The Business of Sports and Small Market Viability:
The Green Bay Packers and the Milwaukee Brewers

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Abstract

In football and baseball, the state of Wisconsin features professional sports teams in relatively small markets, the Green Bay Packers and the Milwaukee Brewers. Although the franchises are similar in terms of their relatively small size, there have been significant differences in the recent performance of the two teams. The 1990s saw a resurgence of the Packer glory days, culminating with the Super Bowl XXXI victory in the 1996-1997 season. The Brewers have struggled, and have not had a winning season since 1992. To bolster competitiveness, both teams have pursued upgrading their stadiums. The Green Bay Packers are beginning the process of a $295 million renovation of Lambeau Field, and the Milwaukee Brewers moved into Miller Park in 2001, a $400 million retractable dome stadium. This paper will examine the role of the new stadiums in enhancing team competitiveness, and review the industry structure of the National Football League and Major League Baseball.

I. An Overview of Major League Baseball and the National Football League

Recently, both Major League Baseball (MLB) and the National Football League (NFL) have enjoyed strong revenue growth. Since the 1994-1995 players' strike, baseball has enjoyed a strong resurgence. Industry revenue, defined as the sum of club revenues, has climbed steadily since the 1994-1995 players' strike. From 1995 to 1999, industry revenue more than doubled, from $1.385 billion to $2.787 billion[1]. Last season, industry revenue increased by 12.0% to $3.177 billion[2].

The National Football League is widely viewed as the most lucrative professional sports league, and ranks first in terms of annual revenue. Industry revenue for the NFL climbed 10.1% in 2000, to $3.602 billion[3]. In 1998, the league signed a $17.6 billion television deal with four networks, dwarfing the television contracts of other leagues. The contract runs through 2006 and delivers $2.2 billion annually to the NFL, which equates to $70 million a year for each team. MLB recently entered into television contracts worth approximately $570 million per season, which in turn provides $19 million for each team. Among professional sports leagues, MLB ranks second in annual revenue.

A defining difference between the industry structure of Major League Baseball relative to the National Football League lies in revenue sharing and the capping of player salaries.

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[1] "The Report of the Independent Members of the Commissioner's Blue Ribbon Panel on Baseball Economics," July 2000.
[2] See "Major League Baseball Capsule – Hoover's Online," at www.hoovers.com.
[3] See "National Football League Capsule – Hoover's Online," at www.hoovers.com.

As a result of significant revenue sharing, the NFL features a higher degree of financial parity between teams. Roughly 54 percent of the revenue in the NFL is shared; only about 18 percent of revenue is shared in MLB[4]. In addition to revenue sharing, the NFL features an annual cap on player salaries that applies equally to each team. MLB currently has no cap on player salaries.

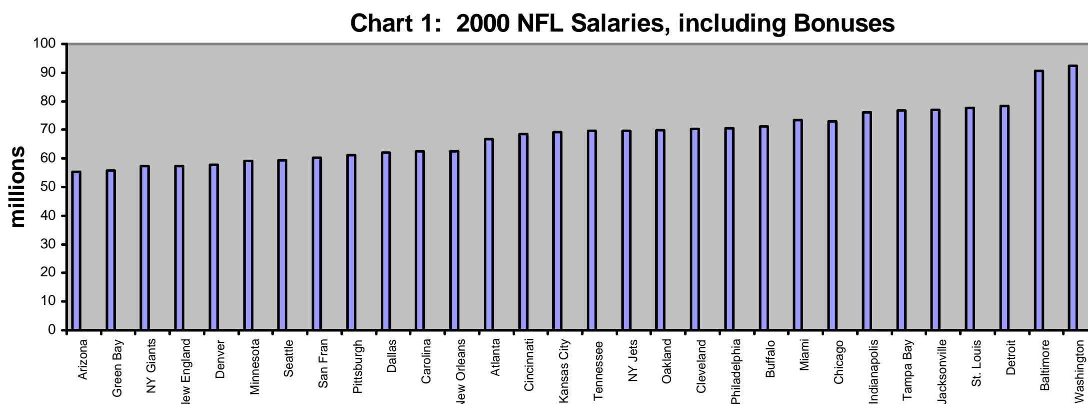
II. Revenue Sharing, Salary Caps, and Payroll

