On the dynamic of franchise (re)location in the North-American sport leagues

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From market size to political bargaining to sport withdrawal

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Abstract
As the cost of tax-dollar paid stadia rises and the talks of relocations in the main North-American pro leagues increase, a multi-field analysis on the different mechanisms that decides team relocation seems necessary. This paper reviews the different mechanisms participating team location and finally offer a new angle of analysis on the actual equilibrium and demonstrates its dynamic nature.

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1. Introduction

In Europe every town or city has a team at one point of the league structures, hence there is as much clubs as people are willing to start and participate in it, and it’s a common thing for the most popular sport like soccer to have several clubs in the same city at both the amateur and professional level. This is possible because historically competitions, when they were mostly amateur, were directly organized by a given sport association, whose purpose was to promote the sport practice. It’s only with the appearance of professionalism that the top level clubs organized themselves into league, but kept being integrated in the pyramid structure. Hence any city has a shot at being a ‘pro league’ city, with the only investment necessary being enrolling better player.

On the other side of the Atlantic, location and relocation of club franchise is a common topic of the sport league structure. Indeed, since the number of franchised clubs is limited by the structure of the league itself, where a club should be located becomes a central question. Moreover, North American sport league membership lays on acceptance by the others members of the league, who will try to maximize their profit by, for example forbidding the appearance of two clubs in the same city or area, and by demanding entry fees. Sport leagues are profit-maximizing structures, made of profit-maximizing companies.

Focusing on the four most successful North American sports leagues, the reason motivating a relocation or an extension location will be discussed in this paper. Data from leagues’ movements since 50’s, economic, law and sociologic literature will be mobilized to capture the reasons of the question. A supplementary motivation will be found in slashing the usual corporate propaganda using equity and fairness in sport to promote the interest of a happy few, while their own ability to run a successful sport business can be questioned. An example or more will be used to demonstrate the real nature of the business rationale behind every type of moves.

This paper is presented as follow: this introduction serves as first section; the second section will be devoted to the analysis of the market size argument; the third section is a lengthy discussion on political bargain concerning arena size and quality; the fourth section focus on the actual dynamic and the recent movements; the fifth concludes.

2. Market size

2.1. What is market size?
While deciding where to (re)locate a franchised club, there are three parameters to take account: the number of individuals in the area concerned, their average income and their willingness to pay to watch the local team play. Hence, bigger cities are more promising target than country side small towns, for the simple facts than there are 1) more people, 2) with a bigger income on average.

History of sport on both side of the Atlantic Ocean demonstrates easily that point:

- European capital cities and industrial centers have dominated, and still dominate, European football, while smaller cities (with metro population inferior to 500,000 inhabitants) can only claim a handful of successes on the European scene. Even more, that trend seems to reinforce nowadays. This domination is only possible because capital cities are able to attract the biggest income makers, while industrial cities used to enjoy a strong following among theirs blue-collar inhabitants. Kuper & Szymanski (2009).

- The wealth and size of New York City (metro population: 19 millions) are so strong, that the city can afford to be the home to at least a team in every major leagues in North America, and bear in my mind that usually competition for the market in the same league is reduced to maximum two teams (to compare with London, the British capital host between 4 and 6 soccer teams at the top level at any given Premiership season for a metro population of 15 millions).

For years the market size argument has been used to justify relocations from mid-size cities to bigger-size cities, for proof we can recall the relocation of Tri-cities Hawks from Moline, IL (metro population in 1950: 300,000) to Milwaukee, WS (metro population in 1950: 1.3 million) in 1951, in the National Basket Association (NBA), or the Baltimore (city population in 1950: 0.95 million) Orioles moving out of St-Louis, MO (city population in 1950: 0.86 million) in 1954 in the Major League of Baseball (MLB). In the 50’s and 60’s, this was accompanied with a shift to the big cities in the West, freshly available for recurrent travels by mass air travel. The relocation in 1962, in the NBA, of the Warrior from Philadelphia, PA on the east coast to San Francisco, CA on the west coast, or the join departure in 1957, in the MLB, of the Dodger and the Giants, from the initial home in New York City, on the east coast, to Los Angeles and San Francisco in California on the west coast, are signs of this trend. One can note that the National Hockey League (NHL) was not part of this movement simply because the league was quite small at the time, and it only started to
open the league to new teams in the mid 60’s, this later expansion also explains why, as noted in Cocco and Jones (1997), market size is still a major determinant of franchise location.

