Written by Pete Toms
Friday, 09 January 2009 14:42

MLB clubs have been very active the past handful of years in expanding their interests in to the affiliated minor leagues. Several factors could be motivating this behaviour, including, steep increases in player development costs, increased popularity of minor league baseball, impetus to generate revenue outside the boundaries of revenue sharing and the value of minor league affiliates to club owned RSNs. Are fundamental changes in the relationship between MLB, MiLB and independent baseball inevitable?

Professional baseball in the US has never been more popular. MLB, MiLB and independent baseball have all experienced record attendance the past several seasons. Not surprisingly, MiLB franchise values have proven strong in recent sales. The Reading Eagle , on the recent sale of the local AA franchise,
*“Earlier this month the Class AA Altoona Curve was sold for a reported $18-20 million, according to the Altoona Mirror. The Reading franchise is considered of comparable, if not greater worth, by Eastern League insiders.”*
The reported values in these recent sales are in line with the Forbes August report
Minor Leagues, Major Profits
on the newfound prosperity in MiLB.
*“On average, the top 20 teams are worth $21.2 million and pulled in $9.8 million in revenue per team....” From the same report, “The most valuable team is the Sacramento River Cats.....worth $29.8 million”*
. The boom in MiLB corresponds with the arrival of a more sophisticated and corporate approach to franchise management and ownership.
The Goldklang Group
,
Mandalay Baseball
,
The Ripken Baseball Group
and
Ryan-Sanders Baseball
own and/or operate multiple teams in multiple leagues (including independent). In the aforementioned Forbes piece, Mike Ozanian wrote,
*“MiLB teams like the Sacramento River Cats, Dayton Dragons, Toledo Mud Hens and, yes, Durham Bulls are run like first-rate professional clubs.... These teams are operated by a new breed of owners--many of whom are successful entrepreneurs in other industries--who understand marketing and....”*

The good times in the minor leagues have not gone unnoticed by MLB clubs, who are increasingly active in the ownership of their minor league affiliates. The Phillies, along with recently purchasing their aforementioned Reading AA affiliate, are believed to also have interests in their Class A Lakewood and AAA Lehigh Valley affiliates. In September, MLB.com reported, *"The Cardinals and their Triple-A affiliate announced Wednesday that they have officially entered into negotiations for St. Louis to buy the Memphis team. According to a release from the Redbirds, the two parties have "signed a non-binding letter of intent to pursue a transaction."* In reporting on the same announcement, AP noted, *"The Cardinals own all or part of their teams in Springfield, Mo., Palm Beach, Fla., and Johnson City, Tenn."* The Braves own all six of their minor league affiliates, the Red Sox (via FSG) own their A level Salem affiliate, the Mets (via Sterling Equities) own A level Brooklyn and the Yankees own their Hi A Tampa and SS A Staten Island affiliates. MLB clubs are actively involved in the operations of the minor league affiliates they own. Biz of baseball reported on the acquisition of A ball Salem by Fenway Sports Group, *"FSG's team of sports management executives will leverage their extensive experience in professional sports to provide operational, marketing and sponsorship sales support to the Avalanche's front office."* (Not coincidentally, FSG subsequently rebranded the franchise "Salem Red Sox") At the league level, MLB and MiLB recently concluded 4 years of negotiations over control of all MiLB club websites. It was announced at the winter meetings that MLBAM is taking over the operation of all MiLB websites with the finalizing of the BIRCO agreement.

The past two rounds of Player Development Contract (PDC) negotiations have been particularly active, yielding an atypically high number of changes in affiliate/parent club partnerships. One of the factors contributing to affiliate relocations is a desire amongst MLB clubs to have their minor league affiliates in the parent club's market. In some cases, part of the stimulus is in the TV programming the affiliate provides to the parent club's RSN. Upon completion of the most recent round of PDC negotiations, Eric Fisher reported in SBJ that the changes, *"... suggests a greater use of farm clubs for strategic marketing and media content purposes."* Mr. Fisher commented on the move of the Indians' AAA affiliate to Columbus from Buffalo, *"...the Class AAA Clippers will serve as a regional marketing hub and a key source of content for the Sports-Time Ohio regional sports network that is owned in part by the Indians."*

