

**FEASIBILITY OF THE VANCOUVER MARKET TO OBTAIN AND SUPPORT  
A NATIONAL BASKETBALL ASSOCIATION TEAM VIA RELOCATION**

**by**

**Jeffery David Nehajowich**

**Bachelor of Physical Education and Recreation; University of Alberta; 2003**

**PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF**

**MASTER OF BUSINESS ADMINISTRATION**

**In the Faculty of  
Business Administration**

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**SIMON FRASER UNIVERSITY**

**Summer 2009**

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# Approval

**Name:** Jeffery Nehajowich

**Degree:** Master of Business Administration

**Title of Project** Feasibility of the Vancouver Market to Obtain and Support a National Basketball Association Team via Relocation

**Supervisory Committee:**

---

**Dr. Neil Abramson**  
Senior Supervisor  
Associate Professor Simon Fraser University  
Faculty of Business Administration

---

**Dr. Michael Parent**  
Second Reader  
Associate Professor Simon Fraser University  
Faculty of Business Administration

**Date Approved:**

## **Abstract**

This study performs an industry and competitive analysis to determine whether Vancouver is a competitive location for successfully obtaining and operating a National Basketball Association franchise. An external analysis allows for an identification of the key success factors necessary to secure and run an NBA team. A competitive analysis evaluates noted competitors on suitability to be successful in this context and determine which opportunities and threats exist for Vancouver. The merits of the suggested strategy are then evaluated based on the competitors, the key success factors and Vancouver's ability to take advantage of the opportunities while mitigating the risks.

The study concludes that Vancouver will be successful in following a less risky, lower cost differentiation strategy due to the clustering, fulfilled capital requirements and learning effects in place. Vancouver is an attractive candidate for relocation.

**Keywords:** NBA; National Basketball Association; Vancouver; Grizzlies; basketball; relocation, franchise strategy

## **Dedication**

*To my family and friends in Edmonton, Alberta. By providing me with an identity and context with where I came from, I would have no hope or direction to where I want to go.*

## **Acknowledgements**

Thank you to my family for supporting me in my academic endeavours and providing me with the strength I have needed to excel at every level of my scholastic career. Without demanding excellence out of me at a young age and instilling the value of hard work in me, I would not have been able to challenge myself to reach this level of accomplishment. I will continue to parlay these values and education into sustained excellence and achievement throughout my life.

I would also like to thank all the members of the 2008/2009 MBA cohort at the Segal Graduate School of Business at SFU. We have spent a very challenging and energy-draining year together and have made it out stronger and more confident in our abilities to succeed in our pursuits and goals. I would not have been able to get through this challenge had I not had this diverse group of unbelievable people along with me every step of the journey. I will never forget the camaraderie and bond that was developed.

Furthermore, thank you to Professor Neil Abramson for all of his assistance, patience and counsel throughout the writing of this paper. Your dedication helped keep me on track and focused on the seemingly daunting task-at-hand. I would also like to thank Professor Michael Parent for your thoughtful review and approval of the paper.

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# **1: Overview**

## **1.1 Subject**

This paper analyzes the competitive environment arising from the franchises in the National Basketball Association trying to yield and sustain success both on and off the court. It also examines the competitive environment created by cities outside of the league that are vying for an existing team to be relocated to their market. Vancouver, British Columbia will be placed in each of these competitive contexts to determine viability.

## **1.2 Purpose**

The purpose of this paper is to examine whether the prospect of the NBA returning to Vancouver and being profitable is realistic and viable given the strategic requirements of a franchise city.

## **1.3 Scope**

The feasibility of an NBA franchise in Vancouver will be examined through an external analysis directed at both the NBA and the Vancouver sports market. Upon analyzing the industry, it will be possible to determine the key success factors that an NBA team/city must possess. The KSF's can then be used as criteria for which Vancouver can measure its suitability as compared to other markets. It will then be determined whether the strategy that was argued for could succeed based on the opportunities and threats identified and Vancouver's suitability to meet these key success

factors. The prospect of the NBA returning to Vancouver will only be looked at through the lens of relocation.

#### **1.4 National Basketball Association Overview**

The NBA's popularity is currently at an all-time high as evidenced by record merchandise sales, an all time ratings best on its three major networks (ABC, ESPN, and TNT) and a 2008/2009 attendance of 21,549,238, which is the third largest attendance of all time (Roso, 2009). Stars like Lebron James and Kobe Bryant have helped bring the NBA back to mainstream media just as Michael Jordan did in the late 1980s. Another good indicator of the health of the league is team valuation: "the typical NBA franchise is now worth a record \$379 million, 2% more than last year" (Badenhausen & Ozanian, 2008).

Although key performance indicators are demonstrating a strong NBA, there are areas of concern for the league. Similar to most of the major sports leagues, the NBA is seeing strong attendance from two thirds of the league, led by traditionally strong draws like Boston and Detroit, and relatively weak attendance (less than 85% capacity) from the other one third of the teams. Struggling teams, poor attendance, a suffering economy, out-dated arenas are all perennial signs of strain for the league's troubled franchises. What makes the NBA unique is that it has had a willingness to do something about weak teams and anxious owners: allow them to relocate to a seemingly better market. Since 1977, the NBA has relocated the most franchises out of the major professional sports with 9 teams changing homes. This decade alone, the NBA has moved four of its teams to different cities. They have shown a penchant to move troubled franchises, rather than giving teams an extended stay on life support, as can be witnessed in the NHL. The

collective health of the league has been a paramount concern for Commissioner David Stern, and based on recent reports, the NBA appears dedicated to league wide sustainability.

In addition to ensuring the health of each of its individual markets, the NBA has been in the lead in facilitating international growth. Initiatives such as allowing its players to compete in the Olympics (starting in 1992), aggressively combing the international basketball scene for new talent, strategically asserting itself internationally with targeted marketing, and attempting to create a developmental league in China demonstrate the leagues priority to take advantage of the fact that basketball is a global sport. Recently the NBA has made headlines by seriously considering league expansion into Europe. There have been several reports that the NBA is intent on creating a five-team European division within the next ten years; and as NBA ready arenas start popping up in London, Berlin and Rome, this plan is more plausible than ever before (Thomsen, 2008).

Despite the NBA's recent success, it has had to deal with a number of problems in the past few years. Along with several cases of player behaviour problems, which include on court fighting and off court legal problems, the NBA has been investigated in recent years by the FBI regarding insider gambling when one of its referees bet on league games, including games to which he officiated. (Valasco, 2008)

## **1.5 Expansion vs. Relocation**

With the strong focus on international expansion, the already present questions about the league's talent being "watered down", and the existence of several potentially

unstable franchises currently in operation it is highly unlikely that the NBA will be expanding into North America any time soon. The only plausible expansion city is Las Vegas, which would garner the biggest expansion fee to the league, and thus revenue sharing to the all the teams; however, due to the recent betting scandal with the league's referees, the NBA will be unable to go there anytime soon.

Vancouver, due to its lack of success with expansion and the aforementioned obstacles, will need to look to relocation if it has any hope of getting another team. By steering clear of expansion Vancouver could avoid the massive expansion fee, which is expected to be upwards of \$500 million, restrictions on player salaries and entry draft eligibility. All these obstacles that helped spell the demise of the Grizzlies could be side-stepped if relocation of an existing team is sought.

## **1.6 Vancouver: A Candidate for the NBA?**

There are many factors that exist that make Vancouver an appealing market for relocation over some of the other cities looking for an NBA franchise. The relocation in 2001, and in general, the whole Grizzlies experience has left a bitter taste in the mouths of many Vancouverites and can be seen as a black eye on the NBA. So why would this failed experience be re-visited and why should it be looked at as anything more than a forgettable mistake? The lessons learned by the involved parties and several key changes to the league and the make-up of the city make this a potentially viable possibility that is worth examining in some depth.

The growth of the popularity of basketball in this market and country is one of the major reasons that Vancouver is an attractive NBA destination. Looking at Canada in general, "basketball will be the top sport in fan base growth in the next 10 years"

(Ackerman & Yigit, 2006). Market research points out that “In Canada’s largest three markets – Toronto, Montreal & Vancouver –projections show that the fan base for basketball will grow by 56% in the next 10 years.” The reasons for these growth projections are varied. Firstly, especially in British Columbia, the Steve Nash factor has had a significant impact on basketball’s popularity. A relatively short, unassuming Caucasian from Victoria British Columbia has defied all odds to become a two time NBA Most Valuable Player and one of the greatest point guards in the NBA’s history. Kid Canada as he is lovingly called, has provided hope to thousands of basketball playing Canadian youths instilling the lesson that anything is possible. Even for the casual fan, Steve Nash provides a face for which to identify, and feel good about supporting. Hockey has never been at a loss for identifiable Canadian idols, but until Steve Nash started making his mark on the world’s largest stage, there was that element of hero missing for the sport of basketball in Canada.

A second reason for the NBA’s resurgence in Canada is the plethora of exciting young superstars that are making their mark in the league. Not since the days of Jordan, Bird and Magic, has there been a group of superstars as spectacular and exciting as LeBron James, Dwayne Wade, Dwight Howard and Kobe Bryant. The NBA does a great job marketing their stars, showing them off to the world. This enables the next generation fan to fall in love with the sport for the first time, and existing fans to reconnect with the league’s post-Jordan era.

The third and most substantial reason for the growth in popularity for basketball is “the demographic pattern due to record immigration levels to Canada. In the next ten years, Toronto, Vancouver and Montreal in particular will become much more diverse

than the rest of Canada – a trend that favours basketball and soccer as fast-growth sports in these markets” (Ackerman & Yigit, 2006). Basketball is the leading sport among fast-growing visible minority groups and the number one sport amongst Chinese Canadians. This market research considerably favours the Vancouver market as “visible minority groups accounted for 41.7 per cent of Metro Vancouver's population, slightly behind Toronto's 42.9 per cent and up from 36.9 per cent in Greater Vancouver in 2001.” (Nguyen & Sinoski, 2008). Even more specifically, Chinese were the largest visible minority in B.C., accounting for 40.4 per cent of the visible minority population and 10 per cent of B.C.'s total population in 2006” (Nguyen & Sinoski, 2008). The market research relating to the popularity of sport, and the demographics of Vancouver align nicely to present a very favourable market for NBA basketball in Vancouver. Should the NBA team re-enter the market fulfilling its key success factors and competing on a different dimension, it will not only be viable but could improve the health of the sports market in Vancouver.

### **1.7 Why did the Grizzlies Fail?**

To put it simply: the Grizzlies failed in the Vancouver market because they weren't profitable (the team lost over \$40 million in the 2000/2001 season alone) (Morris, 2001). To get past the obviousness of the situation, it is important to probe deeper to find out why this team was such a money pit. Although tough to get an unbiased response from the parties involved, it is useful to look back at the history of the Grizzlies to help determine the viability of a new franchise in this market. The most obvious base for which most of the reasons for failure can be derived is the team's lack of success. Lack of success in this instance can be defined as much more than a few bad seasons: "During

their six years, the Grizzlies have lost three times as many games as they've won and were the fastest team in league history to reach three hundred losses” (Morris, 2001). Although an expansion team can be expected to have a few years of growing pains as a complete construction must take place, the Grizzlies were awful for their entire tenure; even setting an NBA all-time record of twenty three straight losses in 1996 (NBA Almanac, 2002). The consistently dreadful performance had a direct impact on their attendance, with their season-ticket base plunging to 4,800 in the 2000-2001 season, down from 12,626 in the inaugural year. With a dwindling fan base, the corporate sponsorship and support soon followed suit. Fans blamed management for making countless bad draft picks, signings and trades. Management blamed the league for salary cap restrictions and drafting stipulations. Ownership blamed a poor Canadian dollar, weak economy, poor attendance, and a franchise fee of \$125 million, “far more than the \$32.5 million the last four expansion teams had paid during the four-team, two-phase expansion of 1988 and 1989” (The NBA settles North of the Border). This franchise fee created a crippling deficit for the team, putting the Grizzlies in a steep financial hole before they even played a single game. Through each party’s eyes, there is reason to place blame, but the bottom line is there were many damaging wrongs committed by numerous parties that led to the demise of the team.

## **1.8 Differentiation vs. Cost Strategy**

The Vancouver franchise has the option of following either a cost based or differentiation strategy in attempting to obtain a franchise and operating the franchise once obtained.

The process of proving to the NBA that a market is suitable to host a franchise cannot be properly served through a cost-based strategy. The process of acquiring a team, especially through a sale involves paying a price premium (outbidding other candidates) and demonstrating to the league a suitable fit into the city. Perhaps the only instance where a cost-based strategy for relocation would work is if an owner is not selling the team, instead looking for a profitable new market. In this case, a demonstration of the cost-savings that could occur should the team relocate would be necessary.

