

## Lingering Items - Balance Sheet Edition

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One of the easier things for a professional sports fan to do is complain about an owner not spending enough money. Most fans still think of professional sports as a hobby for rich owners rather than the multi-billion dollar business it really is. And like any business of its size, it faces its challenges even in the best of times. And like any business of any size, when the broader economy tanks, a whole new set of challenges develops. In his latest, Gary hits on the finances of the Cleveland teams, as well as follow up takes on Donte Stallworth and Jay Cutler.



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Fans are seeing the fringes of this with both the Browns and the Indians. If things don't improve dramatically, they'll see more than just the fringes. The Cavs, with LeBron James, is nearly economy-proof, but that's far more the exception than the rule these days. It's as much a reason as any why signing him to an extension remains the highest priority of owner Dan Gilbert.

The Indians have made some cutbacks in their operations but did so under the radar. The Browns, on the other hand, laid off several employees in a far more public way. It didn't help their case in the court of public opinion that at around the same time they were paring themselves of public relations types and admins, the team also was redecorating its complex in Berea in order to meet the specific likes of their need head coach.

But the business structure of professional sports is more complex than just a few isolated layoffs that happen one day and are forgotten the next. They are the outward manifestation of business challenges lying just below the surface where most fans don't bother to look.

Whatever else one might think of either the Indians or the Browns, it's best to always remember that each is a business first. Like any business, they produce a product and have various revenue streams through which this product is sold. A team can be profitable while losing and unprofitable while winning. Like any business, though, there are certain fundamental metrics to which every professional sports team eventually must adhere.

One of those metrics is keeping the revenue streams flowing while opening up new ones. Some count more than others but every one is important. An [interesting article in Friday's Plain Dealer](#) shed some light on a key revenue source that isn't producing what it needs to for both the Indians and the Browns. If these streams don't get opened back up it will most certainly impact operations in a significantly negative way. That source is the so-called luxury revenue, the real and substantial costs that corporations and well-funded individuals pay to entertain clients and impress friends.

The Indians' situation is particularly precarious. There are 121 luxury suites at Progressive Field. The average annual lease costs is in the neighborhood of \$150,000. If they are all sold, that brings in over \$18 million, or the cost of a front line pitcher. That's before food and beverage are factored in. Figure at least another \$300 in food and drink per game and over an 81 game season that's an

additional \$3 million, and that's a conservative estimate. To an organization like the Indians with a mid-market budget, having access to that \$21 or so million each and every year is critical.

Unfortunately for the Indians, only 78 of their suites are rented for the entire year. That's \$6 million in lost revenue upfront, just in lease payments. Lost food and beverage revenues, again using the conservative estimate of \$300/game, is around \$1 million. For a team like the Indians, that's a substantial drop.

The Browns' situation is a little harder to peg. There are 145 suites and prices can vary dramatically, depending on location. According to the Plain Dealer, most if not all of those suites were subject to initial 10-year leases commencing with when the Browns returned in 1999. That means all or at least a good portion is now up for renewal.

While the Browns aren't giving specifics, they are acknowledging cancellations. Likely there will be more, presenting the real chance that some suites won't be leased for the 2009 season.

The problem both teams face, in addition to a brutal economy that's hitting areas like Cleveland even harder, is on-field performance. Here the Indians have a slight advantage owing to a more stable franchise where ownership and leadership have been in place for several years. It helps, too, that the team has enjoyed very recent success. For now, they are probably worth the benefit of the doubt.

The Browns, on the other hand, have been a mess for most of the last 10 years. Their success has been very modest, to say the least. They've also almost deliberately taken steps to alienate the fan base through a series of questionable front office and player moves. It's an environment that makes anyone, particularly a corporation trying to determine where to allocate its dwindling client entertainment budget, pause for more than a few moments.

To say that winning cures all or that you have to spend money to make money only goes so far. There's an underlying confidence that the consumer has to have and a leap of faith he has to make that his purchase won't be wasted.

Corporations using tickets and loges to entertain clients need to be convinced that those clients want to even bother with seeing either team. The Cavs right now have that value. The Indians are far more iffy and the Browns are almost at the complete other end of that spectrum. And for both teams, there isn't a LeBron James equivalent to paper over all the other problems. This is the paradigm in which both teams are now living.

What this all means is that in the standings and at the box office, these really will be make or break seasons for both the Indians and the Browns. Winning championships may not be necessary, but progress will be. Neither team can afford further erosion of their corporate ticket base, for while winning may not cure all, losing can start a death spiral from which escape will take years.

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The Worst Free Agent Signing Ever™ just got worse (if that's even possible) this past week when Browns receiver Donte Stallworth was formally charged with vehicular manslaughter in the death of Mario Reyes last month.

