V. POLICIES WHICH IMPLEMENT SECONDARY STRATEGY

V. Policies Which Implement Secondary Strategy.

BACKGROUND

The overriding objective of the NASL, having previously been defined as the realization of long-term asset appreciation or franchise value, a secondary and more long-term strategy for attainment of that objective consists of capitalizing upon the enlarged market for soccer which increased attendance (the primary strategy) has created. The generation of additional sources of income, which in the United States has historically attended the increased popularity of a professional sport, in the long-term, can be almost as meaningful as gate receipts. The mere sale of broadcast rights has increased markedly in relative importance over the past 20 years. 25/ While it accounted for only about 15% of the revenues of a typical football or baseball club in the mid-1950's, today the average NFL franchise relies upon broadcasting (television and radio) for almost 33% 26/ of its revenues, and baseball for more than 25% of its operating income. 27/ Commencing in 1978 NFL teams will receive approximately 50% of revenues from its National television contracts.

It is very tempting to focus time, attention and resources upon the longer term goal of attracting these supplemental income sources. The proponents of this view reason that in order to be "big league" the NASL must possess a marketing

company, a national television contract, and must seek immediate, rapid expansion. Of course, harvesting revenues from ancillary sources is a goal and strategy greatly to be desired. This cannot be accomplished, however, unless the NASL is able to deliver to the respective purchasers (television networks, advertisers, manufacturers or potential franchise holders) the single most important indicator of a sports industry's success -- attendance.

The NASL experience with CBS Television makes this point all too well. In 1967 and 1968, CBS carried 19 and 17 games, respectively. The ratings were:

CBS Television, 1967 and 1968

Year	Number of Games	Rating	Share	Number of Viewers 28/
1967	19	4.3	17.0	7.1 million
1968	17	2.5	10.7	4.2 million

In 1976, CBS televised two NASL games, a regular season game and the Soccer Bowl. Member clubs shared the rights fee or approximately $20,000. The regular season game had a rating of 4.7, a 19% market share and approximately 8.6 million viewers. Soccer Bowl 1976 had a 2.8 rating, 11% market share and approximately 5.4 million viewers.

In 1977 CBS did not exercise its option to produce NASL games under the agreement and TVS acquired the NASL package and produced seven games. Below are the ratings from the 1977 telecasts.

1977 TVS Schedule

Date	Game	Time (EDT)	Rating	Market Share	Number of Viewers 29/
May 29	Cosmos at Tampa Bay	1.30	2.7	10	4.8 million
June 19	L.A. at Minnesota	2.00	2.2	--	--
July 10	Cosmos at Seattle	3.00	2.7	9	5.9 million
July 24	Chicago at San Jose	3.00	--	--	--
August 14	Seattle at Minnesota	2.00	1.6	6	3.5 million
August 21	Cosmos at Rochester	3.00	2.6	8	5.7 million
August 28	Cosmos at Seattle	4.00	2.9	9	6.2 million

What a television network or NASL licensee pays for is a market. What it gives in return is access to its distribution system. Of course, a television network or manufacturer can, to a small degree, assist in creating or maturing a market for the product or, at the very least, expose the product to new markets. What they cannot do, however, is generate demand for the product in the first place.

A sports advertiser pays for two things: an attentive or captive audience and access to the transmission facilities to reach that audience. In the case of the CBS Television contract with the NASL, the advertisers were accorded access to the transmission system but, as the ratings indicated, the

market just was not there to justify the cost per minute: few people were watching.

This does not mean that television, licensing or new franchises should not be utilized at the club level to increase public awareness and perhaps demand for soccer, if that is the short-term objective. In such a case, the member franchises must be prepared to bear the cost of using those broadcast or transmission facilities which guarantee access to potential markets in the same manner, as clubs' expense "advertising" or "promotion" costs. Whether the money and time expended will, in fact, produce the increased gate attendance which they are intended to create is a question of cost-benefit and must be weighed on a franchise-by-franchise basis.

On the other hand, if television, licensing, and the sale of new franchises are looked upon as the means for generating supplemental income, thereby increasing the income potential and consequently the value of member franchises, such activities must be classified as long-term derivative strategies for which the NASL must be fully prepared when the time arrives. It is in this context that the Planning Committee has analyzed and is making recommendations in the three policy areas directly associated with capitalizing upon the enlarged market for soccer:

— television;

— licensing, advertising and promotional materials;

— sales of new franchises (expansion).

A. Policies Relating to Television.

1. Policy: Where? -- Local versus National. According to most clubs surveyed, local television and radio, i.e. telecasting and broadcasting a team's home or away games with production rights and liabilities assumed by the club, seem to have generated sufficient advertising or promotional value to be considered worth the financial investment. Of all the franchises surveyed in 1977, 15 entered into arrangements for radio broadcasting of games and 15 for television. At least one club televises all of its away games. The chart below summarizes local broadcast coverage secured by member clubs in 1977.

Local Television and Radio Coverage 30/

	Number of Televised Games	Number of Radio Broadcasts
Chicago	1	22
Connecticut	0	0
Cosmos 31/	14 32/	13
Dallas	1	26
Ft. Lauderdale	1 32/	26
Hawaii	3	0
Las Vegas	0	26
Los Angeles	8	26
Minnesota	5	26
Portland	5	26
Rochester	1	26
St. Louis	0	26
San Jose	6	26
Seattle	4	26
Tampa Bay	8 32/	26
Toronto	4	0
Vancouver	4	26
Washington	5	26

When a broadcast is produced locally, the franchise will usually contract with a local radio or television station to purchase air time. The club then endeavors to offset the costs of same by selling advertising spots to local businesses. Some, pay a percentage to an outside producer, who performs the same function. In most cases, however, little net revenue is generated for the club. In fact, many sustain moderate losses but consider the expense worthwhile in terms of the additional exposure

created for the sport and its attendant increased gate revenue. For the most part, then, locally managed broadcasting is seen as a means for increasing gate revenues; any loss therefrom is written off much as an advertising, promotional or public relations expense.

The 1976 NASL agreement with TVS, however, created problems for clubs engaged in local television production. Many complained that the terms of the TVS arrangement interfered with their ability to secure local advertising revenues. In Washington, for example, the Diplomats organization contracted to purchase time for a five-game package with an independent VHF station, WTTG, and was attempting to sell advertising spots to local sponsors. At the same time, TVS signed an agreement with the local NBC affiliate, WRC-TV, which by its terms permitted WRC and TVS to sell time to local as well as national sponsors. The Diplomats, thus, soon found the NASL-TVS arrangement to be in direct competition with its own efforts to sell advertising time for its games.

The Cosmos appeared on four of seven nationally televised games. The club had sold the television rights for all away games to a New York station that was not a TVS carrier. Therefore, two regular season away games had to be pre-empted so that the Cosmos could appear on TVS. In addition, several clubs, because of the national TV commitment, were forced to change the times of their games and thereby suffer losses at the gate.

RECOMMENDATION #30

-- That, in the short term, the NASL must encourage locally produced broadcasts and telecasts of all NASL games and devote League resources and personnel to the attainment of that objective, including specific programs for assisting franchises in the technology of production and sale of advertising.

2. Policy: When? As has been previously discussed, attempts at securing a national television contract prior to the development of a market through increased local attendance would be wasteful and counterproductive. National television can provide access to markets; the NASL must deliver the

markets. Unless these facts of life are recognized, the NASL could be seduced into a damaging arrangement with the following effects:

i) the arrangement could be cancelled for lack of ratings. It is clear, from the TVS record to date, that, unless ratings substantially improve, the NASL risks losing a national television contract for the third time in a decade.

ii) that, even if ratings are high in NASL cities, unless the League develops franchises (with their attendant followings) in "major" markets throughout the country, revenues from television will never approach that of the other major leagues where the number of TV households covered is, by definition, greater.

In sum, significant revenues from national television cannot be expected until the NASL creates its market by moving franchises to those cities where the number of television households is greatest. If this is done, the attached Chart IV approximates the level of income which might be expected from national television over the next seven years.

CHART IV

NASL PLANNING COMMITTEE

Projected Revenues From Network Television[1,2,3,4]

Year	Amount[6] (thousands)	Number of Franchises[5] 20	21	22	23	24	25	26	27	28	29	30
1978	$ 350	$ 17.5	$ 16.7	$ 15.9	$ 15.2	$ 14.6	$ 14.0	$ 13.5	$ 13.0	$ 12.5	$ 12.1	$ 11.7
1979	700	35.0	33.3	31.8	30.4	29.2	28.0	27.0	25.9	25.0	24.1	23.3
1980	1,250	62.5	59.5	56.8	54.3	52.1	50.0	48.1	46.3	44.6	43.1	41.7
1981	2,500	125.0	119.0	113.6	108.7	104.2	100.0	96.2	92.6	89.3	86.2	83.3
1982	5,000	250.0	238.1	227.3	217.4	208.3	200.0	192.4	185.2	178.6	172.4	166.7
1983	7,500	375.0	357.1	340.9	326.1	312.5	300.0	288.6	277.8	267.9	258.6	250.0
1984	$10,000	$500.0	$476.2	$454.5	$434.8	$416.7	$400.0	$384.8	$370.4	$357.1	$344.8	$333.3

The above figures refer to the distribution of television revenues. Below are two examples of uses of this chart:

a) In 1980 the NASL could sell its National TV rights for $1,250,000. If there were 21 franchises each club would receive $59,500.

b) In 1984 the NASL could sell its National TV rights for $10 million. This would represent $500,000 to each of 20 franchises or $333,300 to each of 30 franchises in that year.

