The NFL's Current Business Model and the Potential 2011 Lockout

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Introduction

In March 2010, Roger Goodell, the Commissioner of the National Football League (NFL), announced an aggressive goal for his business: $25 billion in yearly revenue by 2027.[1] To put that figure in perspective, the countries of Panama, Jordan, Ghana, and Iceland all had nominal GDPs less than $25 billion in 2009.[2] For the NFL to reach Goodell's lofty target, the league will have to quickly build on what *Business Week* has already called, "one of America's best-run businesses."[3]

During the 2008 season, the NFL made an estimated $7.6 billion in revenue and $1.0 billion in operating income. The average team value was $1.04 billion.[4] *The Economist* wrote in 2006 that, "[the NFL] remains the most popular of the four big American sports on almost every measure, from opinion polls to television ratings."[5] A comparison of 2008 financials for the NFL, Major League Baseball (MLB), National Basketball Association (NBA), and National Hockey League (NHL) is displayed in Appendices 1 and 2. The conclusion is clear: with the highest revenue, income, and value, the NFL leads the American professional sports business.

This paper will take a critical look at the NFL business model. Specifically, it will investigate how the NFL has constructed a sports empire in the United States. How does the league generate its revenues and earn profits and how has it popularized and stabilized demand for its product? I will demonstrate that the NFL's noticeable profit

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[1] Kaplan, Daniel. "Goodell sets revenue goal of $25 billion by 2027 for NFL." *Sporting News NFL*. 5 Apr. 2010. http://www.sportingnews.com/nfl/article/2010-04-05/sbj-goodell-sets-revenue-goal-25-billion-2027-for-nfl

[2] International Monetary Fund, World Economic Outlook Database, Apr. 2010: Nominal GDP list of countries. Data for the year 2009. http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx

[3] "This Is The NFL: 2009-2010." National Football League: New York, NY, 2009, pg. 4.

[4] Unless otherwise cited, financials come from Forbes Business of Football, Baseball, Basketball, and Hockey online databases for the 2006-09 seasons.

[5] "In a league of its own." *The Economist*. 27 Apr. 2006. http://www.economist.com/business-finance/displaystory.cfm?story_id=6859210

margin is a result of centrally driven top line development, spearheaded by national media deals, and a containment of player salary growth. The NFL has been able to stabilize demand by controlling product distribution, distributing risk, and maintaining economic and competitive parity.

Although the NFL has become the behemoth of American sports, it faces serious short-term stability issues. The NFL owners opted out of the current Collective Bargaining Agreement (CBA) in 2008, and there is speculation that there could be a lockout in 2011. After investigating the history of the current CBA dispute, I will analyze how a work stoppage could affect the NFL business and Goodell's rapid strategic growth plan.

The Business of the NFL

The NFL is the most profitable American sports league. To analyze the source of this profitability and how the NFL organizes its business, it is essential to break down team revenues and costs. Because most franchises are privately owned, financials are not publicly available. However, the Green Bay Packers are a community-owned franchise, and thus release their financial information.[6] Appendices 3 and 4 show the relative sizes of revenue and operating expense sources for the Packers in 2009.

An examination of Green Bay revenue sources provides several insights into the NFL business. Perhaps the most notable insight is that approximately 60 percent of total revenue in the NFL is generated centrally and distributed evenly among the 32 teams. The Green Bay income statement shows that $147 million of its $248 million in revenue (59 percent) is generated by the NFL league office. The 60-40 split in nationally

[6] Green Bay Packers financial information obtained from http://joe.bowman.net/Statement.htm.

generated revenue to locally generated revenue that the Packers possess is consistent with what NFL executives have cited at speaking events as the league-wide distribution. It makes sense that the Packers fall right at the league-wide 60-40 split, since the franchise is average (15th of 32 teams) in revenue generation.

The $147 million in centrally generated revenue that the Packers receive consists of road game ticket receipts, NFL Properties revenue, and television and radio deals. Of Green Bay's $47 million in ticket revenue, $17 million is sourced from road games. This breakdown exists because the NFL has a 60-40 policy whereby the home team keeps 60 percent of gate receipts and gives 40 percent of receipts to a pool, which is then distributed evenly among the 32 teams. The NFL has the most comprehensive system of shared gate receipts. The NBA and NHL do not share ticket sales, and MLB home teams keep 85 percent of ticket revenue.[7]

The $95 million the Packers make from television and radio is also generated centrally by the NFL. As Appendix 3 shows, the NFL's national media revenue is the backbone of the business. National media is 38 percent of Green Bay's total revenue, twice the amount of local ticket revenue. NBC, FOX, CBS, ESPN, DirecTV, Sirius, EA Sports, and Verizon all pay significant rights fees for NFL content. The deals with FOX and CBS, which run through 2011, are reported to be worth $8 billion combined. It is estimated that ESPN's deal is worth $8.8 billion and NBC's is valued at $3.6 billion.[8] The DirecTV deal, extended for four years in 2009, is valued at $4 billion.[9] Altogether,