The National Football League

The NFL has two types of revenue, shared and non-shared. Shared revenue includes revenue from national television rights, money from ticket sales (60 percent going to the home team and 40 percent to the visitor), merchandise sales and corporate sponsorships. With the league's current $17.6 billion television contract, shared revenue from this contract amounts to approximately $70 million annually for each team. Under the current labor agreement, players receive 64% of the league's shared revenues.

Non-shared revenue includes primarily stadium-related sales such as parking, concessions, private boxes (including luxury box and club-seat revenue) and pro shops. Revenue from local television and radio broadcasts is also non-shared.

The NFL salary cap is the maximum each team may spend on player salaries in a given year. A team may not exceed the cap with the salaries of players that are on their roster, otherwise the NFL may incur significant penalties against the team. However, to at least partially circumvent the cap, teams may structure their player contracts in such a way that part of the money is designated as a "signing bonus" or an "incentive clause." A signing bonus counts toward the cap but is prorated over the length of the contract, although the entire bonus is often paid up front to the player. Incentive clauses may be used to keep base salary low, but easy to reach incentives may be viewed as salary by the NFL, which must approve all player contracts. The salary cap for each team in 2001 will be $67.4 million; up from $62.2 million in 2000. However, when bonuses are included, the actual amount spent on players may exceed the salary cap, as shown in the following chart[5].



[4] *Forbes (5/31/99).*
[5] Source: NFL Players Association and *The Record (2/14/01)*, online at www.bergen.com.

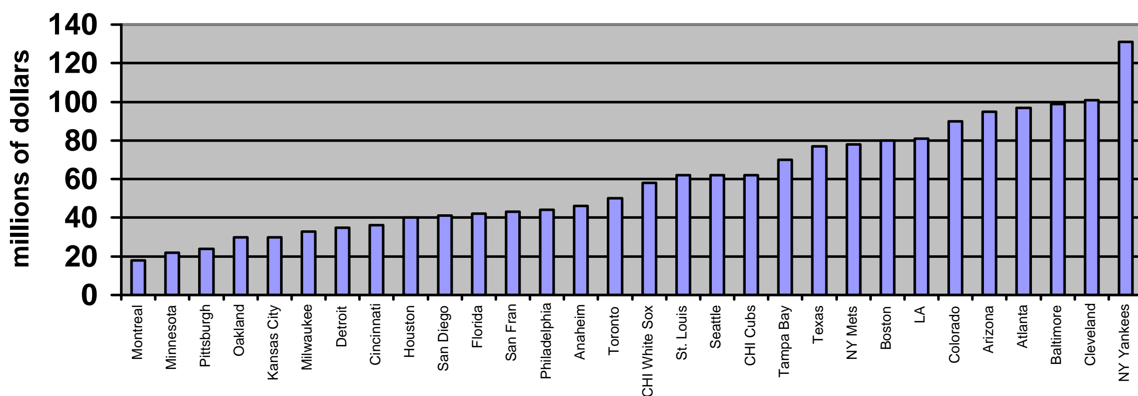
With over 54% of revenue shared in the NFL, the league has achieved a relatively high level of financial parity between teams. Players receive 64% of the shared revenue, and all teams are under the same salary cap. However, in an attempt to gain a competitive advantage, teams have increasingly looked to non-shared revenue sources. Non-shared revenue can be used to help teams circumvent the salary cap through paying bonuses and incentives to players. The largest source of non-shared revenue is stadium-related revenue, and its importance is increasing. On average, in 1994, non-shared revenue from stadium-related revenue accounted for 12% of a team's total revenues. In 2003, it is expected non-shared stadium-related revenue will account for approximately 22% of total revenues[6].