1/ Reading sources: (i) History of American Football League (AFL), 1960-69; National Football League (NFL), 1970-77; Baseball 1975-77; National Basketball Association (NBA) 1975;and other sports such as The Olympic Games, World Championship Tennis, Golf (PGATPD). (ii) Commissioner, NASL. (iii) Various television packages and producers. (iv) Testimony and Attachments: House Committee on Professional Sports, 1976.

2/ Growth rates are based upon the following assumptions: (i) rate of growth of soccer; (ii) demographics of soccer consumer and potential appeal to a favorable market; (iii) rate of growth in NASL attendance; (iv) the traditional appeal of professional sports to TV and the attractiveness of soccer as one of the fastest growing team sports in America; (v) that the current rate of development among NASL clubs will continue.

3/ This chart does not include distribution of funds to reduce the deferred portion of current franchisees franchise fee.

4/ Under the above conditions the chart below illustrates the per club share of the TV rights:

Revenues Per Club From TV

Year	Number of Clubs	Amount ($thousands)
1978	20	$ 17.5
1979	21	33.3
1980	22	56.8
1981	23	108.7
1982	24	208.3
1983	25	300.0
1984	26	$384.8

5/ It is assumed that the League consists of 19 franchises and that it may not expand beyond 30 by 1984.

6/ Amount: The NASL will sell its National television rights for the amounts indicated. The rights will be worth approximately thirty times more in 1984 than 1978. This rate of growth is realistic assuming the attendance continues to increase and club operations are upgraded.

Under existing arrangements with TVS, a large amount of NASL staff time has been spent selling television time to national sponsors. NASL Marketing, Inc. estimates that 30% of its President's and 20% of its Vice-President's time was spent in the sale of advertising, for the national TV contract. 33/ The Commissioner also spent considerable time in this regard. Such a drain of time and resources is costly to the League and should not be countenanced in negotiations for the future sale of television rights. Generally, the network which is the producer should have full responsibility for the commercial sale of time.

3. Policy: How? Television production, direction and the multitudinous decisions which flow from these tasks including timing, content, technological support, etc., is an enormously complex business. It is both a science and an art. New forms of television delivery and transmission are being developed (UHF and pay TV) and must be thoroughly understood and researched before any final decisions are made on proposals submitted by VHF networks.

The NASL must organizationally accommodate for its present lack of expertise on the subject. Likewise, a mechanism is needed to determine criteria for and to oversee the negotiation of any proposed contract to assure conformity with League policies. In addition, the League staff must be directed to assist in the development of local club broadcast arrangements in accordance with Recommendation #30, and to work with the Marketing Committee in developing television as an educational vehicle.

RECOMMENDATION #31

-- That the NASL establish a two or three person Television Committee.

Composition:

The Committee shall consist of club owners with some expertise in television. The Committee shall be elected quadrenially by the Board of Directors upon nomination by the Executive Committee. The Committee could be expanded by one (if two Directors, or by two if three Directors) to include outside experts in the field of broadcast or television production.

Duties:

The Television Committee shall assist the League and Commissioner to formulate and develop the NASL's long-range plan for League-wide television utilization and coverage. The Committee must be adequately funded and empowered to commission research where needed on the subject of network, VHF, pay television, UHF, etc. The Committee shall implement all Recommendations and apply League criteria in overseeing the negotiation of a national TV contract. It shall propose changes or new policies where appropriate.

The Committee shall work closely with the Marketing and Executive Committees in developing educational programming ideas to assist the Marketing Committee in creating an awareness and understanding of the product, as, for example, a weekly, hour-long televised highlight film, soccer instruction or TV special relating to NASL soccer or its personalities.

The Television Committee shall also serve as the center of NASL information on broadcasts and shall assist member clubs in developing local broadcast packages by providing expert advice and information on potential advertisers.

The Television Committee would, in conjunction with the Marketing Committee, exercise qualitative control over the execution of any contractual television arrangement wherein the NASL product is displayed or in any way involved.

RECOMMENDATION #32

-- That the NASL consider hiring a Director of Broadcasting at the earliest practical time as a full-time staff person. The functions of the Director of Braodcasting would be to assist the Television Committee and the NASL in executing the functions set forth in this subchapter. The Director must possess broad experience and sound technical expertise in the fields of television direction and production.

B. Policies Relating to Licensing, Advertising and Promotional Materials.

Like Television, the sale of licensing rights (permitting manufacturers to utilize the NASL name, logo and the names and logos of its member franchises), advertising (the sale of advertising space in NASL publications such as KICK MAGAZINE, etc.), and joint promotions (awards, endorsements,

etc.), can be a derivative source of income to a sports league provided that a market has been created. As with a broadcast network, the manufacturer signs a licensing agreement with the NASL, provides the final product and the transmission facilities (distribution) to bring that product to the consumer. If the consumer is disinterested or the League has failed to create a demand for NASL associated products, the licensee either will not renew the license or will pay only a minimum fee for the right to use it. Since most licensing arrangements are based upon a percentage of sales, the NASL is directly affected by a lack of demand.

The history of NASL Marketing, Inc. follows a path somewhat similar to that previously hewn by the relatively successful NFL Properties, Inc. Like NFL Properties, Inc., the NASL at first sought heavy involvement with outside agencies. 34/ Disputes arose on the interpretation of the contract, especially with regard to performance, and the League, like the NFL before it, terminated the outside arrangement and sought to bring all licensing, advertising and promotional functions under the auspices of a separate (for tax purposes) corporation, the stock of which is owned by the NASL franchise owners.

The appearance of League and franchise logos on merchandise sold in supermarkets and department stores produces additional "public awareness" for the NASL. The League by licensing arrangements uses the manufacturer's pre-established network of product distribution to reach the consuming public.

Despite its potential, the performance of NASL Marketing Inc. has been somewhat discouraging. In 1975, the company lost $92,402. In 1976, the reported losses were $91,420, and although projections for 1977 showed a profit of $46,000, 35/ the latest projections indicate that the company may experience a slight profit.

At the request of the Planning Committee, the staff of NASL Marketing Inc. prepared a pro forma statement of income and expenses for the years 1978, 1980 and 1982. The exhibit shows a net profit of $230,500 in 1978 and $507,500 in 1980.36/ On the expense side, however, the Corporation requires an additional three employees in 1978 and four additional employees by 1980, which along with a 10% increase for current staff brings the total payroll to $343,000.

NASL Marketing, Inc. employs almost half the number of persons employed by the League itself. Despite projections, the company continues to operate below its own expectations.

Little by way of operating and financial reporting is provided by NASL Marketing, Inc. to its shareholders.

Certain questions remain unanswered: Does the Executive Committee of NASL Marketing, Inc. (comprised of directors elected by the Board of the Corporation) exerise control or coordination over corporate policy? Is there a consistent philosophy or strategy regarding the type of manufacturer who is solicited for advertisements in NASL publications? Has there been any independent testing to determine the quality of products which the NASL permits to bear its name?

Has a policy determination been made, given the present demographics of its audiences, as to whether the NASL should permit liquor or cigarette producers to be associated with the League? 37/ Are the products advertised by the NASL reliable and safe? Is there any inconsistency in promoting two of the same type of products (e.g. Pepsi Cola and Coca Cola)? Should the program magazine KICK be as bulky as it is? Is it worth the price paid by the consumer?

During the last several years, the President of NASL Marketing, Inc. spent almost 30% and the Vice President 20% of their time soliciting advertising for a handful of nationally televised games. Such a devotion of resources seems

undesirable for a variety of reasons. For one thing federal statutes dealing with sports league television contracts indicate that the League itself should handle League-wide television matters. In 1961 (with amendments in 1973) Congress (Pub.L. 87-331, 15 U.S.C.A. §1291-1295) granted an exemption from the anti-trust laws to persons engaging in television of professional team sports who, through a "league", collectively sell their franchise rights. This exemption applies by its terms to "leagues" and may not apply to a separate corporation in which member clubs own stock.

Even at their most successful level of operation, internal licensing and advertising companies such as are maintained by most of the major sports leagues 38/ do not contribute more than 10% to club revenues. The NFL, which has the most successful operation, NFL Properties, Inc., contributes all income to charity. Baseball has its own marketing company, a company called Major League Baseball (MLB) Promotions Corp. Between 10 and 12 club representatives serve on the Board of this Corporation. Certain merchandising functions are subcontracted by MLB Promotions to the Licensing Corporation of America (LCA), however, LCA assumes less of a role under the current agreement than it has in the past. LCA and MLB Promotions Corp. have had a contract since 1968.

The NBA has its own properties company and sells its own licensing, promotions and advertising. Its President is the Vice President of the NBA responsible for Merchandising and Marketing. Prior to the hiring of the current Commissioner, the NBA had a contract with LCA under which the NBA received a minimum guarantee of $100,000 per year or $5,556 per club (18 clubs).

Although the NHL is based in Montreal, its advertising and publicity arm is NHL Services, Inc., which is located in New York. This autonomous and self-sustaining corporation is responsible for public relations, licensing and advertising for NHL publications. All but the two original NHL clubs have assigned the merchandising rights for logos, etc. to NHL Services, Inc. Many clubs, however, would prefer to handle their own marketing in their own market.

