Written by Pete Toms
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This week in “Last Week in Bizball”, MLB looks to college baseball as they attempt to reduce player development costs, an alternative take on the importance of competitive balance to the success of professional sports leagues and some quick tidbits.

REDUCING THE COST OF PLAYER DEVELOPMENT

MLB’s goal of reforming the Rule 4 (aka “amateur draft“) in the next round of CBA negotiations (the current CBA expires in December 2011) has inspired much debate amongst baseball pundits. Typically these arguments are focused on the potential of reforming the amateur draft to abet increased competitive balance in MLB. The changes to the draft that are most commonly debated - slotting, allowing trading of picks, expanding the geographic boundaries - are likely part of a larger strategy aimed at resolving a larger problem in MLB. That problem is the hundreds of millions of dollars that MLB spends annually on player development. In his recent paper *Reflections on Salary Shares and Salary Caps,* economist Andrew Zimbalist pegs annual player development costs in MLB at an average of $20 million per club. Of that $20 million, an average of $11.5 million per year is devoted to the salaries of minor league players. According to Mr. Zimbalist, MLB is spending upwards of 6% of their annual revenues on player development. If there is one area in which the MLB business model is inferior to the other “big 4” leagues, it is certainly player development costs. Boston Red Sox Chairman Tom Werner made this point during a conversation with
SportsBusiness Daily
in March 08:

"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."

LWIB, Buster Olney wrote for ESPN that MLB is considering investing in college baseball, in part, to overhaul their player development system.

The health of college baseball is of great concern to Major League Baseball, of course, because it represents another avenue of player development, in the way that college football is a feeder system for the NFL. Historically, the relationship between MLB and college baseball has been shaky at best, largely because they compete for the same players. But in general, the stronger college baseball is, the better off Major League Baseball will be.

So there is sentiment within MLB right now about wanting to help the college game. It could do so, of course, by very publicly funding scholarships, in concert with the NCAA. To put the dollars in perspective, for the cost of one Stephen Strasburg signing bonus of $15.6 million, MLB could fund 390 full $40,000 scholarships at college baseball programs, creating a lure for coaches. In theory, MLB could fund one full ride at every Division I college in the country, which would be a pretty big deal. Or maybe MLB could pick a conference or group of teams in an area where baseball is more prevalent, such as Florida, Texas or California, and fund scholarships there.

In October, Kiley McDaniel wrote for Baseball Prospectus that introducing slotting in the amateur draft will result in fewer high school players being drafted. In turn, this could bring about a *"new golden age"* for college baseball:

A clear pro-club byproduct of the hard-slotting system is that many more high school players will

be going to college. There were 42 millionaires in the 2009 draft, and 30 recommended slots calling for a seven-figure bonus. There were scores of well-over-slot six-figure deals that would not exist in a slotted draft. One agent characterized the ramifications: "The top 20-30 high school players will sign, and once you get out of the first few rounds, it will be all college kids [being drafted]." This would, in turn, change the face of college baseball and the low minors…..

The talent influx would move college baseball toward a new golden age. Most players being drafted will be two or three years older than they are now. Combine that with a possible draft date change, and short-season minor leagues are probably dead. With less roster spots to fill, the draft can (finally) be shortened from 50 rounds. With so much talent playing in college, the exposure and popularity would climb, although it likely would happen slowly. Eventually, college baseball will get to the point where baseball fans may actually know many of the players being drafted. The draft could become a true off-season event like it is for every other sport. This would allow for more evaluation time from scouts, and would create more fans and revenue, helping make baseball more of a year-round media story, like the NFL.

John Manuel , Editor in Chief at Baseball America, wrote last month that a boom period for college baseball may already be underway:

The other bit of news that came out of the ABCA convention in Dallas was how well college baseball as a sport is doing, at least financially. The new TD Ameritrade Park is being built in downtown Omaha and will provide a venue, built at a cost of around $150 million, that is essentially there just for the College World Series. Creighton will play there, but somehow I don't think Creighton would have built a $150 million ballpark with four clubhouses on its own.

Television ratings hit a peak for the CWS in 2009, and interest in the game has never been higher…..

….in the last few years because college baseball has become profitable. The NCAA even referred to baseball as a "revenue sport," lumping it in with men's basketball and football in an Academic Progress Report in 2009.

The MLBPA and MLB need to find a compromise in the next CBA that addresses “rookie compensation”. While “slotting” is seen by many as the key to shifting revenues from rookies to veterans, it is only one element in the larger challenge of reducing the approximately $600 million annual cost of player development. With Michael Weiner’s constituency lobbying for a greater share of the revenue pie, reducing the money spent on player development and shifting it to veteran players could be an attractive solution for both sides. Much needs to happen before the minor league affiliate system of MLB is dismantled or even significantly scaled back. Nonetheless, spending $600 million per year on player development seems an untenable proposition for MLB. Reforming the amateur draft might be only the beginning of much more significant changes in how MLB develops players.

