Some Real-World Examples of Why Pro Sports Franchises Succeed ... or Fail

by Glen Hodgson and Mario Lefebvre | October 2011

Strong ownership and management, adequate playing facilities, and a commitment to building fan support are keys to success when it comes to pro sports franchises. And there is no shortage of examples that illustrate this fact. For fans, professional sports entertainment is fundamentally about “their” team and its success on the playing field.

But to remain consistently competitive, those teams must also succeed financially. Briefing 8 (Why Pro Sports Franchises Succeed ... and Fail) in this series set out the key factors that help determine why some pro sports franchises succeed, everything else being equal, while others languish. These factors include:

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

Examples abound of how these three factors affect the health of pro sport franchises. Here are a few concrete cases.

Ownership and Management Strength

A key dimension of team success, both athletically and financially, is the strength of the ownership and management of the franchise. Ownership helps to establish the culture of the organization. Ownership selects the management team that, in turn, runs the franchise as a business and oversees the team on the field or rink.

For every positive example of sustained ownership and management strength that has resulted in sustained competitive and financial success (such as the National Hockey League’s Detroit Red Wings after Mike Ilitch bought the team in 1982), there are examples of teams that have suffered a chronic failure at the ownership and/or management level. The Phoenix Coyotes, the Florida Panthers, and the Atlanta Thrashers (who have since packed up and moved to Winnipeg) are examples of franchises where something important was (or is) missing at the level of ownership and/or management—problems that go beyond the four market pillars for success1 or the competitive conditions of the league.2

Case 1: Management Matters—The Fumbling of the Ottawa Rough Riders

Over time, weak franchise management and poor decision-making can create a self-perpetuating downward cycle of mediocrity and steady decline that eventually leads to the failure of the franchise. The Ottawa Rough Riders stand as a clear example of combined ownership–management failure and how it can lead to a downward spiral.

The Ottawa Rough Riders were once the pride of Canada’s national capital and its surrounding regions. Founded in 1876, the Canadian Football League team won nine Grey Cup championships, including four from 1968 to 1976. The Rough Riders were a model of a successful—and sustainable—sports franchise during that period. The team was owned by well-capitalized local business leaders and run frugally by managers who treated it as a business rather than a hobby. Although privately owned, the organization had deep community connections through its ownership and its most visible employees—the players. The Rough Riders developed a loyal and passionate (albeit demanding and vocal) customer base. Their fans expected success, but also viewed the team as a source of personal pride. For every positive example of sustained ownership and management success, there are examples of teams that have suffered a chronic failure at the ownership and/or management level.

In the late 1970s, the success started to run out. The descent was slow at first. The Rough Riders had their last winning season in 1979, appeared in their last Grey Cup final in 1981, and won their last playoff game in 1982. While many of the elements for on- and off-the-field success remained in place into the 1980s, looking back it is clear to see that changes in ownership and management during this period were turning points for the franchise. The

franchise changed hands in 1977. And as the franchise began to sputter and then spiral downward, the Riders went through six more ownership changes, starting in 1987 and ending with the folding of the club in 1996.

Year after year of losing seasons led to coaching, management, and—ultimately—ownership changes. Each new owner left the franchise further behind its competitors. On the field, the Riders could not keep up with other CFL teams. And off the field, the franchise steadily lost customers to the increasing entertainment options available in the Ottawa market. Gimmicks, such as pre-game concerts and giveaways of tickets and paraphernalia, proved to be no substitute for fielding a competitive team.

In their final seasons, the Rough Riders went from being merely a bad team to being a public embarrassment. The franchise steadily eroded the one intangible that keeps sports fans coming back to cheer on their team—pride. A fan base that had for decades consistently responded to every hopeful sign finally lost interest.3

The lesson here for all sports franchises is that success is not pre-ordained. It doesn't come by simply opening the stadium doors and appealing to fans' memories of past glories. Ownership must see its investment as a long-term commitment—at least 10 years into the future, not a one-to-five-year team rescue or a quick asset flip. Fans have to be treated as what they are—customers who have choices about where and how they spend their time and money. Finally, quality counts . . . a lot.

Case 2: Liverpool FC—How Ownership, Finances, and Performance Are Linked

Questionable financial decisions by owners and management can clearly affect a franchise's results on the field. The recent history of the English football club Liverpool provides a current example of how ownership, management, and team performance are interlinked. Liverpool FC was acquired in 2007 by two Americans—George Gillett and Tom Hicks—through a leveraged buy-out that relied heavily on debt financing. The new owners were speculating, with borrowed money, that franchise values for top-tier English Premiership football teams would continue to rise as they had during the 1990s and 2000s.

