



Original Article

Spring training is under way, a definite indication that the offseason is near its end. Meanwhile, top quality free agents including Manny Ramirez, Orlando Hudson, Orlando Cabrera and Juan Cruz remain unemployed. The [Biz of Baseball](#) and [Buster Olney](#) have recently reported that the free agents who have signed deals are garnering less money and accepting fewer years. (Ignore the Yankees' activity, they are an anomaly) As well, the reports reveal that the percentage of free agents signing minor league contracts has increased substantially. No doubt owners are impacted by the recession but the aforementioned examinations of the softening free agent market reveal that this trend started with the '06-'07 offseason.

[Bob Nightengale](#)

,
[Ken Rosenthal](#)

and

[Nick Cafardo](#)

are amongst the baseball writers reporting on speculation that the PA is concerned that the owners are colluding. Last offseason saw the

[PA expressing the same concerns](#)

. What happened to free agency?

Maury Brown's aforementioned examination of trends in the free agent market suggest that there has been a philosophical change towards free agency in MLB, "...there are some trends that show that going the 'Yankee way' is no longer in vogue". The greater use of "objective analysis" by MLB front offices has resulted in a shift in allocating resources away from free agency and to player development. [The Biz of Baseball](#) reported on this change in November.

According to Maury Brown, "What has happened over the years is a case of viewing free agency as an inefficient avenue in which to build contenders." Increasing investments in the Rule IV draft might also be attributed to the better results that clubs are garnering in the draft, perhaps due to the increased emphasis on "objective analysis" in evaluating amateur talent.

A Detailed Look at the 2009 MLB Free Agent Market

Written by Pete Toms

Wednesday, 18 February 2009 02:23

The increased emphasis on acquiring amateur talent over veteran talent has led to much conjecture that some "Type A" free agents cannot find employment because clubs are now loathe to give up the required "compensatory" draft picks. Stated another way, clubs now value the draft pick more than the proven veteran. [Ken Rosenthal](#) reported that MLB and the PA are facilitating a "sign-and-trade" agreement which would avoid the loss of "compensatory picks" for the club acquiring Type A free agent Juan Cruz while adhering to the provisions of the CBA. (Speculations is the same arrangement could be used for other unsigned Type A free agents)

Many observers believe that the decrease of PED usage in MLB is also diminishing the value of veteran free agents. In a guest column on the state of free agency at [MLBTradeRumors.com](#), Maury Brown wrote, "

...GMs were still enamored with the notion of veteran free agents being of good value over their prime -- the possible 'PED factor'. Now, long-term investments have been pushed aside in favor of one or two-year deals, and a heavy dose minor league contracts."

[Andrew Zimbalist](#)

articulated this same point of view in November.

But the common large-market strategy of building a team with proven, older players is less reliable today than in the past. Older players are more subject to injury, and without steroids and amphetamines to keep their bodies going over the long season, older players' skills and durability diminish more rapidly.

[...]

Amphetamines have been boosting the energy level of older players for five decades. Steroids have been assisting their recovery from injury and building muscle mass for two decades.

With a widely effective new anti-doping policy, the output from aging stars will diminish, as will the competitive advantage reaped by big-market teams that snatch up these players.

The increasing value of youth has been noticed across baseball.

A Detailed Look at the 2009 MLB Free Agent Market

Written by Pete Toms

Wednesday, 18 February 2009 02:23

The signing of players to long term contracts earlier in their careers is an increasingly popular practice, meant to mitigate against the inflationary effects of salary arbitration and free agency . (Dustin Pedroia, Hanley Ramirez, Evan Longoria and Ryan Braun are some examples) The MLBPA is obviously concerned about the impact of this trend and is attempting to stem the practice. [Liz Mullen](#) of the *SportsBusiness Journal* reported in November:

The MLB Players Association is now requiring agents to consult with the union before they negotiate contracts for arbitration-eligible players.

[...]

