THE 'FOURTH QUARTER' OF SPORTS MEDIA: STREAMING INVITES NEW BIDDERS FOR EVENTS AND LEAGUE RIGHTS

BY ED DESSER, JOHN KOSNER JANUARY 15, 2021 2:55AM

As audiences abandon cable, media pros Ed Desser (left) and John Kosner say a streaming revolution is coming to sports. Part II of a two-part series.
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Last week, we wrote about electronic sports media heading into its **"fourth quarter"**—a new streaming epoch driven by developments in tech and entertainment. Today, we examine how the business will further evolve this decade.

We expect the incumbent sports networks to lock in historical advantages (existing rights, relationships, distribution, revenue and brand names) with expensive new **NFL** agreements, in time for a 17-game regular season.

However, sports will also start to make sense for entertainment streamers, because it offers compelling, day-to-day, original content that provides continuity to help businesses built around hit-driven binge viewing and shows to fit everyone's filter bubble of taste. (Recall USA Network launched with entertainment—plus MLB, NBA and NHL). In fact, other than gaming and the occasional blockbuster movie, sports may be the last category with broad enough appeal to attract the remaining streaming holdouts. Sports is appointment viewing, an advertising magnet and a means of counter-programming against services with stronger libraries like **Netflix**. Managing churn is also likely to drive seasonal sports acquisitions (e.g., The Masters), particularly for non-football months.

To integrate sports successfully, entertainment streamers will have to upgrade their home-screen experiences originally designed for video-on-demand (VOD). They'll also need to add live curated scheduling (as they do for shows/movies), and personalized real-time scores, stats and highlights, to serve sports fans.

The path to follow is fairly well worn. TNT grew quickly with just a half-season of NFL Sunday nights, NBA rights and the MGM library. Then Fox Broadcasting hit its stride with *Married with Children*, *The Simpsons* and Sunday afternoon NFL. The same process was reinvented over the past 20 years with HBO offering movies, boxing, *The Sopranos* and *Game of Thrones* to justify $15/month. Netflix did it, originally with movies and TV shows (delivered via mail!), and now on-demand streaming hits such as *House of Cards* and *The Crown*, a vast global library, and a content budget equivalent of everyone else's combined. The profitable formula: Offer high-demand, exclusive, promotable content (such as sports) to attract new subscribers, multiply by a price increase, plus ad sales.

Major SVOD platforms are approaching critical mass distribution thresholds, thanks to U.S. broadband penetration that's greater than conventional linear cable networks, enabling them to provide similar or superior exposure for sports. While Netflix and Apple have abstained thus far from live sports, focusing on long-tail evergreen content, will they reconsider? If these digital goliaths choose to invest, they will be able to pick off packages from traditional sports platforms while barely denting their earnings per share. They can justify outspending linear TV because of their scale, applications for data, and superior monetization capabilities. More commerce via **Amazon**, more engagement from Netflix, more services revenue for Apple. However, they don't *have to* do any of this; they already possess billions of active customers.

And, as Lightshed's Walt Piecyk points out, "The one thing you're never going to disconnect is your cellphone." That makes AT&T (177 MM subs), Verizon (120 MM), and T-Mobile (102 MM), potentially the "new bundle(s)." Do the carriers now move to acquire live rights themselves to motivate 5G upgrades and book sports subscriptions as their own "services" revenue?

Do players like Roku and **Google**'s Chromecast get into sports, with their combination of TV browsers and app stores, making them owners of exceptionally valuable home screens? Will retailers like Walmart and Target concede the combined retail/media field to Amazon alone?

The upshot: The bundle is melting, but there are more logical buyers of the resulting sports rights icebergs, with bigger balance sheets and loftier motivations.

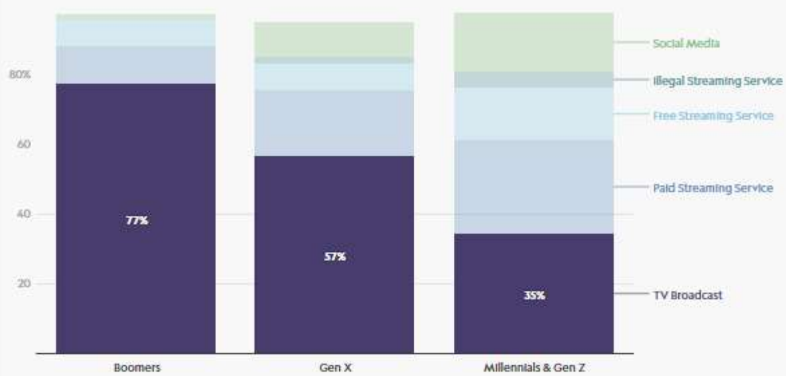
This leads us to predict that the traditional bundle will morph into mini-bundles. Some sports including the NFL will remain mostly on conventional networks via multichannel video program distributors (MVPDs), while others will be streamed. Think ESPN+/Disney+/Hulu, which together account for more than 100 million U.S. subs, or perhaps Peacock, HBO Max and Paramount+ selling as a package.

