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THOUGHT LEADER

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BY CHRISTOPHER VOLLMER AND DANIEL GROSS

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Photograph courtesy of the National Basketball Association

Adam Silver is one of the longest-tenured team members in the National Basketball Association. But he doesn't spend much time on the court. In more than 26 years, Silver, who briefly practiced law before joining the league in 1992, worked his way up from a role player into a key architect of the league's expansive and successful strategy.

In an age of cord cutting, constant distraction, and rapidly changing media and sports habits, professional basketball has bucked many trends. Television ratings are up by double digits so far this season, and attendance has set records for four years straight. Relations with the players' union are relatively placid. NBA players compete with global soccer stars for the largest social media followings. The league has encouraged players such as LeBron James and Steph Curry when they assume vocal roles in politics, culture, and social action. Deep-pocketed owners, many of them business titans in their own right, have been pushing prices for franchises ever higher. The Houston Rockets sold in 2017 for US\$2.2 billion, and the Brooklyn Nets recently sold 50 percent of the team at a valuation of US\$2.3 billion. The quality of play sets the global standard.

The NBA also occupies a unique and growing role in the entertainment and media world. Beyond being one of the biggest providers of sports programming, it has expanded its lines of business into adjacent areas: the WNBA; the NBA G League, a developmental league; the NBA 2K League, an e-sports league based on the NBA's video game NBA 2K; NBA League Pass, a popular video streaming service of live games; and a host of experiments with leading technology platforms including Facebook, YouTube, and Tencent.

Few executives have greater insight into the strategy and business surrounding basketball than Silver. Before being named commissioner in 2014, he was deputy commissioner and COO of the NBA for eight years. More significantly, the evolution of the NBA under Silver is testimony to the ways in which fan-based businesses can thrive at the confluence of sports, media, entertainment, and technology.

In the spring, Silver sat down with Christopher Vollmer of Strategy&, PwC's strategy consulting business, and Daniel Gross of *strategy+business* to discuss the NBA's growth and future prospects.

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S+B: When you look out three or five years from now, what will be most different about how fans experience the NBA compared with today?

SILVER: In the next three to five years, my sense is there will not be a dramatic change. [The fan experience] will still largely be through conventional television: broadcast, cable, and satellite. And that's because we are a live product. Fans will need to watch us live. But changes are happening every day in our live presentation. We are constantly looking for ways to create more engagement in our arenas.

Not many years ago, some teams were making an advertent decision not to provide robust Wi-Fi [in arenas], because the view was “we want fans to be pay-

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ing attention to our game rather than looking down at their phones.” Now, of course, there's the realization that it would be like refusing to put oxygen into the arena to turn the Wi-Fi off. Teams are looking to engage fans on those devices *while* they're watching the games.

The programming adage of our teams used to be that every minute

matters. They now understand that every *second* matters in terms of garnering the attention of the fans in the arena. So the in-game experience has received enormous additional focus, including better-quality food in the arenas, upgraded seats, high-quality and much larger arena boards, and better audio systems. The

teams have been very effective, to the point where we're coming off the highest attendance in the history of the league.

S+B: Your television ratings are also up, which is sort of against the trend, and your audience really isn't aging as much as that of other sports. What do you attribute that to?

SILVER: I attribute it to the fact that our players, because they are young people themselves, are so highly attuned to other young people and to popular culture. There have been times in this league when it's worked to our disadvantage. But we've caught a wave. The players enjoy being the multidimensional people they are on social media and demonstrating to the public and to their fans that they are more than just basketball players, that they have points of view about what's happening politically, that they have particular fashion tastes and music tastes.

There's also an advantage that our sport has in that NBA players are fully visible to fans. They're wearing shorts and tank-top jerseys. They play offense and defense. Our stars are essentially on the floor for the entire game. There's no other sport like it where fans who sit courtside can even come into physical contact with the players. The players are used to that sort of proximity. And we've successfully begun to translate that to social media. The challenge for us is replicating that courtside seat for people who will never set foot in an arena.

S+B: A lot of those elements you just mentioned are embedded in the structure of the game. But how much of this is a function of the league's intention to cultivate social media?

SILVER: We promote the posting of our highlights. The highlights are identified through YouTube's software, and when ads are sold against them, we share in the revenue. We analogize our strategy to snacks versus meals. If we provide those snacks to our fans on a free basis, they're still going to want to eat meals — which are our games. There is no substitute for the live game experience.

We believe that greater fan engagement through social media helps drive television ratings.

S+B: It also seems that the NBA has a less contentious relationship with players and encourages them to be engaged in social media in a way that other sports might not.

