

DIEGO PRIMADONNA

Confidential Instructions for el Diamante Azul's General Manager

You have been with the el Diamante Azul de Bogota Football (Soccer) Club for only three months. So far, things have been going well, but you are concerned about an upcoming negotiation with the agent for Diego Primadonna, a former star forward. It will be your most important assignment to date, and you want to make sure that the club's owners and the coach are pleased with the outcome. You met with them yesterday to review the situation.

The Bogota el Diamante Azul (Blue Diamond) Football Club is one of the oldest in Colombia. In the last four years, however, the club has fallen on hard times. A weak economy, an aging stadium, and the establishment of several new football clubs in the Bogota area have meant the loss of many big name players and a string of losing seasons. As a result, el Diamante Azul has fallen to the bottom of Division A of Colombian football. It has lost some of its large corporate sponsors and has had to rely more and more on ticket sales to pay player salaries. Ticket prices range from \$30 to \$110, with \$50 a reasonable average ticket price. Despite its worsening financial state and the declining attendance in its 35,000-seat stadium, the club has managed to break even over the last few years. The team is rebuilding itself, and the quality of its players has improved lately. The players are young, however, and have little name recognition, hence the drop-off in attendance.

The new season begins in three weeks. The regular 50-game season (25 home games) runs six months, with an average of two games per week. Last week, when el Diamante Azul announced the season's team roster, they put Alfonso Bravo, the team's star forward and top goal scorer, on the short-term injury list. At the end of last season, Alfonso sustained a mild hip injury that has not improved despite treatment. Alfonso has been examined by three teams of doctors, and they all predict that he will not play at all this season. The doctors now strongly suspect that Alfonso has a rare bone disease that will require many months of treatment and might even end his career.

The team has not released any public explanation regarding Alfonso's condition because it does not want to hurt ticket sales. You and the coach have been searching desperately but unsuccessfully for another experienced Division A forward who has not yet signed a contract for this season. You also explored the possibility of a trade, but to date have been unable to put together a deal.

El Diamante Azul has a young reserve forward who joined the team in mid-season last year. While the young rookie shows great potential, the coaching staff feels that he needs another year or two of seasoning before he will be ready for a spot on the starting team. Although he clearly lacks the experience necessary to play the position well, the young reserve could play now if needed. The team owners, however, prefer not to promote him too quickly – rushing players into starting positions for which they are not ready has ruined the careers of numerous promising young players. The owners also want a “star-attraction” in order to generate more ticket sales, and another young, unknown player won't meet that concern. This situation has put the club in a tight spot.

Fortunately, Diego Primadonna, a well-known and flashy 31-year-old forward, heard the rumors about Alfonso Bravo and called the coach to inquire if the team might be interested in signing him. At first the coach showed little interest in Diego, hoping to find a younger player or make a trade. Unfortunately, that now appears impossible, and the coach and owners are suddenly quite desperate to sign Diego. You have scheduled an early appointment with Diego's agent.

Diego played for the el Diamante Azul club during the prime of his career. At his best, Diego was a true star and had a large following inspired both by his flashy play on the field and his “Hollywood” antics off the field. Four years ago, thinking that Diego had reached the end of his productive years, the Bogotá club traded him to the Cali team in exchange for several young players. With his usual flare, Diego went on to prove his critics wrong and had one-and-a-half good seasons with Cali. In the middle of his second season with the new club, Diego incurred a serious injury to his left knee.

After an operation and several months of rehabilitation, Diego began a comeback. Last season, he signed a contract with a new club, Cartagena, as a reserve forward. While Diego's knee appeared to hold up just fine, he didn't seem to have the same flare and saw only limited action. The Cartagena coach felt that Diego's problem had less to do with his knee and more to do with his spending too much time in fancy restaurants rather than in the training room. Diego left the Cartagena team after a dispute with the coach over his limited playing time and the coach's request that he lose weight. Diego then signed with Medellin as a reserve for the end of the season, but again played little.