A cost-based strategy for running a franchise involves being a rapid follower in the market, responding to the strategies of the competition, rather than creating a new way. The team would look at the history of the NBA in Vancouver from a cost perspective and look to control these costs. Labour, marketing and production will be examined from an efficiency perspective in an attempt to reach adequate quality. An owner like Francesco Aquilini would employ this strategy if he looks at this franchise strictly as a good business opportunity that serves to double the occupancy in his arena, a complement to his existing assets. By approaching it in this way, he will be looking to reduce his costs in an effort to maximize his potential gains. This strategy is demonstrated by franchises which build their teams through the draft, having a young group of players, developing this talent, then, when these players become top-tier talent and are looking for new, lucrative contracts, they let them go or trade them away for draft picks and youth, to keep these costs low.

A differentiation strategy for obtaining a franchise via relocation involves positioning the city and market ahead of all the other candidates by making it seem like

the best choice. This involves dedicating the necessary resources and research into knowing everything about the other candidates, and the market, so to present the most convincing case to the league and potential owner.

A differentiation strategy for running a franchise involves being an innovator in the Vancouver sport's market. Differentiating in this market will involve going after a new demographic, while capitalizing on the existing one by producing pull marketing, showing consumers why they need NBA basketball in their lives, and then, producing a unique, high quality product once given the opportunity. "Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products" (Strategy, 2007). This will set the NBA franchise apart from more novice professional teams like the IBL's Vancouver Titans, and junior teams like the Vancouver Giants. The NBA is one of the four major professional sports leagues in North America and differentiation will help it be seen as such.

Many owners employ a differentiation strategy when running their franchise. Specific examples of this strategy having varying degrees of success will be presented in the competitive analysis. The Vancouver Grizzlies were a team that employed a differentiation strategy that failed miserably. In 1995-96, NBA basketball was not only new to the Vancouver market, but also to the whole country. This new product had to establish a mainstream following in this market that had never experienced this brand of sport. The cost requirements of the arena, educating the fans, effective marketing, building a successful on-court product etc. were all extremely high. The high cost of implementing a successful differentiation strategy was in direct opposition to the

expansion fee, and various start up costs and restrictions that were in place.

Implementing a high cost differentiation strategy without a realistic chance to properly fund it with the concurrent, associated costs of expansion, spelt disaster for this franchise.

The new NBA franchise in Vancouver would be in a much better position to successfully implement a differentiation strategy at a much lower, more attainable cost. The arena is already in place, economies of scope with the Canucks can create cost efficiencies by allowing for a shared/joint production establishing cost efficiencies, the NBA has received much more exposure in this market through a medium such as the internet, the market is bigger, and the new franchise will not have to deal with the large expansion fee and restrictions that the Grizzlies were forced to abide by. With the facilities and much of the extraneous costs being eliminated, the new franchise could employ a much less expensive and less risky differentiation strategy. Reduced risk and cost make this strategy desirable for both obtaining and running a team in Vancouver.

## **2: External Analysis**

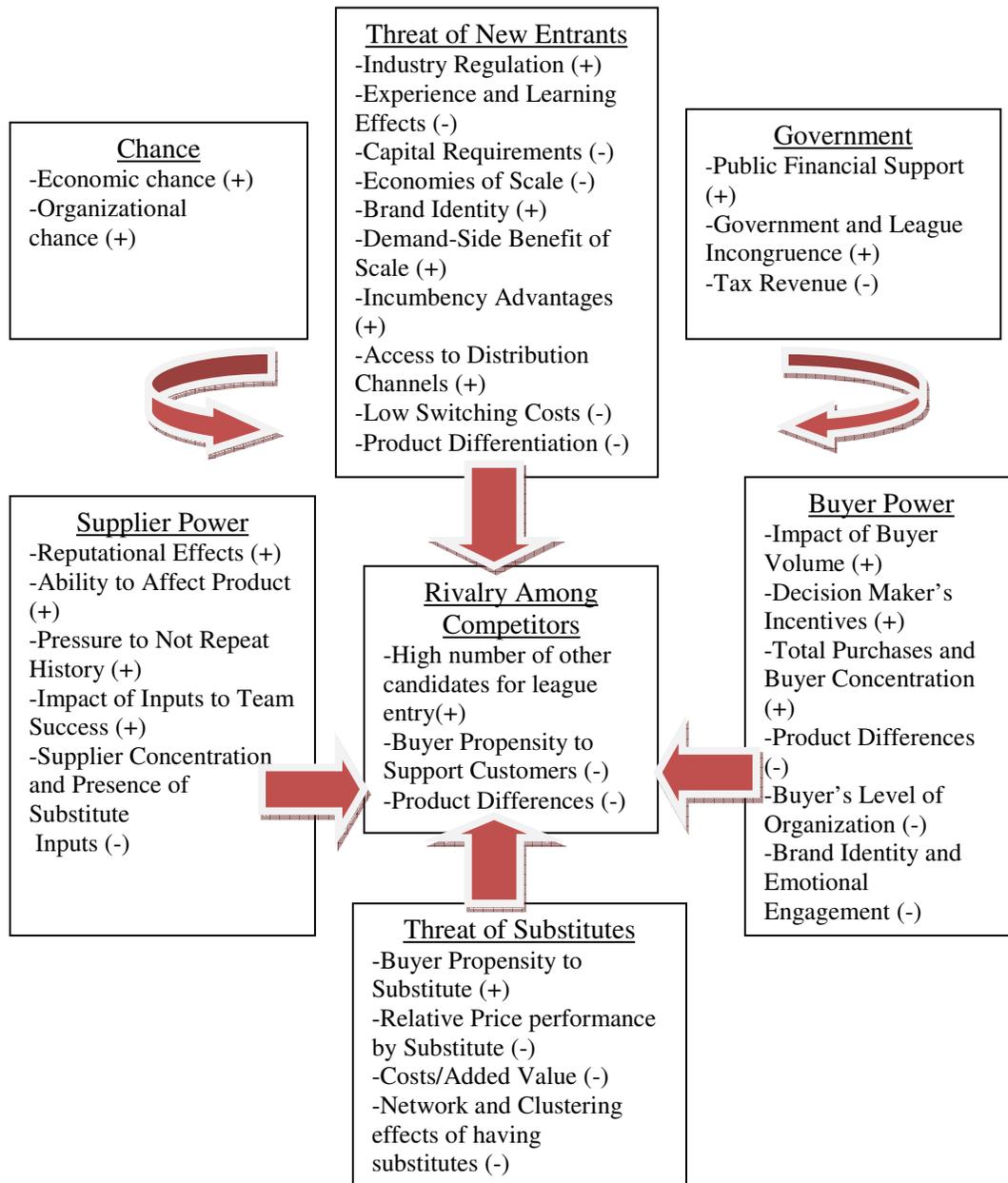
The external analysis will serve to determine the feasibility, appropriateness and likelihood of the Vancouver getting an NBA franchise. This analysis will involve conducting Porter's 7-Force analysis (Porter, 1990), which will allow extraction of the key success factors needed to be successful in obtaining and hosting an NBA franchise. Once this has been determined a competitive analysis will be done to determine how other teams in league do on these key success factors and where Vancouver's opportunities and threats lie.

### **2.1 Industry Analysis: Vancouver Sports Market and the NBA**

In order to determine whether present day Vancouver is a fit for the National Basketball Association, it is necessary to look at the basketball industry, both in this specific geographical area, and from the point of view of the NBA. Michael Porter's 7-force analysis (Porter, 1979) is a worthwhile tool to analyze the viability of professional basketball in Vancouver. This model places "a more simplistic focus on relative market growth rates in determining industry attractiveness, helps predict the long-run rate of returns in a particular industry, and can help an organization to transcend the competitive forces and deploy different marketing and innovative skills" (Porter, 2008). Through this analysis, a determination can be made as to which competitive forces exist in this industry and which of these identified key strategic factors can produce competitive advantage. In addition to the five forces: threat of new entrants, supplier power, buyer power, threat of substitutes and rivalry amongst competitors, it is worthwhile to examine

the two additional forces proposed in Porter's 1990 book *The Competitive Advantage of Nations*: chance and government, as both factors are very relevant in the Vancouver's sports industry.

Figure 2.1 Porter's 7-Force Analysis for the NBA and Vancouver Sport Market



### **2.1.1 Threat of New Entrants**

In general, “new entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete” (Grundy, 2006). There are certain barriers to entry that can reduce the threat of competing entrants into the market, but may also serve to reduce the ability of the franchise to enter the defined NBA and Vancouver markets. A lack of barriers has an opposite effect, encouraging entry into the market from all defined and competing parties. Threats of entry will be discussed from two separate aspects: threat of new entrants into the NBA and into the Vancouver sports market. The (+) beside the specific factor within the force indicates that it adds or contributes to strength of the discussed force; consequently, the (-) indicates that it subtracts or takes away from the strength of the force.

#### **2.1.1.1 Threat of Entry into the NBA- Ranking: High**

##### **2.1.1.1.1 Industry Regulation (+)**

A major barrier to entry that reduces the threat of entry for all candidate cities is the industry regulation as controlled by the National Basketball Association. To gain league approval for the sale and relocation of a team is a very involved process that requires lots of time, money, patience, and political waging. As evidenced by the numerous failed attempts to purchase and move franchises in the NHL, MLB, NFL, and NBA, there are many factors and conditions that need to be perfectly aligned in order to be successful. There is an extensive bureaucratic process to complete when a team is changing ownership and even greater application and feasibility process if relocation is being requested. There is not only extensive financial and legal requirements that need

to be met, there also needs to be approval by the NBA board of directors; a daunting barrier to entry.

Having the best interests of the league in the forefront, there would be potential hold up in regards to anointing Vancouver another NBA franchise due to the past colossal failure that occurred with the Grizzlies. The Vancouver suitors would need to do a flawless job in convincing the league that it is in an equivocally better position to sustain an NBA franchise than it was during its prior tenure, and a better candidate than the other potential suitors. The process would be subject to greater scepticism by the league, than it would be for the other candidate markets due to this history.

A key success factor for gaining entry into the NBA would be to have a knowledgeable, experienced, dedicated staff in place to present its case for relocation to the league. It would be worthwhile if someone on this staff had direct, firsthand experience with the NBA board of directors and executive committee.

#### **2.1.1.1.2 Experience and Learning Effects (-)**

The most significant barrier to entry that Vancouver has an advantage on is experience and learning effects. Unlike the other candidates for relocation, Vancouver has the experience of hosting an NBA team in its recent history. It is true that the team did not have much success; however, as discussed, this was a product of many factors, many of which were out of the hands of the city.

Many people that were involved with the Grizzlies in various capacities are still in Vancouver, and due to the relatively small size of the market, would once again be involved with another NBA team. There are many event production staff with GM Place and event management agencies that remain employed with the Canucks, many of whom

also worked for the Grizzlies. The specialization, efficiency, value chain, and network that this group of individuals has, gives them an increased likelihood of obtaining a higher degree of success when hosting a second major professional sports team at GM Place. In addition to the production staff, the management staff of the new franchise, although largely different than the Grizzlies staff, will have obtained learning effects by being able to use the successes and failings of the Grizzlies as a case study to learn and improve from.

Although it is not necessary to have the level of experience and learning effects that Vancouver has (experience as an NBA city), it is a key success factor to have people involved with the franchise that have had previous experience working for a professional sports team, preferably within the same market as is currently being sought. The learning and experience effects are valuable in maximizing the success of the team without the potential setbacks that arise out of inexperience.

#### **2.1.1.1.3 Capital Requirements (-)**

A major capital requirement for a major professional sports franchise is the need for a state of the art facility to host the team. Significantly reducing the major capital requirement needed to host this franchise in Vancouver, presenting an immediate advantage over some of the aforementioned relocation candidates is the presence and availability of an NBA ready arena: GM Place. Rather than having to wait for the approval and construction of a new building, which can be a daunting task, Vancouver has GM place available immediately. “One key impetus for relocation is to increase arena-related team revenues... The type of sports facility and lease arrangements are as important as the quality of the market in an owner’s location decision” (Rascher &

Rascher, 2004). Having a modern, ready to play in arena or at the very least approved (funded) plans to construct an arena is a KSF for obtaining a franchise. Having an outdated arena without funding to rebuild is a major reason why teams leave a city in the first place; thus, to even be considered a viable option for relocation it is necessary to have an appropriate arena in place. The term “appropriate” is in reference to an arena that will be big enough, new enough, and contain enough channels to allow it to generate sufficient revenue. This is important as “increased revenue from a new arena put a franchise in a better position to bid for quality players, resulting in a better team, which in turn draws more fans, resulting in more revenues.” (Rascher & Rascher, 2004) In addition to the cost of an arena, there is also a substantial relocation fee. Although much lower than the cost of expansion, which can run up to half a billion dollars, the relocation fee owed to the league is approximately \$30 million dollars (NBA BOG Approves Relocation to Oklahoma City, 2008). Adding to the start-up costs, the new owner is inheriting many existing costs that they had no control over. The team’s current payroll for example may be exorbitantly high and may include some unsustainable long-term contracts. In addition, large upfront costs such as marketing, sales, building preparation are all unavoidable and all act as barriers to entry for many potential owners. Due to the sizeable upfront costs of starting a new team, including the relocation fee, it is a key success factor for the owner to have deep pockets and a willingness to spend a significant amount of money to not only officially get the team NBA ready, but to make the necessary marketing investment to generate enough support and excitement.

