

DIAMOND IN THE ROUGH

A WEAK ECONOMY IS CASTING A LONG SHADOW OVER PRO SPORTS, BUT INFIELDER AUGIE OJEDA AND THE REST OF THE ARIZONA DIAMONDBACKS ARE PLAYING TO WIN.



Baseball Battles

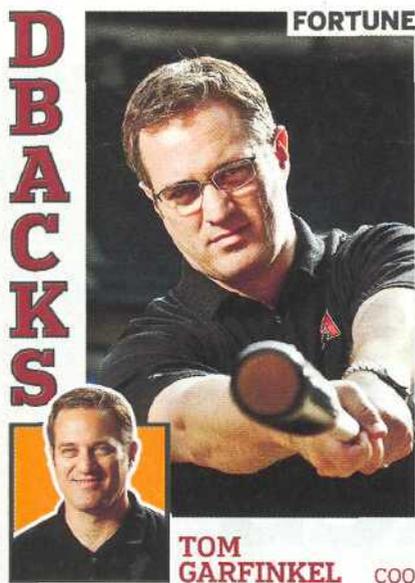
The Slump

IN ONE OF THE HARDEST-HIT PARTS OF THE COUNTRY **THE ARIZONA DIAMONDBACKS** ARE EMERGING AS A CASE STUDY OF HOW TO KEEP SPORTS FANS LOYAL DURING THE RECESSION (\$1.50 HOT DOGS, ANYONE?).

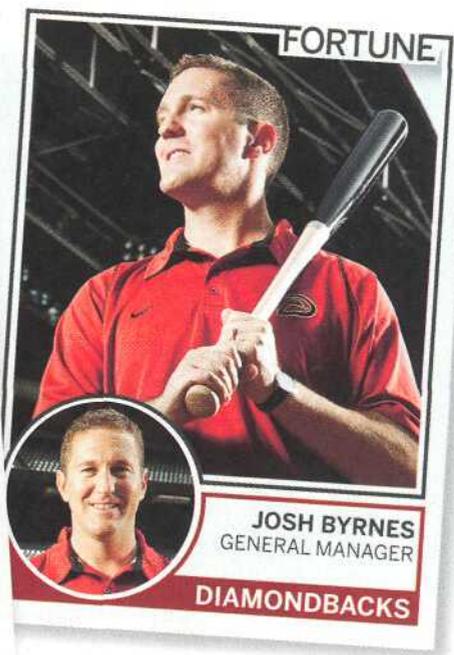
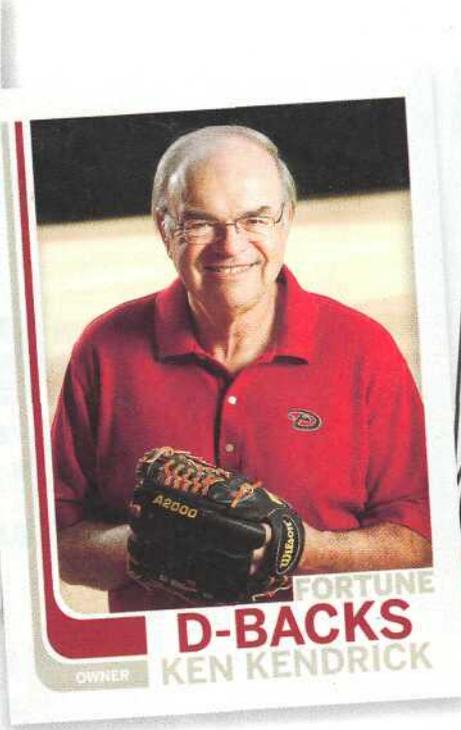
BY JON BIRGER

CALLING ARIZONA DIAMONDBACKS season ticket holder Jackie Smiley a devoted fan would be an understatement. The 59-year-old retired computer consultant has attended every big game ever played at Chase Field in Phoenix. She was there for the baseball franchise's birth—a 9-2 Opening Day loss in 1998 to the Colorado Rockies. She was there for Randy Johnson's 20-strikeout game in 2001. And Smiley watched euphorically as Luis Gonzalez's ninth-inning bloop single against the New York Yankees clinched a World Series title for the D-backs later that season—the first championship ever won by a major Arizona sports team.