2.2. An insufficient argument

Nonetheless, one will note that the race to bigger markets was mostly a matter of technology allowing the leagues to structure themselves around lengthier distances. But this race was mostly a matter of rent seeking, on a first come first served basis. Latter moves, around the Midwest especially, can hardly be motivated by market size only, even though the argument makes perfect sense economically. Indeed the argument fails to explain other moves, in smaller markets for example, or even why teams would relocate themselves in markets previously abandoned by others, while their relative wealth or size has not changed dramatically. In that case, one needs to understand the deeper economics behind the profit of a franchised club.

3. The shape of the arena and political bargaining

While market size matters, if there is no proper installation to host the game, the franchised club cannot take advantage of the demand, and so its offer is limited, while broadcast offers a subpar substitute to the problem. It can be a problem of size (too small or to big (this will be shown why later)) or of quality (unfitted for the type of crowd the club attracts or wants to attract). Economic theory implies that if, on the long-run the investment bears greater profit, that the actual alternative, it should be made. But facility investment is highly immobile, condemning the club to stay located there for decades. And while this culturally understandable for a soccer club like Arsenal FC in London, whose stadium was self-financed, it is not the case for any North-American franchised club.

This becomes even less appealing introducing a third-part investor like a local government. Indeed, communities strive for occasions to see their names in the news, to be associated with a sense of grandeur or success, and sport is an easy way to achieve that. At the same time supporting the local team, or attracting one, is a politic decision easier to implement than growth or better employment rate.

3.1. What Arena?
Ticket sales are the biggest of the few revenues which are not shared in any ways by the franchised club with its competitors, as thoroughly underlined in Borland and MacDonald (2003). Hence the size, quality and even the geographical location in the metropolitan area of the arena is central to them. Obviously a team looks for a market where the arena can welcome most of the demand. Too small, the club passed on extra profit. But too big, the club has to support extra maintenance costs and even in some case costly bad public relation because of league-enforced local black-out practice. Misplaced, and the team alienates a sizable share of its profit, by putting away its target group of consumers (blue-collars up to the 50’s, middle-class up to the 80’s and companies since then, as noted in Chapin (1999) and in Cousens and Slack (2005)).

The usual practice is to locally black-out the broadcast of a game if it is not sold-out some days before it takes place. This is to reverse possible substitution between broadcasting viewing and actual attendance. Alas, while it is economically counter-intuitive (loosely interested people cannot build a taste for the team by watching it plays on TV), it is also wildly unpopular among fans that see the team as sufficiently profitable to be able to buy any left-over and hand it at its discretion, hence allowing most of the fan to still enjoy the game. The most famous example of relocation is the peregrination and eventually departure of then Los Angeles Rams football team. The Rams games were played at the Memorial Coliseum from 1946 until 1979. With a eating capacity of over 90,000, it was hard to sell out the venue for every game, consequently black-outs were frequent, while the club was not that successful over the period. As a result the Rams moved out to a suburban area, in a smaller venue. Conversely, it is easier to convince a private or public investor to renovate and increase, or even build a bigger venue when a team’s games are regularly sold-out. On the other hand, ticket sales are greatly correlated with results on the field.

