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Chapter 5 Supply

This article from the January 2002 *Wall Street Classroom Edition* poses the question: Are there too many professional sports teams? “Slimming Down Sports” by *Wall Street Journal* Staff Reporter Stefan Fatsis illustrates the law of supply as applied to the economics of professional sports.

Before reading the article below, you may want to look up the following terms: *alienated, compliant, diluted, euthanize, franchise, implode, malaise, rejuvenate, revenue, sparsely, and viable.*

Are there too many big-league sports teams? OK, there’s really no definitive answer to that. But the question is worth exploring now, because the fat sports economy is suddenly going on a crash diet. Attendance in many markets is slipping fast, television-rights fees have peaked, franchise liquidity is shrinking, bankruptcies have made a joke of stadium-naming deals and sponsors are rethinking all sorts of commitments. Average ticket prices in the National Basketball Association actually fell this season.

Major League Baseball’s plan to eliminate two teams, announced just after the World Series ended, has less to do with general economic malaise than with that sport’s flawed business model and operations: no cost controls, not enough revenue sharing among the teams. Even if the teams are saved for another season, the issue of killing off or moving weak teams will dominate the sports conversation for a long time to come.

Let’s chart franchise growth in the four major leagues: 43 teams in 1960, 81 in 1970, 97 in 1980, 102 in 1990, 121 today. Some of the expansion made sense: The U.S. population swelled and moved south and west; TV networks and corporations became richer and more eager to bankroll games; wannabe team owners were willing to pay

huge membership fees; leagues needed new revenue sources to finance rocketing player salaries.

The system was bound to implode sometime. There are only so many markets with modern-day major-league chops, and leagues planted their flags in places that haven’t demonstrated staying power:

Miami and Tampa-St. Petersburg in baseball; Vancouver and Charlotte in basketball; Raleigh, Tampa and Anaheim in hockey; Jacksonville and Charlotte in football. It’s a pretty long list—and growing longer.

Big-league teams failing isn’t new. (Remember the Seattle Pilots? The California Golden Seals?) What’s differ-

ent now is the stakes. In 1961, it cost \$2.1 million to join MLB; in 1998, the entry fee was \$130 million. Lousy franchises lose lots more money these days, and coping with losses is much harder. In 1979, the New Orleans Jazz moved to Salt Lake City with little fuss. Relocating an NBA franchise today requires a multi-hundred-million-dollar arena plan, corporate backing and thousands of season-ticket commitments from fans.

With few rock-solid markets left, there’s an increased risk that teams could end up trading one weak market for another. The NBA’s Vancouver Grizzlies moved to Memphis this season. Vancouver was a reasonable, if failed, Canadian experi-

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ment. But can the NBA succeed in Memphis, the nation's No. 41 TV market? The Grizzlies are supposed to get a new arena and nickname eventually, but attendance so far isn't encouraging.

To be sure, a flashy new home, a big naming-rights deal and some long-term luxury-suite contracts can carry the load for a while, especially in the NBA and the National Football League, which pool revenue and employ strict salary caps. Plus, as one big-league executive says, "To get a ticket base of 13,000, you don't have to sell the whole city out."

But in today's corporate-crafted markets, though, there is little margin for error. Big-city franchises cope with slumps by tapping into neighboring secondary or tertiary markets to rejuvenate their fan bases. Smaller markets don't have that luxury. When relocation becomes the only option, leagues struggle to find a viable suitor.

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Given that, killing a couple of baseball teams isn't such a bad idea. If fans don't support a team and there is no worthy town to inherit it, why not euthanize it? In the current system, a smaller MLB would be a better MLB.

Ditto for the other leagues. With 29 teams and just four divisions, the NBA standings are a dizzying block of newspaper type. The National Hockey League's pack of 30 is crowded with clubs

on the financial brink. Talent and fan interest are diluted. Regular-season games border on irrelevant. The stability of the whole is undermined by the weak parts.

Ultimately, fans will decide whether there are too many big-league teams. Free-spending, compliant fans in a strong economy inflated the pro sports balloon. Penny-pinching, disgusted ones in a

weak economy will pop it.

QUESTIONS FOR DISCUSSION

1. What factors have contributed to the expansion of professional sports teams since the 1960s?

2. **Recognizing Cause and Effect** Why are some professional sports franchises failing to make enough money today?

3. **Drawing Conclusions** How does fan support affect the supply of sports teams?

4. **Predicting Consequences** Do you think sports teams that aren't profitable should be eliminated? Why?
