The Business of Sports Network is pleased to announce the addition of ***Dave Rouleau*** *to our staff of writers and researchers. Some may know of Dave through his work with Baseball Digest Daily, which he will continue to do. Look for Dave to cover baseball here on The Biz of Baseball, and hockey matters for The Biz of Hockey. --* ***Maury Brown***

With the economy occupying an increasingly big role in the presidential race and the international discussions, some are wondering how it might affect baseball and how the game has fared in the past when faced with economic downturns. No recession is the same and the different eras bring forth a different set of challenges that were not present in the past.

Let’s examine what people have to say and the studies and analysis that have already been done on the subject

First, **Tim Marchman** of the *New York Sun* correctly emphasized the different revenue streams for baseball teams, who do not rely as much on tickets sold to fatten the bottom line. He examined the five recessions (determined by a decline in a country’s gross domestic product, or negative real economic growth for two or more quarters in a year) since the end of World War II and the effect on attendance to see the impact:

In 1948, 16 teams drew a total of 21 million fans, an average of 1.3 million per team. In

November, the economy tipped into a recession that lasted until October of the next year. During 1949, attendance held steady at 1.26 million per team. These are figures baseball didn't regularly exceed for another 40 years, until the 1978 expansion led to great gains in popularity in the teeth of yet more negative growth: In 1980, during a recession that lasted from January until July, attendance rose from 1979's 1.6 million fans per team to 1.7 million. Every team in the National League drew at least a million fans that year.

Examples abound. In 1969, the 24 teams drew 1.15 million fans per team. During a recession that began that December, and lasted until November 1970, attendance increased to 1.25 million per team. More recently in 2000, baseball set a new attendance record at 73 million; the next year, despite a meltdown in technology stocks, it drew 73 million again.

Craig Calcaterra from *Shysterball* brought forth a counterpoint when he mentioned that attendance figures usually decreased two years after a recession:

For this reason it may be more profitable to look at the year or two after a recession is over in order to gauge its effect on baseball attendance. Eyeballing Marchman's examples -- the recessions of 1949, 1970, 1980, and 2001 -- shows that, at the very least, it's a mixed bag. The 1970 recession truly appears to not have had any material impact on attendance either at the time or in the following year or two. We can't truly assess post-1980 recession attendance because the 1981 strike gums up the data, but I will grant that 1982 and 1983 were strong. The other two examples, however, show a sharp decline in the seasons immediately following the recession:

1948-49 Recession

pre-recession attendance (1948): 20,938,388

recession year attendance (1949): 20,215,365

post-recession year one attendance: (1950): 17,462,977* post-recession year two attendance: (1951): 16,126,676*

2001 Recession

Pre-recession attendance (2000): 72,702,420

Recession year attendance (2001): 72,567,108

Post recession year one attendance (2002): 67,944,389

Post recession year two attendance (2003): 67,630,052

I'm not suggesting the attendance decline in these two examples was caused by post-recession ennui. Indeed, in each example there were factors -- the Korean War and September 11th/Afghanistan/Iraq War -- which may have contributed to people turning their attention to things other than baseball in the ensuing years. That said, none of these events had such a great impact that they themselves led to recessions, so we shouldn't overstate their impact on baseball attendance.

A day later, **Shawn Hoffman** at *Squawking Baseball* had a somewhat different take on the matter :

Either way, Major League Baseball will almost certainly be hit by this slowdown. In fact, we wrote about this before , suggesting that teams should factor a possible economic downturn into their 2008 budgets.

That said, I've discussed this with some other sports business pundits, and most are convinced that the MLB revenue train is simply unstoppable at the moment. And while I agree that revenues will continue to grow in 2008, there is almost no chance that the sport's core businesses (ticket sales, merchandise, advertising revenue, etc.) won't be negatively affected.

During our last recession, the sport's growth slowed to a virtual halt, as revenues rose just 1.9% in 2002. This was by far the lowest rate in the last twenty-five years, aside from the 1994 strike year.

Striking right in the middle of these arguments, other studies, like the October 2005 Issue of the *Sports Economics Perspectives*, have compared strikes to economic downturns and found that the former impacted attendance much more than the latter:

Historically, there has been a much greater and longer lasting attendance drop from a strike than from a recession. A significant portion of lost revenues from strikes is due to decreased attendance. In the most recent 1994-1995 strike, it is estimated that attendance was down 15% shortly after the strike, was still down 12% in 2002. With 1.5 billion dollars in ticket sales in 2002, that 12% drop in attendance equaled 180 million dollars in lost revenue. And with 3.1 billion in merchandising and concessions in 2002, every slight drop equals a loss of millions more.

