Should Pro Cycling Consider a Salary Cap?

Background

A recent UCI Survey found that the dominance of big-budget cycling teams is hurting fan's enjoyment of the sport. Teams with the ability to outspend rivals have aggregated much of the top talent in the sport and become increasingly dominant in pro cycling. This dulls some of the sport's competitive uncertainty, and sports fans, in general, aren't going to be as interested in watching bike races if they think the outcome is predictable. Fewer fans lead to lower sponsorship value of the sport, which in turn can potentially reduce revenues and cut the number of sponsors in an already tenuous UCI teams' model.

Team Sky/Ineos has famously enjoyed a budget that dwarfs most of the other squads in pro cycling and as a result, has dominated key events in the sport for much of the last decade. Although the team's success has waned over the last couple of years, other teams have copied the formula of the Ineos team manager, Dave Brailsford, and many observers are alarmed at the subsequent budget and wage "arms race." The UAE-Team Emirates' recent big-name signings point to the possible emergence of another "super team" that will be able to outspend other squads and dominate the sport in the future.

Is Money All That Matters?

It is often assumed, in cycling and other sports, that money is the answer to everything, that the richest teams will tend to dominate the sport. As EF Education-Nippo CEO Jonathan Vaughters recently proclaimed: " …we've seen this in the past….you spend, you win. It's a simple equation. It doesn't take any sort of genius to figure that out." While this is something of a truism in sports, there is also abundant evidence that money is *not* all that matters. For example, Team Jumbo-Visma has been hailed as the second most successful team in the peloton — picking up 50 wins in 2019 — despite reportedly having one of the lowest budgets in the peloton that year.

As first demonstrated by baseball's Oakland Athletics—and dramatized in Michael Lewis' book *Moneyball* — brains, intuition, management skills, and good luck can also play major parts in competitive success. And there are numerous other examples within cycling of smaller, under-funded teams that have, at least occasionally, punched well above their weight. Team DSM (formerly Sunweb) has found ways to animate the peloton over recent years on a small budget; Team Qhubeka-NextHash (formerly Qhubeka-ASSOS) took a remarkable three victories in one week at this year's Giro, despite having a tiny budget (estimated by some to be only 10 to 15 percent of what the Ineos Grenadiers can spend every year). Indeed, Vaughters' own team has had numerous competitive successes over the years, including multiple stage wins in many of the last several grand tours, despite struggling to survive on one of the smaller budgets in the sport.

So while it's clearly important, money isn't the only predictor of success in cycling. At The Outer Line, we have found ourselves occasionally on either side of this issue. Unfortunately, any objective analysis of the situation is severely complicated by the fact that team budget information is generally not publicly available; and so any analysis of the situation is, to some extent, guesswork. Team Ineos *does* release information and hence it is well known that the team's current budget is in the neighborhood of 50 million pounds (more than $US65 million); some public information is also available for Team Ag2R-Citroën. Beyond this, estimates — more likely wild guesses — of team budgets have occasionally been published (see "2016 Estimated Team Budgets" table, below) and have provided fodder for analysis and conjecture about which teams generate the greatest competitive success per dollar. But, as we have recently discussed with several team owners and managers, this type of analysis can be deeply flawed when it is built upon very rough budget assumptions (i.e., garbage in, garbage out).

The Broader Context

Although it is difficult to accurately analyze or make any firm conclusions about the correlation of team budgets with competitive success, it still stands to reason that, over the longer term, teams with deeper pockets obviously tend to have greater success. This tendency toward financial imbalance and market dominance by a handful of parties—"survival of the fittest" or economic Darwinism — is something that tends to occur in all sports. Indeed, it tends to occur in almost all free markets. But it is also a tendency that individual markets may eventually have to move to control.

From a business perspective, industries that become dominated by incipient monopolists are theoretically corrected by means of anti-trust laws. In the case of sports, when one or a handful of parties has become too powerful or too rich, the solution has often been to implement some form of team salary cap or revenue redistribution—to try to maintain more equitable competition in the sport and in turn encourage fan interest, loyalty, and engagement.

So, it's worth asking: Is this something that pro cycling should consider and what can we learn from other sports?

How Do Salary Caps Work?

Typically, salary caps have been in the form of a limit on the team's total payroll, rather than on limits applied to individual athletes. In many pro sports, the salary-cap limit has typically been somewhere between 50 and 70 percent of the team's budget or annual revenue estimates. (Anecdotally, many observers estimate pro cycling salaries to also constitute around 65 to 70 percent of the average team's budget.)

Individual athletes may be paid widely varying salaries within such a system, but the total team salary is subject to some controls. This is meant to reduce large financial disparities between teams and mitigate the marketing challenges posed by competitive imbalance.

In many professional sports leagues, the salary cap amounts to some percentage of league revenue given back to the teams. In the NBA, for example, each team gets a share of revenue, and a percentage of that share is designated as the salary cap. Since cycling doesn't have a revenue-sharing model (or much revenue to share for that matter) a salary cap would need to follow a restrictive, rather than an additive, model.

There are a wide variety of salary caps or control mechanisms in sports. For "soft" caps, various exclusions or definitional loopholes may allow flexibility in the calculation of the cap; for "hard" caps, limits are more strictly defined. Soft caps may include methods for teams to amortize upfront signing bonuses, deferred compensation, and all manner of more specific incentive clauses. These essentially allow some flexibility but still exert some level of control on total salary costs.