And yet last summer, with the economy tanking and her income shrinking, Smiley began thinking seriously about giving up her beloved seats. The bear market had halved her IRA, and spending \$5,000 a year on baseball tickets was a luxury Smiley was no longer sure she could afford.



THE A-TEAM NEW OWNER KENDRICK RECRUITED FROM WINNING ORGANIZATIONS: GARFINKEL CAME FROM NASCAR, BYRNES FROM THE BOSTON RED SOX.



Torn, Smiley sent D-backs CEO Derrick Hall an e-mail asking him if he could help. Five minutes later the phone rang, and shockingly, it was Hall was on the other end. "Basically, he said that they'd do whatever they could to keep me as a season ticket holder," says Smiley. "I was surprised." The eventual solution: The D-backs arranged for Smiley to share season tickets with someone else in her section. The D-backs kept a customer happy while also managing to preserve a few thousand dollars in revenue. "They did a nice thing," Smiley says.

"NICE" ISN'T A WORD OFTEN ASCRIBED to the business side of professional sports. Too often teams turn fan loyalty into a cudgel—blackmailing municipalities into building them new stadiums, requiring season ticket holders to pony up for "personal seat licenses," charging \$12 for beer and a hot dog, and on and on. For the Diamondbacks, however, nice has become a secret weapon—a bulwark against a Phoenix economy that shows no signs of rising from the ashes. So if a fan in the upper deck sends Hall an e-mail complaining about the heat, he will dispatch an engineer to check out the AC. If a sponsor wants Hall to make the introductions at a marketing event, "I'm on that too." Together with another young Diamondbacks executive—general manager Josh Byrnes—Hall has used obsessive customer service, innovative marketing, and smarter spending on players to keep the wins coming and the turnstiles turning in what may be the toughest economy for pro sports since the Depression.

Historically, teams haven't had to go to such lengths because the bond between team and town was so strong. The National Basketball Association grew its attendance during both the 1973-74 and 1980-81 recessions. And Major League Baseball enjoyed record attendance in the summer of 1983, when the U.S. unemployment rate was 10%. "The old adage is that people need distractions

when times are tough," says sports economist Andrew Zimbalist, a professor at Smith College. "So they go to ball games."

Nevertheless, Zimbalist is one of many sports-business experts who think this recession will be different. Sports leagues today are more dependent on economically vulnerable sources of revenue such as corporate sponsorships, luxury suites, and other premium seating. Even if attendance doesn't nosedive, teams could still find themselves swimming in red ink.

Not even pro sports' richest franchise, the Yankees, seems immune. General Motors—once baseball's biggest corporate sponsor—has canceled its sponsorship deal with the team. And even before superstar third baseman Alex Rodriguez was caught up in a steroid scandal, the Yanks were having trouble selling premium seats in their new stadium—so much so that they hired a Manhattan realty firm to market unsold club seats and luxury boxes.

The Pittsburgh Pirates, another team that recently lost GM as a sponsor, have resorted to selling some season tickets at a 25% discount to 2008 prices. In Arizona the Diamondbacks' season ticket renewal rate has fallen to 83%—still respectable, but down from 94% heading into the 2008 season. Hall says he knows of other MLB teams—though he won't name them—with renewal rates as low as 60%. And as bad as 2009 looks, Chicago White Sox owner Jerry Reinsdorf thinks 2010 could be worse if corporations keep cutting back. "Virtually every team is losing sponsors," Reinsdorf says.

