

Major League Baseball ***In Search of the Grand Slam*** ***On the Field and Balance Sheet***



An Industry & Competitor Analysis

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Part I: Industry Analysis

Industry Definition and Overview

Baseball may be America's favorite pastime, but the heart of the game itself lies in numbers. The pitcher's mound must be exactly sixty feet and eight inches away from home plate. Every baseball must weigh between five and five and a quarter ounces. Every base must be exactly 90 feet apart from one another. Hank Aaron holds the career record for hitting 755 home runs. Players' personal statistics are memorized and pored over by fans around the world that pride themselves on their knowledge of the game. More than almost any other professional sport, numbers and baseball have enjoyed a happy marriage for over a century, and it is numbers that most adequately describe the mechanism that makes baseball much more than a sport: business.

This report seeks to strategically analyze the business of Major League Baseball, and answer the fundamental question: why does one team outperform another, either on the balance sheet or on the field?

Definition and Characteristics

Although a multi-billion dollar industry, Major League Baseball is not a normal industry by any means. First, there are terms that need to be straightened out. "Major League Baseball" (hereby referred to as such) connotes the overall industry of professional baseball – the highest level of play in the sport worldwide. Major League Baseball, Inc. (hereby referred to as MLB) refers to the governing entity that oversees the two professional leagues (the National League and the American League) by means of a joint organizational structure that was formed in 1920. MLB, much like a centralized government for baseball, is organized around the Major League Constitution, and is responsible for umpire staffing at all games, national marketing and trademarks, national television broadcasting rights, and labor contracts for all teams in the National and American Leagues¹. Essentially, MLB is a single corporation that franchises the 30 teams comprising what the public knows as professional baseball. Individual team franchises can be and are owned by both individuals and corporations. This operating structure has several important factors for the "industry" of baseball:

Monopolistic Market: Few industries have the equivalent of an internal centralized government, but even fewer are sanctioned monopolies. In the early days of baseball, several

rival leagues existed, but were slowly pushed out of business or bought by the National and American Leagues. When the Federal League sued under the Sherman Antitrust law, arguing that the buying tactics of the National League were monopolistic in nature, it originally won an \$80,000 injunction; this was reversed in an appeal heard by the Supreme Court, which ruled that inter-play amongst baseball teams did not constitute interstate commerce, and therefore the “sport” of baseball was not subject to antitrust legislation. This ruling, which has been upheld several times in the court, effectively grants MLB a totally monopoly on the sport of professional baseball; as an entity that both oversees and participates in the “business” of baseball².

Autonomous Authority of the MLB and Baseball Commissioner: Alan “Bud” Seelig, the current baseball commissioner, is essentially in a position of absolute authority over the entire baseball industry. Although he effectively is the CEO of MLB, he is not accountable to shareholders or even a board of directors. The position was originally created to be an impartial “governor” of baseball, representing what would be best for the sport as a whole, and balancing the interests of players and owners equally. As commissioner, Bud Seelig has weighed in heavily for support of owner’s interests, being a former owner of the Milwaukee Brewers for the first several years he was in office. This has major repercussions for the business interests of owners, which will be discussed in later parts of the paper³.

“Franchise” Market: Every MLB team is a franchise. By definition, this means that MLB handles larger, national business for all teams, and most of the revenue generated by these activities is redistributed amongst all teams, which contributes to their bottom line. Likewise, a certain amount of the revenue from each team is shared. Starting in the late nineties, commissioner Bud Seelig implemented a “revenue sharing program” amongst all franchise teams. The ultimate goal of revenue sharing was to alleviate the problem of teams having unfair salary advantages; essentially, the teams that performed the best financially had more money to lure to top players, which in turn led to a cycle of better business and more money in the salary pool for their teams. The teams that performed the worst financially saw the reverse of this cycle. Revenue sharing takes a percentage of all the teams revenue (less stadium costs), and essentially puts it in a MLB “kitty” for equal redistribution amongst all teams. This gives underperforming teams more money for their salary pools, which allows them to attract better players.

Incidentally, revenue sharing was also implemented with penalties for teams that spent more than the salary caps. For example, any team that spent over the \$90 million dollar per-team

salary cap had to pay a fine of up to 50% whatever was spent over that amount. This too was intended to keep teams from being able to “buy” the winning team without having to compensate the league to compete at the same level.

Market Factors and Trends

Industry Growth:

There is strong evidence that the “business of baseball” is growing at a healthy pace. As a sport, professional baseball is at an all-time high in game attendance, with over 74 million attendees in 2005. This was a growth rate of 2.5% from the previous year, and marks several years of growth in the industry

MLB Attendance	
2001	72,566,108
2002	67,944,389
2003	67,630,052
2004	72,968,953
2005	74,385,295

Figure 1⁴

(Fig. 1). Dips in attendance in 2002 and 2003 are speculated to be the result of reaction to threats of a player’s strike, much like the one in 1994 that caused baseball attendance averages to drop as much as 25% in a year. Furthermore, MLB is ranked #1 amongst other professional sports in regular season attendance.⁵

In comparison with the NFL, NBA, and NHL, MLB ranks second in average team valuation, and has seen ten years of consecutive growth in this metric. In 1995, the average value for an MLB team was \$111 million. As of 2005, the average value for an MLB team is \$332 million, which is an increase of \$221 million (299%)⁶. Many of these gains are representative of the effect of the revenue sharing plan, increased game attendance, and higher negotiations for television and merchandizing rights⁷.

Top Performers

For the intents of this report, Baseball has two metrics of “success” – a teams’ win/loss record, and a team’s financial standing. While it would seem logical to assume that the best performing teams with the “superstar” talent would also be the most profitable teams, history and data indicate otherwise.

For example, in 2004, the Seattle Mariners (one of the most abysmal teams in the American League) was one of the most profitable teams in the nation, earning \$163 million in five years – placing them just behind the Boston Red Sox, New York Yankees, and New York Mets.⁸ As long as a team is able to effectively sell merchandise, local television rights and achieve

reasonable ticket sales, a team can be highly profitable while having a mediocre win record. This relationship will be explored in detail in the competitor analysis.

5-Forces Industry Analysis

Customer

The major customers of Major League Baseball are its fans, advertisers, and national broadcast media. One of the first and most important customers to the sport consists of the fans themselves. However, advertisers and media, who pay top dollar for ad space and exposure to those fans, are quite important as well. Whereas fans buy tickets, concessions and merchandise, advertisers buy much higher priced ad space, and media networks, such as ESPN, purchase even higher priced broadcasting rights. Though these two market segments offer the sport's highest income, without the exposure to MLB's millions of fans, they would not have a motive to spend such money. It stands to reason that the most important of these market segments is the fan base.

