes of the times, China has become the world's second largest economy, but China's sports are far behind other powerful countries. The evaluation system of China's education system is relatively strict, focusing on students' cultural achievements and test scores, and relatively less emphasis on physical education and physical education. China's sports industry is relatively backward and lacks sufficient market and commercial operations. This also leads to relatively insufficient investment and support for sports, and there are also problems with the training and treatment of athletes, coaches and referees. In contrast, the United States, the world's largest economy, is far ahead of other countries in basketball. Therefore, how to learn from Western powers to change the status quo of Chinese basketball has become the primary goal of our country.

Keywords: Basketball league, Business model analysis, Basketball history, CBA, NBA.

1. Introduction

In the history of Chinese basketball, the 2008 men's basketball team is regarded as the "golden generation". A team with a high-quality center forward like Yao Ming as the core, and at the same time equipped with inside partners like Wang Zhizhi and Yi Jianlian, coupled with the best shooters Wang Shipeng and Zhu Fangyu, and Sun Yue and Liu Wei with their own characteristics on the back line, no matter what In terms of strength or reasonableness, this team is undoubtedly the strongest combination in the history of Chinese basketball. The achievements of this Chinese team have made us look forward to the next path of Chinese basketball, but as time goes by, this illusion is gradually broken.

The CBA and the NBA represent the highest level of basketball in China and the United States respectively, but the gap between the two major leagues is huge, and the CBA is far behind the NBA in terms of influence and player level. As a result, how to grow Chinese basketball sports we need to learn from NBA. This article will analyze the NBA's operating model and how the CBA can learn from it to develop Chinese basketball.

2. Brief History of NBA

On June 11, 1946, owners of one arena, including the famous Madison Square Garden in New York, jointly established the Basketball Association of America (BAA). American Hockey League (AHL) president Maurice Podoff serves as the first president of the NBA, which means the BAA could get some space from the American Hockey League.[1] Although the BAA league has big stadiums and an audience, they do not have a star player. However, all of the star players are working for the NBL league that means the BAA league and the NBL league need to merge for survival, so the National Basketball Association was born on August 3, 1949, from the merger of two basketball organizations. One is the National Basketball League (NBL), and the other is the Basketball Association of America (BAA).

In the 1953-54 season, the TV station broadcast NBA games for the first time. At that time, Dumont Television signed a contract with the NBA for \$39,000 and broadcast 13 NBA games that season. Since the 1962-63 season, the American Broadcasting Corporation With the development of the league in 1967, the NBA received a strong challenge from the American Basketball Association.[2] Compared to the NBA, the new league put more emphasis on offense. The entertainment and freedom of the ABA were incomparable to the NBA at that time. Although the ABA absorbed a lot of talented players, ABA went bankrupt in 1976 due to the lack of support from television broadcasts and their financial problems. Thus the NBA doesn't have any competition in the American basketball market.

Schedule [edit]

Date	Teams	Commentators
12/12/53 ^{[5][6]}	Baltimore @ Boston	Marty Glickman and Curt Gowdy
12/19/53 ^[7]	Syracuse @ Boston	Marty Glickman and Curt Gowdy
12/26/53	Boston @ Milwaukee	Marty Glickman and John Reddy
1/2/54 ^[8]	Philadelphia @ Syracuse	Marty Glickman and Dick Grossman
1/9/54	Minneapolis @ Milwaukee	Marty Glickman and John Reddy
1/16/54	Philadelphia @ Baltimore	Marty Glickman
1/23/54	Philadelphia @ Rochester	Marty Glickman
1/30/54	Milwaukee @ Minneapolis	Marty Glickman
2/6/54	Fort Wayne @ Syracuse	Marty Glickman and Dick Grossman
2/13/54	Syracuse @ Rochester	Marty Glickman
2/20/54	Fort Wayne @ Baltimore	Marty Glickman
2/27/54	Milwaukee @ Philadelphia	Marty Glickman
3/6/54	Philadelphia @ Syracuse	Marty Glickman and Dick Grossman
3/13/54	New York @ Syracuse	Marty Glickman and Dick Grossman
3/20/54 ^[9]	New York @ Boston	Marty Glickman
3/27/54	Minneapolis @ Rochester	Marty Glickman
4/3/54	Syracuse @ Minneapolis	Marty Glickman
4/10/54	Minneapolis @ Syracuse	Marty Glickman