The impact of all this is most visible in baseball's free-agent market. In early February there were still nearly 100 unsigned players, including stars like Manny Ramirez and Orlando Hudson. Others, such as Andy Pettitte and Jason Varitek, had to take big pay cuts. "I used to think that we were pretty recession-proof, and now I'm not so sure," Major League Baseball commissioner Bud Selig tells *Fortune*. "This is the most significant downturn

I've seen in my 40 years in baseball." In years past, such a soft free-agent market might have sparked collusion charges from the MLB Players Association, but so far union boss Donald Fehr is holding his tongue. "Right now I'm not prepared to make any accusation or suggestion of improper activity," Fehr says.

Of course, it's not just baseball feeling the squeeze. The Arena Football League has suspended its 2009 season. The LPGA has been forced to cut tour events and prize money. Honda has pulled out of Formula 1 racing. Six NASCAR teams have merged to stay afloat. The National Hockey League's Phoenix Coyotes are at risk of becoming the fifth NHL team to declare bankruptcy since 1995. And attendance has slipped in the NBA, just as it did for the NFL's regular season.

BECAUSE THE SPORTS WORLD glided over past recessions, executives don't have a lot of experience managing through financial crises. The Diamondbacks are an exception. Their fan-friendly approach was born of an earlier crisis—albeit one of management's own making. The Diamondbacks nearly became the first major sports team to win a championship one year and be out of business the next. "The team was effectively bankrupt in 2002," says Ken Kendrick, the D-backs' principal owner since 2004 and a minority owner during the early years.

The culprit: gross overspending on free agents. While Arizona's profligate ways under former owner Jerry Colangelo did produce a championship and help the new franchise solidify a fan base, the financial impact was disastrous. "In our first seven years we lost

\$353 million," Hall says. The old regime got around its cash-flow problems by persuading players to accept contracts backloaded with large deferred payments. It was baseball's version of "buy now, pay later," and eight years after the victory parade the Diamondbacks still owe \$58 million in deferred salary, most of it to long-gone players from that 2001 team.

When Kendrick and former co-owner Jeff Moorad took control in 2004, their first order of business was to shrink player payroll. (A former players' agent, Moorad recently left the Diamondbacks to buy the San Diego Padres.) Between 2002 and 2008, the team's Opening Day payroll fell from \$103 million, fourth highest in baseball, to \$66 million, 12th lowest (out of 30). "We're not New York, we're not L.A.," says Kendrick, who made his money in software and banking. "We're a middle-market team, and we needed to build our spending plan accordingly."

A key component of this plan was the 2005 hiring of Josh Byrnes as general manager. Under Byrnes, 38, the Diamondbacks have done a bang-up job of developing players in the minor leagues and then inking the better ones to long-term contracts *before* they reach free agency—and their agents have the leverage to demand top dollar. Byrnes had been an assistant general manager with the Boston Red Sox when Boston won the World Series in 2004. And he's one of a half-dozen young GMs, headlined by Boston's Theo Epstein, who hail from the Moneyball school of roster-building.

"Moneyball" is a reference to the Michael Lewis book chronicling the Oakland A's use of statistical analysis to outsmart richer foes. Byrnes isn't wild about the Moneyball label, which



for traditionalists conjures up images of math geeks using slide rules to set batting orders. "There are always multiple ways to evaluate a player or a decision, and it's in our interest to be proficient in all of them," Byrnes says. In fact his staff runs the gamut, from Helen Zelman, a 24-year-old statistics whiz with an engineering degree from the Massachusetts Institute of Technology (not exactly a hardball hotbed), to Bob Gebhard, a 66-year-old baseball lifer who's been everything from a journeyman pitcher to a Colorado Rockies GM.

Byrnes does admit that the Moneyball approach of using statistical analysis to identify low-cost, high-production players is a good fit for a cost-conscious team like Arizona. But there's an art to knowing which numbers to crunch. Take Arizona's recent signing of Chris Snyder—a .237 lifetime hitter—to a three-year, \$14.25 million extension. The key to the deal was not Snyder's hitting (which, to be fair, is improving) but the catcher's handling of the pitching staff.