MLB fans can generally be described as young, educated, males. According to an MLB.com demographics analysis, 73% of professional baseball fans are male, 46% of them are between the ages of 19 and 34, and 63% of them have earned college degrees. The analysis also shows that 52% of MLB fans do not have children.

Switching costs are generally high in this industry. Once a fan has fully invested in a team they may have clothing, hats and other equipment bearing the team name. They may also have season tickets or other outstanding tickets already purchased, but these costs are low in comparison to the switching costs created by lack of proximity to the team.

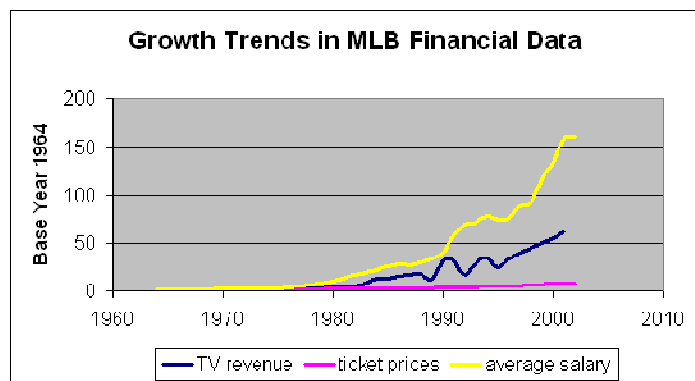
One of the highest costs of switching however is not financial. It is betraying the loyalty a fan has developed for "his" team. In this respect there is also high product differentiation. In other words teams are not interchangeable to fans. For example, one would be hard pressed to find a Boston, Red Sox fan who would be caught dead in a New York, Yankee hat. For these fans, there is no substitute for their beloved team. Former Red Sox coach, Don Zimmer explains of this age old rivalry, "I didn't even know there was a big rivalry until I came to the Red Sox, but I found out soon enough. I was coaching at third base in 1974 at Yankee Stadium, and the fans were throwing so much crap on the field that I had to put on a helmet for protection. The players don't really hate each other," Zimmer adds. "But the rivalry is there especially in New England - and it won't go away. It's really a rivalry of fans."⁹ This is a perfect example of brand

differentiation and high switching costs.

Both high product differentiation and high switching costs create low buyer power. This is especially so in the locations which host only one team versus locations that host several teams. Since most cities and states host only one team, it is safe to say that fan buyer power in this industry is fairly low.

In-park advertisers and corporate sponsors are another, newer, yet increasingly important, customer segment of MLB. Stadiums today are selling their names to corporate sponsors as well as selling in-stadium advertising to which fans will be exposed during the game. While some in-park advertising has been going on for years, a recent surge has taken place and fans are now observing, “Giant ads for beer companies dwarfing the scoreboard, signs for electronics chained behind the backstop to bombard TV viewers, the names of fast-food chains and banks, while you’re squinting to look for out-of-town scores, and scoreboard replays brought to you by some corporation...and they’ll flash more commercials between innings.”¹⁰ Why are advertisers jumping at the chance to spend millions in ballparks? The same reason the major networks want to broadcast these games: advertisers want exposure to Major League Baseball fans. As Soonhwan Lee of the US Sports Academy recently noted, “Sport and television coexist in a high-priced equation. The leagues of the major sports sell the rights to broadcast their games for millions of dollars each season. The networks in turn sell advertising by the half-minute to sponsors on a national, regional, and local level. The sponsors, confident that sports reach “the right” customers for their products, pay hundreds of thousands of dollars for their flashes of exposure.”¹¹

The third major customer is television, radio and print media. As the chart at the right shows, MLB has been able to increase the going rate of revenue from TV rights at a much faster pace than through ticket sales. These mediums have a vested interest in baseball game coverage in that the game’s fans will buy their newspapers or tune into their television and/or radio stations if they see their favorite teams featured, which in turn, insures that sponsors will pay top-dollar to advertise on their station.



This is possibly the most lucrative of all customer negotiations with MLB. A new five-year contract recently signed between ESPN and Major League Baseball, “calls for ESPN to pay baseball \$273.5 million in 2006, \$293.5 million in each of the following four years, \$308.5 million in 2011 and \$306 million in each of the final two seasons.”¹² This deal allows ESPN to show all Major League Baseball games on Sundays, Mondays and Wednesdays’ double-headers, even if simultaneously airing locally. The former five-year contract did not allow ESPN to broadcast games at the same time as local stations, nor did it allow them to broadcast Monday night games. This customer segment has been in rapid growth throughout the past couple decades, broadcasting revenues are the highest source of income, geometrically increasing over the years. The estimated share of radio and television revenue in MLB rose from 16% in 1960's to 28% in 1970's to 42% in 1980's to over 50% today.¹³ It is safe to say that Broadcast Media is a desirable market segment. In fact, of all customer segments, broadcast media is growing the most quickly. Ticket sales, while increasing are not netting the high revenues of contracts with national broadcast networks.

Supplier

The number one supplier in Major League Baseball is the athlete. Other suppliers are equipment vendors and other vendors, such as parking and concessions companies. With respect to the athletes, supplier power comes in several forms. First, the Major League Baseball Players’ Association (MLBPA) is a major bargaining force for team owners. Every major attempt to cap salaries or pass regulations that could result in unfair salary treatment of players is fiercely resisted by the MLBPA. These negotiations resulted in the infamous baseball strike of 1994, which was crippling to the support of fans in the sport; it almost resulted in another strike in 2002. In this sense, the power of the MLBPA cannot be underestimated.

On an individual basis, supplier power of baseball players can range from high to low. If the player is a superstar athlete, then he is going to have high supplier power and be able to choose the team for which he plays. He also bears heavy influence on his salary. According to Tom Weir of USA Today, “A few players with big salaries are grabbing an ever-increasing share of the payroll, pushing more players toward the low end of the scale. That means baseball's middle class — the journeymen, midlevel players and rising stars who make up the 60% of players in the center of the payroll — are taking home less of the payroll pie each year.”¹⁴ The former

player has, in essence, become a brand and, as such, his supplier power is strong. The latter, less known player, often happy to join any team that wants to sign him, has low supplier power.

Most teams have little power other than money in retaining their athletes. Athletes don't generally have the height of team loyalty that fans have. They may play for a team for 10 years, but when a better offer comes along, they follow the offer. Switching costs can be high in that a player often has to relocate in order to change teams; however they are paid amply to do so. The higher cost is uprooting a family to start over in a new city and/or state.

Other suppliers, such as in-park vendors and athletic gear companies have relatively low supplier power as well, primarily weakened by the demand amongst competing firms to associate with a MLB team.

Substitutes

Substitutes for Major League Baseball include: Minor League Baseball, the National Basketball Association, the National Football League and the National Hockey League. They are alternate professional sports which offer the sports fan another option if their needs are not being met by their MLB team. Since a majority of the substitute sports are played at different times of the year, a fan can easily attend the games of any given sport while continuing to attend another.