#### **2.1.1.1.4 Economies of Scale (-)**

If the new basketball franchise had the same owner as another franchise in a second professional sport, and played in the same building, it would be able to operate on some levels as an economy of scale. Having two franchises under the same financial and logistical umbrella allows the franchises to use much of the same production capital, including staff to produce the concurrent events. There are some unavoidable bilateral requirements that exist when operating two franchises; however, there are tangible cost and resource saving benefits to operating as an economy of scale. Not only is it possible to concurrently host two professional sports teams in one facility, it is preferred. In order to maximize the usage, value and profits from a multi-million dollar structure, it is necessary to book as many dates in it as possible. Counting solely on concerts and touring events pales in comparison to the benefits of being able to book at least another guaranteed 41 home dates a season. Having another team in the city also increases the local sports network and creates a sporting atmosphere in the city, which can help all the teams in the area. Being able to operate as an economy of scale by having more than one professional sports team in the city is a key success factor that cannot be understated. Although being the only ticket in town provides some exclusivity, it fails to maximize resources and does not provide a positive sporting environment.

#### **2.1.1.1.5 Summary: Threats of Entry into the NBA**

Becoming a member, once again, in the elite group of NBA cities will be a challenge for Vancouver. It will be an involved process that must be met with due diligence to ensure that the franchise is given the best chance to succeed, and has enough fortitude to obtain the franchise over the other NBA hungry cities. There is already a

foundation for this franchise (arena, experience, potential economy of scale etc.); it is how they build on this foundation that will determine whether Vancouver can break through these barriers.

**Identified KSF's** for this force that are necessary to break through the aforementioned barriers include:

**1. Staff that has experience dealing with the bureaucracy of the NBA's relocation:**

the staff involved with the application process should have specific experience dealing with the National Basketball Association or at least the process of acquiring a professional sports team

**2. Experienced operations staff:** people that are involved with the franchise at a higher level should have previous experience with a professional sports franchise

**3. Having an NBA-ready arena built:** having a modern day, NBA ready arena is a requirement that must be fulfilled prior to acquiring a team

**4. Operating in a sports cluster rather than solo:** This provides the possibility of using the same facility, maximizing usage, sharing costs and furthermore creating a sporting culture in the city.

**2.1.1.2 Barriers into the Vancouver Sports Market- Ranking: Low**

There are several factors that exist within the Vancouver sport's market that serve as barriers to entry for an NBA franchise.

**2.1.1.2.1 Access to Necessary Inputs (-)**

The lack of big business headquarters in Vancouver is a large barrier to viability for a professional sports franchise; the lack of corporate dollars is only amplified in tough

financial times. The timing must be right in a market like Vancouver to ensure that the economy is in a position to support long-term sustainable corporate sponsorship and support. As will be discussed in the Chance section of the External Analysis the volatility of the economy creates a need for financial responsibility and forecasting; however, regardless of the economic climate there is a need for a level of corporate support and potential in the market. “Regions with larger, richer populations and those that contain large businesses or numerous corporate headquarters are assumed to more readily support a team than a smaller city that lacks these demographic features” (Rascher & Rascher, 2004). The city of Vancouver is not home to a great number of large corporate head offices. It is by no means a small business community, with lots of small to medium size businesses and a fair share of multinational corporations. It pales in comparison to a city like Toronto, when it comes to large corporate headquarters. Vancouver is a large enough corporate city to sustain two professional sports teams, but in order for this to work, the franchise must have a very targeted and effective corporate sales and sponsorship strategy in order to maximize the limited available corporate resources. Having a sustainable economy in the potential market, with a sufficient corporate business environment is a key success factor for a city to host an NBA team. Without this support, the team relies heavily on the fans, which will not ensure long-term financial viability.

#### **2.1.1.2.2 Brand Identity (+)**

The brand identification that the failed Grizzlies franchise has created will be a barrier to entry into this particular market. As will be discussed in supplier power, the NBA has a strong growing, global brand. For the other relocation market candidates, the

NBA represents the best basketball in the world. For many Vancouverites however, this same league represents spoiled players, mediocre product and crushed dreams. The Grizzlies have left a bad taste in the mouths of many people in not only Vancouver, but all over Western Canada; tarnishing the league image. This can be seen as a behavioural barrier to entry from the Vancouver's sports fans.

#### **2.1.1.2.3 Demand-Side Benefit of Scale (+)**

Other major barriers to entering the Vancouver sports market are circumstances present as a result of the Vancouver Canucks. Firstly, the Canuck's demand side benefit of scale. Sports fans willingness to pay for a team's product increases with the number of other buyers who also patronize the team. There is a higher value of being in the network or part of the fan base when there is a large number of fellow customers/supporters (Porter, 2008). The support in numbers makes it easier to get caught up in the excitement that can be seen through the lens of the whole community. "Demand-side benefits of scale discourage entry by limiting the willingness of customers to buy from a newcomer and by reducing the price the newcomer can command until it builds up a large base of customers" (Porter, 2008). The size of the potential basketball fan base will be examined later in the analysis; however, it is clear that this fan base will be much smaller than the Canucks fan base. The new franchise must overcome this challenge and rapidly develop and grow its fan base so to be seen as an appealing, unique choice in the Vancouver sports market rather than a second choice to the Canucks. Having a large potential fan base is vital to being a suitable NBA city. Not only having realistic and encouraging fan-base projections, but also being able to quickly turn these projections into real, tangible fans is an important determination of success.

#### **2.1.1.2.4 Incumbency Advantages (+)**

In addition to the demand side benefits of scale that the Canucks will have over this franchise, they also have other distinct incumbency advantages acting as a barrier to entry. Cost advantages will be present, as the Canucks do not need to aggressively market themselves to the community to garner support. They have been around for several decades and have developed a consistent loyalty from their fans that has exponentially increased with the popularity of hockey in Canada. The basketball franchise will need to undergo several start-up marketing and promotional costs to get the city excited for the NBA once again and to convince the Vancouver sports fan that this franchise is worth supporting. The Canucks are an established brand that benefits from familiarity and a symbol of stability; the new NBA franchise will have to shake its tainted brand that will have the lingering stench of the Grizzlies on it.

#### **2.1.1.2.5 Access to Distribution Channels (+)**

The last major barrier to entry that the Canucks present a potential NBA franchise in Vancouver is unequal access to distribution channels. Being the only major professional sports franchise (during the fall-spring season) in town for the last eight years has given the Canucks unparalleled exposure to the community. The hockey team has pretty much owned the sports coverage in the print, television and radio media. The Canucks coverage dominates local bars, Canucks memorabilia rules the racks at local sports apparel stores, and top local companies are sponsoring this hockey team. In general, the Vancouver sporting community has gotten used to having the Canucks being the only big ticket in town. They have become engrained in many fans minds as the only professional local product in Vancouver. Vancouver is a large city with many potential

fans, media outlets and channels for which the basketball team can infiltrate, however, it will be a challenge to steal market share from this very dogmatic hockey mindset. It is a key success factor for a relocation candidate to have sufficient access to distribution channels. Because the seasons run concurrently, the only chance the basketball team has at gaining equal distribution is if they have substantial success and the Canucks do not produce a worthwhile product.

#### **2.1.1.2.6 Low Switching Costs (-)**

One positive aspect that reduces the barrier to entry for an NBA team into Vancouver is the low switching costs of becoming a fan of the new team. If a fan has season tickets for a particular team, they are only financially committed to this team until the end of the season; however, there are no additional costs to switch support from one team to another. This is a reduced barrier to entry, as the new franchise will technically have access to all fans in the market within one year of announcing the relocation.

Although a non-issue for the fan, there are switching costs for corporate sponsors and other outlets that may have a longer-term commitment to a particular franchise.

Although these corporate dollars should not be ignored, it is difficult to expect significant financial support to be shared between two franchises. This gets back into the incumbency advantages that existing franchises have, which present a barrier to entry for the NBA team.

#### **2.1.1.2.7 Product Differentiation (-)**

Lastly, as will be discussed later in the paper, the product differentiation reduces the barrier to entry in this market. Basketball is a unique game that can be seen as a very

different product to hockey or any other form of entertainment in Vancouver. This differentiated product must be marketed as such so to not be considered just another sports option. Having a unique, differentiated product is a key success factor, as long as it fulfils the needs of a large enough market.

#### **2.1.1.2.8 Summary: Barriers to Entry into the Vancouver Sport Market**

Due to the limited size of the Vancouver sports market, the barriers that the Canucks place on a potential new team appears quite high. However, the low switching costs, the presence of only one major professional sports franchise, a growing basketball market, and the differentiated product all serve to make the make barriers to entry low for this market.

**Identified KSF's** for this force that are necessary to break through the aforementioned barriers include:

- 1. Large and strong enough economic and corporate environments:** to provide the sponsorship and support necessary to sustain a professional sports team
- 2. Large fan base for this particular sport:** to reap the demand side benefits
- 3. Having sufficient access to the cities distribution channels:** in order to get the exposure, and garner the level of support needed.
- 4. Must have a differentiated product:** To not only peak the interests of another team's fan base, but to cater to a whole new demographic of fans.

Without any one of these factors, the franchise would be challenged.

## **2.1.2 Supplier Power**

Especially in professional sport “powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labour, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices” (Grundy, 2006).

There are two very strong suppliers to this particular franchise: the NBA and the league’s players. Both of these entities are necessary to the franchise as without the support and cooperation from either one would make its existence impossible.

### **2.1.2.1 The National Basketball Association: Ranking- High**

The NBA is the direct supplier to the potential Vancouver franchise. This team will be a product and at the mercy of the NBA; the supplier power is considered high.

#### **2.1.2.1.1 Reputational Effects (+)**

The image, brand and on-court product of the NBA is something that is vital to the success of the Vancouver franchise, and to an extent, is out of the control of the team. With such incidents as the November 19<sup>th</sup>, 2004 brawl between the Indiana Pacers, the Detroit Pistons and the fans at the Palace of Auburn Hills in Detroit (ESPN: NBA, 2004), or the referee scandal involving Tim Donaghy fixing games in 2005-2007 (Valasco, 2008), the NBA’s image as taken a hit over the last decade. The hip-hop mentality and perceived thuggery that incidents such as these have helped create has soured many sponsors and potential fans (Jaynes, 2008). If the Vancouver franchise is selling itself to the community and doing some grassroots marketing to help grow the fan base, it will be

restricted by a poor league image. The NBA, led by commissioner David Stern has taken several initiatives over the last few years to improve the image, such as less tolerance for unacceptable behaviour, being quicker to hand out technical fouls, fines and suspensions, and a mandatory pre and post game dress code. Even with this stricter stance, the league continues to be another brawl, or major off court offence away from reverting to this tarnished image. It is important for many sports fans, especially the younger ones, to be able to look at local professional athletes as role models and stewards in the community. The NBA must be able to present its athletes as positive exemplars, something that is tough to do when both on and off-court fracas indicates the contrary.

#### **2.1.2.1.2 Ability to Affect Product (+)**

Another factor that serves to increase the power of the supplier, putting the prospective franchise at its mercy is the on-court product. The Vancouver coaching and management team, in conjunction with the past personnel decisions of the pre-relocated team largely dictate the performance and style of play for the team; however, it is the officiating, and league philosophy that is the over-reaching power by which this is shaped. The NBA has gone through several phases and eras as the rules and strategy has evolved. Other than some inconsistent officiating and questionable disciplinary decisions, the NBA is currently experiencing a high scoring and exciting on-court product. The league must however be diligent in ensuring that this continues to improve, so not to fall back into the low scoring, physically bruising tactics that teams like the 1980's Detroit Pistons had success with and consequently made popular.

Furthermore to shaping style of play, there are rules, restrictions and policies that are enforced by the NBA giving it paramount power in influencing the success of the

franchise. League restrictions in regards to drafting and salary cap are much more strict and have a much greater effect on an expansion team (as was witnessed with the Vancouver Grizzlies), but can still be a profound determinant of an existing team's success. Profit sharing, draft eligibility, collective bargaining agreements, and team tax are just a few of the items that determine the success of a team's performance, and the financial viability of an NBA owner. The NBA collective bargaining agreement expires following the 2010/2011, and things like soft cap loopholes and mid-level exemptions, must be addressed to insure the competitiveness and health of all the league's franchises. These loopholes and exemptions serve to obscure the salary structure in the league and permit teams to overspend in creative ways so to avoid league penalization. "The NBA has a soft salary cap meaning there are certain significant exceptions that allow teams to exceed the salary cap in order to sign players. Having a soft cap also helps teams keep their current players. A hard cap would not allow teams to exceed the salary cap in any circumstance. The NFL has a hard cap with very limited exceptions." (Information, n.d)

To give Vancouver a chance at success, the NBA needs to follow the NFL model more closely, and allow its smaller market teams to develop and re-sign its talent, limiting the larger markets ability to buy their success. A franchise cannot depend on major changes to the league's collective bargaining agreement and salary structure to be successful, as this is out of the individual franchises hands. Thus, it is a key success factor in this relatively small market to have an owner that has the willingness to spend close to what the other teams in the league are spending on their payroll. Without this willingness to pay top dollar, the team will struggle to compete.