Major League Baseball[7]

Revenue to MLB teams comes primarily from three sources: 1) local revenues, 2) Central Fund revenues, and 3) Revenue Sharing. Local revenues include ticket sales, local television, radio and cable rights, ballpark concessions, parking, advertising, suite rentals, and spring training revenues. Central Fund revenues are generated through industry-wide contracts, such as national television contracts and licensing arrangements. Central Fund revenues have historically been distributed evenly to all clubs. Revenue sharing, in a very limited form, was implemented in 1996. Revenue sharing transfers locally generated money from high-revenue to low-revenue clubs.

Local revenues are generally the largest component of most clubs' annual revenue. From 1996 through 1999, local revenue constituted approximately 79 percent of total industry revenue. However, the disparity in local revenue between teams is enormous. In 1999 the Montreal Expos were on the bottom with local revenues at $12 million, while the New York Yankees soared to a high of $176 million.

Chart 2: Average Local Revenue by Club, 1995-1999



[6] Green Bay Packer website, www.packers.com
[7] The data contained in this section draws heavily from "The Report of the Independent Members of the Commissioner's Blue Ribbon Panel on Baseball Economics," July 2000.

The disparity in local revenue has also grown, with the ratio of highest local revenue to lowest local revenue increasingly significantly since 1996.

Table 1: Ratio of Highest Local Revenue to Lowest Local Revenue

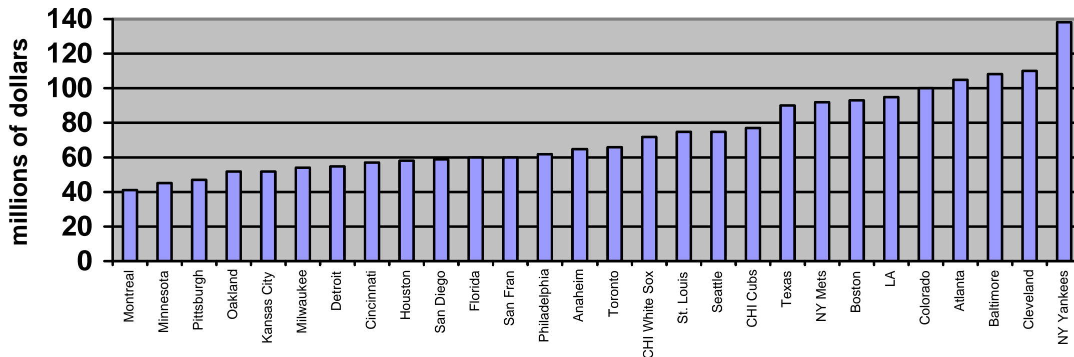
1995	1996	1997	1998	1999
5.5:1	4.8:1	6.3:1	10.8:1	14.7:1

Central Fund revenue, which is generated from industry-wide contracts, has historically been distributed equally to all clubs. Distributions to clubs from the Central Fund have risen from $4.774 million in 1995 to $13.315 million in 1999. For some of the lowest revenue clubs, Central Fund distributions now account for more than local revenues.

Baseball's current revenue sharing system operates under a split pool plan. This plan requires each club to contribute 20 percent of its net local revenue to a pool. The pool is then subdivided into two parts. One part, which represents 75 percent of the pool, is redistributed equally to all clubs. The second part, the remaining 25 percent, is redistributed only to those clubs below the industry's average local revenue. Clubs further below the average revenue receive a greater share of the second pool. From 1996 through 1999, higher revenue clubs have redistributed a total of $312 million to lower revenue clubs.