As noted in the figure below, MLB attendance has increased more rapidly than any other professional sport.¹⁵ Such evidence indicates that substitute sports are not a great threat to MLB.

Professional Sports Average Attendance				
	MLB	NBA	NHL	NFL
2002-2003	26,187	15,638	15,900	68,489
2003-2004	28,762	15,737	15,848	69,032
2004-2005	29,239	16,583	15,185	69,726

The largest possible threat to Major League Baseball is Minor League Baseball. Attendance figures in Minor League Baseball, while naturally much lower than in the MLB, have been completely stagnant for the past 5 years at 25 million attendees – even through the “strike-scare” dip in 2002-3 MLB attendance. This seemingly indicates that Minor League Baseball has low substitute power for MLB games.¹⁶ This is more than likely evidence of the strong branding that

accompanies MLB teams and differentiates them from the experience of a Minor League game.

Other forms of entertainment, such as movies or theme parks, while at first glance could be seen as potential substitutes, don't actually threaten MLB as much as one might think. These forms of entertainment are static. Once a theme park is opened, it will operate each day in the same location. Movie theatres are similar; though movies change, they play for a significant amount of time, rather than offering only one showing. Athletic events, however, are once in a lifetime opportunities. Each game is unique and only played once in the same way at a given point in the season. So even for the casual fan, there is no substitute for a live athletic event.

New Entrants

New entrants are few and far between because entry barriers are so high. MLB totally controls when teams can join a league, and in its current state of affairs, it rarely does so. When it does, normally the team is introduced to a market that does not already have professional teams competing; this was the case with the Arizona Diamondbacks expansion in 1998. First in order to join MLB a potential team owner must pay substantial franchising fees. Many additional expenses in starting a new franchise include: salary, stadium fees, equipment and travel expenses and merchandizing fees. Beyond the money one must spend to start a team, one must also find a non-concentrated market to call home, and there must be an adequate market to support a new professional sports team. Lastly it takes time and more money to get the level of players that make a team successful on field. The only time a new entrant would threaten another team is if they had enough money to build a stadium in the same city and contract some of the game's best players – which again, is highly unlikely to happen.

Rivalry

In theory, rivalry is high among Major League Baseball teams in that they all vie for the number one position and compete with each other on a daily basis. In reality, however, business rivalry is lower than one would assume. First and foremost, as has already been stated, all baseball teams, as franchises of the MLB, essentially share some portion of each other's successes and failures. All teams contribute to revenue sharing; although team owners still stand to personally make a profit, the more a team makes overall, the less they benefit (if at all) from revenue sharing. This indicates, however that the MLB consists of somewhat equally balanced

competitors which points to increased rivalry.

Additionally, many cities and states have only one baseball team, so they have a general monopoly on that particular market. California, New York, Chicago and other states and cities that have more than one team, have higher rivalry; they are competing for the same piece of the pie. Locals must choose which team to support. Since market growth is fairly mature, this also indicates increased rivalry.

The most apparent rivalry however, occurs between the wealthiest teams and it is one of who gets the top athletic talent. Obviously the best players make the best teams and the best teams make the most ticket sales and advertising dollars, which are in turn, then, able to pay the highest salaries. With such high fixed costs in this industry, it is quite valuable for a team to have the best athletes, and in turn, better brand itself in the competition for fans, advertisers and media sponsorship.

Finally it is important to note that the MLB has as great exit barriers as it does entrance barriers which also serve to increase industry rivalry. It is important for each team to stay in the league, and be competitive, in order for fans to stay interested, and MLB to thrive.

Even though revenue sharing occurs in MLB, the industry has fairly balanced competitors, a mature market, high fixed costs and high exit barriers, all of which lead to heightened rivalry. High team differentiation however, keeps this rivalry balanced.

5 Forces Analysis Summary:

Force	Power Level	Comments
Customers	Low	<ul style="list-style-type: none"> ▪ Few exact substitutes ▪ High switching costs ▪ High product differentiation
Suppliers	High	<ul style="list-style-type: none"> ▪ MLBPA serves as watchdog ▪ All regulations affecting salary limits are fiercely resisted ▪ Players are “free agents”
New entrants	Low	<ul style="list-style-type: none"> ▪ MLB has a monopoly on the sport and all league additions ▪ Astronomical franchise cost
Substitutes	Low	<ul style="list-style-type: none"> ▪ Sport tradition and fan base creates high product differentiation. ▪ Few exact substitutes

Rivalry	Moderate-High	<ul style="list-style-type: none"> ▪ Compete for athletic talent ▪ Compete for customers in a mature market ▪ High fixed costs ▪ High barriers to exit ▪ Shared revenues and org. structure of MLB serve to regulate competition. ▪ High product differentiation also serves to regulate competition
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In conclusion, customers, and new entrants are not specifically threatening to Major League Baseball. Although supplier power can be high, there is a reciprocal relationship between players and the owners of the teams; each need the other, and as the baseball strike of 1994 demonstrated, negotiation breakdowns are ultimately bad for everyone involved. Major League Baseball, as an industry, is in a good strategic position in relation to the 5 external forces. From these observations, several key components to a franchise’s success can be drawn.

What Customers Value

Customers value both entertainment and watching their team(s) win. For many MLB fans these values are tied together. Having a favorite team to root and cheer for during a game is a form of entertainment. Avid fans/customers will go to watch their favorite team regardless of the prospect of their team winning. Other customers go to watch a game to simply be entertained by exceptional baseball players or the experience of visiting a MLB stadium.

One recent change in what customers value in this industry is ticket price. Recently fans have voiced a dislike of rising ticket prices. The overall experience of going to a MLB game has risen over time (cost of parking, food, drinks, souvenirs, etc.), but most significantly the MLB average cost of ticket prices have risen by 40% over the last 5 years to \$19 per ticket.¹⁷ Even though ticket prices in professional baseball have increased, the cost is still much less expensive than the other professional sporting events. For example the NBA’s average ticket price is \$44, the NHL charges \$42, and the NFL ticket price average is \$50. While MLB fans may seem more price inelastic because they are unwilling to pay more for tickets, it is important to note that there are approximately 200 regular season MLB games played per year in contrast to the NBA’s 90, NHL’s 82, and the NFL’s 16. That means MLB fans are expected to attend more the double the

amount of games played other sports. As such these less frequently played sports can charge more per ticket and fans still spend virtually the same amount per season.