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[7] Scully, Gerald W. "Sports." *The Concise Encyclopedia of Economics*. 2008. http://www.econlib.org/library/Enc/Sports.html

[8] "NFL Media Rights Deals For '07 Season." *Sports Business Daily.* 6 Sept. 2007. http://www.sportsbusinessdaily.com/article/114714

[9] Futterman, Matthew. "NFL, DirecTV Extend Pact in $4 Billion Deal." *Wall Street Journal.* 24 March 2009. http://online.wsj.com/article/SB123786503490122053.html

the NFL brought in around $3.74 billion in television revenue in 2007. This figure alone is larger than the $2.8 billion the NHL made total in 2009 and is comparable to the $3.8 billion the NBA made in 2009 total revenue. The rights fees for NFL content are substantial because of the success of NFL broadcasts. A regular season NFL game in 2009 drew an average of 16.6 million viewers, while other primetime shows on NBC, CBS, ABC, and FOX averaged just 8.8 million viewers.[10] Moreover, the 12 highest rated broadcasts of the past decade have been NFL games.[11]

The final source of centrally generated revenue in the Packers income statement is NFL Properties revenue. This source, which consists of league merchandising and licensing, contributes $36.5 million to the Packers. Only 40 percent of the Packers' revenues are locally generated. The sources of this local revenue include home ticket receipts, private boxes, parking, concessions, and local marketing, sponsorships, and media deals. It is true that the business of the NFL, more so than other leagues, is built not on local revenue, but on sharing centrally generated revenue.

The business model of generating and sharing such a large quantity of central revenue is unique to the NFL. Unlike the NFL, the NBA, MLB, and NHL are more oriented on gate receipts and local media. The NFL generated $1.68 billion in local gate receipts in 2008, which is 22 percent of its total revenue. The NBA share of gate receipts to total revenue is 32 percent (2008-09), the MLB share is 37 percent (2008), and the NHL share is 42 percent (2008-09). Other sports leagues and teams differ in their

[10] "As playoffs begin, NFL celebrates regular-season TV ratings." *Associated Press.* New York. 2010. http://www.nfl.com/playoffs/story?id=09000d5d81598ea2&template=with-video-with-comments&confirm=true

[11] Television ratings information courtesy of Nielsen Media Research, http://en-us.nielsen.com/tab/industries/media.

business models, as well. NASCAR, for instance, is built around sponsorship revenue.[12] In 2008, NASCAR collected $1.5 billion of its estimated $3 billion in revenue from corporate sponsorships.[13] Furthermore, Real Madrid, a Spanish soccer team, put a strong emphasis on marketing revenue earlier in the decade. In 2004, it was estimated that Real Madrid's largest share of revenue would be from commercial and marketing activities.[14] Another soccer team, Boca Juniors from Argentina, structures its business around the sale of players. From 1996-2006, Boca Juniors made AR$583 million in operating revenue and AR$356 million on player transfers.[15]

For the NFL to ensure that its sizeable top line leads to profits, the league must be able to control team costs. Appendix 4 shows that one cost, player salaries, makes up the majority of team expenses. For the Green Bay Packers, $138.7 million of its $227.8 million in total expenses (61 percent) comes in the form of player payroll. Because of its size, team payroll is an important pressure point in determining whether a team is profitable. As a way to control payrolls, the NFL instituted a "hard" salary cap when the current CBA was signed in 2006. Hard salary caps and floors are strict bounds that teams cannot cross. In the NFL, the salary bounds ensure that players get a specified share of league-wide projected revenue. For the 2008 and 2009 seasons, the salary cap was 57.5 percent of projected league revenue, less benefits to players, divided by 32 teams. A salary floor was also created in 2006, at 84 percent of the cap. The figure increases every

[12] NASCAR, speech, New York, NY 19 Apr. 2009.
[13] Hamner, Susanna. "Nascar's Sponsors, Hit by Sticker Shock." *New York Times*. 13 Dec. 2008. http://www.nytimes.com/2008/12/14/business/14nascar.html
[14] Quelch, John, Jose Luis Nueno, and Carin-Isabel Knoop. "Real Madrid Club de Futbol." Case Study 9-504-063. *Harvard Business School*. 28 June 2007.
[15] Elberse, Anita, Alberto Ballve, and Gustavo Herrero. "Club Atletico Boca Juniors." Case Study 9-508-056. *Harvard Business School.* 20 Oct. 2008.

