Competitive balance

Remaining competitive, on and off the field, in a crowded US sports landscape is priority number one for any franchise based outside of North America's so-called 'big markets'. John Angelos of the Baltimore Orioles and the Mid-Atlantic Sports Network explains what he thinks could be done to level the playing field in Major League Baseball.

By Ian McPherson. Photographs by Graham Fudger.

"I want to have as many peaks and as few valleys as I can. I'm not going to go for broke to win the world championship every year."

At its most basic level, as a series of wins and losses, baseball is a simple game. "You're going to win 60 games and lose 100, or you're going win 100 and lose 60, or somewhere in between," says John Angelos, the executive vice president and chief operating officer of the Baltimore Orioles Major League Baseball (MLB) franchise. "So the issue really is that middle ground, those 40 games, which way is it going to go in a given year?"

As a business, however, baseball is a whole other ballgame. "Our ownership group has been involved in sports and media for just over 20 years, but when we began the process, being new to it, I don't think we knew exactly where we stood," admits Angelos, sitting in a bustling media room inside London's Stamford Bridge stadium during the Leaders Sport Summit in October. "We knew we had a brand, a franchise and a venue, but over time we came to realise that in addition we owned content, we owned the access to develop media platforms, create separate subsidiary entities – specifically a regional sports network. We began that process about 12 years ago and perfected it seven years ago."

The Orioles compete in the East Division of MLB's American League and, as an on-field entity, are practically the embodiment of a middle of the road team. A record of 93 wins and 69 losses in 2012 was slightly better than the league average, while attendances of just under 30,000 throughout the regular season left them a touch shy of the median compared to MLB's other 29 franchises. Meanwhile, according to *Forbes*' 2013 rankings, the Orioles are baseball's 17th most valuable franchise, with an estimated value of US$618 million. With all metrics pointing toward mid-table safety – neither rubbing shoulders with the league's elite nor fighting for survival with its 'small-market' strugglers – Angelos and the Orioles' front office are realistic about their ambitions.

"Your goal," he says, "to be a responsible steward of the franchise and to make your investment return, is to say, 'I want to have as many peaks and as few valleys as I can. I'm not going to go for broke to win the world championship every year, or even to make the play-offs. I need to run my team so I'm going to be in contention, competitive. And I'm going to market the team with that in mind. I'm not going to make promises I can't keep.'"

Baltimore Orioles executive vice president John Angelos, pictured on 10th October at London's Stamford Bridge during the Leaders Sport Summit

That ethos has clearly been put into practice as the Orioles have consolidated their on-field product and expanded their off-field operations since the franchise was sold for US$173 million by Eli Jacobs in 1993. The incoming ownership group was headed up by Baltimore attorney Peter Angelos – John's father – and included bestselling author Tom Clancy, who passed away in October 2013. With one of the strongest records in baseball – between 1960 and 1997 the Orioles had the highest winning percentage in all of MLB – the team's sporting performance was sound. Commercially, however, the franchise possessed a vast amount of untapped earning potential.

"When a new ownership group comes in and buys a franchise in baseball," Angelos says, "they're not just buying the franchise rights – the marks, the venue. They're buying a media territory. They are buying a television territory that is memorialised in the Major League Baseball constitution as to what territories are exclusively owned by each franchise."

With that in mind, the Orioles launched their own 24-hour regional sports network (RSN), the Mid-Atlantic Sports Network (MASN), in July 2006. Today the network, of which John Angelos is president and chief operating officer, carries all of the Orioles' games, along with Washington Nationals MLB games and an array of college sports. Angelos and the Orioles were able to establish an RSN because, in comparison to the National Football League (NFL), the National Basketball Association (NBA) and the National Hockey League (NHL), MLB operates a distinctly decentralised rights model.

"It's clearly decentralised in the case of media rights and you buy that as an asset," explains Angelos. "That's why franchises have the asset value that they do and are transacted at the price levels they are."

Indeed, the revenues generated by a team's regional broadcast deals can be astronomical, with multi-billion dollar price tags increasingly common. For instance, the Texas Rangers agreed a 20-year, US$3 billion extension to their broadcast deal with Fox Sports Southwest in September 2010, which equates to around US$150 million per season, while the Los Angeles Dodgers struck a US$7 billion, 25-year contract with Time Warner Cable in January 2013 and will launch their own RSN, SportsNet

Slotting in: the MLB Draft

Major League Baseball (MLB), despite its many "inequalities", has installed some measures to promote competitive balance, such as extending the number of play-off places to ten ahead of the 2013 season – a feature of the 2011 collective bargaining agreement (CBA) – and introducing a stricter 'slotting' system for the player draft.

