

The Pro Sports Market in Canada

by [Glen Hodgson](#) and [Mario Lefebvre](#) | February 2011

Fans live and breathe sports. Their emotions soar and plunge alongside the fortunes of their favourite teams. But pro sports are more than just a passion—they are, first and foremost, big business.

Introduction

Professional sports teams hold a special place in the hearts of many of us. Sports fans everywhere—including millions of Canadians—feel a deep emotional attachment to “their team.” The team brand matters. There is a strong sense of loyalty to that brand, and there is the emotional roller-coaster that many of us ride with every win or loss. Witness the behaviour of Montrealers in the spring of 2010 as the Canadiens progressed through to the third round of the Stanley Cup playoffs—much further than almost anyone had expected. Fans poured out into the streets after each game to wildly celebrate a Canadiens victory or to mourn a loss. Similar scenes have played out along Calgary’s Red Mile, and in downtown Edmonton and Ottawa when those cities’ NHL teams made it to the Cup final in recent years.

The ultimate Canadian team—the one that brings together fans of all ages from across the country—is the men’s Team Canada hockey squad, assembled every four years for the Olympic Games. When Sidney Crosby scored the “golden goal” to defeat the U.S. in overtime and give Canada the gold medal at the 2010 Winter Games in Vancouver, the country cheered as one.

Conversely, witness the agony felt by Canadian fans as they watched the country’s best juniors collapse in the third period and lose to Russia in the gold-medal game of the 2011 World Junior Hockey Championships. Such pain is not limited to hockey. Saskatchewan fans thought their Roughriders had won the 2009 Grey Cup. But their joy was put on hold when a penalty for too many men on the field gave the rival Montreal Alouettes one more chance to kick a field goal for the victory and the Cup. The kick was good. The Als were suddenly the victors rather than the vanquished. And the Roughrider fans were crushed.

Perhaps the longest-lasting pain has been felt by hockey fans in Québec City and Winnipeg, who lost their teams when the Nordiques moved to Colorado and the Jets to Phoenix in the mid-1990s. (Then, of course, there is the never-ending pain suffered by Leafs fans who have gone 43 years, and counting, since their team last won the Stanley Cup. The long gone but not forgotten [nor lamented] former owner, Harold Ballard, haunts them still.) Perhaps the longest-lasting pain has been felt by hockey fans in Québec City and Winnipeg, who lost their teams when the Nordiques moved to Colorado and the Jets to Phoenix in the mid-1990s.

The events in Québec City and Winnipeg remind us that there is an important dimension to pro sports teams. They are not just sources of pride or misery (civic and personal)—they are also businesses. (That pro sports teams are referred to as “franchises” underlines this fact.) The emotion of fan support can sustain a team in the short term. But, with few exceptions, economic forces rule over the longer term and a franchise must be financially viable. Some pro teams remain “cash cows” whether they win or lose. A few are the personal possessions of very wealthy owners who aren’t that concerned if the team makes money or not. Others become money pits for owners who do care about making money, and these teams eventually move, are sold, or simply fold. There is also another economic layer attached to sports franchises—the socio-economic impact of a franchise on the surrounding community.

What, then, are the conditions that make a professional sports team successful—at the bank, and maybe even on the field or rink? And what are the various economic impacts of professional team sports? That is the subject of this briefing series, as written by two self-confessed jock economists.

The Pro Sports Market in Canada

There are many professional sports leagues and teams operating in Canada. And while hockey is the most popular professional team sport in Canada, professional football, baseball, and basketball all have a wide Canadian audience. The popularity of pro football is rising quickly and steadily, thanks to superb marketing by the National Football League (NFL) and the ongoing success—particularly out West—of the Canadian Football League (CFL).

After at least two false starts, professional soccer in Canada is also on a growth path. And while it still trails the other four major pro sports, professional soccer in Canada will get another boost when two more Canadian cities join Toronto FC in North America's premier soccer league—Major League Soccer (MLS). Vancouver will enter the league this year, and Montréal joins in 2012. Pro indoor lacrosse (or “box” lacrosse) also has its moments of mainstream success, with National Lacrosse League teams in three Canadian cities.

Most of these team sports also have professional leagues at the minor-league level. These minor leagues act as professional training grounds for pro athletes trying to make it to the top. There are four American Hockey League (AHL) franchises operating in Canada. It can be argued that top-tier junior hockey is also a professional minor league—although the players receive modest stipends rather than salaries. This level of quasi-professional hockey is played under the banner of the Canadian Hockey League and is spread across three top-tier junior leagues that operate in Quebec and Atlantic Canada (the QMJHL), Ontario (the OHL), and Western Canada (the WHL). These leagues have franchises in cities and towns across Canada, as well as in several U.S. communities.

