

Expanding the Profitability Model of a Sports Agency Based on Win-win Interaction: The Case of Klutch Sports

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Abstract: As the sports industry continues to grow, there is an increasing demand for the brokerage industry in the sports sector. Klutch Sports, an American professional sports agency, has grown rapidly since its creation in 2012, and boasts a number of big-name players, including Rich Pual, the company's founder. Rich Pual is the founder of Klutch Sports, which has negotiated more than \$1 billion in contracts by signing more and more players to high-dollar deals. In July 2019, Unite Talent Agency (UTA) announced the acquisition of part of Klutch Sports and the appointment of Rich Paul is responsible for running the sports division. Through the outstanding ability of the leader and absorbing business talent to form an experienced team to provide players with the company's characteristics of the full range of services, so Klutch Sports has maintained a good momentum of development, from a small company gradually become a strong sports brokerage company. Its operation and development of the company is worth studying and learning from. Klutch Sports agency is used as an example for this study to provide professional sports brokerage firms with favourable information so that they can better and more characteristically combine sports and business, as well as provide greater economic value to the sports industry. This study argues that agencies need to improve to adapt to this era of "player empowerment" and reap the benefits of having the players' interests as their primary goal.

Keywords: Sports agency, operational development, case study, process tracing

1. Introduction

With the rapid development of the market commercialisation and professionalisation of the sports industry, sports brokers play an important role in the sports industry. At the same time, sports brokers have played a driving role in the industrialisation and marketisation of professional sports. Taking professional sports basketball agent as an example, a basketball agent is a person who signs an appointment contract with a basketball-related person or company organisation for the purpose of obtaining a commission for the work. Basketball brokers act as a contracting medium for their clients in relation to professional sports and basketball competitions, and at the same time ensure that their clients maximise their benefits in a wide range of sports-related areas. As the community of destiny of athletes, sports brokers play the role of the pillar of athletes' sports career, the main content of which is to arrange for athletes' business cooperation, manage athletes' personal assets, take care of athletes' daily life and living, and deal with and co-ordinate athletes' private matters. Because of the

value of the impact of the athlete's public relations image is also extremely important, through the use of media to the public dissemination of the athlete in the professional game, training and personal life reports to shape, so that the masses have a good impression of the athlete. Therefore, it is especially important for the agent to maintain the media image of the athlete, and should play the role of a "gatekeeper", with a high degree of sensitivity, using scientific communication methods and means to consolidate and strengthen the good impression in the minds of the public. An athlete's on-court image is significantly associated with athlete sponsor preferences, while off-court image influences athlete commitment and team commitment. The self-brand association is influenced by the athlete's off-court image and mediates the relationship between off-court image and the athlete's commitment [1].

In addition to the personal image of the athlete, the athlete's work in the process of the gatekeeper should also be carried out. During interviews or commercial performances, sports agents need to communicate regularly with athletes, mentioning the current public opinion situation and the bottom line, in order to prevent them from entering the minefield of words. Therefore, sports agents must always pay attention to public opinion, especially in this new media era. In the case of "public opinion storms", agents need to act as "defenders" to prevent the occurrence of maligning athletes and distorting the facts [2]. With the development needs of the market, sports agents also have a very important and positive role in promoting professional basketball, such as the development of basketball market rationalisation and marketing strategies, participation in tournament planning and operation, agency sponsorship rights, the development of basketball-related service products and improve the quality of the product and so on. Sports agents are directly involved in professional leagues, basketball promotions and exchanges between clubs and athletes, matching clubs, basketball association sponsors and advertisers, and have now become one of the actors in the basketball market.

In search for studies on agency operations and agents, most of them focus on the arts, with relatively few studies in the sports field. In reading of the literature related to the professional basketball industry, this paper also found that there are fewer studies on the operational aspects of brokers. The lack of quality information in the market makes it difficult to define the market value of basketball agents in the same way as athletes.

The main research objective of this paper is to analyse the principle and reasons of Klutch Sports' win-win situation by studying Anthony. The case of the trade of Anthony. Davis to the Lakers in 2019, collects relevant data, including interviews, literature and so on. In this paper, this paper analyse these data to describe the case to reveal the phenomenon to draw conclusions, and based on the conclusions to put forward recommendations with reference value.