Parallel to capacity, the most claimed reason to change venue (and maybe location) is decaying ‘quality’ of the arena. As the corporate world, through network and entertainment industry, penetrated the pro sport world, the aim of the stadium, a place where the customer is ‘served’, changed purpose to cater to boosters, sponsors and rich clientele. As a result the franchises want to upgrade their arena in order to serve their targeted clientele better, as underlined in Cousens and Slack (2005). More precisely, and this is also notable with the example of the Memorial Coliseum, they feel there is a lack of ‘modern’ installations for media, sponsors and high-paying spectators. Indeed privately-owned arena where suited for mass consumption in direction of blue-workers and then middle classes, to fill-out a simple need of sport entertainment. Hence these installations cared
little about seating discrimination, VIP seats, etc. and when the sport team started to use those for a profit they quickly started to ask for an upgrade. As for example, when the Rams finally move to Anaheim Stadium, they promptly installed luxury suits and reorganized the mezzanine level. Ultimately, and sadly for the Orange County tax-payers, the Rams would move out once again to a stadium with more luxury-boxes and opportunity in non-shared revenues, in 1995. More recently, as noted in Edelman (2003), the San Antonio Spurs NBA franchise asked San Antonio for a new arena, only 10 years after it moved into its publicly financed arena of 65,000 seats, claiming that the arena was too big for the local demand and lacked the necessary ‘boxes’ for the corporate sponsor and rich clients.

Chapin (1999) describes three phases in stadia location: first stadia were privately built on cheap land at the edge of the city close to the industrial center and public transportation, at that time clubs mostly appealed to blue collar worker crowds, then in the 60’s-70’s the stadia were built in the suburbs mostly served by highways to get closer to the middle-class, this is the moment where tickets sales started to discriminate and ‘quality’ became an issue, finally since the 80’s the stadia are built downtown of the city in an apparent effort for ‘revitalization’, but mostly to get closer to the corporate interest, the only target group able to sponsor and afford VIP boxes. The Rams actually followed this typical and historical path of arena location in the metro area first they were in an arena built at the time on cheap land with decent connection to the city, to allow easy aces to the mostly blue collar crowd, then they moved in the suburbs, in Anaheim, as they started to target middle-class fans and finally they moved to downtown St-Louis to get in touch with corporate interest.

3.2. Why are politicians involved?

In the early XXth century, most unique-purpose stadia, typically ballparks (to play baseball), where owned and built by the franchise owners’ themselves, most of the time on cheap lands on the edge of the city, finding themselves only afterward in the middle of an urban area as cities grew, as depicted in Champin (1999). Tax-dollar funded stadia where usually of smaller size, except for the Coliseum in Los Angeles. At the time, stadia were built to satisfy a mix of moral stands on healthy bodies, and tribal pride. Those stadia, where built following the same criteria of cost and accessibility as their privately founded counterparts. Since, the concern for healthy young bodies has mostly been relegated to high school concern, with the biggest university sport programs now
working on donation and likeness-right sales (mostly TV broadcasting rights). The concern for tribal pride is still well established.

‘Community’, as described in Smith and Ingham (2003), and the pursuit of its idealized past shape can also be read as part of that tribal component. But here more than a representation of the tribe existence to the outsiders, the sport team is perceived as salvation tool to reunite the stranded souls living on the community space.

To those, is now added an economic reasoning of local growth (through Arena activities and tourism) and job creation. As a consequence, politicians and local governments find themselves at the cross of two powerful rationales behind pro sport activities. Meanwhile, one will admit that politically speaking it is easily actionable, a ‘big ticket’ investment, for politicians to be remembered, in the words of Bowling (1998), in comparison of a greater economic or social agenda.

Human beings drive a large part of their likelihood of survival and reproduction, living in community, by pooling resources and enjoying the outcomes of social labor division. Communities hence can also be perceived as living organism struggling for survival as a whole, evolving to their environment if necessary, and ready to fight each other to dominate a piece of land or a cluster of resources, as taught in Begon, Harper and Townsend (1996). As a result of that, individuals feel pride, for belonging to the community, and claim readiness to fight or support the fight of its domination over others. In economic term, one can say that, parameters that have a take in survival likelihood are maximized by the agent, as prosaically assumed in Borland and MacDonald (2003).

