Why Pro Sports Franchises Succeed ... and Fail

by Glen Hodgson and Mario Lefebvre | September 2011

Most pro sports leagues are built around the same business model—individual owners acquire a franchise giving them the right to operate a team within the league. So why, then, do some pro sports franchises succeed while others languish?

In the seven previous briefings in this series, we defined the pro sports market in Canada, assessed and applied the four market pillars for success, examined league competitive conditions and how they play out in reality, and considered who should pay for sports facilities. When the fundamental market and league conditions are right, a pro sports franchise can be very successful.

But as we have seen time and again, franchise success is hardly guaranteed. There can be huge differences in financial and competitive performance among franchises. In this briefing, we assesses the franchise-specific factors that determine whether a professional sports franchise—which is, after all, a business—will succeed in a given community.

Certain key factors can make a good franchise great or, conversely, can undermine a franchise that enjoys otherwise strong market and league conditions. The factors examined here are:

- ownership and management strength;
- the availability of adequate playing facilities; and
- fan support for the team.

Ownership and Management Strength

A key to team success—both athletically (on the field or rink) and financially (off the field)—is the strength of the franchise's ownership and management. Two franchises in the same league can have similar market pillars, yet achieve widely different competitive and financial results over time—and, in most cases, the quality of ownership and management will prove to be the key difference.

Each pro sports franchise has a mixture of ownership, business management, and team management. In terms of ownership, franchises can be owned by corporate entities (such as MLSE, which owns the Maple Leafs, Raptors, and Toronto FC); by a group of owners; or by an individual. The ownership helps to establish the "business culture" of the franchise—and, specifically, the balance between financial results and competitive performance. Some owners are prepared to make massive financial investments in their team in an effort to attain a competitive advantage wherever possible within the operating conditions of the league. Financial results are a secondary concern. Some are concerned principally with financial results, requiring only a performance on the field that is adequate to keep the fans interested. Others impose a spending limit on the management of the team, which is often a sign that the team is on a downward spiral.

The franchise ownership normally hires a management team that runs the franchise as a business but also works to ensure that the team is competitive within the given pro sports league. Key positions in franchise management include a team president, who oversees all business operations; a general manager, who, under the budget provided by the owner and president, seeks out the players that will make the team as competitive as possible; and a head coach, who provides daily guidance to the athletes. (Team competitive performance is a shared responsibility, but the coach is often the fall guy when a team fails to win enough.)

Many different combinations of ownership, franchise business management, and team management can be identified among pro sports franchises. For example, some owners meddle deeply in team affairs, even acting as the team's general manager. Some teams combine the general manager and head coach positions, making one person

responsible for both the selection of player talent and the team's day-to-day performance. The sports media are filled with stories about the mixture of ownership, management, and coaching and the effects on the teams' results on the field.

Chronically weak franchise management and poor decision-making can over time create a self-perpetuating cycle of mediocrity and steady decline. Continued underperformance—such as missing the playoffs year after year—feeds dissatisfaction among the fan base. Fewer fans buy tickets to games or tune in to media broadcasts, which means less money coming in for the franchise. In a bid to remain profitable or to limit losses, the player payroll is reduced. A smaller payroll makes it harder for the team to attract and retain the talent it needs to improve its performance on the field or rink—which further feeds dissatisfaction among the fan base.

There are many cases of pro sports franchises operating in strong business markets but fielding perennially weak teams. These cases may reflect local market conditions, poor ownership and management, or a combination of both. If this cycle is not broken (such as by a change in ownership or management, and/or through brilliant drafting and development of top talent), it will likely lead eventually to the failure of the franchise. The Ottawa Rough Riders stand as a textbook example of a combined ownership-management failure. The franchise, which dates back to 1876, fielded losing teams through most of the 1980s and into the 1990s. The resulting downward spiral only came to an end in 1996 when the franchise folded.

