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Amber Brown

Grand Valley State University

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The Fight for it All

**Amber Brown, Affiliate Faculty
Economics Department
Seidman College of Business**



On November 20th, Rampage defeated Machida in the headline UFC fight at the Palace in Auburn Hills. This was the first Ultimate Fighting Championship (UFC) event in Michigan since Public Act 196 of 2007 legalized mixed martial arts (MMA) events in Michigan. MMA involves a combination of boxing, kicking, and jujitsu skills. The fights, referred to as “human cockfighting” by Senator John McCain, are held within an octagonal cage and usually last from three to five rounds.

Michigan, in approving legislation to allow MMA fighting, opted to keep licensing and regulation fees low in the hopes that Michigan would attract many events and improve many of its struggling economies. Mixed martial arts, unlike other professional sports, has no home court and, thus, no ability to hold cities hostage for arena subsidies. Cities hope for an economic shot in the arm from visiting fight fans without incurring the usual expenses of hosting a professional team.

Though other MMA organizations exist, UFC is the dominant organization, responsible for 90% of the mixed martial arts business and 75% of the top fighters. The UFC is the wildly successful venture of the Fertitta brothers and Dana White. Frank and Lorenzo Fertitta, who made their mark in Las Vegas’s Station Casino, bought the struggling UFC for \$2 million in 2001 at the insistence of Dana White. After falling into more than \$40 million debt, the Fertitta brothers were ready to bail. That was before the fighters offered to fight for free, and a lucrative TV deal with the Spike TV propelled the UFC on its meteoric rise. In 2008, Forbes magazine valued the organization at \$1.1 billion, though Mr. White has more recently estimated the value of the company at \$2.5 billion. Fights are staged throughout the 48 U.S. states where MMA is illegal, and as far away as Germany, Australia, and Abu Dhabi. UFC 120 recently sold a record 17,133 tickets to the London’s O2 arena. The live attendance at UFC 123 in Auburn Hills was 16,404 for an estimated \$2.1 million. The largest UFC gate was \$5.4 million, though pay-per-view remains their primary source of income. Average number of viewers for pay-per-view fights is over 3 million.

UFC has been able to maintain much of its monopoly power using somewhat controversial tactics. Mr. White has lured successful fighters away from other organizations and is critical of those who refuse to make the jump, e.g. Fedor Emelianenko from Strikeforce.

“...Nobody gives a [expletive], and nobody is going to give a [expletive] about Fedor until he gets in here and fights the best fighters in the world. And believe me when I tell you I tried to make it happen. You don’t even know the crazy [expletive] places that I’ve flown and the

[expletive] that I’ve done to try and get this fight done. It got to the point where it became an obsession. I wasn’t sleeping. But I can’t sign Fedor? How is this possible that I can’t sign this guy? It’s not possible. These guys don’t want to fight the best in the world.” (Wayne)

Mr. White refuses to allow any of his fighters to contract with any non-UFC fighter. The UFC has scheduled fights on Spike TV during the same time as other organizations have scheduled their fights. Some organizations, such as Pride and WEC, were purchased outright by the UFC. Referring to himself as the “Grim Reaper of MMA”, Mr. White proudly sported a tombstone imprinted with now defunct MMA organizations (IFL, EliteXC, Afflictions). The rising profits and popularity of MMA has prompted other organizations to enter the field, but none has risen to the heights of the UFC.

In the latest move, Mr. White announced the merger of the WEC (World Extreme Cagefighting) and the UFC. Though the UFC purchased the WEC in 2006, it has since been run as a separate organization. Starting in 2011, all WEC fighters will be absorbed in the UFC, which will add two new weight classes, 135 and 145 lbs. Fighters in duplicate weight classes will challenge each other for the title. The merger will help the UFC to compete in Asian countries against other MMA organizations such as Dream, where fights among the lighter weights draw large, enthusiastic crowds.

Monopoly power in most industries is unwelcome and often prosecuted. Is this true for MMA as well? Are fans better served by having one company comprised of the best of the best or by competing organizations? The monopoly power of sports leagues, such as Major League Baseball or the National Football League, is not only tolerated but expected. When we watch the World Series or the Super Bowl, we are convinced that we are watching the most talented football and baseball players in the world. Mr. White has compared his UFC to the NFL as a showcase for the very best fighters. College football fans, dissatisfied with the BCS ranking system, clamor for a definitive winner. Likewise, MMA fans would prefer matches pitting the champions against one another over having a myriad of titles from different organizations. Would one dominant organization be the only way to ensure that bouts always pair the most outstanding fighters together?