However, the 2008–09 financial crisis and recession, combined with poorer-than-expected results on the field, hurt club revenues. The negative spiral effect soon set in. As the owners became less willing to spend the millions required to acquire new top players, the team's results began to suffer. Liverpool FC supporters became increasingly unhappy with the club's absentee owners. Financial conditions and team performance declined in parallel. And as the team's success on the pitch faded in 2009 and 2010, the financial institutions that held debt in the franchise began to get nervous and to press for repayment. But the U.S. owners were badly overstretched on many fronts, increasing the risk that the owners would be unable to repay the debt that was the financial underpinning for Liverpool FC. By the summer of 2010, the team was facing a growing financial and competitive crisis—and the passionate fan base was beginning to revolt, stalking the owners (literally) and threatening the banks that had provided the debt financing. Ownership must see its investment as a long-term commitment—at least 10 years into the future, not a one-to-five-year team rescue or a quick asset flip.

The situation was resolved in October 2010 through the sale of the club to another U.S. investor, Boston Red Sox owner John Henry. Fortunately for the franchise, the rescue came before the downward spiral could advance to the point of a critical competitive decline and financial collapse. The new owners quickly changed team management, sacking Roy Hodgson and bringing back a popular previous manager, Kenny Dalglish. In early 2011, the team's results on the pitch quickly improved, even as one of its star players (Fernando Torres) was being sold to a hated rival (Chelsea) for £50 million.

Better results on the pitch, combined with stronger ownership, may now help to create a positive spiral, lifting Liverpool's financial and competitive performances and increasing the club's capacity to buy additional top-quality talent. This positive change in ownership, financial strength, and management could propel Liverpool FC back into the top rungs of the English Premier League and Europe once again this season.

Pro Sports Facilities

If a team is to succeed financially, it must have a professional sports facility of appropriate scale and quality. A team's financial success can be derailed by a poor facility, no matter how great the market or how supportive the league conditions. At the same time, financial and competitive success can, in some cases, be restored by the construction of a new building.

Case 3: Montréal's Olympic Stadium vs. Cleveland's Jacobs/Progressive Field

How important is a good venue to the success of a baseball franchise? The lack of a baseball-specific stadium was not the sole factor behind the departure of the Montreal Expos in 2004.4 However, having to play in the concrete confines of Montréal's Olympic Stadium certainly did not help the team's cause. The "Big O" was not designed for baseball. The crowd was far from the field and sightlines were poor. The stadium was supposed to have a retractable parachute-style roof, but it took over a decade after the Expos moved in for the roof to be added—and then it proved to be impractical to retract and was later replaced by a fixed roof. Given how short Montréal summers are, the thought of spending a sunny summer day indoors watching baseball did not appeal to fans—just as sitting in the open for baseball games on a cold April day before the roof was in place had not been an attractive idea. The stadium was also perceived as being too far from the city's downtown core—another strike against it. By the early 1990s, the stadium was showing acute signs of fatigue, and some fans began to fear for their safety after a 55-tonne concrete slab fell on to an exposed walkway in 1991.

While being forced to play in an aging or poorly designed facility can cripple a Major League Baseball franchise, a new facility can help revive it. Just ask the Cleveland Indians. For decades, the franchise was a laughing stock. The Indians played in Cleveland Municipal Stadium—a cavernous, multi-purpose stadium on the shores of Lake Erie that was nicknamed the "Mistake by the Lake." From 1960 to 1993, the Indians managed just one third-place finish and six fourth-place finishes. The rest of the time was spent at or near the bottom of the standings. That began to change in the early 1990s, as ownership made a concerted effort to rebuild the franchise—including the construction of a new $175-million downtown ballpark that was financed on a roughly 50-50 basis by private and public sector money. The Indians opened Jacobs Field (later renamed Progressive Field) in 1994. Attendance took off, and so did club revenues and the ability to spend on players. By August, the Indians were trailing their division by only one game—at which point the players strike wiped out the rest of the season.

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The strike marked the beginning of a long slide to oblivion for the Expos. But when baseball returned in 1995, the Indians—playing in their new ballpark—continued to soar. Cleveland sprinted to a 100–44 record5 in 1995, winning its first ever divisional title. Cleveland then went on to a World Series berth for the first time since 1954. With tickets for every home game sold out before opening day, the Indians would repeat as AL Central champions in 1996—and they would do so again for three more years.

What a difference a quality facility can make! Baseball was a hit in Cleveland once again. No, it was not just due to the new downtown ballpark. And yes, there have been some losing seasons for the Indians in recent years. But the venue was a major part of the ownership's plan to turn the franchise around. And while the Expos did not pack up and move to Washington solely because they were stuck in the Big O, playing in an aging and non-baseball-friendly stadium certainly contributed to the team's problems.