SILVER: In this league we recognize that the players are the stars, and we treat them as our partners. The fact that the league has their backs when they put themselves out there doesn't necessarily mean we agree with everything they say.

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But we want them to know that political speech is protected in this league.

Twenty-five percent of our league is made up of players born outside the United States and who often come from countries where free speech is not permitted. It's especially important

that those players understand that when they play in the NBA, they get all rights afforded to U.S. citizens. It's become part of our brand, in essence, that there is an expectation for our fans, even some who don't agree with a particular point of view of a player, that this is a platform in which players should feel comfortable expressing themselves.

The 2018 Los Angeles All-Star game was the 55th anniversary of the first All-Star game we played in Los Angeles in 1963. That year, Bill Russell, who was also with us at this All-Star game in 2018, was the most valuable player. His Boston Celtics went on to win the championship in May 1963, and that August he stood on the steps of the Lincoln Memorial when Dr. Martin Luther King gave his “I Have a Dream” speech. There were lots of people who felt that he should stick to basketball and questioned why he was using his celebrity as a player to promote a particular political point of view.

When the controversy came up around LeBron James during our All-Star game with Fox News [a Fox News host, Laura Ingraham, suggested that James “shut up and dribble” instead of talking about politics and social issues], it was an opportunity to show a through line that exists directly from Bill Russell to our modern players.

S+B: The NBA’s current television deal of nine years and \$24 billion demonstrates that the big broadcast partners are a huge source of revenue. At the same time, as habits change, you have to invest in and own some of the channels that distribute your programming. How do you manage that tension?

SILVER: We manage it by doing so in partnership with our largest media partners, ESPN and Turner. Turner is our partner — our co-venturer in NBA Digital, which is operated out of the Turner facilities in Atlanta. We co-create the products, whether it is the NBA app or NBA.com or NBA League Pass. The honest answer is we’re studying it very closely and are uncertain about the future.

On the one hand, we have built an enormous global social media community. We estimate roughly 1.4 billion people are connecting with the NBA in some way. And on the other hand, our [TV] ratings are up. Whether that will always be the case, I’m not sure. And although the social media platforms have been a new revenue stream for the league, it doesn’t come anywhere near our conventional media deals.

One of our strategies has been to embrace experimentation with all these different platforms. Whether it is Facebook or Twitter or YouTube, we’ve told them:

We have a lot of content; let's try new things. We can't stream games with Facebook in the United States because we're precluded from doing that by our other media deals. But we're not precluded from doing so in most other countries. As an example, we've experimented in India with streaming games through Facebook.

Also, these over-the-top platforms aren't just thinking about taking the conventional productions that you see on cable and satellite and repositioning those streams on the platforms. They're instead thinking about what advantages their technology offers, and how they can find new and better ways to present the games that lead to potentially even more engagement from the fans.

S+B: The availability of sports is a big reason people continue to subscribe to a larger bundle of conventional video and television. But there are now many more ways to get that content — DirecTV Now, YouTube TV, Sling, and Hulu Live, among others. How are you thinking about the life cycle of the traditional pay-TV bundle and what that means for where the NBA needs to be available to fans?

SILVER: It's still important to us that people pay for premium content. And as far as I know, the partners who have our rights — ESPN and TNT — have no plans to distribute their programming on platforms that don't collect subscriber fees. The size of the bundle may change. Longer term, we're already in a direct-to-consumer business through NBA League Pass. But we're not in a direct-to-consumer business with our most valuable content, like our playoffs and our finals. I think there's going to be a lot of studying in the league office over the next five years as to how direct a relationship we should have with consumers.

It's not clear that it will be in our interest in the medium term — call it 10 years — to disintermediate these really important partners we have right now. And even a decade from now, it still may make the most sense for us to be primarily a licensor of our most valuable content. So many other forms of programming have become commoditized. But not live, premium sports, which are incredibly difficult to replicate and which will allow our partners to differentiate their services in a crowded marketplace.

S+B: Where are we in the life cycle of the NBA's global growth, and specifically in China?

SILVER: We're just scratching the surface. There's a sense that the NBA brand means something larger than just basketball in China and India and throughout the continent of Africa. And we're in the process of exploring what kinds of related businesses we can move into. Tencent is our largest partner in China. It operates a direct-to-consumer business, and it is offering a package of hundreds of games directly to fans.

