THE FOURTH QUARTER OF SPORTS MEDIA: FALLING BUNDLES, RISING STREAMS

BY ED DESSER, JOHN KOSNER JANUARY 8, 2021 2:55AM

As audiences abandon cable, media pros Ed Desser (left) and John Kosner say a streaming revolution is coming to sports. Part I of a two-part series.
COURTESY ED DESSER AND JOHN KOSNER

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The advent of electronic sports media's "first quarter" started a century ago, first as radio game recreations from press reports in 1920, and then as live on-site play-by-play (boxing and Pirates-Phillies baseball) in 1921 on KDKA in Pittsburgh. In the second quarter, broadcast TV ascended, with live sports becoming national weekend daytime and local primetime TV staples in the 1960s and '70s. The third quarter came via cable TV, adding huge programming volume and bringing to fruition in 1979 the previously unthinkable notion of a 24/7 sports network: ESPN.

Today, as platforms like Netflix, Disney+ and Amazon lead entertainment, and now have higher penetration of broadband than pay TV, we are entering the sports media's "fourth quarter" and its impending inclusion into the new mainstream—emphasis on *stream*.

With the annual **Consumer Electronics Show** (CES) taking place virtually next week for the first time, we thought this would be the perfect opportunity to look out into the digital future and project what the next phase will look like. First, let's recap the scores....

- ESPN+ is the highest-profile sports streamer today. Amazon has invested in top brands like NFL and EPL rights. New streaming entrants FloSports and DAZN bought up niche sports and boxing, respectively, while fuboTV offers a streaming package of multiple linear sports and entertainment networks. However, none has yet become a true aggregator (think cable TV for the past 40 years), and we do not believe any single entity or platform will—at least for the next decade. Instead, we see a confluence of factors leading to a multiverse of sports viewing options for the remainder of the 2020s.
- In entertainment, AT&T launched HBO Max, Comcast unfurled Peacock, and Disney has built the first true Netflix challenger with Disney+ (after consolidating Hulu and Star from Fox). CBS was early with All Access, but streaming remains a relatively small side business for CBS and Viacom, and essentially nonexistent at Fox. Meanwhile, Netflix expanded its domination during COVID and now claims 195 million non-sports global subscribers. Netflix has not only redefined the streaming viewer experience; critically, it has done so at price points that for now undercut the rest of the entertainment industry. Otherwise, it's hard to imagine that Disney+ would price itself at $7.99 (as of this March), especially with first-run Disney movie content. Or that HBO Max would be bringing blockbuster Warner Bros. movies direct to subscribers in 2021 at no extra charge. Or that each of these services would be subsidized and magnified through wireless carrier bundles (T-Mobile, Verizon and AT&T, respectively). The super low (to *zero*) prices for high-end entertainment fare create a significant challenge for high-priced sports content purchases by streamers going forward.

Digital Streaming Landscape

	2020 Q3 Subscribers[1]	Price (ad-free)[2]	Sports Content
N	195.2M	$8.99/mo	
prime	140.7M	$8.99/mo	Select live NFL games
Disney+	73.7M	$6.99/mo	
tv+	42.6M	$4.99/mo	
hulu	35.5M	$11.99/mo	
HBO max	28.7M	$14.99/mo	
peacock	26M	$9.99/mo	NBC and NBCSports channels live and on-demand
CBS ALL ACCESS	17.9M	$9.99/mo	CBS and CBS Sports HQ channels live and on-demand
ESPN+	10.3M	$5.99/mo	Live sports (no NBA or NFL), original shows and documentaries

