

How Team Owners use Sports Analytics

What Happens Next - 11.04.22

Larry Bernstein:

Welcome to What Happens Next. My name is Larry Bernstein.

What Happens Next is a podcast which covers economics, finance, history, science and politics. Today's session is How Team Owners use Sports Analytics. Today's guest is Jeff Luhnow the former General Manager of the Houston Astros and the current owner of soccer teams in Mexico and Spain.

Jeff will explain how owners use sports analytics to draft and trade players. How to use game theory to improve strategy for penalty kicks. And how to use metrics to improve player development. The Moneyball culture has changed sports and you will hear from a leader in the field what goes on behind the scenes.

Buckle up.

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Ok, let's start today's session with Jeff Luhnow.

I would like to welcome Jeff Luhnow, who is a fraternity brother of mine from the University of Pennsylvania. We were in the same pledge class and Jeff lived directly above me in the fraternity house in 1985.

After graduating from Wharton and then the Northwestern Kellogg Business School, Jeff worked as a management consultant at McKinsey before taking a job with the St. Louis Cardinals organization.

Jeff, how did you get into sports?

Jeff Luhnow:

I've been a sports fan my entire life. When I graduated from Wharton undergrad, I found out that the owner of the Dodgers was a Wharton alum, so I sent him a letter saying, "Hey, is there any jobs in sports?" He didn't respond naturally. And I thought, "okay, I'm not meant to be in sports." I went off to be an engineer and then went to business school and became a management consultant for about six years, and then did two technology startups. But in 2003, the book Moneyball was published, and Bill Dewitt Jr, who's the owner of the St. Louis Cardinals, read the book and said, "the Cardinals are going to fall behind if we don't start thinking about how to use some of the emerging analytics to our advantage."

He looked around his front office and knew he didn't have anybody that could really help with that. His son-in-law happened to be a colleague of mine at McKinsey, and he called me up and said, "My father-in-law wants to talk to you because he wants a person with business and technology experience who loves sports to help him bring the Cardinals into the Moneyball era." Three weeks later, I was flying to St. Louis to meet the general manager. My job was to figure out how to modernize the St. Louis Cardinal's front office, how to make sure that the best business practices and the best information was used to make decisions. It was not easily welcomed by some people that were already there, because outsiders are not welcome. There's the sense that if you haven't played, coached, scouted, there's no way you could ever do any of these jobs.

I chose my battles wisely. I ended up taking over player development, scouting, and all the analytics functions, and the entire farm system for the St. Louis Cardinals. It became one of the most productive farm systems in all of baseball. The Cardinals produced many major league players, a lot of wins, and a lot of value for the organization. The results ended up proving that modernization was necessary, and it was completely the vision of Bill Dewitt Jr.

Ultimately, the Cardinals ended up winning the World Series twice when I was there. But the last time was 2011, and a majority of the players on the field had been either drafted, developed or traded for using the new modern techniques. The proof was in the results.

Larry Bernstein:

You also brought your management consulting experience from McKinsey. Tell me about how you applied some of the management principles to the Cardinals?

Jeff Luhnow:

In a McKinsey environment, you're working with clients that are experts in their area, and you're not the expert. You're there to help them make better decisions or help them organize their information and come up with a strategy. I have never scouted a baseball player. I would sit with scouts, and I'd asked them what they're looking for, and I try and figure out, is there a formula here? How do they do it?

Part of the management style that worked well from what I learned at McKinsey is admit you don't know right up front. Don't pretend you're an expert in something you're not. The experts are the people that have been doing it forever. They have information; they have ideas. I spent time with the scouts, and I asked them how the Cardinals could scout better. All of the ideas presented to management were not my ideas. They were ideas from the scouts, but I was a voice, I was a way for their ideas to get to the top and create meaningful change.

One of the misnomers about Moneyball is that you get rid of all the scouts. That couldn't be further from the truth. If you're making the best decisions, you're using the scouts and you're also using data and analytics that help minimize errors and maximize impact.

Larry Bernstein:

How did the Astros poach you from the Cardinals?