SELECT READ MORE TO SEE AN ALTERNATIVE TAKE ON COMPETITIVE BALANCE, AND OTHER BIZ TIDBITS

AN ALERNATIVE TAKE ON THE IMPORTANCE OF COMPETITIVE BALANCE

The greater the competitive balance in a professional sports league, the greater the popularity of that league. So goes the conventional wisdom of fans and pundits. The importance of competitive balance in MLB has been much discussed since the uber wealthy New York

Yankees won the 2009 World Series. Many argue that the continued dominance of large revenue franchises will lead to fans in small revenue markets losing interest in “their” teams. These same people would point out that while MLB attendance declined approximately 6% for the 2009 season - largely due to reduced capacities in NYC - more worrisome is that 22 of 30 franchises experienced declines, perhaps in part because their fans have lost faith in “their“ teams ability to compete for a playoff spot. Rich Luker of The Luker Co. wrote last month in the SportsBusiness Journal:

…While most of us in the sports industry are focused on keeping our businesses afloat, we need to remember that the financial success of sports is not why we enjoy or watch the games. From my earlier research, I am reminded that the biggest value of being a sports fan is having hope for the outcome and sharing that hope with those who feel the same way.

The NHL, NBA and NFL promote competitive balance in their leagues via the salary cap/floor model. MLB promotes competitive balance via a combination of the Competitive Balance Tax (aka luxury tax) and revenue sharing. In all of the “big 4”, centralized revenues are collected by the league and “shared” amongst the franchises. Some argue that the purpose of these initiatives is more about limiting player compensation than promoting competitive balance. As well, there is a dissenting opinion that greater competitive balance does not result in greater popularity for professional sports leagues. LWIB, Phil Birnbaum compared the EPL to MLB at his Sabermetric Research blog (HT
Rob Neyer
). Mr. Birnbaum notes that there are vastly greater disparities in both payroll and competitive balance in the EPL as compared to MLB, yet the business of the EPL is booming.

So, what I'm thinking is: if British soccer fans can tolerate huge pay differences, and accept the fact that it's almost always going to be one of the richest teams that win ... well, maybe baseball fans can accept that too, especially since it's on a much smaller scale. Maybe the New York Yankees can become baseball's Manchester United, the Red Sox can become Chelsea, and fans of the Marlins and Padres can hope to fluke into the postseason and engineer an upset.

Major League Baseball might very well lose me as a fan if they do that, but if they can make it up in revenues from everyone else, who am I to say they're wrong?

Numerous sports economists have studied the impact of competitive balance on the popularity of pro sports leagues and concluded that it is of little relevance. Economist Dave Berri wrote in 07:

….the link between competitive balance and attendance has been extensively studied…..

And what does this literature indicate? Competitive balance does impact demand, but it doesn't appear to be very "important." At least, dramatic changes in balance do not seem to have a very dramatic impact on league attendance. Given this result, I am not sure the "optimal level of balance" is something leagues should actively seek…

(For more, see The Sports Economist blog here)
Last year both Brewers owner Mark Attanasio and Pirates President Frank Coonelly publicly voiced their support for reducing the economic disparities amongst MLB franchises. However, both men and their small revenue peers must also be aware that success for the Yankees and Red Sox et al (the big markets) benefits them as well. As always, finalizing the next CBA is largely dependent on finding compromise between small and large markets. But a goal of true parity might never be in the best economic interests of MLB.

QUICK TIDBITS

Mike Ozanian of Forbes doesn't anticipate good times for Cubs fans, at least in the short term.

….Major League Baseball winked at some $200 million the Ricketts family loaned the team for working capital and ballpark improvements. MLB is counting this money, in essence a loan from the Ricketts to themselves, as equity because to call it debt would have put the franchise in jeopardy of surpassing the league's debt ceiling of 15 times ebitda…….Last year the Cubs payroll was $134 million, third most in baseball and is stacked with high-priced players with no-trade clauses. The Cubs won 83 games last season and missed the postseason. Their debt and bloated payroll makes it highly unlikely they will be able to improve any time soon.

Harris Interactive released a poll on the preferences of American sports fans (HT Don Walker):

…Of those who follow one or more sport, over one-third (35%) say professional football is their favorite -- an increase of 4% over last year.

Baseball comes next as 16% of sports followers say that is their favorite sport, followed by 12% who say college football. Both of these are unchanged from last year. Football leads over baseball by 19 points: *its lead between 2006 and 2008 was 15 points.*

AND

Each sport has groups of people who are more of a fan and also less of a fan. For professional football, African Americans are more likely to say it is their favorite (45%) as are those aged 40-49 (42%) and those aged 25-29 (38%). On the reverse side, Hispanics (26%), those aged 18-24 (27%) and Westerners (28%) are less likely to say professional football is their favorite sport.

Baseball has its own sets of fans. Hispanics (24%), Easterners (21%) and College graduates (19%) are all more likely to say baseball is their favorite sport while African Americans (7%), those with a post-graduate degree (11%) and Southerners (12%) are less likely to say so.

The Biz of Baseball reported on the lawsuit that MLB Properties recently filed against the trading card company Upper Deck. For more, see The Sports Law Blog he

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