The Revenue Model: Why Baseball Is Booming

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On the face of it, it's amazing the $6.1 billion that Major League Baseball took in last year is within spitting distance of the NFL's 2007 revenue of $6.3 billion. The Super Bowl broke TV ratings records once again in 2008, drawing nearly 100 million viewers, while only 17 million bothered to tune in to the 2007 World Series. But baseball has found increasingly inventive ways to ramp up revenue — from counterintuitively reducing the number of seats in stadiums to selling streaming video of baseball games online — hitting record high revenues for five consecutive years.

Baseball remains an especially local, live form of entertainment — an aspect some analysts trace to its historical roots, which predate national markets and TV by a half-century. Unlike the NFL, which takes in more than two-thirds of revenue from national TV, baseball's national broadcasts generate less than 20 percent of overall sales ($935 million in 2006). The lion's share comes from revenue at its ballparks and via local broadcasts.

It's at the local level — soaring sales of higher-priced tickets, concessions, and advertising at new theme-park style stadiums — that MLB is hitting some of its biggest home runs.

Stadiums as High-Margin Retail Outlets

Since Baltimore kicked things off back in 1992 with its urban-retro gem, Oriole Park at Camden Yards, 17 of 30 teams have built brand-new ballparks. Five more either are planned or are under construction (including New York City's planned double-header openings next season of the new Yankee Stadium and the Mets' Citi Field), while others are undertaking major retrofits.

See also: "Ballparks, Baseball Stadiums, and Fields of Dreams," Baseball Almanac.

HOK Sports, the Kansas City-based architecture firm behind 19 of the new or retrofitted stadiums, routinely increases square footage by up to 50 percent over earlier ballparks to make room for amenities and revenue generators. As an HOK executive told Business 2.0: "The event [baseball] is in the background. The foreground is all these other activities. It's 'I need to buy a sweater' or 'There's a beer garden.'"

And thanks to MLB's combination of popular appeal with fans and its monopoly ability to play hardball — threatening to relocate its artificially scarce franchises — almost all those new and improved stadiums are mostly or partly paid for by public subsidies.

See also: "Stadia Mania: The Business, Civic, and Legal Issues of New Stadium Construction — Part I" by John R. Middleton Jr., Scott L. Walker, and Matthew Savare, The Metropolitan Corporate Counsel.

Look at the San Diego Padres' 2004 PETCO Park, built for $450 million, and its featured amenities like 200 "dugout seats" located 45 feet from home plate, with private entrance into the ballpark and waiter service from two private restaurants. PETCO Park (which yields $2.7 million a year on naming rights alone) has only 42,455 seats, making its capacity a third smaller than the Padres' previous home field at Qualcomm Stadium. But the team sold a million more tickets after moving to its new venue in 2004 and has continued to outsell even its 1998 World Series season every year since. Likewise, with average ticket prices jumping 32 percent in the new ballpark, the club saw its revenues leap 50 percent, to $150 million the year of the move, and continue to rise since.

Smaller Stadiums, Bigger Profits

Major league teams sold 79.5 million tickets last year. It was the fourth consecutive annual record, with an all-time record average of 32,785 in attendance per game. This year, MLB Commissioner Bud Selig projects another record of more than 80 million in ticket sales.

Even more impressive, these records have come while ticket price increases are handily outpacing inflation. The average MLB ticket price is up 87 percent in the past decade, and the 2008 cost is 10.9 percent more than last season. Indeed, the Fan Cost Index, compiled by Team Marketing Report, which includes tickets for a family of four, plus beer, soft drinks, hot dogs, programs, parking, and ball caps, is up 67 percent in the last ten years.

What's driving so many fans to baseball stadiums at higher prices is, in part, the stadiums themselves, which have seen an unprecedented building and facilities improvement boom. Beyond the retail space and theme park attractions, nearly all the new facilities have *fewer* seats: The 20 new stadiums opened (or about to open) since 1992 have more than 200,000 fewer seats than their predecessors. Such smartly calculated scarcity buoys ticket prices and creates a better ambience — both in terms of intimacy of the stadium and the energy in a nearly packed venue versus a half-empty house.

