Analyzing the Win-Maximizing vs. Profit-Maximizing Strategy of the National Football League

Aaron Clapton (Advisor), The University of Kansas
Mitchell Watkins, Louisiana State University

This purpose of this research was to explore the National Football League (NFL) for strategic analysis utilizing the tenets of the profit-maximizing and win-maximizing models of Vrooman (2009). To accomplish this, we utilized the case study method of research, combining both historical methods and direct correspondence with the NFL. After establishing the framework on which the modern-day NFL was constructed through the Pete Rozelle-era and the ideas that have influenced revenue sharing arrangements and player payroll restrictions in the NFL, Vrooman's models are applied to the mechanisms of the NFL in order to determine which model best correlates with the existing policies.

The usual assumption is that all clubs are profit maximizers, meaning that they are trying to maximize the difference between total season revenue and total season cost (Fort & Quirk, 1995). The overall objective for a profit-maximizing owner is to maximize profits which is the amount remaining after total costs are subtracted from total revenue. An owner maximizes profits with respect to the talent level of the organization's employees. In order to maximize profits, an organization will create the payroll by acquiring talent until the marginal revenue product of the talent is equal to the marginal cost of the talent (Vrooman, 2009). The marginal revenue product of a talent is the amount of revenue the particular talent will generate for the organization. The marginal cost of a talent is the change in costs for acquiring the particular talent. An organization then paying an employee more than his or her marginal revenue product will be sacrificing profits. This type of behavior is much more evident in the structures of Major League Baseball and the National Basketball Association rather than in the NFL. Driven by the desire to maximize profits, an owner will strive to pay a player the least amount possible in order to acquire his talents. Owners will increase spending on the players who generate the most amount of revenue, not necessarily the players who will produce the largest amount of wins.

On the contrast of profit-maximizing, the objectives of win-maximizing owners are most concerned with maximizing wins rather than profits. Kesenne (2000) argues that clubs are trying to maximize their winning percentage under the breakeven constraint of a given profit or loss rate. A club can be profitable without being a profit maximizer. This model of owner objectives assumes that the most effective way to maximize the team's winning percentage is to maximize the playing talent of the team. A win-maximizing owner will willingly sacrifice profit for wins. Owners of this type are assumed to spend as much money as will allow under the current policies and restrictions of their league. Vrooman (2009) refers to win-maximizing owners as sportsmen. He states that at the limit, a pure sportsman becomes a win maximizer constrained by season length and zero profit rather than maximum profit. A team may still remain viable in encountering financial losses on occasion, however, to be sustainable in the long term a win-maximizing organization must remain constrained by zero profit. Owners driven by the desire to maximize wins are much more likely to pay a player his marginal revenue product rather than owners interested in maximizing profits.

Profit and win maximizing in the NFL: Currently in the NFL, the national media revenues are the largest source of revenue for all teams in the League, accounting for roughly 60 percent of each teams' total revenue. In 2008, each team received $116.7 million from the television deals with the salary cap being set at $116 million for that year. Therefore, we can determine that the player payroll for each team equates to roughly 60 percent of revenues for each year. The NFL player payroll's share of revenue being around 60 percent of total revenues since 1993 is consistent with owner objectives of win maximization (Vrooman, 2009). In order to be consistent with profit-maximizing objectives, the payroll share as a percentage of revenue would be much lower. A profit-maximizing owner in a league with revenue sharing would result in exploitation of the players. The players would receive less than their marginal revenue product and the owner would keep more of the money for greater personal profit. Thus, we can say that the NFL's policy of revenue sharing can be more closely associated with win-maximizing objectives rather than profit-maximizing objectives.
The NFL has imposed a hard salary cap and salary floor since 1994. Since the inception of these mechanisms, the amount between the cap and floor has been on average around a 10 percent payroll range. That is if the cap were set at $100 million, the floor would be $90 million. This $10 million, or 10 percent range, allows for teams with differing objectives to approach the player payroll with varying strategies. If an owner is a profit-maximizer, he can keep payroll costs closer to the floor. On the other hand, if the owner is a win-maximizer, costs will most likely be closer towards the cap. According to Vrooman (2009), an intolerant ten percent NFL payroll range is insufficient for a natural team/payroll cycle to evolve.

For example, a team drafts a rookie and he then signs his first contract. In most cases, this contract will not pay him an extremely large sum. He may perform well and beyond expectations throughout the years of his contract, but by the time his current contract expires, he will be looking to receive a much larger sum than before due to his exceptional performance in the past. However, if the current team's payroll is not in the proper cycle and does not have enough cap space available to carry his contract, there may be no possible way for the current team to pay the player and retain his talents. Thus, the player then leaves for a team who is in the proper payroll cycle and can afford to pay the player his desired and earned higher salary. Therefore, this small payroll range only allows for minor adjustments among team payrolls and keeps the spending of all teams at a much more even level than other professional sports leagues. Theoretically, this gives each team a fair chance at succeeding year in and year out, garnering greater uncertainty of outcome among contests and ideally leading to increased competitive balance. The more competitively balanced the League, the more uncertainty of outcome resides in each game, and the more fans will be interested in the League's product. This will further strengthen the negotiating power of the NFL with broadcasting companies and drive up the costs for those companies to acquire the desired television rights. In turn, leading to larger league-wide revenues and more profits for all. With the ten percent payroll range being insufficient for a payroll cycle or a natural team to evolve, this minimizes the chance for a particular team to become dominant. For a team to become dominant, the objectives of the owner would be focused on maximizing victories. Continued dominance of a certain team will reduce the uncertainty of outcome in contests and the overall competitive balance throughout the League. The reduction of those two factors would likely lead to lesser revenues generated by the League. For the NFL to thrive, or any sports league for that matter, it is most desirable for the uncertainty of outcome and overall competitive balance to be as high as possible.

Results from this analysis suggest that the revenue sharing policies currently in place in the NFL can be viewed as a win-maximizing strategy. The equal and league-wide sharing of such a large amount of revenue provides all teams with a sufficient financial base to construct player payrolls in an effort to maximize performance on the field of play. On the other hand, we believe the player payroll policies of the League are more aligned with a profit-maximizing strategy. In controlling team costs and incorporating such a small payroll range, the League is able to limit the sustained dominance of any one team or teams in the League. True win-maximizing and competitive dominance becomes impossible for a team to achieve in long-term periods. Thus, creating the "perfect portfolio" that is the National Football League.