

The Last Piece of the Puzzle: Implications for Player Value

Vince Gennaro
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New Rating System Puts \$ on Player's Value

By Stan Isle
Associate Editor

St. Louis – Vince Gennaro said his “wheels” began to turn back on December 31, 1974, when Catfish Hunter signed that free-agent contract with the Yankees for an estimated \$2.85 million.

Gennaro, a Chicago-based economic consultant and an avid baseball fan who heads Sports Planning Associates, began to wonder if the Yankees would get their money out of the veteran righthander, then 28 years of age.

After extensive research and the application of statistics, mathematics and computer technology, Gennaro concluded that Hunter's value to the Yankees that first season was \$680,000.

While Hunter has not yet approached his 1975 performance (23-14 with a 2.54 earned run average), Gennaro calculated that Catfish was responsible for attracting 4,150 fans beyond normal attendance every time he went to the mound in '75. In 19 starts at Yankee Stadium that year, he figured Hunter alone pulled 79,000 fans into the park.

This was only the start for Gennaro who since refined his methods and developed a Player Valuation System which, in addition to analyzing the value of specific players, shows how winning percentage, promotional days, ticket prices, attendance and other factors interact and affect the

bottom line in the operation of a major league club.

Significant changes such as the weakening of the Reserve Clause and the growth of player agents have dramatically affected baseball, Gennaro pointed out. Seven-figure, multi-year contracts make it increasingly important to determine the value of star players.

How many tickets can a Rod Carew or a Pete Rose really sell? Gennaro believes he is addressing that question – “really getting to the bottom line”- with his Player Valuation System. “The system estimates how much a player can earn for a team,” Gennaro explained. “It does not necessarily represent what a player's salary should be. If a player isn't paid less than his ‘true value’, then a team owner will receive no return on his capital nor will he receive any rewards for bearing the risk of the player's performance differing from what is expected”.

“In contract negotiations,” Gennaro said, “a player and his agent need to say more than ‘if so-and-so can get \$600,000 a year, then I want it too’. If in a few cases owners have made mistakes in salaries paid to players, why should any owner be expected to throw good money after bad? You've got to look at how much money a player can earn for a team”

Commissioner Bowie Kuhn, in his address at the winter meetings in Orlando last December, voiced fear that baseball's present collective bargaining agreement will create a group of elite teams with potentially great damage to competitive balance. The approximate player salary, before the first reentry draft, was \$50,000. Today it is approximately \$100,000, Kuhn pointed out.

“If the Player Valuation System becomes widely used, it may help bring salaries into balance,” said Gennaro. “In cases where the player is ‘underpaid’, the player or agent will use this as leverage in contract negotiations. In cases where the player is being paid more than he is worth, the team owner or general manager will have an incentive to use this analysis”

Gennaro emphasized two points. First, the Player Valuation System does not attempt to predict a player's performance. Second, a player has a different value to each team.

How does Gennaro's system work? The process begins by feeding “expectations” about a player's performance (for example, his statistics for the previous season) into the computer. The computer traces the performance expectation through four phases – performance, team winning percentage, attendance and revenue sections. The final result enables the

The Player Valuation Model

How much revenue will a player generate for his team?