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We've learned that we need to get more directly involved in the development of players outside the United States. Our business was fairly popular in China before Yao Ming entered the league, but there was a huge uptick in popularity when he became a player. Even after he retired, however, [our

popularity] continued to grow. Through Yao Ming we were able to introduce tens of millions, if not hundreds of millions, of Chinese people to basketball and the NBA. Historically we were more passive in terms of the development of that next generation of international players. Huge numbers of people are playing basketball — we're the number one participation sport in China right now. But

unless they take the elite players at a young age and give them the opportunity to play against other elite competition and get trained under high-pressure circumstances, they will not develop into NBA-caliber players. We've opened up three academies in China. We just opened an academy in India, and in Africa, and in Australia. If, over time, we can help train and develop other great players in these markets, it'll have a huge impact on the interest in our business.

S+B: But the games can only be played — and watched — in U.S. arenas during the season. Doesn't that limit the capacity for audience expansion?

SILVER: Because we're primarily a media property, we can scale in an almost unlimited way. The U.S. is less than 5 percent of the [global] population. As the popularity of our game grows outside the United States, in order to reach more viewers it may make sense to start playing at different times. I could see each team once a month playing an afternoon game, for example, when it's prime time in Europe, or potentially playing a weekend morning game so we are in prime time in Asia. But it's not just about the games. To the extent that the NBA brand stands for integrity and fitness and high values, then the question is, are we a lifestyle brand? Are we a fitness brand? I don't think anyone was predicting that Apple's primary product would be a phone when it launched its computer. We have a really smart and aggressive group of owners in this league who have a lot of experience building businesses globally.

S+B: Another potential revenue stream is participation in legalized betting. How does that fit into your thinking about growing engagement around the sport, and growing revenue for owners and players?

SILVER: Before being deputy commissioner and then commissioner, I was president of NBA Entertainment, and I spent a lot of my time traveling outside the United States and selling programming for the NBA. I quickly saw that outside the United States, legalized sports betting is a way of life. Take the Premier League

[English soccer], for example. There were betting parlors in London, and there were betting windows at the stadiums in the middle of the games. Now almost all

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of that betting action is online. In the U.S., the estimates range from \$100 billion to \$400 billion in illegal sports betting annually. It became clear to me that we would be better off with a regulated framework of sports betting, rather than having it all be illegal and unmonitored. And the intellectual property creators like the NBA, which

invest billions of dollars per year creating their product [\$7.5 billion in 2018 alone], should share in the proceeds. Legalized sports betting creates an opportunity to be compensated directly by selling our video and data.

Just as important, as we see from international jurisdictions and from what we know already goes on in the United States, regulated betting can lead to a dramatic increase in engagement. Virtually all of the legal betting outside the United States has moved to what they call in-play. People are making various proposition bets throughout the game: the number of points in a quarter, number of points in a quarter for a particular player, number of three-point shots. Legalized sports betting in the U.S. could lead to a dramatic increase in engagement. And we can better protect the integrity of the league by being able to monitor it.

S+B: What role do you think video games, in particular, play in the NBA’s fan ecosystem? How is their significance similar to or different from, say, what you said about social media?

SILVER: We’ve always believed that, to an extent, young fans become engaged with the NBA through our video games, and by learning about the players and the teams, they’re more likely to want to engage in the live product. We have research demonstrating that. In addition, we think there’s an opportunity to capture a new kind of fan, one who currently isn’t necessarily watching our games on television, but is more of a gamer, and is interested in NBA content and enjoys

playing our NBA 2K game. It's the number one-selling sports title in the U.S., and we know there are millions of players. We saw an opportunity to create a league with our partner Take-Two around our NBA 2K game, using a new set of competitors who are professional gamers. It launches May 1 with 17 of our 30 NBA teams. And it's an opportunity available so far only to our NBA teams.

S+B: What metrics do you look at to determine if your business is succeeding, beyond the obvious ones such as attendance and TV ratings?

SILVER: We look at social media data every day to see how many people are following the league, our teams, and individual players. And we have various measures for whether the commentary is positive or negative. With our online products, like League Pass, we're able to monitor not just sales, but usage. We know how long people are watching those games, and what portions of those games. Through our over-the-top products and our direct-to-consumer relationship, we have ways of measuring interest that just don't exist in our conventional television relationships.

S+B: How do you apply that data?

SILVER: From last season to this one, based in large part on the data we gathered, we changed the format of our game. We went from a possible 18 time-outs to 14 time-outs, we standardized the length of the time-outs, and we shortened half-time by a few minutes. And we made additional changes to the commercial format, because we were able to see exactly where we were losing fans.

S+B: Where were you losing them?