year by 1.2 percent, such that in 2009, the floor was 87.6 percent of the cap.[16] The NHL, like the NFL, has hard salary bounds, however, the NBA has a "soft" cap and MLB has no cap or floor. In the NBA, there are several opportunities, such as mid-level exemptions, injury exemptions, tenure exemptions, and trade exemptions, for teams to rise above the soft cap. In MLB, the only major restrictions are minimum salary levels and a luxury tax that punishes teams with payrolls above a certain threshold. The hard caps of the NFL and NHL place the strictest bounds on player payroll costs. As Appendix 7 shows, the NFL has been able to reasonably control the share of revenue given to players. In 2008, the NFL gave 57 percent of revenue to players. This figure is in between the NHL's 53.4 percent figure and the NBA's 59.8 percent figure. Containment of the players' share of revenue allows the NFL top line to drive the business.

With large centrally generated revenue streams and controls on expenses, the NFL has been able to sustain a profitable business, even throughout the most recent recession. For the 2006-08 seasons, 92 percent of NFL teams were profitable. NFL revenue growth also outpaced its competition. The average growth rate of NFL revenue from 2006 to 2008 was 7.6 percent per year. During the same period, NBA revenue grew at an average rate of 3.0 percent per year, and from 2007 to 2009 MLB revenue grew 3.7 percent per year. If it maintains its current growth rate, the NFL would reach $31 billion in revenue by 2027.

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[16] Salary Cap information courtesy of the NFL CBA, Article XXIV, "Guaranteed League-Wide Salary, Salary Cap, & Minimum Team Salary." pg. 82-144.

Maintaining NFL Demand

The NFL obtains three major benefits by modeling its business around centrally generated revenue. The first is that the NFL can consolidate power and exercise wide-reaching control over the distribution of its product. Brand management through distribution control is essential in growing and sustaining demand, which in turn drives business performance. One example of NFL control comes in the form of media. All NFL games are broadcast nationally. In MLB and the NHL, however, each team often has its own regional sports network (RSN). Because the NFL makes deals with fewer media outlets, it may be in a more effective position to manage its brand. The league may be better able to monitor the presentation of its telecasts, control advertisements connected to the sport, and pick the analysts and commentators that are the faces of the game. The NFL also shapes the consumption of its product using the NFL Network. This television channel, launched in 2003, is owned and operated by the league.

As for marketing and licensing, the NFL has been able to take a stricter strategic approach because of its centrally oriented model.[17] While teams in other leagues may leniently license distributors to use logos and sell merchandise, the NFL often acts as a single unit to limit and choose the most worthy vendors. The NFL has a detailed list of licensing pre-qualification terms and conditions. Some of these rules relate to minimum royalty guarantees and historical business performance.[18] By running licensing primarily through the league office, the NFL can ensure that its brand is connected to quality products. Attaching the NFL name to poor quality merchandise could potentially

[17] Ubinas, Lindsay. "NFL strict on souvenir sales." *10Connects.com*, Tampa, FL. Jan. 2009. http://www.wtsp.com/news/watercooler/story.aspx?storyid=99351&catid=58
[18] "Licensing Pre-Qualification Terms and Conditions." *National Football League.* New York, NY. https://www.nfl.info/NFLConsProd/Welcome/cpAgreement.htm

decrease demand for football. The centralization of the NFL's licensing practices has benefits, however, the NFL's methods are currently being challenged in court. In *American Needle Inc. v. NFL*, American Needle, a former NFL vendor, is suing the NFL, NFL Properties, the teams, and Reebok, claiming that the NFL is restraining trade and violating the Sherman Act by acting as a single-entity. In the antitrust case, American Needle is arguing that it was illegal for the NFL to act on behalf of the 32 individual teams when it gave Reebok exclusive rights to sell NFL headwear.[19] Although the outcome of the case has not yet been determined, *American Needle Inc. v. NFL* does highlight the centralized model of the NFL's merchandising business. Depending on the outcome of the case, the NFL may have to cut back on its centrally oriented NFL Properties, or it may be able to consolidate the business more if it gains single-entity legal status.

The second major benefit of the NFL's centralized model is that the league can distribute risk among all 32 teams. This diversification allows NFL teams to collectively engage in riskier ventures with larger upsides. International development of the sport of football and the aforementioned NFL Network are two examples of riskier projects that can be undertaken more easily because of the NFL's structure. Another important example of a risky venture is the construction of new stadiums, which is supported by the NFL's stadium construction program and is funded by all 32 teams. The fund has contributed $1.1 billion in private investment to NFL owners who are building new facilities.[20] State-of-the-art stadiums have been critical in developing local ticket, private

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[19] McCann, Michael. ""Why American Needle-NFL is the most important case in sports history." *Sports Illustrated*. 12 Jan. 2010.
http://sportsillustrated.cnn.com/2010/writers/michael_mccann/01/12/americanneedlev.nfl/index.html
[20] "This Is The NFL: 2009-2010." National Football League: New York, NY, 2009, pg. 11.

