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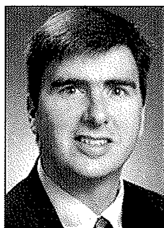
NHL, union can't count on a miracle on ice

With interest building toward its impending draft, the National Football League continues to bask in the warmth of sports supremacy, even when no games are being played. Hockey fans across North America, in contrast, are bracing for a long, deep freeze.

No other sports league comes close to the NFL's economic supremacy. Why? Because NFL owners and players have worked as a team to achieve financial success and stability: NFL revenues are robust, players are well paid and franchise owners realize appreciation on their invested capital.



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The polar opposite is true in the National Hockey League: The league is on financial thin ice. Leaguewide revenue grew 163 percent over the past decade, driven in large part by an 81 percent increase in ticket prices to an average of nearly $50. Additionally, the NHL aggressively expanded from 21 teams in 1991 to 30 teams today and approximately two dozen state-of-the-art arenas were constructed with varying degrees of public assistance during the same period.

Yet, as Arthur Levitt's recent report confirms, the NHL has failed miserably in achieving financial stability. Indeed, team owners have incurred combined operating losses that have been staggering — an estimated $273 million last year alone.

One cornerstone of the NFL's success is capped players' salaries. Although the salary cap can produce harsh results (witness the Super Bowl champion New England Patriots' decision to release Lawyer Milloy days before last season began), it helps maintain financial sanity.

The NBA has also confronted the salary issue head on. In 1998, NBA owners exercised their right to terminate the NBA collective-bargaining agreement when player salaries shot up to 58 percent of league revenue. After a long and bitter lockout, a new agreement was reached that implemented a cap tied to total league revenue, though with exceptions permitted.

By contrast, the NHL has been driven to near economic ruin by uncontrolled spending on players' salaries. Currently, approximately 75 percent of the league's $2 billion in revenue is allocated to players' salaries and benefits — a dramatically higher percentage than in any other professional sports league. The average NHL player earned $1.79 million last season, more than the average NFL player and twice what an average NHL player earned a decade ago.

On the other side of the ledger, ticket revenues have maxed out and media revenues have never been large (the current national television contract with Disney generates less than $5 million per team per year) and are likely to shrink. In the last decade, four teams have resorted to bankruptcy (Pittsburgh, Buffalo, Ottawa and Los Angeles), yet player costs have continued to rise. The value of an NHL franchise has plummeted and the reservoir of owners able to sustain ongoing losses has run dry. Levitt's report confirms this, noting: "No rational person would invest in these clubs."

The NHL's current financial dilemma is not news to one of its greatest players ever — Mario Lemieux. In 1999, Lemieux purchased the Pittsburgh Penguins from EMC co-founder Roger Marino. Drawing on his immense popularity, Lemieux implemented a major financial restructuring of the Penguins, substantially reducing annual operating losses, which exceeded $20 million in the years leading up to the team's bankruptcy.

In order to do so, however, Lemieux was forced to confront player costs, which were 20 percent more than the Penguins' annual ticket revenue. Lemieux quickly jettisoned virtually every high-priced player on the team, including superstar Jaromir Jagr. The only way for Lemieux to maintain fan support was to lace up his skates and come out of retirement.

The NHL cannot afford the status quo. The league's troubles are clear, and it is up to the players to face fiscal reality and begin earnest negotiations for a resolution. Unless the NHL Players' Association and its members learn to appreciate the mutual benefits that can be derived from a disciplined team approach to players' salaries and revenue sharing, a long and cold lockout surely looms. The NHL will invoke the power of a lockout to attempt to force consensus if no settlement can be reached before the collective-bargaining agreement expires on Sept. 15.

In any industry, labor costs must bear a rational relationship to revenue and other expenses. The airline industry is the most recent example where employees have agreed to salary reductions in order to fight for viability and profitability of their employers. United Airlines, for example, which had the highest labor costs in the industry, reached agreement on wage reductions with its unions that scrapped $2.5 billion off the expense line over the next few years. These reductions, of course, were painful for the unions — and came only after the carrier filed for bankruptcy protection and on the eve of court hearings to void the labor contracts.

Professional hockey should take note.

In the United case, the Chapter 11 bankruptcy process helped facilitate a consensual agreement based on economic realities. United kept operating while consensus was reached and the company maintained its value as a going concern.

In a lockout, of course, operations cease.

Both the players and the owners have implied they could withstand a one- or two-season work stoppage and reportedly have built up war chests to weather the storm. The reality, we think, is that neither party can truly afford to risk testing the resiliency of the fragile league. No miracles on ice will occur to solve this problem.

The parties should find a conference room, lock the door and fix the issue of player salaries now before the problem compounds itself irreparably. In so doing, the players should be mindful of the hard sacrifices that other employees in other industries have made — think of United's mechanics — in the face of irrefutable evidence that the size of the line item for labor costs jeopardizes the very existence of their employer.

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