

ECONOMY

Success of Twins ownership deal will come down to how the money is spent

The Pohlad family will retain control of Minnesota's MLB team after finding minority investors. But the challenges of being in a midsize sports market remain.

By Mike Hughlett and Bill Lukitsch

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The Minnesota Twins' deal to bring in minority investors will free up some cash. But the challenges of running an Major League Baseball team in a smaller market remain. (Alex Kormann/The Minnesota Star Tribune)

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The Pohlad family couldn't pull off the sale of a middle-market baseball team with a shaky business outlook.

But by selling a minority stake in the Minnesota Twins, the Pohlads tapped hidden profits from a baseball club that has risen in value more than tenfold since they bought it 41 years ago.

The question: Where will the money raised from the stock sale go?

“It may just be going to the owners who are selling a portion to get cash, or it could be going to building the team’s competitiveness – or both,” said David Sunkin, a sports business attorney at Sheppard Mullin in Los Angeles.

After putting the Twins up for sale in October, the Pohlads on Wednesday said they will retain control, but sell minority equity stakes, one to a Minnesota investor group and another to an East Coast-based family.

Twins Executive Chair Joe Pohlada did not name the investors, saying they will be revealed within a few weeks as the deal proceeds. He also did not say the size or value of their stakes.

Each partnership group will have a seat on the team’s board of directors.

“There is an alignment on how we see the Twins moving forward,” Pohlada told the Star Tribune.



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The stock sales allow the Pohlads to “tap into the hidden profits” of the ballclub’s massive appreciation, said Victor Matheson, a professor and sports economist at the College of Holy Cross in Massachusetts.

Smaller, family-owned teams like the Twins can be “asset rich and cash poor,” he said. The stock sale “allows the Pohlads to really capitalize on this asset.”

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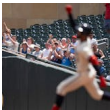
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Even if they lack full control, though, minority owners often have some say in a sports team’s direction, Matheson said.

“We don’t have any sense if the new owners are, ‘Damn the torpedoes full speed ahead, let’s spend what we need to win the Central Division next year,’” he said. “We don’t know if we have sports fans or accountants with these minority shareholders.”

The Twins’ new stockholders are buying into a sports league economically tilted to its biggest and richest franchises.



“It’s hard to be a small or mid-market team in Major League Baseball,” Sunkin said.

Television revenue is a big reason.

Running a small-market baseball team is a challenge largely thanks to big disparities in the revenue a team like the Twins can generate from televised games, said Michael Hauptert, a University of Wisconsin-La Crosse professor specializing in sports economics.

MLB teams do not share TV revenue in the same way as in the National Football League, Hauptert said. Smaller-market NFL teams such as the Green Bay Packers continue to be competitive in the postseason, and the league’s TV contracts generate piles of money that are split among the teams.

Baseball teams share revenue from their national TV deal, but it’s minuscule compared to the NFL.

So local television revenue becomes much more important. Big-market teams such as the Los Angeles Dodgers and New York Yankees can take in well over \$100 million annually from local TV deals.



“A market like Minneapolis can never compete with Los Angeles, because they just don’t have anywhere near the number of people who are going to shell out for that television package,” Hauptert said.

Meanwhile, the regional TV business model has disintegrated for some smaller-market teams such as the Twins.

The Twins were forced to switch to MLB-produced telecasts this year after the demise of their previous local TV deal. The team hasn’t disclosed how much it is making from the deal, but revenue is less than the \$54 million a year it used to get.

All that extra money from TV and other deals is used to build teams with big payrolls and therefore better odds of winning. Often those trends are falling to the biggest market.

Jane Leavy, a sports journalist and author of several baseball books, said the eroding competition will continue in the industry as long as wealth is largely “tied to the happenstance of geography.”

And when teams like the Twins trade away scores of their best players, fans are left with no one to root for.

“You have to be really brilliant to figure out a way to put together a team that you can keep together long enough to succeed without the benefit of being able to buy anything you want,” Leavy said.

MLB, unlike other pro sports, has no salary cap, which also tends to hurt smaller teams.

It does penalize the largest spending teams with a so-called [luxury tax](#) when they exceed a certain salary threshold. Some of the money goes toward a discretionary fund tied to the league’s larger revenue sharing plan.

But those penalties are widely viewed as the cost of doing business for clubs with deep pockets. Critics say competition is becoming more lopsided, leaving fans by the wayside, and leading to a degradation of the sport.

Problems in professional baseball are attributable to wider institutional neglect of the sport, Leavy said.

She said it is telling that ESPN canceled its contract with MLB the same week as signing the Savannah Bananas, a version of baseball where players don kilts and dance to Taylor Swift hits.

“That should be a wakeup call for every owner and everyone at MLB headquarters,” Leavy said.

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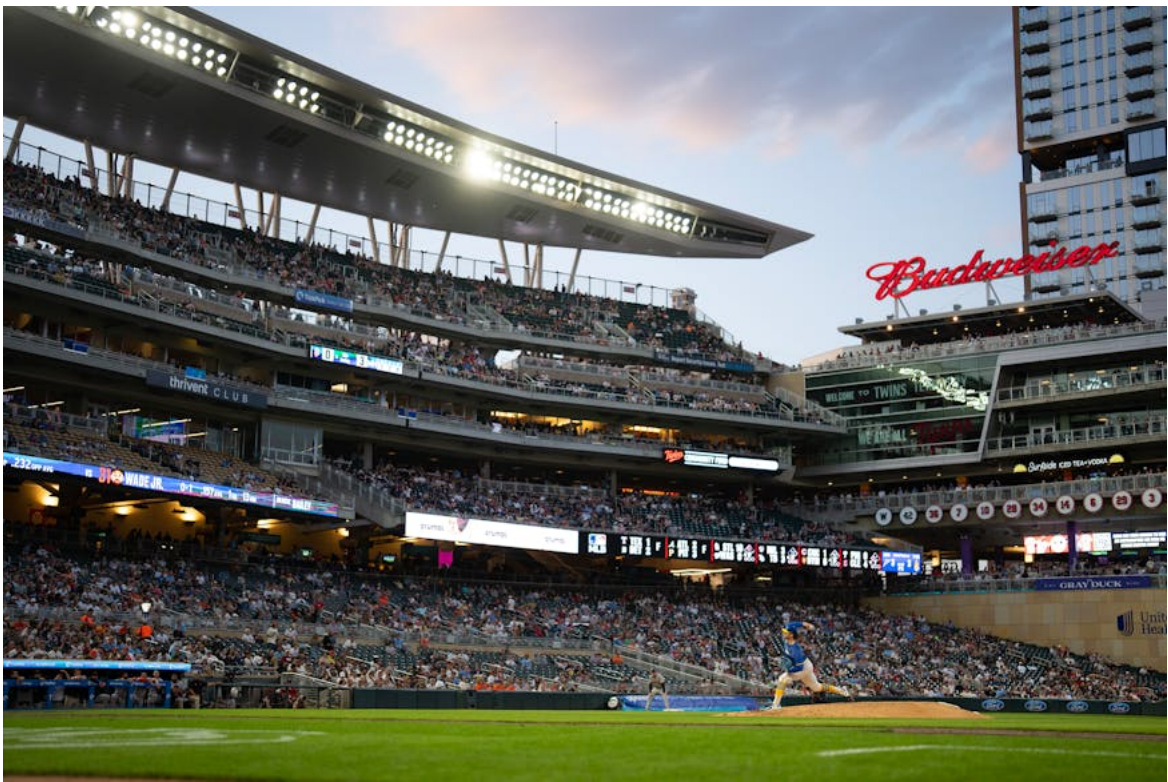
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