

Major league baseball: industry overview, key issues and forecast



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The MLB: Major League Baseball is the highest level of baseball play in the United States. It is comprised of two leagues, the National League and the American League, and 30 separate teams who each play a 162 game season.

The commissioner of the league is Bud Selig, as commissioner he oversees the logistics of organizing the umpiring employees, and all contracts dealing with labor, marketing and TV broadcasting. Mostly funded by private enterprises, with partial funding from public taxes; the MLB as a whole brought in \$132 million in 2005 of operating income, which jumped to \$360 million of in 2006 (Orzanian). The overlapping schedules make the National Football League the most competition the MLB has for viewers. Key Issues: In 1994, the league tried to impose a salary cap on the professional players, this action resulted in a player strike. This strike lasted into the 1995 season, before the teams decided to impose a "luxury tax", which taxes the teams who have an aggregate payroll in excess to an annually revised figure. The lack of salary cap has affected the level of competition within the MLB, and has resulted in overspending by the wealthy teams.

The implementation of a salary cap has only been proposed by a small number who work for the league and by fans, neither have done much in breaking ground toward a positive decision on the matter. There has been recent debate on whether the MLB should use instant replay cameras to alter or challenge decisions during games. As it stands, the MLB has considered the shift to use of the cameras as deciding factors, but it becomes tricky as to where to draw the limitations of using it for decisions in a game that has been historically governed by the unbiased and educated decisions of the

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umps. The debate has been going on all during the 2007 season, and a vote is scheduled to take place sometime before next season to decide officially on whether or not the use is permitted, and the stipulations surrounding the use. The use of steroids within the MLB was brought to officials attention in a 2003 anonymous test of players, which showed 5-7% of their professional players were using steroids to enhance their performances (Snow).

In light of this outcome, Baseball's drug policy, laws revised for the 2004 season and then again after the 2005 season. As it stands, the MLB mandates a suspension of 50 games for a player testing positive for the first time and 60 to 80 games for " possession or use of any prohibited substance (Shalkin). The stronger stance on the use of drugs within the league has been a move in a positive direction for the MLB as a whole. Forecast for the Future: As it looks now, the short-term forecast for the organization of Major League Baseball as a whole is looking both promising in terms of revenue and rocky in terms of the decisions they are being faced with. Within the next year, we are projected to see the climbing viewer interest expand, as it was saw its fan base attendance jump 4.

5% in 2006 to 79.5 million attending fans (Rogers). Also, within the next year the general managers of the 30 teams within the MLB will sit down to vote on the issue of using instant replay for game play decisions. The vote is going to be a close one, and the decision to use it will only be approved with restrictions when a decision is challengeable, such as sliding into a base, opposed to every pitch thrown during the game. Within the next year, we will see a change in the policy, even if it is a very restrained one. Expanding the short-term forecast to a time period of the next five years, we will see talks <https://assignbuster.com/major-league-baseball-industry-overview-key-issues-and-forecast/>

begin to make progress between the player's union and the MLB towards creating a salary cap that will foster an environment for fair competition within the professional sport.

This process is going to be a very long, very grueling string of negotiations, and the public may not see any definitive results for another five years or so.

Boston Red Sox Mission StatementS WOT Analysis Environmental Trends

Mission Statement: The Boston Red Sox are committed to putting a competitive product on the field every Major League baseball season. They are devoted to contributing to the betterment of society through philanthropy, charities and organizations. Lastly, they strive to provide affordable entertainment to the global market. SWOT Analysis: STRENGTHS:

Market Location: The Red Sox have the advantage and benefit of operating within the Boston/New England area, the second largest market behind the New York area.

This location allows the Boston Red Sox to reach a large amount of people. Because of this, the Boston Red Sox sell out their tickets every game. According to Forbes Magazine, the Red Sox make their largest profit from their market size, which accounts for 43% of their team value. Along with the Boston market, the recent acquisition of pitcher Daisuke Matsuzaka has allowed the Red Sox to break into the Japanese market, giving them an entirely new level of revenue.

Financial Position: Forbes Magazine has the Boston Red Sox ranked as Major League Baseball's #3 most valuable team. According to Forbes, the Red Sox are valued at \$724 million, a substantial increase since their 2002

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acquisition, which had them valued at \$380 million. Based on these rankings, the Red Sox have an operating income of \$19.5 million, a sizeable increase from their 2006 operating income of -\$18.5 million. Because of Major League Baseball's inability to produce a salary cap, the Red Sox are able to use their extensive revenue to purchase players and put an extremely competitive product on the field.

Management: Since the recent World Series win, the Boston Red Sox front office has emerged as the most powerful in baseball. Their front office consists of principal owner John Henry, executive chairman Tom Werner, president and CEO Larry Lucchino and general manager Theo Epstein. Theo Epstein entered the Red Sox during the 2003 season as the youngest GM in the history of baseball, bringing a mathematical style of managing to the Red Sox. **Sponsors:** Because of their market size and location, the Red Sox are able to sign some of the larger sponsors of Major League Baseball. Bank of America, Anheuser Busch, which operates as a sponsor of MLB and not just the Red Sox, W.

