

Optimal Cap Structure Case Study

Objectives. A Major League Soccer (MLS) franchise in a top market was interested in having an academically-based evaluation of the methods in which the overall quality of play could be increased in the league with an eye towards maximizing the return on any needed investments in order to enact those methods. One impetus for this research is the opinion that the current cap structure of the league prevents it from attracting top international talent, which therefore affects quality of play on the field and the overall interest in the league.

Challenges & Methodologies. Evidence from other leagues show that increases in player salaries are coupled with increases in attendance and revenues and, for MLS because of its unique business environment, likely increases in long-term profitability. Moreover, there are numerous, practical recommendations to improve overall player quality through the use of the salary cap, designated players, and international players systems that are already in place in MLS.

One issue the MLS in particular is facing is that there are more talented players around the world that, if they played for MLS teams, would improve the overall quality of play. These players may be willing to play for MLS if pay was more comparable to that in non-domestic markets. Given that millions of soccer fans in the U.S. do not consume MLS soccer, but instead watch international matches, it can be shown that an increase in player quality which includes the fielding of international talent could accelerate the attendance, marketability, and ultimately the profitability of MLS.

To determine how to improve the overall quality of play on the field using the player salary structure, analyses of various salary structures including, but not limited to: changes in the salary cap, team salary minimum, and designated player system were undertaken. An optimal single new system or combination of systems was determined and presented.

The analyses included an examination of the current salary system in MLS and the context from which an increase in player quality could take place, which was considered in the context of how the current CBA and the future CBA would be affected by the changes. Additionally, other U.S. and international sports leagues that have increased quality on the field were reviewed to determine the relationship to attendance, revenues, and ultimately profitability and franchise value. The relationship between league competitive balance and market size, and its significance with respect to league revenues and team expenditures on payroll were also reviewed. To ensure that the economic incentives/disincentives for owners were not generalized, the analyses also examined the affects of various payroll system changes across different market sizes.

Outcomes. Based on the analyses, return on investment (ROI) expectations for the salary structure changes (different levels of increases in revenues) were provided for the individual teams and for the league as a whole. The pros/cons of several alternative structures were examined, including increases to the salary cap, modifications to the salary floor, changes to the number of senior and youth international or designated players, and alterations to incentive structures for small market teams, for example. In addition to long-term league planning, the findings of this research should aid in the next CBA negotiations.