Huge trade looms in world of sports cards

by Jennifer Davies

It doesn't do anything. It doesn't light up. It doesn't download pictures or music. It's just a piece of cardboard, with a picture of a baseball player and some stats.

Is it any wonder the venerable baseball card - faced with a slew of high-tech competition - is in a slump?

SPORTS CARDS - San Diego Padres star Trevor Hoffman is featured on a sheet of cards produced by Upper Deck. The sports card business has seen its stock decline steadily as it faces massive overproduction and waning interest. CNS Photo by Charlie Neuman. The sports trading card business, a $1.2 billion industry in 1991, has seen its stock decline steadily as it faces massive overproduction and waning interest from investors and children alike. Sales of sports cards last year were about $270 million.

Long gone are the days when the latest baseball card release would send swarms of boys to the local drugstore. Also over is the rampant speculative investing that defined much of the 1980s and early 1990s, when people bought cards thinking they could fund their early retirement with a mint rookie card of Jose Canseco - now valued at a whopping $6.

While the heyday of baseball cards might be long gone, a fight is looming for control of Topps, one of the storied brands that helped build the business. The New York company, which has struggled with flat sales for several years, is for sale and attracting plenty of interest.

In one corner is an investment group led by Michael Eisner, former CEO of the Walt Disney Co. In the other is Upper Deck, now Topps' main rival. Upper Deck, a Southern California company, entered the industry in 1989 and quickly became a powerhouse through innovation and aggressive business practices.

While Upper Deck has made the more generous offer - $10.75 a share, or $425 million in cash - Topps has viewed the bid from its toughest competitor with suspicion. The bid by Eisner's group, while less generous at $9.75 a share, or $384.5 million, has been favored by Topps' management, though not all of the company's shareholders and directors agree.

Whatever Topps' fate, its sale will have huge implications for the baseball card industry, a business that Major League Baseball has been feverishly trying to reinvigorate.

Concerned about the glut of products, which limits value and confuses consumers, Major League Baseball

recently winnowed the companies that could produce cards from four to two: Topps and Upper Deck.

Organized baseball, which jointly with the Players Association controls the use of team logos and player images, reduced the number of card sets that can be issued in a year from 90 to 40. There are plans to further cut the number of sets in 2008.

Many industry watchers are concerned that a sale of Topps to its chief rival could set the industry back just as it seems to be improving its fortunes. Sales last year inched up by about $20 million from 2005.

"If one of those companies goes away, the market loses some of its innovation," said Scott Kelnhofer, editor of Card Trade and Tuff Stuff, industry trade publications.

Ben Henry, who writes the Baseball Card Blog, said an Upper Deck acquisition of Topps would be a blow, especially to those collectors loyal to Topps, who consider it the iconic brand.

"Are we to trust that they will continue to make Topps with the same spirit that Topps had as an independent company?" Henry said.

SUPPLY AND DEMAND

The baseball card business has faced the specter of one-company control before. From the 1950s to the 1980s, Topps dominated the market. After a legal challenge, Topps' exclusive license was restricted to the business of selling cards in conjunction with gum. Companies including Donruss, Fleer and later Upper Deck then started offering cards.

The influx came amid headlines about vintage cards fetching eye-popping prices, such as the 1952 Topps Mickey Mantle card that sold for $3,000 in 1980 - an unheard of price at the time.

"A lot of people were investing in baseball cards instead of stocks and bonds," said Brian Fleischer, price guide editor for Beckett Baseball. "Card shows and conventions were packed."

Card companies produced more cards than ever before, and buyers bought boxes and boxes of them, storing them in their attics and waiting for the value to skyrocket, said Pete Williams, author of "Card Sharks: How

Upper Deck Turned a Child's Hobby Into a High-Stakes, Billion-Dollar Business."

Those buyers didn't understand the fundamental economic reality of collecting: Scarcity breeds value. For instance, the renowned Honus Wagner card from 1909, which recently fetched $2.35 million, is valuable because there are so few of them, especially in near-mint condition.

During the 1950s and 1960s, the cards of Mickey Mantle, Yogi Berra and Frank Robinson were collected by children, not investors. As a result, few survived intact.

Not so with those produced in the 1980s and early 1990s.

"It wasn't so much that one player's card could fund an early retirement as much as the notion that if you bought 500 or 1,000 (or more) examples of a player's rookie card that it could result in a big payday," Kelnhofer said.