B. Mason, EMC and Coca-Cola, all represent the Red Sox. The money acquired by the Red Sox through these sponsors allows the team to offset many of their costs. **Brand Recognition:** The Boston Red Sox have emerged as a powerhouse in Major League Baseball. In previous years the Red Sox have been known solely for their ability to lose important games and for their extravagant payroll.

The Red Sox have now transformed their image into one synonymous with winning and one associated with player development instead of just the

acquisition of veteran talent. WEAKNESSES: Ticket Prices/Distribution: Even though their market power has become a huge asset to the Red Sox, in part it has lowered the morale of the average Red Sox fan. Fenway Park, where the Red Sox operate out of, is the smallest and oldest in baseball. The front office has renovated the park in recent years in an attempt to add more seating to an already cramped stadium. Because of the limited space and extensive fan base, Red Sox tickets have been increasing at an alarming speed. This has allowed fans the inability to purchase tickets from the Red Sox directly, as they sell out all 162 games within hours of putting tickets on sale.

This has forced fans to buy tickets from outside parties, making it difficult to even just attend a game. Player Personnel: As with the end of every season, the Red Sox must go through a change in where they release veteran talent and make room for new players. They are faced with the challenge of keeping fan favorite players while not overpaying for the talent that they need to stay competitive. A current issue the team faces this off-season is that of Yankees third baseman, Alex Rodriguez. Known as the best player in baseball, Rodriguez has expressed a strong interest in the Red Sox as the team he would like to sign with.

Besides Rodriguez's exuberant contract, the Red Sox have to decide whether the opportunity cost of losing World Series MVP, third baseman Mike Lowell is worth that of the talent Rodriguez will bring to the team. Debt/Value: The Red Sox, as indicated by Forbes Magazine, are financing 33% of their value with debt. This ranks them 15th in all of Major League Baseball and while this is not the highest number, it is a number that the Red Sox are looking to put <https://assignbuster.com/major-league-baseball-industry-overview-key-issues-and-forecast/>

behind them. Division/Competition: The Boston Red Sox are competing in what is regarded as the most competitive division in baseball. Three (New York Yankees, Baltimore Orioles, Toronto Blue Jays) of the four (Tampa Bay Devil Rays) teams that they compete against are valued within the top 20 of MLB making them extremely competitive. Besides on-field talent, and within the division, the Red Sox are competing with the New York Yankees for a fan base.

With New York being the closest market to the Red Sox and also the largest in baseball, it is extremely important that the Red Sox do everything in their power to keep their market. OPPORTUNITIES: Stadium Renovations: As one of the oldest stadiums, and richest in history, the Red Sox have decided to not follow the trend of tearing down historical stadiums and have made the decision to renovate Fenway Park. They have recently added field box seats and their new EMC Club, which invites fans to watch the game in a luxurious club box. These tickets will cost around \$275 per game, allowing the Red Sox a very new type of ticket revenue. Nascar: In February the management group bought a 50% stake in Nascar's Roush Racing. John Henry and the Red Sox purchased this as a way to cross-market both teams, allowing baseball to become part of the fastest growing competitive sport.

Player Personnel: The opportunities the Red Sox will have with their players will include the MLB draft, trades and free agency. In recent years, under the mathematical management of Theo Epstein, the Red Sox have drafted extremely competitive rookies, something increasingly hard for Major League Baseball teams. This draft allows the Red Sox the opportunity to address needs in their own system or to use as leverage in a trade. A trade is always <https://assignbuster.com/major-league-baseball-industry-overview-key-issues-and-forecast/>

a possibility to acquire new talent that would agree with the way the Red Sox are managed. Every year the NFL holds its amateur draft for college players. Lastly, free agency is a very big opportunity for the Red Sox.

As opposed to trading, free agency allows the Red Sox to address the needs of their team without giving up any of their current players, only taking a monetary hit in the form of the free agent's salary. Television/Radio Networks: Satellite and digital television and radio has added a new aspect to the power of the Red Sox. The Red Sox own an 80% stake in their regional television network, NESN. With the power of satellite television, they are now able to broadcast NESN all over the United States, allowing a large increase in income for the team. Due to satellite radio, this year alone the Red Sox will receive \$16 million a year for their radio rights. Because of the increasing demand of both satellite television and radio, the Red Sox will have the opportunity to boost their revenue from both of these ventures.

THREATS: MLB Teams: There are 30 teams in all of Major League Baseball, forcing, in one way or another, 29 competitors for the Red Sox. As a member of the American League, which only includes 14 teams, they play these same teams more during the season than the National League teams. Within their division, the biggest threats to the Red Sox are the New York Yankees, Toronto Blue Jays, Baltimore Orioles and Tampa Bay Devil Rays.