Due to the awful record of the Grizzlies, fans in Vancouver will not likely be very patient in withstanding more losing seasons; however, the market must be strong enough and patient enough to put up with more losing, at least in the short term. Even if the owner is committed to winning and will spend whatever it costs to do so, the salary cap, league restrictions and makeup of the inherited team will all limit the speed with which the team can be made into a contender; thus, patience is important. By implementing a sound, value-creating differentiation strategy, patience does not need to be relied on exclusively; although if the history of mediocrity for the Canucks is any indication, patience might be obtainable in this market as long as a team actively sought improvement.

#### **2.1.2.1.3 Pressure to not Repeat History (+)**

One factor that would diminish the supplier power of the NBA in Vancouver would be the need for the league to avoid a second failure in the same city. David Stern has gone on record as of late as saying the following when asked what his biggest regret during his tenure was: "I wish we hadn't had the Vancouver experience. I think that was a great city, and I think we just didn't take advantage of the opportunity. Great city and we disappointed them, we disappointed ourselves" (Vancouver Sun Sports, 2008). If the city of Vancouver once again became an NBA city, it is without question that the league and David Stern in particular would be a lot more proactive in ensuring the team is set up for success. Many of the mistakes and causes of the Grizzlies revolved around certain inequalities and mistakes on the part of the NBA, which made failure inevitable. Just as key stakeholders in Vancouver have learned from past experiences, the NBA too is in a good position to identify the key causes of the demise and proactively ensure that things

are set up to support and help the city succeed in the second go-around. A second failure in Vancouver would reflect particularly bad on the league and commissioner, this would benefit the franchise.

#### **2.1.2.1.4 Summary: NBA as Suppliers**

Overall, the supplier power of the National Basketball Association is high in a prospective relationship with Vancouver. The NBA has done a very good job marketing and promoting its brand. This brand has massive global reach, and provides automatic value to its franchises. The Vancouver team needs the clout, image and brand of the NBA and thus is at the mercy of many of the decisions that the league undertakes.

Without the league, the franchise will be just another Continental Basketball League or International Basketball League team, lacking the credibility, and talent to be more than an extremely niche flash in the pan.

**Identified KSF's** for this force that are necessary to successfully neutralize the supplier power of the NBA:

- 1. An owner with deep pockets, willing to spend money to ensure success on and off the court:** to not only officially get the team NBA ready, but to make the necessary marketing investment to generate enough support and excitement. The collective bargaining agreement and payroll structure of the league makes it necessary for the owner to spend close to what the competing teams in the league are spending in order to be competitive.

## **2.1.2.2 The Players: Ranking- High**

### **2.1.2.2.1 Impact of Inputs to Team Success (+)**

One of the major reasons that the Vancouver Grizzlies failed is because they had a lousy team. The team's losing record is largely a product of a major supplier to the franchise: the players. Although the lack of talent was largely a result of a number of major errors by management, it was also due to the attitude that many NBA players had towards playing in Vancouver. "Rockets guard Steve Francis, drafted by Vancouver, refused to play there because, he said, God didn't want him to be a Grizzly. Ex-Grizzly forward George Lynch complained, hilariously, that there were no grocery stores in Vancouver. Then there was forward Othella Harrington who constantly complained so chronically of the weather that fans nicknamed him Rain Man. Asked if he was asking to be traded, Rain Man replied, 'I'm begging to be traded' " (Rushin, 2001). There were a number of players who enjoyed playing and living in Vancouver, however, the negative attitude seemed to be the prevailing opinion amongst the Grizzly players. This attitude had two harmful implications: firstly, it served to alienate the fans of Vancouver who were proud of their city, and not sympathetic to pouting players, who complain about insignificant things while making millions of dollars playing a game. Secondly, it created a buzz amongst the players that Vancouver is a bad place to play. The Grizzlies, who were in desperate need of talent, struggled to bolster their line-up as sought after free agents refused to sign with the team, and draft picks refused to play for the team. If the players in the league deem a city as an undesirable location to play, the team is handcuffed by this supplier and will struggle to produce a competitive team.

A lot of the sour attitude toward Vancouver came from players being ignorant about the facts. Misconceptions about taxes in Canada (how much money a player would need to forfeit to play in Canada), the weather, the culture, the implications of the Canadian dollar, etc. were all factors that helped put the city in an unfair light. The franchises lack of success only added fuel to the fire, as it is difficult to convince a player to sign with the laughing stock of the league, regardless of which city it is in.

The player's ignorance about Canada and Vancouver should be expected; but not overlooked. Although player's attitudes might be insulting and souring, they are vital to the success of the franchise. It is thus a key success factor to have the players in the league see Vancouver as a place that they could see themselves enjoy playing and living. The first way to do this is to overpay for players. Paying above league average for a player is a reality that many small market franchises like the Minnesota Timberwolves are faced with. It is tough to convince a player to play in your city if another, more desirable playing location is offering to pay them comparable money; overpaying is often the deciding factor that will sway a player to commit to a contract. Secondly, the owner and management must create a comfortable and attractive living and working environment for the player. By taking initiatives such as: having a state of the art practice and training facility, having staff available to get the players set up and comfortable in their new environment, and dedicating resources to educate the NBA players about the facts of playing and living in Vancouver are all important in helping change the mind-set that helped destroy the Grizzlies.

#### **2.1.2.2.2 Summary: Players as Suppliers**

Due to a key correlation between a team's talent and performance, players have a tremendous amount of power in this industry. Due to the necessity of attracting and retaining elite players, action needs to be taken to ensure that this happens.

**Identified KSF's** for this force that are necessary to successfully neutralize the supplier power of the players. The key strategy in decreasing the player's power is to make the city an attractive destination to play and call home for the season:

- 1. Good at attracting free agents/luring players to the city:** players must really know what it is like to live and play in the city. Vancouver must be seen as an attractive destination to play.
- 2. An owner with deep pockets and willing to spend money:** will have to pay market value and in some cases overpay for players to convince them to play in Canada. In addition to paying to attract talent, resources need to be spent to ensure the player's experience in the market is as comfortable as possible (ex. state of the art training facility)

#### **2.1.2.3 Others: Ranking- Low**

##### **2.1.2.3.1 Supplier Concentration and Presence of Substitute Inputs (+)**

Under the 'others' category are the suppliers that aid in the production and operation of the team's 82 regular season games each year (with possibility of playoffs). This includes equipment suppliers, concession staff, advertising company, ticket retailers, security and parking staff, travel coordinator, airlines, etc. The numerous resources that are dedicated to ensuring that the team and players are able to compete at a high level in front of lots of satisfied fans are all vital to the success of the franchise. As Vancouver

has experience hosting professional sports teams with the Grizzlies and Canucks, it will not be a great challenge to find the resources necessary to produce the NBA franchise. With the creation of a franchise comes the creation of jobs and opportunity; there would be many production and event management companies bidding for a contract from this franchise. Although these suppliers are necessary cogs in the operation of the team, they do not have much power, as there are other candidates in these positions that would be vying for the same role. Although many of these roles are relatively unskilled, some of them such as the travel coordinator and the event managers require experienced individuals (see learning and experience effects).

#### **2.1.2.4 Supplier Power: Summary**

In summary, both the NBA and the players have a high amount of power over a would-be Vancouver franchise. They are both vital to the relocation, and the on and off court success of the franchise. As Porter said: “Supplier power is very high when there is no substitute for what the supplier group provides” (Porter, 2008). There is no other elite professional basketball leagues in North America and very few professional sports options for the city of Vancouver; thus, the NBA and its players have a great deal of power. The opposite is true for the ‘other’ suppliers as “they depend heavily on the industry... and there are a number of supplier options” (Porter, 2008).

#### **2.1.3 Buyer Power- Overall Ranking: High**

“Powerful customers- the flip side of powerful suppliers-can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs), and generally playing industry participants off against each other, all at the

expense of the industry profitability” (Porter, 2008). The buyer in this analysis can be defined as anyone that purchases tickets, memorabilia, sponsorship or distribution rights that will have a direct impact on the team. In professional sports, these defined buyers ultimately determine whether a franchise is viable. Politics, government, the arena, and the owner’s ulterior motives are other factors that can define the viability of a franchise; however, it is usually the amount of support from prospective buyers that ultimately controls the team’s plight. Although there are aspects of absolute power from the buyers, there are also several factors that serve to control and limit the power of this group.

#### **2.1.3.1 Impact of Buyer Volume (+)**

The most important buyer and key driver for other buyers is the fan. The average fan is responsible for much of the direct revenue that the team generates, via gate receipts. Average league attendance as of April 2009 was 17, 507, generating league revenues of close to one billion dollars for the year (Lombardo, 2009). Ticket revenue typically accounts for up to 50% of a team’s annual revenue (Lombardo & Mickle, 2009); thus, when fans stop buying tickets, a team’s financial viability is placed in serious peril.

#### **2.1.3.2 Decision Maker’s Incentives (+)**

The first thing that fans respond to is success. A fan base can only be asked to support a losing team for so long, before it is alienated from the team; case in point: the Vancouver Grizzlies. Thus, in order to generate sufficient crowds and correlated revenues, it is necessary for the team to demonstrate a commitment to winning. Beyond gate revenues, the fans are integral in generating merchandising revenues for: sale of

team merchandise, licensing of product with the team logo, and determining the worth of television contracts. Fan support forms a direct correlation with revenue that is directly attributed to the marketing and successes of the team. “Many studies have found winning to be an important determinant of attendance demand” (Rascher & Rascher, 2004).

Due to the six dismal losing seasons of the Grizzlies it is important for the new franchise to have immediate on court successes in order to re-ignite the desire of the Vancouver fan to support another NBA franchise. It is true that sports teams such as the Toronto Maple Leafs have continued to sell out their building after over forty years of having little success; however, due to the history and size of the basketball market, it is conceivable that prolonged mediocrity will not keep a team afloat. To sustain revenues, it is important for the franchise to be competitive each year and continually demonstrate a commitment to winning. It may take obvious, immediate and tangible on-court results to re-connect the former Grizzlies fans with a league that seemingly deserted them a few short years ago. This would be a challenge of the new franchise, however, one that with the right owner and management team is obtainable.

Another advantage of relocation is that it is more likely that the franchise will be in better shape, personnel-wise as compared to an expansion team. It is a key success factor for the owner to be committed to achieving on-court success. Sustained success needs to be achieved through the draft and team development, and supplemented with free-agent signings and trades.

In addition to winning, another factor that is important to obtaining sufficient fan support is having a star on the team. “Relative to other major professional sports, the NBA markets its product by focusing on the individual talent of the players more so than

the quality of each team. It is expected that the star power of the players on a team will affect the demand for fames above and beyond their skill in producing wins” (Rascher & Rascher, 2004).

To illustrate the importance of having a star player, one does not need to look farther than Toronto and the impact that Vince Carter had on that franchise. While the Grizzlies were in dire straits, the Raptor’s popularity was skyrocketing with the 1998 drafting of Vince Carter. Taken from a 2000 magazine, the following quote helps illustrate the impact that one star player can have on a franchise: “He is the toast of Canada, perhaps even more popular than home-grown country music singer Shania Twain. Some Canadians are using words like "messiah" and "Moses in shorts" to describe Carter. To understand the impact he has had on Canada, look no further than the Raptors official souvenir shop in downtown Toronto. The only jersey for sale is Carter's No. 15--in about 30 varieties and colours” (Chappell, 2000). The NBA is a league whose popularity is driven by its stars, therefore, a key success factor for a franchise is having a star player that is marketable to help fulfil the demand of the buyers.

### **2.1.3.3 Total Purchases and Buyer Concentration (+)**

In addition to fans, another group of buyers that has almost an equal amount of power is the market’s corporate community. Companies, particularly large ones have the ability to single handily make or break a professional sports franchise. These companies are counted on to not only support the team via purchasing season tickets, they are the key target for the arenas suites, and furthermore team sponsorship. Relying on corporations to purchase a good bulk of season tickets takes a lot of pressure off a team’s sales department and the year-to-year variability of the fan’s support. In addition, the

naming rights of the building, board signage, in game promotions etc. must be sustained through businesses, as this is a vital source of team revenue. Vancouver is a city that does not have an influx of corporate head offices; however, there is a sufficient amount to fulfil the corporate support needed to help sustain a professional sports team.

Speaking from a corporate sense “there are few buyers, and each one purchases in volumes that are large” (Porter, 2008); thus, these particular buyers have a lot of power. The challenge lies in convincing these companies of the value of giving their support and sponsorship to this franchise. There must be an inherent value in supporting the team from a public relations, and marketing perspective. The value in this, once again comes down to fan support. The more fans attending the games, watching the games on TV or at the bar, and talking about the team, the bigger the market these companies have to invest in, thus, the more money that they will pay for these sponsorship opportunities. Having a sustainable economy in the potential market, with a sufficient corporate business environment is a key success factor for a city to host an NBA team.