2. Case Description

2.1. Landmark Events of "Win-win Interaction"

In 2018, Klutch Sports' most important client and Richie Paul's best friend, LeBron. Paul's best friend LeBron James opted to enter free agency and join the Lakers. James (Lebron. James) chose to enter free agency and join the Lakers. In a late December 2018 interview, LeBron publicly recruited Pelicans star Anthony. The NBA giants Lakers are located in the cosmopolitan city of Los Angeles, while the Pelicans are in the relatively small market of New Orleans [3]. In that deal, Richie Paul almost forced the Pelicans to trade Anthony Davis to the Lakers. Richie. Paul made it clear that Anthony. Davis only signed with the Lakers at the end of his contract. Since Anthony. Davis was under contract, and it was against NBA rules to designate a home, so the NBA fined Anthony Davis \$50,000 for the trade. Davis' trade demanded a \$50,000 fine. By suppressing offers from the Boston Celtics and New York Knicks, the Lakers led the Anthony. Probability of Davis' next home. Later in

the season, the Pelicans put Anthony. Klutch Sports and Rich Paul pushed for Anthony Davis to join LeBron. Davis joins LeBron. James and the Lakers.

2.2. Company Profile

Klutch Sports, or KS, was founded by sports agent and CEO Rich. Paul was founded in 2012 and is based in Los Angeles, California. As a Forbes Top 30 sports agency with a clientele comprised of the top athletes in mainstream professional sports, including many big-name players, Olympic champions, and world champions, KS is able to help its clients take full advantage of opportunities in the entertainment, media, and business environments at any stage of their careers. The company also provides strategic support in branding, media, social responsibility, and other opportunities at the intersection of sports, entertainment, and culture. KLUTCH formed a partnership with UTA in 2019. KS operates across a wide range of sports, including the NBA, WNBA, NFL, MLB, and more. KS draws on proven expertise in sports, entertainment, and culture to connect top teams Klutch Sports is a leading sports agent in the United States, in mainstream leagues and connected to global brands.

2.3. Current Status of Development

KS has added two NBA Best XI clients and three first-round draft picks this year. In addition to the typical sports brokerage business represented by transfers and advertisements, KS Sports Brokerage Company is committed to providing its clients with more off-court business opportunities, so as to achieve the goal of comprehensively and deeply developing the commercial economic value of its clients. Specifically, for example, the company will organise clients to participate in public welfare activities to give back to the community in order to increase their social recognition, arrange clients to participate in fashion parties to raise awareness, hold charity speeches, co-agency video game rights, etc., but also provide clients with consulting, sales, sponsorship, naming rights and other related services [4].

2.4. Recipe for Success

The impact and significance of KS's rise as a sports agency that was able to successfully squeeze into the Forbes list within seven years is something to think about and learn from. Firstly, due to the relationship between CEO Rich Paul and NBA superstar LeBron. Paul's friendship with NBA superstar LeBron James. James' friendship, KS can promote its brand through LeBron's fame and connections. Secondly, as the person who accompanied LeBron when he was growing up, Richie. Paul is very clear about what the players think and strive for the best interests of the players, to create exclusive services for clients, put the athlete in the first place is KS unique way, KS will negotiate with the team management contract terms and details, and with sponsors and advertisers, to develop the commercial market for the players. KS can completely reduce the athlete's outside distractions and pressures. KS can be said to have done a great job in this regard. CEO Richie Paul has excellent negotiation skills, and his company is up-to-date on the market, so this makes them more strategic in negotiating with team management to get the best contract terms. In addition, KS also has a very experienced team of commercial talents who can provide players with all-round support, including finance, public relations, law, etc. KS can also provide players with better opportunities for business development and help them build up their personal brands and commercial channels. Over time, more and more players have joined KS.

3. Analysis on the Problems

3.1. Operational Strategy of Klutch Sports

Based on the saturation of the traditional business model, KS has changed its mindset to utilise the existing resources and share them for greater profitability. Resources can be their own sponsors or sports platform resources such as players, stars, etc.

