

Nba – a new digital entertainment model in china

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Entertainment and Media Industries Professor Sam Craig NBA – A New Digital Entertainment Model in China Name : Ted Mui Executive Summary The National Basketball Association's expansion into the Chinese market has been met with great success. The company's China operation currently generates over UDS\$150 million in annual sales, and is one of the most recognized international brands in the country. To further focus on the growth of this unique market, a subsidiary was established in 2008, with former head of Microsoft China Tim Chen serving as the first CEO.

The NBA has had great success in developing strategic partnerships in China. Over 290 games are broadcasted on Chinese TV per year, and NBA-related content can be readily found online on Chinese websites. However, NBA China has thus far generated little revenue directly from its end consumers, especially with its digital offerings. In reviewing its target market, we find that the NBA is in direct competition with other online entertainment products for the time and moneyspent by this market.

Popular online entertainment options for China youths share the following traits: simple to learn and use, ability to interact with other users, a high (and almost addicting) replay value, and contain many customizable features for its users. Based on these ideas, it is suggested that NBA China pursue the development of a brand new web portal combining the components of gaming, social networking, and video streaming, which currently all exist as separate components.

Using a concept based on an old video game idea, the web portal will aim to move consumers down the marketing funnel, eventually expanding the fan

base and leading to end-user generated revenue. The cliché of the China market is well known to everyone by now. With its population of 1.3 billion steadily increasing its purchasing power, China has become the focal point of just about every multinational company. Despite its potential, many multinational corporations' attempt in entering the China market ends in failure, with millions of dollars of investment vanishing without producing any returns.

The National Basketball Association is one of the rare success stories in China. Since opening its first office in Hong Kong in 1992, the NBA's Greater China operation has grown to four offices with over 100 employees, generating over USD\$150 million in annual sales. According to a survey, nearly 90% of Chinese people aged 15-54 in 11 urban markets had some awareness of the brand. ¹ Despite this initial success, there remain many opportunities for growth in this market, especially in the digital sector.

Facing increasing pressure from competition wishing to emulate its success and from shareholders seeking greater returns from the market, the NBA must look for new ways to build on its success in China. Company

Background The National Basketball Association, founded in 1946, is a global sports and entertainment brand that features 30 teams in the United States and Canada. It is currently the third largest sports league in North America, with an estimated league revenue of \$3.2 billion for the 2008-09 season.

Looking to expand the association's presence outside of North America, the NBA occasionally hosts exhibition games around the world. ¹ The NBA first made its presence in China in 1979, when the Samantha Marshall, "NBA's China Strategy a Slam Dunk," *Crain's New York Business*. com, May 29, <https://assignbuster.com/nba-a-new-digital-entertainment-model-in-china/>

2008. 2 Source: Plunkett Research, Ltd Washington Bullets traveled to China to play two exhibition games against the Chinese National Team. Seeing the potential for the Greater China market, the NBA sent its first Asia-based employee to Hong Kong in 1990. The association's operations in China have grown substantial since, leading up to the formation of NBA China in 2008. As a subsidiary of the association, NBA China is responsible for conducting all of the league's business in Greater China. While the NBA remains as the majority shareholder of the new entity, 5 other strategic partners invested \$253 million to acquire 11% of the company in preferred equity. The 5 partners are ESPN (a division of Walt Disney), Bank of China Group Investment, Legend Holdings Ltd. Li Ka Shing Foundation, and China Merchants Investment. 4 Timothy Chen, former CEO of Microsoft China, was appointed as the new entity's first CEO. NBA's Digital Strategy in China Since Yao Ming's entry into the league, NBA coverage has grown substantially along all lines of Chinese media. The country's national television network, CCTV, has Each season, the CCTV established a long-term partnership with the association. sports channel televises over 90 regular season games, including the NBA All-Star Game, NBA Playoff games and The Finals.

