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The coming sports DTC squeeze play

By Ed Desser and John Kosner

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Cable networks have provided material, growing rights fees and mass exposure for major sports properties for decades, collectively establishing sports' supremacy within today's programming bundle. However, MVPD subscriber counts continue falling, and despite rising per-subscriber fees to counteract the circulation decline, the available revenue won't remain as robust as originally anticipated when the current slate of deals were consummated. Sports rights holders therefore will need to reconsider how best to deploy their content assets as the "squeeze play" ensues: The most powerful few rights holders take an even larger share of rights revenue in upcoming deals; while the media environment bifurcates and virtually everyone else finds that neither the money they hoped for, nor the full distribution they're used to, remains.

Cable gained favor over traditional telecasts as it reached majority penetration decades ago, and the "dual revenue stream" enabled it to outbid broadcasters for live sports rights. But as cable's penetration flags, and broadband coverage grows, rights holders are confronted with a new choice between revenue and reach. They must seriously consider hybrid approaches to reach both traditional viewers and engage younger "cable-never" fans. And not just cable, but also the opportunity of wide broadband reach, apps/sites favored by audiences under 30 (like Twitch and YouTube) and direct-to-consumer (DTC) offerings. Yes, today's 65%-75% cable network penetration of TV homes is still acceptable to most sports properties when coupled with superior rights fees, but once that drifts closer to half or less over the coming decade, it will become necessary to re-slice the rights "salami."

This has already begun to occur, as the NFL offers "Thursday Night Football" on broadcast (Fox), pay TV (NFLN) and streaming via Yahoo, Amazon Prime, and Twitch platforms. Baseball has added a package on YouTube (formerly on Facebook). We believe as national packages like the NHL, NFL and NBA come up in the next five years, two things will happen:

1. Recognizing that sports is the linchpin (tenuously) holding pay TV together, the "must-have" major pro leagues will strike especially aggressive rights fee increases from existing media companies.

2. The pro leagues will morph their offerings, continuing to offer "traditional" linear coverage, while adding co-branded or sport-branded apps, packages or platforms, which go beyond the historical one-way delivery mechanism, and create added engagement, social, and business integration to new audiences.

But what will be left for remaining rights holders, after the powerful few make their next set of deals?

The answers might come first locally. Here, we expect high-level team affinity, combined with the changing economics and ownership of RSNs in the Sinclair/Amazon era (Amazon just bought part of YES for a seat at this table), to accelerate adoption of new models. For example, imagine if a team sold its traditional rights to an RSN (or ironically a broadcaster), but then also launched (or partnered with its RSN to create) a new team-devoted premium OTT product which combines game feeds, additional cameras/angles /replays, with a live stats feed, integrated betting, social interaction with other under 30-something fans, a special team event, merchandise, and game tickets only for these new digital "fan club" subscribers across innovative forms of mobile (e.g., a tighter play-by-play shot), and direct home video distribution. Though the RSN might pay less (like MVPDs do for nonexclusive network affiliates that are also available free over-the-air via antenna), it is confronting falling subs and increasing price resistance from MVPDs, and therefore needs to find some economies like nonexclusive rights to remain relevant — though at the risk of loosening its negotiating leverage. At the same time, teams can attract, and better serve, new-age "never" fans who wouldn't even consider becoming virtual MVPD subs.

The new DTC offering is a differentiated product, which provides the team with a direct business relationship with the majority of fans that aren't ticket or traditional cable buyers, helps them cement their relationship in a way that is impossible via a three-step intermediated RSN (team/network/distributor/fan). With growing wholesale network pricing, RSNs find attaining high penetration from MVPDs more challenging. As the penetration falls, these new combination opportunities will start to look more attractive to teams, while permitting RSNs to moderate rate growth. Of course, RSNs are loath to allow buy-arounds.

This new world will provide significant business opportunity for streaming companies, app developers and performance marketers. Staring into this coming, grinding, fundamental change, rights holders would be wise to start thinking through their new models now. Just as they have had to confront digital ticketing, the secondary market, and demand for new types of in-venue congregating spaces, teams will now face churn and piracy. Making the new economic media models work will require ongoing marketing, new offers and tailored packaging. In this "new normal" of ADD fans, unlimited quality non-sports competition, and changing fan expectations, that's the way to still thrive in a world where only the strong survive.

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