Individual Player Performance Stats



Impact on Team Wins



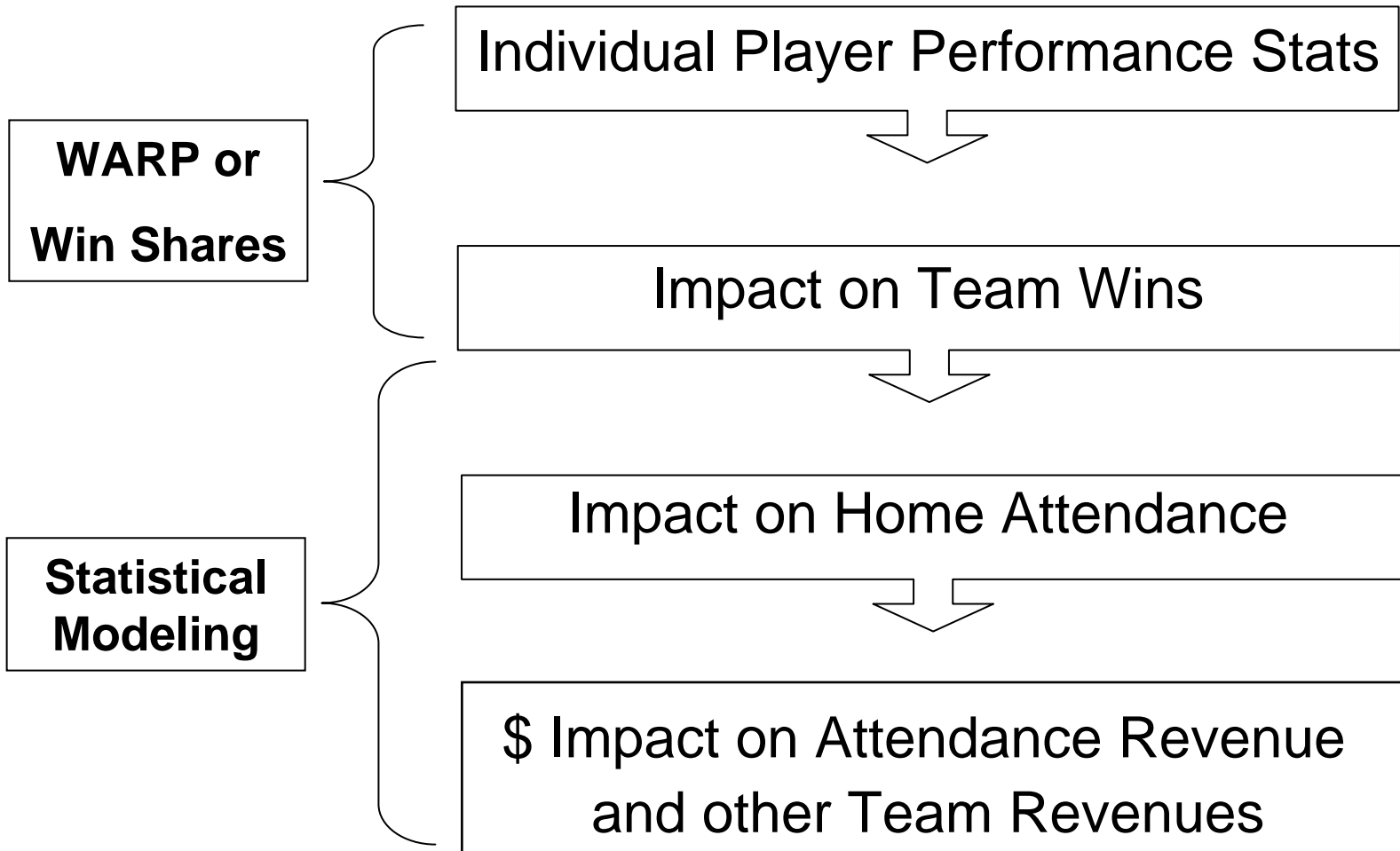
Impact on Home Attendance



\$ Impact on Attendance Revenue
and other Team Revenues

