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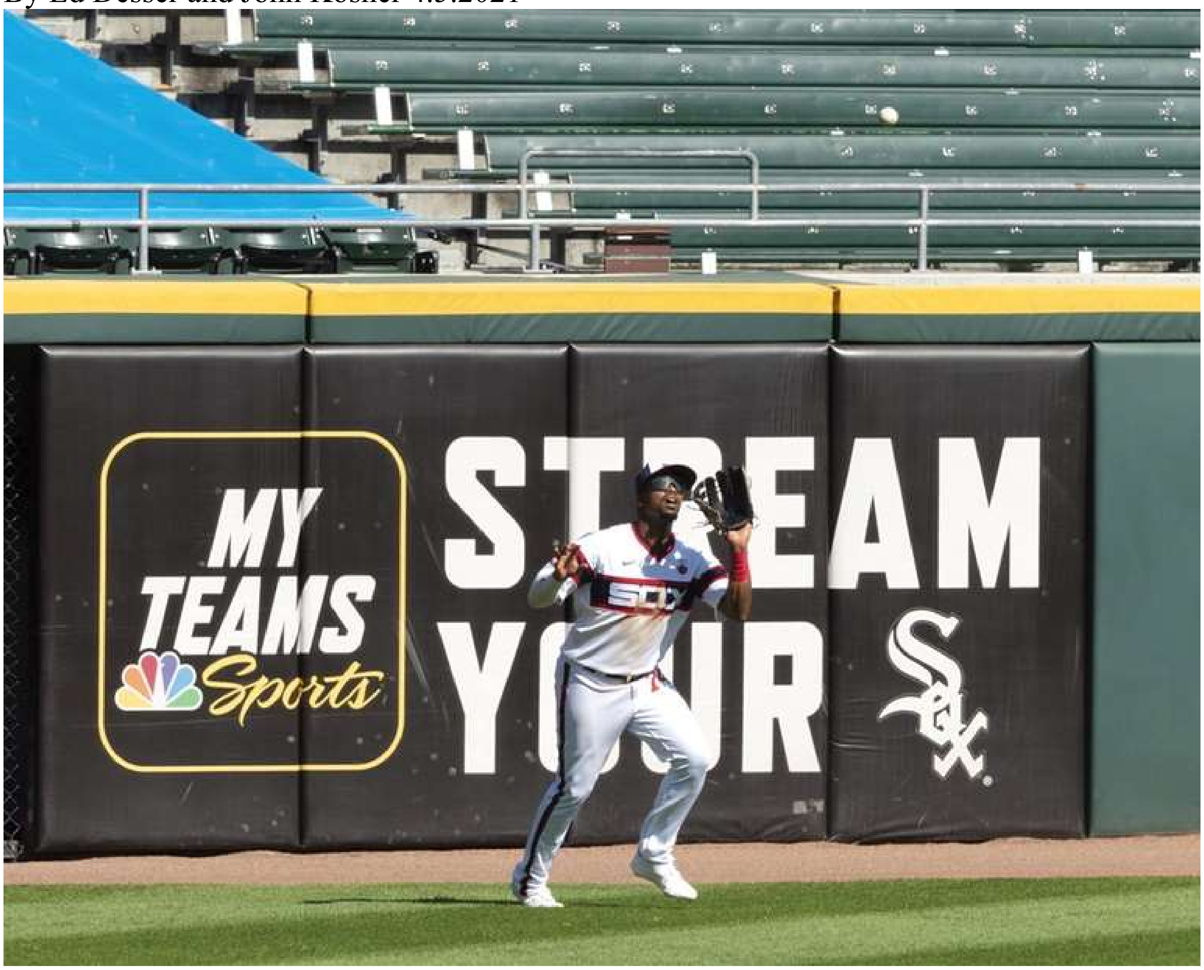
Key questions teams should ask now about their RSN deal

By Ed Desser and John Kosner 4.5.2021



"How much more are my rights worth?" For the last 30-plus years that's the first question teams had about their next local media deal. But now, with the NFL's $100 billion-plus agreements speeding pay TV's decline and (with an assist from COVID-19) Americans' move to streaming, change is upon us. "Power" RSN teams retain solid options, but for the majority of pro franchises, there is no one-size-fits-all solution. The pressing questions facing teams right now:

1. Can they expect to get an increase in rights from their current RSN partner?

That depends upon the leverage the team has in its market, and when and where its last deal landed. If under-market, the team should still expect some improvement, though not nearly as much a reset as in the past. If already at or above market, don't expect much, if any, growth. Supporting value: There is little else in media quite like the home team in the home market *(check out "How to make your media rights more valuable"; SBJ 4/23/18)*.