In addition to CCTV, the NBA is also covered by 50 other broadcasters around China, covering all but 2 provinces in the country. In total, about 290 NBA games are broadcasted on TV in China each year. 5 3 Pete Thamel, "The NBA and China Are Fans of Each Other," New York Times, August 9, 2008. Source: nba. com 5 Source: hket. com 4 The NBA has also been able to capitalize on the rapidly increasing population of internet users in China. The

association has partnered with Tom. com to revamp its localized websites in Greater China (Mainland China, Hong Kong, and Taiwan).

Among the new features, the sites will include online webcasts allowing viewers to watch live games and Chinese-language talk shows daily, and provide gaming and fantasy basketball options and networking capabilities. 6 Moving towards high definition media, the NBA has recently signed a strategic cooperation agreement to allow BesTV, Shanghai Media Group's (SMG) Internet Protocol TV (IPTV) subsidiary, to offer pay-per-view broadcasts of up to 14 high-definition NBA games daily over a four-year period. 7 Through a partnership with KongZhong Corporation, the NBA has also launched a China WAP site in 2007.

The site will allow mobile users to access a broad range of content options including news, scores, editorial content, player interviews, TV schedules, wallpapers, ring tones, video clips and live NBA games. The NBA hopes to generate revenue from the site through offering advertising options to corporations and premium downloadable content to end-users. 8 The NBA's media blitz in China appears to have produced great results. Currently, more than 30% of nba. com traffic comes from China, and this number can be expected to increase over the years. NBA" was ranked 7th in the hottest search keywords in 2008 for Baidu, China's leading search engine. Similarly, " NBA" was ranked 10th for GoogleChina's most popular search words. Other than the NBA, only Xunlei and QQ, 6 7 Anita Davis, NBA Inks Tom. com Online Deal, CEI, August 20, 2008 st Source: 21 Century Business Herald 8 Source: nba. com two of China's largest web portals, appear in the top 10 of

both those lists. However, it is unknown how effective this web traffic has been in generating actual revenue for NBA China.

Market Overview In 2008, China overtook America as the country with the largest number of internet users. As of the second quarter of 2009, the country now has over 330 million users, with a growth rate of over 50% annually (see exhibit A). The demographic groups growing comparatively faster than this average are people living in rural areas (with over 100% annual growth), young “ netizens” aged 18 and under, and adults aged 30 and up. Exhibit B shows a breakdown of the age demography of internet users in China.

There are also an increasing number of users accessing the internet through mobile devices. Currently, over 29% of internet users use mobile phones to get online, with a growth rate far exceeding that of laptop users. 9 The high growth rate indicates that more and more of the country’s 600 million mobile-phone subscribers now own mobile devices capable of accessing internet information. With next generation mobile technologies such as the iPhone and Google Android yet to reach the mass market in China, there remains great potential for significant growth in this market for years to come. The Meek Shall Inherit the Web, Economist, September 6, 2008

Exhibit A 100 million Total Internet users in China: 2005-2009 3. 5 3 2. 5 2 1. 5 1 0. 5 0 1. 23 1. 03 1. 62 2. 50 3. 38 Total Internet Users 2005 2006 2007 2008 2009 Exhibit B Age structure of Internet users in China Source:

Statistical Survey Report on the Internet Development in China, CNNIC,

January 2008 Competition Many sports and entertainment companies have

tried to emulate the NBA's success in China and have invested heavily in its digital marketing efforts.

The National Football League has launched a Chinese website (nflchina.com) providing up-to-date news and score, discussion boards and mini-games. Manchester United, the richest sports club in the world, also has an all-Chinese website with online media and shopping to capture on its Chinese fan base. But as the earlier search rankings would suggest, the NBA is by far the leading sports entertainment company in China. Leading infotainment web portals such as sina.com and sohu.com have pages dedicated to the NBA linked from their front page.