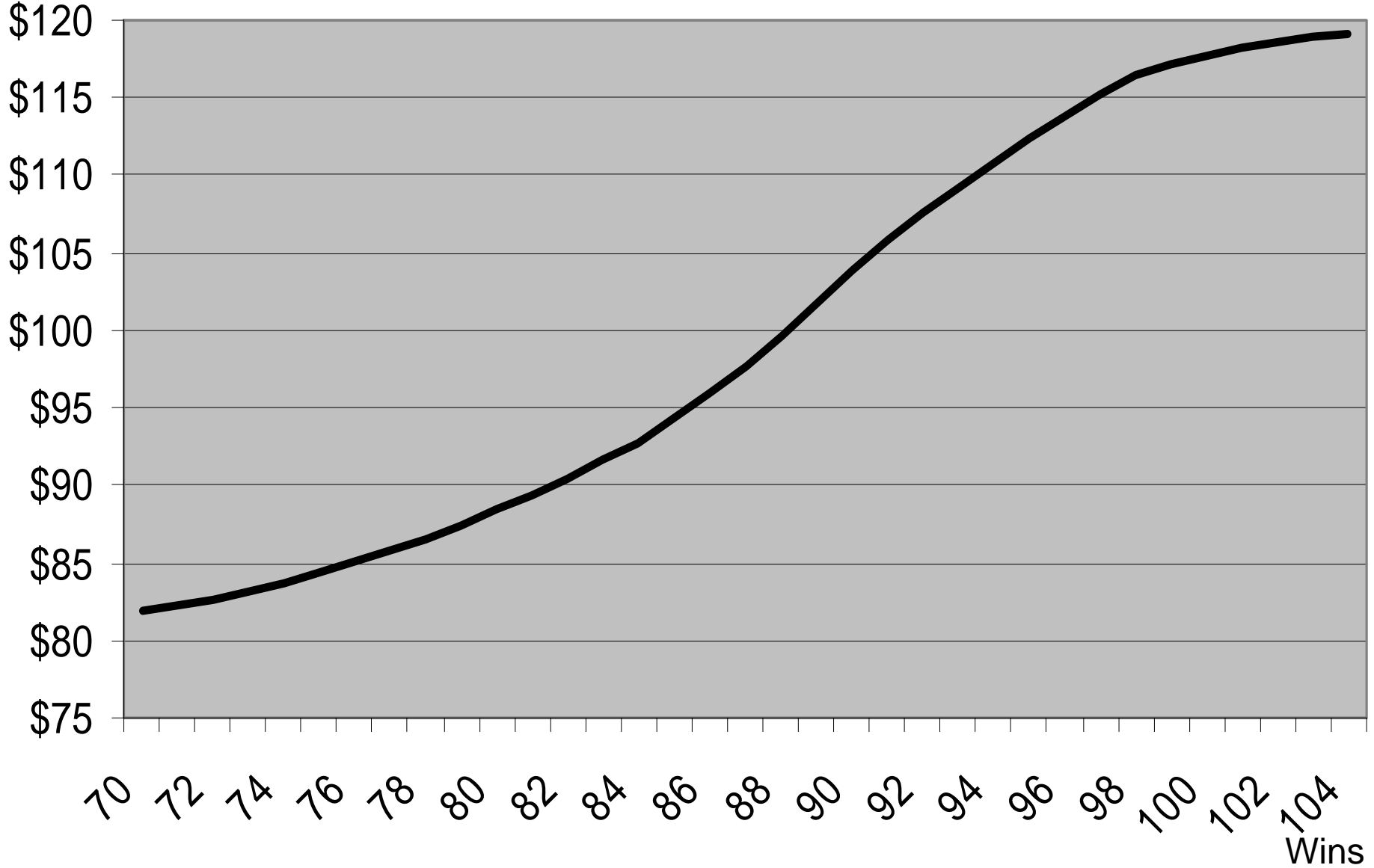
The Player Valuation Model

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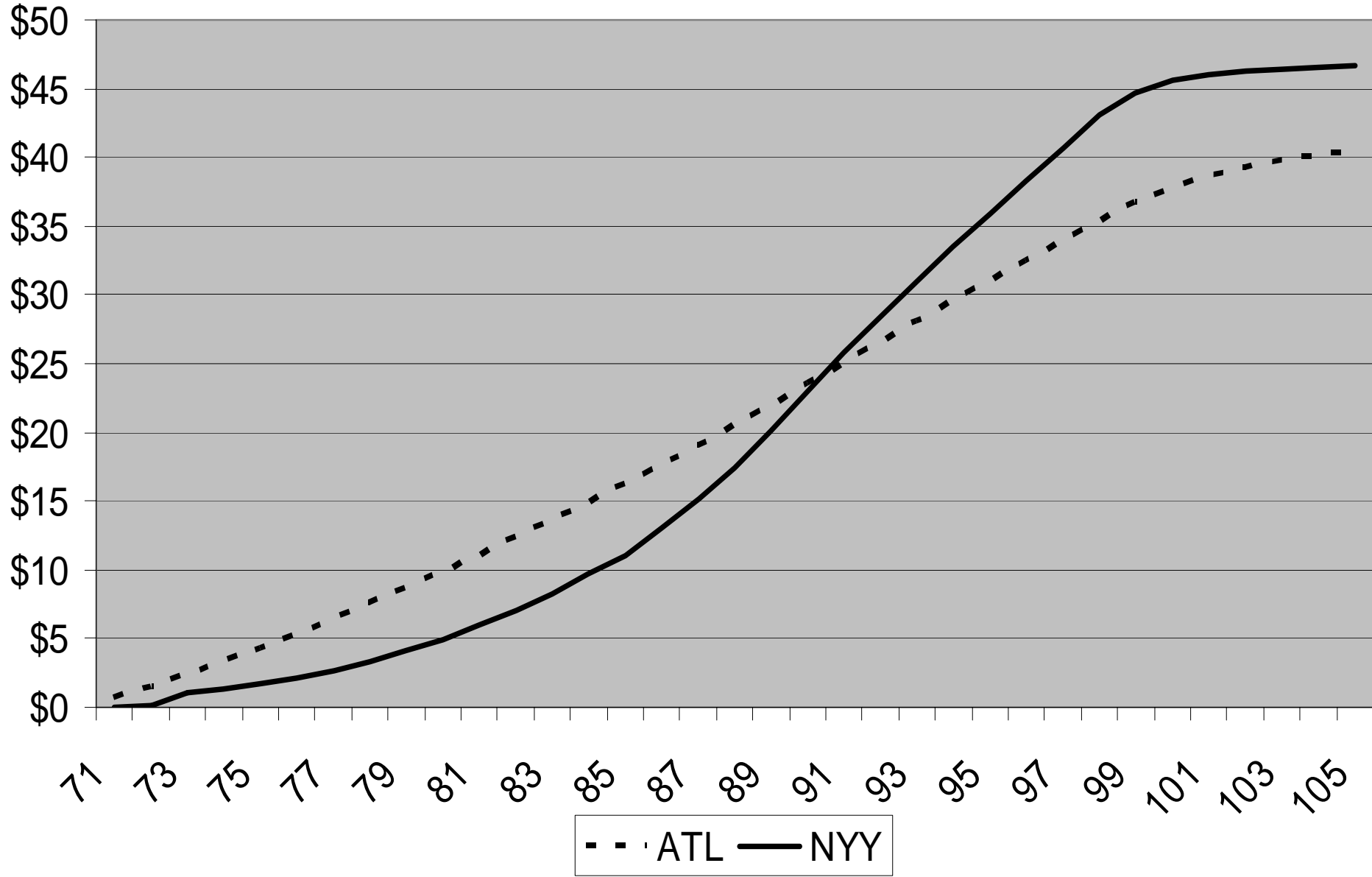
LA Angels Win-Revenue Curve 2005

