Case Paper: A-Rod's Value Add: To the Rangers? To the Yankees?

Week 2 -: Case 2

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In 1994 A-Rod was drafted by the Seattle Mariners where he had record performances. A-Rod was regarded as one of the best players in baseball and after appearing in four All-star games in seven seasons. The thought of signing Alex Rodriguez in 2000 represented a major opportunity for the Texas Rangers. Rodriguez had achieved so much in his young career and by 2000; he had come a long way in his career. Some of the notable achievements of A-Rod were becoming just the third player to obtain 40 homeruns and 40 base steals in a year and winning the American League homerun record by a shortstop (Foster, Greyser, & Walsh, 2007).. After the 2000 season, A-Rod became a free agent and was heavily courted by a number of teams. At this time he indicated that he wanted to play for a World Series contender. Off the field A-Rod was very marketable, developing a broad appeal among the baseball audience. In addition to considering Alex’s career and appeal when offering him a contract, Tom Hicks, Mike Cramer, and Doug Melvin had to consider the financial implication of doing so. In 2000, Alex Rodriquez inked a deal that would send him to the Texas rangers for a Major League record $252 million over 10 years (Foster, Greyser, & Walsh, 2007).

Rangers

The Texas Rangers are owned by Thomas Hicks who brought them in 1998 for 250 million dollars. The Rangers, who are still paying a big chunk of Alex Rodriguez' salary, have finally begun to invest more in players and marketing. The value of A-Rod should have benefited the Rangers but time proved that the decision to sign him did not. If marketed right, a team such as the Rangers could have had a superstar and also reaped the benefits of increased attendance due to the signing of Rodriguez.

With the Rangers, A-Rod felt the stress of playing under such a huge a huge contract. Even though A-Rod achieved great on field success, the team failed to improve. After the 2003 season the front office decided that young talent was the best way to rebuild their club. As a team, you have to try to determine the benefits and expenses of signing a player (Foster, Greyser, & Walsh, 2007). The 252 million dollar A-Rod contract was bad business because it was worth more than the franchise and the owner couldn’t afford to pay it. Hicks were borrowing money from the bank to make payroll. Even after A-Rod was traded, Hicks couldn’t afford the deferred payments he owed to A-Rod. Tom Hicks believed that A-Rod would be the face of the Rangers for years to come. He believed that A-Rod would be a fan favorite and help increase fan turn out especially amongst the Latino heavy Dallas-Fort Worth area. He also believed that signing A-rod would translate into increased merchandise and ticket sales (Foster, Greyser, & Walsh, 2007).

When looking at the Texas rangers, the thought of signing Alex Rodriguez presented a major opportunity. They did not already have 100% stadium utilization and they could reap the benefits of increased attendance due to the signing of Rodriguez. With the Rangers the high contract was offered in hopes to see increased attendance benefits, and increased sponsorship revenue. The other remaining revenue sources from the acquisition of Rodriguez world have been the increased chance of making the playoffs (Foster, Greyser, & Walsh, 2007). After a couple of season, there was no financial benefit of A-Rod being a Ranger. Trading A-Rod would free up funds to acquire players to fill other holes in their line up

Yankees

The New York Yankees are owned by George Steinbrenner who brought the m1973 for 10 million dollars and the team value is 1.2 billion dollars .Even with a value of 1.2 billion dollars, the team has limits when it comes to spending money. In 2004, A-Rod was traded to the Yankees due to the Rangers trying to cut their losses. Many felt his contract was too much but Yankees, who were mesmerized by the numbers that A Rod posted in 2007 and by the possibility that he could become baseball's home run king signed the then 33-year old to a ten-year contract worth $275 million with numerous bonus clauses With 500 home runs, he was on the path to beating Barry Bond's record of 762 home runs (Foster, Greyser, & Walsh, 2007)..A-Rod has not lived up to the potential the Yankees thought he would reach. Now the Yankees are in a tough position because they owe 114 million dollars over the next 5 years to a 38-year old third baseman, who is susceptible to injuries and has seem to have lost his home run power..

The Yankees are in a difficult situation and management needs to figure out what to do with such a huge contract. If they follow financial first principles, the contractual commitment of $114 million that they have already entered into should not be part of the calculus in any decision that they make now. If they feel that A Rod, based upon his current skill level is worth only $3 million a year for the next 5 years, they should be willing to consider trading him to another team that will offer even a little bit more in return, and eat the rest of the contract (Foster, Greyser, & Walsh, 2007).

With The New York Yankees having a star studded roster already, the only additional benefit that a team like this would see is from sponsorship revenue and maybe signing a potential athlete that will break an all-time record. With a new stadium that has been built, the Yankees expected to increase revenues by at least $50 million annually.

Conclusion

In 2010, Hicks was so deep in debt that he had to sell the team. This contract situation of Alex Rodriquez proves that baseball owners should not be allowed to give out contracts that they can’t afford to pay. One deciding factor that should be thought about on whether to offer A-Rod the 2000 contract is if the signing would increase attendance. Given his performance with the Rangers, A-Rod was worth the money he was paid. Maybe his contract limited the contract limited the Rangers from being able to afford him with quality players, but that is not his mistake. As far as the Yankees, with A-Rod struggling, finding a team that would trade for A-Rod maybe the best option for the star-studded Yankees.

Work cited

Business of Sports (Foster, Greyser, & Walsh, 2007).