Already in a dominant position in the sports entertainment sector in China, the NBA should perhaps look at its competitive landscape from another perspective. At present, the NBA generates the majority of its revenue in China through broadcast rights, branding partnerships and ad sales through its media channels. However, it has thus far been able to generate relatively little income from its actual fan base with its digital content. In comparison, end-user Internet Value Added Services (IVAS) made up for the majority of the revenue for Tencent Holdings Ltd. another digital media partner of NBA China. Tencent Holdings Ltd. is the largest and most used internet service portal in China. The company's strategic goal is to provide users with a "one-stop online life service" 10 While its product offerings are similar to that of MSN Messenger, Facebook, World of Warcraft, 10 Source: tencent.com and other leading instant messaging, social networking, and online gaming companies, Tencent is unique in its ability to generate revenue directly from the end users of its products. Most of Tencent's products are interconnected <https://assignbuster.com/nba-a-new-digital-entertainment-model-in-china/>

through its QQ Network, encouraging its free users to upgrade in order to access its value-added services such as ringtone downloading, SMS sending/receiving, and online gaming. QQ Coin was later introduced to allow users greater ease in making purchases in the “ virtual world”, and incentivizing video gamers with rewards for performance. With a retail value of 1 yuan (about 14 cents) per coin, users are able to use the coins to purchase “ virtual goods” such as avatars, virtual gifts for friends, and even items for use in games. Due to its ease of use and low denomination in value, the QQ Coin took off with the company’s young user base.

It is estimated that nearly \$2 billion in virtual currency was traded in 2008, even leading the Chinese government to implement restrictions to the trade.

11 Exhibit C Tencent Holdings Ltd. Quarterly Revenue by Sector Source:

Tencent Holdings Ltd. Investor Fact Sheet 11 David Barboza, In China, New Limits of Virtual Currency, New York Times, June 30, 2009 Strategic Analysis

While NBA China has succeeded in building brand awareness with its target demographic market, its digital strategy has thus far only focused on only the active fan base of this market.

Its licensed product with Tencent and EA Sports, NBA Street Online, targets only the segment of gamers who are passionate about NBA basketball.

Likewise, services on the NBA China website such as video games and news updates are mainly targeted to already converted basketball fans. A recently initiative called NBAiD was launched exclusively for the NBA China website.

Looking to capitalize on the growing popularity of social networking and blogging, NBAiD acts as a personal page for NBA fans, allowing fans to connect with one another and express opinions through blogs.

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However, at this point, the product itself has very little added value for active or casual fans. Segmenting user categories using the concept of the marketing funnel, we see that NBA China has succeeded in both capturing awareness in the mass market and driving loyalty from its core fan base through its digital strategy, but have done little to drive “aware” consumers down the funnel (see Exhibit D). There remains great potential for the NBA to generate greater interest and desire for its product through a revision of its digital strategy. Exhibit D

The Marketing Funnel Applied to NBA China Target Market Awareness Casual internet users who are aware of the NBA brand, but have no intent to spend money on its products Internet users who are interested in learning more about the NBA, and look to utilize free products and services made available to them Interest Desire Internet users who are attracted by the entertainment value of the NBA and may take action upon receiving an attractive offer Action Individuals who are engaged to the NBA and are most likely to purchase new products and services offered to them Repeat Purchases

The digital age has changed the landscape of sports marketing. Martin Sorell, chief executive of WPP, recently advised the International Committee on the importance of meeting the needs of the new generation of young and tech-savvy consumers: There are 1.6 billion people online today and 4 billion mobile phones. The key audience with whom these digital opportunities resonate is of course young people. They are a valuable and massive audience. Globally they impact over \$600 billion in consumer spending. The young people take their media habits with them, so if you are <https://assignbuster.com/nba-a-new-digital-entertainment-model-in-china/>

ot part of their habit now - you most definitely will not be in the future. Let the children play. You have to let them play with your content, your assets in their own way. 12 12 Karolos Grohmann, Don't Restrict Games Media Access, Sorrell urges IOC, Reuters, October 5, 2009 While referring to a different context, Sorrell's remarks can also be addressed to NBA China's current situation. There is indeed a huge market of internet and mobile users, and the majority of them belong to the young demographic group that NBA China is targeting.