A licensing/advertising arm can perform certain synergistic functions such as program production, printing, and solicitation of sponsors for same; registration of franchise trademarks and trade names and providing for their license to quality national manufacturers; arrangement of joint promotional activities with advertisers and the League; provision a front-office contact point for manufacturers who wish to do

business with the NASL. For this reason, a separate corporate entity ought to be maintained to perform those functions on behalf of the member franchises, but with close supervision and coordination by the Marketing Committee, which shall also serve as the corporate Executive Committee. Only in this manner can quality control and consistency of policy be maintained and coordinated with the overall League objective and strategies. Because the new Director of Sales and Management - the League official to be in charge of assembling and sharing marketing information at the club level - (see Recommendation #25, supra and #33 infra) will serve as a member ex officio of the Marketing Committee, information gathered by NASL Marketing, Inc. will also be more directly available at the club level.

RECOMMENDATION #33

-- That the control over and functions of NASL Marketing, Inc. be changed or amended as follows:

i) that the functions of the corporation shall be to syngerize the following activities:

- registration and licensing of the NASL name, logo and those of its member clubs; design, production, distribution and solicition of advertising for the NASL official game program;

- joint promotional efforts between the NASL and national advertisers;

- similar functions as dictated by the Marketing Committee;

ii) It is preferable that NASL Marketing, Inc. shall only negotiate or solicit sponsorship for League-wide television arrangements as they tie in with its other primary activities. The Television Committee will be consulted by NASL Marketing, Inc. on television opportunities that evolve from its activities.

iii) Control, supervision and policy direction shall be provided by the Marketing Committee established and constituted in accordance with Recommendation #25 supra.

iv) The opinion of counsel should be sought as to the legal consequences of the aforementioned joint activities.

C. Policies Relating to Sales of New Franchises (Expansion)

> "Professional sports leagues employ an array of business practices that are unique among American industries. The most obvious are the restriction on market competition imposed by Leagues on their

> members -- the major asset is the capitalized value of protected positions in the markets in which players are required and tickets and broadcasting rights are sold." 39/

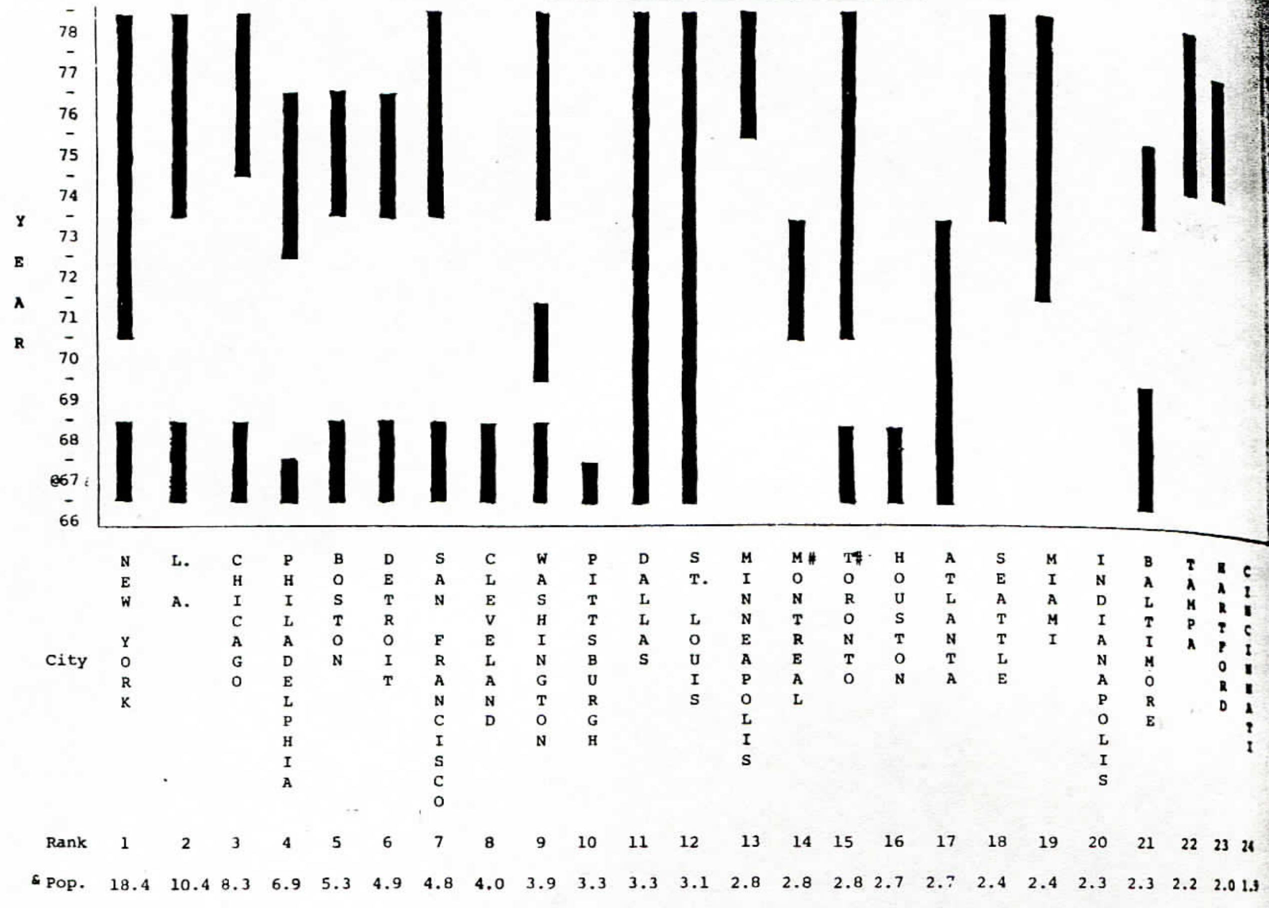
Few issues evoke as much debate and opinion within professional sports leagues as the question of territorial rights and franchise location, including the re-location of existing franchises and creation and sale of new franchises. Sports leagues divide the country among constitutent members; the addition of new members necessarily involves the dilution of territorial rights and revenues generated by the league joint venture. Each of the established leagues in the four major sports has pursued expansion since 1960. Major League Baseball has added 8 expansion franchises in that period, the NBA 10, the National Football League 16 (including 9 which came intact from the merger with the AFL), and the National Hockey League 12.

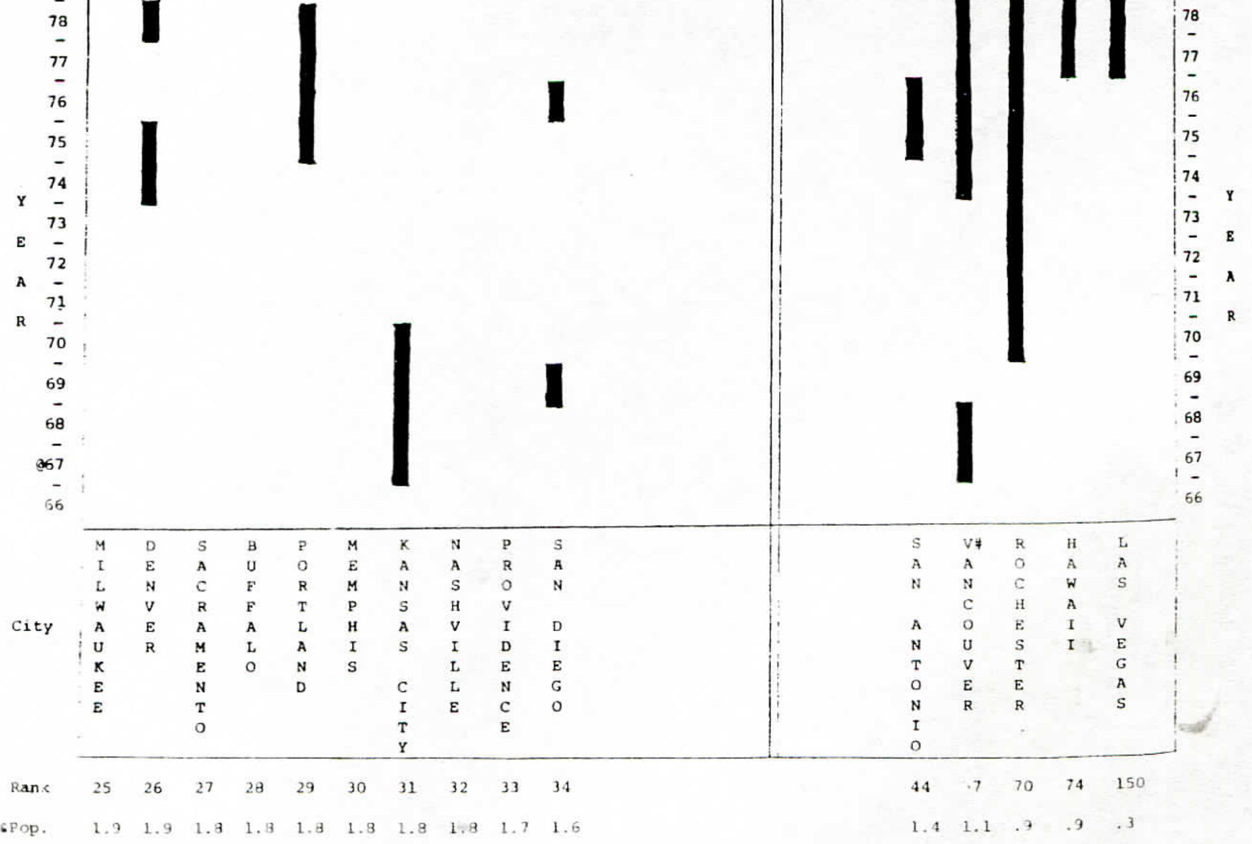
The history of NASL territorial occupancy and vacancy, accordian-like in movement, exemplifies a decade of uncertainty and instability. The NASL came into being as a result of a merger between the United Soccer Assocation (USA) and the National Professional Soccer League (NPSL) combining 22 franchises (1967) into 17 for the 1968 season. The venture failed to generate strong public interest and left the NASL only 5

franchises with which to commence the 1969 season. The League began anew the task of territorial occupation. The attached chart V graphically illustrates the history of NASL territories, and their juxtaposition with major U.S. and Canadian markets.