#### **2.1.3.4 Product Differences (-)**

The one aspect that detracts from the Vancouver buyer’s power is the uniqueness of the product that this franchise offers. Within the plethora of entertainment options that the public has, there is not much in the way of NBA basketball in Western Canada and the Pacific Northwest. As there is only one other NBA franchise in the Canada, the Vancouver franchise is a unique product to all of Western Canada. The lack of options for people that wish to be part of the world’s best basketball, will have very little choice and thus, little buyer’s power in this market. Promoting this franchise to not only Vancouver, but all of Western Canada and the Pacific Northwest will be a key

determinant in the size of this franchises fan-base. Buyer's power is strong "if the industry's products are standardized or undifferentiated. If buyers believe they can always find an equivalent product they tend to play one vendor against another" (Porter, 2008). The lack of NBA basketball in the region and the differentiated product take away a lot of the buyer's power.

#### **2.1.3.5 Buyer's Level of Organization (-)**

In addition to the limited options for NBA fans in the region, another factor that reduces the buyer power for this market is the fact that the buyers are not organized. "Buyers are powerful if they have negotiating leverage relative to industry participants" (Porter, 2008). Although collectively the fans would have tremendous negotiating leverage, they are not an organized group and thus act more as reactionary players, rather than impactful influencers in this industry.

#### **2.1.3.6 Brand Identity and Emotional Engagement (-)**

Another factor that reduces buyer power is the emotional ties that sport can create with its fans. "What other business can motivate a person to jump up, cheer and yell at their television set? What other business can bring communities together to develop a strong passionate bond between their customers? There is only one business that can do this, and it's the sports business... creating opportunities to generate a closer connection between your customer and the business will create avid fans! Avid fans come to more games which generates more revenue for your team" (Orso, 2007). As fans develop this emotional tie to a team, they lose a lot of power as they are more likely to buy tickets and memorabilia regardless of the success of the team. Thus, a key success factor to reducing

this buyer power is to have “a sales and marketing department whose job is to make sure the fans have a fantastic experience, whether we win or lose the game... create connection with our consumers and fans. We need to continue to develop sales strategies around these emotional connections” (Orso, 2007). If the franchise is successful in developing a strong fan base that has an emotional tie to the team, the team then becomes a part of the community, something the city will support and rally around, rather than ignore.

### **2.1.3.7 Buyer Power Summary**

In a typical sports market the buyer power would be considered low; however, this market is anything but typical. Due to the fan bases’ past experience with the Grizzlies, many of the fans in this city will be sceptical and reluctant to support the NBA once again, this puts power back in the hands of the buyers. In addition, the scarcity of large corporate head offices in Vancouver means a fewer than ideal number of large buyers, which increases their power even more as well. Things like the emotional tie to sport and the unorganized masses decrease the power a little, but at the end of the day, the buyer power is still considered high.

**Identified KSF’s** for this force that are necessary to successfully neutralize and profit of the buyer’s power are:

- 1. Owner’s willingness to spend money to be successful and commitment to winning:** Successful on-court performance is important to engage fans and ensure continued support.
- 2. Having a star player:** having someone on the team that will draw people to the building, sell jerseys etc.

3. **Corporate sponsorship and support:** to ensure sales of advertising, suites and more stable revenue streams.
4. **Effective marketing:** in order to differentiate itself from other entertainment options, take advantage of the lack of NBA basketball in the region and create an emotional tie with the fans and the community to ensure continued support.

#### **2.1.4 Threat of Substitutes**

“A substitute performs the same or a similar function as an industry’s product by a different means” (Porter, 2008). By this definition, there are no direct substitutes for NBA basketball in this market. There are many indirect substitutes however, that yield a lot of power in this market. “Substitute products or services limit an industry’s profit potential by placing a ceiling on prices. If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability – and often growth potential” (Porter, 2008).

##### **2.1.4.1 Indirect Substitutes- Ranking: High**

There are many indirect substitutes to the NBA in Vancouver.

Basketball fans are able to get their fix of live basketball from universities and colleges in the Greater Vancouver Area, as well as club basketball. This level of amateur basketball is high and a lot cheaper to attend, but this product does not come close to the NBA in displaying the best players in the world. There is a semi-professional team that is based out of Langley called the Vancouver Titans; however their season runs April to June and the quality of basketball is not comparable to the NBA.

In addition to basketball, there are a number of entertainment options that consumers have. The average person has a limited budget to spend on recreation but, the number of options to spend ones time and money, particularly in Vancouver is limitless. In a city that has countless outdoor, culinary, artistic, and sporting pursuits available, the consumer has many options on how to allocate their recreation budget. Both the consumer and the corporate entity will decide how to spend this budget based on its interests and the perceived value to which the option provides.

Looking at professional sports competition in particular, there are various options with the Canucks, Giants, White Caps, and Lions. The Canucks will be the closest thing to a direct substitute in a sports sense because of their popularity and the fact that their seasons coincide.

#### **2.1.4.1.1 Buyer Propensity to Substitute Indirectly (+)**

Although the NBA is a higher grossing league with a much bigger North American and global audience than the NHL, the pro-hockey Canadian fan-base in Vancouver greatly favours the NHL. Canada is at the epicentre of the hockey world. Many Canadians eat, breath and sleep hockey. It is the unofficial national sport, seemingly a religion to many. The passion for hockey has been passed down through the last few generations, and has always been something that many Canadians have grown up watching and playing. Deeply engrained in the Canadian culture, hockey is the prime-ticket in the Vancouver sport's market. In the 2008/09 season, the Canucks drew 763,830 fans in 41 home games, selling out every game (ESPN NHL, 2009). In sports bars, newspapers, and sports talk radio, the Canucks are always the most popular sporting topic around Vancouver.

An NBA franchise would have no established loyalty, more likely established cynics, based on the Grizzlies experience, and therefore, these fans would be less likely to support a losing team.

It is not a question as to whether the NBA offers a better entertainment option than its substitutes, but rather, can the NBA “distance itself from substitutes through product performance, marketing, or other means” (Porter, 2008). The entertainment value of the product is high and differentiated from hockey and other leisure options; consequently, the challenge lies in determining if this market can sustain the NBA product and what must be done to ensure success. Distancing itself from these indirect substitutes through product performance, and marketing will be a key success factor to ensuring that this franchise receives the necessary support.

#### **2.1.4.1.2 Relative Price Performance by Substitute (+)**

Aside from basketball, as discussed, the Vancouver Canucks present a very strong indirect substitute as does all the other varying entertainment and leisure activities offered in the Greater Vancouver Area. The lower price entertainment alternatives to going to an NBA game would include the cinema, the Vancouver Giants, collegiate and high school athletics, and the Vancouver Canadians. These varying substitutes offer: “an attractive price-performance trade-off to the industry’s product” (Porter, 2008). These substitutes will always be present but due to the aforementioned differentiation strategy that this franchise will employ, it does not need to compete on price with these other options. To be able to counter these indirect substitutes, the franchise must be seen as a superior, high-end entertainment option, rather than just another low price option.

#### **2.1.4.1.3 Costs/Added Value (-)**

Looking specifically at the most powerful indirect substitute, the Canucks, the cheapest single game ticket for a Canuck's home game is \$55.00CAD. In comparison to the closest NBA team, the Portland Trailblazers have ticket options for as little as \$10USD, with better seats costing as little as \$17-49USD. Hockey prices are lower in many other markets, but in Vancouver, the Canucks demand a price premium. Basketball will not employ a cost strategy for any of its indirect substitutes, except possibly for the Canucks. By charging similar prices to a small market US NBA team, the team will provide a world-class product at a slightly lower price than the Canucks. The people who want to watch pro sports but cannot afford to go to Canucks games could have another option at a slightly lower cost. The best seats would top out at about the same price as with the Canucks, however, it is clear that there are lower priced options in smaller NBA markets. As furthered evidenced by the Toronto sports market, which, although bigger, allows the Raptors to be a lower priced (three seating options at less than \$50CAD), easier to obtain sporting option to the Maple Leafs. This pricing strategy provides some lower priced options for NBA basketball, but still will be close to a price premium so to separate itself from lower priced, lower level options.

#### **2.1.4.1.4 Network and Clustering Effects of Having Substitutes (-)**

A major factor that reduces the power of substitutes is the benefits that the presence of indirect substitutes can provide by way of clustering. Having strong substitutes and rivals provides mass interest for the industry. By having more than one professional sports team operating on Georgia Street (BC Place, GM Place) a sporting cluster is formed, which can be defined as: "a geographically proximate group of

interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities” (Porter, 2000). This cluster can serve to grow the overall sporting culture and attitude in Vancouver, and create a larger, sports loving fan base, create economies of scale by using some of the same production resources. Which team will experience the most success will be based on who will fulfil the most key success factors the most effectively. Not operating solo in a new industry, but rather using the other sporting teams to create a community sports culture is a key success factor for this market.

#### **2.1.4.1.5 Summary of Substitutes**

The closest NBA basketball team is in Portland Oregon, thus, there would be no direct substitute for this franchise throughout much of Western Canada and the Pacific Northwest; thus, the threat of direct substitutes is low. There are many indirect substitutes in the sports and entertainment industry that present a high threat.

**Identified KSF’s** for this force that are necessary to thrive amidst the substitutes are:

- 1. Effective Marketing:** to capitalize on the lack of direct substitutes in Western Canada and the Pacific Northwest. The importance of this KSF has been magnified since the relocation of the Seattle Sonics to Oklahoma City. Marketing is a key success factor in distancing the value of the product from indirect substitutes, particularly those lower priced options.
- 2. Must have a differentiated product:** the on-court performance and entertainment value that the franchise provides must be at a high level to be able to separate itself from its substitutes.

**3. Operating as part of a sport's cluster rather than solo:** Helps create the attitude and expectations of a big league sports market.

### **2.1.5 Rivalry Amongst Competitors- Overall Ranking: Low**

Rivalry is a key force affecting an industry as it can have significant implications to the strategies employed by the individual firms, and have a key influence on the profitability of the industry. “High rivalry limits the profitability of the industry. The degree to which rivalry drives down an industry’s profit potential depends, first, on the *intensity* with which companies compete and, second, on the *basis* on which they compete” (Porter, 2008). Although rivalry can limit profitability, some rivalry is often necessary to create innovation and a sustainable industry. “Companies have a vested interest in having capable, home-based competitors... Rarely do firms gain and sustain competitive advantage without tough competition at home.” (Porter, 1990). There are competitors that exist in the pursuit of obtaining a team, and once obtained, the only competitor for NBA basketball is NBA basketball.

#### **2.1.5.1.1 High Number of Other Candidates for League Entry (+)**

Being part of the NBA is a very exclusive privilege, with potential entrants vying for a limited opportunity. Vancouver would not be alone in their pursuit to obtain a franchise. Cities that are a direct rival for entry into the NBA are: Anaheim, Las Vegas, Kansas City, Louisville, San Jose, St. Louis; they have all been active in trying to land an NBA team for some time (Voisin, 2007). The other aforementioned cities have been aggressively making their case for obtaining a franchise and all present very compelling cases. Due to the prospects of expanding into Europe and the already present objections

of the league's talent being too "watered down", the desire to be NBA cities for these markets will likely only be met from relocation. Due to projected revenues and consequent expansion fees the league would obtain from Las Vegas, it is the only prime candidate for expansion and would likely not be considered for relocation (Ozanian, 2007). The other quality relocation candidates who have been aggressive in their attempt to secure a franchise have created, a key success factor would be to perform internal environmental scanning. If Vancouver knows the strength and status of the other cities intentions, they will have a better chance at maintaining a leading bid.

#### **2.1.5.1.2 Buyer Propensity to Support Competitors (-)**

The only defined rival for NBA basketball is NBA basketball and the Vancouver franchise would be the only team in Western Canada and the closest team for much of the Pacific Northwest. The only rival in the area is the Portland Trailblazers, but they are not in the direct vicinity of Vancouver. It is 507 kilometres from Vancouver to the nearest NBA city, Portland. Basketball fans in BC, Alberta, Manitoba and the northern territories, and States would be most "conveniently" served by a Vancouver team.

With the relocation of the Seattle SuperSonics to Oklahoma City in 2008, there is a huge basketball market in Washington State that is underserved. It is 281 kilometres from Seattle to Portland, but only 225 kilometres from Seattle to Vancouver. The favourable American dollar would also be another reason why Seattle's fan base would be interested in coming to Vancouver to watch NBA basketball. If Seattle were to eventually sort their municipal and ownership issues out and get a new arena, it is known that the NBA would consider relocating a team there. This is not expected to happen in the near future, as the parties involved remain quite far apart on this crucial issue. The

size of this potential market is unclear; the number of fans that would consistently make the drive north of the border is unknown.

With the Seattle relocation, one option that may serve the new franchise well is to play a handful of games in Seattle. Similar to the relationship that the NFL's Buffalo Bills have with Toronto, the Vancouver team would select 5-10 games to be played in Seattle as a way of profiting from a second large market. How the fans in Seattle would react to getting only a glimpse of NBA basketball after over 30 years of having their own team is unclear, but it appears that having even some basketball in this market would be seen as a positive. This arrangement would open up the region to a much larger, proven basketball market. A key success factor is to take advantage of the lack of direct substitutes by aggressively marketing to not only Western Canada, but also to the Pacific Northwest.

