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**9B17M123**

**Macroeconomic Forces, the National Hockey League, and Winning the Stanley Cup[[1]](#footnote-1)**

*Davin Raiha wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.*

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On June 15, 2015, another season of the National Hockey League (NHL) came to a close with the Chicago Blackhawks defeating the Tampa Bay Lightning 2–0 in game six of the Stanley Cup finals. It was the Blackhawks’ third league title in six seasons—an amazing feat in the salary-cap era. The chief architect for these championship teams was general manager (GM) Stan Bowman, who had assembled a powerhouse team that not only featured star players but also had depth at every position. In previous years, the off-seasons immediately following Stanley Cup victories had been challenging for Bowman. Stacked with undeniable player talent, Bowman was forced by the NHL’s salary cap to change key components of his championship rosters. But in late June 2015, Bowman’s situation differed from in the past. Two superstar forwards, Jonathan Toews and Patrick Kane, were locked into identical eight-year contracts worth US$10.5 million[[2]](#footnote-2) per year beginning July 1, 2015. However, significant macroeconomic events, in Canada and around the world had unfolded rapidly. How would these macroeconomic forces shape the future of the NHL and the Blackhawks?

National Hockey League Salary Cap—History

The NHL had been operating with a salary cap since the beginning of the 2005–06 season. The previous season (2004–05) had been lost due to a year-long labour dispute between the NHL club owners and the NHL players over the economic structure of the league. The outcome of the dispute was a new collective bargaining agreement (CBA), wherein the total salaries paid to players would be capped at a fixed percentage of league revenues. The CBA stipulated that the NHL’s new system would be defined as a hard salary cap, which meant that teams would under no circumstances be allowed to have a roster whose total salaries exceeded the cap—as opposed to a soft salary cap, where a team could choose to exceed the cap by paying a financial penalty. The soft cap system was used in the National Basketball Association and Major League Baseball. With each NHL team abiding by the same salary cap, the new system forced teams and their general managers to be mindful of their payrolls and especially careful in signing and trading for players.

The key determinant of the NHL salary cap was league revenues. The cap was created to ensure that growth in player salaries, which consisted of the largest cost to NHL teams, would never outpace revenue growth. The initial salary cap for the 2005–06 season was set at $39 million. However, by the 2014–15 season, nearly 10 years later, the salary cap reached $69 million, which reflected the significant growth, both of league revenues and of the game of hockey itself (see Exhibit 1). Along with the new salary cap, the CBA also stipulated that a salary floor would apply, which consisted of a minimum payroll for each NHL team. The salary floor, which was set at $18 million below the salary cap, was intended to ensure a competitive balance and a threshold of player salaries across the league.

All salaries paid to players, as well as the salary floor and cap amounts, were denominated in U.S. dollars, even though the league originated in Canada and seven NHL franchises were still based in Canada.[[3]](#footnote-3) The exclusive use of the U.S. dollar currency originated in the 1990s, when volatility in the exchange rate of the U.S. dollar against the Canadian dollar necessitated a standardization of player contracts to ensure a fair comparison of salary values.[[4]](#footnote-4) In contrast to other major North American Sports leagues, the NHL generated a considerable amount of revenue in Canadian dollars—typically 35 to 40 per cent.[[5]](#footnote-5) Revenues were generated from a variety of sources beyond television rights, including sales of tickets, sponsorships, and advertising space.

A Historic Deal

The NHL’s Canadian dollar revenues were projected to climb considerably as a result of a television broadcasting rights agreement between Rogers Communications Inc. (Rogers) and the NHL signed in November 2013. The 12-year deal for exclusive national broadcast rights in Canada was valued at CA$5.2 billion and became the largest television rights deal in league history. It officially commenced at the beginning of the 2014–15 NHL season. On an annual basis, the deal would see Rogers pay the NHL CA$300 million–CA$500 million, equivalent to 7–10 per cent of total NHL revenues at the time.[[6]](#footnote-6) In the weeks following the deal’s announcement, many analysts projected the impact that this increase in revenue would have on future salary cap amounts. Several estimates expected the salary cap to grow by nearly $7 million for the 2015–16 season, to approximately $75 million, followed by an increase to $80 million for the 2016–17 season.[[7]](#footnote-7) A healthy growth rate in the salary cap had never seemed more certain than after the Rogers agreement with the NHL (see Exhibit 2).