Josh Leventhal
noted the same trend in Baseball America.
*“New marketing opportunities should also be plentiful in Buffalo, where the 400 miles between the Bisons and the Mets have been shortened by the Mets' television network, SNY. Mets games had already become household events for cable subscribers in Buffalo, and the Bisons are confident that will translate into interest in the organization's top affiliate. "Our goal is to see how we can make this a bigger Mets market than it already is," Buczkowski said.”*
(Mike Buczkowski is the VP/GM of the Buffalo Bisons)

The increased involvement of MLB in the affiliated minors is perhaps an example of necessity being the mother of invention. Annual player development costs have risen to an average of approximately $20 million per club. Boston Red Sox Chairman Tom Werner addressed the subject in March with Sports Business Daily. "Every major league club spends about $20 million a year on growing their talent," Werner said. "We have a minor league system and coaches and trainers and all kinds of personnel that just aren't equivalent in football or in basketball, where you have the college system as a way of being their minor league."

Sports economist and consultant to MLB, Andrew Zimbalist , wrote on the subject;

*…MLB teams have to cover very substantial minor league player costs, while the NBA (NBA Development League) and the NHL (AHL and a few players in the ECHL) have modest minor league player costs and the NFL has none.*

*Moreover, the NBA D-League and AHL also generate revenue that helps to defray the player costs. The minor league MLB teams are mostly independently owned and, in any case, the revenue earned does not go to major league teams. Yet the major league team pays the salaries of all the players on affiliated clubs.*

*In 2007, the average MLB team spent more than $20 million on its player development system. Of this, over $11.5 million went to pay the salaries of the minor league players.*

*Generally, each MLB team has six minor league affiliates. Teams also run fall and winter development camps and leagues. Together, an average of 6.2 percent of MLB revenue went* *toward these minor league salaries.*

Player development costs in MLB was raised by Liz Mullen recently in reporting on the diminishing percentage of league revenues being paid out to MLB players. *"Manfred, MLB executive vice president in charge of labor, and other industry experts have said one reason it is not fair to compare the percentage of MLB revenue paid to players to other leagues is that MLB clubs collectively spend hundreds of millions of dollars on player development for players in the minor leagues."* If owners attempt to negotiate the implementation of a salary cap in to the next CBA (see McLane, Attanasio and Pirates' president Frank Coonelly), the calculation/inclusion of player development costs is likely to be a point of contention with the PA. Three years before the expiration of the CBA there are already indications that MLB will likely be seeking to control player development expenses in the next round of negotiations. MLB is expected to revisit the introduction of "slotting" in the Rule 5 draft. (MLB abandoned the position in the last CBA talks) As well, perhaps in reaction to rapidly escalating bonuses being paid to amateurs in Latin America, MLB is publicly supporting international expansion of the Rule 5.

The aforementioned Forbes report, "Minor Leagues, Major Profits" noted how the relationship between MLB and MiLB is benefitting the affiliated minors. *"The great economics of the minor leagues: Player costs--typically between $10 million and $15 million a season for scouting, salaries and bonuses--are paid by the big league affiliates. As a result, margins for clubs that draw well are often fat.."* At SABR38 this summer, attendee Craig Calcaterra blogged about a roundtable discussion with Goldklang Group executive Mike Veeck and Indians GM Mark Shapiro. *"There were several questions about the state of the minor leagues and, not surprisingly, Veeck has some pretty interesting ideas about that. One, which Mark Shapiro agreed with more enthusiastically than I expected, was that given how the major prospects basically jump from AA to the majors anymore, it might be a good idea for AAA to revert to some form of quasi-independent system."* The independent leagues are already a prolific producer of baseball players for the affiliated minors. Bob Wirz reports that in 2008 more than 100 players were purchased from independent leagues by MLB.

Going forward, expect all these trends to accelerate. In particular, controlling player development costs will be a key issue in the next CBA negotiations.

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**Pete Toms** is a staff member of the Business of Sports Network. He can be contacted at *toms1243@rogers.com*