The Keys to NFL's Organizational Success

Executive Summary

The NFL is in the professional sports industry and the most profitable professional sports league in North America, generating $9 billion in total revenue annually. The sports industry is quite unique, and the setup of the NFL organization is very different from a manufacturing or technology firm. The game, which in itself is an unconventional product, is delivered in real-time, has uncertain results, and requires two competing teams to participate fairly in the production process. In fact, the league intentionally limits the competitiveness and revenue of teams and designs the playoff format to maximize profit as opposed to maximizing team skills.

The NFL is a nonprofit joint venture between the individual franchise teams. Teams join the NFL on a membership system, and agree for the NFL to centrally control many important aspects of the football market. The authority of the NFL rests at the Commissioner and the executive committee. The executive committee is a “quasi”-board of directors, which are seated by team owners. The Commissioner is a CEO-like position elected and compensated for by the executive committee. However, in the NFL, and in most sports leagues, the Commissioner is an autonomous and uncontested authority not controlled by the executive committee. The amount of power given to the Commissioner is both astounding and convenient for the owners.

The structure of the NFL season also differs greatly from the other three professional sports leagues in North America. NFL teams play a 16-game season while NHL, NBA and MLB teams play 82, 82, and 162 games respectively. The NFL generates the majority of its revenue, $5 billion, from TV deals with Fox, NBC, CBS, and ESPN. In addition, the NFL strategically blackouts its games on TV to increase ticket sales, which account for another $1.6 billion in revenue. In addition, the NFL’s unique unguaranteed player contracts incentivizes players to give maximum effort to maintain high performance, while promoting financial flexibility for the teams.

The NFL allocates approximately 60% of total revenue to the teams from a centrally generated revenue pool, and the remaining 40% is generated by the teams themselves. In addition, the NFL acts as the sole decision maker for marketing and licensing products in choosing the vendors manufacturing and distributing the licensed products. The centralized model also distributes risk evenly across all teams because the revenue collected from the league is redistributed across the teams. In addition, due to the centrally generated revenue model, the NFL’s revenue standard deviation across all teams is much lower than the NBA, MLB and NHL, allowing each team to be more competitive as no team has a significant financial superiority over the others.

Like any organization, the NFL must interact with its environment to produce its products. The NFL has also had to deal with series of antitrust lawsuits stemming from its anti-competition practices, and challenges to its practices with team-hosting cities. Over the years, the NFL has developed into an organization that is efficient at limiting competitiveness of its teams. Specifically, the NFL dictates the players’ salary structure, redistribution of revenues from all the teams, and broadcasting and marketing rights of the individual teams. These are things that parent organizations do not typically relinquish to their subsidiary joint venture organizations, but are present and traditional in the NFL to maintain economic and competitive parity. They are the two key factors in driving demand for the NFL and is what makes the NFL as popular as it is today. However, to be able to survive in this competitive industry, the NFL must find new ways to obtain market share in newer territories and open those niche markets for capitalization, especially if it wants to reach its lofty goal of $25 billion annual revenue by 2027.