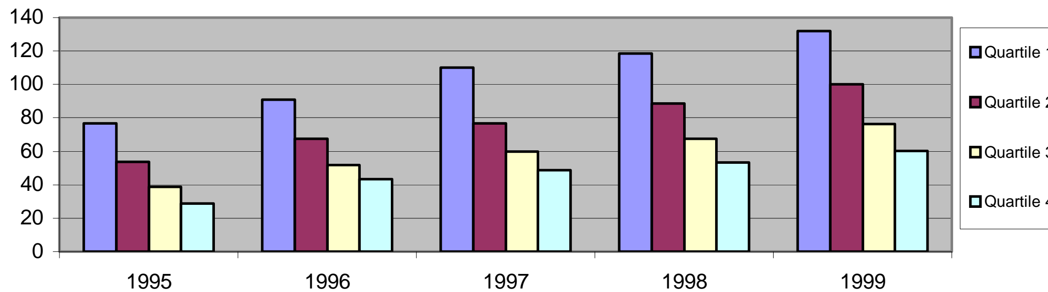
The following chart shows average total revenue by club, and reflects local revenue, Central Fund revenue, and the impact of revenue sharing.

Chart 3: Average Total Revenue by Club, 1995-1999



As previously indicated, revenue sharing in Major League Baseball is extremely limited, and the impact on equalizing club revenues has been limited. Revenue sharing has lowered the disparity between the highest revenue clubs and lowest revenue clubs in terms of total revenue. However, a significant disparity remains between clubs and the disparity has been growing. The chart below shows average club total revenue by revenue quartile. In 1995, the difference between average club total revenue for teams in the highest quartile compared to teams in the lowest quartile was $47 million. In 1999, this difference increased approximately 50%, to a total of $71million.

Chart 3: Average Club Revenue by Revenue Quartile



Certainly, the ability of a club to generate superior revenues does not automatically translate into superior performance on the playing field. However, the ability to generate superior revenues provides the capacity to pay superior salaries.

The State of the Game and League Competitiveness

The National Football League

The National Football League is widely regarded as the most successful professional sports organization. The NFL boasts the largest annual revenue of any professional sports organization, and its television contract dwarfs that of any other league. Relations between management and players have been relatively peaceful, and a collective bargaining agreement runs through 2003. Players have shared in the league's financial success, and the average team salary has grown from $14.6 million in 1988 to $64 million in 2000[8].

The NFL seems to thrive on competitive balance (also known as "parity"). Since the 1995 season, ten different teams have played in the Super Bowl, with only the Green Bay Packers and Denver Broncos appearing twice. Revenue sharing, combined with a salary cap and free agency, has leveled the financial playing field and allowed teams to effectively compete.

The spirit of revenue sharing was furthered in 2001, when NFL clubs approved additional league-wide revenue sharing[9]. Beginning in 2002, all teams will receive an equal amount of visiting gate receipt revenue. Previously, each visiting team received a share of the gross gate receipts for their individual road games. The previous policy resulted in teams receiving an unequal amount of revenue from road games over the course of the season. The additional revenue coincides with league expansion and division realignment for the 2002 season. As a result of the NFL's policies, payroll disparities between teams are relative small compared to MLB. In 2000, the Washington Redskins had the highest payroll at $92.4 million, almost double that of the Arizona Cardinals payroll of $55.4

[8] Source: *Dallas Business Journal (9/8/00)*, and the NFL Players Association.
[9] See NFL News at www.NFL.com.

million. The New York Yankees' payroll of $112 million was nearly eight times that of the Minnesota Twins.

Major League Baseball

The disparity in revenue sharing, combined with no salary cap, seems at least partially linked to a disparity between team competitiveness. Since the strike shortened 1994 season, out of the possible 48 post-season spots, only three clubs with payrolls in the bottom half of the industry made it to the post-season. Of the 189 post-season games played during this period, only two were won by clubs with payrolls in the bottom half of the industry. In 2000, not surprisingly, the revenue leading New York Yankees won their third consecutive World Series.

Since the 1994-1995 players' strike, baseball has enjoyed a resurgence, as reflected by strong growth in industry revenues. Despite this growth, trouble may loom on the horizon for baseball, as the current industry structure prevents teams from competing equally on the field. The minimal revenue sharing in MLB, combined with the lack of a salary cap, creates a significant competitive advantage for teams capable of generating superior local revenues.