Before every series, the Diamondbacks prepare a detailed dossier on opposing hitters. Byrnes's staff typically invests 25 to 30 man-hours in each of the 50 dossiers produced over a season. Why so much effort? "The only element of the game you absolutely control is how you pitch to the other team," Byrnes explains. Such a large investment would be wasted, however, if the catcher—the guy calling the pitches—didn't possess the smarts and work ethic to put all this information to good use. Snyder does possess those qualities, which is why extending Snyder's contract was, in Byrnes's words, "huge." Despite playing in the second-most-hitter-friendly ballpark in the National League, D-backs pitchers gave up fewer runs than all but four NL teams last year and all but two in 2007 when they won the NL West division.

ONE OF THE QUIRKS of the Diamondbacks organization is that the folks with the fanciest diplomas tend to work in baseball operations for Byrnes, not on the business side for Hall. In addition to MIT-er Zelman, assistant GM Peter Woodfork is a Harvard man and manager of baseball operations Shiraz Rehman is a Columbia Business School alum. (No slouch himself, Byrnes went to Haverford.) Yet smart as Byrnes's staff may be, the business side of the Diamondbacks front office matches them innovation for innovation.

Kendrick still expects 2009 revenue to be slightly ahead of 2008's \$166 million, despite the economy. According to Hall, the Diamondbacks made about \$5 million in 2007 and lost

about \$1 million last year (they did announce 30 layoffs last fall, cuts Hall says saved about \$2 million). Any profits, Hall says, are reinvested in the team.

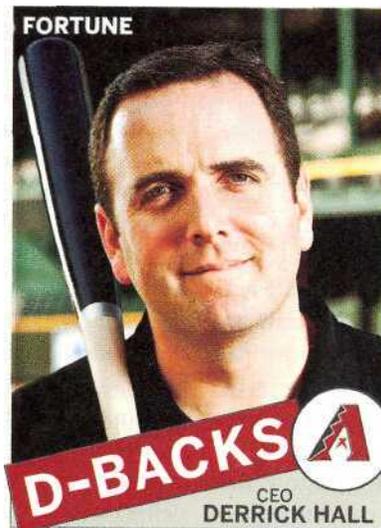
The turnaround has been so dramatic that in January longtime *Los Angeles Times* baseball columnist T.J. Simers touted Hall as a "good bet" to become commissioner of baseball one day. Hall seems a bit embarrassed by the Simers plug, but the notion of Hall as a future commissioner doesn't sound outlandish to Reinsdorf. "I think if you asked owners, 'Do you think at some point Derrick

Hall could become commissioner?,' a lot of them would say yes," the White Sox owner says. "Good leaders lead either through intimidation or by getting the troops to want to fall in line. People want to be successful for Derrick."

It's a sentiment shared by Peter O'Malley, the former Dodgers owner and Hall's onetime boss. "Buddy must be 73 or 74 years old," O'Malley says of Selig, who is 74 and whose contract runs through 2012. "The owners have got to be thinking about a short list, and Derrick really is the ideal type person for the owners to be looking at. He's young and bright, and he's an extraordinary communicator who gets along with everyone—from the players' agents to the owners to the press folks."

At 40, Hall is the youngest CEO in baseball, and his rise through the ranks is one of those tales of persistence and gumption sure to make Hall a sought-after graduation speaker one day. As a scholarship student at Arizona State, Hall dreamed of a behind-the-scenes career in pro sports. But after graduating, the closest he came was working at a Las Vegas health club by day and renting out *Bull Durham* (and other videos) by night as a clerk at Blockbuster. "One day I'm watching ESPN, and they had a story about a sports administration program at Ohio University that Walter O'Malley had started and an internship program the Dodgers had for the students in Vero Beach, Fla.," Hall recalls. (Walter O'Malley, Peter's father, is famous—or infamous—for moving the Dodgers from Brooklyn to L.A.) "I'd grown up a huge Dodgers fan, and I said to myself, 'That's it.'" Hall applied, nailed the on-campus interview (or so he thought), and then informed his fiancée that they were moving to Ohio. "About a week later I got the rejection letter."