Jeff Luhnow:

<laugh>, Jim Crane, the owner of the Astros called Peter Ueberroth, who is the former commissioner of baseball. And he said, "I'm having trouble figuring out who I should bring in to lead baseball operations." And Peter said, "I know the guy" and within half an hour he was calling me and said, "Hey, congrats on the World Series this year. I'd love to talk to you about potentially coming over and helping the Astros do the same thing." So that's how it started. It was the same day that Albert Pujols signed with the Angels. So, both Albert and I decided to leave St. Louis on the same exact day. His impact was obviously much bigger than mine.

Larry Bernstein:

I don't know. Did they go to the World Series?

Jeff Luhnow:

Two years later, they went to the World Series and lost it.

Larry Bernstein:

Tell me how you restructured the Astros organization?

Jeff Luhnow:

The Astros had been a team that in 2004 and 2005 had played the Cardinals in the NLCS. Both teams were equivalent in caliber, market size, in revenue, et cetera. The Cardinals went through a very minor dip and got back to the World Series and won it. The Astros continued to slide down. It was an organization in disarray, losing money, not a lot of prospects in the farm system. So, it was quite an overhaul, and it was pretty clear that this was not going to be a quick fix, that it was going to take years. Everybody wanted to know how many years, including the owners, the press, and the fans. What I told them is, "we're going to work as hard and as fast as we can to turn this around as quickly as possible."

We're not going to measure our progress in wins because we're projected to lose a hundred games.

So, we're going to focus our efforts on building a robust farm system, building the infrastructure to make decisions, having a good scouting operation, to lay the foundation to start competing for the playoffs.

We wanted to build something that was built to last. I internally promised five years to the playoffs, without saying that to the public. We managed to get there in four years. Since that time in 2015, the Astros have been the most successful team in baseball. The Dodgers have won a lot of games, but in terms of the consistent level of success, going to the World Series four times in six years

Larry Bernstein:

How important was the farm system and personnel development to the Astros success?

Jeff Luhnow:

The Astros are never going to outspend the Yankees, so you have to compete in other dimensions, and developing your own players is absolutely the way to go. Now, everybody knows that, and everybody tries that. But it's hard.

We were able to build a culture of continuous improvement using the best available information, having stretch goals, ways to measure everything. We always had ideas about how every player can get better. I mean, Justin Verlander came to Houston and got better. Gerrit Cole came to Houston and got better, even though they're already Hall of fame type players.

They chose those goals. We would present information to them and say, "Here's how we measure your performance in 10 different areas, and here's how important that is to us winning games and you making money and having big contracts. Pick the ones that you want and we're going to tell you how to measure them, and we're going to meet with you regularly and show you your progress, and we're going to give you tools to help you get better in those areas." It's amazing, once players take ownership of their own goals and improvement areas, how quickly they do improve. Low and behold, you have players that were below average defensively who are winning gold gloves. It's really incredible what happens. It's a whole culture, not just with the players, but with the staff and the front office about continuous improvement, knowing what you're trying to improve and measuring it along the way.

Larry Bernstein:

One of the points that Billy Beane made in Moneyball is that the manager is not that important to the team. I don't believe it because the managers made some critical game-time decisions Do you agree with Billy Beane about the small differences between professional managers?

Jeff Luhnow:

I completely disagree with that. I think the leader in the dugout or on the side of the pitch field of football is essential. And you look at some of the greatest coaches of all time, they do have something special, they do create victories and championships, there's no doubt about it. They set the tone in the locker room; they decide the strategy. What I think Michael Lewis was getting at, and what I think Billy would probably and I would both agree on, is that if you let your manager or coach make the personnel decisions about who you bring in, that's probably not the optimal way to do it.

Because they have limited information compared to your scouts about what players are going to do in the future. When you're putting together a team, you don't really care what they did in the past. All you care about is what they're going to do in the future. And so how old they are, they're athletic skills declining, all that stuff matters, and coaches aren't necessarily the best people to assess that.

I also think the manager gets blamed and he gets credit for things that aren't under his control. That's natural because that's the person that's doing the interviews after the game. In Spain in football, 20% of the coaches have already been fired this year.

Why? Because there's no one else to blame. You can't fire the players. When your season starts, and you get off to a rough start, you're expected to fire the coach, which is ridiculous. My team got off to a bad start, and I got pressured from the media, from the fans, from even part of our cap table, "Hey, why aren't you firing the coach? Isn't that what you have to do when you lose three or four games in a row?" And I said, "No, no, it's not the coach's fault. The players are not playing up to their capabilities. We haven't had a lot of luck. We've had tough competition. I'm not firing the coach. If you want to fire the coach, you're going to have to fire me first." And we won three out of our last four games.