In contrast, the Chicago Blackhawks are a great example of a turnaround in pro sports ownership and management. In 2004, ESPN named the Blackhawks, under long-time owner Bill Wirtz, the worst franchise in pro sports. After Bill Wirtz's death in 2007, his son Rocky assumed control of the team and began modernizing its business practices—including finally allowing home games to be broadcast on local television. Astute drafting, which brought young stars such as Jonathan Toews, Patrick Kane, and Duncan Keith to the Windy City, was another important management factor. Finishing near the bottom of the standings for so many years gave the team a higher position in the entry draft, but that advantage would have meant nothing if management had failed to make the right selections on draft day. Thanks to many right moves by ownership and management, the Hawks went from half-empty stands and failure to qualify for the playoffs as recently as 2008 to sell-outs and a Stanley Cup championship in 2010. What was the key ingredient that led to the remarkably rapid turnaround? In the case of the Chicago Blackhawks, it was clearly the change to the team's ownership and management.

To a lesser extent, the Boston Bruins are also an example of how a good franchise can become a champion through better management. After years of being a perennial contender, the Bruins fell off in the late 1990s and actually failed to make the playoffs in 2006 and 2007. In the strong New England sports market, where many of the other major pro sports have all had championship teams in recent years, the Bruins became something of an afterthought. But changes in management—demonstrated through skilled free agent signings (notably defenceman Zdeno Chara), trades, and drafting—helped the Bruins win the Stanley Cup in 2011, their first championship in 39 years.
While the success of most businesses is measured purely by their financial performance, sports franchises have an added measure of success—their won-lost record on the playing field. There are, of course, many cases of pro sports franchises operating in strong business markets but fielding perennially weak teams. These cases may reflect local market conditions that allow the team to draw well without having much competitive success, or they may be the result of poor ownership and management, or some combination thereof.

The Chicago Cubs may represent the most striking case of sustained failure on the field, despite continued success at the box office. All the other factors we have identified in this briefing series work to the Cubs' advantage—the four market pillars, league conditions, and a historic playing facility. Yet, despite playing to full houses and regularly having one of the top payrolls in Major League Baseball, the Cubs have not won a World Series since 1908. Elsewhere, the National Hockey League's New York Rangers are able to play each home game to a sold-out house at Madison Square Garden and boast a roster that lists some of the NHL's highest-paid players—yet the Rangers have won precisely one Stanley Cup since 1941. Many of the same conditions exist for sports franchises in Toronto, where financial success has not been matched by sustained success on the field or on the ice in recent years.

We know that financial conditions affect the overall performance of governments and firms. In the case of pro sports, questionable financial decisions by ownership can clearly affect the results on the field as well. The English soccer

club Liverpool FC provides a recent example of how ownership, financial management, and team performance are interlinked. In 2007, American businessmen George Gillett and Tom Hicks purchased the club, relying heavily on financial leveraging to complete the deal. They quickly found themselves financially overextended, and they nearly destroyed Liverpool FC's premium brand before selling the club to another U.S.-based group in 2010.

Pro Sports Facilities

To be competitive, a sports franchise needs an appropriate stadium or arena—one that will pull in the fans who pay to watch their sports heroes in action.

The question of who should pay for new sports facilities to be used by professional teams and athletes is a hot topic of public debate and was examined in our previous briefing.1 In an ideal world, both the pro sports franchise and its playing facility would be privately financed and would operate profitably. Unfortunately, things seldom work out perfectly in the real world. It is likely that only a handful of Canadian markets are large enough to allow a pro sports facility to operate profitably as a private venture. Many governments, therefore, face recurring requests and pressure to provide some form of public financial support for pro sports facilities. These facilities can provide quality-of-life and other benefits to society as a whole, especially if governments make use of well-designed financing and governance structures to minimize the financial impact on the public purse. The economic costs and benefits to the community—and to society as a whole—of providing public support for a new facility should be evaluated in order to bring substance to the public debate.