When 12 NASL Clubs collapsed in 1969, it was only through the efforts of a few "true believers" that the League was able to rebuild. As Chart VI indicates, the prices paid for early franchises were so low and so deferred as to be practically meaningless. As one of the "true believers" mused: "we'd almost pay people to come into the League". 40/

Following the acquisition of Pele, the NASL began to pick up momentum and at its 1976 Annual Meeting made a conscious policy decision to expand by four franchises (the League was at that time at 20 members). It set the expansion price at $1 million: $250,000 cash and $750,000 "deferred". 41/ In NASL parlance, "deferred" means that a new owner pays the deferred portion of the franchise fee by waiving his proportionate share of future expansion funds, network television revenues and other funds for distribution to League members until the amount owed has been reduced to zero. 42/





*Sources: League Records and Staff; "Soccer U.S.A." by Chuck Cascio, Published by Robert B. Lurie, Inc., Chap. 3-4.
&Population in millions; Source: U.S. TV Ownership Estimates, Designated Market Area (DMA), January 1976
#Canadian Data supplied by Canadian Census Bureau
@In 1967 there were two Leagues: U.S.A. and NPSL, the predecessors to the NASL, which commenced in 1968.

CHART VI

NASL PLANNING COMMITTEE
History of Franchise Fees[1]
October 1977
($000 omitted)

CLUB (Former Name)[2]	YEAR ACQUIRED	PRICE CASH	PRICE DEFERRED	REDUCTION IN DEFERRED	RECEIVED[3]
		($)	($)	($)	($)
Boston[4]	1974	25	50	23	(27)
Chicago	1975	100	150	14	(136)
Colorado[6]	1978	250	750	0	(750)
Connecticut (Hartford)[5]	1975	25	150	14	(216)
The Cosmos (New York)	1971	10	0	N/A	141
Dallas	1967	0[7]	0	N/A	141
Ft. Lauderdale (Washington/Miami)	1970	10	0	N/A	141
Hawaii (San Antonio)	1975	100	150	14	(136)
Las Vegas (San Diego/ Baltimore)	1974	25	50	37	(13)
Los Angeles	1974	25	50	37	(13)
Minnesota (Denver)	1974	25	50	37	(13)
Philadelphia [4]	1973	25	0	N/A	141
Portland	1975	100	150	14	(136)
Rochester	1970	10	0	N/A	141
St. Louis	1967	0[7]	0	N/A	141
San Jose	1974	25	50	37	(13)
Seattle	1974	25	50	37	(13)
Tampa Bay	1975	100	150	14	(136)
Toronto	1971	10	0	N/A	141
Vancouver	1974	25	50	37	(13)
Washington	1974	25	50	37	(13)

1/ USSF receives $25,000 per club. However, the first 15 franchises cost $16,667 each due to an arrangement between NASL and USSF.

Each of the five clubs that joined the League in 1975 paid $100,000 cash to the League, except Connecticut. (See footnote 5) Three of the franchises had the $25,000 fee to USSF deducted from their cash payment. In 1975, the thirteenth through eighteenth franchises were sold and the League agreed to pay the USSF fees from the cash portion. Therefore, the amount available for distribution to member clubs was:

	$500,000	cash
less	75,000	Connecticut deferred
	$425,000	
less	75,000	three franchise fees (USSF)
	$350,000	

Fifteen clubs participated in the distribution of the $350,000 (i.e., $23,333 per club). Since 1975, the USSF fee will be treated independently of the franchise fee.

2/ Former names (city/location) of the club listed in parenthesis.

3/ Received: Numbers in parenthesis refer to amount to be reduced from franchise fees, marketing or television revenues. Other numbers refer to cash distribution from sale of franchise fees. This column has been calculated under the assumption that the Caribous of Colorado have paid $250,000.

4/ Suspended by Court action.

5/ Connecticut paid $25,000 of the total $100,000 cash portion of its franchise fee. $75,000 was deferred. In addition, $5,321 of League debts have been placed in the deferred account. Connecticut had a deferred balance of $230,321 as of April, 1977.

6/ Caribous of Colorado will commence operation in 1978. This chart assumes that the $250,000 cash portion of the franchise fee has been paid.

7/ Dallas and St. Louis each paid $25,000 to USSF for the purchase of the franchises.

The increased League attendance from 2.7 million in 1976 to 3.7 million in 1977 and other positive factors have apparently created demand for new franchises far in excess of anything previously experienced. No longer is it necessary for the "true believers" to beg, borrow and scratch for new club owners to occupy vacant NASL territories. Suddenly, as a result of the demand, income received by way of capital gains for the award of new franchises could become significant to franchises now in the NASL. The slight tug now being experienced by way of this new demand for franchises, however, could develop into a genuine pull if League priorities are maintained (attendance first) and future expansion is accomplished with discretion, patience and concern for the effects of dilution (quantitative).

The issues involved with expansion can be broken down into four categories, each inter-related, but for purposes of discussion separately considered. They are:

-- price structure;

-- rate of expansion and number of franchises;

-- territorial considerations;

-- qualifications of franchise owner.

1. Policy: Price structure. By questionnaire, the NASL owners were asked to project the value of franchises for the years 1977, 1980 and 1990. The Planning Committee also went through this exercise and the results were not too dissimilar.

NASL

Average Projected Franchise Value 43/
(in $ millions)

	Planning Committee	All Owners
1977	$0.7	$1.3
1980	1.7	2.5
1985	4.4	5.5
1990	8.9	-

Based on these figures and premised further upon what the Planning Committee felt the market would bear (checked against expansion prices in the early history of other sports leagues), Chart VII was prepared projecting the expansion fees (cash portion only) which might be expected over the next 7 years should League attendance grow at the following rates: an average increase of 35% per year or a total of 485% by 1984 (assuming 20 games); with average per-game attendance rising at the average rate of 22.8% per year or 238% by 1984. As can be

seen, assuming continued growth, the longer the League delays expansion, the more money it can demand for expansion franchises.

Patience therefore would more likely than not drive new franchise prices higher and with fewer clubs splitting the proceeds, provide a higher return on investment (purchase price plus operating losses sustained) to those who have carried the League for a period of time. For example, based upon the projected figures in Chart VII, if the League expands to 24 teams in 1978 and 28 teams in 1979, the existing 18 franchises would each receive $236,111. On the other hand, if the League expands to 24 in 1980 and 28 in 1984, the existing 18 franchises would share $700,000, more than double the per-club distributive share.

Certain problems also arise with regard to the "deferred" portion of the purchase price. The figures given in Chart VII are cash figures. Not included in the purchase price is the so-called "deferred" payment fee which, in 1976 constituted 75% of the "purchase price." This deferral, prohibits the new franchisee from sharing in his distributive share of the first $750,000 received from revenues generated in the future by League television contracts, and fees from other

CHART VII

NASL PLANNING COMMITTEE

Projected Revenues from the Sale of New Franchises 1&5/

Year	Amount ($'000's) 3&4/	20	21	22	23	24	25	26	27	28	29	30
							Number of Franchises 2/					
1978	500	25.0	23.8	22.7	21.7	20.8	20.0	19.2	18.5	17.9	17.2	16.7
1979	750	37.5	35.7	34.1	32.6	31.3	30.0	28.8	27.8	26.8	25.9	25.0
1980	1,000	50.0	47.6	45.5	43.5	41.7	40.0	38.4	37.0	35.7	34.5	33.3
1981	1,250	62.5	59.5	56.8	54.3	52.1	50.0	48.1	46.3	44.6	43.1	41.7
1982	1,500	75.0	71.4	68.2	65.2	62.5	60.0	57.7	55.6	53.6	51.7	50.0
1983	2,000	100.0	95.2	90.9	87.0	83.3	80.0	76.9	74.1	71.4	69.0	66.7
1984	3,000	150.0	142.9	136.4	130.4	125.0	120.0	115.4	111.1	107.1	103.4	100.0

The above figures refer to the sale of new franchises. Below are two examples of uses of this chart:

a) In 1980 if the cash portion of a new franchise fee was $1 million 24 clubs would share $41,700, but 20 franchises would share $50,000 each.

b) In 1984 if the cash portion of a new franchise fee was $3,000,000, 26 franchises would share $[illegible]5,400 but 22 franchises would share $136,400.

1/ This chart does not include distribution of funds to reduce the deferred portion of current franchisees franchise fee.

2/ It is assumed that the League consists of 19 franchises and that it will not expand beyond 30 by 1984.

3/ The following price structure was assumed (000's omitted):

Year	Total	Cash	Deferred
1978	1,250	500	750
1979	1,500	750	750
1980	2,000	1,000	1,000
1981	2,500	1,250	1,250
1982	3,000	1,500	1,500
1983	4,000	2,000	2,000
1984	5,000	3,000	2,000

4/ The "amount" column only uses the cash portion of the franchise fee.

5/ Below is a chart that summarizes the potential revenue per club from the sale of new franchises. It also includes the projected rate of growth in attendance.