Now it is rumored that Diego has been working to get back in shape. The owners are fairly sure that he can help the team now, if

for no other reason than he is still quite popular in Bogotá. As such, the owners and the coach are desperate to sign Diego. When he last played for el Diamante Azul four years ago, he was paid \$2,200,000, even though the average starting salary was only \$1,600,000. That was regarded as extremely high at the time, justified only by the fact that Diego was at the top of his profession and had a significant following (which has probably fallen off somewhat since then). Over the last four years, inflation in football players' salaries has brought about a near doubling in average salaries of the top stars throughout the league.

According to league information, Diego earned \$2,000,000 as a starter three years ago with Cali. Last year, as a reserve for Cartagena and Medellín, Diego earned an annualized equivalent of \$1,750,000 and \$1,100,000 respectively. Although particular cases vary widely, most clubs, el Diamante Azul included, generally follow an industry practice in which they pay starting players about twice as much as reserve players. If the team's owners were to decide (against their better judgment) to promote the young reserve forward to the starting role, you would probably pay him something less than double his current salary of \$1,400,000, certainly no more than \$2,800,000. This year, Alfonso Bravo was to have been paid \$3,000,000, a raise from his \$2,500,000 salary last year. Bravo's talent nearly matches Diego's at his prime, though he hasn't yet reached the levels of popularity Diego enjoyed. The average salary figures el Diamante Azul paid in recent years for starting and reserve players are shown below.

	Average Salary Starting Player	Average Salary Reserve Player
Four years ago	\$ 1,600,000	\$ 800,000
Three years ago	\$ 1,750,000	\$ 900,000
Two years ago	\$ 2,100,000	\$ 1,050,000
Last year	\$ 2,500,000	\$ 1,200,000
This year	\$ 2,800,000	\$ 1,400,000

Lately, el Diamante Azul's payroll has been lower than the league average because declining attendance has forced the club to keep players' salaries as low as possible. The club's average attendance used to be over 95%. Since the team has been losing both games and big name players, attendance has dropped to about 75%. This is the team's break-even point. If average attendance were to drop to 70% the club would lose about \$90,000 per game. If the season were a disaster, and attendance fell to 50% (which is barely conceivable), then it could mean financial ruin for the club.

In addition to losing money, el Diamante Azul must also worry about losing its Division A status. There are 12 teams in Division A, and the top 8 advance to the playoffs. Under league rules, if a team finishes in the bottom three for three consecutive seasons the League Commissioner can decide to demote the team to Division B. El Diamante Azul has finished in 12th and 10th place the last two years respectively. Not only would demotion mean further financial losses, it would also be an intolerable blow to the team's prestige. Thus, for el Diamante Azul, the stakes are high.

There is one other possible replacement for Alfonso. Franz Dreckenbauer, an aging star of the German "A League" team in Munich, was recently declared a free agent by the International Soccer Federation. In a phone conversation with Franz and his agent yesterday, Franz indicated a willingness and interest to end his career playing in South America. Although Franz is famous in Europe, he is less well-known in Colombia (though well-remembered by some for scoring the winning goal against Colombia in a World Cup match eight years ago). His popularity in Bogotá clearly would be less than that of Diego. His agent stated that it would take \$2,750,000 to sign Franz — his salary last year, the final year of his multi-year contract with the Munich team. Reputed to be a player with whom it is easy to work, Franz is also in good physical condition having recovered well from ankle surgery two years ago. He played mostly as a reserve last year while rehabilitating his ankle.

The coach wants Diego, despite thoughts that he may be too old for the demands of a rigorous season. He believes that with the proper physical conditioning and a little luck Diego could work out extremely well. As it is, the late announcement of Bravo's injury may adversely affect box office sales. You hope that the public will respond favorably to an announcement that el Diamante is bringing back Diego. In view of this emergency situation and the coach and owners' great desire to obtain Diego, you are authorized to offer him up to \$4,500,000 should that be necessary. If he holds out for more, then the club will just have to sign Franz or rush the young reserve forward into the starting team and hope for the best. The team simply cannot afford to pay the lavish salaries of the past. You should also bear in mind the potential adverse impact on future negotiations with other players should you agree to an unusually high salary for Diego. The good news is that few teams are likely willing to offer Diego (or Franz) a starting position because of his age and recent injuries.

Prepare for your meeting with Diego's agent.