We're now out of the bottom of the league. We're climbing our way to the middle. Had I fired the coach, I would've had to pay him out his entire contract. And the new coach is going to want new players. It's a vicious cycle. If you give the coach too much decision-making authority with respect to putting the roster together, you shoot yourself in the foot.

In terms of the day-to-day inspiration of the players, knowing how to maximize the players on the field, Tony La Russo was a master at that. He would figure out a way where every one of the 25 players on the team played to the max of their potential. He would put them in at the right time, in the right situation, and they would succeed. It's important for any championship team. Larry Bernstein:

You've switched from working in baseball to soccer. Tell us about that transition. I think you're probably the only person who's come from managing a baseball organization to professional soccer. How does your experience in baseball help you in soccer?

Jeff Luhnow:

It's a great question. I've studied basketball when Darryl Morey was the GM here of the Rockets. He and I used to get together regularly and talk about the differences and similarities between our sports. Same thing with the general manager of the Texans. When I left baseball, I seriously considered getting into the NFL. Football was the most interesting sport because I think there's the most opportunity to modernize and do some of the things that I did in baseball in the world of football.

You're not talking about a discreet pitcher throwing a ball and a batter swinging and an outcome resulting from that. You're talking about 11 athletes on the field running and passing a ball around, and 11 athletes on the other team trying to prevent them from progressing. And every person on that field impacts every other person on that field in the likelihood that a goal is going to be scored in the next minute. The dynamics are much more complicated and have never really been fully understood. Now that there's camera and radar technology to accurately know where every pair is always on the field and what the outcomes are likely to be.

Larry Bernstein:

Michael Lewis in his book *The Blind Side* discusses how compensation varies by position. Michael Lewis focused on the importance of the left tackle to protect the quarterback. How do you think about this idea if relative compensation by position as it applies to soccer?

Jeff Luhnow:

Well, it's a complex problem. The dynamics of how a goal gets scored, it's not just one person out there doing his thing.

The ball has to be passed to that person, and the ball has to be sent from one side of the field to the other before he has the opportunity to score. Even though there are lots of great players, Messi and Ronaldo, it's hard for one player to really dominate without the support of the other 10 players on the pitch. In baseball, for example, when we traded for Justin Verlander at the Astros, we had analytics that told us how much our percentage chance of winning the World Series improved by bringing in Justin Verlander and putting him at the top of our rotation.

In the world of football, you want to answer that same question, right? If you bring this player in and you spend the many million euros to transfer him in, how much is he going to improve your team's chances of reaching the playoffs? Or how much is he going to help you avoid relegation? The cost of failure is extremely high. And then obviously there's huge rewards if you get to the top of the league, because in our case, we get to go to the first division and the revenues are much higher there.

Jeff Luhnow:

Nate Silver has this 538 website. I look at the odds that he has in there almost every week for my team. What are my team's odds of getting relegated this year? Right now, I think we're 17% chance of relegation and 15% chance of playoffs. We have our own internal models, which aren't exactly that, but pretty close. It allows you to make decisions knowing where you are. Now, we were up at 23 or 24% when I was getting calls from investors. Are we going to fire the coach? So <laugh> I promised them by December, we're going to be down under 15 and hopefully under 10 by January. But that's the kind of analysis you need to do. If we bring in this player, or this group of players, are we going to be able to get that relegation down to single digits? And are we going to be able to increase our chances of getting the promotion playoffs up into the 20, 25% range? And then we'll know if it's worth it or not.

Larry Bernstein:

In Moneyball, Billy Beane argues that he created real value in his player trades, and that what he took advantage of was biases on the other team's scouts. Take the example of the fat kid out of college who doesn't even look like an athlete, but when Billy Beane looks at his statistics, he says, "Oh my goodness, this guy looks fantastic at how do these people not see how good this player is?"

Jeff Luhnow:

Paul Ware calls it the Blonde Hair effect, Billy Beane calls it the fat kid effect.

Larry Bernstein:

How do you minimize your biases when you're drafting and trading players?