Year	Total (millions)	Number of Clubs	Average per Club	Number of Home Games	Average Attendance per Game	Cash per Club from Expansion ($'000's)
1978	4.0	20	200,000	15	13,333	25.0
1979	6.3	21	300,000	16	18,750	35.7
1980	8.8	22	400,000	17	23,529	45.5
1981	11.5	23	500,000	18	27,778	54.3
1982	16.3	24	679,167	19	35,746	62.5
1983	20.0	25	800,000	20	40,000	80.0
1984	23.4	26	900,000	20	45,000	115.4

N.B. The Planning Committee has recommended that the League expand at the rate outlined in this chart.

expansion franchises. Deferring such a large portion of the purchase could have several unhealthy effects:

-- it is an artificial means of price inflation which neither speaks to the true value of NASL franchises nor produces a significant capital gain-income which existing franchise holders have a right to expect by virtue of their asset dilution.

-- the deferral is premised upon contingencies which may never occur, i.e. a national television contract and revenues from expansion. This tends to be confusing. It also may create a voting block of new franchise holders who, because of their exclusion from revenue sharing may not be enthusiastic about proposals for national television or expansion. A better solution would be to allow the new franchise holder to repay this deferred obligation through additional non-participation in certain and immediate revenue: playoffs, NASL Marketing, Inc., for example.

-- there are certain negative tax consequences which may result to the franchise purchaser as a result of the deferral provision. "Deferred" income, as defined, is in reality an assignment of future income serving as

security for a non-recourse note given to the League in the amount of the deferred purchase price. It is possible that such an arrangement could create a taxable event for the new purchaser when and if such revenues are generated. The new franchisee would pay tax on its share of the earned revenue but be required to redistribute the proceeds therefrom to the League to pay off his note.

The whole matter of tax consequence has not been adequately studied as a factor in establishing franchise price. It is indeed a significant issue, especially in light of the 1976 Tax Reform Act provisions affecting sports franchises. Section 212 creates a presumption against the purchaser of an expansion sports franchise, if he allocates more than 50% to player contracts. Of course, if no player contracts are involved, he may not take a deduction for depreciation, except as he acquires players. It is possible, however, to create a tax advantage to the new purchaser which will in turn allow the League to raise the price of the franchise. This is done by the simple mechanism of an expansion draft under which a new club selects from a pool of player contracts assigned by the existing member clubs. The loss to

individual clubs is relatively minor since they are allowed to "protect" the most qualified players, but the gain in terms of additional franchise value to the purchaser could be significant. The going price would be adjusted upward to reflect this gain.

RECOMMENDATION #34

-- That all matters relating to expansion shall be under the jurisdiction of the NASL Executive Committee which shall have responsibility for implementing NASL policy regarding same, recommending new criteria where appropriate and consistent with policy and acting as a screening agency for potential new applicants.

RECOMMENDATION #35

-- That the Executive Committee establish guidelines and recommend prices for expansion franchises considering a player draft, a suitable formula for deferral and projections of future market value. The Committee shall seek expert advice and counsel on tax considerations, valuations, etc.

2. Policy: Rate of expansion and number of franchises. Rate of expansion answers the question, "how many and when?" The benefits of deliberate expansion based on

supply and demand considerations which affect price structure were discussed previously. Speed of expansion is also related to the NASL's need to establish a foothold in major markets, which in turn reflects in potential television and licensing revenues. Because of these considerations, and further because the total number of NASL franchises may soon approach the point of diminishing returns for the distribution of other revenues, caution and deliberation should control decisionmaking. The NFL, for example, has expanded to only 28 teams over 52 years of operation; Baseball, to 26 franchises over 101 years; NBA to 22 teams over 20 years and NHL 18 franchises in 59 years. A further factor in determining the rate of expansion should be the capability of the League front office to absorb the new franchises. The following questions must be answered realistically:

-- does the League office have the resources to thoroughly investigate each potential new franchisee as to financial strength, management capacity, stadium lease, etc.?

-- should the NASL establish an expansion draft and if so how many player contracts can realistically be devoted to the draft?

-- does the League have adequate personnel to assist the new franchise owner(s) with organizational proble recommend coaches and general managers and otherwise prepare and indoctrinate the new owner for productive operation in his first season?

RECOMMENDATION #36

-- That in considering the rate of expansion the Executiv Committee shall be generally governed by principles of caution, moderation and deliberation and shall conside present versus future franchise value, saturation of markets, dilution of existing NASL member franchises an the capacity of the League front office to deliver services, new and existing.

Closely allied to the question of expansion rate is tha of the maximum number of franchises to be allowed over the nex decade. The issue of total number is also inexorably tied to the need for upgrading existing franchises with improved management and/or transfer to higher grade markets. To arrive at a definitive answer to maximum number, the Planning Committee attempted to classify the existing 18 franchises as either "standard" or "below standard" based upon the following factors: quality of ownership, capability of management,

attendance and profitability, type of market and potential for future growth (See Chart VIII). Out of the 18 existing franchise, only 10 were regarded as up to standard(s) with 8 being rated below standard(s). The question of upgrading member franchises will be discussed more fully in Chapter VI infra. However, assuming that most of the substandard franchises can be upgraded to standard, the Planning Committee worked out a timetable for upgrading and expansion which it recommends for adoption by the League. The timetable is as follows:

NASL

Timetable for Consolidation and Expansion

Year	Type of Franchise			Total Teams
	Existing		New	
	"Standard"	"Below Standard"	44/	
1977	10	8		18
1978	12	6	2	20
1979	17	3	1	21
1980	21	0	1	22
1981	22		1	23
1982	23		1	24
1983-87	24		4	28

CHART VIII

NASL PLANNING COMMITTEE

Standard (S) or Below Standard (B)
Comparison: 1977 Actual versus 1978 Standards[1/]

Franchise[2/]	Attendance[3/] Attendance	Attendance Rating	Gate Receipts[4/] Gate Receipts	Gate Receipts Rating	Stadium Size[5/] Capacity	Stadium Size Rating	Type of Market[6/] Population Rank	Type of Market Rating	Radio-TV[7/] Status TV	Radio-TV Status Radio	Radio-TV Rating	Club Ownership: Willingness Staff[8/] Rating	Club Ownership: Budget[9/] Rating	Club Ownership: Local Ownership[10/] Rating	Total B	Total S	Managerial Skills[11/]
1	59,146	B	107,619	B	50,000	S	74	B	3	0	B	S	S	B	5	3	
2	171,708	B	735,894	S	35,000	S	29	B	5	26	S	S	S	S	2	6	
3	253,390	S	960,199*	S	70,000	S	22	S	8	26	S	S	S	B	1	7	
4	50,027	B	92,946	B	71,000	S	23	S	0	0	B	B	B	S	5	3	
5	92,496	B	220,088	B	15,000	B	150	B	0	26	B	S	B	B	7	1	
6	78,843	B	100,614*	B	22,000	S	70	B	1	26	B	B	B	S	6	2	
7	95,369	B	168,106*	B	22,000	S	15	S	4	0	B	B	B	S	5	3	
8	214,646	S	293,554	B	21,000	S	11	S	1	26	B	S	S	S	2	6	
9	125,354	B	221,083	B	92,000	S	2	S	8	26	S	B	B	S	4	4	
10	118,455	B	172,633	B	10,000	B	12	S	0	26	B	S	B	S	5	3	
11	154,660	B	444,201	B	33,000	S	57	B	4	26	S	S	B	S	4	4	
12	105,923	B	357,849	B	11,000	B	19	S	1	26	B	S	B	S	5	3	
13	426,020	S	1,580,531	S	47,000	S	13	S	5	26	S	S	S	S	0	8	
14	230,610	S	648,590	S	18,000	B	7	S	6	26	S	S	S	S	1	7	
15	169,757	B	253,995	B	55,000	S	9	S	5	26	S	S	S	S	2	6	
16	67,593	B	151,985	B	55,000	S	3	S	1	22	B	S	S	S	3	5	
17	443,847	S	1,794,224*	S	76,000	S	1	S	14	13	S	S	S	S	0	8	
18	314,936	S	1,080,377	S	64,000	S	18	S	4	26	S	S	S	S	0	8	
Total	3,172,789	B=12 S=6	9,384,488*	B=12 S=6		B=4 S=14		B=5 S=13			B=9 S=9	B=4 S=14	B=8 S=10	B=3 S=15	8	10	B=11 S=7

1/ A rating of "B" means the club is below 1978 League standards, and a rating of "S" means the club is equal to or greater than 1978 League standards.
2/ Clubs have not been identified; code # has been used for NASL clubs.
3/ In 1978 the average per game attendance should be 13,333 for 15 games, total: 199,995.
4/ Gate receipts should be 75% of the projected average budget for clubs in 1978, or $600,000 (75% of $800,000) for a club to be rated standard. It is assumed that clubs generate additional revenues from local broadcasts, ballpark concessions, notions, camps, etc.
5/ The standard for 1978 is 20,000.
6/ Major market includes the top 24 markets, based on 1976 population size. A club not rated in the top markets is rated "B".
7/ Clubs with at least 2 TV telecasts of away games and 13 radio broadcasts in 1977 are rated "S".
8/ The minimum standard for club operating in 1978 is four executives with combined salaries budgeted at $85,000.
9/ The minimum budget for 1978 is $800,000. The distribution of budgets in 1977 is estimated as follows: less than $799,999: 8 clubs; $800,000 - $1,099,999: 4 clubs; greater than $1,100,000: 6 clubs.
10/ A satisfactory rating is provided to clubs that have local ownership.
11/ Club Managerial Skills is a subjective rating based on each club's size and quality of management, responsiveness to League requests, success in generating local support for NASL soccer.

* Estimated by Planning Committee.

RECOMMENDATION #37

-- That the total number of franchises for the NASL through 1987 be established at 28 and that the rate of expansion be determined according to the criteria established in Recommendation #36.