#### **2.1.5.2 Product Differences (-)**

One of the most favourable aspects that lends itself to reducing rivalry in this market is the differentiated product in a potential-laden market. As mentioned, professional basketball is different from anything else available in all of Western Canada. The athleticism, strategy, and intrigue of the sport of basketball are unlike that of hockey, football and soccer. "Rivalry can be positive sum, or actually increase the profitability of an industry, when each competitor aims to serve the needs of different customer segments, with different mixes of products... opportunity for positive-sum competition will be greater in industries serving diverse customer groups" (Porter, 2008). The unique product and the different market demographic will allow the NBA franchise to compete in the Vancouver sports industry on a different dimension, and thus, allow for

profitability. Should the basketball team try to compete on the same attributes and try to meet the same needs; the result will be a zero-sum competition, spelling the end to the newer, less supported rival (Porter, 2008).

The uniqueness of basketball and the lack of direct competitors in the area lead to a lack of rivalry in this market. Other than being able to follow the NBA on television and the media, there is no absolute rival in this market for this product.

### 2.1.5.3 Rivalry Summary

The intensity of the rivalry is almost non-existent due to the lack of direct substitutes in the area. In addition to intensity, “the strength of rivalry reflects not just the intensity of competition but also the basis of competition. The dimensions on which competition takes place, and whether rivals converge to compete on the same dimensions have a major influence on profitability” (Porter, 2008). Due to the relatively small size of the Vancouver market, and limited large corporate presence, there will be certain segments of market share that the franchise must compete with an entity like the Canucks for. The Canucks are an indirect substitute, and therefore not rivals; enabling the NBA team to operate rival-free in this market.

**Identified KSF’s** for this force that are necessary to implement in order to survive and thrive amongst rivals are:

- 1. Insider environmental scanning:** know who the other candidates are, what their status is, strengths/weaknesses etc.
- 2. Effective marketing:** to ensure that the uniqueness of the product is communicated and highlighted so to compete with rivals who are after the same

entertainment dollars. Positive brand identity that rivals that of the incumbent substitutes must be established.

### **2.1.6 Chance- Overall Ranking: High**

“Chance events are occurrences that have little to do with circumstances in an organization and are often largely outside the power of firms to influence... Chance events are important because they create discontinuities that allow shifts in competitive position” (Porter, 1990). There are several chance events that are at play in this industry and in this possible relocation scenario. The most impactful and important are the value of the Canadian dollar, the state of the economy and the chance of other franchises actually being put up for sale and being made available for relocation.

#### **2.1.6.1 Economic Chance (+)**

The most substantial cost to the team would be payroll, which is paid in American dollars, thus, this Canadian franchise is at the mercy of the Canadian dollar. A weak dollar can single-handedly cripple the franchise by putting the owner at a hugely uneven playing field in trying to sustain itself and be competitive with its American rivals. The reason that the dollar is such an important and defining factor is because the single biggest expense to the team: payroll is paid in US dollars. In 1995 when the Grizzlies began play the Canadian dollar was worth only seventy-two cents American; this only got worse as it was sixty-seven cents to the USD when the team relocated in 2001. As the Canadian dollar once again climbs close to USD value, this is not an issue; however, with the volatility of the value of the dollar, it is tough to expect any kind of consistent stability with the currency. The state of the American economy at present leads one to

believe that the value of the USD will not be climbing significantly any time soon; however, in the future, it is impossible to predict just how the Canadian dollar will compare to the US greenback. The dollar value in the 1990s, early 2000s put the Grizzlies and Raptors at an insurmountable disadvantage; consequently, should the dollar once again significantly drop in value, there needs to be league subsidization that kicks in. A key success factor for an NBA team to survive in this market is either hedging on the part of the organization to ensure it operates at a favourable dollar value, or league subsidization to help equalize the disadvantaged Canadian franchises should the dollar drop.

The franchise would rely heavily on consumer-generated revenue, thus, a weak economy, such as is currently being experienced would put enormous strain on a would-be franchise. The current economic state acts as a large barrier to entry not necessarily because of lowered attendance (league attendance showed only a slight decline), but due to lack of corporate sponsorship. Even the top economists are having a difficult time predicting how and when the economy will rebound, thus, it is difficult to figure out when it's a good time to enter this market. As the success of most businesses fluctuates with the economy, it is therefore important for the economy to at least have relative stability.

#### **2.1.6.2 Organizational Chance (+)**

Continuing to move franchises has massive logistical as well as reputational costs for the league. Although having 30 healthy teams is of paramount importance to Commissioner David Stern, it is in the league's best interest to do everything that it can to ensure that it is able to make it work in current NBA cities rather than outright

transplanting existing franchises. As previously mentioned, the NBA is the league that has had the most team movement in the past twenty years; consequently, it is in the interest of the league to demonstrate stability and a firm commitment to all its franchises. Chance comes into play because a major drawback of trying to relocate a team is that you are at the mercy of another city, waiting for a team to become “available”. Unless there is flexibility on the part of the ownership group, timing and opportunity may not align to allow the relocation. Vancouver could be one hundred percent suited, and ready to take on an NBA franchise, but if there is no dance partner who is looking to sell, there will be no way for a potential owner to secure a team for relocation. Because of the dependency of another franchise looking to sell/relocate, a key success factor is timing and flexibility to be able to wait for an opportunity and act quickly when one becomes available.

### **2.1.6.3 Summary- Chance**

A potential owner and market can give itself the best possible chance to succeed by simply being prepared to deal with the aforementioned forces influencing this industry; however, in addition to suitability and preparedness, there is a level of chance that is involved which will have a significant influence on success. These chance items include a strong Canadian dollar (or dollar equalization subsidy), a strong domestic economy, and a timing match between readiness to take on a franchise and availability to take over a franchise.

**Identified KSF's** for this force that are necessary for franchise survival include:

- 1. Currency hedging:** or a dollar equalization subsidy is necessary to ensure that a franchise can compete on a fair level in a foreign league, especially when the largest expense is in the foreign currency.

2. **Strong domestic economy:** an economy which allows for a buyer's market, fostering an environment to which is conducive to receiving the fan's and corporations support.
3. **Timing:** there must be a match between the readiness of an owner and city to take on a franchise and the availability and readiness of another city and the league to move a franchise.

### **2.1.7 Government- Overall Ranking: High**

“Government can shape the circumstances of related and supporting industries in countless ways, such as control of advertising media or regulation of supporting services. Government policy also influences firm strategy, structure, and rivalry, through such devices as capital market regulations, tax policy, and antitrust laws” (Porter, 1990). As with anything in the business world, the government has a major influence in the Vancouver sport market and in determining whether the NBA can be feasible in this market. The areas that the government influences this industry and team are through its stake in lottery, tax, and customs. In addition to the official local, provincial and federal governments, this force also deals with the NBA's league governance.

#### **2.1.7.1 Public Financial Support (+)**

The biggest influence the government has when a professional sports franchise is looking at entering the market is in regards to the arena. In most cases, in order for a city to construct an appropriate arena, some public funding is necessary. The debate as to whether public money will help fund the construction of an arena is a hot button topic in many cities. Without funding, the stadium will not usually be built, and the city does not

receive a franchise, or, the team leaves (Seattle Sonics). In Vancouver, GM place is already standing, and was funded 100% with private money, so this is a non-issue.

#### **2.1.7.2 Government and League Incongruence (+)**

When the league's governance does not match with the government's governance, there is potential for a major setback. One major issue that was present in 1995 with the inception of the two Canadian NBA franchises was the issue in regards to the lottery.

“To preserve the integrity of the NBA game, Commissioner David Stern required the provinces of Ontario and British Columbia to abolish any wagering on this league's games...in 1993, BC bettors shelled out some \$1.56 million Canadian on NBA games, with a large portion of the money dedicated to health care services in the province.”

(The NBA settles North of the Border) In the end, a resolution was reached between the BC provincial government and the NBA that saw them donate \$500,000 per year for five years to a hospice for needy children and the BC health system, NBA games were consequently removed from sports betting.

Another incongruence exists in the way taxes are treated between the league's home-country of the United States versus the way taxes are paid out in Canada.

Although comparable, the players are taxed more in Canada than they would be playing for an American NBA team. “According to Dedrick Faison, O'Neal's business manager, the player will see a decrease in take-home pay approaching \$1 million (U.S.) on his salary of about \$21 million, all because he is a Raptor” (Feschuk, 2008). Although relatively speaking the percentage increase is quite low, it is still a significant amount of money. As discussed under supplier power, it is already a challenge to convince foreign players to play in Canada, the increase in tax only adds to this issue. Thus, it is important

for the owner to pay players more to make up for the difference, or the government to have some tax breaks for the players to equalize the tax hit to the US.

### **2.1.7.3 Tax Revenue (-)**

The city of Vancouver benefits in many ways from having an NBA franchise; including an increase in certain local businesses such as hotels, and restaurants. The team's players are earning an income in Canada and are required to pay Canadian taxes. Beyond just the city of Vancouver, the province and country see a benefit through tax. Player and business tax was projected at being over \$10 million per year from 1995-2000 (The NBA settles North of the Border), which goes to the provincial and federal governments. This is a significant annual inflow that must not be forgotten when a government is regulating and erecting barriers for the operation of a professional sports franchise.

### **2.1.7.4 Summary- Government**

In summary, the local, provincial, and federal, as well as the league's governance have a lot of influence into the success of a would-be franchise. Having player and business taxes in reason, and working with the league to ensure success under guidelines are both necessary keys to success.

**Identified KSF's** for this force that are necessary for franchise survival include:

**1. Amicable relationship between the league and the government:** to ensure that there is no unnecessary restrictions that will put a significant barrier between the league, the government and the tax-paying public; or place the franchise at a great disadvantage to the other league's teams

## 2.2 Key Success Factors

Key success factors are grouped into three categories: very important to success, important to success and less important to success. The basis to the categorization of the KSF's was based on how often they were mentioned in the industry analysis and the critical importance they garner based on existing competitors success.

- **An owner with deep pockets, willing to spend money and be successful on and off the court:** This is important to not only officially get the team NBA ready, but to make the necessary marketing investment to generate enough support and excitement. Also, due to the league's payroll structure, the owner must spend in the vicinity of what competing teams in the league are; paying market value and in some cases overpaying for players to convince them to play in Canada. To help with recruitment, resources must also be allocated to ensure players have a positive playing experience in Vancouver. On-court winning is necessary to engage fans and ensure continued support.
- **Effective marketing:** To be able to differentiate itself from other entertainment options, take advantage of the lack of NBA basketball in the region and create an emotional tie with the fans and the community to ensure continued support. Marketing is vital to capitalize on the lack of direct substitutes in Western Canada and the Pacific Northwest. The importance of this KSF has been magnified since the relocation of the Seattle Sonics to Oklahoma City. Marketing is a key success factor in distancing the value of the product from that of its indirect substitutes, particularly those lower priced options. A positive brand identity that rivals that of the incumbent substitutes must be established.

- **Large and strong enough economic and corporate environments:** to provide the sponsorship and support necessary to sustain a professional sports team, ensuring the sale of advertising, suites and more stable revenue streams. A strong domestic economy allows for a buyer's market, fostering an environment that is conducive to receiving the support of the fans and corporations.
- **Large basketball fan base:** To reap the demand side benefits, the market must have a significant demographic that is a fan of basketball, to establish a solid fan-base.
- **Must have a differentiated product:** To not only peak the interests of another team's fan base, but to cater to a whole new demographic of fans. The entertainment value that the franchise provides must be at a high level to be able to separate itself from its substitutes.
- **Effective currency hedging:** the organization must effectively hedge the risk of a fluctuating dollar to ensure that a franchise can compete on a fair level in a foreign league, especially when the largest expense is in the foreign currency.
- **Timing:** there must be a match between the readiness of an owner and city to take on a franchise and the availability and readiness of another city and the league to move a franchise.
- **Amicable relationship between the league and the government:** to ensure that there is no unnecessary restrictions that will create a conflict between the league, the government and the tax-paying public; or place the franchise at a great disadvantage to the other league's teams.

- **Having an NBA-ready arena built:** having a modern day, NBA ready arena is a requirement that must be fulfilled prior to acquiring a team.
- **Having sufficient access to the city's distribution channels:** in order to get the exposure and level of support needed, the franchise must have ample access to all media outlets, memorabilia outlets, and coverage at local establishments where fans congregate.
- **Experienced operations staff/ experience dealing with NBA relocation and environmental scanning:** people that are involved with the franchise at a higher level should have previous experience with a professional sports franchise. Experience with the bureaucracy of the NBA and relocation also has huge benefits.
- **Having a star player:** having someone on the team that will draw people to the building, sell jerseys' etc.
- **Having more than one professional sports team in the city:** this provides the possibility of using the same facility, maximizing usage, can help share costs and creates a sporting culture in the city. Operating as part of a sport's cluster rather than solo helps create the attitude and expectations of a big league sports market.
- **Good at attracting free agents/luring players to the city:** players must really know what it is like to live and play in the city. This must be based on fact rather than speculation and rumour.