In other cases, teams are allowed to exceed the salary caps, but only in conjunction with paying very stiff financial penalties or "luxury taxes." (In basketball, these taxes can be as much as four or five times the amount by which they exceed the cap.) The funds that are collected through these "taxes" are then distributed league-wide. This promotes greater competitive equity and helps sustain small-market or poor-performing teams — even though some teams may be much richer and spending more on salaries than others. But while these "taxes" are intended to level the field, they can also create unintended consequences — such as last year's trade of Red Sox superstar Mookie Betts.

When one digs deeper into the logistics of instituting a salary-cap structure, things may start to get a little

murky, especially in an antiquated and legacy sport like cycling. Hence, before trying to make specific recommendations or take concrete steps on this issue, it is important that the UCI and other interested parties carefully consider the pros and cons, including the complexities, or unintended outcomes, of instituting a salary cap.

Salary Cap Considerations

How can we best apply best practices from other sports to get the right level and type of salary controls in pro cycling — to promote greater equity, to enhance competitive circumstances on the road, to garner more fan engagement, and to improve sponsorship interest in the sport? There are several critical questions that cycling can investigate:

- **How would the salary cap figure be calculated?** Would it be some average of today's estimated figures? (If WorldTour team budgets range from, say, $10 million to $50 million, an "average" budget might be $26 million or, leaving out Team Ineos' outlier figure, perhaps $20 million. If we then assume that 65 percent of the team budget is comprised of salaries, this would suggest a starting cap of between $15 and $16 million per team.) Or would it be set as some other more arbitrary number reached by a commission of experts? (Again, this is difficult to assess since the team budget data needed to estimate this type of average is not currently publicly available.)
- **How would a cap impact a team?** If we assumed the example above, a team like Ineos would likely have to cut its salaries significantly. Other, smaller-budget teams might not have to change their salary payments at all. Given the range of estimated budgets in pro cycling, there would still be inequities between the teams. (Cycling is not like basketball or football, in which every single team is rich enough to pay salaries at exactly the cap level.) Would this cause some higher-budget teams to even consider leaving the sport?
- **How would the cap be phased in so as not to dramatically disrupt the sport?** Should those top-spending teams be given a few years to come into compliance, so that they are not forced to unreasonably disrupt their teams or violate pre-existing contracts? How long should that phase-in period be?
- **How would that cap number change over time?** By some sort of calculated inflationary metric, by a simple percentage, or by a teams' committee review?
- **Should it be a "soft" cap, in which there are equitable means for individual teams to technically exceed the cap?** If a few teams are much richer than the rest, should they be allowed to spend more, but be heavily taxed (to the benefit of poorer teams) on those excess expenditures? How would the "luxury" taxes be distributed to the remaining teams? Does cycling, via the UCI, have the administrative capability to even handle that kind of redistributive system?
- **What about teams entering or leaving the "system" from year to year?** Cycling does not enjoy the financial stability of other pro sports, so what happens to new teams entering or leaving the WorldTour? Do they lose their luxury tax payments, how do they phase in to salary cap requirements? And could the cap become an incentive to drop out of the WorldTour and play the "wild-card" race-entry game?
- **Should there be any guidance on maximum individual salaries?** Should teams be free to pay significant portions of their total to individual stars or should there be some limits to individual salaries too? How would that impact the team-oriented aspect of the sport? How would it impact or interact with existing regulations regarding minimum individual salaries? (A rule restricting the number of riders making over "x" (e.g., a maximum of three riders at or above $1.5 million per season) could also be implemented. This would keep wealthy teams like Ineos from stashing top-tier GC riders and tend to spread out the top talent to oxygenate the rider market.)
- **Are there legal considerations?** Are there legal restrictions to such a cap structure in any of the specific cycling-oriented countries that would have to be discussed or overcome?
- **What kind of intra-team incentives or controversies could such a cap system potentially cause?** Would this tend to equalize salaries within a given team? Or could it create even greater

disparities between the stars and their water-carriers?
- **What other spill-over or unintended effects might there be?** For example, how would this affect riders and teams in the transfer market? What other unintended impacts might result from a salary-cap implementation?

As these questions make clear, while a cap on team salaries could help to adjust the competitive inequities in the sport, if not carefully constructed it could also lead to a range of challenging and unpredictable or even undesirable impacts. But we believe the concept is worthy of deeper study and analysis.

There is another albeit somewhat cynical way to view the issue. Ironically, perhaps cycling's inherently weak sponsorship model will itself function to balance out this concern over the longer term. Note that two out of the three biggest budget teams at the time of the 2016 *L'Équipe* budget estimates (Katusha and BMC) are no longer in the sport at all, erased by the changing whims of sponsors. Ineos has been on the top of the pile for more than 10 years, but its title sponsor probably won't be in bike racing forever either. So a cynic might say that cycling teams will fade in and out over time and create a natural salary cap; nonetheless, perhaps there is still a better way to ensure greater competitive balance over the shorter and medium terms.

2016 Tour de France team budgets (estimated by *L'Équipe*)

Team	Salary Budget
Team Sky	€35m
Katusha	€32m
BMC	€28m
Tinkoff	€25m
Astana	€20m
Etixx-Quick Step	€18m
Movistar	€15m
Lotto-Soudal	€14m
LottoNL-Jumbo	€14m
Dimension Data	€13.5m
Orica-BikeExchange	€13m
Giant-Alpecin	€12.5m
Trek-Segafredo	€12m
Ag2r La Mondiale	€12m
Cofidis	€11m
IAM Cycling	€10.5m
FDJ	€10m
Cannondale	€10m
Lampre-Merida	€7m
Direct Energie	€6m
Bora-Argon 18	€4.5m
Fortuneo-Vital Concept	€3.5m

WorldTour team salaries as reported by L’Equipe.

Written by Steve Maxwell, August 25th, 2021