Stallworth has apologized for his actions and no doubt is contrite. Only a sociopath couldn't be. But the most troubling aspect of all of this centers around the circumstances that conspired to make Stallworth a member of the Browns in the first place. It was a similar set of circumstances that conspired to make Andre Rison a member of the Browns years ago, with similar results.

Then, it was Bill Belichick, fascinated as he could be sometimes, with

the physical gifts of a player despite what some might call "reputational" issues. Rison, though, unlike Stallworth, was at least credentialed. By the time he came to the Browns, Rison had been averaging more than 1,000 reception yards per season for six years and nearly double digits in touchdown catches, missing only a handful of games in all those years.

Stallworth's been in the league for seven years and has never had a 1,000 yard season. He's never caught more than 8 touchdowns in a season. He's averaged less than 10 starts per season.

True, Stallworth wasn't signed to be the number one receiver for the Browns, but that's only because he lacks that kind of talent. He is and always was a role player who the Browns nevertheless enriched far beyond what even his agent could have imagined and even though the league's free agent bin is literally littered with such players each off season.

That's bad enough. But with Stallworth already in a substance abuse program, Savage's decision to sign him looks even dumber. It's unlikely that Savage didn't know about Stallworth's prior troubles since they are in the public record. But then again Savage's computer skills have always been questionable. More likely is that Savage was well aware of the problem but rationalized it away.

Ultimately, that's where teams get into trouble. Red flags are like red lights. Keep ignoring them and eventually you'll crash. When Belichick signed Rison, he rationalized away Rison's chaotic off-field issues and

in some sense it literally cost the city of Cleveland its franchise. When Savage signed Stallworth, he ignored about a dozen red flags and in some sense it literally cost Savage his job.

Now Stallworth becomes the worst kind of problem, an inherited one that can't be extricated easily. The Miami county justice system, if not the league, will take care of some of the more immediately pressing issues such as whether or not he ever plays again. But the impact on the Browns' roster and its payroll will take longer to sort through.

David Patten may have been a hedge signing, but it was under the assumption that Stallworth would still be contributing at his usual 7 games, 12 catches and 1 touchdown level. Without Stallworth, Patten will move up a slot where he's probably ill-suited and force the Browns to make a move at that position they may not have been anticipating.

The sooner the book is closed on TWFASE™ the better. In the meantime count your blessings that Savage isn't still here. Otherwise, it would only be a matter of time before Plaxico Burress would be trotted out in front of the media for a photo-op holding his new Browns' jersey.

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One of my more consistent emailers, "Old Chuck" presented a compelling set of possibilities following Denver's

trade of Jay Cutler to Chicago. Chuck's theory, and it makes sense, is that the Cutler trade set a benchmark of sorts on what the Browns should be able to get for their strong-armed quarterback, Derek Anderson.

Chuck isn't of the view, like some of my other, more vocal emailers, that Anderson should be able to bring two first rounders. But a first and a third rounder, that's far more likely.

In terms of teams with quarterback needs that might be willing to part with those two picks for Anderson, Chuck lays out four possibilities: Detroit (using the second of its two first round picks), Tampa Bay (#19), San Francisco (#10) and Washington (#13). And, as Chuck notes, if Denver really is gunning for Mark Sanchez, who is unlikely to be available when Denver picks (#12), they can always trade with Cleveland for the 5<sup>th</sup> pick plus their 12<sup>th</sup>

pick in the second round. In all, those two transactions would garner the Browns five picks on the draft's first day and restore their third round pick. That's intriguing.

Frankly, this isn't nearly as unlikely a scenario as others that have been advanced. But despite the Pro Bowl season Anderson put together in 2007, there are two

factors working against it: pedigree and performance and they're both related. New England's Tom Brady overcame being a 6<sup>th</sup> round pick but it didn't happen overnight. It happened because once he got a hold of the reigns, he performed at a consistently high level, game after game and season after season.

Anderson has been far more inconsistent and isn't yet close to overcoming his 6<sup>th</sup> round status. He doesn't have to perform like Brady to warrant a first and third rounder in a trade, but he has to do more than he's shown to this point. He can't be fire one game and ice the next.

A much more likely candidate for the kind of trade Chuck posits is Brady Quinn. But to do that, head coach Eric Mangini needs to be convinced that Anderson is far more the player from 2007 than the one from 2008. Mangini doesn't reveal much of what he's thinking but it would be hard to imagine that he's reached that

conclusion. If he had the Browns might actually played the role of broker in the Cutler trade.

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We're running long and thus we'll keep this week's question to ponder short: If Indians' pitchers were plagued by the dry air of Arizona, why weren't the pitchers on the opposing teams likewise affected?