3. Policy: Territorial Considerations. The NASL Constitution, section 3.5, provides that each member shall have the exclusive right as among members,

> "...to play soccer games as the home club within its geographic territory, hereby defined as the area within a circle extending 100 miles from the City Hall of the city indicated in its certificate of membership."

An exception is made in the case of large cities located at a distance of less than 200 miles. The Constitution prohibits any member from playing games in another member's geographical territory "unless the home club is a participant or organizer of the competition or the territory has been selected as the neutral site for the League championship game and the member in that area has granted approval." 45/

a. Selection of markets (United States).

To maximize revenues from future television contracts from licensing, advertising and other activities designed to capitalize upon the enlarged market for soccer, it is imperative that NASL franchises locate in "major" United States markets. Priority sales of these markets to new franchise applicants is therefore of critical importance to the League. The following major markets (based upon population) are currently without NASL franchises:

NASL
Markets Without NASL Franchises

Markets	Population Rank 46/
Philadelphia	4
Boston	5
Detroit	6
Cleveland/Akron	8
Pittsburgh	10
Montreal	14
Houston	16
Atlanta	17
Indianapolis	20
Baltimore	21
Hartford	23
Cincinnati	24
Milwaukee	25
Sacramento	27
Buffalo	28
Memphis	30
Kansas City	31
Nashville	32
Providence	33
San Diego	34

RECOMMENDATION #38

-- That the NASL as a priority matter, seek to locate franchises (both expansion and existing) in the top 24 North American markets, the order of expansion to follow population rank order where practicable. Thereafter, location shall be in the next most populous markets, rank ordered where practicable.

b. Balance and "Rivalries".

Among the major markets, it may be necessary to select cities for expansion out of rank order based upon the need for internal League balance and to stimulate certain natural rivalries.

Obviously, to add a lone franchise to an equally balanced league creates scheduling difficulties. Likewise, expansion into four markets along the eastern seaboard might also create imbalance.

c. Canada.

At times when the NASL was seeking new franchise cities, it moved into two Canadian Markets. 47/ The wisdom of this decision and correspondingly

the wisdom of expanding further into other Canadian markets is being questioned. Operating in two countries raises serious issues:

-- conflicts of laws between Canada and the United States in taxation, antitrust, labor law;

-- commercial sponsorship and national television. The President of NASL Marketing, Inc. reports that in several instances Canadian cities have proven to be a liability to the League. Most U.S. producers doing business in Canada must operate through Canadian subsidiaries, the majority of which are owned by Canadians. In many cases, U.S. sponsors do not want their products marketed in Canada because either they don't do business there or because benefits of advertising in Canada would inure only to the Canadian owned company of the same name. A TV package if sold today through sponsorship by U.S. corporations, would essentially cover only 16 markets (under the present 18 team League). The U.S. sponsors' financial contribution would threfore be less than if 18 major markets in the

U.S. were affected. However, when it comes to dividing TV revenues, all 18 teams, including the Canadians would share equally. Canadian teams would therefore share in revenues which their markets did not help generate. In addition, there have been many problems in distributing the NASL program KICK Magazine. Many U.S. sponsors do not market their products in Canada, requiring the League office to print two different editions of the magazine -- one for the U.S. and one for Canada. At one point, the marketing company was tearing out advertising pages from programs before sending them on to Canada.

-- if the NASL makes a full commitment to the U.S. National Team and USSF, such relationships pose problems with the Canadian Soccer Association and the Canadian National Team, demanding equal attention;

-- weather, which may limit extension of the NASL season, is a factor in Canadian cities and has already created scheduling obstacles during the early season;

-- currency exchange creates inequities. A recent WALL STREET JOURNAL article, 48/ indicated that the Toronto Bluejays Baseball team has turned the vagaries of foreign exchange to their advantage. The Bluejays pay visiting baseball teams 20% of their share of the gate in Canadian dollars. The Canadian dollar is worth 7 cents less than its American counterpart and, because the other 13 teams in the League are from the U.S., the Bluejays have a 7% advantage. When the Bluejays visit League parks in the United States, they collect their share in U.S. funds which gives them another 7% edge. The same type of problem is reported with regard to the Montreal Expos.

RECOMMENDATION #39

-- That the Executive Committee be directed to conduct a detailed study of the issues involved with operating in two countries.

4. Policy: Qualifications of Franchise Owner Once the criteria is established for number of franchise cities and price structure, the League must turn its attention to

standards for franchise applicants. As with any business, good management starts from the top. Contrarily, as the old saying goes "when a fish goes rotten, it smells from the head." Success at the franchise level is defined in terms of the capacity to consistently attract large numbers of people to the stadium. High attendance in the NASL cannot be generated unless franchise ownership is willing and able to devote the time, resources and best managerial skills to development of a first-class organization. The most critical factors in evaluating any potential new franchise owner are:

-- financial strength and commitment;

-- management experience and capacity to attract and control trained personnel;

-- stadium size, location and quality.

RECOMMENDATION #40

-- That any new applicant for an NASL franchise or purchaser of an existing franchise must be able to meet the following standards, such standards to be administered by the Executive Committee:

i) Financial strength and commitment. The applicant must demonstrate substantial net worth and cash flow from other business or non-NASL activities. The applicant must be willing to adequately finance start-up costs and sustain losses for at least three years of operation. He must be prepared to submit to a thorough, independent review of his net worth, liquidity and financial strength which the League shall conduct through the office of the Commissioner.

The applicant must also thoroughly understand and submit to the Commissioner's enforcement procedures when necessary to ensure conformity with minimum standards.

ii) Management experience and capacity to attract and control trained personnel. The applicant should have managerial experience, preferably with marketing expertise. It is preferable that he be a resident of the area in which he operates a franchise. It is preferable that a single owner maintain effective control of the operation.

iii) Stadium size, Location and Quality. The applicant must guarantee the availability of a minimum sized stadium and should submit to the League an executed lease agreement with the local stadium authority conditioned only upon award of a franchise. In 1978 the minimum stadium size shall be 20,000 seat capacity and shall increase so that by 1982 the stadium size requirement should approach 50,000. The stadium should be the best available for soccer in the franchise city and should be of major league caliber. The Commissioner shall review the stadium lease, location and condition and submit his recommendations on same to the Executive Committee.

iv) Business Plan. Applicants shall submit to the Executive Committee the following:

- a business plan to contain the following elements:

i. Origin of Business

ii. Corporate Securities (including Breakdown of

Ownership by Percentage) and Resumes of Owners

iii. Business Description

iv. Marketing Methods and Plans

v. Team Acquisition Plans

vi. Organizational Structure with Resumes and Job Descriptions

vii. Industry Analysis - National and Regional

viii. Financial Statements including detailed operating budget and five year pro forma statement of cash flow, profit and loss and balance sheets.

ix. Other Details (e.g., involvement of Club Owners in League and club activity, previous marketing and sports enterprise experience of Owners, market research, soccer knowledge of applicant or staff, etc.)

- an application form (to be designed by the Commissioner).

- the personal financial statement(s) of the prospective owner or owners.

- a statement indicating the new owners' readiness and ability to commit adequate financial resources to operation of the franchise.

- a full description of the terms of purchase and finance and all supporting documentation, contracts, notes, security agreements, loan agreements.

RECOMMENDATION #41

-- That by 1980 the following personnel should be hired by the Commissioner to assist in the implementation of Recommendation #40 and to assume the duties and responsibilities set forth hereinbelow:

i) Legal Counsel -- to pass upon the multitude of legal issues confronting the League and report directly to the Commissioner and Executive Committee; to assist in the preparation and review of documents, bonds and agreements; to supervise and pass upon all contracts or agreements executed by or with the League and all commitments undertaken by League officials committees or franchisees.

ii) Director of Security -- to prepare, gather and investigate all information on behalf of the League with regard to stadium security, drug trafficking and undesirable criminal or illicit gambling associations; he shall be responsible for investigating the character and reputation of new owners of NASL franchises. The Director of Security shall report to the Commissioner and should possess professional investigative skills (former FBI agent, for example.)

VI. POLICIES TO STRENGTHEN AND STABILIZE OPERATIONS

VI. Policies to Strengthen and Stabilize Operations.

BACKGROUND

Previous sections of this report have concentrated upon the overall objective of the NASL and the strategies to achieve that objective. Chapters IV and V identified policies which relate to and implement the primary and secondary strategies. All of the previously discussed policies therefore focus upon increasing attendance (primary strategy) or capitalizing upon the enlarged market for soccer (secondary strategy).

There are, however certain other policy considerations which, although not directly related to attendance or capitalization, must be treated in a strategic plan. These policies tend to focus more upon the operating than on the income side of NASL activities. The Planning Committee has denominated such policies, those which "strengthen and stabilize operations"; and it is in this light that they are treated in this chapter. The subjects treated *seriatim* in the text which follows are:

- upgrading franchise operations;
- transfer of franchises;
- sharing;
- player relations.

A. Policies Relating to Upgrading Franchise Operations.

Within the last 18 months, a major investor in one of the NASL's more successful franchises died. Based upon attendance, revenues generated and potential for future cash flow, a value of nearly $1.5 million had been ascribed to this franchise by the owners, and the Commissioner of the NASL. When for estate purposes, the Executor requested an independent appraisal of the value of the deceased's soccer investment, the franchise was valued at only $250,000. The reason given by the appraiser for the seemingly low value was the low quality of a majority of other NASL franchises, attested to by poor operating records. This unhappy state of affairs again illustrates the point that the success of each NASL franchise measured by revenue potential and asset value, is clearly inter-woven with and

dependent upon the success of every franchise. It also illustrates the necessity for the League *qua* league to devote time and resources to upgrade the quality of existing franchise.

