NATIONAL FOOTBALL LEAGUE PLAYERS ASSOCIATION

MEMORANDUM

TO: NFLPA Members

FROM: Gene Upshaw and Ed Garvey — Executive director

DATE: July 11, 1980

RE: A Piece of the Action

Before we start debating collective bargaining priorities for 1982, we must take a long hard look at the football industry, to help us determine the best approach to bargaining. We must understand the economics of football and indeed all of the entertainment business if we are to negotiate intelligently. If we do not, we will make tactical and strategic errors at the bargaining table that will hurt us for years to come. This paper will explain in detail a possible new approach to bargaining. It will form the basis of discussion at team meetings this fall.

First, let's begin with some established facts:

1. Wages have increased significantly in all sports only when a competing league has been in existence. Wages doubled in the NFL during the three years of the All America Football Conference (1946-1949); tripled during the six years of the AFL (1960-1966); and almost doubled again during the two years of the World Football League (1974-1975). Wages have increased dramatically in the National Hockey League and the NBA only when there were competing leagues. Wages in both sports now barely keep pace with the increase in the cost of living. Salaries have increased significantly in baseball without a competing league, but not as dramatically as the headlines would lead you to believe.

2. The NFL owners meet three times a year to discuss ways of keeping wages "in line". The commissioner and his staff coordinate that effort. John Stuart Mill explained the phenomenon over a hundred years ago:

   "Men of commerce seldom meet together even for merriment or innocent diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices."

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3. The NFL owners, unlike owners in the NHL, NBA, NASL, MISL and Major League Baseball, share revenues equally. While this has stablized the league, it has also effectively killed any economic reward for winning.

4. Cable television is coming. By 1982, fifteen to twenty million homes will have cable television and it is estimated that there will be fifty million by 1985. Every sports owner in the country is counting on cable to double, triple or quadruple his income by the mid-80's.

5. There are no NFL teams for sale at any price. A franchise is today worth fifty to sixty million dollars.

There are some economic facts which you must also understand.

1. Average attendance in 1979 for NFL games, including pre -season, was 57,055. An additional 630,326 paid to see post season games. The average ticket price in 1979 was approximately $10.50 and the average play-off ticket close to $19.00.

2. A total of 16,602,971 people attended pre, regular and post season games. They paid $167,741,000 for pre and regular season games and an additional $11,976,194 for post season games. The total for ticket sales last year was just under $180,000,000. That average is $6.4 million per club from ticket sales alone.

3. Television revenues averaged $5.9 million per team or $165,200,000 league wide. From television and gate receipts alone, the league had revenues of $345,200,000 or an average of $12,328,000 per club.

4. A conservative estimate of other revenues from NFL films, parking, concession, use of season ticket holders' money, PRO magazine would add $500,000 per club or 14 million dollars league wide, bringing the total to an average of $12,828,000 per club.

5. The NFL announced that wages in 1979 increased 12.4 per cent to a total of $104,500,000 or $3.7 million per team. That amounts to 28 per cent of gross revenues. During the AFL-NFL "war", the NFL paid out close to 45 per cent of gross revenues to player wages, and they paid a similar amount when the WFL came along. When there was not competition from an outside league, wages have always dropped as a percentage of gross. (Baseball pays approximately 34 per cent, hockey almost 48 per cent.)

1982 PROJECTION

Following the 1981 season, the NFL's television contracts with CBS, NBC and ABC will expire as will the collective bargaining agreement.

When we reached agreement in 1977, each club was receiving $2.4 million for television but the new television contract, starting with the 1978 season, more than doubled that amount. There is every reason to believe that the 1982 television package will double again

In 1979 and again in 1980, the NFL refused to let ABC televise six Thursday night games. In so doing, the NFL voluntarily gave up $12 million offered by ABC. If they had taken that amount and divided it equally among our 1400 members, each of you would have received an additional $8,500 per year. Assuming the television package doubles, each team would receive $11.8 million for T.V. in 1982.

We project that the average ticket will be $15.00, and attendance will be up slightly because of larger stadia, to an average of 60,000 per game. If our assumptions are correct, team revenues would look like this.