The Chicago Blackhawks—A Modern Dynasty

Even before the 2014–15 NHL season, the Chicago Blackhawks had been one of the most successful teams in the salary-cap era (i.e., 2005–present), having won two Stanley Cup championships (2010 and 2013) and having been perennial contenders every season since 2008–09, the season before Bowman became the team’s GM. Bowman had worked in Chicago’s front office since 2001, as a special assistant to general managers Mike Smith and Bob Pulford for four years before becoming director of hockey operations in 2005. In 2007, Bowman was promoted to assistant GM; on July 14, 2009, he became the Blackhawks’ GM.

The 2013–14 Blackhawks were a strong team, narrowly losing the Western Conference finals to the eventual Stanley Cup champion, the Los Angeles Kings. Most of the previous season’s roster had remained intact for the 2014–15 season, but Bowman managed to further augment the team’s lineup. In the off-season, he signed free-agent veteran centreman Brad Richards to a one-year deal. When playing for the Tampa Bay Lightning, Richards had been a Stanley Cup winner and in the playoffs had been named most valuable player. At the trade deadline, Bowman made the biggest deals in the league by acquiring veteran defenceman Kimmo Timonen and coveted forward Antoine Vermette, in both cases surrendering high draft picks.

The high-profile additions complemented a strong roster with depth at every position. For example, six Blackhawks players were selected to the 2015 (mid-season) all-star game—the most from any team in the NHL. The forwards were led by superstar players Toews and Kane, but also featured the sublimely talented young players Brandon Saad and Teuvo Teravainen, alongside experienced two-way forwards Patrick Sharp and Marian Hossa. The defence was led by Duncan Keith, who had been decorated as the NHL’s top defenceman the previous season. Beyond Keith were fellow all-star player Brent Seabrook and three experienced and reliable defencemen—Johnny Oduya, Michal Rozsival, and Niklas Hjalmarsson. In net, the Blackhawks relied on Corey Crawford, who was an all-star goaltender and a recipient of the William M. Jennings Trophy. The trophy was awarded to a goalie who had played in at least 25 games, of an 82-game regular season, for the team with the fewest goals scored against.

Assembling a team with such depth and talent would normally be impossible under the NHL’s hard salary cap, but Bowman had benefited from several contracts smartly signed years earlier. Prior to the 2010–11 season, at a time when the salary cap was a mere $59.4 million, Bowman had signed his key superstars to cap-friendly deals. Keith was signed to a 13-year deal with an annual salary of $5.5 million. Even more impressively, Bowman signed Toews and Kane each to identical five-year deals of $6.5 million per year. By the 2014–15 season, when the salary cap reached $69 million, the contracts of Toews and Kane were relative bargains. Each of the two salaries ranked 38th highest in the league, even though both players were considered among the top 10 NHL players.[[8]](#footnote-8) However, the bargain contracts of Toews and Kane were due to end by the summer of 2015. In July 2014, Bowman had signed both players to identical eight-year deals that would make them the highest paid players in the NHL. The new contracts, which would commence at the beginning of the 2015–16 season, would see the combined annual salary amounts of Toews and Kane rise by $8 million.

The Fall of Oil

On July 9, 2014, the day that Toews and Kane signed their latest contracts, crude oil was trading at a price of $102.93[[9]](#footnote-9) per barrel—the highest level that oil prices would reach that year. Within a month, the price of oil began its steady and significant decline due to various factors. First, slow economic growth in several major economies—namely Europe, China, and Japan—stifled demand for oil.[[10]](#footnote-10) Second, shale oil producers in the United States had rapidly increased production, nearly doubling U.S. oil production in 2014 compared with just three years earlier. Third, and most significant, oil production policies in Saudi Arabia caused a major shift. At the meeting of the Organization of the Petroleum Exporting Countries (OPEC) on November 27, 2014, Saudi Arabia declared its intention to increase production to gain market share against higher-cost oil producers (namely U.S. shale producers).[[11]](#footnote-11) Saudi Arabia was the largest producer among OPEC members. Its oil minister, Ali al-Naimi, claimed that cutting production would only decrease the market share of OPEC members. The minister claimed that Saudi Arabia was focused on the cost advantage of all OPEC members, many of whom were the lowest-cost producers of oil in the world.[[12]](#footnote-12) He also stressed that the shift in policy would be permanent, stating that “we’re not going to cut production . . . it’s the position that will hold forever.”[[13]](#footnote-13)