1. Policy: Standards. Before discussing means of improvement, it is essential to identify those minimal standards of operation which constitute satisfactory operating performance and environment.

a. Physical or External Factors.

-- Major market. Just as location in major markets should be a primary concern in the award of expansion franchises, so should it be a standard for existing franchises. The League should not require an existing franchise owner to move against his will but where an owner seeks permission to transfer to another territory or sell his equity to another (treated in more detail in section B infra) the relocation of franchises to major markets ought to become a League standard. At present, out of 18 clubs, the League operates in 5 of the top 10 major markets and 9 of the top 20. Such a fact cannot

be ignored if the League is seeking major revenues from television and licensing.

-- Stadium capacity. As with expansion franchises, the standards for existing franchises should be the same, namely: for 1978, 20,000 minimum; by 1982 approaching 50,000 minimum. The club should also play in the highest quality stadium available for soccer within the community.

RECOMMENDATION #42

-- That the territorial and stadium capacity minimum standards for existing NASL franchises shall be as follows:

i) the NASL shall, where practicable, operate its franchises in the 24 major Canadian and U.S. markets and thereafter the next 10 markets, rank ordered according to population or other related indices.

ii) that the stadia utilized by NASL franchises shall be the best available for soccer in the community and for 1978 shall have a minimum

capacity of 20,000 and by 1982 should approximate 50,000.

b. Factors Relating to Performance.

-- Radio TV. The use of broadcasting as a marketing tool is inexorably linked to attendance and gate receipts. In 1977, all franchises ranked in the top third in attendance and gate receipts sponsored or contracted for radio and television coverage in their home markets. The NASL standard for 1978 should be for clubs to arrange for all games to be broadcast on radio and a minimum number of three televised away games, increasing the number of TV games to full coverage by 1985.

-- Attendance and Gate Receipts. Average per game attendance for the 1977 season was 13,559 for 13 home games. In 1978 with 15 games, the average should be 13,333 at $2.50 per capita (or gate receipts of $500,000 average per club). By 1981, the average for a 18-game season should grow to 27,778, and by 1984, 45,000. At this average level of attendance, the NASL can carry forward its marketing plans in a meaningful way and thereby

establish a strong basis for capitalizing upon the enlarged market through television, licensing and new franchise revenues.

RECOMMENDATION #43

-- That the local broadcast, attendance and gate receipts minimum standard for all NASL franchises be as follows:

i) each club shall arrange for radio broadcast of all home and away games, unless covered by television, and a minimum number of three televised games in 1978. The number of televised games should increase on an annual basis until all away games are covered by 1985.

ii) average club paid attendance:

Year	Average/Club	Number of Home Games	Average/Game
1978	200,000	15	13,333
1979	300,000	16	18,750
1980	400,000	17	23,529
1981	500,000	18	27,778
1982	625,000	19	32,895
1983	800,000	20	40,000
1984	900,000	20	45,000
1988	1,170,000	26	45,000

c. Factors Relating to Ownership and Management.

RECOMMENDATION #44

-- That the financial, managerial and domicilliary standards for all NASL franchise owners shall be:

i) to possess the financial resources to sustain large losses and to operate for 3 years at an expense level of:

	Year	Expense Level
--	1978 ...	$ 950,000
--	1979 ...	$1,150,000
--	1980 ...	$1,350,000

-- which includes salaries for the full-time positions of:

General Manager, Public Relations Director, Coach, and Director of Marketing and Sales. By 1980 an additional two full-time staff persons shall be added in sales and marketing and as an assistant coach.

ii) to possess the management experience and capacity to attract and control trained personnel. Marketing expertise or access to such expertise is important.

iii) to preferably reside in the area in which the franchise operaties and be a respected citizen in that community. A single club owner should maintain effective control over the operation.

2. Policy: Enforcement of Established Minimum Standards. Based upon the minimum standards set forth in the materials immediately proceeding, Chart VIII was drawn for comparative and illustrative purposes. Each of the existing franchises was given a number and its attendance and gate receipts for the 1977 season recorded. Thereafter, using the minimum standards, established for 1978 the Planning Committee rated the 1977 performance of existing franchises. Only 10 clubs received "standard" ratings. The remainder were clearly below standard.

Certain controllable minimum standards can be enforced by the Commissioner through the use of fines or other sanctions. Number of employees, for example, can be enforced where League approval is needed for the relocation or sale of an existing franchise. Examples are stadium capacity, financial capacity of new owners, major markets, etc. Most

standards, however, require a wholehearted commitment on the part of the member franchises, constant monitoring by the Executive Committee and a full-fledged League effort to assist the clubs in reaching their goals.

To this end, the League office must be directed as a priority matter to devote a substantial part of its time to servicing, communicating with and assisting member franchises. In order to spearhead this effort, a visible "strike force" must be created to perform this service. With Executive Committee guidance and with the assistance and participation by the Commissioner, this strike force, comprised of persons with experience in franchise operations, financial analysis, sales and marketing should bring formidable, active expertise to the problems plauging franchise owners. The strike force would spend much of its time travelling from franchise city to franchise city rendering expert service and advice to owners and managers. By detecting and nipping problems in the bud, the strike force could provide the League with a much-needed early warning system for troubled operations.

RECOMMENDATION #45

-- That the NASL under the direction of the Executive Committee and Commissioner establish forthwith a three-person strike force to be known as the Club Services Unit.

Composition:

The Unit shall consist of:

-- the Commissioner of the NASL;

-- a Director of Sales and Management;

-- a Director of Club Standards.

The unit members would be paid employees of the NASL and would be selected by the Executive Committee upon the recommendation of the Commissioner.

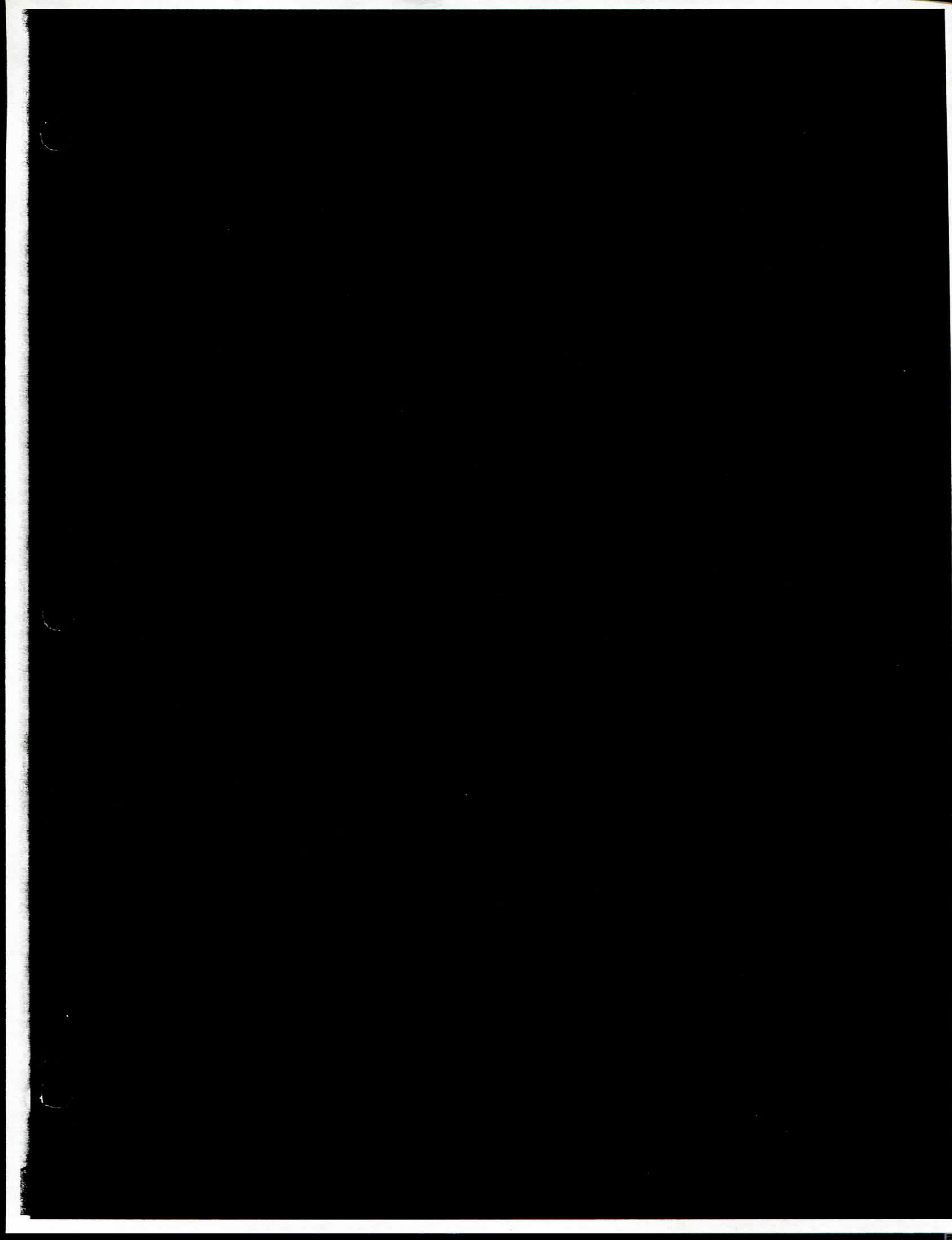
Duties:

The Club Services Unit will establish contact with and travel to various franchise cities, providing services and expertise to franchise owners and managers in the fields of marketing, sales, promotions, internal operations such as accounting and office procedures, ticket

structure, player and coaching acquisitions, etc. The ultimate goal of the Club Services Unit is to bring all franchises up to the minimum standards established for the League, act as an early warning system for emerging problems, and become the center of information and vehicle for distribution and sharing information among franchises. Specifically, each of the members of the unit shall have the following qualifications and responsibilities.

i) the Commissioner will provide each franchise with information and guidance on matters relating to League policy. He will be given sanctions by the Executive Committee to enforce certain minimum standards.

ii) the Director of Club Standards shall be a person with experience in club management. He will be responsible for assisting the member franchises to attain League operating standards. Stadium leasing problems, financial and budgeting problems, and general organizational problems will come under his jurisdiction. He will keep a record of the terms and conditions of all stadium leases, and act



upgrade quality of its members by the imposition of minimum standards.