Jeff Luhnow:

Sports people have this mental model of what a good athlete looks like. And it's oftentimes based off if they were a good athlete, they look for players that resemble some of their characteristics.

Biases out there allow people like me and Billy Beane to take advantage of that. It creates an opportunity for the undervalued players.

We did this study early in my career with the Astros, with the Cardinals. The average hitter's eyesight is 20/10.

Larry Bernstein:

Wow.

Jeff Luhnow:

So you're already talking about a group that has elite eyesight. We were able to take some players that had never been corrected because they're 20/20, their ophthalmologist never thought they needed a correction. And we corrected them down to 20/10 and boom, they got better. Now they were seeing the ball coming out of the hand.

Larry Bernstein:

When I was a kid, my dad told me that Ted Williams said he could see the stitch on the ball.

Jeff Luhnow:

Yes, yes. And you can, if you have got 20/10 vision and you have seen a hundred thousand pitches in your life, you can see the seam on the ball and whether it's a slider or a fast ball coming right out of the hand. And that's what elite hitters can do. Decision making is huge. I had an opportunity to spend a day at Red Bull Salzburg, which is one of the model teams in the world of football. They're a small team in Austria. They win their league every year. They go to Champions League, They make a lot of money, and they sell a lot of players for a handsome profit.

And they have on their campus in Salzburg a room with a complete 360 VR and their training decision making. People don't realize how important decision making is for athletes. There's instinctual decision making that comes from experience of playing a game. But you can train decision making and put the player in different situations.

At Northwestern where I went to business school, they built a new athletic complex. And part of it was they put in a VR room for the quarterback, and they could have Iowa's defense and have the quarterback make different decisions. It's not physical training, it's mental training. So, sometimes players have good decision making, but their physical attributes don't pass the test. They're not the tallest or the fastest, but they're valuable because their instincts allow them to make better decisions, whether it's swinging a pitch or where to pass the ball, or see the play develop ahead of time. Those things are huge and they're really hard to identify that this player is making better decisions the most.

Larry Bernstein:

At one of my Stanford events in March of 2020, Jeremy Beilenson who runs the VR department at Stanford, said that they were using VR to train Stanford quarterbacks. Can you teach better instincts?

Jeff Luhnow:

Stanford copied Northwestern. There's probably less science around how to improve decision making, because we're talking about athletes make decisions in split second timing. When I was with the Astros, we brought in a psychiatrist who used to train troops in combat. He had a lot of success with hitters because having to make quick decisions. It's not life and death, but still when a projectile's being thrown at you at a hundred miles an hour and you've got less than a fraction of a second to make a decision whether to swing or not, that's a lot of stress.

I don't know how easy it is to train decision making in that sort of environment. You need to have a certain physical skill to compete at the elite levels of these professional sports. Jose Altuve is five foot, five inches tall. First tryout he came to at the Astros, he was told to go home. He came back the next day and he insisted to come back.. They let him in, they signed him \$15,000, and he has become one of the best players in the world, and he's five foot, five inches tall. He would never have passed any scout. Baseball's a little bit different, but there are players in football that don't fit the profile.

Larry Bernstein:

Athletes' capabilities decline rapidly with age. Getting the decay function right seems to be the critical to player compensation and trade value. I know there are exceptions like Tom Brady, but how do you think about aging in your calculus?

Jeff Luhnow:

The aging profile of professional athletes has not been well studied until the last 10 years. And in sports, it depends on the position. What we have discovered in soccer, a goalie peaks in his thirties.

The athletes that you worry about are the ones that rely on speed and strength. If those two are the factors that drive your performance, you're going to peak at 21 to 22 years old. Then it's a matter of how much you condition your body, your sleep, your nutrition, your workout habits to prevent the inevitable decline that's coming.

Larry Bernstein:

As part of the aging process, some people might change their game. Michael Jordan announced that over the summer he was going to learn how to play better defense and that his goal was become the defensive player of the year. And he did it. Tommy John had surgery on his arm and came back and had a new pitching style and had a long and successful career afterwards. What can some players better to aging?