From July 2014 to the beginning of 2015, the price of oil fell by 50 per cent (see Exhibit 3). This sudden and dramatic shock severely impacted Canada’s oil patch, where the costs of production were significantly higher than in Saudi Arabia.[[14]](#footnote-14) Canada’s gross domestic product fell in the first quarter of 2015—the first contraction in the Canadian economy in four years—largely due to falling activity and investment in the oil and gas sector.[[15]](#footnote-15) Projections for 2015 by the Canadian Association of Petroleum Producers estimated that, compared with 2014, capital investments would decline by 33 per cent, the number of wells drilled would fall by 30 per cent, and oil production would fall by 46 per cent, due to the sharp drop in oil prices.[[16]](#footnote-16) From the fourth quarter of 2014 to the first quarter of 2015, oil and gas capital expenditures dropped by over CA$6.5 billion—a drop of 29.6 per cent.[[17]](#footnote-17) Crude oil and bitumen consisted of Canada’s largest single export by far, valued at over CA$92 billion in 2014.[[18]](#footnote-18) Therefore, the Bank of Canada lowered its target for the overnight interest rate in January 2015 in response to recent events.[[19]](#footnote-19)

These economic shocks significantly influenced the Canadian–U.S. dollar exchange rate, which was affected by the price of oil, the performance of the Canadian economy, and interest rates. When the contract extensions of Toews and Kane were announced in July 2014, the Canadian dollar was trading above US$0.93; by February 2015, it had fallen below US$0.79.

Defending the Cup?

Bowman and the Chicago Blackhawks had once again reached the summit of the NHL by winning the 2014–15 Stanley Cup. However, the Canadian and world economies had experienced considerable changes from only a year earlier. On June 23, 2015, the NHL and the NHL Players’ Association officially announced that the salary cap for the upcoming 2015–16 season would be set at $71.4 million—an increase of only $2.1 million—well below the $74.8 million cap that had been expected back in 2013 (see Exhibit 2).[[20]](#footnote-20) Blackhawks players had also earned a combined $750,000 in bonuses from the 2014–15 season, which would be applied against the team’s salary cap for the 2015–16 season—meaning that, compared with the previous season, Bowman would have only $1.35 million in additional cap, or payroll room.

With the salaries of Toews and Kane due to increase by a combined $8 million, consisting of 29 per cent of the team’s salary cap, Bowman faced a substantial challenge. Twelve players from the Stanley Cup winning team were not under contract for the upcoming season, including key players such as Antoine Vermette and Brandon Saad—two players who had combined for five game-winning goals in the playoffs (see Exhibit 4). Defending the Stanley Cup title had always been a challenge that Bowman had managed to overcome in the past. However, heading into the summer of 2015, the sources behind the challenge were altogether different than those of past years. Would Bowman be able to overcome this new challenge and assemble a Blackhawks team that would defend its Stanley Cup title in the 2015–16 season?

Exhibit 1: national hockey league Salary Cap and Floor History

(2005–06 to 2014–15)

Source: Created by author using information from National Hockey League, accessed May 26, 2017, www.nhl.com/.

Exhibit 2: National Hockey League Projected Revenues, 2014–15 to 2021–22,

as of November 2013 (in US$ Million)

|  |  |  |  |
| --- | --- | --- | --- |
| **Season** | **Projected Revenue (from previous year)** | **Projected Salary Floor** | **Projected Salary Cap** |
| 2014–15 (no impact from the Rogers deal) | 3,564 | 50.0 | 67.7 |
| 2015–16 (without impact from the Rogers deal) | 3,742 | 52.7 | 71.3 |
| 2015–16 (with impact from the Rogers deal) | 3,918 | 55.3 | 74.8 |
| 2016–17 | 4,189 | 59.3 | 80.2 |
| 2017–18 | 4,398 | 62.4 | 84.4 |
| 2018–19 | 4,618 | 65.6 | 88.8 |
| 2019–20 | 4,849 | 69.0 | 93.4 |
| 2020–21 | 5,092 | 72.6 | 98.2 |
| 2021–22 | 5,346 | 76.3 | 103.3 |

Source: James Mirtle, Twitter post, November 27, 2013, 9:15 a.m., https://twitter.com/mirtle.

Exhibit 3: Timeline of significant events for the National Hockey League and the Chicago blackhawks, with Oil price History, October 2o13 to June 2015

Note: OPEC = Organization of the Petroleum Exporting Countries

Source: Created by the authors with information from “Petroleum & Other Liquids: Spot Prices,” U.S. Energy Information Administration, accessed May 26, 2017, www.eia.gov/dnav/pet/pet\_pri\_spt\_s1\_a.htm.