Team sports have bloomed over such pride and Bowling (1998) depicts them as symbols of growth and vitality, as well as their stadia up to the 80’s, as displayed in Baade and Matheson (2011). Teams wear colors, claim origins and ultimately convey an identity, resonating with its community of origin, all that fosters an instinctive longing to belong. And they are more participative, that single athlete sport. An athlete ultimately represents more him- or herself than his or her community. The players do not need to originate from the represented community; they do not even need to display its morals or values. If they are good enough, they will be excused and eventually adopted by the community. Team sport players are champions.

As representatives of the community, it is inevitable that politicians and government official get involved in team sport matters, and this indistinctly of ideology or political basis. Since their constituents have an urge for sport and pride, they have to address it, moreover they so happen to act as advocates for the fan, being both economic and symbolic stakeholder in teams’ organization,
as underlined in Bowling (1998) and Mason and Slack (1996), which justifies perceiving a team as community good, as noted by Cocco and Jones (1997). As such, and advocated by Chapin (1999), it can reversely be noted that government actually use tax-dollar in order to retain control over the stadia project.

It is however difficult to justify tax-payers’ money spending on solely tribal instinct, even though a relocation can be perceived as threat to the community identity and an obvious violation of the fan-franchise loyalty (Bowling (1998)). Hopefully todays sport business provided them with economic reasoning, promising growth, job creation and neighborhood revitalization, while, as noted in Baade and Matheson (2011), those look more lie ‘rosy economics’ than anything. Such as, it is in fact pro teams who need the support of the local government when they want new arenas. Indeed as shown in Alexander and Kern (2004), teams which gets new stadia sees their values increase, which corroborates Borland and MacDonald (2003) findings on quality of infrastructure and attendance. And teams are actually ready to change their name, hence the referring geographical identity, in order to secure public funding for those facilities.

The ‘economically sound’ and urban-wise argumentation was in fact only brought in the mid 90’s and fully perfected in 2000-era. This period started the real bargaining for publicly-funded, but privately-suiting, sport arena between clubs and local governments, which resulted in series of relocation in the major leagues. The reason of the move being overtly: a better suiting arena in the welcoming market (usually yet to be built, or renovated). As noted in Bowling (1998), teams are legally protected to relocate, to assure equitable stadium-lease bargaining, but local governments can pursue compensations, which ensures bargain equity logic, as demonstrated in the deal following the departure of the SuperSonics from Seattle to Oklahoma City in 2008, where the city of Seattle received 45 million dollars for early termination of lease and 30 million more in the case Seattle was unable to attract a team by 2018\(^2\).

Hence, the governments found themselves between a population eager to be part of a sport movement, where they can express their pride of being part of a great community, and sport teams, if not entire league, ready to use this situation, while hiding their true intent of profit maximization under claims of possible greater commonwealth. As the experience proved and demonstrated in Cocco and Jones (1997), government involvement remains the rule more than the exception, either though stadium financing, easing taxation or some other form of subsidizing. Even though, as

Austrian and Rosentraub (2002) have showed, the economic results of newly found arena, or other subsidizing schemes, are usually disputable. While downtown area, the place of choice for newly build arenas (Chapin (1999)), are barely stabilized, simply because in fact downtown relocations are a profit-maximizing strategy on the club side, as noted in Chapin (1999), where nowadays franchise interests lie closer to corporate America, which usually has its headquarters downtown, than toward the middle-class. Smith and Ingham even note, that the focus on the downtown area is part of a greater strategy trying to attract ‘businesses’ into the cities, because today capital is mobile, while cities are bonded to always be fixed.

This seems to particularly plague secondary markets. Indeed in the top markets like New York City or Los Angeles, most of the biggest sport installations are privately owned.