Jeff Luhnow:

The first thing is awareness that their key skill is going to erode. And they're no longer going to be elite at that position. You'd be surprised how many pro athletes think it's going to last forever. If you're a winger in soccer and you're used to running really fast and outrunning the competition to get to the ball, at some point your speed's going to decline and you're going to have to become more of a finesse passer shooter type of player. This doesn't happen overnight. You have to practice it, you have to learn it, you have to study it.. I've seen athletes do that, but I've also seen when they don't have that growth mindset. And how can I start preparing today to have success?

Larry Bernstein:

I want to change the topic to a difficult personal issue for you. You were fired as general manager of the Houston Astros due to a sign-stealing scandal. Your firing was done in a very public way. How did you get up the next day?

Jeff Luhnow:

<laugh> I was on vacation when I got fired. I was in Cabo San Lucas, so I just went to the beach and ordered a margarita. I never had been fired in my entire career, so it was something new and different. I had some sense that that might be coming because the investigation into the Astros and because I was the GM and I was in charge. It happened on my watch, so I figured that I was going to be receiving some punishment. For me it was to a certain extent liberating.

And I tried to keep my mind focused on that. I'll tell you that it wasn't fair, but life is not fair. And if you're constantly trying to make things fair, you're going to drive yourself crazy because life is not fair. I focused on the positives, which are, wow, I just had a 16 year run in baseball. It was one of the most successful runs of an executive in the history of baseball. I've left behind a legacy of modernizing two organizations that have been incredibly successful.

And now I get a chance to do whatever I want. I can stay in sports, I can switch sports, I can learn some other craft. I was fortunate enough that I didn't have to go find a job right away. I decided to write a book at that point, and writing the book was probably more therapeutic than anything, but it was also really fun to go back and reflect on all my sports stories.

A guy I really respect here in town gave me advice. He said, "The thing you shouldn't do is go do something else right away. Take your time, take six months, take nine months, spend time with your family, reconnect with friends and think about what you want to do. You can go back to baseball if you want. You can go to another sport. You can go into business, whatever you want to do." I took that advice.

Ultimately, I think it was probably one of the best things that's ever happened to me. And it's kind of weird to say, because I loved my time in baseball, but I also had grown complacent. It was no longer challenging me the way it was in the beginning where I had all this resistance and I had to turn around two organizations in very fundamental ways.

Larry Bernstein:

Why did you pick soccer as your next career?

Jeff Luhnow:

First of all, it's the biggest sport in the world and I love it. And I grew up in Mexico and I'm a big fan. When our team loses in Spain, it's like a death in my family, literally for a whole week. Football in Europe is the closest thing to a religion. People are invested in the outcome of their favorite team and they live and die every Saturday or Sunday with the outcome of the games. It exists in baseball too. We're going to see it with the Astros with the World Series.

The passion of the fans, the fact that it's a truly an international game. Baseball's international. You have players from Dominican Republic, Mexico, Japan, et cetera. But football exists everywhere. Every country in Africa plays football and has leagues. Every country in Asia, every country in Latin America. Football is a common language for all cultures.

It's also so much opportunity to modernize these organizations, to use information, to put in a culture of continuous improvement. I want to create it from scratch with several different teams, create a network of teams and win. At the end of the day, I hope to be hoisting a football trophy, just like I did the World Series Trophy in 2017.

Nothing would give me more satisfaction than that. I've learned to appreciate football that I never did as a fan. The low scoring game for Americans, it's kind of boring. But once you're in it and you understand the nuances and all the things that have to come together for a goal to be scored and the randomness of it all, the skill involved that's behind the scenes that you don't even see. You start to appreciate the game.

Watching 98 minutes of a football match where you are invested in that team the way we are, is way more stressful than watching a baseball game. Football you're constantly nervous that your defender's in the wrong place and you're going to let a goal score. The severity of each goal is so high, and the benefit of each goal for your team is so incredible that I'm on pins and needles for 98 minutes every week.

Larry Bernstein:

There is a lot of complex game theory in soccer. How do you apply that theory during the match?

Jeff Luhnow:

Every manager, whether it's baseball, basketball, American football or European football, uses game theory as part of their strategy. It's a chess match against the other coach, and they're anticipating your moves, you're anticipating their moves, et cetera. I love the penalties. There's a lot written about them. One of my favorite things is that a team in Germany would give the instructions to the goalie. So rather than having the goalie try and read the foot or the path of the person striking the ball and trying to react, they would basically use probabilities and say, "Okay, on this one, you jump right."

