MEMORANDUM

To: Gregg Rich
From: STUDENT
Date: March 3, 2014

Re: Moneyball Extra Credit

Summarization of *Moneyball*

Moneyball describes how in the early 2000s the Oakland A's, one of baseball's poorest teams, were able to win so many games and be competitive with larger-market teams with larger player payrolls. Author Michael Lewis explains the organization's success by focusing on how the team leveraged the inefficient and outdated scouting system that relied on biased scouts to their advantage by reinventing how players were evaluated. A's General Manager Billy Beane developed new criteria when valuing players, a change seen as radical to many executives in baseball, most of whom cherish tradition, rely on prevailing wisdom, and staunchly resist intellectuals intervening in their traditional methods. By using this innovative process, Beane was able to draft and acquire undervalued players who were overlooked by other teams. These other teams were content gambling on untested and unproven high school players they saw as "future stars," an outdated approach that caused them to ignore many solidly producing college players who the scouts subjectively saw as having irrelevant flaws, such as being too short.

To detail this innovative process and methodology, Lewis specifies roster moves made by Beane during the 2002 season and frequently refers to Beane's background as a former Major League Baseball prospect and player. He explains how the traditional scouting methodology can lead to error; Beane was improperly scouted and misunderstood as a high school player. Then, sabermetrics, Beane's adopted approach, is described. The field of sabermetrics was created through the efforts of baseball author/statistician Bill James and other "intellectually rigorous baseball analysts" and formalized among the lines of an academic discipline (p. 82). In the 1990s sabermetrics – the use of statistical analysis to analyze baseball records and make determinations about player performance – was an activity that only existed outside of baseball since those inside of the game had a fierce unwillingness to rethink anything, as though inoculated against outside ideas (p. 90). Once Beane began to pay attention to this research, however, the field finally gained prominence and respect in Major League Baseball.

Moneyball key leanings for MLB sport managers

One of the best lessons *Moneyball* provides for sport managers is that traditions can prevent organizations from operating efficiently. Billy Beane chose to exploit the eternal themes of baseball for profit – by ignoring them (p. 30). This type of unconventional thinking can create competitive advantages for a sport manager's company. Beane sought to bring reason and science to baseball with

the radical concept that hypotheses tested by analysis of historical baseball data are more valuable than the collective wisdom of old baseball scouts who relied on intuition and highly subjective evaluations. This is a traditional methodology rather than an accurate way to predict success. Like Beane, sport managers need to ensure that they do not give conventional opinions about their industry or organization the authority of fact; instead, always questioning how things can be done differently to become more efficient and gain a competitive advantage. However, sport managers should also be prepared to face tension and ridicule when presenting these new, unconventional ways of thinking, because as noted in the book, “Managers tend to pick a strategy that is least likely to fail rather than pick a strategy that is most efficient. The pain of looking bad is worse than the gain of making the best move” (p. 80).

Possible financial applications of *Moneyball* key leanings for other sport enterprises

Moneyball can also teach sport managers that when making decisions, their beliefs and biases can be greatly reduced through the analysis of data. As Lewis states, “The human mind played tricks on itself when it relied exclusively on what it saw, and every trick played was a financial opportunity for someone who saw through the illusion to the reality” (p. 18). As this quote suggests, if sport managers rely only on observations, they may be tricked into making an incorrect financial decision. To remedy this, sport managers need to examine financial data before making decisions, and be more like Beane, who relied completely on unemotional data, asking only if the player could get on base and hit. When speaking about the stock market, John Henry, owner of the Miami Marlins, stated, “Actual data from the market means more than individual perception/belief. The same is true in baseball” (p. 91). Decisions made in any business environment should be purely objective and unemotional. The A’s scouts in *Moneyball* based their opinions of players off of highly subjective, non-scientific opinions. For example, when determining the value of Billy Beane, scouts took note of how he was going out with the prettiest girls and had a great deal of charm (p. 10). When evaluating Jeremy Brown, scouts used criteria such as the size of his thighs to determine his potential worth (p. 34). A possible financial application of this lesson for sport managers involves investments. When viewing possible investments, a professional should place all emotions aside in order to build a broadly diversified, regularly rebalanced portfolio. Sport managers should stick to the simple facts, emotion free (Binkholder, 2014, para. 11).

However, simply using data to make financial decisions is not enough; it is also important to use the correct data and metrics to make decisions. For example, Billy Bean and Bill James viewed errors, RBIs, and batting averages as out-of-date metrics to measure the worth and productivity of players. They instead placed importance on on-base percentage, slugging percentage, walks, and strike-out-to-walk ratios – attributes that scouts dismissed – because they found that these statistics correlated highly to future success. Similarly in the business world, sport managers should realize that traditional performance measures such as assets under management and loan volume are poor predictors of financial success. Today’s business metrics should favor productivity and profitability over raw volume growth (Nicols, 2013, para. 6). Similarly, when looking at potential investments, a sport manager should be careful to not be too heavily influenced by large, recent successes on the most recent earnings reports; instead, look to longer-term metrics in making financial decisions. Beane believes that college players have more experience and history to examine than high school players, so applying this rationale to the business world, the longer a company’s history, the better investors can see how it has fared through bull and bear markets, reducing potential risk. Another important lesson that *Moneyball* can teach sport managers when investing is to not be constantly checking their accounts. Beane does not watch the A’s games out of fear that he will do something rash if the team makes mistakes. Similarly,

professionals should view investments only about once a quarter, especially if the investor is likely to react radically to common market volatility and fluctuations (Kristof, 2012, para. 4). This is especially important to follow if the professional has invested in a riskier asset such as a small-cap stock. Obsessing over a portfolio can lead to actions that may be regretted in the future.

Another financial application of *Moneyball* for any sport or business enterprise is learning to operate within the means and constraints of an organization: if a company is not a large organization, it cannot operate the same way the larger organizations do. However, smaller organizations with fewer assets can still be successful and competitive if their employees can find the right balance for their organization and place it in a position superior to opponents. As Beane's innovation in *Moneyball* demonstrates, smaller companies can better compete with larger competitors if they are always thinking differently and trying to find innovative ways to run their operations. As the Preface states, organizations in these positions need to look for inefficiencies in the industry and exploit them before the competition does (p. XIV). So while budget constraints are usually seen as the enemy of creativity, *Moneyball* demonstrates that they can be a positive stressor because they force managers to come up with new ways to get the most for their money.

References

Binkholder, B. (2014). Moneyball Lessons for Investors. *The Financial Coach.* Retrieved from http://www.thefinancialcoach.com/moneyball-lessons-for-investors

Kristof, K. (2012). 5 "Moneyball" Lessons for Investors. *Kiplinger*. Retrieved from http://www.kiplinger.com/article/investing/T052-C008-S001-practical-investing-5-moneyball-lessons-for-invest.html/

Nicols, J. (2013). A Moneyball Approach to Wealth Management. *BAI Banking Strategies.* Retrieved from https://www.bai.org/BANKINGSTRATEGIES/Product-Management/Wealth-Management/A-Moneyball-Approach-to-Wealth-Management