box, sponsorship, and concession revenue. The new facilities also provide excellent game day experiences for fans and help invigorate interest in and demand for the league. In 2009, the Dallas Cowboys opened Cowboys Stadium, the largest domed stadium in the world. The venue's luxury is symbolized by the world's largest high definition screen, which hangs above the field and spans 60 yards. To help owner Jerry Jones build the "Palace in Dallas," the NFL was able to contribute $150 million from its stadium construction fund.[21] In 2010, the New York Giants and New York Jets will also open a new stadium, which should enhance both fan experience and revenue for the league. Without a distribution of risk made possible by the collective stadium construction fund, building new stadiums may not be economically feasible for individual teams.

The third major benefit of the NFL's centrally oriented business model is that the league can maintain both economic and competitive parity among its teams. Economic parity creates business stability across the league and allows for the existence of competitive parity. Competitive parity will increase on-field outcome uncertainty and help nourish demand for the NFL product. By giving all teams and fans hope for a playoff appearance and Super Bowl Championship, the NFL maintains demand in the sport. Weekly regular season games become more interesting when the victor is unknown.

Economic parity exists in the NFL because teams do not deviate widely in their revenues or costs. Since 60 percent of league revenue is nationally generated and split evenly, there is only a 40 percent window for teams to differentiate their top lines. Appendix 5 shows that of the four major U.S. sports leagues, the NFL has the greatest

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[21] "Cowboys Stadium." *BallParks.com*. Accessed 27 Apr. 2010. http://football.ballparks.com/NFL/DallasCowboys/newindex.htm

degree of economic parity. As a percentage of the league average, the standard deviation in team revenue in the NFL is 12 percent on average from 2006-08. The MLB value is 25 percent (from 2007-09), the NBA value is 25 percent, and the NHL value is 24 percent. The noticeably low NFL relative standard deviation in revenue demonstrates the league's parity in revenue. On the cost side, the hard NFL salary bounds have made it so that the largest team expense (payroll) is fixed within a tight range. Relative standard deviation in NFL payrolls from 2006-08 was 9 percent. The NBA value was 15 percent, the NHL value was 11 percent, and the MLB value was 36 percent (from 2007-09). As would be expected, payroll equality exists most in the NFL and NHL, leagues with hard caps and floors. The NBA, with its soft cap, has less payroll parity, and the MLB, with no caps or floors, has the least amount of payroll parity.

In addition to developing revenue and cost parity, the NFL manages a revenue sharing program. The goal of this program is to support economic parity by distributing local revenue from large market teams to small market teams. It was reported that the NFL revenue sharing pool was funded by the top 15 revenue-generating teams and amounted to $110 million per year from 2007-09.[22] To some degree, there exists a small city problem in the NFL. Teams in large markets can take advantage of new stadiums, local sponsorships, and ticketing opportunities in order to raise their revenues. Nevertheless, the small city problem in the NFL is not as pronounced as in other leagues because of the centrally generated revenue split and the revenue sharing program.

Economic parity in the NFL breeds competitive parity. Appendix 6 demonstrates that on-field success in the NFL is not concentrated in large markets to the degree it is in

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[22] Kaplan, Daniel. "CBA still stinging owners." *Sports Business Journal.* 2 Apr. 2007. http://www.sportsbusinessjournal.com/index.cfm?fuseaction=article.main&articleId=54797

other leagues. Although there is a statistically significant positive relationship between an NFL team's revenue rank and win rank for a given season, this relationship is highly variable. The NFL R^2 statistic of .06 is the lowest of the four major sports. Moreover, the NFL's p-value of .02 is the highest of the major sports. These two facts demonstrate that the NFL has the most competitive parity in American sports. For example, this past season the New Orleans Saints and Indianapolis Colts met in the Super Bowl. In 2008, just a season earlier, the two teams ranked 17th and 14th in revenue generation, respectively. The competitive parity in the NFL is a result of economic parity around the league. When teams have revenue and payroll equality, there are few opportunities to leverage high earnings to buy player talent.

By controlling product distribution, distributing risk, and maintaining economic and competitive parity, the NFL has effectively found ways to sustain demand. However, there are threats to the NFL's centrally driven business model. One such threat is the previously mentioned *American Needle* case. In the case, the courts may decide that aspects of the NFL's centrally driven model are illegal. If this decision is made, the league may be forced to change its business and give more freedom to its 32 entities. This transformation would likely emphasize local revenue distinctions, make tight salary bounds unsustainable, and decrease economic and competitive parity. Another threat to the NFL is the growing division of large and small markets. Recently, it is the large market teams, such as the Cowboys, Jets, and Giants, that are building new stadiums and reaping financial rewards. If these teams continue to increase their local revenues, the NFL will soon have less redistributive power and will be less able to control economic and competitive parity. Since the salary floor has been historically tied to league-wide revenue, large market teams have the power to push the floor higher to a point where small market teams cannot afford to pay players the stipulated amount. *American Needle* and a widening local revenue gap are certainly threats to the NFL. However, perhaps the most pressing hazard is the approaching CBA negotiation and the potential lockout in 2011.