The NASL Constitution provides (Article III, §3.6) that the location of an existing member club can be changed "... only by three-fourths vote of the members which includes the votes of all members whose territories are directly affected by the change." It further provides (Article VII) that an existing membership may be transferred to a qualified applicant if such applicant is approved by three-fourths of the members. Article IV also requires that any transfer of a financial interest of more than 10% of a member franchise is subject to the approval of three-fourths of the members. Anything less than 10%, however, may be transferred without approval.

The only official reference to qualifications for new applicants is the amorphous language of Section 8.4 requiring that the applicant be an "...individual ... of financial responsibility, dedicated, in the opinion of the members, to the best interests of the sport of soccer." In the

past, requests by existing owners to transfer franchises to new cities or to sell all or a portion of their interests to new ownership, have been routinely granted by the Board of Directors without benefit of meaningful discussion, guidelines or detailed investigation. The "old boy school" rule has usually governed such situations: "I'll scratch your back, because if I'm in a similar situation I want you to scratch mine." Such a philosophy, however, does not serve to upgrade the quality of NASL franchises or their operations. In fact, it has done a significant disservice to the overall League objective as defined in this report. 49/

Furthermore, the manner in which franchises have been transferred in the past does violate good business practice by failing to seek timely and reasoned legal opinion regarding the consequences to the League of such transfers. In many instances, legal counsel has not been consulted at all.

When asked for an opinion, complete facts and information are often not provided. 50/ A recent sales agreement, for example, was submitted to

counsel with a provision requiring that the purchase money note from the buyer be secured by pledge of a security interest in the franchise. That same provision caused the League legal problems just the year before in litigation over the rights of secured sellers in Philadelphia. Where a sales agreement gives the former franchise owner a continuing security interest in the franchise, the ex-owners can reassert their right of control in the event of a default.

Likewise, the 10% rule, permitting up to 10% of the equity in a franchise to be transferred without League approval defies rationality and quality control. A franchise owner could theoretically sell 10% of his franchise to 10 separate individuals at different times and avoid the constitutional requirements of three-fourths consent. Likewise, unsavory personalities or illegitimate business interests could become holders of NASL equity without the League's knowledge or approval.

RECOMMENDATION #46

-- That the standards and procedures adopted by the NASL for the award of new franchises be, where applcable,

made a condition precedent to League approval of applications to transfer existing franchises to other territories or to sell (or transfer) any portion of the equity of or interest in a franchise to another person, corporation, partnership or association.

RECOMMENDATION #47

-- That the Executive Committee with the advice of the Commissioner shall request legal counsel to examine the rules, by-laws and Constitution of the NASL and recommend such changes including application forms, rules of procedure, requirements for investigative reports, etc. as will bring present practice, procedure, rules, Regulations and Constitution into conformity with the preceding Recommendation #46.

C. Policies Relating to Sharing.

> "You cannot strengthen the weak by weakening the strong. You cannot help small men by tearing down big men. You cannot help the poor by destroying the rich. You cannot lift the wage earner by pulling down the wage payer. You cannot keep out of trouble by spending more than your income. You cannot further the brotherhood of man by inciting class hatreds. You cannot establish security on borrowed money. You cannot build character and courage by taking

> away a man's initiative and independence. You cannot help men permanently by doing for them what they could and should do for themselves."
> 51/

The NASL and most professional sports Leagues share revenues or services from the following sources:

- -- the sale of new franchises;
- -- League office services;
- -- League sponsored play-off and championship games;
- -- Joint licensing, advertising and promotional sales;
- -- gate receipts.

All but the latter have been discussed previously in this report. Since the franchise value of each member in the League joint venture is dependent upon the success of other partners, revenue sharing becomes an integral part of the partnership business and provides a measure of equalization which inures to the benefit of all.

The sharing of live gate receipts was initiated by other professional sports leagues to overcome a very specific

problem. Because of variations in population and economic competition from other forms of entertainment, markets differ with regard to the potential revenue they can generate for professional sports franchises. These differences could account for substantial variations in attendance. Team performance is generally regarded as a measurable factor in revenue production; the better the team's performance, the higher the attendance. This being the case, teams located in the better markets, have a greater economic incentive to invest in team quality than those in weaker markets. Failure to install some form of equalizer would tend to make better market cities produce a better product on the field, thus generate more revenue, while the weaker market cities respond in exactly the opposite manner. Many sports leagues feel that sharing is the answer to this problem.

The form of gate sharing varies considerably from league to league. In the NBA and NHL, the visiting team receives nothing; all live gate receipts except a small league assessment are retained by the home club. In Major League Baseball, National League teams receive 40 cents per ticket sold while visiting American league teams receive 20% of the gate receipts. In the National Football League, the visiting team is entitled to 40% of the net receipts from any game.

Gate sharing in the NASL is established and controlled by Section 6.4 of the League Regulations. It provides that the home club shall pay the visiting club 25% of gross receipts from the sale of tickets after deductions for taxes and stadium rental, or $6,000, whichever is greater. Section 6.4 was suspended by the League in 1975, superceded by a revenue sharing arrangement established for the joint sponsorship of international star, Pele. At the conclusion of Pele's contract (the end of the 1977 season), Section 6.4 returns to full force and effect unless amended in accordance with the regulations (Section 9.6) by the affirmative vote of a majority of the members at any meeting.

In determining an equitable gate sharing formula, the Planning Committee was guided by the following considerations:

-- gate sharing is necessary and important to protect against the vicisstudies of poor attendance caused by factors beyond the franchise's control, such as weather, competing attractions, performance record, and size of market;

-- that clubs should share gate receipts out of profits and not losses;

-- that clubs conforming to League minimum standards should not be forced to share gate receipts with those who do not conform, i.e. gate receipts are meant to provide insurance only against those factors which are beyond control of a franchisee.

RECOMMENDATION #48

-- That the revenue sharing formula set forth in the NASL regulations (Section 6.4(a) et.sec. be suspended for the short term but that the Executive Committee review annually and recommend whether or not the League is in a position to implement a form of gate sharing. In determining an equitable gate sharing formula, the Executive Committee shall be guided by the following:

i) gate sharing is necessary and important to protect against the vicissitudes of poor attendance caused by factors beyond the franchise's control, such as weather, competing attractions, performance record and size of market;

ii) that clubs should share gate receipts out of profits and not losses;

iii) that clubs conforming to League minimum standards should not be forced to share gate receipts with those who do not conform.

D. <u>Policies Relating to Player Relations</u>.

Professional sports leagues are in the business of producing competitive athletic exhibitions. The performers in those exhibitions -- the players -- represent the most publicly visible and significant economic unit of league operations. Player performance is also a significant factor in the financial success or failure of franchise operations. Like other performers in the entertainment business, the professional athlete learns, or is aware of, at least three major forces which control the (financial) success and longevity of his career:

-- his ability to perform; a product of natural talent, age, accident, level of competition.

-- his popularity with the consuming public; a player with charisma can exact a higher salary and play a longer period than a player without.

-- his playing environment; quality of club operations,

franchise city, teammates, etc. all relate to a player's income potential.

These factors, coupled with the omnipresent possibility that a budding career could be extinguished by a single misstep on the playing field, create a level of job and therefore economic insecurity not found to the same degree in the commercial or public service employment market. In addition, the professional athlete, unlike his counterparts in the entertainment business, knows that his playing career is limited to a comparatively few number of years.

1. Policy: the Professional Athlete. The athlete freely and (usually) consciously chooses to assume the risks associated with professional sports and its attendant limited years of productive employment. The fact that he has made the choice, however, does not relieve the insecurities and uncertainties which in turn create pressure to maximize income. Salary demands, disproportionate to other young men of the same age and experience, can therefore be expected; indeed, they are endemic to the business. The athletic performer risks leaving the commercial job market at a time when his peers are laying the foundation for future income.

Because of his high media visibility and role as a "model", especially to young children, the professional athlete is perceived and expected by the public to exhibit a greater level of maturity than would be demanded of a non-athlete of the same age. In actual fact, the athlete, because of his relative immunity from the "real world" of commerce and in many cases education, is often ill-equipped emotionally and intellectually to cope with personal financial problems and planning. As a result, he becomes easy prey to the mellifluent inveigling of inexperienced and sometimes dishonest player "agents" or investment "counselors". A large number of professional athletes are therefore astoundingly uninformed of career and investment opportunities as well as their tax obligations. 52/

2. Policy: the Franchise Owner. Under the tax laws of the United States, a sports franchise may treat a player contract like any other property asset (buildings, livestock and other forms of personalty), and depreciate the acquisition cost over the useful life of the player. Such a commodity or chattel theory of player contract ownership has often given rise to an ownership mentality, oblivious if not insensitive to the