Undeterred, Hall paid his way to the 1991 baseball winter meetings in Miami intent on landing a baseball job. Unfortunately, a lot of other people shared his dream, and Hall found himself corralled into a room with 300 other job seekers. "Someone would come in and post a job notice for something like 'assistant groundskeeper



"I sold tickets. I pulled the tarp on rain delays. I got to know every season ticket holder."

for the Toledo Mud Hens,' and everybody would rush to hand over their resume," Hall says. "I knew this wasn't for me. I walked out into the lobby feeling a little depressed, but then I noticed on the hotel's events board that there was an alumni reception for Ohio University. I thought, That's a party I'm going to crash."

Hall found Chuck Higgins, the director of Ohio's sports-management program, in the back of the room and spent the next hour successfully convincing Higgins he'd made a mistake. "Derrick still razzes me about rejecting him the first time," Higgins says. Hall's wife, Amy, worked at the bookstore to put him through school, and Hall eventually landed the Vero Beach Dodgers internship.

Hall speaks wistfully of his time in Vero Beach, which used to be the Dodgers' spring training site as well as the home of one of their minor league teams: "I sold tickets. I pulled the tarp on rain delays. I stocked the shelves in the concession stands. I got to know every season ticket holder by name. I even got my wife to dress up as Barney one night because I didn't have anyone else to do it." One of his more menial duties was fetching drinks for Peter O'Malley at spring training games. The two hit it off, and soon Hall was working his way up the Dodgers organization. O'Malley still raves about Hall's work ethic and good humor, noting that

Hall was always the headline act at the Dodgers' Christmas party, performing uproarious impressions of manager Tommy Lasorda, broadcaster Vin Scully, and other baseball personalities.

HALL LEFT THE DODGERS in 2004 to take a high-paying corporate-spokesman job with L.A.-based homebuilder KB Home. He lasted only a year. Though KB CEO Bruce Karatz begged Hall to stay, Hall missed baseball and jumped ship when Kendrick and Moorad came calling. (Given KB Home's subsequent troubles—low-lighted by Karatz's entanglement in a stock-options backdating scandal—Hall's timing was fortunate.)

A lot of Hall's early efforts with the Diamondbacks focused on improving what he terms the "experiential" aspects of attending a Diamondbacks game. "Remember being a kid and walking into the ballpark for the first time and just seeing that field?" Hall asks, sounding a bit like someone who's seen *Field of Dreams* one too many times. Problem was, fans entering Chase Field could not see the field from the main entrance (and, no, it wasn't—to steal a line from James Earl Jones—because the park evoked baseball memories so thick fans had to brush them away from their faces). "It was like a carnival down there," Hall says. "It was cluttered with

POOR SPORTS

BELEAGUERED CORPORATE SPONSORS ARE GETTING OUT OF THE GAME.



MLB

After receiving \$45 billion in government rescue funds, Citigroup is getting pressure from some members of Congress to drop its \$400 million contract with the New York Mets. General Motors is renegotiating its deal with the Pittsburgh Pirates or New York Yankees. MLB is losing DHL, which is quitting the U.S. express-delivery market and has dropped its sponsorship of the Atlanta Braves.



NFL

The Cowboys and the Giants/Jets have yet to find buyers for naming rights of the stadiums they are building. Raising some taxpayer eyebrows: Bank of America, which got \$45 billion in government money, has naming rights for the Carolina Panthers football stadium, and M&T Bank, which got \$600 million, has rights to the Ravens' Baltimore field.



OLYMPICS

J&J, Kodak, Lenovo, and John Hancock ended their sponsorships of the International Olympic Committee, and Home Depot and GM dropped their U.S. Olympic Committee support.



