

The NFL's Smartest *Business Team*

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When Robert Kraft bought the New England Patriots football team for \$172 million in 1994, he inherited the worst losing record, lowest attendance, and lowest revenue in the National Football League.

Fast-forward 14 years, and the Patriots have evolved into an NFL dynasty worth \$1.3 billion, making them the third-most valuable team in the league, according to *Forbes*. Not only has the team won three Super Bowls and made it to the playoffs nine times in the past 13 years, the Patriots-owned Gillette Stadium brings in \$282 million a year, with the average ticket price topping \$100 — the highest in the league. The secret to their success? Surprise — it's not all about Tom Brady and Bill Belichick. Here's a look at the savvy management formula that has made the Patriots the league's top *business team*.

Maximized Revenue Stream

According to the league's business model, all 32 teams share equally the bulk of the NFL's revenue, which comes from national TV contracts and licensing deals. Plus, teams must fork over 40 percent of general ticket sales to their opponents on game day. In 2002, Kraft built Gillette Stadium for \$325 million, giving the Patriots one of the few team-owned stadiums in the league and the only one to be entirely privately financed. By owning their own facility, Kraft and the Patriots have a valuable source of additional revenue: They get to keep the cash from concession sales, 88 luxury suites (each one brings in \$165,000 per season), advertising signage, and even the fees from hosting non-football banquets and parties.

The real genius behind the Patriots' revenue strategy goes beyond game day and the field. Before Kraft bought the lease for the team's former stadium in 1988, he picked up 300 acres of surrounding real estate. In late 2008, that land became a more valuable investment with the grand opening of "Patriot Place," a \$350 million, 1.3 million square foot open-air shopping and entertainment center with retailers like Bed, Bath & Beyond, a four-star hotel, a large movie complex and a 500-seat music venue. Few teams have cashed in on their Super Bowl wins with such sprawling developments outside their stadiums, says Michael Holley, a former *Boston Globe* sports columnist and author of the book "Patriot Reign: Bill Belichick, the Coaches, and the Players Who Built a Champion."

"The Patriots do a better job of maximizing their revenue stream than anyone in the NFL, and it has paid off," says Christopher Price, a Boston sportswriter and author of "The Blueprint: How the New

England Patriots Beat the System to Create the Last Great NFL Superpower.” The team netted \$39.2 million in operating income on revenues of \$282 million last year.

Forced Ranking System for Players

To build a football team that wins — and provides returns on Kraft’s investment — the Patriots evaluate player performance meticulously. The front office uses an organizational theory similar to **forced ranking**, a corporate management practice designed to identify a company’s best and worst performing employees. Like most teams, Patriots coaches regularly film practices, grade plays, and assess each player’s performance. And like most, they also rank college football players before the draft. But the Patriots take data crunching one step further: Coaches also rank draft picks against their own players.

Even top performers have an incentive to improve. In the run-up to the draft, the team’s research assistants compare college players’ stats, like a kicker’s 40-yard-field-goal average or punt depth, to NFL and college league trends, and finally to their own Patriots players, says Holley, who spent an unprecedented two years behind the scenes with the team while researching his 2004 book “Patriot Reign.” The exercise determines where a prospective player fits into the Patriots’ lineup, even if it means displacing a veteran player. “Every team ranks draft picks,” says Holley, “but no other team takes it to the level of ranking them [against] their own players.” Adds Chris Landry, a former NFL scout who worked under Belichick when he coached the Cleveland Browns in 1992: “They rework their roster from the bottom up,” he says. “Everyone talks about top players, but if the Patriots see someone better than their 50th best player, they will replace him.”

Thanks to the NFL salary cap, which sets a maximum amount that each team can spend on player salaries each year (the 2009 cap will be at least \$123 million), recruiting top talent can be a tricky financial balancing act for front offices. The Patriots are a rare exception in the league when it comes to effectively managing their resources, says Joe Linta, a sports agent who represents 35 athletes, three of whom are Patriots players. The Patriots put more value on a position than on a particular player. What makes the team different, says Linta, is its strong middle class of players. Teams like the Washington Redskins spend more for big stars that come with big price tags — a strategy that has not necessarily paid off — but the Patriots rarely overspend. Instead, Belichick has had success with lower-round, promising picks like center Dan Koppen and quarterback Tom Brady. “They are exceptional at recognizing value and finding a price that fits their team,” says Linta. Plus, the Patriots are quick to let go of Super Bowl all-stars like kicker Adam Vinatieri and cornerback Asante Samuel when the price doesn’t fit the team.

Savvy Succession Planning

The team also takes a cue from corporate management philosophy with succession planning. When the Patriots' offensive and defensive coordinators left the team following the Super Bowl XXXVIII victory in 2004, it could have been a devastating blow. But the team made the playoffs the following season, in part because, according to Holley, Belichick consistently grooms coaching and management talent to step in when someone leaves.

"Coaches in waiting" typically start in their early 20s as gofers the first year on the job, running errands or getting coffee. The next year, they may attend coach meetings and analyze film. A year or two later, they know how the Patriots do business, they know the terminology, the concepts, the players, and they are ready for coaching jobs, says Holley. Current offensive coordinator — and Belichick's right-hand man — Josh McDaniels climbed to his job this way. Scouts receive the same kind of training and mentoring, says Landry, who now runs a scouting-consulting firm, Landry Football Academy, and provides analysis for Fox Sports Radio. He credits Belichick for teaching him how to dissect football films and spot underutilized players.

"There is not any tough transition period," says Holley. "I don't know a lot of teams that operate that way. The Patriots believe in developing coaches the way they develop players."