The 2011 NFL Lockout

The current CBA battle is possibly the largest threat to the NFL's short-term and long-term stability. If the league hopes to maintain its centrally driven model and realize Goodell's goal of $25 billion in revenue by 2027, the approaching CBA negotiations are of the utmost importance. Signed in 2006, the NFL CBA runs through the 2010 season. Agreeing on a new deal before 2011, however, will be a difficult and contentious task, since the NFL and the NFL Players Association (NFLPA) have been in the midst of a divisive bargaining process since the owners unanimously opted out of the CBA in May 2008. One result of opting out is that the 2010 season will be played without salary bounds.[23] George Atallah, the Assistant Executive Director of External Affairs for the NFLPA, believes the owners' strategy is to lock the players out.[24] NFLPA Executive Director DeMaurice Smith seconded Atallah's views when he claimed that on a scale of 1 to 10, the chances of a lockout are a 14.[25]

The NFL owners opted out of the CBA because of grievances with the league's revenue sharing structure, player salary restrictions, and rookie pay scale. According to

[23] Free agent signings, however, are subject to a substantial number of restrictions. These rules will prevent major market movement in the 2010 off-season.
[24] George Atallah, speech, Cambridge, MA, 8 Oct. 2009.
[25] "NFL union leader Smith expects lockout in 2011." *CBS Sports*. 4 Feb. 2010. http://www.cbssports.com/nfl/story/12883379/nfl-union-leader-expects-lockout-for-2011

Atallah, the owners are upset because the deal was too good for the players and the owners did not like the revenue sharing model amongst themselves. Appendix 7 shows that the percentage of revenue given to players in the NFL is the third highest of the four major American sports leagues. The current CBA stipulations led to owners paying players 57.0 percent of revenue from 2006-08. This figure is larger than NHL's 53.4 percent in the same period and MLB's 56.6 percent from 2007-09. The owners will want to shave a few percentage points off the players' share of revenue in the next CBA. Several owners have also voiced concerns over the NFL's revenue sharing plan, claiming that the current system punishes successful small market teams. "Right now [other NFL teams] are subsidizing this market," Cowboys owner Jerry Jones said about the Minnesota Vikings in September 2009. "It's unthinkable to think that you've got the market you've got [in Minneapolis], 3.5 million people, and have teams like Kansas City and Green Bay subsidizing this market. That will stop."[26]

Although it takes two parties to reach an agreement, it does seem the NFL has the upper hand in the CBA negotiations. Atallah compares the bargaining process to a David (NFLPA) and Goliath (NFL) situation. One advantage the NFL has is that its centrally driven business puts less emphasis on local gate receipts than other leagues do. Because of this, the NFL may be in a better position to absorb a work stoppage. Ticket sales are one of the most variable revenue sources and will disappear in the event of a lockout. But since ticket sales are only 22 percent of total NFL revenue (see Appendix 9), the NFL may be able to soften the hit with other key revenue streams, such as merchandising and media. Merchandising sales will likely decrease if a lockout occurs, but the dive should

[26] Zulgad, Judd. "End revenue-sharing, Dallas owner says." *Minneapolis Star-Tribune.* 5 Sept. 2009. http://www.startribune.com/sports/vikings/57423092.html?page=2&c=y

not be crippling. As for media, NFLPA representatives have claimed that television revenue is guaranteed if a work stoppage occurs.[27] If television revenue is guaranteed even if games are not played in 2011, this is a massive bargaining chip for the owners, since television contracts bring in billions of dollars every year. However, the claim of guaranteed contracts seems fairly unreasonable. NFL and media executives have stated that in the event of a lockout, media companies will not immediately pay the NFL. Instead, television contracts will be extended by an extra year and will not be effective for the absent 2011 season.[28][29] Although the NFL would not make revenue from media in 2011, guaranteed future revenues would still be beneficial for the league as a source of insurance and financing.

Despite some backup revenue streams, the NFL will still face financial obstacles if a lockout does occur. How significant will these obstacles be? In order to forecast the consequences of an NFL lockout, it may be helpful to analyze past effects of work stoppages on professional sports. The last time the NFL faced a work stoppage was in 1987, when NFL players went on strike. During the strike, owners employed replacement players and saw television ratings decrease substantially.[30]Nevertheless, it is difficult to analyze the impact of the 1987 NFL strike, since it only last for a month. Two other work stoppages, the 1994 MLB strike, and the 2004-05 NHL lockout, may be more helpful in predicting the effects of an NFL lockout.