Exhibit 4: Chicago Blackhawks team members’ 2014–15 Playoff Statistics and contract status

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Player Name | Games | Goals | Assists | Points | Contract Status |
| Patrick Kane | 23 | 11 | 12 | 23 | Signed through 2022–23 |
| Jonathan Toews | 23 | 10 | 11 | 21 | Signed through 2022–23 |
| Duncan Keith | 23 | 3 | 18 | 21 | Signed through 2022–23 |
| Marian Hossa | 23 | 4 | 13 | 17 | Signed through 2020–21 |
| Patrick Sharp | 23 | 5 | 10 | 15 | Signed through 2016–17 |
| Brad Richards | 23 | 3 | 11 | 14 | **No contract** for 2015–16 |
| Andrew Shaw | 23 | 5 | 7 | 12 | Signed through 2015–16 |
| Brandon Saad | 23 | 8 | 3 | 11 | **No contract** for 2015–16 |
| Brent Seabrook | 23 | 7 | 4 | 11 | Signed through 2015–16 |
| Teuvo Teravainen | 18 | 4 | 6 | 10 | Signed through 2016–17 |
| Antoine Vermette | 20 | 4 | 3 | 7 | **No contract** for 2015–16 |
| Niklas Hjalmarsson | 23 | 1 | 5 | 6 | Signed through 2018–19 |
| Johnny Oduya | 23 | 0 | 5 | 5 | **No contract** for 2015–16 |
| Bryan Bickell | 18 | 0 | 5 | 5 | Signed through 2016–17 |
| Marcus Kruger | 23 | 2 | 2 | 4 | **No contract** for 2015–16 |
| Andrew Desjardins | 21 | 1 | 3 | 4 | **No contract** for 2015–16 |
| Kris Versteeg | 12 | 1 | 1 | 2 | Signed through 2015–16 |
| Michal Rozsival | 10 | 0 | 1 | 1 | **No contract** for 2015–16 |
| Kimmo Timonen | 18 | 0 | 0 | 0 | **No contract** for 2015–16 |
| Kyle Cumiskey | 9 | 0 | 0 | 0 | **No contract** for 2015–16 |
| David Rundblad | 5 | 0 | 0 | 0 | **No contract** for 2015–16 |
| Trevor van Riemsdyk | 4 | 0 | 0 | 0 | Signed through 2015–16 |
| Joakim Nordstrom | 3 | 0 | 0 | 0 | **No contract** for 2015–16 |
| Goaltenders | **Games** | **Wins** | **Losses** | **GAA** |  |
| Corey Crawford | 20 | 13 | 6 | 2.31 | Signed through 2019–20 |
| Scott Darling | 5 | 3 | 1 | 11 | **No contract** for 2015–16 |

Note: GAA = goals against average

Source: Created by author using information from National Hockey League, “Statistics,” accessed May 28, 2017, www.nhl.com/stats/player?aggregate=0&gameType=3&report=skatersummary&teamId=16&pos=S&reportType=season&seasonFrom=20142015&seasonTo=20142015&filter=gamesPlayed,gte,1&sort=points,goals,assists; CapFriendly, accessed May 28, 2017, www.capfriendly.com.