Baseball's brand is particularly tied to tradition while pro football's brand is firmly rooted in the here and now.
To succeed financially, a professional sports team must have a playing facility that is competitive in terms of scale and quality with the rest of the league. The idea of what constitutes appropriate scale and quality for a sports facility has slowly evolved over the years as real incomes have risen and as some pro sports franchises have seen their popularity soar while others in the same city or region watched their popularity fade. Baseball's brand is particularly tied to tradition, and some ancient ballparks are part of that brand. Aged facilities such as Fenway Park in Boston or Wrigley Field in Chicago lack many modern features but are revered for their history. Yankee Stadium was also part of that baseball brand, but the Yankee ownership decided that the benefits of a storied facility were outweighed by the advantages of a new one. The Yankees successfully managed a transition from an old stadium to a new one while keeping the brand of tradition and history alive. Over the past 20 years, many other MLB ballparks—from Baltimore, Maryland, to Arlington, Texas—have combined traditional features or "looks" at their ballparks with modern amenities.

Pro football has its history, too. But its brand is firmly rooted in the here and now—and so are its playing facilities. The newest NFL facilities—such as Cowboy Stadium, home to the Dallas Cowboys and the 2011 Super Bowl—were built to a massive scale (room for 100,000-plus spectators), with price tags to match ($1.15 billion in the case of Dallas), and have every client-friendly amenity imaginable, and then some. The playing facilities for Canadian Football League teams are steadily being upgraded, while the NHL has seen revered historic buildings, such as Maple Leaf Gardens and the Montréal Forum, replaced by larger and more financially lucrative buildings that include more corporate boxes, restaurants, and other places where fans can spend their money. Like the Yankees, the Montréal Canadiens and Toronto Maple Leafs managed successful transitions from revered but aging buildings to modern state-of-the-art facilities without upsetting their fan base.

Fan Support for the Team

The third factor for franchise success is what economists refer to as "consumer taste"—which, in this context, means the evolving appeal of specific pro sports to the consumer.

What determines the appeal of a specific pro sport to a specific local community? We are not marketing experts or sociologists, but our experience as professional economists and our passion for sports allow us to identify some of the top-line factors that can influence fan support for a team.

Tradition and History

The first and most important factor is local tradition and history. Hockey is popular in Canada because it is part of our national culture. Hockey was created in Canada; it has been part of Canadian winter recreation since the mid-19th century. Hockey is a natural sport of choice in a land covered by ice and snow for up to six months of the year. If you were born in Canada, hockey is a part of your identity—whether you played it or not. Even if you weren't born here, hockey has its appeals. It is fast-paced and (unlike North American football) easy to understand. And hockey talk is everywhere—from the evening newscasts to the water cooler at work. The multitude of minor hockey organizations and multi-level junior leagues gives hockey a strong local presence in even the smallest of Canadian communities. And the development of multiple, highly competitive TV sports channels has strengthened the profile and distribution of pro hockey in Canada. With this foundation in place, pro hockey is an easy sell in Canadian communities from coast to coast, which is why there is perpetual debate about whether Canada could sustain more NHL franchises. The success of a pro sports franchise is driven by many factors, notably ownership and management, the home facility in which the franchise plays, and the degree and intensity of fan support.

The story is very different in the southern United States. Hockey's history there is limited. Kids in the suburbs of the South don't play hockey on the streets; they shoot hoops in the driveway. Snowstorms are seen as an aberration to be abhorred, not a natural cycle to be embraced (or at least tolerated and managed). Moreover, the NHL has not succeeded in attracting season-long, significant national TV coverage, a problem that limits its ability to market the game to a national U.S. audience. With such a limited local tradition and so little national media exposure, it is hardly a surprise that Atlanta moved to Winnipeg last spring and that other NHL franchises based in the southern U.S. are struggling—in some cases, after 20 or more years of strong local marketing efforts to sell the game. We don't know what the future holds for hockey in the southern U.S., but the list of challenged southern NHL franchises is long.