Millions



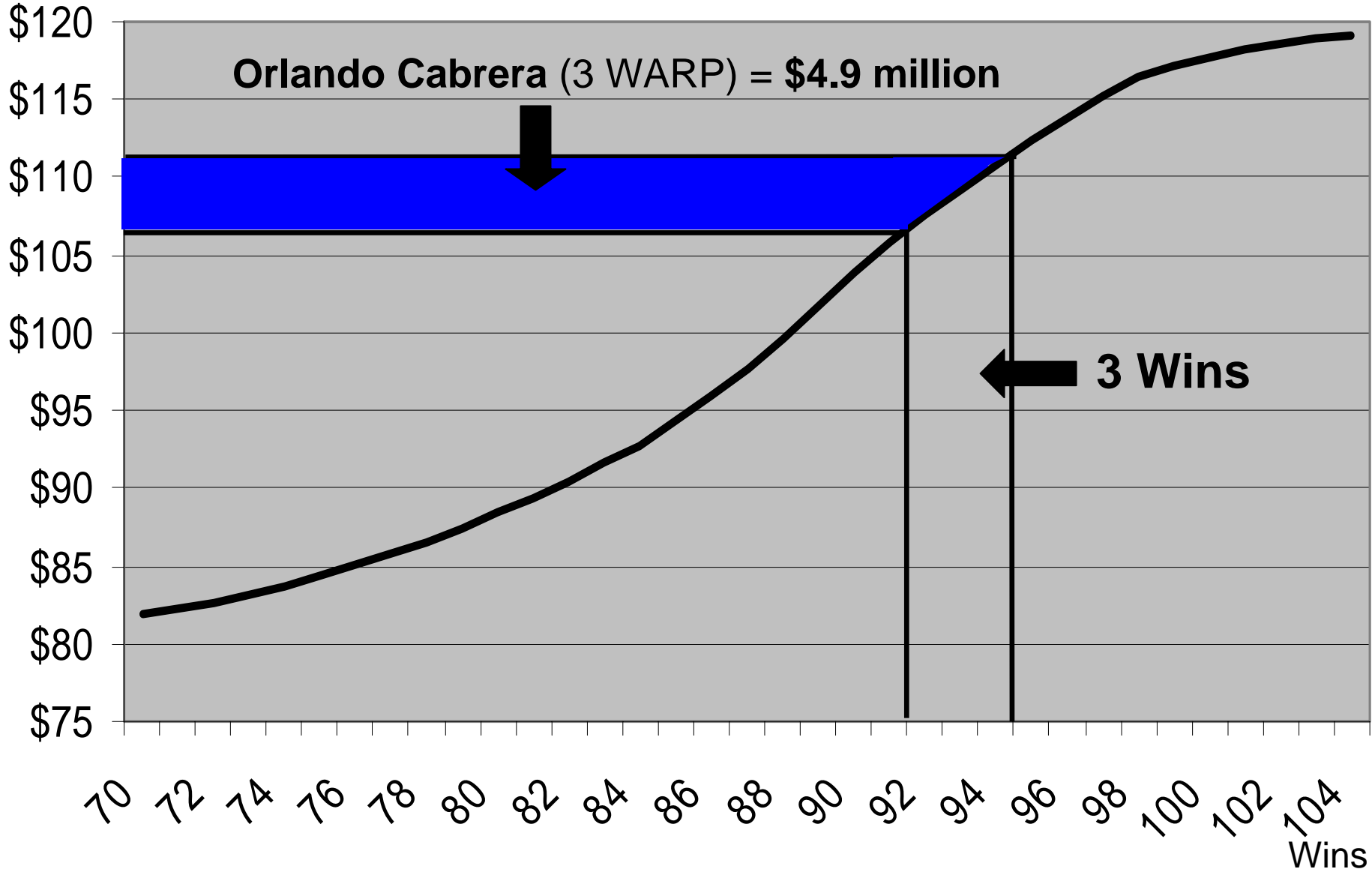
"Steep" vs. "Flat" Win-Curve NYY vs. ATL

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LA Angels Win-Revenue Curve 2005

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The Team-Specific Win-Revenue Models

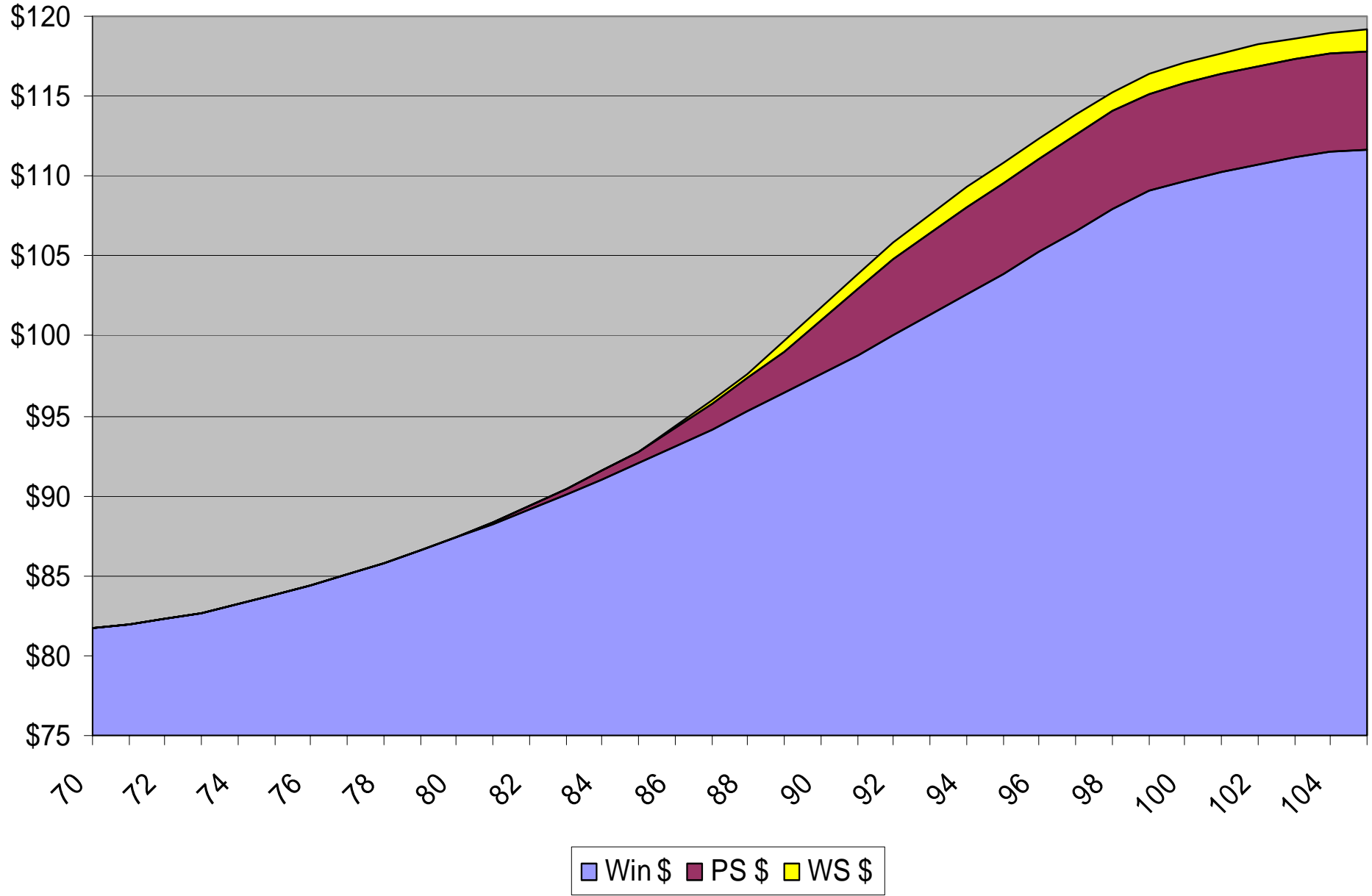
- Utilized regression analysis to isolate the impact of a team's wins on attendance
- Annual Home Attendance is a function of:
 - Wins (previous yr. and current yr.)
 - New Stadium
 - Work Stoppages
 - Team specific events
- Translate attendance estimates into implications for other revenue (broadcast, concessions, etc)

