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Sports goes direct-to-consumer

AMCIA

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Contents

Key findings	2
Introduction	3
What are the opportunities for sports online?	4
Addressing online risks and challenges	8
Case studies	10
Appendix	13

Key findings

- An increasing amount of major sports are being made available online, with media companies, leagues, and clubs increasingly going direct-to-consumer (D2C).
- The key opportunities include creating a direct relationship with fans that can be leveraged into new revenue streams, product enhancements, and greater engagement.
- D2C services also offer another way for rights holders to exploit their plentiful inventories and to adapt their strategies to the needs of the customer.
- Unrestricted by linear broadcast constraints, online services can offer an enriched and personalized viewing experience of live games.
- Naturally, there are challenges to be overcome—licensing deals with linear TV are still the biggest revenue source for most rights holders, and D2C services need to enhance rather than replace traditional deals.
- With online rights generally bundled in with linear rights, it is still difficult to gauge the true value of online rights.
- Successfully operating a service comes with challenges, including the cost of marketing and the skill sets necessary to manage a D2C service across multiple territories.
- The COVID-19 pandemic has shut down live sports around the world, but one consequence has been to accelerate the development of online, D2C offerings.

Introduction

Television has undergone a revolution in recent years, with consumers around the world embracing the opportunity to view content on a connected device of their choice and at a time and place of their choosing. Live sport is increasingly being viewed on subscription streaming platforms like Amazon, DAZN, and ESPN+, while YouTube has become a free-to-view destination for major live events and highlights. Social media like Facebook and Twitter are helping to engage fans in the run-up and aftermath of sporting events, as well as dabbling in live streaming themselves.

With the technical barriers to streaming live events at scale having been lowered, with advances in every part of the chain from capture to delivery via consumer broadband services, an increasing amount of major sports are being made available online. The advent of 5G is likely to be highly beneficial to sports streaming as it will significantly reduce latency—the time lag between the live TV signal and its arrival on the consumer’s device.

Perhaps what is most exciting for sports rights holders are the opportunities for monetizing sports fans that new online services opened. The sports audience is varied, from the occasional viewer dipping into events like the Super Bowl, the Olympic 100m finals, or the FIFA World Cup to more obsessive fans who want to review key plays, call up stats, or follow a team or sport that is rarely given airtime on traditional channels. Additionally, what about time-poor viewers who just want to tune in for the climactic game or even the last quarter of a game? They can finally get a more tailor-made service online.

There are, of course, challenges with a wholesale D2C move. The relationship between sports and linear TV is a long-standing and lucrative one, and many rights holders are understandably reluctant to put them in jeopardy. Sports is overwhelmingly viewed live, so the time-shifting and binge-watching habits Netflix and others have fostered do not really apply. In this white paper, Omdia will look at the way sports leagues, rights holders, and aggregators can identify and develop a winning strategy for this new era.

As this white paper was being written, the world of sports has been almost totally shut down as governments attempt to control the spread of the coronavirus (COVID-19) pandemic. It is impossible to say when live sports will return, or what the long-term impact of the shutdown will be. But the crisis has forced sports broadcasters to foreground online and D2C offerings, and Omdia is certain that this change will be here to stay. Virtual sports and esports are seeing a short-term increase in exposure (with the likes of ESPN and Sky airing the Formula One Esports Series, and the EA FIFA Stay and Play Cup) at home, which will translate into new opportunities in the longer term.

What are the opportunities for sports online?

Creating a direct relationship with fans

The move to go D2C is a hot issue in the media industry, which is of course not limited to sports. The world's biggest media company by revenue, Walt Disney, is the most high-profile example of a switch to a D2C strategy. The entertainment conglomerate launched its Disney+ service in the US in November 2019, already achieving more than 50 million subscribers.

Disney's D2C move followed its acquisition of BAMTech, the offshoot of Major League Baseball, which has been one of the pioneers of streaming sports online sports. BAMTech now powers both Disney+ and ESPN+, the standalone subscription service launched as an add-on to the leading US cable sports brand in April 2018.

Other US sports like the NFL, NBA, and NHL have also been at the forefront of launching Game Pass services, targeting not just out of market fans in the US but followers in other countries not always fully served by traditional media.

More than any other form of entertainment, sports is a vital component of identity and community among fans. It, therefore, is no surprise that building allegiance to a specific team has always been a critical part of the sports business. Launching a D2C online service is a very natural extension of that. It is an opportunity to provide additional means for the fans to connect and engage with their favorite athletes, clubs, or leagues. For the rightsholders, D2C service is a lot more than a way to extend the fan connection.