The latter involves a rather complicated system whereby each team is allocated a pool of funds to spend in the first ten rounds of the draft, while draft picks in the first ten rounds are assigned a certain value. That value, or 'slot', depends on when the player is chosen. The first overall pick in the first round of the draft has the highest value, while the second pick's value is slightly lower and so on.

Rather than being a cast-iron rule, the slotting system in place prior to 2011 was generally regarded as a loose guideline offered by MLB and its commissioner, Bud Selig, who will retire from the post in January 2015 after two decades in the role. As such, it became the norm for teams to overpay for a player compared to his slot. Though the new rules are intended to "equalise smaller-market clubs being outbid by larger-market clubs", John Angelos, the executive vice president and chief operating officer of the Baltimore Orioles, claims that the new restrictions have proved "counter-intuitive" for some teams. In effect, teams from smaller markets – and, consequently, with a smaller lure for players – previously had the opportunity to improve their sway in the draft by offering slightly over the odds for an individual. In the draft that amount might be the difference between a US$2 million and US$2.5 million contract, whereas in free agency players' contracts swell to well over US$100 million. Now, with the new restrictions, that approach has been limited somewhat.

Ironing out the wrinkles in the league's CBA only goes so far, though, and Angelos argues that fundamental changes are needed in the structure of MLB's draft system to improve its reliability. "Of course the NFL has an advantage because they have a virtually all-college draft," he says, explaining that the Orioles currently have around 200 players on their books across the minor league system. "They have a feeder system that's given to them essentially by the NCAA [National Collegiate Athletic Association] model. That makes their draft really reliable. The draft in baseball is inherently unreliable; almost 90 per cent of the players drafted never make it to the major leagues.

"The MLB draft is not a college draft, like the NFL or to some extent the NBA. MLB is an amateur draft, where you're drafting four-year college players, two-year junior college players, high school players and, to some extent, international players that qualify for the draft. When you draft from college and junior college and high school, then you're not funnelling all the players, particularly the high school players, through the NCAA model. You're splitting up the pool."

LA. Meanwhile, the San Diego Padres' 20-year deal with Fox Sports San Diego is thought be worth over US$1.2 billion.

Angelos explains that because of MLB's "ticket-oriented and local revenue-oriented business model", teams generate between 70 and 75 per cent of their revenues from their local markets, whereas the opposite is the case in the NFL, "where 70 to 75 per cent of the revenue comes from the league office". However, given that MLB is a globally recognised brand that sells nearly 80 million tickets each year, even the relatively limited inventory of rights that the league retains centrally – which includes international broadcast and licensing rights, merchandising in the US and nationwide domestic media rights – still yields billions of dollars in revenue. The US$12.4 billion that MLB is set to receive over the eight-year period between 2014 and 2021 from national broadcasters Fox Sports Media Group, Turner Broadcasting System and ESPN is a case in point.

Though a decentralised structure has its benefits – RSNs are hugely lucrative properties, with *Forbes* quoting a value in the region of US$600 million for the Orioles' MASN – it also has major pitfalls. Perhaps chief among them is the lack of equality that the model can breed. Angelos argues that, in order to remedy the league's current state of competitive imbalance, MLB could look to introduce NFL-style "parity mechanisms". These, he says, would focus on two principal areas: national television coverage and the league's revenue sharing model.