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[27] "NFL union leader Smith expects lockout in 2011." *CBS Sports*. 4 Feb. 2010. http://www.cbssports.com/nfl/story/12883379/nfl-union-leader-expects-lockout-for-2011
[28] Media executive, speech, Cambridge, MA, 14 Apr. 2010.
[29] NFL executive, speech, New York, NY, 19 Apr. 2010.
[30] "N.F.L. TV Ratings Drop." *New York Times*. 9 Oct. 1987. http://www.nytimes.com/1987/10/09/sports/nfl-tv-ratings-drop.html

The NHL missed an entire season in 2004-05 due to a lockout. Nevertheless, teams actually saw a growth in value the next season.[31] The reason is that the new CBA reduced the players' share of revenue from approximately 66 percent to 54 percent. NHL attendance figures also did not suffer after the lockout. In 2004, the median team attendance was 16,719, and in 2006 the median team attendance grew to 17,025.[32] One area the NHL did see a hit was in television ratings and revenue. NHL playoff games in 2004 earned an average rating of 0.7 on ESPN, while the 2006 playoffs saw an average rating of 0.4 on the Outdoor Life Network. NHL telecasts on NBC earned a 1.1 rating in 2006, while ABC earned a 1.5 rating in 2004.[33] The decrease in television ratings indicates that there was likely an overall decrease in NHL demand.

In 1994, MLB saw a work stoppage in the form of a player strike. Unlike the NHL, baseball experienced a significant drop in attendance from an average of 31,612 in 1994 to an average of 25,260 in 1995. It was also reported that revenue decreased after the 1993 season and did not rebound until 1997.[34] Television ratings for the MLB on FOX fell following the strike.[35]

The two major forces to consider when forecasting lockout effects in the NFL are television ratings and the players' share of league revenue. It is certainly difficult to extrapolate from the NHL lockout and MLB strike to the potential NFL lockout. However, in both the MLB and NHL work stoppages, there is evidence of a decrease in

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[31] Ozanian, Michael K., and Kurt Badenhausen. "NHL on the Rebound." *Forbes*. 9 Nov. 2006. http://www.forbes.com/2006/11/09/nhl-teams-owners-biz_06nhl_cz_mo_kb_1109nhlintro.html
[32] Attendance information courtesy of ESPN, http://espn.go.com/nhl/attendance/_/year/2004.
[33] El-Bashir, Tarik, and Thomas Heath. "NHL's Strong Comeback Marred by Poor TV Ratings." *Washington Post*. 5 June 2006. http://www.washingtonpost.com/wpdyn/content/article/2006/06/04/AR2006060400897.html
[34] "1994 strike was a low point for baseball." *ESPN*. 10 Aug. 2004. http://sports.espn.go.com/mlb/news/story?id=1856626
[35] Information courtesy of *TVSportsRatings.com,* http://tvsportsratings.com/?cat=12.

overall demand, since both leagues saw lower television ratings when play resumed. The effect of a decrease in television ratings would be especially problematic for the NFL, because the league's centrally oriented model relies heavily on media revenue. A marginal decrease in television ratings would have a more negative financial impact on the NFL than on other leagues. A dive in centrally generated and equally split television revenue could make the NFL business more locally driven and thus jeopardize the league's current system and growth plans. Changes in player salaries and the overall player share of revenue could also emphatically impact the NFL. In the NHL, the owners were able to significantly decrease player salaries after the lockout. If the NFL can do the same by shaving a few percentage points off the players' current 57 percent share of revenue, the league may develop higher earnings and a higher value. Nevertheless, if the public image of the NFL is damaged enough to reduce demand for the sport, then team values could go down even if team costs are lowered.

