3-25-2002

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Recommended Citation

Burton, R. (2002), "Those big dollar signs can't conceal big risks", Sports Business Journal, Vol. 4, No.49, March 25-31, 40-41.

STREET & SMITH'S SportsBusiness JOURNAL

SBJ/March 25 - 31, 2002/Opinion

Those big dollar signs can't conceal big risks

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Published March 25, 2002

Do you think the costs of running U.S. sports teams are out of whack? The other day, one of the execs from the Williams BMW team told me the cost of running a Formula One team can run as much as $200 million a year. I thought that was pretty amazing.

When you consider Ferrari employs more than 700 employees to run two cars on the F-1 circuit, Texans like A.J. Foyt suddenly look cost-efficient. The cost of fielding an IRL team ($6 million a year) or CART team ($12 million) pales by comparison.

Maybe that kind of spending should be a concern for our little business. In the old days, when the economy was more robust, the adage was: When the going gets tough, the tough spend more. It's winning that matters, not whether a team turns a profit.

The strategy driving that thinking was more connected to growing the value of the asset. Buy the team for $50 million (or $500 million if we're talking about the NFL) and sell it for twice that amount. With doubling, you can handle small annual losses and write them off on via taxes.

Need an example? Well, how about Major League Baseball. Of the 30 teams, Commissioner Bud Selig says 25 took a hit last year. And so, while MLB reported record revenue of $3.5 billion for 2001, teams noted $232 million in operating losses. After you throw in $112 million in interest paid and $174 million in amortization, you clear $500 million in losses.

Not to worry. Selig told Congress baseball was in a world of hurt, but the next day the New York Yankees' George Steinbrenner signed Jason Giambi to a contract worth $125 million-plus. For Steinbrenner, it was a logical investment.

That's because the Yankees took in $98 million at the gate and $56.7 million in local broadcast revenue. Pity the poor Montreal Expos, who generated only $6.4 million from tickets and roughly a half-million from TV and radio. Let's go the scoreboard: Yankees $154.7M, Expos $6.9M. That's why the Yankees have been in four of the last five World Series and Steinbrenner hires anyone he wants to.

Baseball is not alone in spending huge sums. In Salt Lake City, the International Olympic Committee spent $1.3 million on hotel rooms, more than $600,000 on what The Associated Press called "family perks" and more than

$300,000 on chauffeur-driven cars. AP reports suggested the Salt Lake Olympic ceremonies were likely to cost $37.6 million.

That's hefty, but look at America's athletes. The average annual NBA salary for 2000-01 exceeded $4 million. MLB comes in at just under $2 million per player. NASCAR's Jeff Gordon got almost $6.5 million in purses for turning left. In fact, every driver in the top 25 of the Winston Cup Series won more than $2 million.

It must be because fans demand expensive sports entertainment. Agents, lawyers, team owners and concessionaires create expensive contracts. Luckily, up until now, sports has been able to get the necessary dollars from fans, the media, sponsors, advertisers, licensors and investors.

But I feel like Little Riding Hood. I get this feeling there are wolves in the woods.

I'm concerned because this mini-recession I just wandered through showed me some teams aren't ready for the residual response to consumers tightening their belts.

In Seattle, which reached the playoffs, the Mariners made $14.8 million on $202 million in revenue. That's a pretty mediocre return on investment of less than 8 percent. Well-run businesses try to return at least in double digits.

Many teams generate much less ROI. If they're paying interest on a new stadium and signing big player contracts, they could face a world of hurt if fans are a little more conservative this summer.

Remember, the combination of a recession (we hadn't had one since 1991-92), a digital revolution (the Internet), subscription cable (threatening the health of over-the-air broadcast networks) plus PlayStation 2 and Microsoft's XBox makes things interesting. Ticket prices that average fans can't afford and cheaper summer alternatives mean a lot of things have changed Red Riding Hood's forest almost overnight.

We should all be careful how we set our budgets and how we spend for a while. The wolf might be at the door.

Rick Burton is executive director of the Warsaw Sports Marketing Center at the University of Oregon.

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