Back in 2006, Rich Paul was one of the key partners in Lebron's company LRMR. The company's philosophy is 'We seek partners, not clients.' They see their customers as partners. The concept of sharing is at the heart of LRMR. For Lebron, he also sees himself as a dominant player in the NBA rather than an 'employee' of the team owner. Lebron is more focused on being his own master than the athlete business partnership endorsement model, using his own resources to acquire equity, IP influence through the NBA and as a player, focus on building personal business IP. Especially in the current internet age, sharing resources has become more in demand and convenient. Lebron's termination of a business partnership endorsement between McDonald's is one of the classic cases, investing in and building the Blaze Pizza chain. Today he owns 17 of the brand's restaurants in the Chicago and South Florida areas. In 2016, restaurant sales increased 83 per cent to \$185 million. In 2017, the restaurant plans sales of \$285 million. In 2022, sales surpassed \$1.1 billion. As a close friend of Lebron, Rich Paul has gone from being a jersey peddler in the early days to being at the helm of KS now. His own resources and operational acumen are limited, so to be able to do a sports agency of this size he was undoubtedly influenced and nurtured by Lebron's team. It is in this way that the same philosophy is reflected in KS's corporate strategy. KS's sincerity towards their customers is quite evident in their competition. They leave no stone unturned in acquiring resources in the sports world, not only for the big names, but KS promises every client that they will get them the best contract from the team. Additionally, it cannot be ignored that LeBron as an IP is often the biggest guarantor of a company's influence and execution. Rick Paul with 14 NBA stars endorsed by him and a total annual salary of \$125 million, Paul is also ranked sixth on the NBA Agent Power Rankings [5].

According to the official website of UTA, in 2019 UTA has partnered with Klutch Sports Group, a top sports organisation founded by Rich Paul, to form UTA Sports. As a transformative new partnership in which KS will continue to operate under its own brand. Paul will also become head of UTA Sports, focussing on building UTA's sports business for athletes in all their professional activities on and off the field. Back in 1991, UTA was founded by Jeremy Zimmer, Peter Benedek and Jim Berkus as United Talent Agents, formed by the merger of the Bauer-Benedek agency and the Leading Artists agency. The merger combines the two agencies' expertise in film and television. In 2015, UTA acquired The Agency Group, the world's largest music agency, making the company a global leader in music brokerage. UTA has attracted investment from private equity firms Investcorp and PSP Investments to support further expansion and has made a number of acquisitions that have enhanced its ability to provide a full range of services to its clients. It can be seen that UTA's size and credentials are far greater than those of KS, and KS's choice to defect to UTA in 2019 is in line with their strategy of shared resource utilization and blurred stakeholder relationships. KS has successfully expanded itself as a result. For UTA, the partnership with Klutch Sports Group allows UTA to enter directly into the business of negotiating athlete contracts and enhancing its sports business with some of the most compelling and challenging sports agents in the industry today. It is an interactive win-win situation [6].

3.2. Team Philosophy

KS always has constructive and honest conversations with its clients, providing them with decision-making power. This is one of the big reasons why KS has stood out in recent years. ‘Player empowerment’ is limited by the interests of capitalist team owners, and when clubs and players are involved in transfers, the demands of both sides will go head-to-head. Team power far outweighs player power, which leads to teams having absolute initiative in renewing and trading their top players or average players, undermining the principle of fair competition in a market economy, reducing player mobility and infringing on players' own interests. This is the reason why player transfer disputes have continued in recent years, and the process of maturing the management system and governance of professional sports has been hampered. The NBA league implements a combination of full free agents and restricted free agents in terms of player contract regulations and transfer systems. The NBA did not start out with a free-transfer system, the development of the relevant contractual legislation as well as the transfer system has undergone a long historical evolution before it has matured. From the original reserve clause system to the free agent system after the 1970s. The league protects the interests of smaller teams by mandating restricted free agency, the Arenas clause, the Bird clause, the salary cap system, balance the interests of players and teams by endeavouring to promote balanced competitiveness among teams [7]. For example, the salary cap system, which is a product of the league's efforts to promote fair play. Its main function is to place limits on the salaries of NBA players so that a team's total payroll cannot exceed a certain amount. The salary cap is the result of one labour negotiation between NBA players and team general managers, a cap that can be obtained by forecasting and calculating the revenue of basketball-related businesses across the league before the start of the new season each summer [8].