Case 4: Replacing Le Colisée de Québec

While not as strikingly bad a venue as the Olympic Stadium, Le Colisée de Québec posed serious limitations on the Québec Nordiques franchise. The arena was home to the National Hockey League club from 1979 to 1995. By the end, it no longer met the requirements of a competitive NHL franchise. At a little over 15,000, its seating capacity was low. But Le Colisée's biggest shortcoming was its low number of corporate boxes. With player salaries rising rapidly, NHL teams needed the additional revenues that corporate boxes provide—but you can't sell more boxes if you don't

have them. (The Winnipeg Arena—home to the first incarnation of the Winnipeg Jets—faced the same limitations.) An aging arena was not the sole reason why the Nordiques left town, but it was one of the key factors behind the problems the franchise faced.

Today, plans to bring the Nordiques back to Québec City include the construction of a brand new arena. Any serious attempt to bring back the Nordiques must include the construction of a new venue (just as any attempt to bring the Expos back to Montréal would require a new playing facility, ideally in downtown Montréal). The challenge for Québec City will be to reap the maximum socio-economic benefits from any public investment in a facility, at the lowest cost possible to taxpayers.6

Fan Support

The third factor for franchise success is the evolving appeal of specific pro sports to the consumer. All professional sports leagues and franchises need to be aware of how demographic trends and consumer tastes are evolving in their markets.

For example, an aging population might be good news for professional baseball, since older fans may be more attracted to the slower pace of the game. On the other hand, it could be a concern for hockey if it turns out that older fans are less attracted by the fast and sometimes violent game. Or an aging population could be a positive challenge for professional hockey franchises that develop marketing strategies aimed at retaining or attracting older fans (and their greater disposable incomes). The same holds true when it comes to winning young fans. Professional sports teams must work hard to attract young people to the game, since these fans will make up the sport's future client base.

Another very important phenomenon that professional sports teams must understand and integrate in their business models is the globalization of the population. Some markets are home to a large influx of immigrants every year. Toronto, Vancouver, and Montréal account for a significant share of Canada's growing immigrant population, and professional sports franchises must adjust to this new reality. It's no surprise that MLS pro soccer has taken off in these cities with their rapidly growing foreign-born populations. In Toronto, over 40 per cent of the population today was born outside Canada. For many, soccer is their team sport.

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While newcomers to Canada make up a rapidly growing part of the potential fan base, average incomes among recent immigrants lag behind those of other Canadians, which may constrain their purchasing power when it comes to pro sports. Still, ignoring the demographic reality today could hurt the financial viability of professional sports teams in the future.

No matter the origin or the age of a fan, and no matter the adequacy of the marketing campaign, the ultimate strategy for any professional sports team is to put a quality product on the field or rink. People love a winner, and putting together a competitive team will sustain and grow fan interest. An individual may not be a fan at first, but he or she will soon enjoy the atmosphere a winning team generates within a community—gathering with friends to watch important games and maybe even participate in a victory parade at the end of the season. Professional sports can bring people together, and winning sure helps do that.

Conclusion

Throughout our Playing in the Big Leagues series, we have demonstrated that when the fundamental market and league conditions are right, a pro sports franchise can succeed in a given market. And as described in our eighth briefing (Why Pro Sports Franchises Succeed . . . and Fail), strong ownership and management can make a good franchise great. Conversely, poor ownership and management can undermine a franchise despite strong market and league conditions—as we saw with the demise of the Ottawa Rough Riders and the struggles of Liverpool FC before new owners were brought in. We also see it in the continuing saga of most of Toronto's pro sports franchises, which

are generally successful financially but less than successful on the field or ice. A quality playing facility can also make a huge difference to a franchise's success. That lesson can be clearly seen in the diverging stories of the baseball facilities in Cleveland and Montréal and their contribution to the home teams' success or failure. Then there is the case of Le Colisée in Québec City and why a new facility is absolutely essential to any efforts to bring an NHL team back to Quebec.

Lastly, there is the link between fan support for a given team and the evolving demographics in a community—and how important it is to adapt the team's market positioning to those demographic realities.

Future briefings in this series will draw upon the full analytical structure we have developed so far (the four market pillars, league competitive conditions, who pays for new facilities, and franchise-specific factors) to provide a base for further assessing various aspects of the economics of pro sports in Canada and beyond.

Next up is a look at the success (or lack thereof) of Toronto professional sport franchises, followed by a look at how many franchises the CFL could sustain in Canada. Later on, we will assess how many NHL teams Canada could support. Stay tuned.