

THE SPORTIER

The Economic Effect of COVID-19 on Sports

With sports seemingly about to return from its hiatus due to the COVID-19 pandemic, let's take a deeper look at what this virus has had on two major sports leagues of North America that were hit hard: the MLB and NBA.

The MLB

Having made numerous appearances in the media as of late, with negotiations between the MLB owners and Players Association becoming increasingly strained, the league continues to lose money. Though the MLB projects to resume play in July, these games would most likely be without fans and within limited parameters, as discussed in previous weeks. Economically, the MLB is facing a severe drop in revenue, one of potentially \$4 billion. The most significant drop-off would be, of course, in local revenues, which include ticket sales and concessions, as these make up 39% of all MLB revenue. It is likely that ticket sales numbers would largely hurt specific big market teams, such as the New York Yankees, and would have a lesser impact on under-performing teams, such as the Detroit Tigers. Still, there is a worry that potential government restrictions down the road could lead to a postseason cancellation. As it is, the MLB is projecting themselves to lose \$640,000 per game with the proposal of prorated salaries*, the MLB's postseason accumulates approximately \$787 million in media money alone from several outlets, most notably Fox and Turner Sports (which includes TBS and TNT sports coverage). Sticking with the television networks, regional sports networks can suffer a tremendous blow, with an average of \$980,000 lost per team every game. A \$10 billion+ industry, the MLB has continued to showcase its growth, with Forbes detailing the MLB's growing revenue for the past 17 seasons. With average ticket costs at a record high, reaching approximately \$32.99 across the league during the 2019 season, the MLB's most crucial asset is clearly its fans. Without fans, close to 40% of its revenue is slashed, forcing owners into a tough spot in which they agree to comply with prorated salaries, giving the owners an abysmal 11% of total revenue, or offer a brand new 50/50 revenue split that will give owners and the players association each 50% of amassed revenue during this shortened season. With a projected overall debt of \$7.3 billion, an increase of \$2.1 billion from the season prior, this season may be a game-changer for the MLB in the way that they structure contracts of players and how they decide to carry out their revenue-sharing plan down the road.

*Players paid their contract by the amount of games they play, was recently added to the MLB's collective bargaining agreement

The NBA

The NBA was so close to having finished its regular season when NBA center Rudy Gobert contracted COVID-19, which in turn shut down every sports league in North America, cautiously and most likely for the better. With Brooklyn Nets guard Spencer Dinwiddie recently tweeting that he believes that the season will start around July 15, most likely being played at Disney World in Orlando, the NBA season, like the MLB, will also likely not allow fans for the time being. Ticket prices alone, even with only 21% of games left in the regular season, could have a significant financial impact on the NBA. NBC Sports Insider Tom Haberstroh calculates a nearly \$500 million loss. Usually, the NBA rakes in about \$1.2 million in ticket revenue per game in the regular season, with that number heightening to \$2 million in the postseason. With 259 total regular-season games still remaining, and an estimated 83 total postseason games based on the playoffs from prior years, the NBA would lose \$300 million in the regular season and \$166 million in the playoffs, just from lack of ticket sales. Additionally, revenues from areas such as parking and concessions make up between 4%-14% of each team's total revenue. As the NBA made approximately \$8 billion in revenue last year, these percentages would equate to around \$350 million to \$1.2 billion, averaging approximately \$800 million in league-wide revenue. For a family of four, the total cost of attending a game with average tickets has been calculated as approximately \$421, with the four tickets only making up \$288 of this cost. Parking tickets and concessions, which make up a surprisingly high amount of revenue for the teams, could see the NBA losing \$150 million to \$200 million without any money being generated through this funnel. The final massive area in which the NBA rakes in money is through media, mainly through television. As we have seen, ESPN has not been able to air live sports since March, unless you count corn hole. ESPN and Turner Sports have a massive, nine-year, \$24 billion contract that pulls in around \$2.6 billion per year for the league, not to mention the hundreds of millions of dollars that are brought in through local TV stations. Now, I know that these TV stations would still be able to air these games when the season returns. The issue for the NBA includes the legal term "force majeure." This clause in this particular situation would mean that in the instance of unforeseeable circumstances, these TV stations could pull out of or significantly reduce their contracts if they are only able to produce alternative forms of sports entertainment rather than live NBA games. This loss for the NBA has no exact number, though it may be interesting to see how the stations reconstruct their contracts, if they do at all. All in all, the NBA is approaching \$1 billion in losses due to this widespread virus, if the season even truly makes its return. Though they would be losing significantly less than the MLB, it is necessary to note that the NBA has fewer games to play, and additionally makes around \$2 billion to \$3 billion less in revenue annually. With high hopes of an NBA season returning, the NBA could quite possibly salvage the season and still crown a champion.

Sources:

[The Athletic](#), [Sports Illustrated](#), [Investopedia](#), [Forbes](#), [NY Post](#), [NBC Sports](#), [FiveThirtyEight](#)