And they discovered there's an action bias where the goalie doesn't go to either side people think, "Well, what an idiot, why didn't he move?" But that allows a lot of goals to go down the middle. So, they actually had him standing in the middle a lot more. The world of football is starting to move more towards where the NFL is.

Let's choreograph and run a play that we think has the maximum chance of getting the ball into the net. I think game theory is instinctual to really good coaches and sometimes front offices can meddle too much by trying to script what the coach does with the team. Despite the fact that everybody thinks that general managers like me and Billy Beane write the lineups for the coaches or tell them what plays to run, we don't do that. We let the coaches do their job. We just want the coaches to understand the probabilities.

If they understand the probabilities, and then make their best decision with all the other information that they have that we don't have, that's great.

The other night when San Diego lost, in the ninth inning, they had one out and runners at first and second, and, the batter came up and bunted. When you bunt, you're giving the other team an out. They've got two outs left and they're eliminated from the playoffs. They used one of those two outs to move the runners 90 feet. But the runner didn't score. You're now relying on the 25% chance that the next hitter's going to put the ball in play and the runner's going to be able to score. You just damaged your team's chance to win.

Bob Melvin said, I told him to bunt. I don't think Bob Melvin told him to bunt. I think he was covering for the player. I think the player just decided to bunt. It was a bad decision. You have to let the manager, you have to let the players make the decision, but you just hope that they're using the best possible information, and it's your responsibility to make sure they have that information.

Larry Bernstein:

How do you explain the incredible increase in both the value of NFL franchises and NFL player salaries?

Jeff Luhnow:

I have been shocked at how valuations continue to appreciate to what seems to be irrational levels. But every time we have a new irrational transaction for a team, whether it's the Dodgers or the Clippers or Chelsea Football Club, five years later, that looks like a bargain.

The best way to make money is equity appreciation. These are not generally cash flow positive operating entities. Why? If you do generate positive cash flow because of the TV contract, because your fans are paying a lot to come to games, you have so much pressure to reinvest in player wages to make your team competitive.

Jim Crane bought the Astros for about \$625 million. It included a lot of debt. That club is now worth over \$2 billion. It no longer has debt. There's been dividends paid out so that everybody's gotten their money back. Talk about an incredible investment.

A large part of that equity appreciation has come from the fact that the Astros have been one of the best teams in baseball for the last eight years. Winning creates a lot of ancillary benefits to the club. I mean, you never used to see Astros hats.

Jeff Luhnow:

<laugh>, When I first got to Houston, I went to the local sporting goods store, and there were more Rangers hats than there were Astros hats. That's our rival.

I saw an Astro's hat in Ghana last week doing some soccer scouting.

Larry Bernstein:

I bet the next big profit opportunity for sports team owners is to monetize gambling. I can imagine a world where you'll be sitting at your seat and there is a way to bet on every aspect of the game. What is the future of sports gambling?

Jeff Luhnow:

The betting is going to happen. The leagues are all going to want to monetize that. But they have to do it in a way where there's not going to be players that are going to be paid off to make certain things happen.

Larry Bernstein:

I could have been a contender.

Jeff Luhnow:

Yeah, I mean, the temptation is there and it's always going to be there. But I think it's inevitable that betting becomes part of the sporting event. People's attention spans are different today. They want action. They want entertainment.

We used to play these games in the in the bleachers of Wrigley Field, where we bet on whether or not the ball would end up on the mound after the half inning, and you pass the hat around and put dollars in, and if you were right, you keep the money, stuff like that. So, it's always been part of the game, but how do you prevent the players from profiting from changing the outcome? That's got to be figured out before it gets to where I think it's going to eventually get to.

Larry Bernstein:

Let's turn to television advertising. American football has TV timeouts at the end of the quarters, two-minute warnings, and change of possessions. Honestly, it's boring at times. Soccer's not like that, and that reduces the ability to air commercials. How does soccer monetize its television advertising rights?

Jeff Luhnow:

There's a lot of ads that you're watching without even really realizing it. Ribbon boards all around the soccer pitch. Signs on the shirt like NASCAR players out there playing football. I hate it.

The first thing we did when we bought a team in Cancun is we took all the advertisements off the shirt, and we just put Cancun across the front with our badge and just played with no advertisements. It was such a unique refreshing look. We now have a sponsor on the back, but <laugh>.