New Media, New Money

One of the biggest players in baseball's recent success is Major League Baseball Advanced Media (MLBAM), responsible for MLB's official Web site, MLB.com.

Launched in 2000, the site was backed by all 30 teams, which each contributed less than $3 million to get the startup off the ground. MLBAM has taken off like a rocket, generating revenues of $380 million last year, and is still growing by 30 percent a year.

At the most basic level, MLB.com gets up to 8 million unique visitors a day during the season, offering a central spot for team news, merchandise, and ticket sales. In addition, by selling more than a half-million season subscriptions of live game video, priced from $80 to $120, and streaming as many as three million videos a day to meet demand, baseball gained a lucrative digital expertise. MLBAM now manages content for numerous online affiliates, including the NCAA basketball tournament and tennis' French Open. In fact, MLBAM now is streaming more than 12,000 live events a year — reportedly more than any other Web producer in the world.

MLB.com also has boosted ticket sales: It accounted for fully a third of all sales last year. In the past, tickets sales tended to slide 72 hours before game days. And in the case of baseball, less attendance meant less demand for concessions and less value for in-stadium advertising. Now, in addition to MLB.com's convenience, at least eight teams deliver last-minute digital tickets to cell phones.

Another factor aiding season and primary ticket sales may be the new legitimacy and ease given to ticket reselling — the secondary market once derided (and illegal) as scalping. Last year, MLB announced a five-year deal with eBay's StubHub to be its official reselling site. The deal essentially means that MLB can profit from selling the same ticket twice, taking in revenue once left to brokers and scalpers.

Stadiums as Sponsorship Platforms

In the age of TiVo and digital fragmentation, baseball presents a captive audience for a game that provides plenty of time to look around, plus ad placement when in-stadium signage shows up on TV and Internet sports highlights. Teams have added advertising space and flexibility, with giant scoreboards that routinely feature high-definition video screens playing 30-second spots, plus programmable LED boards that encircle the stadium and changing signage behind home plate sold by the half-inning.

But the most significant stadium-based ad revenues in the modern era may be naming rights to the ballparks themselves. Fourteen MLB teams now take in $36.1 million per year for the names of their parks — a figure that doesn't even include undisclosed rights for Coors Field in Denver and the granddaddy of corporate-named parks, Busch Stadium in St. Louis.

That total will rise more than 50 percent next year, as Citigroup starts its $400 million naming deal for the new Mets stadium. At $20 million a year for 20 years, the deal amounts to nearly half the cost of the team's new $850 million ballpark.

Regional Sports Network Revenues

Traditionally baseball teams also have sold the broadcast rights to their games to local TV stations. But increasingly, teams are setting up their own cable TV channels, known as Regional Sports Networks (RSNs), giving them a larger share of advertising dollars than simply selling their rights for a fee, and also offering them a prime brand marketing vehicle.

In 2006, 19 teams sold their local broadcast rights for an average of $13.5 million each, Forbes reports. But teams with stakes in their own cable networks did much better:

- $67 million to the Yankees from their YES network
- $47 million to the Mets from their SportsNet New York Channel
- $21 million to the Red Sox from the New England Sports Network

Some industry observers note that these numbers don't reflect the broader ad revenue generated by RSNs — the better to reduce a team's exposure to MLB's 21st-century regimen of revenue sharing.

Fortune reported that the six-year-old YES Network, jointly owned by the Yankees, Goldman Sachs and the former owner of the New Jersey Nets, may be the ultimate MLB team brand extension. According to SNL Kagan Media Research, it took in revenues of $340.5 million in 2006 — almost $40 million more than the team itself brought in that year. As a media property it might be worth about $3 billion — or roughly three times its centerpiece content provider, a storied franchise dating back to 1901.