In table 2.1 the KSFs were ranked according to importance based on the analysis in the previous external analysis

Table 2.1 An NBA franchise’s Key Success Factors

<b>Key success Factor</b>
<b>MOST IMPORTANT</b>
<b>An owner with deep pockets and a willingness to spend money to be successful on and off the court</b>
<b>Effective marketing</b>
<b>Large and strong enough economic and corporate environment</b>
<b>Must have a differentiated product</b>
<b>Large basketball fan base</b>
<b>Having an NBA ready arena built</b>
<b>IMPORTANT</b>
<b>Effective currency hedging</b>
<b>Timing</b>
<b>Having sufficient access to the cities distribution channels</b>
<b>Having a star player</b>
<b>Amicable relationship between the league and the government</b>
<b>Experienced operations staff/Experience dealing with NBA relocation and internal environmental scanning</b>
<b>LEAST IMPORTANT</b>
<b>Operating as part of a sports cluster rather than solo</b>
<b>Good at attracting free agents/luring players to the city</b>

### 2.2.1 Comparison of KSF’s: Vancouver and Relocation Candidates

Some of the previously discussed KSF’s related directly to relocation rather than success, such as: timing and staff that has experience dealing with the bureaucracy of league relocation will not be included in the competitive analysis. To produce a fair ranking of these factors with other relocation candidates requires more detailed comparative data that would require further research. Instead these KSF’s will now be discussed in a more general sense to provide an idea as to how Vancouver would fair against other relocation candidates.

An owner with deep pockets, willing to spend money to be successful on and off the court

Before an individual could move a team to Vancouver, he would first need to own an existing team, and the cost of that seems to currently be between \$300 and \$400 million. Once obtained, there are significant costs to move the team (Berger, 2006). The owner of the Seattle Supersonics had to pay \$30million dollars to the league to relocate the franchise to Oklahoma City. In addition it was estimated that Sonics Chairman Clay Bennett and his group were expected to spend an additional \$50million in relocation related expense, such as securing office space, moving and setting up front level staff, building a practice facility etc. The owner also had to pay \$45 million in a settlement with Seattle, for damages and implications related to the move (Berger, 2007).

Based on the costs that Oklahoma City paid to relocate the Supersonics, the Vancouver owner could expect to pay approximately \$430million dollars to buy, and relocate the franchise, not including any settlements that may need to be made with the incumbent city.

If Vancouver has an owner with sufficient resources and a willingness to spend this capital to bring a team to this city, this could be seen as an opportunity over other candidates who lack that major piece for relocation. Because no individual in Vancouver has confirmed interest in this pursuit, any evaluation of Vancouver for this KSF is speculation. In the competitive analysis, the most logical and obvious candidate for ownership Francesco Aquilini will be examined and evaluated for feasibility.

### Having an NBA-ready arena built

In comparison to a relocation candidate, Vancouver has a great advantage in this very important KSF. The major reason why the NBA has overlooked past candidates is that they do not have an appropriate arena, something that Vancouver already has in place.

### Timing

The key success factor of the timing relates to the need to match the readiness of a city to take on a franchise and a franchise being available. Although there currently is not a team for sale, Vancouver is in a better position to be approved for immediate relocation over many other candidates simply because they have an arena ready at the flick of a switch. Louisville has been rejected the last four times they have attempted to land a team and their timing is not improving.

### Experienced operations staff/Experience dealing with NBA relocation and internal environmental scanning

Although Vancouver was successful in landing an expansion team in 1995, it has never gone through the process of trying to obtain a relocated team. There will be people in Vancouver that have dealt with the league during the Grizzlies stint, their experience will be helpful; although it was 14 years ago and there is likely different politics and procedures involved in obtaining a team via relocation

## **2.3 Competitive Analysis**

In the competitive analysis, the direct competitors, which have been defined as other NBA teams/cities, will be examined and evaluated to determine where Vancouver's opportunities and threats lie in running a successful NBA franchise.

### **2.3.1 Explanation of Chosen Competitors**

To get a true sense of how a Vancouver franchise would fair in the NBA and in obtaining a relocation franchise, a comparison must be made to other markets. Existing NBA markets were used because success as an NBA city is the ultimate determination as to whether a team will thrive and remain in a market or have to move; existing markets also provide credible comparative data. To present a sound comparison, four cities were examined that have employed varying strategies, had varying successes and exist in varying markets. The competitive analysis includes: a team who has the highest team revenue- the New York Knicks, the only Canadian franchise-the Toronto Raptors, and a team who is in peril and near the bottom of team revenue- the Milwaukee Bucks. Team revenue is defined by the Forbes Sports Team Vanity Index, which measures revenue net of arena revenues used for debt payments (NBA Team Valuations, 2008).

### **2.3.2 New York Knicks**

In 2008/2009 the New York Knicks drew 790, 801 fans, which is 97.6% of capacity and the seventh most in the league. In 2008, according to Forbes, the Knicks were the highest grossing team with revenue of \$208 million, and has the highest value at \$613million. New York is the most heavily populated city in North America. It has

always been known as the greatest sports town, with no shortage of basketball fans in the city and surrounding area.

Madison Square Gardens (MSG) is 31 years old, and has been renovated several times. Despite recent talks about building a new stadium, it appears that instead, M.S.G will undergo major renovations estimated at \$500 million, in time for the 2010/2011 season (Madison Square Garden: The Renovation, 2009). There is no remaining debt on the building.

The Knicks have not had much on-court success lately, winning only 34% of their games the four seasons prior to last (New York Knicks Valuation, 2008). Although there is a new coach, general manager and renewed optimism in place the Knicks are still not currently a play-off team. However, attendance remains strong and a premium is charged for tickets. This is likely a product of the enormity of the New York market and the historical clout that the Knicks hold.

Cablevision is the current owners of the Knicks. This company also owns the NHL's Rangers, WNBA's Liberty, Madison Square Garden, the regional MSG network and a few other prominent entertainment venues in New York. (Van Riper, 2009) Despite having much of the New York sport's market under its umbrella, Cablevision has been thought to be shopping its MSG franchises amidst struggling share prices. Whoever owns the Knicks going forward, it is a certainty that they will have deep pockets in order to purchase and run this franchise. The Knicks have a plethora of major corporate sponsors including Coca Cola, T-Mobile and Continental Airlines.

### **2.3.3 Milwaukee Bucks**

In 2008/2009 the Milwaukee Bucks drew 630,976 fans, which is 82.2% of capacity and the 24<sup>th</sup> (out of 30) most in the league (in comparison, if the Vancouver franchise were to sell 82.2% of its capacity it would have drawn 657, 440 fans). In 2008, according to Forbes, the Bucks had the second lowest revenue at \$94 million and had the lowest estimated value at \$278 million. “The Milwaukee Bucks are near the bottom of the league in revenue thanks to playing in an antiquated arena in one of the NBA's smallest markets” (Milwaukee Bucks Valuation, 2008). Although the team plays at the 21-year-old Bradley Centre nearly rent free, the arena lacks the suites and glitz that translates into revenue.

Team owner Herbert Kohl, founder of Kohl’s grocery and department stores has owned the team since 1985. A US senator since 1988, he is now 74 years old and it has been speculated that he is entertaining potential suitors for the Bucks (Library, 2009). The lack of a present day arena, along with the small market in Milwaukee, does not make this franchise a certainty for continued existence in this city; it is a potential candidate to relocate.

Despite the fact that basketball is a very popular sport in the area, the population of Milwaukee is only 628,000, approximately ¼ of the Greater Vancouver Regional District. Although the team has a few prominent sponsors such as Miller Brewing co, and PepsiCo, the team has not had a winning percentage over .500 in six years and has only won one championship in the franchises 31-year history. The other professional sports team that calls Milwaukee home are the MLB’s Brewers; but the Bucks are the only winter season team.

### **2.3.4 Toronto Raptors**

In 2008/2009, the Toronto Raptors drew 769,707 fans, which is 94.8% of capacity and the 10<sup>th</sup> (out of 30) most in the league (Milwaukee Bucks Valuation, 2008). In 2008, according to Forbes, the Raptors were tied for the 10<sup>th</sup> highest revenue at \$138 million and an estimated value of \$400 million.

The Raptors play at the Air Canada Centre, which opened in 1999, which is still considered a high end, state of the art arena. The Air Canada Centre still has \$40 million of debt owing on it, but is also home to the very popular Toronto Maple Leafs. As far as major professional sports goes, Toronto is home to the Leafs, and the Blue Jays. The city of Toronto has approximately 2.8 million people, with 5.5 in the Greater Toronto Area. It is traditionally a very hockey laden market in a hockey-laden country, however, the popularity of basketball has soared in recent years and a large and strong fan-base has developed.

“The Raptors are part of Maple Leaf Sports & Entertainment, which also owns the NHL's Maple Leafs and Air Canada Centre and is among the most lucrative enterprises in professional sports” (Toronto Raptors Valuation, 2008). Toronto has gotten through the struggles of expansion and has had some on court success the past decade, making the playoffs five times and regularly dressing a competitive team. The Raptors have had a few star players dawn the Raptors jersey including Vince Carter, Tracy McGrady and now Chris Bosh.

### **2.3.5 Competitive Analysis Overview**

Based on the competitive analysis, it is clear that Vancouver has some opportunities and promise when it comes to succeeding in the NBA. Perceived ability to be a successful host city is of the utmost importance to the league when deciding whether to approve the relocation of a team.

In table 2.2, New York, Toronto and Milwaukee are ranked and compared to Vancouver on the aforementioned key success factors. Opportunities exist where Vancouver scores higher or at least as high (Vancouver competes well). Threats exist where Vancouver scores less well (competitive threats). A discussion of the results will follow.

Table 2.2 Competitive Analysis Overview

The KSF's are ranked on a scale of 1-3 (3 being most important) and the competitors are ranked on a scale of 1-5 (5 being very good at the KSF, 1 being not very)

Key Success Factor	Import-ance Scale	Van.	NY Knicks	Mil. Bucks	Tor. Rap
<b>To be a Successful NBA city</b>					
An owner with deep pockets, willing to spend money to be successful on and off the court	3	5	5	2	5
Effective marketing	3	3	5	3	5
Large and strong enough economic and corporate environments	3	3	5	2	5
Must have a differentiated product	3	3	3	5	3
Large basketball fan base	3	2	5	2	3
Having a viable, NBA ready arena built	3	5	5	1	5
Effective Currency Hedging	2	4	5	5	4
Having sufficient access to the cities distribution channels	2	3	5	5	3
Having a star player	2	1	1	2	4
Amicable relationship between the league and the government	2	4	5	5	4
Experienced operations staff	2	5	5	3	5
Operating as part of a sports cluster rather than solo	1	5	5	5	5
Good at attracting free agents/ luring players	1	1	5	1	4

### 2.3.6 Opportunities for Operating a Successful Franchise

An owner with deep pockets, willing to spend money to be successful on and off the court

Once a team is relocated, the costs to run a team are varied and numerous. There are significant front-end costs from the initial marketing and branding push that must be made to generate the excitement, awareness and sales when the franchise is beginning in the new city.

Payroll, examining the salary cap provides insight into the biggest cost of an NBA franchise. It is up to the individual team if they want to spend up the cap; however, it has

been proven that being competitive requires a team to spend at or close to the cap. The salary cap projected this past season and projected over the next two years is as follows (the decline exists as the cap is tied into league revenue, expecting to decline with the economic recession) (Sports Post, 2009):

- '08-'09 - salary cap \$58.68M - luxury tax \$71.15M - current
- '09-'10 - salary cap \$55.75M - luxury tax \$67.59M - projected 5% minimum decline
- '10-'11 - salary cap \$52.96M - luxury tax \$64.21M - projected 5% minimum decline

The NBA's salary structure is very complicated with many exemptions and loopholes that only serve to increase player spending even further. In addition to player costs, there are significant costs to employing the front office as well as numerous lower level employees.

Another significant cost of running a team is the building lease. This lease has great variability, and can be anywhere from zero to \$1.49million/year that the Oklahoma City Thunder are paying to the city to play in the Ford Centre. If the owner of the team also owns the building, he likely still has debt on the building, which can be worked into the books of the team's expenses.

With the salary cap in the mid \$50 million, player salaries dictate significant annual expenses. Front office staff, arena debt, tax and marketing costs also add significantly to the cost of running a franchise. Having a second team playing in the same arena in concurrent times of the year reduces some operational costs; however, having another team occupy that space adds cost.

It has not been confirmed that he is interested in securing an NBA team; however, Vancouver has a very reputable, rich, businessman in the community that already owns the Vancouver Canucks and GM place. As discussed, owning a second major

professional sports team in the same city makes good economic sense, especially if it doubles the days that the arena is in operation. With a real estate empire estimated to be worth about \$5 billion, (Hutchinson, 2009) Francesco Aquilini has been speculated to be interested in building his local sports empire with the addition of an NBA team. The past failures for basketball in Vancouver have made the city an unlikely destination for an owner wanting to retain ownership but operate in another market. Instead, it would need to involve the purchase of the team from a local ownership group and relocation. This scenario allows more optimism for Vancouver than simply hoping for another owner to choose Vancouver as a home. It appears that Francesco Aquilini may fit these lofty requirements of an NBA owner.