The move comes as some veteran agents have complained privately that other agents have agreed to long-term, below-market deals in order to secure client fees for themselves.

Some top agents are worried about a trend of multiyear deals for arbitration-eligible and pre-arbitration players that take them through their arbitration years and, in some cases, through their first few years of free agency.

MLB clubs are increasingly less reliant on gate receipts. Greater percentages of club revenues are being generated from sponsorships (signage, naming rights), club owned RSNs and league revenues (national TV contracts, MLBAM and MLBN). [Shawn Hoffman](#) wrote, "*...in 1974, MLB still relied on gate receipts for over 60 percent of its income.*"

In the same article Mr. Hoffman notes,
"Today, gate receipts make up less than one-third of total revenues, as teams have learned the value of diversification."

The current CBA also increased the amount of revenue sharing dollars flowing to the central fund. In a

[separate article](#)

, Mr. Hoffman argues that the declining importance of gate receipts to owners (particularly relative to the burgeoning successes of MLBN and MLBAM) diminishes the contribution of winning to the bottom line and as a result, is a disincentive to invest in player payroll.

A Detailed Look at the 2009 MLB Free Agent Market

Written by Pete Toms

Wednesday, 18 February 2009 02:23

...players are paid to help their teams win games, so their salaries are based on marginal revenue per marginal win. When a team raises its ticket prices or moves into a new stadium, their earning potential rises. In turn, the value of each additional win moves higher, and players will get their proportionate share. But if a new revenue stream doesn't raise its MR/MW ratio, player payrolls won't be greatly affected. MLBN falls into this latter category, as does MLB Advanced Media.

[...]

Don't be surprised if this turns into a collective bargaining issue at some point down the road. The network and Advanced Media will likely bring in \$700-800 million in revenue this year, and the players are mostly being shut out.

While the relatively cautious activity of clubs in this offseason's free agent market is undoubtedly influenced by concerns over declining gate and sponsorship revenues, the credit crisis has also inflated the financing costs associated with signing free agents. In December, [Daniel Kaplan](#) reported on the state of MLB's "credit facility".

MLB teams owe roughly \$30 million to lenders beginning this week in accelerated principal payments sparked by the league's inability to refinance its entire credit facility, according to banking and club sources.

Many middle-market teams that have so far begged off free agency spending this offseason borrow from the credit facility. Those clubs now are faced not just with this week's tab — an average of \$1.5 million for each of the 20 clubs that have tapped the loan pool — but far steeper payments in coming years.

A month earlier, [Mr. Kaplan](#) reported that, "More than half of MLB's teams use the MLB facility because the shared collateral enables them to borrow more cheaply than on their own" This same article quotes sports consultant Marc Ganis on the impact that increased borrowing costs will have on small and mid market franchises.

A Detailed Look at the 2009 MLB Free Agent Market

Written by Pete Toms

Wednesday, 18 February 2009 02:23

Because these clubs, which are the main borrowers from the facility, will have to take money out of cash flow to pay the principal, this will affect how much debt they can hold. Teams are not allowed to hold debt and deferred pay that is 10 times more than cash flow. So suddenly, if cash flow falls, Ganis said, expenses like deferred pay might have to come down.

“There will be less money available to pay players, especially for teams that are at or near the debt ceiling,” he said. “The top players with the top-revenue teams will not be as impacted as the small- and mid-sized market clubs that are much more dependent on cheap available debt.”

A resurgent economy would likely boost the fortunes of free agents in coming years but the impacts of free agency on MLB appear to have passed their peak. Look for “compensatory picks”, the players not sharing in the windfall of MLBN and MLBAM (which for the most part don’t show up on the clubs balance sheets, see [here](#)) and the PA’s attempts to persuade agents to decline long term deals for young stars to all be important issues in the present and near future.

Pete Toms is an author for The Biz of Baseball and a staff member of the Business of Sports Network. He can be contacted at toms1243@rogers.com