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of the National Hockey League or any of its employees. [↑](#footnote-ref-1)
2. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-2)
3. National Hockey League, *Collective Bargaining Agreement between National Hockey League and National Hockey League Players’ Association: September 16, 2012–September 15, 2022*, 51, February 15, 2013, accessed April 26, 2017, www.nhl.com/nhl/en/v3/ext/CBA2012/NHL\_NHLPA\_2013\_CBA.pdf. [↑](#footnote-ref-3)
4. “National Hockey League Collective Bargaining Agreement—1993–2004: Article 14, Player Assignments,” LetsGoPens.com, accessed April 26, 2017, http://letsgopens.com/nhl\_cba-old.php?id=14. [↑](#footnote-ref-4)
5. Michael Grange, “Where Does the NHL Want McDavid to Land?,” SportsNet, February 26, 2015, accessed April 26, 2017, www.sportsnet.ca/hockey/nhl/nhl-want-mcdavid-land/. [↑](#footnote-ref-5)
6. NHL revenue for the 2013–14 season was $3.7 billion. Source: James Mirtle, “Report: NHL Revenues to Hit Record $3.7-billion,” *Globe and Mail*, June 9, 2014, accessed April 26, 2017, www.theglobeandmail.com/sports/hockey/globe-on-hockey/report-nhl-revenues-to-hit-record-37-billion/article19080171. [↑](#footnote-ref-6)
7. James Mirtle, “Rogers Mega TV Deal to Boost NHL Salary Cap,” *Globe and Mail*, November 27, 2013, accessed April 26, 2017, www.theglobeandmail.com/sports/hockey/globe-on-hockey/mirtle-how-the-nhls-salary-cap-will-jump-10-million-in-two-years/article15627506. [↑](#footnote-ref-7)
8. The ranking was done by the Canadian television broadcaster The Sports Network (TSN) prior to the 2014–15 season, which polled league general managers, coaches, and TSN experts. Source: Steve Dryden, “Crosby Tops TSN Hockey’s Top 50 NHL Players,” The Sports Network, September 29, 2014, accessed April 26, 2017, www.tsn.ca/crosby-tops-tsn-hockey-s-top-50-nhl-players-1.94060. [↑](#footnote-ref-8)
9. “Petroleum & Other Liquids,” U.S. Energy Information Administration, accessed May 26, 2017, www.eia.gov/dnav/pet/pet\_pri\_spt\_s1\_a.htm. [↑](#footnote-ref-9)
10. Chris Mooney, “A Simple Guide to the Sudden Collapse in Oil Prices,” *Washington Post*, December 1, 2014, accessed April 26, 2017, www.washingtonpost.com/news/wonk/wp/2014/11/28/a-simple-guide-to-the-sudden-collapse-in-oil-prices/?utm\_term=.70df8328bd1e. [↑](#footnote-ref-10)
11. Alex Lawler, Amena Bakr, and Dmitry Zhdannikov, “Inside OPEC Room, Naimi Declares Price War on U.S. Shale Oil,” *Reuters*, November 28, 2014, accessed April 26, 2017, www.reuters.com/article/us-opec-meeting-shale-idUSKCN0JC1GK20141128. [↑](#footnote-ref-11)
12. At the time, Saudi Arabia had the lowest cost of production in the world. Source: James Jukwey, “FACTBOX—Oil Production Cost Estimates by Country,” *Reuters*, July 28, 2009, accessed April 26, 2017, www.reuters.com/article/oil-cost-factbox-idUSLS12407420090728. [↑](#footnote-ref-12)
13. John Defterios, “OPEC Won’t Flinch from Oil Market Fight,” *CNN Money*, June 3, 2015, accessed April 26, 2017, http://money.cnn.com/2015/06/03/investing/opec-gulf-producers/. [↑](#footnote-ref-13)
14. Shawn McCarthy and Eric Reguly, “The Saudi Standoff: Oil-Rich Nation Takes on the World’s High-Cost Producers,” *Globe and Mail*, December 12, 2014, accessed May 2, 2017, www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/the-saudi-standoff-oil-rich-nation-takes-on-worlds-high-cost-producers/article22073819. [↑](#footnote-ref-14)
15. Gordon Isfeld, “Canada’s Economy Shrinks for First Time in Four Years as Oil Shock Sinks in,” *Financial Post*, May 29, 2015, accessed April 26, 2017, http://business.financialpost.com/news/economy/canadas-economy-shrinks-for-first-time-in-four-years-as-oils-collapse-takes-toll. [↑](#footnote-ref-15)
16. Claudia Cattaneo, “Canada’s Oil Industry to Slash Spending, Reduce Production as Prices Sink,” *Financial Post*, January 21, 2015, accessed May 2, 2017, http://business.financialpost.com/news/energy/capp-cuts-western-canadian-oil-output-forecast-warns-of-more-revisions. [↑](#footnote-ref-16)
17. Statistics Canada, “Table 029-0052: Capital Expenditures, Oil and Gas Extraction Industries, Canada,” accessed May 2, 2017, www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0290052&&pattern=&stByVal=1&p1=1&p2=31&tab

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18. Statistics Canada, “Exports of Goods on a Balance-of-Payments Basis, by Product,” accessed April 26, 2017, www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/gblec04-eng.htm. [↑](#footnote-ref-18)
19. Bank of Canada, “Bank of Canada Lowers Overnight Rate Target to ¾ Per Cent,” press release, January 21, 2015, accessed May 2, 2017, www.bankofcanada.ca/2015/01/fad-press-release-2015-01-21/. [↑](#footnote-ref-19)
20. National Hockey League, “Salary Cap Set at $71.4 Million for Next Season, a $2.1-Million Increase,” June 23, 2015, accessed April 26, 2017, www.nhl.com/news/salary-cap-set-at-71-4-million-for-next-season-a-2-1-million-increase/c-771568. [↑](#footnote-ref-20)