HOW MUCH IS WORTH MY CURRENT PLAYER'S BASE? CUSTOMER EQUITY MANAGEMENT IN A PROFESSIONAL PLAYER'S AGENCY

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Aim of abstract/paper - research question

Traditionally, players' agents and players' agents companies have made decisions about their represented players based on media reports, statistics or even scouting premonitions, lacking a managerial perspective. The economic revenues obtained from each player, and the costs of acquisition, retention, and player development, are more a desire than a decisional variable. In this paper we aim to develop a methodology to assess and cluster players according to their potential profitability from an international basketball player agency. Following customer equity management principles, we offer guidance regarding when, how much and how to invest in basketball players according to their current and potential value.

Theoretical background or literature review*

Our theoretical background draws from customer equity management practices applied to sport management (Blattberg, Getz & Thomas, 2001). Managing customer relationships implies that customers should not be equally treated, since they differ in terms of profitability. Therefore, managers should make differentiated efforts to acquire, retain, and develop the customers with higher profitability potential, in order to maximize customer equity. Customer equity is defined as "the total discounted lifetime values summed over all of the firm's current and potential customers" (Rust, Lemon & Zeithalm, 2004, p.110). Similarly, customer lifetime value (CLV) has been defined as "the net profit a company accrues from transactions with a given customer during the time that the customer has a relationship with the company" (Rust, Lemon & Zeithalm, 2004, p.113); the idea is to consider each customer as a financial asset, where its lifetime value represent the discounted value of the entire stream of purchases that the customer would make over a lifetime of patronage.

Methodology, research design and data analysis.

Our dataset has been obtained from one of the most important basketball player agency from Spain. They represent mainly players and coaches from the ACB Spanish league and the NBA competition. We have data regarding the income from each player during the years 2009-2012, along with the total costs developed by the agents. First, we use this information to identify how many segments there are in the customer base according to their potential and profitability, combining the income and estimated career length of each player. Next, we use this information to estimate customer transitions along the years, building a loyalty matrix, which include loyalty/churn rates, and player development rates. We predict the customer lifetime value by multiplying this matrix along with each player's margin. Each player margin is assessed by considering the income that each player produces for the company in terms of fees, along with the allocation of the agent expenses (travel, recruiting and maintenance, lodging and meals). Finally, the player's base is the sum of all the player's lifetime values that are represented by the agency at the time (this is, end of 2012, 2011, 2010, 2009).

Results, discussion and implications/conclusions**

Our results have clearly identified three clusters in terms of potential profitability, which we labeled as "stars", "pros", and "base". Essentially, they may well represent the different steps the player goes through along its career… if he is successful (actually very few reach the "star" category). In this regard, results support the customer pyramid present on other industries (Zeithaml, Rust, Lemon, 2001). In our particular case, we have discovered that the agency is good at developing "base" players, but is not doing so well in retaining "pros", which account for a great proportion of their income.

Although the number of players has grown since the beginning of its activity, the total value of the agency's customer base has diminished recently, reflecting the trend of signing lower contracts for the industry, due to the economic crisis and the lack of strong sponsorships for the teams.

We offer some interesting insights to improve the allocation of resources according to our results, that can be extended to other sports organizations.

References

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