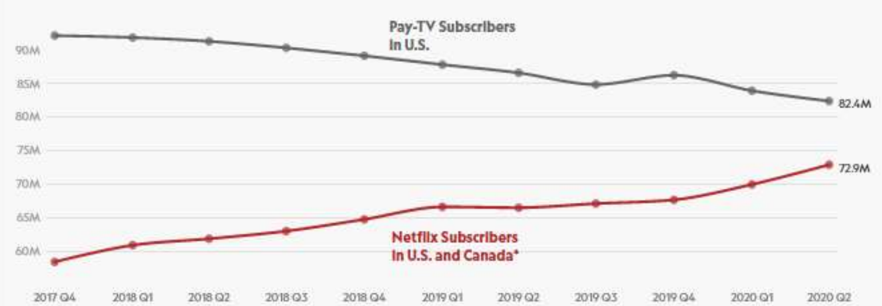
[1] Amazon Prime's total is an estimate. Peacock's total includes sign-ups to the free version of the service.
[2] Hulu, Peacock, and CBS All Access cost $5.99/mo, $4.99/mo and $5.99/mo, respectively, for ad-supported streaming.
[3] A bundle of Disney+, Hulu and ESPN+ costs $12.99/mo.
Table: Lev Akabas • Source: Variety

In sports, ESPN/ABC, Fox/FS1, Warner/Turner, CBS/CBSSN, and NBC and its cable channels still remain the kings of live major U.S. properties, holding the pay TV bundle together.

However, that bundle is fraying:

- Cord-cutting continues unabated. Another 5 million subs exited in 2020;
- More than one-third (37%) of the 121 million U.S. TV homes have cumulatively eschewed or abandoned traditional pay TV;
- Cord-shaving, or cutting back on service, has further eroded the penetration of expensive top sports networks, shrinking available audiences;
- Virtual MVPDs (like YouTube TV, fuboTV and Hulu Live) no longer pick up the slack;
- COVID-19 stopped sports cold last spring and posed formidable challenges upon their return—no crowds, scrambled schedules and huge additional expenses (though with some production-efficiency savings);
- According to Roku's 2020 study, 28% of cord-cutter households ranked the loss of live televised sports as their top reason for cutting the cord;
- Entertainment streaming services filled the void with extended free trials and special events such as *Hamilton* on Disney+ on July 4;
- Perhaps most important, a generation of younger viewers who have grown up with smartphones (an entertainment ecosystem in their pocket) has accelerated the bundle's decline by being "nevers"—new households that have never had linear pay TV.

The Gap Between Pay-TV and Netflix Subscribers Is Shrinking



* There are approximately 65.3 million Netflix subscribers in the United States.
Chart: Lev Akabas • Source: Comparitech; Leichtman Research Group

Sports media's third quarter is ending with a level of uncertainty we've never seen before. Besides **the NFL**, there are no sure things. Perhaps that is why we expect essentially one last "traditional" rights acquisition cycle, where the "surviving" sports TV networks reach for still-richer NFL agreements to maintain relevance and boost their own asset value, with consolidation likely to follow.

But in making bigger and bigger rights commitments, the leading networks will find themselves in a paradoxical trap. The digital platforms that command the most attention from young sports fans—YouTube, Instagram, Twitter, Snap and increasingly TikTok—pay practically nothing in rights fees. None carry live games, and all flaunt fairly comprehensive highlights on their platforms (both through league deals and user-generated content). Going forward, those paying the most (ESPN, Fox, Warners, NBC and CBS) will have the least financial flexibility to invest in new approaches necessary to attract young audiences, who are less likely to watch live three-hour **game "marathons**."

For over three decades, the traditional pay-TV bundle powered non-gate revenue growth for pro and college teams on a scale never before experienced. But on Dec. 10, 2020, at a four-hour Investor Day presentation, the biggest beneficiary of traditional bundle economics, the Walt Disney Co., laid out an unequivocal path forward: streaming. Disney is effectively betting a world-renowned $325 billion company on it. We may look back at that date as the demarcation between the old and the new sports media worlds.

In Part II of this series, we will look at what we expect the fourth quarter of sports media to look like. How will the MVPD bundle morph? What moves are the linear stalwarts of the industry likely to take in their next acquisitions? Will a new bundle emerge, or will the business further disaggregate? How will sports fans navigate the new world's options and alternatives? What benefits are in store for tomorrow's fan in return? Look for those answers here next Friday.

Desser, a senior media executive at the NBA for 23 years, founded Desser Media, a sports media consultancy that provides valuation, negotiations and expert witness services. Kosner was the senior digital executive at ESPN for 20 years. In addition to managing Kosner Media, a digital and media consultancy, he is an investor and advisor in sports tech startups. Together, Desser and Kosner ran NBA Broadcasting in the 1980s and '90s.