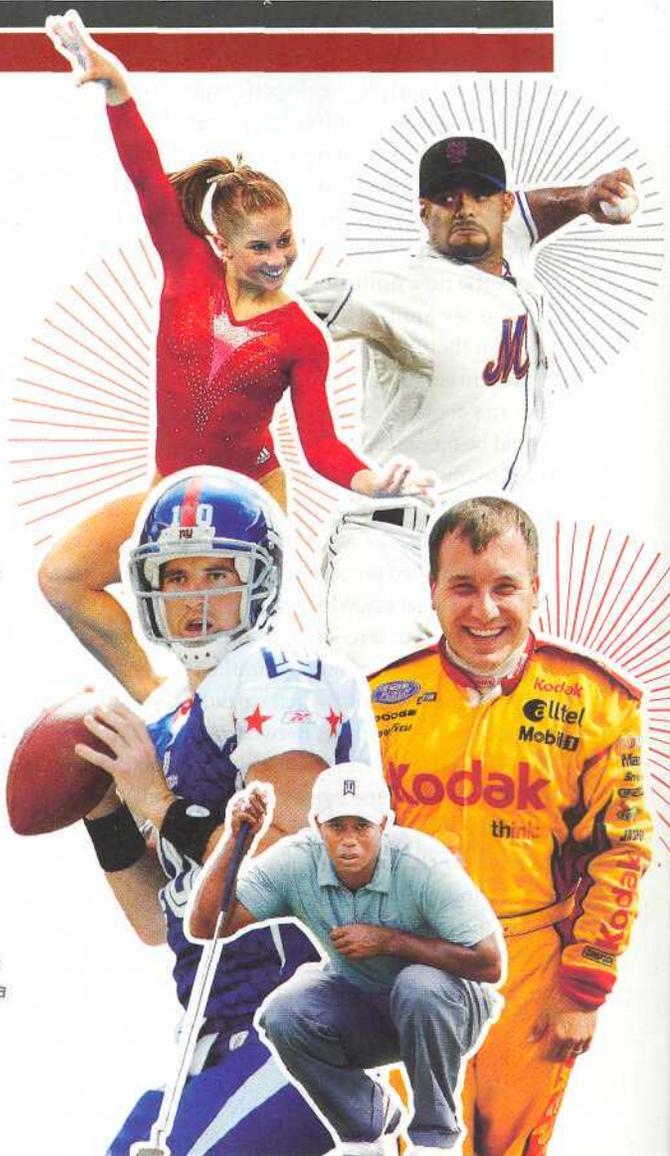
NASCAR

Kodak, Texaco, and Domino's Pizza cut ties with NASCAR, while DirecTV, Ford, and Chrysler are trimming spending. GM withdrew support for two NASCAR tracks and is cutting back on advertising and sponsorship deals with ten others.



GOLF

With 11 title sponsors from the financial services industry, the PGA Tour is busily wooing new partners; U.S. Bank, AT&T, GM, ADT, and Safeway are just a few of the sponsors cutting back or pulling out of PGA or LPGA sponsorships this year. — Jessica Shambora



carts and food stands, with lots of purple and yellow everywhere."

Hall credits his chief operating officer, Tom Garfinkel, for fixing the "look and feel" of the concourses. Prior to joining the Diamondbacks in 2006, Garfinkel ran business operations for Chip Ganassi Racing, a NASCAR team sponsored by Target. Garfinkel says he learned a lot from former Target CEO Bob Ulrich and other execs about the retailer's emphasis on "guest experience"—creating clean stores with wide aisles, short checkout lines, friendly staff, and other characteristics that make shoppers want to return.

Garfinkel's makeover of the Chase Field concourses was straight out of the Target playbook. (Almost literally—Garfinkel actually hired Target to help with the redesign.) "Now when you walk in, you see the field, you smell the grass. You feel like you're in a ballpark," Garfinkel says. Even little things like placing the trash cans in inconspicuous areas and keeping the condiments table clean make a difference: "It makes the fan experience more visceral." Evidently visceral is good: Season ticket and group sales are up 143% since 2006, while overall attendance is up 20%.