Finally, evidence shows that new stadiums often times experience heightened attendance levels through inaugural year and years to follow.¹⁸ Customers obviously enjoy visiting newer stadiums, giving it the “honeymoon effect”. The increased enjoyment for the customer stems from a variety of reasons including: more family oriented activities built into the stadium design, more often than not the newer designs allow for better car and foot traffic, better facilities (i.e. bathrooms, concession stands), and the latest trends are incorporated (i.e. new restaurants, flat panel screens, computer kiosks, etc) Unfortunately for the teams, the novelty usually wears off within a few years (or less), and the attendance levels return to a lower, steady rate.

Key Success Factors of Industry

From these observations, several key components to a franchise’s financial success can be drawn.

Attracting Customers/Fans: When a team is successful at attracting mass crowds of customers, ticket sales are strong for both home games, and away games. Furthermore, drawing even larger masses of fans to watch games on television, when they cannot or do not attend themselves, is extremely important to success.

The biggest attraction for customers and fans is the team brand. Each MLB team creates brand value through winning games, home ballpark, team name, team mascot, team colors, and team logo. The teams that have a longer history of winning and continued success create the most brand value. The two teams rich with history and the best historical attendance levels are the Dodgers and the Yankees.

Cost Management: Cost Management is critical for any business to be successful. The most successful team is the team that is best able to effectively manage its operational costs, create brand value, maximize revenue through selling in-park advertising and media rights, and generate revenue through in-park sales (i.e. tickets, concessions, parking, etc.).

The largest operational cost is the payroll. In an effort to build brand value a winning team needs to be brought together. The top tier athletes command the largest salary, therefore many teams struggle with keeping costs down while trying to put together the most talented team possible.

The teams' ability to sell space for ads to be displayed inside the ballpark, which are simultaneously televised during games, can generate significant revenues. The amount of money made is based on the size of the fan base, the average game attendance, the number of games televised, where televised games are broadcasted (i.e.: local, cable, satellite, etc.), and the average amount of television viewers in general.

Selling rights to the media, by allowing them to broadcast local games, represents a sizeable portion of the most successful teams' revenue. The amount paid for this right, similar to the in-park ad space sold, is based on the size of the customer or fan base, the average game attendance, the number of games televised, where televised games are broadcasted, and the average amount of television viewers captured. A basis for how much the media pays for the rights is dependent upon how much advertising revenue can be generated by any given broadcast.

Location: A majority of businesses are heavily dependent upon where they are located with respect to customers and MLB teams are not an exception. However, due to the fact that existing or new teams cannot enter into any market without prior approval from the MLB location is a fixed success factor. The market is finite and teams cannot try to change as MLB has extremely strict guidelines.

Suppliers/Athletes: A team's success in Major League Baseball is also based on the quality of their main supplier, the athletes. When a team is able to acquire the best players possible, it can increase that team's chances of winning more games. Winning more games increase the brand value, this in turn increases the team's ability to attract more customers and therefore increases the amount of revenue.

There are often superstars and/or records about to be broken that can induce the masses to go to games and tune-in on television. For instance, huge amounts of fans began to go to, and watch on on TV, all Chicago Cubs and St. Louis Cardinal games when Sammy Sosa and Mark McGwire were in a race to beat Roger Maris' homerun record in the summer of 1998.

Winning: A final contributor to a team's success, which is closely related to the quality of its players, is its win/loss record. If a team wins consistently and often they are more likely to have a larger fan base; as a rule of thumb, all teams see noticeable increase in attendance in years when they have seen post-season play or gone on to win a division title or the World Series.¹⁹ Winning the Division Championship, the League Championship, and the World Series greatly increases their exposure to new fans. Having a winning season brings more customers into the

stadium, more fans watch the games on television or listen on the radio, and more merchandise is sold.

Part II: Competitor Analysis

Relative Performance of the Two Firms

Understanding the success of a baseball franchise must be viewed systemically; intuitively, the amount revenue a team can generate allows for the acquisition of better talent, which in turn produces more wins, a greater fan base, increased merchandising and sales, and thus, even more revenue. In reality, the business model of a team is not this simple. This particular report will focus on the financial comparison of the Los Angeles Dodgers and the Los Angeles Angels of Anaheim.

Before comparisons are made, however, it is worth restating that individuals do not really own MLB teams; companies own MLB teams. Frank McCourt's private company owns the Dodgers, and Art Moreno's private company owns the Angels. Financial information on the Dodgers/Angels is commingled with other aspects of their companies' financial statements. It is fair to think of the Dodgers as an operating segment within Frank McCourt's company. When Disney owned the Angels, investors were thrilled at the prospect of seeing detailed financial information for the Angels. Instead, Disney treated the Angels as an operating segment and provided no detailed information on their operations.

MLB teams are not public companies, so they do not have to release financial statements to the public and they do not have to use Generally Accepted Accounting Principles. The MLB union determines how much a team should contribute back into MLB based the team's financial statements. For example, the Dodgers may contract with ABC Concession stand and charge them \$100/year in fees. The \$100 would go on the Dodgers financial statement. However, part of the contract with the concession company may stipulate that ABC Concession must purchase all their supplies from a McCourt subsidiary at profits of \$300/year. The \$300/year would not show up anywhere under the Dodgers operating segment. The \$300 would show-up in a different operating segment...and untouchable by the MLB union.

History and Win/Loss Record: The Brooklyn Dodgers were born in the year 1884. Due to the intricate maze of trolley cars located in the city of Brooklyn, fans gave the team the

moniker "Trolley Dodgers." The name was later shortened to just "Dodgers." After 68 seasons in Brooklyn, the Dodgers moved to Los Angeles in the fall of 1957. On April 18, 1958, the Dodgers played their first game in Los Angeles, defeating the Giants, 6-5, before 78,672 fans at the Coliseum. The Los Angeles Dodgers have one of the best postseason records in all of Major League Baseball (Appendix, Figure 1).

The Angels' first season was in 1961. They finished the 1961 season with a .435 winning percentage, which still stands as the best of any expansion team in major league history. The Angels played at Wrigley Field in Los Angeles in 1961. They played at Dodger Stadium from 1962 - 1965. The Angels moved to their current stadium in 1966. Compared to the Dodgers, the Angels are definitely the new kids on the block.

The Dodgers have a very impressive history indeed. In total, the Dodgers have appeared in the NL Division Series 4 times, the NL Championship Series 7 times, and World Series 17 times! In comparison, the Angels have appeared in the American League Division Series 2 times, the American League Championship Series 4 times, and the World Series 1 only one time. The Dodgers have won the World Series 6 times; the Angels have won the World Series 1 time. The Dodgers have one of the richest traditions in all of baseball (Appendix, Figure 1).

