Sustainable Growth of Professional Sports Industry: An Upgrading of the Platform

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This paper argues that professional sports creates customer value not only by organizing and producing sports games, but also by facilitating interactions among several distinct groups of customers through a typical multi-sided market with “live games” as the core platform. However, its future development relies on upgrading the “game” platform to a “brand” one, in order to overcome the inefficiencies associated with the old one.

Researchers in industrial organization economics have employed the term “platform” to represent markets with two or more sides. Rochet and Tirole first identified the concept “two-sided market” and offered a clear definition---“a market is two-sided if the platform can affect the volume of transactions by charging more to one side of the market and reducing the price paid by the other side by an equal amount; in other words, the price structure matters, and platforms must design it so as to bring both sides on board.” (Rochet and Tirole, 2006). Evans and Schmalensee (2007) contended that a multi-sided market requires the existence of at least two distinct customer groups, which are indirectly connected by cross-side network effects (externalities), and these externalities cannot be sufficiently internalized. The emerging literature on multi-sided markets mainly focused on how to encourage access to a platform for distinct groups of buyers or sellers via pricing policy (Armstrong, 2006; Caillaud and Jullien, 2003; Evans, 2003; Rochet and Tirole, 2003, 2006), and the anti-trust issues related to multi-sided platforms (Armstrong, 2006; Evans, 2003, 2011). The application of multi-sided market theory in sport management realm is quite limited, and mostly focused on the same issues such as building professional sports leagues as multi-sided platforms (Budzinski et al, 2011; Dietl et al, 2012); sport organization’s pricing policy (Christoph et al., 2008, 2010; Budzinski et al, 2011; Jorgensen, 2015; Dietl et al., 2012); how cross-side network effects influence competitive balance in a sport league (Sang and Kwon, 2008; Dietl et al., 2012); and anti-trust policy (Eichhorn and Sahm, 2008; Budzinski et al., 2011; Mehra and Zuercher, 2006; Lyons, 2009).

All the multi-sided market (platform) literature (include applications in a sport context) up until now has treated the “platform” itself as a taken-for-granted constant and looked into the dynamics of the value networks built around it. The current paper questions the invariable characteristics of the platform implied in the multi-sided market literature. Platform upgrading could be yet another effective strategy for platform organizations such as professional sports leagues to satisfy all customer sides besides pricing and cross-subsidization.

For instance, Professional sports creates and delivers considerable value to its distinct customer groups—the fans, television and other media, and corporations that interact with the leagues and teams (Mason, 1999) through a typical multi-sided market built around the “live game” as the foundational platform. The fans watch the game in pursuit of the core product of professional sports—the uncertainty of the game (Mason, 1999). The media companies and corporate sponsors have no interest in the game, or “uncertainty of the game” (Mason, 1999); they pay to enter the “game platform” to interact with the sport fans and redirect the fans’ attention towards their own products. The game-based multi-sided market is an effective system to generate value for each actor including the league itself. However, there are some inherent imperfections about the “game” platform such as the limited amount of games that could be exploited, the short time period of the game itself, and the uncertainty in delivering the proposed value to the customers. These issues cannot be addressed by simply seeking solutions in improving the efficacy of the value networks surrounding the platform. In contrast, as will be discussed in this paper, the relative “open-endedness” of the “brand” platform will finally promote the whole multi-sided market to an industry ecosystem (Gawer and Cusumano, 2014), which has much richer network connections among more stakeholders and better opportunities to form positive feedback loops (Gawer and Cusumano, 2014). Those could be the key to the future sustainable development of professional sports industry.

The implication of this research is that to a multi-sided market, the upgrading of the core platform is not only
necessary and possible, but will also propelling the evolution of the whole multi-sided market to a much complicated industry ecosystem. I believe this conceptual work opens plenty of opportunities for future research. For example, empirical research is needed to test this theoretical model of platform change. Also, in order to contribute to the body of knowledge of the platform theory, research could be undertaken in other industrial contexts so the universalizability of the “platform upgrading” theory could be tested. Future research could also try to detect the negative effect of an upgrading due to the degree of complexity of an ecosystem and the tension among different stakeholders of an ecosystem (Bengtsson and Kock, 2000; Brandenburger and Nalebuff, 1996; Gnyawali and Park, 2011; Ketchen, Snow, and Hoover, 2004).

The contribution of this research is twofold. First, to add to the platform theory, I tried to argue that looking into the networks surrounding core platform alone cannot answer the inevitable strategic questions of platform evolution, the upgrading of the core platform itself can be more profound and effective, and will possibly cause the ensuing upgrading of the whole system. Second, in relation to sport management research, I analyzed the necessities of a platform upgrading by pointing out the “loopholes” in the present one and how certain features of a brand-based platform could be perfect “patches” for the system upgrading.