The media habits of youths in China also differ greatly than that of the United States (see Exhibit E for comparison). On average, Chinese youths spend about 18 hours on the internet a week, compared to 12 hours in the US. 13 Social networking sites such as renren. com and kaixin001. com, streaming video sites such as youku. com and todou. com, and online games make up for the majority of these hours spent online. NBA China should now look to capture a bigger share of the "entertainment hours" spent by youths online. To accomplish this, NBA China must understand and tap into the media habits of these users, as Sorrell suggests.

Exhibit E Comparison of Internet Activities Used by US and China Internet Users Source: China Internet Network Information Center & Pew Research Center 13 Shaun Rein, Blogging Down in China, BusinessWeek, July 27, 2006 Popular online entertainment options for China youths share the following traits: simple to learn and use, ability to interact with other users, a high (and almost addicting) replay value, and contain many customizable features for its users. One such example is the recent phenomenon of the Happy Farm game (see Exhibit F for screenshots).

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The concept of the game is not a breakthrough in any way: In the game, players act as owners of a farm, and are responsible for cultivating, irrigating, fertilizing, spraying, harvesting and selling crops. Each action will add points to the player's level. However, a player can not only take action on his own farm, but also on his friends' farms. Thus, people can either help their friends manage their farms, or steal crops from other players. The accumulation of all these actions will eventually help the players get bigger farms.

Made available for users in social networking sites such as kaixin001. com and renren. com, the success of the simple game has been phenomenal, with reportedly 23 million users now playing the game. 14 Tencent has since created its own version of the farming game, and is expected to generate RMB50 million (USD \$7 million) from the game each month. 15 Exhibit F Screenshots of “ Happy Farm” Game 14 15 Source: duowan. com Source: tradingmarkets. com Recommendation Currently, the NBA China already has components of gaming, social networking, and video streaming.

The idea is to combine all these components into one entertainment web portal targeted to youths that will drive interest and desire, leading to generation of revenue from end users. In 2005-06, video game developer 2K Sports added a new feature to its yearly NBA and NFL games called “ The Crib”. The feature awards players as they accomplish feats and milestones within the game. With crib credits, players are then able to decorate their crib (slang for home), buy music, or play mini-games (see Exhibit G for screenshots of Crib).

While this feature was innovative in adding replay value to the game, its customizable options were limited and the feature was eventually removed in future renditions of the sports games. However, such a concept may be much better utilized in an online environment where crib owners can interact in real time, new videos and games are readily accessible, and virtual items are plenty to satisfy the customization appetite of its users. Exhibit F Screenshots of “ The Crib” from video game NFL 2K5 Source: ign. com The possibilities stemming from such an idea are endless.

Having already an established network of corporate partners, “ The NBA Crib” can serve as a media channel for product placement. Already showing an appetite for spend virtual dollars, users in return can earn or buy credits to purchase branded virtual products for their cribs (ie. a Coca Cola machine) or even themselves (ie. the latest basketball shoes from Adidas). Other uses for crib credits can include purchasing coupons for use at the online NBA store and video clips and music exclusive to the NBA. Most importantly, interaction between crib owners should be encouraged through games within the crib system.

Basketball-themed games can take place within the assigned neighborhoods of owners, and friends can “ visit” each other’s crib with their custom avatar. With the right combination of attractive gaming options, customizable features, and interactive capabilities, this concept will substantially increase the interaction between the NBA and its fans, and eventually lead to a sustainable model for generating revenue from its target market of Chinese youths. NBA China has successfully developed a unique and dominant position in the sports entertainment sector in China.

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However, the NBA can not simply rely on its popularity and brand recognition to succeed. With Yao Ming injured this season, there are worries that NBA viewership rates in China will significantly drop this coming season. It is therefore crucial for NBA China to connect with its target market and provide supportive product offerings to satisfy their entertainment needs. In this market of technologydriven consumers, NBA China must strive to not only become the leader in sports entertainment in China, but also a leader in digital entertainment.