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Rick Burton
Syracuse University

Dennis Howard

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Recession has the cure for MLB's ills

RICK BURTON AND DENNIS HOWARD

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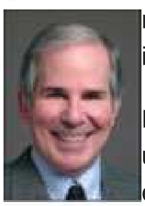
RICK BURTON


DENNIS HOWARD

Strange as it may sound, the U.S. recession of 2001 could provide Major League Baseball with a golden opportunity to resolve some long-standing health problems.

While there's no agreement among economists on how long the side effects of the 2001 recession will last, it's imperative MLB's owners and players association admit America's new economy won't automatically sustain baseball's old business practices of unbridled and protracted greed.

Here's why. MLB's existing economic model, fully developed in the 10 years between the recessions of 1991 and 2001, has long relied on massive infusions of corporate support and individual consumers paying ever-increasing ticket prices.

But if ever there was a time for owners and players to act for the good of their game, it is now. The unprecedented prosperity of the '90s, which sustained high levels of corporate and individual entertainment spending, came to a screeching halt in the recession of 2001. While the economic downturn was neither long nor severe by historical standards, the slowdown could not have come at a worse time for many teams, particularly those in new ballparks.

Often leveraged to the hilt to meet the debt burden on the new venues, too many owners are dependent on revenue streams from corporate investments in luxury suites, naming rights, sponsorship agreements and premium tickets. According to MLB Commissioner Bud Selig's report to Congress, at least 40 percent of locally generated operating revenue came from corporate sources who have willingly provided sums ranging from $100,000 for luxury suite leasing to $3 million per year for naming privileges.

Meanwhile, ticket prices have all but priced lower- and middle-income fans out of most ballparks. The average cost of attending a game has increased by almost 100 percent since 1990. If transportation and concessions are factored in, the average fan can easily pay $100 just to attend one game. With Business Week reporting the average U.S. household entertainment budget is approximately $120 per month, there's not enough disposable cash for two decent seats.

That harsh reality was apparent in 2001 when almost two-thirds of the teams showed declines in attendance. Average attendance early this season was down by 9 percent from last year. On top of that, Selig said 25 of 30 clubs lost money in 2001 and collectively generated more than $500 million in losses, including debt and depreciation.

What happens to these teams if corporations pull back on sponsorship and hospitality spending and fans pull back on disposable spending? Unlike teams from the NFL, NBA and NHL, which had presold their 2001-02 seasons prior to Sept. 11, MLB is sailing into the teeth of America's economic reaction. Baseball's weakest teams will find themselves in a precarious position.

If that uncertainty isn't scary enough, the labor situation remains unsettled. While the owners declared they will not lock out players this season, the season is moving forward without a collective-bargaining agreement and no discernible progress toward one.

The lords of baseball surely must sense most Americans are tapped out. In a recession, fans tighten their belts. After a recession, they spend cautiously. To continue squeezing fans with higher ticket prices is delusional.

Similarly, at some point, players must recognize their incredible good fortune in securing average salaries exceeding $2.38 million a year. They can't afford to flaunt the economic benefit they reap while fans recover jobs or finances. Any effort by the MLBPA to obstruct reasonable revenue sharing (and/or luxury tax proposals) is incredible insensitivity.

The recent economic slump provides owners and players a great opportunity to signal to fans they are serious about regaining baseball's historic position as America's pastime. There are sensible and achievable steps to take:

□ Quickly adopt a new collective-bargaining agreement addressing the obvious economic disparity among all teams.

□ The commissioner's proposal for teams to increase their share of local revenue from 20 percent to 50 percent is headed in the right direction. Our calculations suggest raising the revenue sharing bar to 35 percent may be more palatable to both team owners and the players association. An increase of 15 percentage points is less punitive to the more affluent clubs, yet substantial enough to make significant progress toward closing the gap between big and small revenue clubs.

At 35 percent, the New York Yankees would contribute about $75 million of their local revenue but would receive $35 million as the team's share of the revenue pool. In sum, the Yankees would pay approximately $17 million more than they did in 2001, but still would have more than $200 million in total (reported) operating revenue.

Meanwhile, those clubs like the Minnesota Twins, for whom revenue sharing is intended, would find their financial position enhanced greatly. Under the 35 percent arrangement, the Twins would kick in $11 million but receive $35 million. The influx of shared revenue would increase the Twins' total operating revenue to almost $80 million. Although a significant disparity would still exist, the revenue gap between the big clubs and teams like the Twins would be reduced by 35 percent.

□ A provision ensuring most of the redistributed revenues go toward player salaries would mollify player association concerns that revenue sharing would constrain payroll.

□ The commissioner's luxury tax proposal (a 50 percent tax on payrolls above $98 million) is conservative. Only a handful of teams had payrolls in excess of $98 million last season. If the tax were imposed on the seven teams whose player salaries exceeded that threshold, another $35 million would be available for redistribution to low-end clubs.

□ At the team level, institute across-the-board ticket price creativity, particularly during April and May when baseball offers its most insignificant games in the coldest weather. The benefit of such an approach became evident just one week into the new season, when several clubs such as the Philadelphia Phillies and Toronto

Blue Jays sold less than 30 percent of their available seats just days after their home openers. New ideas are needed more than ever to place fans in seats.

The need to gain or hold the public and corporate sector's trust has possibly never been greater. Most fans are close to their baseball breaking point. Given the unsettling economic climate, we know corporations approached their 2002 budgets more cautiously. If they maintain a logical spending reticence, a decline in advertising commitments and smaller sponsorship deals is likely for many teams.

This first recession of the new millennium can serve as the silver lining to finally push owners, players, agents and broadcasters into a room with the goal of working together.

Anything less truly threatens baseball's long-term health.

Dennis Howard and Rick Burton teach in the University of Oregon's Lundquist College of Business.

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