In both the 1982 and 1991 recessions, attendance levels dropped only slightly and recovered in line with economic growth in the three major leagues, notwithstanding the work stoppages. During those recessions the sports industry fared better than manufacturing and most service sectors. However, at the time, tickets were cheaper in real terms than they are now and team revenue depended less heavily on stadium specific income.

The analysis leads us to question how advertisers typically react to a slowing economy, something that should have an even more meaningful and profound effect on the revenue the game generates. If fans don't flock to the ballparks across North America as much as they did when money was flowing in, will the advertising dollars keep up, slow down or just branch out to different media or opportunities?

In this interview with The Biz of Baseball in September of 2006 , **Dean Bonham** (of the Bonham Group, a global sports and entertainment marketing firm) talked about the slowing economy after the tragedies on September 11, 2001:

Bizball: Has the overall economy in the US impacted how companies are approaching their sponsorship budget, and if so, how?

Bonham: Advertising and marketing budgets (of which sponsorships are an important part) took a hit in the wake of 9/11 and the recession that followed, but they have rebounded nicely since then. Successful corporations recognize that marketing is a beast that must be fed in good times or bad."

This argument seems to be backed up by data that was released following some studies of two recession periods:

In a study of U.S. recessions, McGraw-Hill Research analyzed 600 companies covering 16 different SIC industries from 1980 through 1985. The results showed that business-to-business firms that maintained or increased their advertising expenditures during the 1981-1982 recession averaged significantly higher sales growth, both during the recession and for the following three years, than those that eliminated or decreased advertising. By 1985, sales of companies that were aggressive recession advertisers had risen 256% over those that didn't keep up their advertising.

In analysis of the 1990-91 recession, Penton Research Services, Coopers & Lybrand, in conjunction with Business Science International, found that better performing businesses focused on a strong marketing program enabling them to solidify their customer base, take business away from less aggressive competitors, and position themselves for future growth during the recovery.

The conclusion of the *MacTech Magazine* said it all:

A series of six studies conducted by the research firm of Meldrum & Fewsmith showed conclusively that advertising aggressively during recessions not only increases sales but increases profits. This fact has held true for all post-World War II recessions studied by American Business Press starting in 1949.

One major business-to-business advertiser summed it up best. "When times are good, you should advertise. When times are bad, you must advertise."

With so much money coming in from the television deals and Major League Baseball Advanced Media (MLBAM) (read interview with its President and CEO, Bob Bowman) having just announced 450 M$ in revenue for the 2007 season alone, it would be very surprising to see fans running away from ballparks, television broadcasts or even the internet to get their baseball fix.

Adds **Maury Brown** of the Business of Sports Network and The Biz of Baseball :

Clubs have seen that by creating a variety of ticket package options, which all include multiple games, MLB should be able to continue adjusting to changes as the economy ebbs and flows. MLB understands that ticket sales are still their bread and butter, and will need to look closely at what cost increases are applied to their pricing structures during a possible downturn. The possible difference in economic downturns in the past and its impacts on baseball as an entertainment option may be that MLB’s increased development of television and the internet products provide new outlets for fans, and therefore, provide a stronger revenue stream for MLB than in the past. If you see that the cost of going to a game is too much, perhaps taking in MLB.TV, *Extra Innings*, or the upcoming *MLB Channel* provides fans a way to connects where those options were either not available, or not yet fully utilized during the last recession.

A recession will most likely *slow* growth for baseball, but at this point, with a number of teams adding new stadiums and the aforementioned *MLB Channel* coming online in ’09, the odds seem long at this point for a downturn for MLB’s revenues.

Lastly, MLB has at least one serious trump card, should they be faced with numbers that are not to their liking. Placing MLBAM as an IPO would garner a massive cash infusion to MLB. In

2000, MLBAM was said to be worth approximately $2 billion. There’s little doubting that it would be worth more now.

Baseball has been at the forefront of the technical advances on the internet and this may be their ticket out of the troubles a recession usually causes.

By diversifying their revenue streams, they made sure that the sport would be able to sustain its growth or at least avoid a painful decrease if one part of the puzzle began to fail. With MLBAM continuing to expand and helping teams by dividing its profits, there is no reason to think that this recession will bring about a painful end to the stunning growth the game of baseball has seen in the last decade.

Dave Rouleau is a staff member of the Business of Sports Network.