The reaction was overwhelmingly positive to the announcement of the WEC merger, as fans and fighters alike anticipated fights between the best of the WEC and the UFC. Upon hearing about the UFC-WEC merger, Ben Henderson, the lightweight WEC champion, texted:

“I’m very excited. Now the major goal is to go over there wearing a belt....To be the best and make that claim, you’ve gotta beat the best. I want to take that one step further and beat not only the best, but everyone so there’s no doubt.” (Hendricks)

Would broader competition enhance the quality of the sport? During the early 1960’s, the American Football League (AFL) challenged the monopoly then held by the NFL. After the leagues merged, the combined league adopted some of the innovations of the AFL such as the two-point conversion, the spread offense, and displaying players’ names on jerseys. Competition has spurred innovations in other industries also, including the telephone and airline industries. Given that the UFC faces upstart MMA organizations often, is there already sufficient incentive to innovate, or would a more serious threat bring improvements?

How would more competition affect the accessibility and affordability of the sport? WEC offered more fights on free TV than the UFC offered. That number will decrease, and more fights will now be broadcast on pay-per-view. WEC tickets for the Arizona WEC 51, which will also be shown on free TV, are listed from \$35 to \$165 on Ticketmaster. Tickets to the fights at the Palace (UFC 123) can be purchased anywhere from \$60 for upper bowl to more than \$400 for the lower bowl or floor seats. Pay-per-view fees for that fight are in the neighborhood of \$50.

How would competition affect the payouts of the fighters? Fighters in the UFC come from all over but are primarily from rural locations. To prepare for a fight, which may be three a year, fighters retreat to a remote training ground for up to a month before the fight with no contact with family or friends. Their compensation depends on the performance and the reputation of the fighter. Bonuses are given for wins, knockouts, and being declared “bout of the night.” Sample salaries from UFC 121, given below, vary widely from \$8,000 to \$400,000. Fighters in the UFC receive health insurance for injuries during the fight.

The competition between the AFL and NFL for players resulted in fantastic antics to sign players and a significant jump in the salaries of players. Joe Namath signed a record 3-year \$387,000 contract for the AFL Jets, when the average NFL salary was \$25,000. When the AFL secured a lucrative \$42 million 5-year deal with NBC, the added income increased the value of the product on the field and, therefore, the value of players. Would more competition for MMA fighters drive up payouts and give fighters a larger piece of the revenue pie?

The players in other professional leagues, such as the NBA, NFL, MLB and NHL have unions that work to protect the players’ interest in bargaining with only one employer. MMA fighters have no union, and the willingness of individual fighters to accept lower payouts in order to get the opportunity to fight makes a union improbable. Brock Lesnar topped the UFC 121 payout with \$400,000. Average pay-per-view sales for a UFC fight featuring Mr. Lesnar is \$1.2 million. While the superstars at WEC will most likely increase their winnings upon moving to the UFC, the total number of fighters in the duplicate weight classes will likely diminish, and there will be downward pressure on their wages.

Many of these issues are only just emerging, and time will best tell the outcomes. Certainly, the rising popularity of the sport and opening of potential markets around the world will contribute to a rapidly-changing industry structure. ■

Cain Velasquez: \$200,000 (includes \$100,000 win bonus); Brock Lesnar: \$400,000 Cain Velasquez defeated Brock Lesnar via TKO (Strikes) Round 1
Jake Shields: \$150,000 (\$75,000 win bonus); Martin Kampmann: \$27,000 Jake Shields defeated Martin Kampmann via Split Decision
Diego Sanchez: \$100,000 (\$50,000 win bonus); Paulo Thiago: \$18,000 Diego Sanchez defeated Paulo Thiago via Unanimous Decision
Matt Hamill: \$58,000 (\$29,000 win bonus); Tito Ortiz: \$250,000 Matt Hamill defeated Tito Ortiz via Unanimous Decision
Daniel Roberts: \$16,000 (\$8,000 win bonus); Mike Guymon: \$8,000 Daniel Roberts defeated Mike Guymon via Submission (Anaconda Choke) Round 1
Sam Stout: \$32,000 (\$16,000 win bonus); Paul Taylor: \$16,000 Sam Stout defeated Paul Taylor via Split Decision
Chris Camozzi: \$16,000 (\$8,000 win bonus); Dongi Yang: \$8,000 Chris Camozzi defeated Dongi Yang via Split Decision

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