Globalization

When it comes to building or maintaining fan support for sports franchises, the forces of globalization can work against local factors such as tradition and history. Globalization has created channels for the global distribution of popular culture and entertainment. Soccer immediately comes to mind as the pro team sport that is most globalized in terms of branding, merchandizing, and media coverage. And not surprisingly, its popularity is rising in Canada. Pro soccer's growth in this country is being propelled by significant grassroots participation and by more media exposure globally and locally. But this growth also reflects an increasingly diverse population. Many new Canadians bring their love for soccer with them when they come to Canada. That "taste" for soccer is being transferred to Canada, which now has Major League Soccer franchises in Toronto and Vancouver, and will gain a third franchise—in Montréal—in 2012. As local interest in soccer grows, fan loyalty for a specific pro soccer team can be developed remarkably quickly. Other pro team sports that have gone global (though not as dramatically as soccer) include basketball, hockey, rugby, baseball, and cricket. As well, many individual pro sports—such as golf, tennis, auto racing, track and field, boxing, and even mixed martial arts—are also popular today around the globe.

Marketing Power

A third factor influencing the success of a franchise is the marketing of the sport or league as a whole, both locally and nationally. In the United States, pro football is the leader when it comes to marketing its product. Over the past four decades, the National Football League has built a remarkable brand. The first Super Bowl was played in 1967. It has since become the most important event on the North American pro sports calendar, far surpassing baseball's World Series and other league championships. Another key marketing move saw the NFL break away from the tradition of overlapping Sunday afternoon games, which it did by staggering start times and by pushing NFL games into primetime on TV with the launch of Monday Night Football in 1970 (and later on with Thursday and Sunday night games).

Another example of the marketing savvy of the NFL is the way it repackages its own product. The NFL relies heavily upon its in-house service, NFL Films, to build the imagery of football and make it widely available to the public. By producing its own programming, the NFL makes its product available throughout the year, including the league's off-

season. And slow-motion filming using multiple cameras, and combined with dramatic music, creates a larger-than-life aura of the game for NFL football fans old and new.

To support the NFL marketing machine, the on-field product itself is in a constant state of evolution, with rule changes designed to generate more offence and scoring, thereby making the game more exciting to fans.

Demographics

A fourth factor driving fan support is demographics. Demographics influence what sports the kids choose to watch (and play). The disposable income levels of various demographic groups also affect sports choices. A detailed comparison of pro sport popularity by demographic group is beyond the scope of this briefing but would provide some revealing insights. A comparison of the demographics of baseball fans versus that of basketball fans, for example, would be particularly interesting, since our casual observation is that basketball today is attracting youngsters in a way that baseball can only look upon with envy.

Conclusion

The success of a pro sports franchise, financially and competitively, is driven by many factors. So far in this series, we have outlined the four market pillars for success, examined league competitive conditions and the financing of facilities, and have now added three factors specific to franchises.

The first is franchise ownership and management. Two franchises in the same league can have similar market pillars, yet achieve widely different competitive and financial results over time due to the quality of ownership and the management hired to run the team.

Next is the home facility in which the franchise plays. While there are some aging baseball facilities that are revered for their tradition, most successful franchises prefer a modern facility that maximizes the fan experience—and the cash flow.

The third and final franchise success factor is fan support. We have identified and examined briefly four elements of fan support—local tradition and history, globalization, marketing power, and demographics—as key factors that determine the degree and intensity of fan support for a given team.

The next step in our analysis will be to apply the three franchise-specific factors identified here to some specific cases. How, for example, do these factors explain the failures of Canadian football franchises in Ottawa? What role did inadequate facilities play in the departure of the Montreal Expos or the Quebec Nordiques? Interested in finding out the answers? Stay tuned.