Conclusion

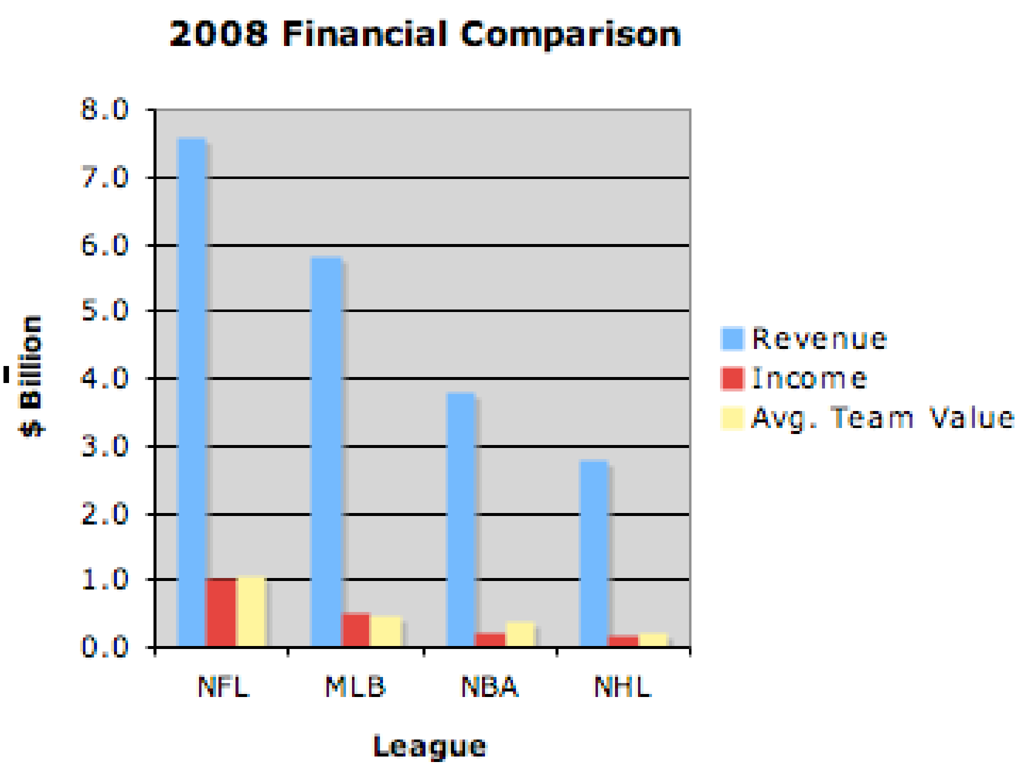
The NFL is in a league of its own when it comes to American sports. The NFL business, driven by centrally generated and equally shared revenue, is more valuable and profitable than its MLB, NBA, and NHL competitors. By modeling its business around national revenue streams such as media and merchandising, the NFL can more effectively control product distribution, distribute risk throughout the league, and maintain economic and competitive parity.

Despite a large and growing business, the NFL faces numerous threats, including the *American Needle v. NFL* case and a widening revenue gap between large and small markets. The most notable threat, however, is the potential lockout in 2011. Although overall league value may be increased if owners cut the players' share of total revenue, the NFL must find a way to sustain its public image and demand if a lockout does occur. The NHL lockout in 2004-05 and the MLB strike in 1994 both demonstrated that demand and television ratings have decreased following work stoppages. The NFL may be able to cushion itself with centrally generated media and merchandising revenue during a lockout, but future decreases to these streams could jeopardize the league's current business model and the hope of reaching Goodell's goal of $25 billion in revenue by 2027.

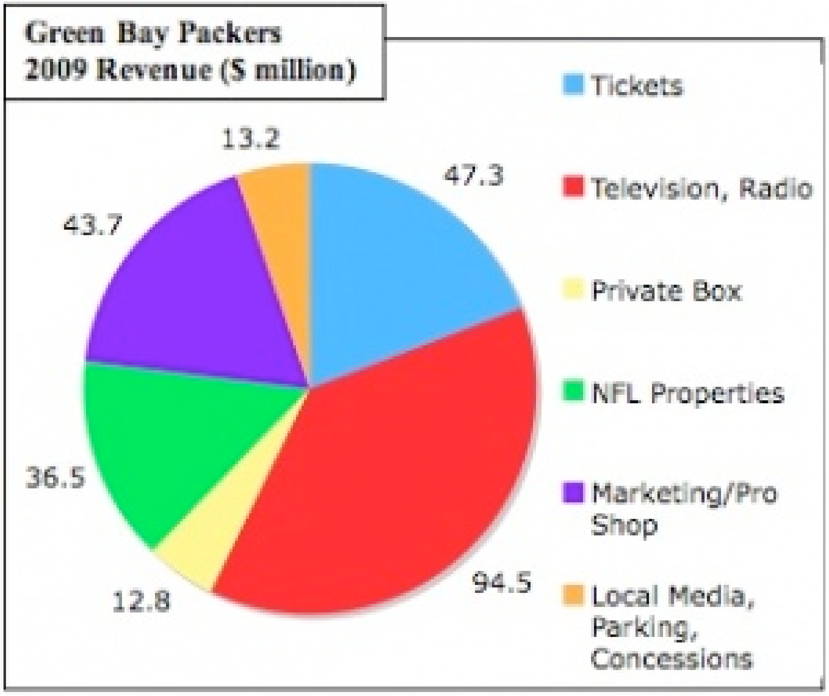
Appendix 1: 2008 Financial Comparison Chart

