STREET & SMITH'S
SBJ SBD SportsBusiness JOURNAL

Stream a little dream: Declining sports rights? We think not

By Ed Desser and John Kosner
January 14, 2019

From the beginning of sports media, new technology has enabled consumption. Early live sports TV consisted primarily of weekend events on the three national broadcast networks and club/school events on local stations and syndication. Then, widespread cable and its dual revenue stream opened the floodgates, introducing multiple 24/7 national sports networks and RSNs, delivering thousands of additional games and ballooning sports revenue (and player salaries).

In the last two decades, digital technology multiplied sports channels and ushered in multi-game subscriptions like Sunday Ticket and League Pass. Meanwhile, the internet made worldwide scores, news and highlights instantly accessible, mobile untethered viewing, and social media-enabled "virtual" sports bars.

Today, streaming technology is changing the sports media paradigm again, like cable did four decades ago. The incumbent networks (e.g., ESPN, Fox) remain well-positioned, but the digital tech titans have entered the field of play, so far focused on shorter-term rights, experimentation and non-exclusive grants (e.g., YouTube has regional rights to some MLS teams and virtual MVPD cousin YouTubeTV has become a major sponsor of the World Series and NBA Finals). Amazon bought EPL and "Thursday Night Football" rights, and Facebook has daytime MLB games. Among legacy players, ESPN+ has daily MLB and NHL games, MLS Direct Kick, and UFC. Turner's B/R Live includes Champions League, 65 NCAA Championships and, intriguingly, partial NBA League Pass games.

While the techs have the money, recognize the importance and therefore have an interest in live sports, they are not yet willing to spend massive amounts of it for major exclusive rights packages. There are at least five reasons:

1. Most live sports viewing exists on linear TV and none of the tech giants possess that asset yet (though Amazon has shown an interest in buying some Fox RSNs).

2. The traditional incumbents continue to have substantial budgets to continue buying these rights based upon broad distribution, high subscriber fees and large advertising income.

3. They have the motivation to do so: Existing sports networks are dependent on exclusive sports rights because their very identities remain directly tied to sports TV. In addition, as broadcast networks get priced out of the top entertainment programming by Netflix, Amazon, Apple, HBO, etc., sports is even more important as must-have programming to stay in skinny bundles.

4. In an offense/defense strategy, linear players are expanding their own streaming and direct-to-consumer capabilities to better serve fans and attempt to keep the tech goliaths at bay.

5. The techs view sports acquisitions more as R&D expenditures than their primary business. There is not a proven digital business model that generates the kinds of live sports revenue (and viewership) that legacy linear media still can.

Therefore, as NFL, NHL, AAC, NASCAR and NHRA rights are soon negotiated, the traditional networks will continue to provide substantial payments, and wide distribution, the twin media goals of most sports enterprises. The question remains: Will today's tech dabbling prove to be just an appetizer, or will they stay on the sidelines when the big bidding begins? We expect to see the following:

• Traditional linear players will keep most of the major packages, generally at higher prices (the rollout of legalized sports gambling will provide new rationale), but with some significant modifications, such as leagues carving out streaming rights, or creating a new package of events which are excluded from TV.

• The rich will get richer and those properties in the middle (e.g., NASCAR) will get squeezed.

• New digital packages, like MLB on Facebook and NFL "TNF," will be created/expanded specifically for streamers. Unlike cable, which largely replaced broadcast as the primary platform for live sports, digital packages will expand and supplement, not replace, TV over the next contract cycle.

• Amazon, YouTube, Facebook and Twitter will expand their sports programming offerings, including through acquisition of events they can distribute worldwide, such as tennis, volleyball and esports.

• New entrants will also take their piece of the programming pie, such as FloSports buying up Olympic sports and DAZN taking more boxing.

• More sports will super-serve their biggest fans through targeted niche streaming offerings like NHRA All-Access and PBA Xtra Frame. NBA League Pass is a truly global, robust offering customized for different territories.

• Most sports fans will continue to demand a wide selection of major sports, so expect them to retain the TV "bundle." Most would not be satisfied just getting certain sports/matches, as Amazon Prime or Netflix subscribers can be satisfied with a single SVOD package featuring a wide range of entertainment programming, nor would it be cost-effective to buy multiple packages. Pay attention to sports-focused Virtual MVPDs like YouTubeTV and FuboTV and sports-specific bundles.

• Smaller sports properties, which don't generate meaningful rights revenue, will transition their events to streaming platforms, developing direct customer relationships, reducing TV production costs, and improving programming hours, scheduling, and net revenue, but sacrificing viewership potential.

• Tech players will consider buying traditional linear sports media platforms (e.g., New Fox, Fox RSNs, CBS) to gain entry to the major league sports club.

For almost 50 years, critics have predicted the end of the sports TV rights bubble. We're still waiting.

Ed Desser is president of sports consulting firm Desser Media Inc. (www.desser.tv). John Kosner is president of Kosner Media LLC, a new sports and digital consulting company. Together they ran the NBA's media operations in the 1980s and '90s.