Highlights of the Win-Revenue Models

- Wins matter from 70 to 98
- Significant variation in the “value of a win” by market and by team
- The level of a team’s competitiveness has the greatest impact on the “value of a win”

The Layers of Revenue from Winning - LA Angels 2005

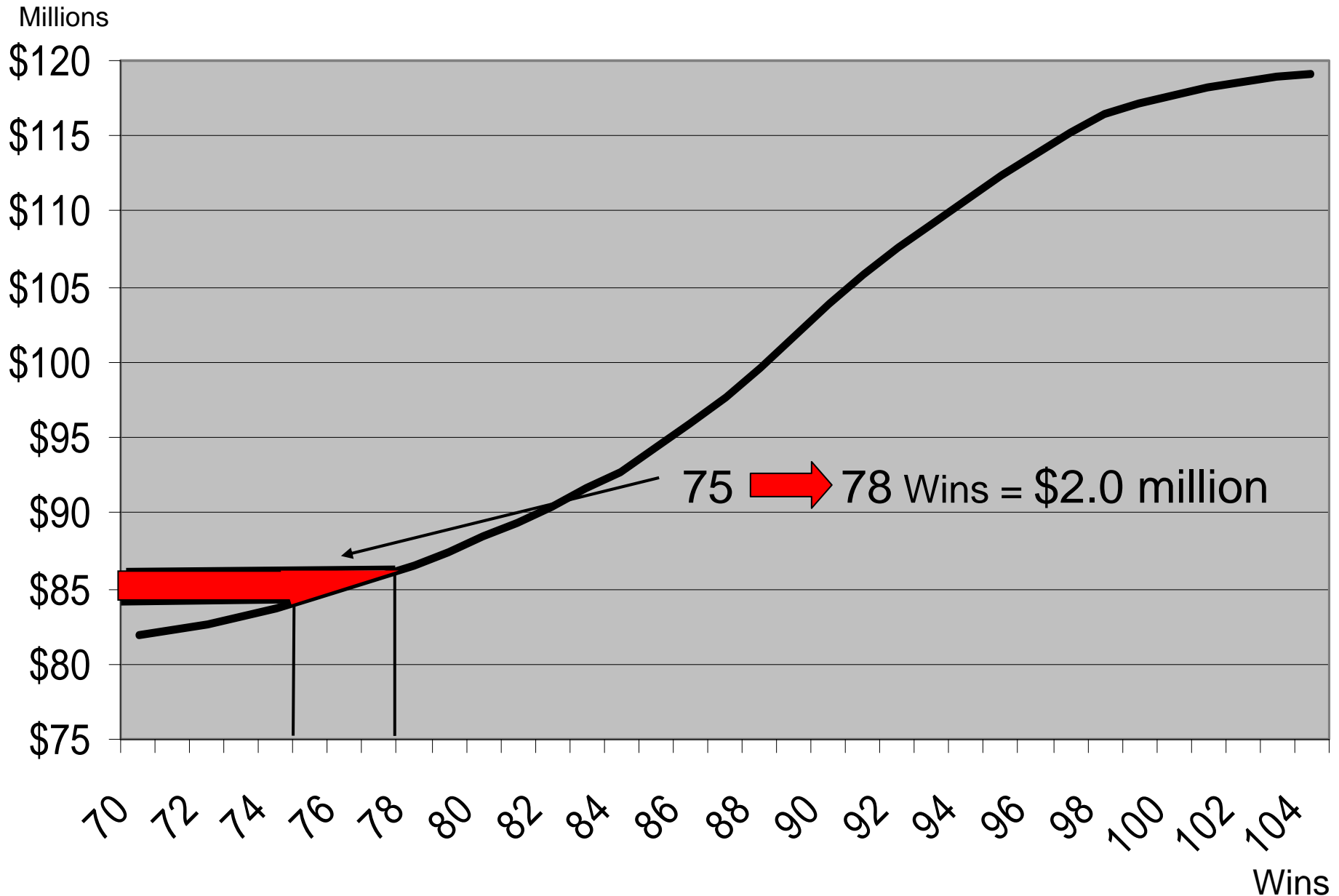
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The Postseason Revenue Stream