Competitive Performance vs. Payroll: Payroll is a double-edge sword in the business of baseball; payroll is every team's largest expense and liability, but it is simultaneously related to a team's ability to acquire top-talent performers. Under the new ownership, for the first time in their history, the Angels have a higher payroll than the Dodgers. The Angels have the 4th highest salary expense in the MLB; Dodgers have the 11th highest salary expense in MLB.²⁰ In the past 5 years, the Angels have had a higher win percentage than the Dodgers. The last time the Dodgers won the World Series was 1988. The Angels won the World Series in 2002 and they have a chance to return to the World Series in 2005. For the exception of the 2004 season, the Dodgers had not made the playoffs since 1996.

Game Attendance: The Dodgers have historically had much higher attendance levels than the Angeles (Appendix, Figure 2). In 2003 and 2004 baseball seasons, the Dodgers and Angels had almost identical attendance levels. Mr. Moreno is determined to reposition his team in the mindsets of Los Angelinos. The Angels and the Dodgers are battling for the fan base of Los Angeles.

In 2000, the Dodgers had 31% higher attendance than the Angels. In 2001, the Dodgers had 34% higher attendance than the Angels. In 2002, the Dodgers had 26% higher attendance than the Angels. In 2003, the Dodgers had 2% higher attendance than the Angels. In 2004, the Dodgers had 3% higher attendance than the Angels. Since Mr. Moreno purchased the Angels, the attendance gap between the Dodgers and Angels has decreased significantly.

Mr. Moreno has changed the name of his team from the Anaheim Angels to the Los Angeles Angels. Mr. Moreno is looking to broaden his team's fan base and marketing appeal by changing the team's brand image. Mr. Moreno is directly challenging the Dodgers dominance in Southern California. His strategy of lower ticket and concession prices is completely the opposite of Mr. McCourt's strategy to increase ticket and concession prices. The Angels' major corporate sponsors are Toshiba, Albertsons, Procter & Gamble's Crest, and Banco Popular.

Team Valuation: The Dodgers' rich baseball tradition is the main reason they have historically had a higher team valuation than the Angels (Appendix, Figure 3). Los Angeles is the second largest baseball market in the nation. If Los Angeles were a sovereign country, it would have the 11th largest GDP in the world. Up to recently, the Dodgers were synonymous with Los Angeles baseball. Up to recently, most people thought of Los Angeles as a single-team town. The Dodgers team valuation increased by 6% from prior year, compared to the Angeles team valuation which increased by 22% from prior year!

In 2004, Frank McCourt (Figure 6) bought the Los Angeles Dodgers for \$371M from News Corporation. In 2004, the Los Angeles Dodgers are valued at \$424M, making them the 4th wealthiest club in all of MLB. The Dodger team value (Appendix, Figure 8) is broken down as follows: sport (18%), market (42%), stadium (28%) and brand management (12%). The Dodgers player-costs-to-win ratio is 79.²¹

In 2003, Arturo Moreno purchased the Anaheim Angels for \$184M from the Disney Corporation. The Los Angeles Angels currently have a total team value of \$294M, which gives them an overall 18th ranking among MLB teams. The Angels team value (Figure 9) is broken down as follows: sport (20%), market (39%), stadium (30%), and brand management (11%). The Los Angeles Angels have a player-costs-to-win ratio of 69.

Sport is the portion of the franchise's value attributable to revenue sharing amount all teams. The Dodgers sport value is \$16M greater than the Angles. Market is the portion of a franchise's value attributable to its city and market size. The Dodgers market value is \$64M higher than the

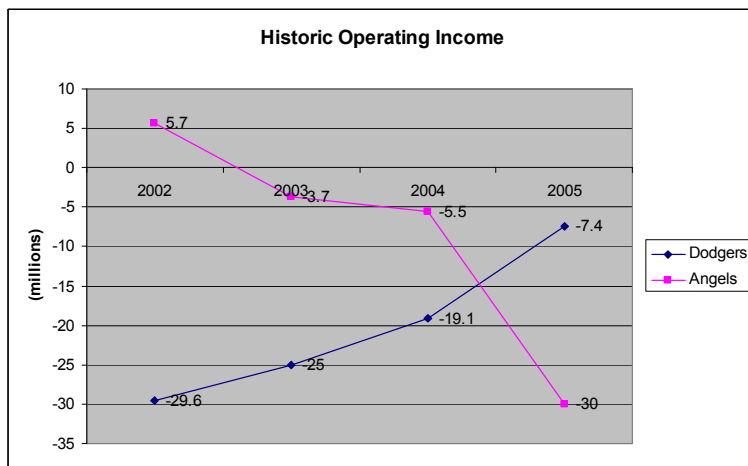
Angels. Stadium is the portion of a franchise’s value attributable to its stadium. The Dodgers stadium value is \$29M higher than the Angels. Brand Management is the portion of the franchise’s value attributable to the management of the brand. The Dodgers brand management value is \$20M higher than the Angels (Appendix, Figure 4 & 5).

Historically, the Dodgers have had a higher growth rate in team valuation than the Angels; this trend has reversed in 2004 and 2005, however (Appendix, Figure 3).

Operating Income, Revenue, And Debt Valuation

The Angels have historically had higher operating income than the Dodgers (Figure 6). In 2005, the Angels operating income made a drastic drop. However, both the Dodgers and Angels had a negative operating income last year. The Dodgers have the 7th lowest operating income in the MLB; Angeles have the 2nd lowest operating income in the MLB. The Yankees have the lowest operating income, yet they have the highest valuation ranking. For the exception of the Minnesota Twins, every team with negative operating income is in the top 20 as far as valuation rank, which begs the question: is operating income or team valuation more important? No financial metric can be thought of in isolation. But due to the MLB’s profit sharing structure, most teams probably do their best to under-report operating income.

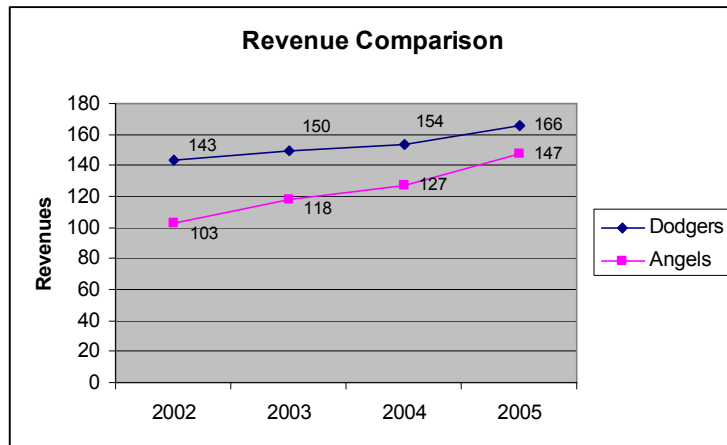
Figure 6:²²



For this reason, revenue is often considered a more robust financial metric for comparing teams. Although the Dodgers still lead in this area, the margin is narrowing; since 2002, the Dodgers revenue has moved from being 39% higher than the Angels to only 13% higher in 2005 (Figure 7).