Authenticated services mean that leagues get access to data on their fans, including basic information like names and addresses, viewing history, favored sports and teams, device features, and connection details. This data can be leveraged into further monetization efforts, develop new products and refine existing ones, and drive further engagement.

Developing new revenue streams

Rights holders for major sports enjoy a healthy business from licensing their events to TV partners. However, a third-party deal risks taking a large part of the capacity for the development of a sports property away from the rights holder—particularly at a time when viewing away from the traditional TV set is increasing rapidly. D2C platforms provide opportunities to develop additional revenue streams from subscription, advertising, and other sources like merchandising.

D2C services offer another way for rights holders to exploit their plentiful inventories and add another dimension to their relationship with fans. They can be a 'long tail' play offering coverage of less mass-appeal sports or teams, with fans willing to pay a subscription fee in return.

The flexibility of a D2C online subscription is an opportunity to test and innovate with ‘packaging’ and service tiers. Operators can adapt their strategy to the needs of the customer, offering discounted subscription packages before the start of a season, standalone sales of an event (pay-per-view or day passes), or even cutting the price of a subscription package towards the end of the season.

Even without a paid subscription element, authentication can augment the service’s advertising capabilities. Audience data can be used to further deepen the relationship with sponsors and advertisers and potentially offer brands far more targeted and more cost-effective ways to reach their consumers than traditional linear TV spots. Custom audience segments derived from first-party data are particularly valuable for guaranteed programmatic advertising deals, which often command higher costs per thousand (CPMs) than open market programmatic and come with budget commitments.

Offering a truly personalized service

Unrestricted by linear broadcast constraints, online services can offer an enriched and personalized viewing experience of live games. While many of the traditional players can offer personalization and enriched experiences through their second screen apps, an online service can give users full control over their main screen experience. There are multiple feature options here:

- Choice of language, preferred team, and subtitling are particularly easy personalization features to offer. The service could further offer different commentary options and control over game graphics and notifications.
- Time and camera shifting can give the viewers the ability to direct their live events. Viewers can craft their replays with options for slow motion and different camera angles. This is known to be a key engagement factor for sports that revolve around set pieces or sports that focus on climatic events—goals, knockouts, or shots.
- Auxiliary content such as live statistics, polling, and interactive graphics can be augmented. An enhanced service can not only offer a choice and additional depth of traditional statistics surrounding gameplay, player, team, and league but also incorporate live statistics and data from tracking chips attached to players.
- Social media is an integral part of the modern sports fan experience. There are multiple ways to leverage social media in an online service, from allowing viewers to curate and post snippets of live action on their accounts to enriching the user data profile with social media insights whether for content recommendations or advertising segments.

Formula One (F1) launched its D2C app in August 2018. In preparing for the launch, F1 identified a potential market of 500 million fans worldwide and divided them into seven groups with varying levels of engagement in the sport, ranging from ‘purists’ to ‘incidentals.’ Through the app, dedicated fans can access features including live leaderboard data, real-time telemetry, and tire usage. The app also dovetails with F1’s traditional broadcast deals and more limited versions of the app (without race replays) are available in markets like Australia, Brazil, the UK, and the US.

The NBA continuously works to enhance the viewing experience for its D2C subscribers, particularly as a younger digital-native audience acquires critical mass among the league fans. In the 2016–17 season, the NBA introduced a ‘mobile view’ feature that offered a special feed optimized for smartphones. In March 2020, the NBA announced a partnership with Microsoft to develop a new D2C service platform that will offer personalized broadcasts. The new service will incorporate the existing league pass subscription plan and will use artificial intelligence (AI) to offer content recommendation drawing on game archives, fantasy sports, and other content. The enhanced D2C offer will also integrate social media and feature a rewards system for user engagement.

Exploiting inventory of rights to the full

US sports leagues are among the most proactive rights holders in the D2C space. The sheer volume of the games available has been a critical driver for this. A season and post-season of MLB comprise of more than 2,400 games, played over a period of six months. The NBA regular season is made up of 1,230 games from October to April, followed by between 60 to 105 games in the playoff series.

All the major US leagues operate their online subscription services—NFL Game Pass, NBA League Pass, MLB.TV, and NHL.TV. These are geared to generating additional revenue from out-of-market games, and reaching fans outside the US, where American sports do not have the same mainstream following and only the key games in the season make it onto the schedules of traditional broadcasters. These services co-exist with existing broadcast deals; games airing on a local TV station are simply blacked out on the online service.

Even sports with less sprawling programs will often have untapped reserves of content. An online service allows rights holders to have a complete archive of all the games available on-demand basis immediately after the end of play. This is important for subscribers located in multiple time zones in the world. Most of the US ‘game pass’ services offer re-runs of games and matches, often reducing the subscription price after the end of the season.