With thousands of collectors buying thousands of cards, baseball cards became like any other investment bubble, from tulips to dot-coms, its demise hastened by the 1994 strike, which caused many fans to turn away from the game.

"The cards you bought in 1980, they aren't worth what you bought them for," Williams said. "Everybody saved them, and too many were produced."

Or as Fleischer put it: "The bottom just dropped out."

CHASING CARDS

As sales began to slide in the 1990s, Upper Deck and others tried to come up with ways to create value. There were holograms to verify authenticity and autographed cards to boost their desirability.

One of the newer practices is to insert mementos within the cards - a piece of the game jersey of a player like Curt Schilling or a sliver from a bat used by Albert Pujols.

Then there is the random addition of an item rare enough to be worth hundreds, or perhaps thousands of dollars. Take the pack Upper Deck recently released that contained a World Series ticket signed by Babe Ruth. That card is valued at $40,000, Fleischer said.

"It's basically a form of legalized gambling," said Monty DeLong, owner of CJ Sports Cards in San Diego. "It's finding that hot card that is worth $20,000 in a pack you bought for $100."

The possibility of scoring big especially appeals to the well-heeled collector, one who doesn't blink at spending $500 on a pack of new baseball cards, said Gregg Kohn, baseball product manager at Upper Deck.

Unlike the old days when packs were aimed at children and cost as little as 25 cents, some new packs today can sell for as much as $700. The high-priced packs have limited-edition cards that are considered more valuable and also could include "chase cards" such as the World Series ticket signed by Ruth.

"You've got your whales who will drop $2,000, $3,000, $5,000," Kohn said.

And in today's market, that type of customer is key to a trading card company's bottom line.

"Right now, it is skewing to the high-end," Kohn said.

YOUTH DISCONNECT

In an era of multimillion-dollar contracts and corporate skyboxes, it's not surprising that children would be squeezed out of the baseball card business as well.

But it's not just the prices. In an always-connected world with splashier sports like football and basketball, it's hard to find anyone under 30 who really cares about the game, said Williams, the "Card Sharks" author.

"They've lost a generation," he said.

Whereas kids once used cards as a way to track their favorite player's stats, players nowadays switch teams so often that it is hard to create a bond and statistics are widely available on the Internet. Watching a baseball game - which used to mean a special trip to the ballpark - is now as easy as turning on the TV, where there are dozens of channels devoted to sports.

"Today, kids have so many different options - video games, Xboxes, the Internet," Fleischer said. "It's not so exciting to spend a buck and get a card."

Colin Hagen, baseball's vice president for domestic licensing, agreed that too many children have turned away from card collecting. To reach out to them, Major League Baseball made sure that both Topps and Upper Deck focused increased marketing on the youth market with advertising on TV channels such as Nickelodeon and magazines such as Sports Illustrated Kids.

Upper Deck has created a Web site where kids can enter codes from their baseball cards to rack up points for prizes. More than 160,000 children have signed on to the site to participate.

Kohn added that Upper Deck has spent more in the past year marketing to younger collectors than it has in the previous 10 years combined.

"If kids are back in the hobby, then their fathers, their parents are back in the hobby because they have to take them to the hobby shop," he said.

So far, the outreach appears to be working. In 2005, 9 percent of boys ages 8 to 11 said they collected cards. Last year, that number climbed to 28 percent, Kelnhofer said.

Hagen said total baseball card sales are up 29 percent for the year. DeLong, who owns one of the few remaining card stores in San Diego County, said his sales are up about 20 percent from last year.

That resurgence, in part, might explain Eisner's interest in Topps, which also has a lucrative line of candy offerings, from Bazooka bubble gum to Ring Pops as well as card deals for other major sports.

To Upper Deck, the acquisition not only would mean absorbing its chief competitor but also gaining an iconic brand. Topps also would bring along its stable of cards with big-name players in such sports as football, basketball and hockey.

Upper Deck set a July 24 deadline for Topps to accept or reject its proposal.

Whoever wins Topps, Hagen said he thinks the baseball card business is due for a turnaround.

"The industry is going in the right direction, and there is more optimism about it than I've seen in my 17 years in the business," he said.

But Fleischer, the card pricing expert, said he doesn't expect baseball cards will ever regain their former prominence.

"The world has changed too much. People aren't collecting cards like they used to. They aren't collecting stamps like they used to either," he said. "People are spending their money in other ways. Buying what is essentially cardboard just isn't high on the list."

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