Figure 1: NBA broadcast schedule[2]

In the beginning, the NBA didn't have an outstanding reputation, and drug use and brawling were prevalent. In 1984, the market value of the NBA fell to \$15.5 million, and 17 of the 23 teams were on the verge of bankruptcy. It was also this year that David Stern took over the NBA and opened a new era for the league. During his 30 years in charge, he gradually established a salary cap and other systems to maintain the normal development of the league, making the NBA a giant business league that broadcasts to 212 countries around the world in 42 languages. Currently, there are 30 teams in the NBA.

3. How does the league work

As the highest-level basketball league in the world, NBA stands out not only for its sports competency but also as a successful business empire. We will dive deep into its business operation and try to understand the pillars of its success.

3.1 The Cartel Nature of Team Owners

The main structure of the NBA is the owners of each team. All of these bosses are elites from all walks of life. For instance, one of the most popular teams, the Lakers owner was involved in the real estate investment industry and achieved success in the 1960s. The Buss family now has very high popularity in the world. However, Jerry Buss was a member of the middle class in the 1960s. Like many real estate bosses, Jerry Buss was involved in professional sports to better obtain land from the government to develop real estate. So Jerry naturally became the owner of the WTT (World Tennis Federation) Los Angeles String Team. After winning the WTT championship, Jerry realized his talent in managing a sports team. At that time, Jerry Buss was a Lakers fan and owner of the Lakers getting older. His children have no intention of inheriting the father's business. Finally, Buss bought the Lakers for \$67 million in 1979. After more than ten years of hard work, the Lakers have become one of the most successful in the NBA. Most NBA team owners are wealthy investors before purchasing teams.

Besides their strong background, the owners collectively established the core of the league, essentially a cartel system. These owners would discuss matters of interest and make strategic decisions for the league. Therefore the NBA league can be seen as a unified entity.

Meanwhile, the owner elected a man to be their representative, the NBA commissioner. There is a duty to protect the integrity of the professional basketball league while preserving the league's public confidence. At the same time, the president "is also given the responsibility of managing and directing all business and affairs of the alliance, and he will have the corresponding authority to perform this responsibility if necessary or appropriate. For instance, the former owner of the LA Clippers made a racist remark in private, which was boycotted by the players. In addition, the sponsors terminated the cooperation, the league forced the owner to sell the team at a low price, and he was fined heavily. He could never participate in basketball affairs because his remarks may affect the interests of other owners. Business matters are all voted on by all owners. Although the teams fight with each other for the title, they work together to protect each other's business as well.

The Cartel system affects not only the market but also the city's various aspects where the teams belong to. Team owners all hope to have their venue in a prime location. However, such stadiums are immensely expensive. For example, the Chase Bank Center Stadium, which became the new home of the Golden State Warriors in the 2019-2020 season, replaced the Oracle Stadium that the Golden State Warriors have used since 1966, which cost \$1.4 billion. No team other than some extremely rich can afford such a high fee. As a result, they will want the money to be paid by the local government. Because, to a large extent, the government believes that a team will bring significant economic value and entertainment to the local area.

A team with a poor record in the league will always have a chance to compete with the top teams, and the audience will not buy it for a one-sided game. In order to keep the game fair, the Cartel system will formulate the necessary rules to make sports more competitive. After all, sports is a kind of entertainment. Even the most winning and wealthiest teams understand that competition and close games are essential to entertaining fans. As a result, a system of salary control was established. The luxury tax refers to the extra money that the team needs to pay to the league if the team's total salary exceeds a certain threshold (the salary cap). For example, in the 2021-22 season, seven teams need to pay the luxury tax: the Warriors, Nets, Clippers, Bucks, Lakers, Jazz, and Seventy-Sixers. Among them, the Warriors need to pay \$170 million. The tax amount alone is nearly double the total salary of the Thunder, which has the league's lowest team salary of \$80.93 million. Simply put, the purpose of having a salary cap and a luxury tax is to prevent a small number of big teams from monopolizing top stars and making it impossible for small market teams to compete with them. In other words, if you want to burn money to get star players to compete for the championship, you have to pay extra taxes to get the privilege.[3]

In addition to the luxury tax, what maintains fairness is the rookie draft, which is the official selection process to introduce young talent into the league. Each team takes turns selecting from among qualified rookies, with the worst-performing team usually selecting first. Rookies don't have a say in which team they end up picking. There were a lot of examples of a top young talent transforming a weak team into a competitive one or even becoming the foundation of dynasties, such as Michael Jordan and Tim Duncan.