In January 1999, Baseball commissioner Allan H. ("Bud") Selig formed a Blue Ribbon Panel to analyze the issue of competitive imbalance in Major League Baseball. The panel was comprised of Senator George J. Mitchell; Richard Levin, President of Yale University; Paul Volcker, former Chairman of the Board of Governors of the Federal Reserve System; and George Will, political columnist and commentator. The panel's conclusions:

- Large and growing revenue and payroll disparities exist and are causing problems of chronic competitive imbalance in baseball.
- These problems have become substantially worse during the period following the strike-shortened 1994 season, and seem likely to remain severe unless Major League Baseball undertakes significant remedial actions proportionate to the problem.
- The limited revenue sharing and payroll tax approved as part of the 1996 collective bargaining agreement with the Players' Association did not moderate payroll disparities or improve competitive balance.

Although different viewpoints exist as to how baseball should increase competitiveness between teams[10], there is little doubt that the current system needs to be fixed if current teams are to compete on a more financially level playing field. In addition to the competitive disparity problem, labor problems may also loom for baseball. Baseball's current labor agreement expires at the end of the 2001 season, and any changes in revenue sharing may have to be approved by the players' union, as the owners have typically proposed revenue sharing in tandem with a salary cap structure[11].

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[10] See Costas (2000), Weiler (2000), Fort and Quirk (1999).
[11] *Sporting News (12/18/00)*.

Conclusion

The Green Bay Packers and Lambeau Field

Although the NFL shares a significant portion of its revenue, a growing percentage of team revenue is being generated from non-shared sources, primarily stadium-related revenue. On average, in 1994, non-shared revenue from stadium-related revenue accounted for 12% of a team's total revenues. In 2003, non-shared stadium-related revenue is expected to account for approximately 22% of total revenues. In 1997, the Green Bay Packers ranked ninth in the NFL in terms of team revenues. The Packers dropped to sixteenth in 1999, and a gradual decline to twenty-fifth place by 2003 was projected by the team without a redeveloped Lambeau Field[12].

The growing importance of deriving revenue from non-shared sources made it imperative that the Packers renovate Lambeau Field to increase its revenue generating capacity. The Packers estimate that a renovated Lambeau Field should provide an additional $20 million of annual revenue, and place the Packers in the top half of the NFL in annual revenue. The renovation to Lambeau Field, combined with the NFL's revenue sharing and salary cap, should allow the Packers the opportunity to compete on a relatively level financial playing field.

The Milwaukee Brewers and Miller Park

With much anticipation and fanfare, in 2001 the Milwaukee Brewers moved into their $400 million new home, Miller Park. Will the move increase the ability of the Milwaukee Brewers to compete in the short-run? Absolutely. However, in the long-run, the Milwaukee Brewers will need more to compete on a financially level playing field than simply a new stadium.

Baseball's current system of revenue sharing to solve the competitive imbalance problem is like putting a band-aid on a hemorrhage. Building a new stadium will, at least temporarily, improve the Brewers' relative position in terms of generating local revenues. The Brewers expect Miller Park to generate a minimum of $30 million in additional revenue each year[13]. However, the Brewers will stop receiving revenue sharing payments, as they move out of the bracket of clubs entitled to receive payments under the current system. This may cost the club as much as $10 million annually. In addition, the Brewers made a $90 million commitment when building Miller Park, so debt service payments will also eat up a portion of the increased revenues. Finally, the Brewers still have one of the smallest local radio/television contracts in baseball, netting them only about $5 million per season. If the Milwaukee Brewers are ever going to compete on a financially level playing field with the New York Yankees, significant, rather than token, revenue sharing is necessary. Miller Park will help the Brewers ability to compete, but it won't solve the disparity problem.

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[12] See "NFL Economics" at www.packers.com.
[13] *Milwaukee Journal-Sentinel (2/11/01).*

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