Steroid/Substance Abuse: This has been the largest threat and obstacle for not only the Red Sox, but also the MLB, and the entire sports industry. Major League Baseball has taken the hardest hit in this issue with a very lackadaisical punishment and the naming of more and more athletes who

have either bought or tested positive for some sort of performance enhancing drug.

This involves the Red Sox directly by the recent involvement of the federal government. While no athlete has been charged with a formal, federal crime yet, the teams will have no say in what happens to their athletes if they are charged with a federal crime. This becomes a threat because it could make the Red Sox less competitive, which could, in effect, take away from their revenues. Player Costs: While MLB has no salary cap and can afford to pay for talent, players have started to demand more and more money as the seasons continue. Once a player signs a record high contract, this sets a precedent for other players and future contract. The biggest issue in this is that it will cause an increase in expenses and force all teams, in every market, to operate at a higher debt ratio.

Environmental Trends: Economic Trends: In recent news, the Federal Reserve has sparked the rumors and expectations of consumers for the rise of inflation this last month. They had been lowering the interest rate, having positive effects on the amount people were willing to spend more and had less fear of recession. As they have decided to hold the interest rates steady in this last month, the whispers of stag-cession and recession have begin to flare up again, and consumers will soon begin to withdrawal they amount they are willing to spend. Competitive Trends: The Boston Red Sox finished this season by winning the World Series, and their third baseman receiving the Most Valuable Player award. This is something that the Red Sox Nation, the Boston Red Sox extensive fan base, expects and invest in each season.

The main competitors within the sport include the Toronto Blue Jays, the Baltimore Orioles and the New York Yankees. These teams compete in the same division, are all placed within the top twenty teams of the MLB in terms of worth, and play each other more during the season than any other team the Red Sox would play. The newest news from the competitor concerning a possible change in performance would be the appointment of Joe Girardi as the new manager for the New York Yankees for the coming up season. The historical rivalry between the Red Sox and Yankees is so imbedded in baseball culture and history, which any decisions made by the Yankees become news and possible threats for the Red Sox and they are considered the biggest rival each season. Political Trends: As mentioned in the industry overview, the use of steroids in baseball has become such a heated topic of discussion.

The nearly non-existent standards that were upheld until the 2003 anonymous testing are now an indicator that steroid use is so ingrained in the environment of professional baseball that the government is looking at taking strides to interject. There are currently members of Congress lobbying for the stricter regulations and testing policies, in attempt to completely rid the MLB of steroid using players. This political pressure has prompted the more hard-lined policies that currently stand, and the launch of investigations by Bud Selig into players rumored to use Human Growth Hormones (HGH), including the investigation of well-known Barry Bonds. The Red Sox has been one team that hasn't had to defend a player accused of using HGH, which works in their favor in the eyes of their fan base.

Technological Trends - Satellite television has allowed MLB games to be broadcasted throughout the country through regional networks.

MLB has an exclusive deal with XM Radio to broadcast every baseball game throughout the season, providing for a more widespread fan base. As the NFL has instituted a replay system, baseball is on the brink of bringing technology into their games, taking human error, which has been a tremendous part of the game out of baseball. Social Trends: The gap between the NFL and MLB has seemed to make a drastic shift in the 1980's towards the NFL and maintained a widening gap between the two, until recently. The recognition of this gap closing is best worded by MLB Commissioner, Bud Selig: " By any measure you want to look at, our sport is more popular now than it has ever been," Selig said. " The country really is baseball-crazy today, no question. " (Rogers).

In consideration to the wide-range of demographics baseball reaches out to. A male-oriented sport, with only male players, coaches and managers has appeal to the opposite gender. The Red Sox have the most revealing statistics of 77% of the women in Boston declaring allegiance to the Boston Red Sox, this number has jumped 33% in the last 5 years (Talcott).

Geographic Trends - In the heart of Boston, the Red Sox have had a solid fan base in one of the largest markets in the country.

There is no information to say that this will change any time soon, which makes this a prime geographical location. With the recent rise in public transportation, Boston has made it easy for fans to access their stadium, becoming a prime spot for sports fans. Conclusion In conclusion, Major

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League Baseball is an extremely successful industry. Despite the current issues that MLB faces, it has such a bright future and gloried history that Major League Baseball is a prime example of how professional sports should be run. They have adequately adapted to the ever changing the trends within the American society, ranging from the increased use of the internet for up-to date sports news and podcasts to the equaling out of a socially demographic fan base The Red Sox have become a model franchise for baseball and has truly defined what it is to become a competitive team both on and off the field.

The mathematical management structure that the Red Sox have followed was, at one point, the most innovative idea in baseball, forcing owners and managers to look at small numbers and not just homeruns. In the past few years the Red Sox have transformed this into a way of thinking, into a baseball lifestyle. The Red Sox have opened opportunities not just for players, but for employees as well, making it a very profitable franchise.

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