This is not to say that the Diamondbacks are a bunch of softies. They can be a little Machiavellian when the situation calls for it. There was no sentimentality in 2007 when they changed the uniform from coral, turquoise, and purple—colors unpopular with men—to the current black, tan, and Sedona red. "We were 28th out of 30 in merchandise sales because nobody wanted to wear the colors," Hall says a bit defensively. (He estimates he responded to 1,000 angry calls and e-mails about the new uniforms.) "After we made the change, we jumped five slots in six months."

Then there was the decision to send out season ticket renewal notices in August last year instead of November. Hall didn't know that the economy was about to nosedive, but he did know fans would be more likely to renew when hope still sprang eternal and their team was still in first place. Season ticket holders wound up sending in their deposits for 2009 before Wall Street—and the Diamondbacks' 2008 playoff hopes—began to implode. (The D-backs finished second in the NL West.) "We got lucky with the timing," Hall acknowledges.

Another bit of serendipity was the 2007 sale of TV rights to Fox Sports Net Arizona for \$250 million over eight years. "It's fortunate we sold the rights when we did," says Hall, noting how hard it has become for sports networks to sell commercials. Between the Fox deal and a new, radio contract, the Diamondbacks raised their media revenue by more than \$10 million a year.

What scares Hall most about the economy is the potential impact on ticket sales. "The big difference vs. 30 years ago is that today the fan has a choice between spending \$15 on a ticket or staying at home and having the best seat in the house, right behind home plate, with the high-definition screen that he bought before this economy hit," Hall says. "That's scary."

Part of Hall's worry stems from his deep knowledge of the Phoenix marketplace. The rest of the country may think of the Phoenix-Mesa-Scottsdale area as nouveau riche, but that's a misconception. Phoenix actually has the lowest per capita income, \$35,010, of any MLB city, according to data from the U.S. Bureau of Economic Analysis. By comparison, Denver's is \$46,439, and chart-topper San Francisco stands at \$61,337.

Phoenix's overexposure to the real estate sector has made its economy particularly fragile. In three years Arizona has fallen from second in the nation in job creation to 49th, says Elliott Pollock, who runs one of Arizona's leading economic consulting firms. Homebuilders Centex, Fulton Homes, KB, and Lennar have all pulled out of sponsorship deals with the Diamondbacks. Another sponsor, Riviera Pools, was earning record profits as recently as last April, says Riviera founder Ron Ostlund. By October, Riviera was bankrupt.

Worried about losing the lower- and middle-income fan, the Diamondbacks now sell upper-deck tickets for as little as \$5. Hall also instituted "kids' pricing" for concessions—\$1.50 for a hot dog or popcorn or milk, etc. And in the Diamondbacks' pro shops, fans can buy caps for \$7 and T-shirts for \$8—about a third of what some other teams charge.

As focused as Hall is on keeping existing fans happy, he's even more obsessive about cultivating the next generation. If he's out to dinner and sees a youngster wearing a D-backs hat, he'll pick up the family's tab. He chums the under-18 fan base by giving away loads of free tickets to local schools. And he implores Diamondbacks players to sign as many autographs for kids as possible. Hall sends hand-

written thank-you notes to the clubhouse whenever he sees a player diligently working the rails before a game. "I sent Randy Johnson a note last year telling him what an honor—what an experience!—it must be for these fans to have a future Hall of Famer signing for them," Hall says. "The kid whose ball he signs will be a fan for life."

There are post-game concerts and fireworks shows on the weekends. And the team replaced a party pavilion in left field with a free playground that includes a Wiffle ball field and a batting cage. "This is how you brace yourself for this kind of economy," says Hall. "If people are going to spend their entertainment money with us, we want to make sure they have the best possible time while they're here."

Of course, you can't please everyone. As grateful as Jackie Smiley is to the D-backs for solving her ticket dilemma, she's still mad about the change in team colors back in 2007. To this day, she won't wear the new shirts or caps. Smiley told all this to Hall but admits she had a hard time working up her usual fury. "He said, 'You should have called me,'" she recalls with a laugh. "I would have taken you out to lunch."

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Eight years after the victory parade, they still owe nearly \$58 million to players from the 2001 team.