Examining specifically an owner's commitment to winning, two out of the three teams being used for comparison have had several consecutive disastrous seasons in terms of on court performance. Whether it be from being complacent and trying to rush success and instantly buy a winner rather than having a sensible development plan (Knicks), or not being able to afford or attract talent instead choosing a cost based strategy (Milwaukee), there is an opportunity to gain an advantage over several teams in this area. By having a skilled management team take a strategic and resourceful approach to winning with the backing of a committed owner, the Vancouver franchise has an opportunity to perform better than many of the league's teams. As is evident by the New York Knicks, winning is not necessary to be a financially successful team; but for an exponentially smaller market like Vancouver with the sting of the Grizzlies still lingering, it is much more important.

In comparison to the Milwaukee Bucks with an uncertain ownership situation, Vancouver has at least one prospective, local owner who would be a great fit for NBA. This is a key opportunity for Vancouver to potentially poach the Bucks out of Milwaukee. An owner's willingness and ability to spend money to market, and produce a winning product is key for an NBA franchises success; Aquilini's interest would consequently present a huge opportunity for Vancouver.

#### Having an NBA-ready arena built

Compared to a market like Milwaukee who needs a new arena, Vancouver has a large advantage and opportunity in regards to this KSF. Not only does Vancouver not have to deal with trying to secure financing from private and public sources, but it also does not have to deal with the lag time needed to actually construct an arena.

#### Timing

This KSF relates to the chance of a franchise being up for the plucking, even though not necessarily for sale. As discussed, the Milwaukee Bucks are in a vulnerable position and could be obtained should the right offer come available.

#### Operating as part of a sports cluster rather than solo

The fact that Vancouver has a major professional sports team, especially one playing during the same season presents clustering advantages and a more appealing ownership investment. Milwaukee has the Major League Baseball's Brewers in town;

however, the opposite seasons of play and lack of shared arena cause a failure to fully capitalize on the benefits of a sports cluster.

### **2.3.7 Threats for Operating a Successful Franchise**

#### Effective currency hedging

Even if the Canadian dollar is worth only 5 cents less than the US dollar, paid out over millions of dollars this presents a disadvantage to the Vancouver. Management must successfully hedge against a falling Canadian dollar; but this is a threat as there is inherent risk and chance involved; as a result, the American markets are at an advantage.

#### Effective marketing

Marketing is key to selling a team to a city's potential fan base. One of the reasons the Grizzlies failed in Vancouver is because the team was not marketed as a unique, world-class product and much of the prospective demographic was not targeted effectively. It can be assumed that the new management team can learn from the past mistakes, but the importance of succeeding from a marketing perspective is vital and not proven in this city. Canadian sports marketing experts that have had success with the NBA in Canada must be used; this will have to come from the Raptors organization.

#### Large and strong enough economic and corporate environments

Compared to markets like New York and Toronto, Vancouver lacks the local corporate sponsorship and support potential that these bigger markets have at their disposal. Especially in uncertain economic times, an NBA city needs a greater abundance of corporate support.

### Must have a differentiated product

Due to the abundance of entertainment options, including major professional sports teams in Toronto and New York, it is a challenge to differentiate NBA basketball over these other options. Although Vancouver only has one other major professional sports team, it is a very popular one and there is still a number other entertainment options available in the Vancouver area, including many outdoor pursuits. Vancouver has not proven its ability to differentiate this particular product.

### Large fan base for this particular sport

A huge threat for Vancouver is not only the size of their market, but also the lack of basketball popularity in this market. Vancouver is a smaller city than New York and Toronto, and although four times bigger than Milwaukee, it has a much less established basketball fan base. Although a strong hockey city, basketball's popularity is growing, however for the time being the lack of a large basketball fan base is a major threat to success in this market.

### Having sufficient access to the cities distribution channels

Unlike in New York, Milwaukee and most American markets, the NBA is the number one winter sport, at least from the end of January on. In the Canadian markets hockey rules the day and often dominates the conversation and media coverage. After fourteen years in the league, finally the Raptors are gaining better access to distribution channels, but not even close to the Leafs. This is certainly a threat in Vancouver.

### Having a star player

As there are a limited number of true stars in the league, it is very difficult for a team to draft one, to trade for one, or to lure one as a free agent to your market. With a smaller market, drafting becomes the best opportunity to find and keep a star player. Toronto has done a good job of this, but it is a threat, as many other markets have not.

### Good at attracting free agents/ luring players

Based on the isolation of the market and misconceptions of what it's like to play basketball in Canada, Vancouver has had and will continue to have problems convincing players that it is desirable to play basketball in this city. With free agency and the power that players have in deciding where they want to play, small markets like Milwaukee and remote, relatively unknown cities like Vancouver will struggle to fill their roster out as desired. Toronto struggled in this area for many years before finally creating an identity for themselves in attracting top international players, and overpaying when necessary to be able to dress a competitive team.

### **2.3.8 Summary of Opportunities and Threats**

The success of an NBA franchise can be attributed to the strength of ownership, marketing, size of the market in terms of fan and corporate support potential, and a modern arena. Although having a winning team is important, it appears that if the market is large enough, even a struggling team can be very profitable.

### **3: Conclusions**

#### **3.1 The Success of Differentiation vs. Cost-based Strategy in the NBA**

Based on the competitive analysis and precedence in the NBA, the strategy that has been successful for both relocation and running a franchise is a differentiation strategy.

From a relocation aspect, it is worthwhile to look at the cities of Louisville and Oklahoma City to determine the appropriate strategy for obtaining a team. Louisville Kentucky's only large scale basketball suitable arena, Freedom Hall has a capacity of nearly 19 000, and is one of the country's legendary sporting venues, however, it is 53 years old and lacks the current amenities needed to make sustain revenue for a large-scale professional franchise (Facility Information, 2002). The lack of a modern day arena or plans to construct one has been the biggest reason that Louisville has been rejected four times while applying for a relocated team. Louisville has exhibited characteristics of cost leadership by failing to address this major obstacle. Financing and building a new arena and then using that as leverage to secure a team would constitute a differentiation strategy; however, they are trying to sell their existing arena as adequate for the time being as they continue to work to eventually build a new arena.

A city like Oklahoma City on the other hand exhibited more of a differentiation strategy in trying to obtain an NBA team. The group that was applying for relocation in this city jumped at the opportunity to host the New Orleans Hornets for a season while clean up from Hurricane Katrina was occurring. They had an arena in place and an

owner who aggressively took any chance at demonstrating that it could support a major league franchise, amidst questions as to whether it was a big league city. Rather than passively hoping to be selected for the home of an NBA team, they enacted a pull strategy, convincing the league that they needed to be accepted in the NBA family. The Oklahoma City Thunder now play in the NBA, Louisville has no team. Vancouver has the NBA ready arena, but the ownership group would need to be more aggressive, as was Oklahoma City in demonstrating to the league that it has the level of commitment and passion to once again host an NBA team.

The operation of a franchise also requires enacting a sound differentiation strategy. In a market as big as New York, it is easy to pursue a differentiation strategy, as cost is not a big issue. With a fan base this large and well established, the differentiation strategy can be quite relaxed as far as marketing, innovation and even the skill of the management (as evidenced in the Isiah Thomas era) goes. In this market, the team can be one of the worst teams in the league and still charge a price premium in a very competitive environment.

In more typical markets such as Milwaukee and Toronto, varying degrees of differentiation have served to be a stronger determination of success. The Toronto franchise has had an owner that has been inclined to spend money to differentiate the team from the Maple Leafs, Blue Jays, Toronto Football Club, and the host of other entertainment options in the city. Rather than undercutting the other options on price and attempting to limit the costs of the team, Maple Leaf Sports and Entertainment has spent money marketing the product, developing the entertainment value of the games, and bringing players to Toronto that will be a good fit in the community and team chemistry.

The dominance of hockey in the city, and the major substitutes in the market, has forced the Raptors had to develop a value added, unique product that draws fans to support the team, regardless of the price. The Raptors have been innovative in branding themselves as “Canada’s team” and pulling in a market that had not had experience with NBA basketball, showing them the value in this product. Vancouver has an opportunity and potential to enact a similar strategy to the Raptors and is capable of having similar successes in doing so. There was nothing done by the Toronto team that could not be replicated and adapted with similar results by the Vancouver franchise.

Milwaukee on the other hand exists in a smaller market, with less competition. The lack of competition and the presence of a loyal fan base have caused the owner of the Bucks to adopt the typical small market franchise strategy of being a cost leader. This strategy involves trying to be competitive by keeping player costs down. The biggest cost to the team has been minimized by building through the draft, maintaining a young roster with hope to re-sign talent that has been developed once they reach free agency. In addition to player costs being kept low, the arena is outdated and plans of a new arena have not materialized. Although this strategy allows for costs to be kept low, it also severely limits the revenue potential of the team. The Bucks have the second lowest revenue in the league because of the limitations of this cost-based strategy in the NBA. The money being saved on salary was costing the team wins, which costs the team some fans and support, which costs ticket and television revenue. The money being saved by not building a new arena was costing the team corporate revenue (from suites and sponsorship), hurting the bottom line and preventing the team from being able to lure talented free agents. This strategy, although effective in staying afloat for a limited time,

will have no long-term sustainability and ensures that Milwaukee will continue to be at the bottom of league revenues and team value.

A cost-based strategy must not be looked at as a completely wrong way to run a team, as it has provided success in certain situations in professional sports. In smaller markets where there are less substitutes, or markets with a historically strong and loyal fan base, a cost savings strategy towards marketing and promotions is sufficient to attract sufficient support. A cost-based strategy towards team management has seen success with teams drafting well, and making sound, well-timed personnel decisions. In baseball, teams like the Tampa Bay Rays and Minnesota Twins have had success by putting together a nucleus of young, relatively low paid developing talent that when combined with the right style of play has beaten differentiation-based teams like the Yankees.

Putting together a winning team starts similarly in basketball to baseball, but has a necessary, quick evolution. In the NBA, teams that have had recent success like the Los Angeles Lakers and the Miami Heat have had their success by being cost based teams at one time, when they were rebuilding; allowing them to draft superstars like Dwayne Wade and Kobe Bryant. However, without giving these players substantial contracts and spending money to bring on additional supporting talent like Shaquille O'Neal and Lamar Odom, these teams would not have had the same level of success. A cost-based strategy, such as the one being used by the Oklahoma City Thunder has helped them add significant pieces to their franchise such as Kevin Durant and Russell Westbrook. This team will have some mid-level success over the next few years; however, without using a differentiation strategy and securing their young stars to long-term contracts, and adding some veteran talent, this team will never have a chance at winning the championship.

The Vancouver franchise, as identified by the key success factors, has a chance to develop a winning team in this way.

Since the Vancouver market is the focus of this analysis, another franchise strategy that should be looked at is the failed Vancouver Grizzlies. The Grizzlies employed elements of both a cost and a differentiation strategy to form a mixed hybrid that ended up being very ineffective. Bringing professional basketball to Western Canada, where it had never been before required a high level of innovation and flexibility and a pioneering brand of pull marketing. The management seemed to recognize this; however, due to the costs of properly implementing this strategy, it was not executed effectively. The league record setting \$125million dollar expansion fee, along with a very poor Canadian dollar made an effective differentiation strategy a challenge. To make up for the aforementioned costs, the team followed a cost based strategy in other areas of operation by having a very centralized organizational structure, which left a lot of power in the hands of the General Manager Stu Jackson. A few bad decisions and being highly restricted by the league policy for expansion teams (as discussed) prevented the team from improving on court performance. Poor performance eventually limited revenues, which caused an even greater pull away from differentiation, which led to more financial peril.

The extenuating circumstances of expansion into Canada seemed to create a need for cost leadership, which, in the NBA, particularly for a new unproven market, leads to the demise of a franchise. The Grizzlies also employed a bit of a focus strategy, trying to tailor their marketing to other specific niche demographics such as the Asian population. The lack of resources and experience in employing this strategy led to an inadequate

effort and failed result. “These strategies are not necessarily compatible with one another... with more than one single generic strategy a firm will be stuck in the middle and will not achieve a competitive advantage” (Porter, 2007). Having this mixed strategy was counterproductive to the benefits of a differentiation strategy, the necessary strategy for being successful in the NBA.

It can be concluded that a differentiation strategy provides the best opportunity to succeed for an NBA franchise.

### 3.2 **In Summary**

There are more obtainable opportunities than limiting threats that exist for the Vancouver market in this industry. Based on the identified key success factors and the identified requirements for an effective differentiation strategy, Vancouver is a very competitive candidate for relocation and would be in a great position to have success as an NBA city. The analysis has not only helped identify which strategy has been successful in the NBA, but has helped identify specific opportunities that Vancouver has the capabilities to enact.

Vancouver should be presented to the NBA as a candidate that has the learning effects, resources, and increased market size to be able to enact a successful differentiation strategy. These factors must be highlighted in conjunction with the existing arena, existing practice facilities, clustering, and suitability for relocation vs. expansion, which allow this differentiation to be less costly and less risky; hence less likely to repeat the Grizzlies failure.

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