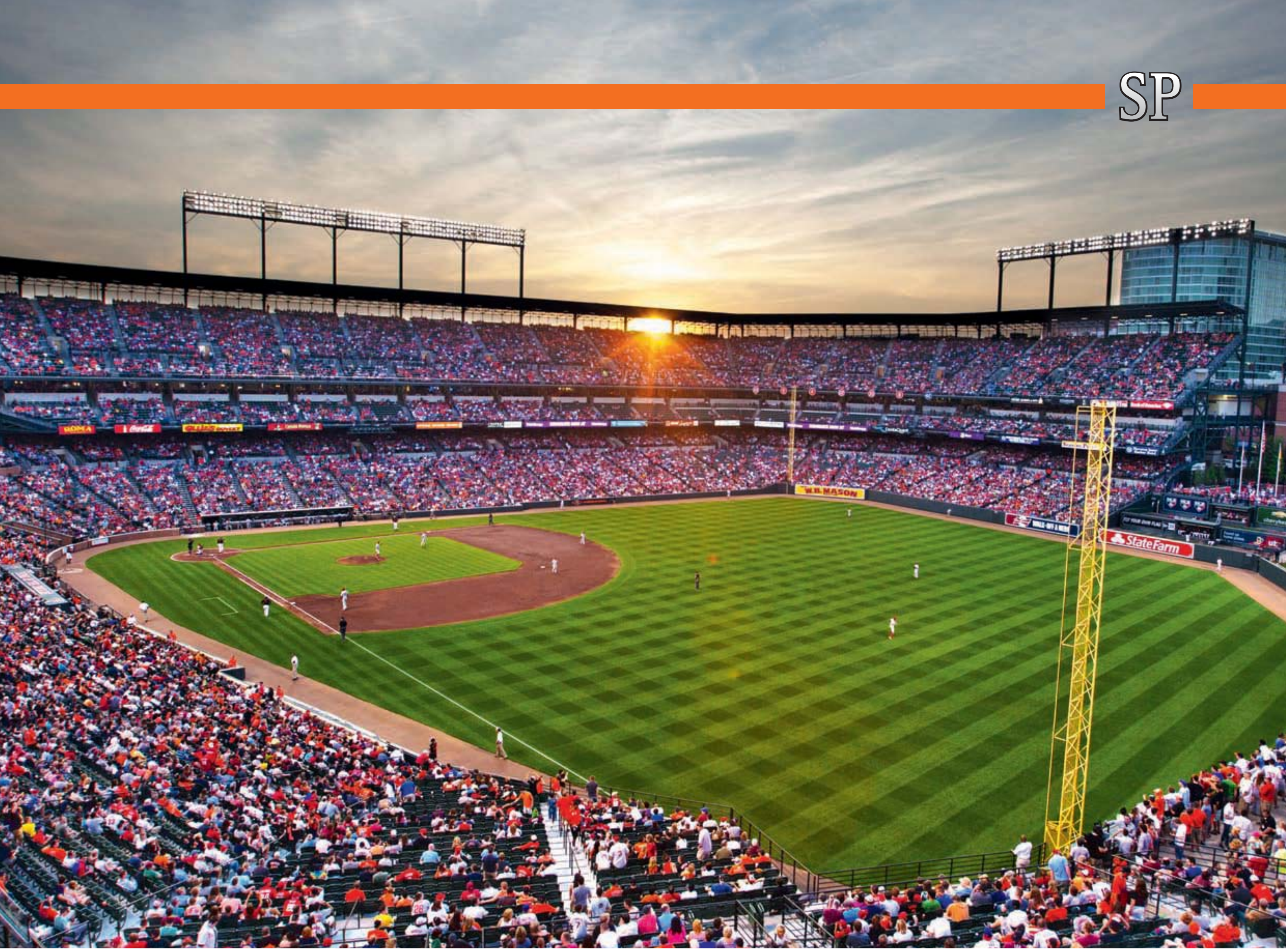
National television coverage

"National broadcasters have a cap on how many games of an individual team they can select," Angelos begins. "So at the maximum the [New York] Yankees can be selected ten or 12 times, same with the Orioles, same with the Kansas City Royals. They can't pick all Yankee games. They've got to pick a certain number of every team.

"There are some clubs that view those limitations as not adequate, that want to see the national rights holders required to pick more of a panoply of games and not be able to load themselves up with certain big-market games."

Angelos admits that the Orioles are among the clubs that share that view and explains that MLB could be perceived to be crafting its national broadcast arrangements in order to sell the league on the strength of its big-market, "marquee teams" rather than the combined strength of all its franchises. "You need to say Kansas City Royals baseball, Oakland A's baseball is as important as Yankees, [Boston] Red Sox and [Chicago] Cubs baseball," he adds. "Otherwise, how do you grow the Royals and the A's from 1.8 million tickets to 2.2 million tickets?"

Angelos would prefer a model built around "30 clubs, not five or ten marquee, a lot of them and a little bit of the other 20", and points to the NFL's national broadcast strategy as an example of what he would like to see developed in MLB.



In MLB's "local revenue-oriented business model", Angelos says, teams like the Orioles earn up to 75 per cent of income from sources such as ticket sales

"If this Sunday they're promoting the New York Giants against the Chicago Bears then so be it," he says. "And if the four o'clock game is the Detroit Lions and the Green Bay Packers, which are very different markets, then so be it. You get the impression that the rights holder and the league are behind and promoting the 32 franchises equally. It's just a different approach.

"[The NFL] said, 'We're going to have a Jacksonville, we're going to have a Green Bay, and the only way we can have those markets is if we can sustain those markets and support them.' And the way to do that is across-the-board parity and competitive balance mechanisms, national rights television deals and a strategy that markets and promotes all clubs as the way to market the strength of the NFL.

"If the NFL moved from the rules they have today," Angelos adds frankly, "with a parity mechanism and their CBA [collective bargaining agreement], to the baseball arrangement or even to what goes on in the other leagues, they would have to roll up franchises like Green Bay. You could never sustain them except in the way the NFL does it."

Revenue sharing

Parity mechanisms extend far beyond national TV coverage, and each league's CBA with its players' union – the Major League Baseball Players Association (MLBPA) in MLB's case – is pivotal in promoting competitive balance.