2. Since streaming is all the rage, should a team abandon RSN distribution now to establish a new position?

Probably not. RSNs still provide favorable economics and broader coverage — at least for now. Streaming has certain benefits, but is less likely to produce superior results for most teams near-term.

3. With the traditional cable audience aging, how can a team reach and galvanize interest among young viewers?

This was a big challenge even before sports media started to change dramatically in the last decade. Heavy use of social media, creation of non-live game products to attract younger fans (highlight sharing, partial games, experience-orientation, access to players and behind the scenes, esports, fantasy and betting) all play a role. However, teams need to explore some availability of their live product on platforms where young fans are. This cuts to the heart of traditional RSN exclusivity grants, which support lucrative rights payments.

4. Can a team retain streaming rights and sell linear rights to an RSN like the NFL did previously with Fox and Amazon on Thursdays?

Perhaps, but expect the RSN to demand a steep discount for the loss of exclusivity, and don't anticipate replacing lost rights fees with direct-to-consumer subscriptions alone. It might be better for the team to partner with its RSN to develop a differentiated companion streaming product which addresses both sides' interests. But the RSN will have to justify such an approach with its MVPD distributors, contend with MFNs and, of course, the execution of the streaming app matters *(see "Sports DTC squeeze play"; SBJ 1/13/2020)*.

5. Are long-term deals (10-plus years) still preferable?

Probably not. With much greater uncertainty in cable distribution, new opportunities developing, and added risk that highly leveraged RSNs may not always be able to meet their financial obligations, shorter deals seem prudent.

6. Are Apple, Netflix, Amazon and YouTube poised to be big bidders, filling in the potential void of retrenching RSNs?

Unlikely. Netflix has focused on long-tail "evergreen" programming — content they can produce and show for many years globally — unlike live sports, which principally matters when they're played. Apple has not yet shown interest in acquiring sports, focused rather on entertainment and its "services" business. Amazon has just made an $11 billion bet on NFL, but that's a national deal, and its emphasis has been international with major brands such as the Premier League. YouTube's audience is growing significantly without live sports, though it has dabbled with some regional MLS rights *(see "Netflix of sports"; SBJ 1/18/21)*.

7. How does a team know if it's a good DTC candidate?

Market size is critical in forming the denominator for any revenue projection. Relative popularity is next most important. If just tens of thousands of fans watch a team's games when they are available via RSNs (without game-specific incremental cost), what portion will choose to pay for a team subscription? Also, smaller audiences will influence ad and promotional value. However, a highly popular franchise in a single-team market could have a true opportunity. Further, if a team's current deal is well below market, it may have to consider DTC in order to achieve a material fair market value reset in today's environment. DTC is also another way (along with fans threatening to switch carriers) to address coverage gaps resulting from certain MVPDs (e.g., Dish, YouTube TV) not carrying particular RSNs. However, a team that doesn't deliver large audiences, or in a midsize market, may be better off being packaged with other teams on an RSN or local broadcast station.

8. How can leagues assist regional rights transactions?

A league could marry its own national network (NBA TV, MLB Network) and/or out-of-market streaming services (NBA League Pass, MLB.TV) with local team rights in individual markets. The league's network could serve as an optional backstop if a team can't get the local deal it desires, by packaging its inner-market game rights with the league network to derive value and exposure through a combined sale (while raising attribution/allocation issues). Will this become part of the new NHL/ESPN deal? Alternatively, leagues could revert to selling primarily national TV packages, as the NFL has done for decades.

How a team exploits its media rights is both its biggest business challenge and opportunity. Time to plan wisely!

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