Figure 7: Revenue²³

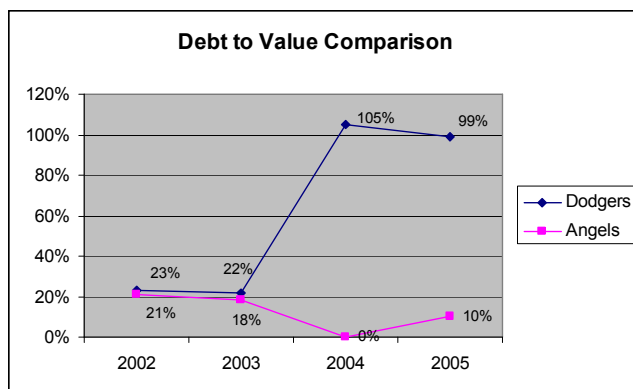
Mr. McCourt's purchase of the Dodgers was financed entirely with debt instruments. In order to repay his debt financing, Mr. McCourt has raised ticket and concession prices at Dodger Stadium. He has also increased his cable rights fee from FSN 2 from \$15M to \$25M. McCourt's goal is to boost the



team's attendance to 4 million visitors annually. He may also sell naming rights to the stadium to pay off debt, which could generate an additional \$4 million per year. The Dodger's major corporate sponsors are Toyota Motor, Anheuser-Busch, Coca-Cola, and U.S. Bancorp.

The Angels' drastic drop in operating income can be explained by higher payroll expenses and a very low debt to value ratio. The Dodgers ownership is highly leveraged. The Dodgers have the second highest debt/value ratio in the MLB at 99%; the Angeles have the 4th lowest debt/value ratio in the MLB at only 10%. It would be fairly easy for the Angeles to increase their operating income by merely borrowing and increasing their debt. The Dodgers do not have that option (Figure 8).

Figure 8:²⁴



Compare/Contrast Firms on Main Success Factors in the Industry

Dodgers vs. Angels Ability to Attract Customers/Fans: The Los Angeles Dodgers are one of the oldest teams in MLB, having been created in 1884. This long and extensive history has

built an extremely strong brand value. The brand value is often so strong that the families have passed on the enthusiasm for the team from generation to generation. Many families have traditions and bonding experiences related to going to Dodger games to watch rivalries, regardless of how well the team is actually performing.

The Angels came about in 1961 and thus is much younger. The brand value has recently been buoyed by Moreno's name change to the Los Angeles Angels of Anaheim. Previously, the brand value was not very strong, the original name was the California Angels, and most recently, while owned by Disney, the Anaheim Angels.

Dodger game attendance has historically been generously steady. Since 1990, the Dodgers have highest total game attendance of any MLB team.²⁵ Comparison with the Angels attendance clearly shows the Dodgers as the historical winner, but in the last few years the Angels have been closing the gap (Appendix, Figure 2). Winning and creating more brand value has helped tremendously to close that gap.

The Angels' stadium also creates more brand value as it underwent a major renovation in 1997. In 1998 there was a marked increase in attendance; over 750 thousand more customers went to games that year. The increase in customer value comes from a number of things, including: making the ballpark family friendly, creating specific areas and activities just for children, new restaurants were added, and many new eye-pleasing structures were built in the outfield. Dodger stadium has not changed much, and does not have much entertainment to offer beyond the baseball game.

As part of the customer value creation with respect to stadiums the Angels have created more. Dodger stadium is notorious for having traffic congestion and can be difficult to navigate when walking. Whereas the Angels stadium enjoys easily accessible off and on-ramps to many major freeways, is near the Metro line, and has clearly marked paths for pedestrians.

With respect to TV rights, the Dodgers can clearly generate more revenue from local TV broadcasting. The Dodgers' 2004 media revenues (including radio, TV, and media) were over double that of the Angels at \$27 million. Furthermore, the average media dollars generated per attendee was \$3.34 for the Dodgers, and only \$1.13 for the Angels (Appendix, Figure 7).

Overall, the Dodgers have enjoyed a historical lead in ability to attract fans and customers, but there is solid indication to support that the Angels are gaining ground, particularly in attendance.

Dodgers vs. Angels Cost Management: The largest single operating cost to any team is payroll. Since top players demand top pay, payroll dictates which players a team can sign given the amount spent on payroll. Many team owners believe that in order to have a winning team, which creates a higher brand value, a lot of money must be spent to get some top players.

In an effort to control costs, the Dodgers have been reducing the payroll for the past two years, from \$106M in 2003 to \$83M this year (Figure 9). The team’s long and extensive history has built an extremely strong brand value. The brand value is often so strong that the families have passed on the enthusiasm for the team from generation to generation.

Figure 9: Los Angeles Dodgers Payroll 1988-2005²⁶

Team		
Los Angeles Dodgers		
Year	Median salary	Total Payroll
2005	\$ 650,000	\$ 83,039,000
2004	\$ 1,500,000	\$ 92,902,001
2003	\$ 2,605,834	\$ 105,872,620
2002	\$ 1,950,000	\$ 94,850,953
2001	\$ 1,725,000	\$ 109,105,953
2000	\$ 1,400,000	\$ 90,375,953
1999	\$ 1,050,000	\$ 70,935,786
1998	\$ 650,000	\$ 47,970,000
1997	\$ 550,000	\$ 43,400,000
1996	\$ 512,500	\$ 34,647,000
1995	\$ 287,500	\$ 30,459,001
1994	\$ 600,000	\$ 37,194,001
1993	\$ 500,000	\$ 37,833,000
1992	\$ 1,175,000	\$ 43,788,166
1991	\$ 650,000	\$ 33,216,664
1990	\$ 321,250	\$ 21,618,704
1989	\$ 435,000	\$ 21,584,161
1988	\$ 400,000	\$ 15,462,515

The Angels have gone in the opposite direction, electing to increase the payroll in an effort to continue creating brand value through top players and winning more games. For the first time ever the Angels now have a more expensive payroll than the Dodgers (Figure 10).