3.2 The Union of Players

The basketball player plays for championships and sponsors. Owners are playing for money; however, getting wins is a huge part of the reward. Team owners need the help of stars or superstars in order to compete for the championship. The key to building a successful organization as an owner is to maintain long-lasting relationships with your staff/players, which trigger the establishment of the player union.

The other critical component of the league is the labor union of the NBA players, The National Basketball Players Association (NBPA). Established in 1954, the mission of the National Basketball Players Association is to protect and support the rights and talents of our players, magnify the power of their collective will, and amplify their voices as leaders who will transcend sport and society globally.[4]

The benefits brought by NBPA contribute to protecting players' welfare. Before the establishment of this association, the basic living conditions of the players could not be maintained. To protect the players' interests, the players union can organize counter moves such as strike (refusing to participate in pre-season training), forcing the NBA league to make concessions during negotiation. In some cases, like in 2011, a lockout would break out. There have been five league suspensions in NBA history due to various reasons. The previous suspension occurred in the 2011-2012 season. At that time, a decisive meeting did not reach an agreement on a new labor negotiation agreement, and the league was finally suspended and wasn't back to normal until 5 months later.[5]

4. Difference between CBA and NBA

After understanding the business model of the NBA league, next, we will compare the NBA and the CBA to propose strategic recommendations for the CBA league.

Compared with the NBA's mature system, CBA is still young. In addition to the relatively short establishment time of CBA, some rules could be better, which causes some teams to make money while others lose money. The most fundamental difference is that the CBA is equivalent to the operation and maintenance of a state-controlled sports league, while the NBA is more like a product of capital operation.

First of all, the means of operation are different. The funding sources of NBA teams are various, mainly including advertising funding, TV rights, tickets, merchandise products, etc., so each team has the incentive to compete for the championship and actively develop business relationships. As a result, the competition on the court between the teams has been strengthened. In contrast, the ownership of the CBA team isn't fully free and market-driven. Once the ownership is established, ticket sales and group advertising are one of the primary incomes, so many team owners are not willing to spend money, and the strength gap between the various teams is too large. The strong are stronger, and the weak do not think about strengthening.[6]

Besides, the CBA uses international basketball standard rules, while the NBA uses NBA basketball rules. There are certain differences between the two, and the international basketball rules tend to make the game less entertaining. Players play too rigidly, playing exactly according to the coach's intentions, without imagination and creativity. On the contrary, the NBA has absorbed the top players in the world, and their physical fitness is enough to surprise people, which means most fans prefer to watch the NBA instead of CBA. The CBA does not have worldwide traffic, nor does it have superstars like Jordan, and the ability to attract money limits the league's development.

5. Summary and recommendation

NBA has developed for nearly 80 years, which is longer than the history of New China. Various rules and regulations have been developed in great detail, and a complete industrial chain has been formed. The CBA was only established in 1995, and it is still It was established under the impetus of the government. The goal at the beginning of its establishment was not to make profits like the NBA, but to promote the improvement of the overall level of basketball, and the existence of the CBA and the Basketball Association in recent years has contributed to the improvement of the level of Chinese basketball. It has played a very positive role, but with the development of China's economy and society in these years, this management system seems to be a little weak in promoting basketball. As a country with a large population, China obviously does not have any advantage in basketball population. According to statistics, the country has a population of 1.4 billion, but the number of regular players registered by the Chinese Basketball Association is only 13,000. Compared with the 23 million athletes in the United States, Chinese basketball players are only rare. From my perspective, the only way for the Chinese Basketball Association to improve is to strengthen youth training and change Chinese-style education and traditional education concepts.

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