Farm Team Shuffle: The Effects of Major League Affiliations in Minor League Baseball

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Management/leadership Thursday, May 24, 2012 20-minute oral presentation (including questions) 8:55 AM (Municipal)

Abstract 2012-010

Minor League Baseball (MiLB) has grown dramatically in popularity in the past thirty years as evidenced by attendance gains in 24 of the past 29 seasons (Minor League Baseball, 2011). With over 40 million annual fans, MiLB boasts higher total attendance than the National Basketball Association, National Football League, or National Hockey League. During this period, Major League Baseball (MLB) teams have changed their business strategy in terms of alliances with minor league teams. Whereas MLB teams once kept their minor league affiliates at a geographic distance, the trend has recently reversed. Minor league teams situated closer to the parent team (i.e., MLB team) are now more desirable for contractual affiliation in order to reduce player and administrative travel time (Belson, 2009). However, minor league executives face the decision on affiliation from a different perspective. Does geographical proximity to a parent club benefit the minor league team? What other characteristics of potential major league affiliates are relevant to minor league executives when negotiating with MLB teams, and is there a switching cost associated with such a change? This study incorporates a classic demand equation coupled with interorganizational alliance theory to determine whether minor league teams at the AAA and AA level realize attendance gains or losses from changing their MLB parent club. These results enhance decision making by minor league executives by analyzing criteria through which MLB parent clubs may benefit the minor league organization.

Demand in professional sports has been examined for decades (c.f. Borland & Macdonald, 2003, for a review). Traditional demand theory models attendance as a function of price, quality (win percent, new stadium), substitutes (MLB teams and stadiums), and income (per capita income) (c.f. Gitter & Rhoads, 2010). Although less work has focused on minor league baseball, existing research has shown that significant demand features in one classification (AAA, AA, A or rookie) may be nonsignificant in other classifications (Branvold, Pan, & Gabert, 1997; Gitter & Rhoads, 2010). For example, attendance appears unaffected by the team’s win percentage at the AAA level, where it is theorized that demand is driven by the MLB parent club brand and the opportunity to see upcoming stars or recent MLB players sent down to the AAA level. On the other hand, at the AA level winning has been a statistically significant determinant of attendance [H1] (Branvold, Pan, & Gabert, 1997). The demand modeling undertaken at the minor league level to date has also demonstrated new stadiums are associated with increased attendance [H2], and a MLB team within 100 miles is associated with decreased attendance [H3] (Gitter & Rhoads, 2010). Accordingly, we expect similar effects in this study (i.e., H1-H3) but with additional demand determinants derived from variables related to the MLB parent club.

Numerous brand associations in professional sports influence demand, including the on-field performance, stadium, and competition factors hypothesized above (Gladden & Funk, 2002; Ross, James, & Vargas, 2006). In addition, a primary brand association at the minor league level is a team’s major league affiliate. Research on interorganizational alliances suggests smaller firms often rely on alliances with larger firms to generate legitimacy in the marketplace. However, such a strategy entails switching costs in terms of customer disruption when alliances change (Sarkar, Echambadi, & Harrison, 2001). Based on this theory of switching costs, we hypothesize a negative cross-sectional effect on minor league demand when teams change major league affiliates [H4]. Yet, not all affiliation changes may result in a uniform attendance effect. Instead, alliance theory implies that partner characteristics such as status and proximity influence partnership outcomes (Castellucci & Ertug, 2010; Dyer & Singh, 1998). Specifically, higher status alliance partners offer an enhanced perception of interorganizational endorsement (Sarkar, Echambadi, & Harrison, 2001), and a closer geographic proximity between alliance partners can facilitate sharing of knowledge and relation-specific assets (Dyer & Singh, 1998). As a result, we hypothesize switching costs to be attenuated by the geographic distance [H5] and status (in terms of market size [H6a], popularity/attendance [H6b], and win percentage [H6c]) of the chosen major league affiliate.

To empirically test these hypotheses, 15 years of annual team attendance data from minor league baseball was regressed on a variety of traditional demand factors as well as affiliate characteristics. The results of the statistical
analysis are consistent with previous research concerning win percentage, new stadiums, and local MLB competition (p < 0.05); thereby supporting the first three hypotheses. Regarding a minor league team's MLB affiliate, geographic distance [H5], population [H6a], and attendance [H6b] are each statistically significant (p < 0.05), although the size of the effect is relatively small. Conversely, the significant effect of the major league affiliate's win percentage [H6c] is quite large in AAA. This further confirms the theory that AAA attendance is driven not by the minor league team’s performance on the field, but rather by the achievement of their affiliated MLB club. Likewise, a change in affiliate also exerted a significant influence on attendance (p < 0.05), but in the negative direction and only at the AA level, thereby providing some support for H4.

While this study advances the literature in minor league demand modeling by proposing and testing a set of affiliate factors based on strategic alliance research, perhaps the most relevant implications apply to minor league team administrators. Whereas previously, team executives had little research to reference in regards to their choice of major league affiliate, this study indicates that MLB parent clubs with a higher winning percentage can significantly contribute to minor league team demand, and in the case of AAA, this factor is more influential than the minor league team's own winning percentage. However, at the AA level, administrators should temper their enthusiasm to switch affiliates because such a change can negatively influence team attendance.