Figure 10: Los Angeles Angels Payroll 1988-2005²⁷

Team		
Los Angeles Angels		
Year	Median salary	Total Payroll
2005	<u>\$ 925,000</u>	<u>\$ 97,725,322</u>
2004	<u>\$ 2,150,000</u>	<u>\$ 100,534,667</u>
2003	<u>\$ 1,000,000</u>	<u>\$ 79,031,667</u>
2002	<u>\$ 450,000</u>	<u>\$ 61,721,667</u>
2001	<u>\$ 350,000</u>	<u>\$ 47,735,168</u>
2000	<u>\$ 550,000</u>	<u>\$ 51,266,667</u>
1999	<u>\$ 375,000</u>	<u>\$ 49,893,166</u>
1998	<u>\$ 487,500</u>	<u>\$ 38,537,000</u>
1997	<u>\$ 400,000</u>	<u>\$ 29,452,672</u>
1996	<u>\$ 300,000</u>	<u>\$ 26,892,500</u>
1995	<u>\$ 185,000</u>	<u>\$ 28,974,167</u>
1994	<u>\$ 400,000</u>	<u>\$ 20,691,500</u>
1993	<u>\$ 263,750</u>	<u>\$ 27,230,334</u>
1992	<u>\$ 600,000</u>	<u>\$ 33,529,854</u>
1991	<u>\$ 652,500</u>	<u>\$ 31,782,501</u>
1990	<u>\$ 410,000</u>	<u>\$ 21,870,000</u>
1989	<u>\$ 386,250</u>	<u>\$ 14,713,833</u>
1988	<u>\$ 231,000</u>	<u>\$ 10,932,388</u>

To off-set operational costs revenue must be generated. The Dodgers raised ticket and concession prices, as well as increased the cable rights fee by \$10M. Again, the Angels have gone in the opposite direction, by lowering ticket and concession prices.

The Dodgers have higher valuations in all areas (see Appendix, Fig. 4 & 5) and generate more operating income (See Figure 6 above), and revenue (See Figure 7 above). Therefore, it can be extrapolated that the Dodgers are selling ads inside the park and broadcasting rights for more money than the Angels.

As the Angels' brand value is increasing, along with fan attendance and television viewers increasing, the revenue will increase as well. These factors are eroding the Dodgers slight Cost Management advantage.

Dodgers vs. Angels Location

Since the Dodgers and Angels are located in the same market neither team has an advantage or disadvantage with respect to location within the Los Angeles Metro Area.

Dodgers vs. Angels Suppliers/Athletes

Currently, the Angels are paying more for athletes than the Dodgers are. However, either team could decide to increase or decrease the payroll at any time. If both teams were to offer a player the same amount of money both teams would have pros and cons.

The Dodgers have a long history of great baseball players and winning the World Series and Championships. Yet, the Angels have a better winning average in recent years, highlighted by winning their first World Series in 2002, and they are currently in the playoffs again this year.

Given that payroll can be adjusted at any time and the recent success of the Angels both teams are relatively equal when it comes to being able to bring in the best suppliers/athletes.

Dodgers vs. Angels Ability to Win

The ability to win is intertwined with creating brand value. The team that wins consistently is going to create more brand value than a bad or mediocre team. Winning is the most crucial element to a team's success as it builds the most brand value, which attracts the most customers, and the more customers a team garners, the more revenue potential there is.

The Dodgers have a great historic standing by winning the World Series 6 times. The Dodgers have had 23 Post Season appearances, played in the World Series 18 times, won the National League Championship 18 times and won the National League Division 19 times.

The Angels has far less of a winning history, with only 6 Post Season appearances (including 2005), played and won 1 World Series Championship in 2002, won the American League Championship 1 time and won the American League Division 5 times. Although the Dodgers have a much more impressive winning history, it is not an accurate indicator of future performance - especially, since players change teams so often these days. Neither team has a clear advantage when it comes to the ability win in future seasons/years.

Sustainability and Outlook

Although data would indicate that at this moment in time, the Dodgers have a stronger financial position over the Angels— primarily influenced by high team valuation, better cost management, higher revenues and a stronger brand – the question must be asked: is there a sustainable competitive advantage for the Dodgers?

The strongest competitive advantage for the Dodgers is that which cannot be erased by a bad year, or even a slow decade; it is the recognition and tradition that accompanies almost a century of existence. The Los Angeles Dodgers have, and always will have, one of the oldest baseball traditions in MLB, and this carries a weight and pull to fans. The strength of this is evident in the fact that the Dodgers have not won a World Series in 17 years, and have only made it to their division series once in the last 10 years, yet have remained in the top 7 attendance rankings for that period of time.²⁸

History is not the only factor in establishing a strong brand, however, and the Angels are catching up in this area. Last year's move to rename the former "Anaheim Angels" the "Los Angeles Angels of Anaheim" may have been ridiculed by many, but resentment among fans does not seem to be showing. The Angels are clearly catching up in attendance rates, which have historically lagged behind the Dodgers. Besides this, the Angels have a newer stadium, a far better 5-year performance record, and were ranked fourth in the Sports Illustrated Fan Value Index, which rates what stadiums are giving fans the biggest bang for their buck. By comparison, the Dodgers rated 25 in this study.²⁹

With respect to future competition, the Angels' move to expand their market could spell an all-out war for Los Angeles Baseball; clearly, the rise in salary spending by the Angels signals that they are serious about remaining athletically competitive, and may be making a move for their first World Series win as the *Los Angeles Angels of Anaheim*. This could easily help to establish a broader fan base in Los Angeles, and would likely mean higher future attendance for the team. In the past, the Dodgers could afford to remain less competitive in the post-season; they were essentially the only "ballpark" in town.

If there is a moral to the story of MLB business, it might be summed up as this: teams have demonstrated that financial success (as measured by the ability to generate revenue and increase total team valuation) does not come solely at the hand of consistent wins. Winning always seems to help drive revenues and team valuations, but mediocrity does not always drive the latter down. In the last decade, the Dodgers have successfully followed a strategy of reaping the benefits of a strong brand, a history of tradition, and the dominant association with Los Angeles Baseball. The Angels, while comparatively new, seem to be opting for a much more aggressive drive to capture the heart of Los Angeles, and are not afraid to spend more on player salaries to drive postseason wins. In the last five years, this strategy has resulted in dramatic increases in attendance,

revenue, and team valuation for the Angels, and could easily prepare them to take a large share of the Los Angeles market. While many fans lament that the last decade's soar in salaries and revenue sharing have actually served to lessen the competition, Los Angeles has two teams that are ready to play ball – and both can be expected to go to bat for the hearts of Los Angeles fans in the years to come.