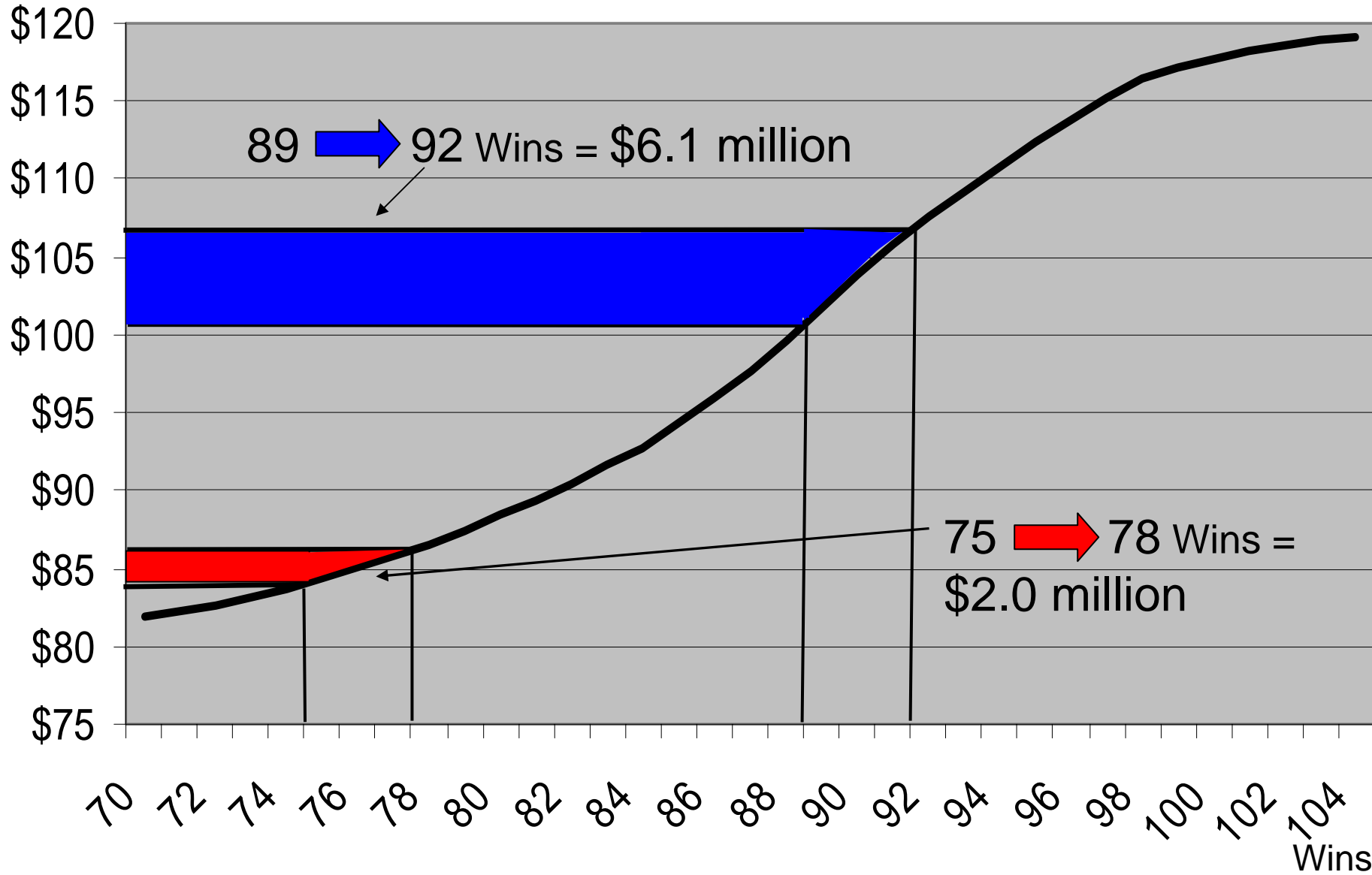
- The year following a Postseason appearance:
 - Fans buy full and partial season ticket packages
 - Concessions, luxury suite sales, merchandise, etc.
 - Broadcast ratings surge
 - Ticket Price increases
 - Playoff teams +10%
 - Non-playoff teams +5%
- The 2006 White Sox
 - “Sold out” season ticket packages
 - Attendance up 20% vs. 2005, with same wins