Minor league baseball in Canada dates back to 1854 with the founding of the Young Canadians of Hamilton. Teams have existed in many Canadian cities and in many different leagues ever since.¹ There has been a high degree of turnover in Canadian minor league baseball franchises in recent years, and teams are more and more likely today to be independent operations without a major league affiliate. There have also been minor league professional basketball teams operating in Canada from time to time, and there have been professional soccer teams competing outside the MLS.

Minor league baseball in Canada dates back to 1854, with the founding of the Young Canadians of Hamilton. Whatever the league or the level, Canadians have long had a rich mix of professional team sports events from which to choose.

Keeping track of pro sports franchises is always a challenge since they are in a seemingly continuous state of change. Table 1 provides a snapshot of franchises across the country.

As of February 2011, Canada was home to six NHL franchises, eight CFL franchises, one MLB franchise, one NBA franchise, one MLS franchise (with two more to join over the next two seasons) and three NLL franchises. There are also American Hockey League (AHL) franchises in Abbotsford, Hamilton, Toronto, and Winnipeg. Though not considered “major” league, the AHL is a true professional league.

How Big Is the Canadian Pro Sports Market?

One of The Conference Board of Canada's key areas of expertise is estimating and evaluating the economic footprint of various sectors of the Canadian economy. In a perfect world, we would measure and evaluate, in detail, the economic footprint of Canada's professional team sports market or sector, using Statistics Canada aggregate data as a foundation, and providing our own estimates of the economic effects. A detailed assessment would need to take into account a wide variety of factors, including the direct and indirect benefits for the economy of these franchises, and the “leakages” from our economy in terms of imports, savings, and player salaries that are eventually transferred abroad. However, producing that kind of detailed estimate of the economic footprint of a specific sector requires significant staff time. To complete this task, the Conference Board would require the financial support of a project sponsor.

Nevertheless, acquiring the data for assessing the estimated revenues and operating income of most professional sports teams—key pieces of information in any detailed estimation of the economic footprint of the professional team sport market or sector in Canada—is relatively easy.

Table 1
Major League Canadian Professional Sports Franchises by City and League

	National Hockey League	Canadian Football League	Major League Baseball	National Basketball Association	Major League Soccer	National Lacrosse League
Calgary	Flames	Stampeders				Roughnecks
Edmonton	Oilers	Eskimos				Rush
Hamilton		Tiger-Cats				
Montréal	Canadiens	Alouettes	Expos (1969–2004)		Impact (2012–)	
Ottawa–Gatineau	Senators	Rough Riders (1876–1996) Renegades (2001–06)				
Québec City	Nordiques (1979–95)					
Regina		Saskatchewan Roughriders				
Toronto	Maple Leafs	Argonauts	Blue Jays	Raptors	Toronto FC	Rock
Vancouver	Canucks	B.C. Lions		Grizzlies (1995–2001)	Whitecaps (2011–)	
Winnipeg	Jets (1979–96)	Blue Bombers				

Source: The Conference Board of Canada.

Let's start with Canada's National Hockey League franchises. These franchises are privately owned businesses, and their detailed financial reports are not released directly. However, because professional sports leagues usually have a revenue-sharing agreement and/or a collective agreement with their players, they have to file their financial results with the league office. This information then enters the public forum through team valuations that are done every year, with estimates provided by the U.S.-based, business media giant Forbes being the most widely used. Such is the case for the NHL.

The Forbes estimates of revenues and profitability for Canadian teams in the NHL, MLB, and NBA are provided in Table 2. With the Canadian dollar trading more or less at par with the U.S. dollar, the exchange rate essentially can be taken out of the current estimates. (Canadian NHL teams pay their players in U.S. dollars, while most of their revenues are in Canadian dollars—so the exchange rate matters to their financial results.)

This information can be corroborated through the team salary cap as negotiated by the NHL and its players. The overall cap is equal to 57 per cent of the teams' operating revenues. And for the 2010–11 season, the cap was set at US\$59.4 million per team. We therefore know that NHL teams generated, on average, revenues of just over US\$100 million in 2009–10. Anecdotal evidence, as shown in Table 3, indicates that five of the six Canadian NHL teams are near or well above the league average in home attendance, so we know the league average would be a conservative revenue floor for each Canadian team.

Table 2
Estimated Canadian NHL, MLB, and NBA Franchise Revenues and Operating Income, 2010
(\$ millions)

Franchise	Revenues	Operating Income
Toronto Maple Leafs	187	85.7
Montreal Canadiens	163	53.1
Vancouver Canucks	119	17.6
Calgary Flames	98	4.6
Ottawa Senators	96	–3.8
Edmonton Oilers	87	8.2
Toronto Raptors	133	18.0
Toronto Blue Jays	163	13.1

Source: Forbes.