60,000 fans x 10 home games	x $15 =	$9,000,000	($252,000,000 League Wide
650,000 fans x play-offs	x $25 =	$580,327 per club	($14,250,000 League Wide)
Television at twice current rate	=	$11,800,000	($33,400,000 League Wid

League wide revenues will exceed six hundred million dollars for a club average of $21, 469,000 without counting other revenues such as NFL films and PRO magazine. Add one million dollars for all other income, and each club will have $22.4 million to spend.

If salaries for players remained at the current 28 per cent, each team would pay $6,291,000 in salaries and if you divide that equally among 50 players, the average salary would be $125,829. That would not look too bad to most players today, but even that is not a fair share, and there is no reason to believe that management will nearly double the averge salary. They have no incentive to do so and they do not operate a charity.

PERCENTAGE OF GROSS REVENUES

We believe that players cannot obtain a fair share of the revenues under the current system for many reasons. One reason is that there are hundreds of college players who each year are willing to play for a low salary in order to make it into the NFL. There is an incentive for the owners to cut the more expensive veterans in favor of the cheaper rookies. Because the popularity of football is such that it depends more on the closeness of the contest than on individual stars, the owners do not lose anything in an economic sense by putting an inferior product on the field.

Scheduling strong teams and weak teams against each other keeps most games close early in the season. Because of the sharing of revenues equally among twenty-eight teams, it doesn't matter much whether a team wins or loses, wins the Super Bowl or finishes last. Thus, there is no incentive to pay higher salaries. Hugh Culverhouse said it best. He said it would be foolish for him to sign a Houston Oiler free agent because Bud Adams, the owner, would get mad and sign two of his players. "The end result is that I would overpay one player and lose two others. Therefore, we are better off to avoid bidding for players on other teams."

There are other factors. Here is what a professor wrote in the Brookings study:

> "The team can usually be expected to have the upper hand in bargaining, partly because of the background of many new players. The team negotiator generally has more education, sophistication, and business experience than the player and knows how much players of a given quality normally earn. The player often is inexperienced in business affairs, comes from low income sections of the country, has little sense of his true value to a team, and may be influenced by family and peers to overvalue the psychic rewards of sports. Only as a star's career draws to a close, when he has had several years of negotiating experience and his athletic fame begins to generate real outside earning potential, is his bargaining ability likely to approach that of the owners. <u>During the early playing years, it is the team that derives major benefit from the individual bargaining situation</u>."
> (Few veterans would disagree.)

While arguably some agents effectively increase the earning potential of a few players, it is clear that they cannot increase wages as substantially as outside competition from another league, nor, can they effectively raise salaries for the vast majority of our members.

The Executive Committee of the NFLPA recommends that the union consider negotiating for a fixed percentage of gross revenues in 1982. In that way, all the players will benefit as the monies increase. Since the only substantial expense of a football team is to pay players and coaches, we think it is reasonable that players receive 55 per cent of the gross revenues.

Taking the projected 1982 figures for each team of $22.5 million, 55 per per cent would generate $12.3 million for players' salaries. If you divide that equally among the fifty players, the average would be over $247,000. No one suggests that we simply divide the pot by the number of players. Other factors must be considered. Clearly, there would also have to be monies allocated for pension benefits, career counseling and play-off monies out that 55 per cent, and there must be some advantage given to starters over backups. But, you are now beginning to see why we are considering a percentage of gross revenues rather than to continue a system of individual negotiations which by their very nature favor the owners. You must also begin to see why some agents, who only represent rookies, are getting nervous.

Does anyone want a wage scale on its own? Clearly <u>we do not</u>. A wage scale that would increase with years of service would hurt the older players <u>unless</u> it is tied to a percentage of gross revenues. Most players would oppose any kind of a wage scale unless the scale were so high that nearly everyone would benefit. For example, our staff would not mind a $100,000 a year scale, you wouldn't mind a $200,000 scale, even Pete Rozelle and Bowie Kuhn might accept a $1,000,000 a year scale for commissioners.

Let's talk common sense. If the revenues increase as projected, there is no way that salaries will go up proportionately under the system of individual negotiations. Therefore, we must consider an alternative in this industry. Negotiating for a piece of the action makes sense to us.

HOW SHOULD THE MONEY BE DISTRIBUTED?