SILVER: Not surprisingly, we lose the highest number of fans when we move off live action, especially at halftime. And we lose fans at every commercial break. So we're experimenting, with Turner and ESPN, with not leaving the arena completely during commercial breaks, and instead having a split screen, where we stay

with the huddle at the same time we show an ad. It's a trade-off for our marketing partners. On the one hand, they'd like the full attention of a viewer. On the other hand, they might prefer to keep all of the viewers and find ways to create connections with their products and engage directly with the game.

Our games are roughly two hours and 15 minutes, but the average viewer is watching for approximately 50 minutes. We know that the most efficient way to increase our ratings is not to find someone who isn't watching at all, but to take those people who are watching an average of 50 minutes and get them to watch 55 minutes. And that's where changes in the presentations — finding other ways to engage fans, creating other data fields for our viewers, or using different audio experiences like player mics, or different camera angles — can help increase our ratings.

S+B: The media world's consolidating. Some of your biggest partners are getting even bigger. Does that have any implications for the NBA?

SILVER: It does. For example, assuming the AT&T–Time Warner deal ultimately moves forward, we believe that the AT&T Mobile know-how brought directly to the Turner–NBA relationship will be incredibly beneficial to us. We know the young demographic is watching the majority of their content now through some sort of mobile device. We have a strong partnership with Verizon. We've been spending time with AT&T on R&D around how to improve the telecast for mobile viewers.

Two seasons ago we created something called Mobile View, where we have

separate cameras in all our arenas that create unique video feeds for mobile devices. We recognize that on a smaller device many users will still want to be able to see the players' faces. In addition, what if a mobile user gets an alert that a game is close, or that Steph Curry is going for 50 points, or that a game is going down to the wire? How do we then provide an opportunity for them with one click to buy some portion of the game that they can watch on their phone? Maybe we'll be able to set the price based on the amount of content consumed rather than selling the entire game for a set price.

We've learned a lot from Tencent, because our games are largely on during the morning in China. Tencent has been very focused on discovery: for example, on how it alerts users that there's an interesting part of the game on, or that a

“What if a mobile user gets an alert that a game is close, or that Steph Curry is going for 50 points?”

player that users have already demonstrated an interest in [through the other highlights they've been watching on their phone] is playing.

We've spent a lot of time looking at Twitch [Amazon's live-streaming platform]. We have a package of G

League games now that is available on Twitch. And we will be streaming games in our new NBA 2K league on Twitch. And a new technology is now allowing us to sync audio coming from anywhere in the world with NBA video. So, if you're watching a game on ESPN, you will be able to sync up audio from anywhere in the world in real time. This allows for play-by-play in any language for every game. Or it may be a different kind of commentary. It may be two celebrities watching the game and sharing their commentary. We're always thinking about how we can replicate the courtside experience for fans who will never set foot in an arena.

S+B: Can you do that with virtual or augmented reality?

SILVER: Yes. For example, we just announced a new partnership with Magic Leap, which is considered a “mixed reality” platform. Whether through mixed, virtual, or augmented reality, we think we can greatly enhance the experience of watching NBA games.

S+B: What does the NBA need to get better at over the next three or four years to take advantage of all the different trends and opportunities we've discussed?

SILVER: We have to spend even more time focused on every second of our broadcast. In some ways we're behind where our teams are in creating that arena experience, in that we're a little bit wedded to the past in how we present our games. Bob Johnson, the founder of BET, when he was the owner of the Charlotte franchise, said watching an NBA game [on TV] is like watching one of the old silent movies. If you're sitting courtside, you hear the referees talking to the players. You hear the players talking to each other. You can often hear the coach talking to the players. How can we bring that richer experience directly to our fans?

S+B: You've talked about algorithms, virtual reality, and R&D labs — which I'm sure were not words that entered the managerial vocabulary of the person who sat in your position 20 years ago. From a talent perspective, how does all this change the type of positions or capabilities or skills you need here in New York in the NBA offices?

SILVER: We've been very fortunate in that we've attracted incredible people here because they love the content so much and they love being involved with the league. In the same way [I think] we attracted [former Microsoft CEO] Steve Ballmer as an owner, and, more recently, Tilman Fertitta, the CEO of Landry's, and Joseph Tsai, the cofounder of Alibaba, as owners.

I have been at the league for 26 years, and over that time, I have seen a shift in skills that are required at the league office. We're enticing applicants with experience working in Silicon Valley, on Wall Street, and throughout industries including retail, community relations, event production, and data protection. From our board of governors down to the teams and the league office, we are constantly trying to develop and maintain best practices that improve the game and the fan experience, whether it's in the arena, on social media, or through sophisticated data analytics. +

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