3.3. The shape of the static equilibrium

It has been previously explained that sport franchised clubs bargain with local government over the availability and source of financing for more suitable infrastructures, while local government have to answer to the instinctive need for ‘collective pride’, team sport being the easiest way to do so. But as hinted in the previous section with the Los Angeles (and now, St-Louis) Rams, this bargaining is multipartite and can actually concern several communities and their local governments across the continent. This simple phenomenon discards the market-size logic: teams do not look for the biggest market to milk, but for the most convenient community, convenience being defined as allowing to build the stadium at the wanted standard, finance it, and showing-up for the games. Remember that the only incomes that clubs maximize individually are ticket-sales and local TV-rights, the rest are maximized following oligopoly reasoning at the league level. Hence market size, while a major target for the league, does not automatically mean most suitable market for a team.

The late decade has seen several examples of such ‘unlikely’ moves (in the terms of market-size reasoning), like the departure of the Grizzlies from Vancouver to Memphis, or the SuperSonics from Seattle to Oklahoma City, in the NBA. Harsh competition between cities, as noted in Bowling (1998), on tax-dollar, might simply be the consequence of an under-free-market equilibrium supply of pro-team, as expected coming from oligopoly organizations. This is even more documented in Johnson (1983) where a complete table of all franchise moves from 1950 to 1983 has been collected, and where it is evident that the actual number of cities able to host one franchise city is actually higher than the actual supply. And while those have expressed interest into pacing the
frequency of relocation, one can mostly remark that it is in order to keep the cities interested into financing new arena, without exhausting them.

But what sort of city is willing to pay to host a team suited for a top 20 city. What city is ready to overpay for the privilege to compete with the best? We can elicit three reasons to do so:

1) The community, either the city or the state, has a strong sense of identity, likely from historical lasting, or cultural specificities
2) The community lost a major team in the recent years (we will come back on that very dynamic in the next section)
3) The community has a strong sport history, as Philadelphia, New York City or Boston, barred from the previous reason, hence a greater sport demand, not involving pride

Assuming reason (1) and (3) are constant overtime, which is reasonable, a long-term equilibrium should at some point being reached, bar an external shock. Such equilibrium could be formalized following a measurement of reason (1) and (3), and market size. Alas, even stretched, this argument fails to explain the current movement. There are simply too much movements, or debates around relocations, like it was the case this year with the Sacramento Kings in the NBA. Those movements can neither be understood as extension teams, which would have been misplaced. As of now, the reader would have already turn is attention to the consequence of reason (2) and its implications, even maybe assuming that long-term equilibrium is unreachable as a stable one.

4. The dynamic today

4.1. Sport as an addiction

Today’s dynamic of franchised sport clubs in the top North American leagues cannot be understood without an extra lecture on cultural (or addiction) economics. Culture and drugs (as it will be shown for sport too) are experience goods and services, and as one learn their benefits, one also learn to appreciate it, hence consumption leads to greater demands (though one can assume a decreasing marginal effect over quantities), as described in Throsby (1994). One can easily picture a drug addict going for consumption more and more frequently, or an individual introduced to some art field developing a taste and preferences, while augmenting always his or her consumption. Sport can be perceived as such too. Individuals are introduced to a certain sport for whatever reason (social fitting, physical activities, skill learning…). Witnessing and practicing, they learn the rules, strategies, distinction and categories… They develop knowledge so that they can tell what is going
wrong, what is done right, what is beautiful (in the same manner than in art) and what is not. As they do so, they are ready to spend more time and money to practice or witness the said sport, as they feel valued in contact with it. In team sport, this feel-good feeling is tenfold, because of the social aspect attached to it, the individual becomes validated by being part of a group experience or/and by having a certain expertise that can be demonstrated to her peers. This can come to a point where fandom or sport can become a central part of one’s life, a defining element of one’s identity. Following the element given in Brewer and Potenza (2008) to identify addiction, we assume that such erratic responses can be compared to the ones of a drug addict.