Amazon already *is* its own 112-million-sub bundle, combining shipping, video, music and book content, and the Fire TV Stick, and it could use Twitch (the most popular free live-streaming service) as a modern alternative to national "broadcast" distribution with a much younger audience.

For rights holders to embrace streaming as a *primary* distribution platform, the magic "critical mass" number might be 50 million active subscribers. Here, growing direct-to-consumer services and mini-bundled subscriber bases begin to approach the shrinking pay TV universe size. And with the growing threat of piracy, rights holders will value partners like tech giants who can provide high-quality streaming.

Most Common Live Sports Viewing Platform by Generation

Millennials and Gen Zers are more likely to use streaming than TV broadcast as their primary platform.



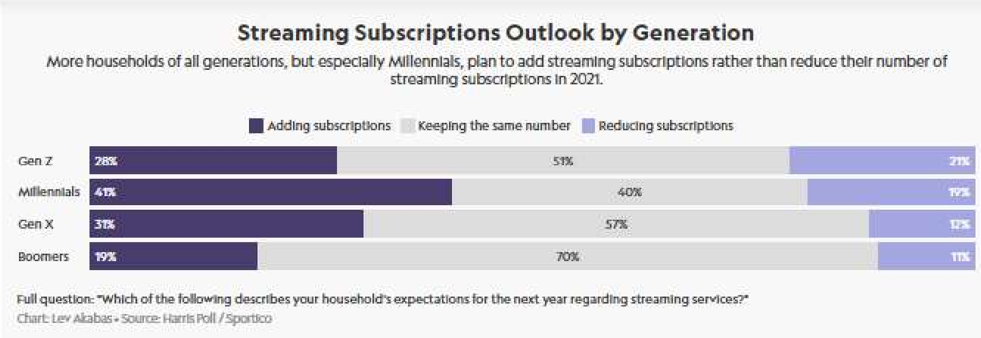
Full question: "On what platform do you most commonly watch live sporting events?"
Chart: Lev Akabas • Source: Harris Poll / Sportico

Rather than buy a single pay TV bundle, future fans will likely subscribe to three or four streaming services that include sports, switching some of them out during off-seasons (especially football), making 12-month programming calendars critical. This is little different than those of us who still subscribe to a traditional MVPD, but also buy at least one streamer.

International streaming will also help justify the migration. Amazon, YouTube, Netflix and Apple all play well overseas, and Disney's Star has significant penetration—and cricket rights—in Asia, potentially providing U.S.-based sports (think NFL, college, NASCAR) with wider worldwide exposure on prestige platforms than current small-dollar foreign syndication deals. It's a backstop with a global backdrop.

Google's YouTube is the biggest free video platform, and it's still growing, while Facebook/Instagram has a huge user base. They can all easily play in sports that prioritize exposure, generating the bulk of their revenue from gate and sponsorship. They are also more focused on reaching younger viewers, which could birth new subscription models.

Thus, we do not anticipate one dominant sports player in the 2020s, but several: each platform with certain sports, with its own unique selling proposition, and major customization. Sports fans will no longer be forced to take all or none, as with cable, but rather will be able to select those of greatest interest.



This will present new challenges for sports owners. Leagues will struggle to replace the automatic inertia-viewing that linear networks historically provided. Meanwhile, services will compete to have their unique package of rights, much as networks have done in earlier quarters of the sports media game.

The new fourth-quarter world will call into question how rights are apportioned. Will league inner- (regional sports network) and outer- (national network) market rights continue to be sold separately? Will leagues choose to do several separate packages or combine rights to increase leverage across multiple services? Will digital companies choose to invest big bucks only if *all rights* (linear and digital worldwide) are available? Long underutilized, league libraries will become more attractive as the source for new sports documentaries and "inside access" shows to stream. Also look for ubiquitous use of world feeds for TV production.

For fans, who will no longer have automatic access to everything through a single subscription, progress will come at a cost. Gone are the days of TV Guide and newspaper listings; content discovery will be a curation sport unto itself. Leagues will align with the platforms able to pay them the most money while providing sufficient exposure (to grow their *young* fan base), an ominous development for legacy cable sports and broadcast networks that no longer deliver the massive promotion, huge audience and desirable demographics they once did.

It is unlikely to be cheaper in total for fans and may make some pine for the "good old days." But ultimately the fourth quarter of sports media will bring true competition, with a greater diversity of offerings such as **megacasts**, group viewing, sub-second latency (true "live live") betting, personalized highlights products—and better service for tomorrow's sports fans.

We can't wait!

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.