Appendix

Figure 1: World Series Championship by Team

Team	League	Total	Year
New York Yankees			1923, '27, '28, '32, '36, '37, '38, '39, '41, '43, '47, '49, '50, '51, '52, '53, '56, '58, '61, '62, '77, '78, '96, '98, '99, 2000
St. Louis Cardinals	NL	9	1926, '31, '34, '42, '44, '46, '64, '67, '82
Boston Red Sox	AL	6	1903, '12, '15, '16, '18, 2004
New York Giants	NL	5	1905, '21, '22, '33, '54
Philadelphia Athletics	AL	5	1910, '11, '13, '29, '30
Pittsburgh Pirates	NL	5	1909, '25, '60, '71, '79
Los Angeles Dodgers	NL	5	1959, '63, '65, '81, '88
Cincinnati Reds	NL	5	1919, '40, '75, '76, '90
Detroit Tigers	AL	4	1935, '45, '68, '84
Oakland Athletics	AL	4	1972, '73, '74, '89
Baltimore Orioles	AL	3	1966, '70, '83
Chicago White Sox	AL	2	1906, '17
Chicago Cubs	NL	2	1907, '08
Cleveland Indians	AL	2	1920, '48
Florida Marlins	NL	2	1997, 2003
Minnesota Twins	AL	2	1987, '91
New York Mets	NL	2	1969, '86
Toronto Blue Jays	AL	2	1992, '93
Anaheim Angels	AL	1	2002
Arizona Diamondbacks	NL	1	2001
Atlanta Braves	NL	1	1995
Boston Braves	NL	1	1914
Brooklyn Dodgers	NL	1	1955
Milwaukee Braves	NL	1	1957
Philadelphia Phillies	NL	1	1980
Kansas City Royals	AL	1	1985
Washington Senators	AL	1	1924
Totals: American League - 59 wins; National League - 41 wins			

Figure 2: Attendance Record³⁰

Los Angeles Dodgers

Los Angeles Angels

<u>Year</u>	<u>Total Attendance for the Year</u>	<u>Attend/Game</u>	<u>Total Attendance for the Year</u>	<u>Attend/Game</u>
2000	2,880,242	35,559	2,066,982	25,518
2001	3,017,143	37,249	2,000,919	24,703
2002	3,131,255	38,657	2,305,547	28,464
2003	3,138,626	38,748	3,061,094	37,330
2004	3,488,283	43,065	3,375,677	41,675
2005	3,603,646	44,489	3,404,686	42,033

Figure 3: Historic Team Value

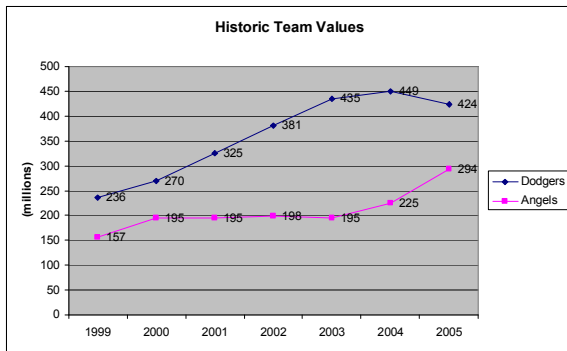


Figure 4: Dodgers Team Value

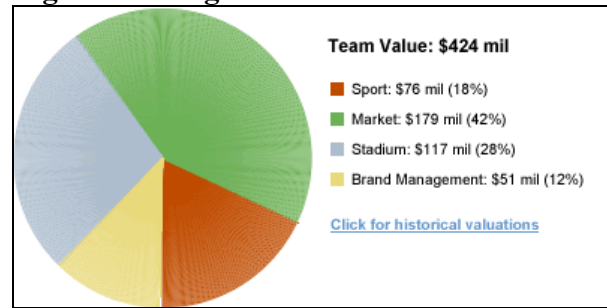


Figure 5: Angels Team Value

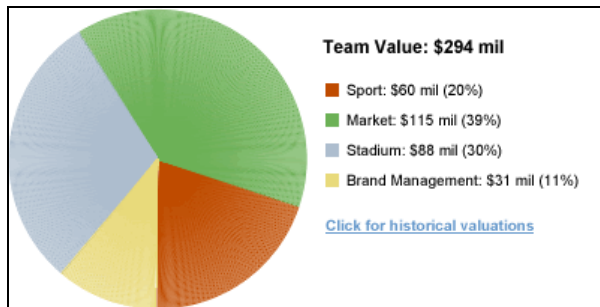


Figure 6: Revenue Growth

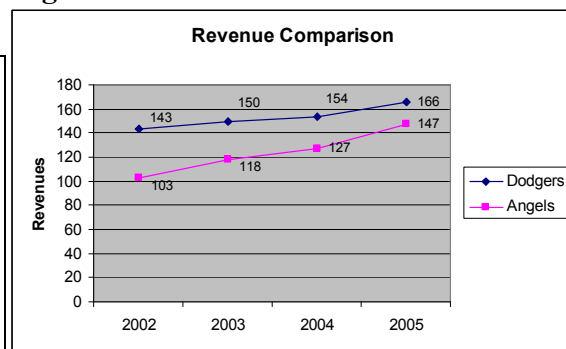
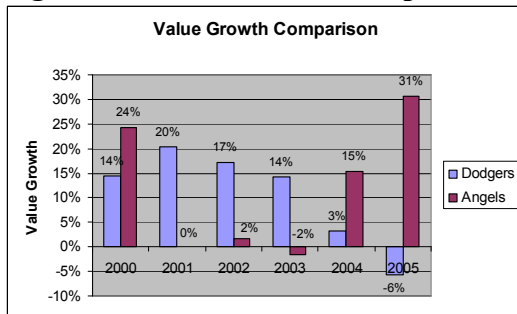


Figure 7: Media Revenue Generated, 2004³¹
2004 Revenues from Local Media Contracts (TV, Radio, Cable)

Team	Local Media Money	Adjusted Metro Area Population	Media Dollars Per Person	No. TV/Cable Games	Ranking
Dodgers	27,342,000	8,186,823	3.34	50/80	6
Angels	10,927,000	8,186,823	1.33	40/50	23
AVERAGE			\$4.35		
Yankees	\$56,750,000	10,599,933	\$5.35	50/100	1

Figure 8: Value Growth Comparison



Endnotes

- ¹ http://en.wikipedia.org/wiki/Major_League_Baseball
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- ³ Lamme, Jacob F. *The Twelve Year Rain Delay: Why A Change In Leadership Will Benefit The Game Of Baseball*. Albany Law Review, 155. 2004
- ⁴ Data obtained from http://sports.espn.go.com/mlb/attendance?sort=all_avg&year=2001&seasonType=2
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- ¹⁶ <http://www.minorleaguebaseball.com/app/index.jsp>
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- ¹⁸ <http://www.answers.com/topic/list-of-major-league-baseball-stadiums>
- ¹⁹ Attendance Reports (MLB, NBA, NHL, NFL 2002-2005). www.espn.com
- ²⁰ <http://www.rodneymfort.com/PHSportsEcon/Common/OtherData/MLBPayroll/MLBPayrolls.html>
- ²¹ Compares the number of wins per player payroll relative to the rest of the MLB. Postseason wins count twice as much as regular season wins. A score of 120 means that the team achieved 20% more victories per dollar of payroll compared with the league average.
- ²² <http://www.forbes.com/2005/04/06/05mlbland.html>
- ²³ USA Today, 28 November 1990, Media Sports Business, 30 June 1991, Financial World, 9 July 1991, USA Today 2004
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