4.2. Withdrawals and relocations

Now, let’s say the local team departures for greener pastures. There is not only a deny of community pride, there is a destruction of possible good emotions, with no chance of being replaced in the near future. This nostalgia and deny of human ties (in the form of fan loyalty and all the psychic representations a team can have) have been documented in Mitrano (1999) or in Kulczycki and Hyatt (2005), where fans of the departed team of the Hartford Whalers in the NHL try to revive one way or another the glory days, while trying not to lose the socialization associated with fandom. As with drug withdrawal, the sacrifice convened to get one’s hands on a team increase with time. Hence the community is ready to make ever greater concessions to retrieve that possibility of happier days (as it was case in 2002 in Charlotte³, where a new tax was raised to build a new arena, a demand the former franchise failed to receive and subsequently move to New Orleans). This means more suitable facility, more convenient tax system, more understanding zoning commissions, etc. The politicians and the local government can but respond to such overwhelming urge from their constituents.

And this is why we can admit a dynamic equilibrium, depicting nowadays relocations and expansion team locations. Over the past thirty years, very few markets have been actually newly opened. They are usually abandoned and re-opened ten to fifteen years later. We have so a number of cities appearing on and off in the leagues, while their relative wealth situation is not much changed. It is actually the lowest tier of markets (25³ biggest market and below), and teams bound to them, which are more prompt to be victim of such phenomenon. What happened in Charlotte, NC

(who receive an NBA expansion team in 2004, 2 years after having lost their team to New Orleans) or in Winnipeg (who succeed to lure an NHL team in 2011 from Atlanta, 15 years after they had lost the first one to Arizona) or even the comeback of the Raiders to Oakland after 8 years in Los Angeles are demonstration of that phenomenon. In all those case, local governments and cities significantly increased their subsidize offer, including heavy refurbishment or new stadia. In Seattle the withdrawal seems so strong that the city was ready to give up on the 30 million from the Supersonics departure deal to welcome the Sacramento Kings with a new arena⁴. Franchises are, on their end, more and more incited to get stadia more accommodating to their corporate partners, as they seems to offer a new ending source of revenue, which lead to an increased pace of stadia update. As a result local governments face ever bigger investment, with lesser time to profit from it.

5. Conclusion

We saw that the ‘market size’ argument was an insufficient tool for those willing to analyze franchise movement in the past 60 years. Because more than ‘market size’, it is the city’s ability to outcompete other communities that will decide franchise locations and relocations. We then saw how arena size and quality take part into the franchise (re)allocation, as well as why politicians get involved in the pro team sport industry. We finally established the idea of ‘sport addiction’, that would push communities and governments once outcompeted to extend even more their subsidize offer to sport franchises, while their economic, as well as their social impacts are more than disputable.

It is unlikely that this dynamic will be stopped or even smoothed in the future, as competition and love for sport are in the American cultural DNA, leading to an expensive dynamic equilibrium affecting the less wealthy big American cities. And it is not clear if the decision of the NBA to finally keep the Kings in Sacramento is a realization on the part of the big leagues that subsidize could dry up on the long run, or that actually they prefer to deal with smaller cities as they would be easier to milk (and keep Seattle as possibility for a possible expansion… for a lucrative entry fee).

⁴ http://www.usatoday.com/story/sports/nba/kings/2013/01/20/sacramento-seattle-maloofs-chris-hansen-sonics-supersonics/1850631/
In any case local government debt default (partly fed by pro sport subsidizing) become a rising risk and it is believed that sports economist and other sport studies practitioners should alert government and offer them suitable alternatives. Such alternative could be an involvement in the ownership of the local franchise, making so harder it to leave, against subsidizes. Another could be an adaption of the European division system of the pro league, in which would be added a ‘reserve division’ of a dozen extra franchises who could get a shot at making it into the ‘real league’ through a mechanism of promotion-relegation. Such a system would have the advantage to cover a greater number of cities without radically changing the working of the leagues, and as a result would reduce the financial pressure on local governments, provide a lucrative entry fee to the already members of the leagues (against a chance of being maybe demoted in the future) and reduce the benefit of tanking.

6. References


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