	NFL	*MLB*	*NBA*	*NHL*
2008 League Revenue	$7.6 billion	$5.8 billion	$3.8 billion	$2.8 billion
2008 League Income	$1.03 billion	$501 million	$233 million	$184 million
2008 Avg. Team Value	$1.04 billion	$482 million	$367 million	$223 million

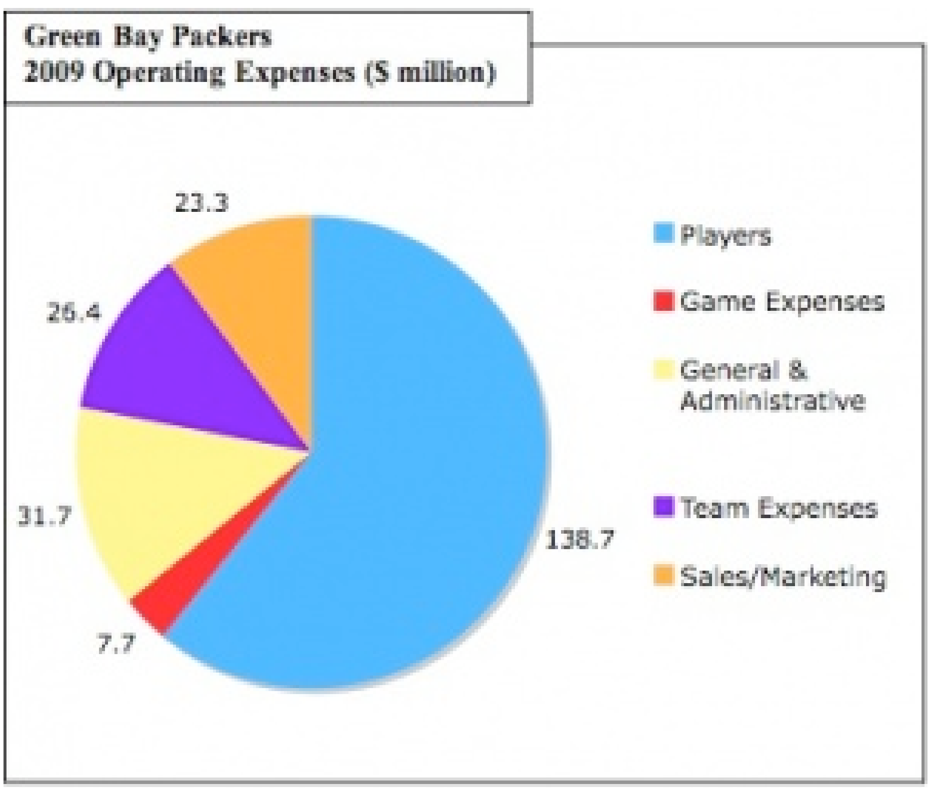
Appendix 2: 2008 Financial Comparison Graph



Appendix 3: Green Packers 2009 Revenue Sources



Appendix 4: Green Packers 2009 Operating Expense Sources



Appendix 5: Economic Parity

	NFL	*MLB*	*NBA*	*NHL*
2006-08 Revenue S.D.	26.64	48.40	30.79	21.41
2006-08 Revenue Relative S.D.	12%	25%	25%	24%
2006-08 Payroll S.D.	11.61	38.43	11.02	5.41
2006-08 Payroll Relative S.D.	9%	36%	15%	11%

Note: Relative S.D. = (Standard Deviation) / Mean Value
Note: MLB values are for 2007-09

Appendix 6: Regression of Revenue Rank to Win Rank (2006-08)

	NFL	*MLB*	*NBA*	*NHL*
R^2	0.058	0.241	0.274	0.148
Coefficient	0.24	0.49	0.52	0.39
P-Value	0.018	<.001	<.001	<.001
Significant with 95% Confidence	Yes	Yes	Yes	Yes

Note: MLB values are for 2007-09
Note: Tiebreaker for Revenue Rank is Value Rank
Note: Tiebreaker for Win Rank is Point Differential

Appendix 7: Salary Caps and Player Payrolls

	NFL	*MLB*	*NBA*	*NHL*
Status	Hard	None	Soft	Hard
2008 Payroll / Total Revenue	57.0%	56.6%	59.8%	53.4%

Appendix 8: NFL Media Deals

	FOX	*CBS*	*NBC*	*ESPN*	*DirecTV*
Value ($ billion)	4.3	3.7	3.6	8.8	4.0

Appendix 9: Gate Receipts

	NFL	*MLB*	*NBA*	*NHL*
Home Team Share	60%	85%	100%	100%
2008 Gate Receipts / Total Revenue	22%	37%	32%	42%

Appendix 10: Growth Rates

	NFL	*MLB*	*NBA*	*NHL*
Avg. Yearly Growth Rate (2006-08)	7.6%	3.7%	3.0%	7.7%

Notes: MLB Growth Rate Average is 2007-09