LA Angels Win-Revenue Curve 2005

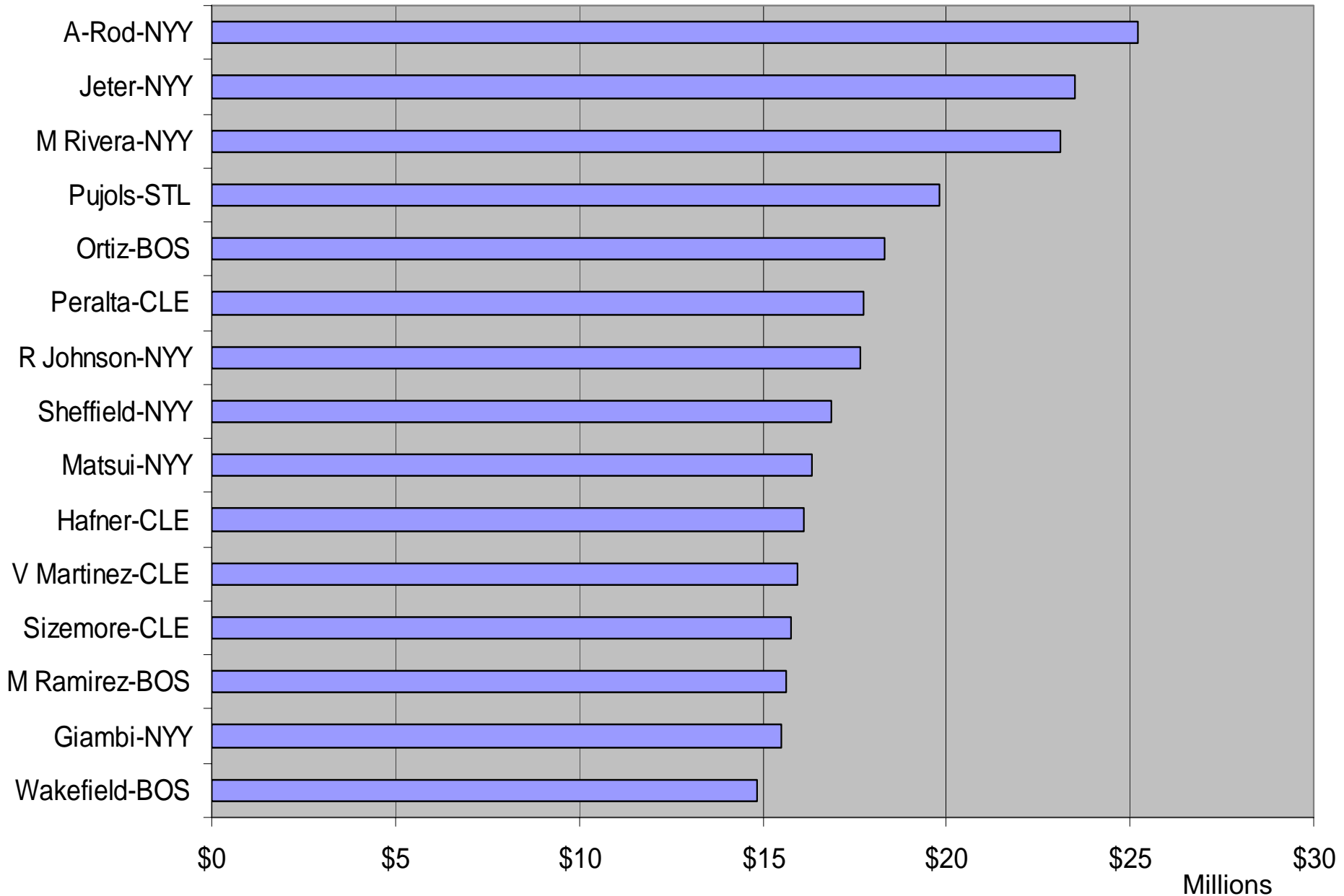


LA Angels Win-Revenue Curve 2005

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Top 15 MO\$T Valuable Players - 2005



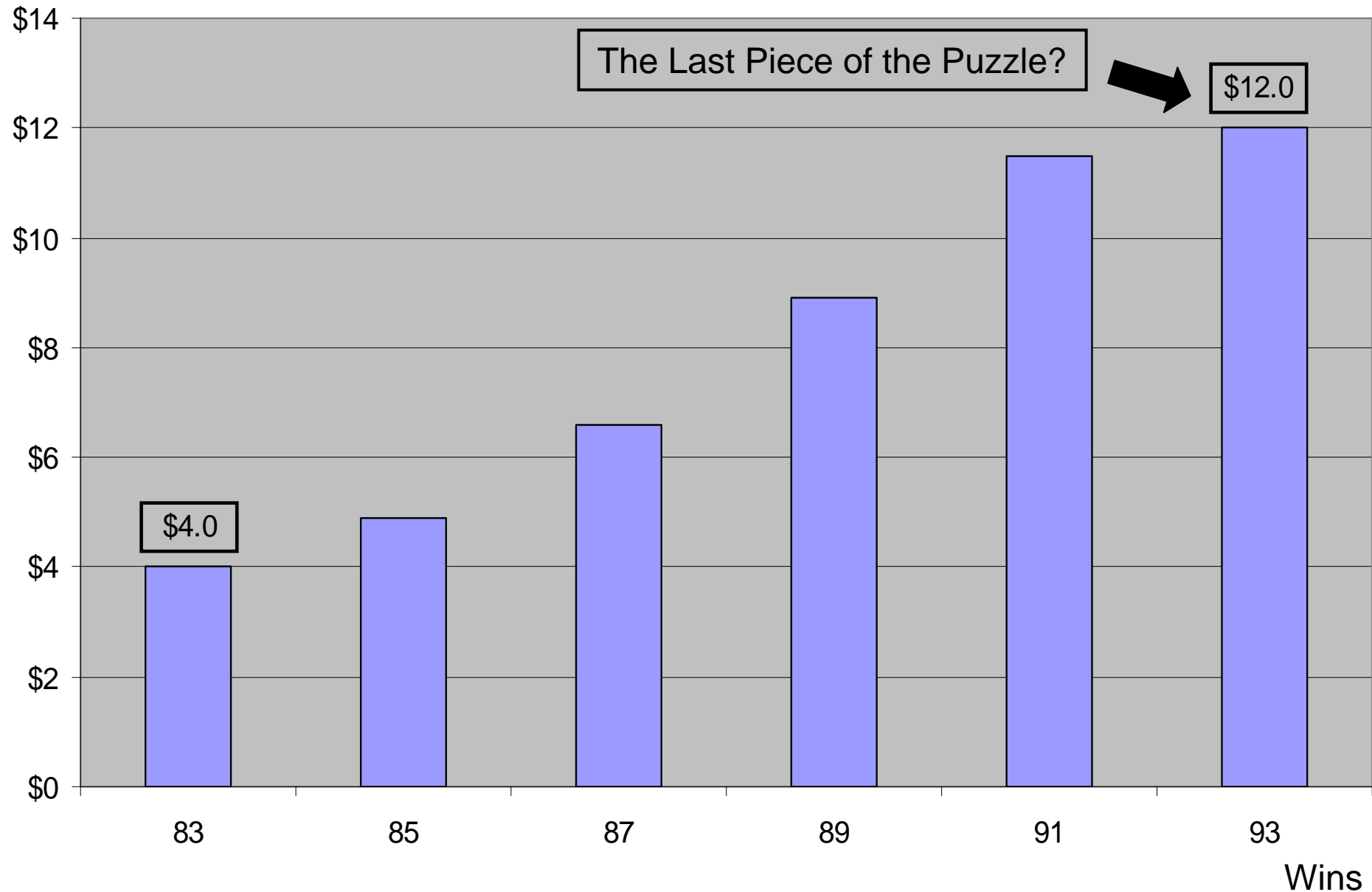
The Last Piece of the Puzzle?