If we double the percentage of monies going to the players, the easiest task would be to determine how the money should be distributed. You could have a very high minimum wage and complete free agency. Or you could work out a range of salaries or you could have a scale. Most players in our membership survey indicated that <u>years of service</u> and whether or not <u>you start</u> are the two most important factors in determining the amount of money a player should receive. For example, every rookie could start at $75,000 and go up by $10,000 a year for four years and then go up by $20,000 a year for the next four years. (See Appendix A.)

In addition to that, starters would receive a fixed bonus to be determined by the players. Finally, players would also receive play-off monies, money for All-Pro and therefore, they would do much better under this system and would still have the same incentive to perform at the top of their profession as they now have. In fact, most would have more of an incentive because they would be receiving a fair wage for their services.

JOB SECURITY

Under the current system, every older veteran know that he must be a starter if he is to survive on most teams. Coaches will tell the $100,000 a year offensive lineman that they "cannot afford" to keep him as a back-up. They insist that he either starts or gets cut. The reasoning is obvious and that is that the younger player is receiving $25,000 or $30,000. Thus one of our top priorities is to build in some job security. By fixing the percentage of money that is going to the players, we would, in fact, be improving your job security. The reason is that there would not be the same incentive to cut the older players in favor the less expensive rookies. The club would pay the same total amount for salaries whether or not they have a team of all older veterans or whether they have a whole team of rookies. The coaches could then concentrate on winning and selecting the best talent available and not worry about the high salary of the tested veteran.

CONCLUSION

The figures we have used thus far assume that there will not be any additional funds from pay cable television, video discs, and the like. The NFL has just sold all regular and post season games to RCA to be put on video discs. That contract alone could generate millions of dollars. A reasonable assumption is that much more money will be generated from cable television than the owners now receive from the networks. But we could only guess this point about projected revenues from these new sources. Thus, you might conclude, that we are being too conservative in our approach to revenues in the NFL in the '80's.

For a moment, let your imagination run wild. Assume that in 1982, all home games that are not sold out, are sold to pay cable at $5.00 per game per household. That could mean an extra million dollars per club or maybe an extra five million dollars per club per year. And, if the fan in Baltimore wants to pay to see the Rams play the 49ers, and he is able to do so through a cable network, that could add additional millions of dollars to the league's revenues.

The union has hired experts to look into the question of cable television, but it is too early to make accurate predictions. It is clear that the potential is beyond anything known to team sports in 1980, but it is well known to Sugar Ray Leonard and Burt Reynolds. Reynolds recently signed for $5 million plus 10 per cent of the gross revenues for his upcoming movie "Cannon Ball". Sugar Ray, by negotiating a percentage of gross, made over $12 million for the Duran fight. The NFL could be looking at billions of dollars at the end of this decade. If Sugar Ray can do it, why can't we?

Collective bargaining is only a little more than a year away. We must now unite in order to give ourselves an opportunity to achieve success at the bargaining table.

Your union has come a long way in ten years, and we face challenges during the next two years that will test all of us. The union that started out on its own to tackle the NFL monopoly in 1970 now has the support of the 13 million member AFL-CIO with which we affiliated in November, 1980. We have support in Congress and in the courts. We can call on them to help us reach our fundamental goal -- to get a "fair share" for the athletes -- but solidarity among all our members is the ultimate weapon that we must have if we are to succeed in 1982.

APPENDIX A

EXAMPLE I:

YEARS IN LEAGUE	WAGES	BONUS FOR STARTING	TOTAL	Current salary
1	$ 75,000	$15,000	$90,000	$22,00
2	$ 85,000	$15,000	$100,000	$26,00
3	$ 95,000	$15,000	$110,000	"
4	$105,000	$15,000	$120,000	"
5	$125,000	$20,000	$145,000	"
6	$145,000	$20,000	$165,000	"
7	$165,000	$20,000	$185,000	"
8	$185,000	$20,000	$205,000	"
9	$225,000	$30,000	$255,000	"
10	$265,000	$30,000	$295,000	"
11	$305,000	$30,000	$335,000	"
12	$345,000	$30,000	$375,000	"

~~EXAMPLE 2:~~

~~1st four years:~~
~~Minimum wage $75,000, players free to negotiate over that amount~~

~~Years 5-8:~~
~~Minimum wage $125,000, players free to negotiate over that amount~~

~~Years 9-12:~~
~~Minimum wage $225,000, players free to negotiate over that amount~~