Table 3
Canadian NHL Teams—Average Attendance
(per game, after 20 home games, 2010–11 season)

Rank	Franchise	Attendance
1	Montreal Canadiens	21,273
4	Toronto Maple Leafs	19,308
5	Calgary Flames	19,289
8	Vancouver Canucks	18,860
14	Ottawa Senators	17,914
18	Edmonton Oilers	16,839

Source: National Hockey League; My NHL Trade Rumours. com.

In short, the available data suggest that, although there are sharp differences among the teams in terms of operating income, the six Canadian NHL franchises have a revenue footprint within the Canadian economy of about \$750 million.

The window into the CFL's finances is also quite transparent. Three CFL teams are "community-owned." These teams have a very large number of small investors and a business model, balance sheet, and income statement that have been built up step-by-step over a long period of time. And because they are community-owned, the financial reports for these CFL franchises are widely available to the public.

In 2009, the Saskatchewan Roughriders had a great year financially, reporting a profit of \$3.1 million on gross revenues of \$30.9 million. The Edmonton Eskimos reported \$15.2 million in operating revenue for the 2009 business year, and net operating income of just over \$500,000. The Eskimos were just below the league salary cap of \$4.2 million, meaning that player salaries were only about 30 per cent of total operating expenses. The Winnipeg Blue Bombers reported operating revenue for the 2009 business year of \$14.5 million, but an operating loss of \$1.2 million. However, much of the loss was due to severance costs related to the firing of the head coach and most of his assistants. Despite a disappointing 7–11 record that saw them miss the playoffs, the Bombers exceeded the league salary cap.

This public financial reporting from three long-time and stable CFL franchises suggests that the CFL generates annual revenues between \$120 million and \$150 million (again, with a significant variation in revenues and earnings among the teams).

The Toronto Blue Jays and Raptors also generate significant annual operating revenues. The Forbes data in Table 2 indicate that these two franchises generate \$300 million in annual revenue and operate profitably. The three MLS franchises listed in Table 1 will obviously generate additional pro sports revenues going forward, as will the NLL and the various minor league teams.

Hosting the World Junior Hockey Championships has become almost an annual event in Canada. Canada hosted the tournament in 2006, 2009, and 2010, and will do so again in 2012. The 2009 tournament in Ottawa generated an estimated \$80 million in total economic activity.

Hosting the World Junior Hockey Championships has become almost an annual event in Canada. Even curling—with its Brier championship and pro circuit—could be added to the list of team sports that generate significant revenue and local economic benefits.

Non-team pro sports—such as golf, tennis, motor sports, boxing, and mixed martial arts—also generate significant revenue in Canada. The most lucrative once-a-year professional sport event in Canada is the annual Formula One (F1) event in Montréal. According to media coverage, 115,000 people attended the actual F1 race in 2010, and 300,000 attended at least one F1 event over the race weekend (two days of qualifying followed by the race on Sunday). A typical ticket package for the full event was about \$300, which included a good \$200 seat for the official race on Sunday. Tickets for the best seats were considerably higher than that. Overall, our back-of-the-envelope estimate is that ticket sales alone for the F1 event could be as high as \$40 million.

Given the significant economic multiplier benefits for a community holding the race—including spending on accommodation, travel, meals and drink, and related entertainment, as well as the F1 event itself—it's no surprise that governments at the local, provincial, and federal levels all fought hard to convince the F1 organizers to return to Montréal after a one-year break.

In sum, our simple estimations indicate that combined pro sports revenues for Canada are at least \$1.5 billion annually, but likely even higher. (A deeper economic analysis would include the additional economic multiplier effects—but also the leakages—for communities, regions, and for the economy as a whole.) Overall, professional sports are more than just entertainment in Canada—they are big business.

Next Steps

There are many questions concerning pro sports that can be addressed using an economist's analytical framework and kit bag of tools. Are the existing professional sports teams the only ones that Canadian communities can support financially? Is there room for an additional NHL franchise? Perhaps more than one? Is the CFL condemned to remain an eight-team league forever? Or is expansion—starting with Ottawa in 2013, but not ending there—a viable option? What about the future of MLB or the NBA in Canada? Will an NFL franchise come to Canada? Can a league expand too far and too quickly, thereby putting the financial success of existing franchises at risk?

Is there room for an additional NHL franchise? Perhaps more than one?

Throughout 2011, The Conference Board of Canada's Forecasting and Analysis division will publish a series of briefs, using economic analysis and knowledge to examine the professional team sports market in Canada. We will consider what it takes for a city or region to host a successful professional sport franchise. We will ask the politically charged questions: Who should pay for new playing facilities? And is there a role for the public sector? We will explore the emotional but business-based issue of why the Montreal Expos, the Quebec Nordiques, and the Winnipeg Jets all had to move to the U.S., and how these pastures did not always turn out to be greener. More critically, we will examine whether any of these franchises have a realistic chance of moving back across the border to a Canadian home. And we will look at the underlying conditions required to make a pro sports franchise a business and competitive success in Canada.