Jeff Luhnow:

I do think that the bigger challenge with TV is not monetizing the commercials. It's figuring out the transition to mobile because everybody wants on demand on their phone. How are the economics going to work when we're no longer watching TV at home, that we're watching primarily on our iPhones. With any change comes some disruptive players and some changing economics.

Leagues are being very creative in terms of how they're thinking about monetizing the viewership part of it. There's this whole argument about the Super League in Europe. They could sell their own TV rights and all that. And that's created absolute havoc throughout Europe.

Larry Bernstein:

Why were people so angry about that?

Jeff Luhnow:

The game of football belongs to the people. It does not belong to any owner of any team. When you are a Sunland fan in Sunland, England, in the championship league, second tier of the English football pyramid, you feel like you own that team, and there's nobody that's going to tell you that you don't own that team.

Owners are taking care of the franchise for the fans. We're trying to do it in a way where we make the most money and we create the most value, and we get the most championships, but we are caretakers of something that belongs to the public. And when you start to disentangle what happened with the Super League, there were less than 20 teams that wanted to form an elite league and leave everybody else behind.

In Spain, the first division is not that good if Barcelona and Real Madrid aren't in it, right? In English Premier League, if you don't have Chelsea and Arsenal, it's not the same league. So, it's basically damaging everybody else for the sake of those. And I know those are the ones that drive the most viewership and the most revenues, but there's a different way to compensate them than breaking away into their own league. It really hit a nerve that exploded very, very quickly, and the reaction was intense, and everybody backed off with exception of a few players.

Larry Bernstein:

Can I give you a counter example? UCLA abandoned the Pac 10 for the Big 10. We did not see the same crybaby tactics by local college students and their alumni. Why was that so different?

Jeff Luhnow:

Yeah, it's, it's a good question. Everybody loves their college team. It's not quite the downgrade that losing the three top teams in a European football league would be. You go to a college football game on a Saturday and there's a hundred thousand people there in Michigan, and people are dressed up and love it and, and live and breathe it. It's part of their DNA.

Larry Bernstein:

How does a big college football game compare with European soccer?

Jeff Luhnow:

I don't think it's quite to the level of religion like it is in Europe. I really don't.

Larry Bernstein:

Jeff. I like to end each episode on a note of optimism. What are you optimistic about as it relates to sports?

Jeff Luhnow:

More and more people are using sports to give back to the community and to the world. My group, Blue Crow, we own eight soccer clubs around the world in Africa, Middle East, Europe, Latin America, North America.

Sports teams are realizing that they can make a difference, not just by satisfying their fans by winning, but by impacting the communities around them. For example, we do a lot of recruitment of players from Africa who come from very poor villages.

My satisfaction comes from not the player that got to the big leagues and hit the home run, but the player that learned English and was able to go back to his hometown and get a job that he never would've gotten otherwise had he not come to our academy.

We have a responsibility to make people's lives better in the communities around us.

Larry Bernstein:

Thanks Jeff for joining us today.

If you missed last week's session, please check it out. The speaker was former Fed Governor Kevin Warsh and he spoke about the regime change at the Fed. The inflation genie is out of the bottle and that means higher interest rates due to quantitative tightening. Treasury bond market prices have been artificially manipulated by the previous Fed purchases, especially for the TIPS which are the inflation indexed notes. With the change in fed policy, Kevin thinks that the bond market will be very volatile, with major yield curve swings and discontinuities in prices. This was a fascinating conversation that also included Nobel Prize winner Myron Scholes.

The topic for next week continues our conversation about the economics of sports.

Our first speaker will be Stanford economist Paul Oyer who will discuss his new book *An Economist Goes to the Game: How to Throw Away \$580 million and Other Surprising Insights from the Economics of Sports*. Paul will discuss which sports your kids should play. Why South Koreans dominate women's golf. And when should Michael Jordan take the last shot or pass the ball to another player?

Our final speaker will be Stefan Szymanski who is the author *Soccernomics* and our discussion will focus on the economics of all things soccer including why owners lose money, and why the top players get rich.

You can find our previous episodes and transcripts on our website whathappensnextin6minutes.com.

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I would like to thank our audience for your continued engagement with these important issues,
good-bye.