Toronto Blue Jays

	<u>Contract Terms</u>	<u>Per Year</u>
• B J Ryan	5 years - \$47 million	\$ 9.4 m
• A J Burnett	5 years - \$55 million	\$11.0 m

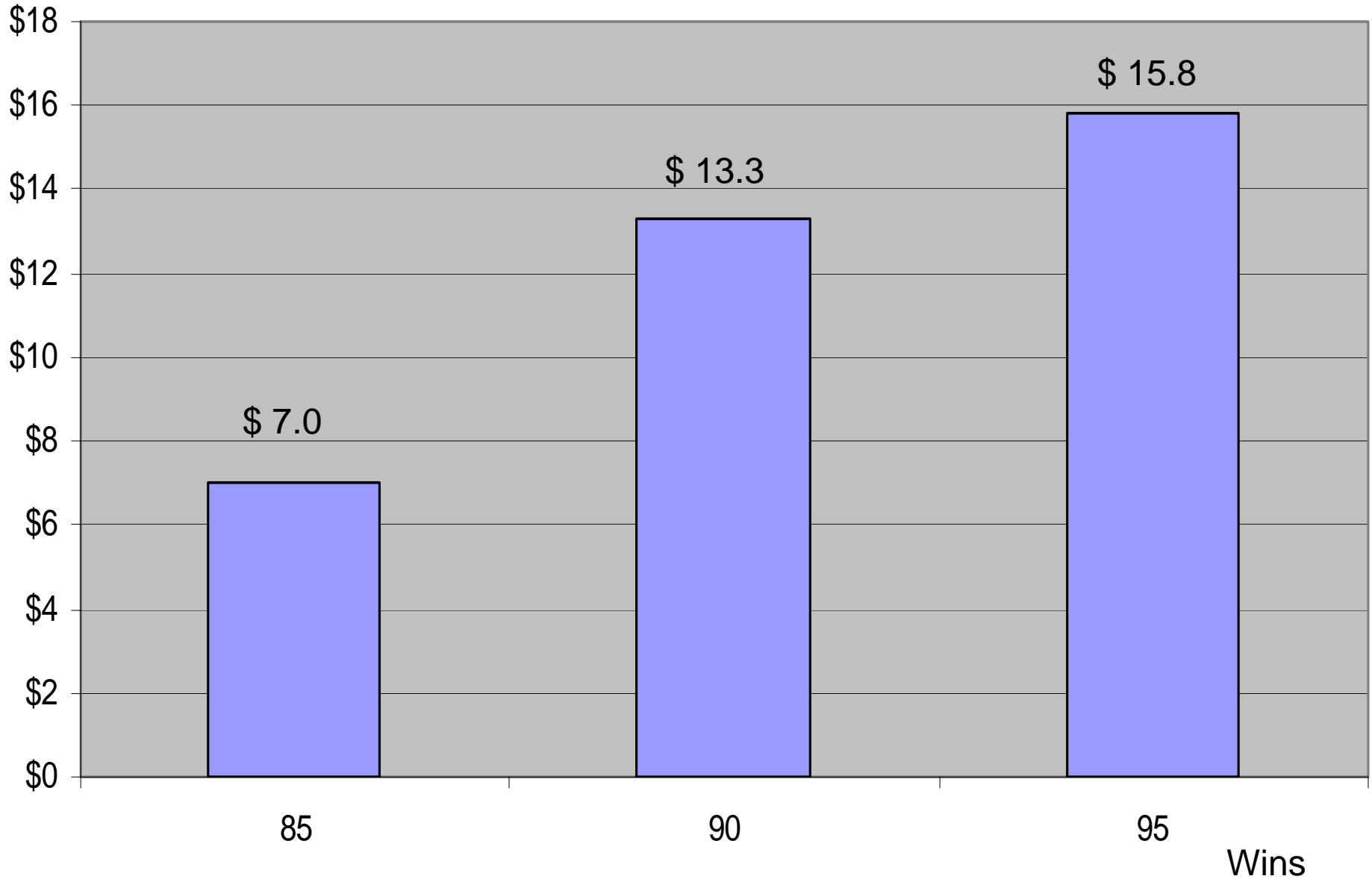
The Value of a 6-Win Player to Toronto Blue Jays

Millions



The Value of Johnny Damon (6 Wins) to the Yankees

Millions



Player Value – The Next Level

- The Core Value of a player is “Performance Value”
- Additional sources of player value
 - *Marquee Value* (Gate Appeal)
 - *Performance Risk Factor*
 - Year-to-year variation in performance/consistency
 - Injury factor - propensity for injury
 - *Trade Value*
 - Value as determined by the secondary market
 - Player value to other teams

End of Presentation