The Economics of Minor League Baseball

by Nadine Kavanaugh August 19, 2013

By Robert J. Chalfin, lecturer at The Wharton School

Owning minority interests in two minor league teams has enabled me to combine my passion for baseball with investments. As a baseball fan I consistently monitor the batting averages and the earned run averages of my favorite team, and now I also monitor the average attendance and earnings of my teams. In addition, losses have assumed an expanded meaning. This posting will discuss some of the economics that are inherent with owning an interest in a Minor League Baseball ("MiLB") team.

While most of the attention in the national sports press focuses on Major League Baseball ("MLB") and college teams, MiLB still occupies a vital place in the hearts and minds of fans around the country. The affordability of the games coupled with the family oriented atmosphere of the venues has enabled attendance to remain strong despite the recession.

There are 30 Major League Baseball and 160 affiliated minor league teams, 120 of which are full-season teams. The 120 affiliated full-season MiLB teams are divided into four levels- AAA, AA, high- A, and A. The MLB teams supply the players, coaches, and player development staff for the MiLB teams. The majority of the costs of the bats, helmets, and balls are paid by the MLB teams. As a result, the assumption of the expenses for all of the field personnel as well as the bulk of the equipment contributes to the MiLB teams' overall margins and profitability.

"Minor League Baseball", which is a trademarked term, refers to teams that are affiliated with MLB teams. The unaffiliated teams, which are referred to as independent or semi-pro teams have a very different business model from the MiLB teams since they are responsible for the athletes' salaries, as well as locating their players and opponents. This posting will focus only on MiLB teams.

All affiliated MiLB teams pay a small portion of their gross ticket revenues to their MLB parent. MiLB do not share their non-ticket revenues with their parent. Each affiliated MiLB team receives a "protected territory" which includes the county in which it operates along with a fifteen mile radius from the home county's borders.

Ticket sales, advertising, concessions, and merchandise comprise the majority of a MiLB team's revenues. Many MiLB teams contract their concessions to large food service providers. Merchandise sales can be subject to licensing and other requirements. The terms of the stadium lease, which are typically rented from a government entity, has a significant bearing on the MiLB team's profitability. Many leases enable the team to generate revenue from non-baseball events and provide that the municipality contribute to the operating and capital expenses of the stadium.

Through its player development personnel, the MLB affiliate of each MiLB team determines, who will be on each team. Since the players on the MiLB are frequently transferred between the other teams within the organization, they generally have less individual fan recognition than the players on MLB teams.

While the MLB affiliate is responsible for the on-field offering, the MiLB team focuses on the overall business operations, which includes the marketing functions. A MiLB team's promotional efforts can take numerous forms including offering additional attractions at the games such as fireworks, on-field contests, co-branded promotions or giveaways that are sponsored by local businesses, schools, civic and charitable groups, and reduced ticket sales to established or affinity groups. Mascots roam the stands entertaining the crowd. Since most fans purchase food, beverages, and souvenirs when they attend a game, many teams distribute tickets at reduced rates to encourage the non-ticket sales and to create a buzz at the ballpark. Increased attendance also boosts the rates that can be charged to advertisers.

There are several factors, outside of the control of the team that have direct ramifications on the profitability of the organization. Local demographics including unemployment rates and macroeconomic factors top the list. But weather looms as a very important determinant. Simply stated, fans don't come to the game when rain is predicted or the temperatures are low. While some teams have purchased rain insurance, on a long-term basis the purchase of this is revenue neutral, at best, to the buyer. Other events, such as a popular MLB player undergoing a rehabilitation assignment following an injury and playing for the MiLB team can cause attendance at the handful of games to skyrocket.

Bio: Robert J. Chalfin is a lecturer at The Wharton School where he teaches courses to MBA candidates on business acquisition. An attorney and a CPA, he is an entrepreneur and has invested in numerous businesses. He can be reached at bob@chalfin.com or 732/321-1099.

.