MLB's current five-year CBA, which was agreed in November 2011, notably included a clause relating to blood-testing of players for human growth hormone – an addition which became particularly notable in the summer of 2013 when Yankees third baseman Alex 'A-Rod' Rodriguez received a 211-game ban for using performance-enhancing drugs. It also dictates the league's salary boundaries, including the 'luxury tax' on teams with the highest payrolls and the minimum player salary, which sat at US$480,000 in 2012 and will escalate to US$500,000 over the CBA's tenure.

Despite these boundaries, Angelos stresses that MLB continues to display "the greatest amount of inequality" of the four major sports leagues in the US, and would benefit from adopting the NFL's "almost full" revenue sharing model, which would go some way to eliminating the distinction between "haves and have nots" in MLB. "[The NFL] have salary caps, they have salary floors, and you have to have both," he argues. "You can't just bring down the big spenders because that takes compensation money away from the union. You've got to bring up the lower spenders. And the good news is, that works.

"Typically the unions in each of the sports, let's say for simplicity's sake, are getting 50 per cent of the revenues. So if the revenues in baseball are US$8 billion and you've got US$4 billion going to the teams, the union is going to receive US$4 billion. Today that money would look like the Yankees spending US$230 million or so, the Red Sox spending US$180 million, and a

MASN: Every play, every game

The Mid-Atlantic Sports Network (MASN) launched in July 2006 and is jointly owned by Major League Baseball's (MLB) Baltimore Orioles, who hold an 86 per cent stake, and the Washington Nationals, who hold 14 per cent. The Nationals, who were known as the Montreal Expos before they relocated to Washington in 2005, are set to receive an additional one per cent equity stake each year until they own a maximum 33 per cent share.

MASN is available in a seven-state region, providing live coverage of every available game of both the Orioles and Nationals, and is televised nationally by satellite providers DirecTV and Dish Network. In addition to MLB the network also shows a plethora of NCAA collegiate events, including over 150 college basketball games each season from 13 conferences and 50 NCAA football games. MASN is also the official cable network of Georgetown University, George Mason University, the Big South Conference and the BB&T Classic.

Since 2011, MASN has been embroiled in a dispute with the Nationals over the broadcast rights fees the network pays. According to US press reports the Nationals are looking for between US$100 million and US$120 million for their regional rights, which would mark a significant uplift on the US$29 million the team received in 2011. Meanwhile MASN, which reportedly paid the Orioles US$40 million in rights fees in 2012, is looking to pay a figure closer to US$35 million to the Nationals.

The dispute is such that even outgoing MLB commissioner Bud Selig has aired views on the matter. "I spent a lot of time talking to both clubs, even very recently," he said in July 2013 at an event with the Baseball Writers'

Association of America. "And we hope to have a resolution. It's really a difficult situation. I'm always hopeful we can find a resolution. Let's put it this way: it's not an easy situation to resolve."

No deadline has been set for a conclusion to the case.

JJ Hardy is part of an Orioles payroll that sits "just above or just below the midpoint" for the league

bunch of other teams, the top ten, spending US$150 million… then the Houston Astros spending US$25 million and the [Miami] Marlins spending around that.

"So you've got this crooked line – that's a bad thing for competitive balance and parity, it's a bad thing for marketing a sport." According to that scale, Angelos adds, the Orioles would be "just above or just below the midpoint, typically", spending around US$85 million to US$90 million annually.

As with its national broadcast strategy, Angelos contests that if the NFL were to adopt MLB's model then teams in smaller markets such as Green Bay or Indianapolis would be incapable of holding on to their star players. "Look at players like Peyton Manning," he says, "who played the bulk of his career for one team, the Indianapolis Colts – not a huge market. Or Aaron Rodgers, who played his career for the Green Bay Packers. Those players, were it not for the NFL's rules, would have been picked off by the New York Giants and the New York Jets, the Chicago Bears, big-market teams, early in their careers, which is what happens in baseball. If you allow that to happen, then you're really speaking volumes about your commitment to having a franchise in Green Bay, Indianapolis or Jacksonville."

In the end, however, whether a team has the biggest wage bill in the league or the smallest, and whether its games are broadcast nationally 12 times a year or twice, baseball boils down to wins and losses.

"From 1995 to 2005 Oakland won 91, 92 games a year," says Angelos. "Boston won 92 games a year and the Yankees won 94. But if you look at the payrolls of those clubs and the cost per win, Oakland paid US$500,000 a win, the Red Sox paid about US$1 million a win and the Yankees paid US$1.3 million a win. So you have to ask yourself, who was the best franchise? If they gave out an award not for the world championship trophy but best franchise, Oakland wins it at a walk." ■