Anthony was effectively on the weaker side of the Anthony Davis deal. As the Pelicans' top player, the team has operated weakly and ineffectively for many years and has not achieved anything. Yet Anthony is at the top of his game, 28.1 ppg, 11.1 rpg, 2.3 apg, 1.5 spg, 2.6 bpg in 17-18. These are the numbers of a top All-Star lineman, and as the Olympic champion with Team USA in his rookie season and known by fans as ‘son of America’, Anthony's on-court prowess and commercial value speak for themselves. The Pelicans did not want to let him go so easily, and the NBA rules that prohibit a player from openly recruiting and prohibit a player from naming an underling are designed to protect the interests of the owners, which are the owners of the team, Local fans have also accused Anthony of defecting and labelled him ‘disloyal’, which is certainly not fair to Anthony. Operators dominate the entire league and are rarely blamed for continually milking the athletes, while free transfers of ballplayers are treated with a double standard [9]. KS took a tough stance on the matter and safeguarded Anthony's interests. The ‘athletes first’ philosophy adopted by the KS was another landmark change after the players' union gained the right to negotiate in 1965 [10]. And on a win-win level based on interaction, the Lakers after that cruised to a championship in the 2019-2020 season, LeBron and Anthony profit and the Lakers profit. And the Pelicans get young player assets as well as draft picks. They drafted Zion Williamson with the first pick after that, and as the team's cornerstone, he is being touted as the next LeBron. The Pelicans gained a future, and KS relied on the trade to enhance its reputation and influence, leading more and more players to consider and join the KS banner. It also proves that it is possible to achieve a win-win situation from the player's point of view where the team profits as well as the player as well. The team is reluctant to do this because, as an owner, the goal is to maximize profits and is not willing to have anything to lose [9].

4. Suggestions

In the summer of 2019, the Brooklyn Nets became the focal point of the entire NBA with the addition of Kevin Durant and Kyrie Irving to form the NBA's most offensive duo. With the addition of James

Harden and the comeback of Kevin Durant for the 2020-2021 season, the Nets with the Big Three are already the favourite to win the championship, but the playoff exit led directly to the subsequent breakup of the Big Three. James Harden is out to the Philadelphia 76ers, Kyrie Irving is out to the Dallas Mavericks, and Kevin Durant is out to the Phoenix Suns after constantly pushing management. In this era of 'player empowerment', the Nets have fallen victim to the power given to the players [11]. The power given to players should not override the operating guidelines of commercial leagues and the sportsmanship of professional sports. This will affect the normal operations of NBA teams. And the team owners and the league will do something to counteract that. This certainly intensifies the struggle between the two sides and has a negative impact on the overall interest [12].

Therefore, as the gatekeepers of the players' behaviour and the link between the players and the teams, the agents have more expertise and are better equipped to deal with emergencies. In most cases, the player is acting more from a personal perspective and the results obtained are not always favourable or optimal, so the agency needs to control the power over the player, especially the star player.

5. Conclusion

With the rapid development of sports commercialisation and professionalization, sports agencies have become an important part of the sports industry, and sports agencies are a new pillar in the rapid promotion of the industrialization and marketisation of professional sports. In a business alliance, athletes are frankly just a tool for the operator to make money, and the co-operation between the two parties can only be based on certain guaranteed benefits, once divorced from financial gain, loyalty is nowhere to be found. Loyalty must be mutual and perceived, not unilateral, but often athletes are in a very passive position, both in terms of interest and loyalty. Therefore KS is a pioneer and their philosophy is very informative. There is a need to empower relatively vulnerable groups of athletes to fight for their own interests, and for star athletes to control their power in order to prevent non-compliance or passive fulfilment of the contract by relying on their fame. Agencies need to change their mindset and strategy as soon as possible to reap the benefits of this era of 'player empowerment'. This paper examines Klutch Sports as an example of an agency that needs to change its paradigm in the current era of 'player empowerment', to provide professional sports agents with favourable information that will enable a better and more distinctive combination of sports and business, it also provides greater economic value to the sports industry. It is also hoped that this study will balance the weight of dominating one's career between average athletes and superstars in the future. As the researcher of this paper is located in a different country from the organizations of KS, it is difficult to visit the field and it is difficult to check the details of the company's income and expenditure on the internet, which limits the availability of data on the operations of KS in this paper. Authors hope more cases and operational data can be researched in the future.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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