Archival and ‘brand extension’ content has become a lifeline sustaining fan engagement with D2C sports services during the unforeseen hiatus brought on by COVID-19. NFL is currently offering free access to its library of the past 10 seasons and its film archive, including originals *Hard Knocks* and *A Football Life*. DAZN is offering its subscribers a variety of localized tangential content including football-themed anime series in Japan, documentaries in Germany, and video call interviews with athletes in Italy.

Monetizing fewer mainstream sports

The internet is a natural home for fewer mainstream sports, many of which have been quick to exploit the opportunity of streaming. With its potentially global reach, the internet offers the possibility of aggregating highly engaged and underserved groups of fans in multiple territories.

This presents a window of opportunity for specialist digital-first players who would find it challenging to secure rights to mainstream sports. DAZN, the largest global specialist player, initially launched with a patchwork of mainstream sports deals in nine countries but has anchored its global expansion plan in boxing rights.

Red Bull, the energy drink company, sponsors more than 500 extreme sports and has become a de-facto league for many of these sports, as its multimedia arm, Red Bull Media House, holds events, produces content and distributes it via its direct to consumer online service Red Bull TV. The company's continued investment in this field is a testament to how successful its digital-first service has been in fostering the connection to extreme sports fans and driving engagement with its brand.

Spain's LaLiga has adopted a unique approach to developing its online presence, launching a D2C offering in partnership with some 64 Spanish sports federations, including badminton, cycling, chess, and weightlifting. LaLiga Sports TV went live in March 2019. Most content is free to view, but some events, like streams of matches from the second division of LaLiga, are offered on a subscription basis. The service is one part of LaLiga's aggressive social media strategy, which has seen it gain more than 100 million followers on some 22 platforms—more than the NBA and Premier League.

Addressing online risks and challenges

Maintaining established TV licensing revenue

Licensing deals with linear TV are still the biggest revenue source for most rights holders, which makes them naturally hesitant to switch to an online-only mode of delivery. At the same time, pure play digital rights aggregators interested in sports like Amazon and Facebook seem to have no intention of triggering a bidding war and rights inflation. This means that for mainstream sports, D2C sports services online need to be designed as an addition, not a replacement for traditional licensing deals. While this will sometimes mean lack of premium content—live marquee events—that would justify a paid subscription service, there is value in driving fan engagement through an authenticated service offering access to news, live scores, interviews, fantasy sports, and other content.

The US PGA Tour launched GOLFTV in partnership with Discovery in January 2019. The golf subscription service will be available worldwide outside the US and is grounded on a 12-year rights agreement under which the US cable company will pay \$2 billion. Its rollout is being gradually phased in depending on existing rights deals. In Australia, long-term partner Foxtel signed an agreement to add GOLFTV to its offer in January this year.

Tackling the uncertainty about how to value online rights

Research by Omdia among a range of industry executives involved in streaming showed that monetization was the biggest single challenge in live sports streaming, ahead of the quality of delivery and managing the technology infrastructure. The fact that online rights are generally bundled in with linear rights also means that it is still difficult to gauge the true value of online rights. It seems more than likely that the development of sports coverage online has been held back by fears of cannibalizing live coverage of games on linear TV, as well as uncertainties over what online rights are worth. The Indian Premier League (IPL) is one of the few sports federations to have successfully sold online and linear rights—Star India bought online IPL rights from 2015 to 2017 for Rs3 million (\$495,000). However, for the next cycle, Star India successfully bid for all rights.

Managing monetization effectively

Of course, successfully operating a service comes with challenges, including the cost of marketing and the skill sets necessary to manage a D2C service across multiple territories. Problems to be overcome include managing payments, especially in countries where credit cards are not widely used, interacting with local payment providers and

integrating them into the content platform, and adapting to different local currencies and tax systems.

Managing churn is a constant effort for any subscription-based service, and most sports are played in seasons, with breaks extending for months.

Operating in-house services

Leagues, teams, and aggregators offering their services will have to take on the challenge of creating, marketing, and delivering the service to consumers—something they will have previously relied on TV partners to manage and deliver. Rights holders will need to strike a balance between hiring in expertise and striking external partnerships to address these aspects of a D2C business and control their costs.

While many sports leagues and clubs will have already built some expertise in customer relationship management (CRM) as part of their marketing efforts, operating a D2C service will bring about many additional data collection and management challenges. Evolving privacy regulations, such as the General Data Protection Regulation (GDPR) in Europe, add further layers of complexity, particularly in the context of advertising.

Managing consumer engagement and churn is another challenge at the heart of operating a subscription business. The ebb and flow of engagement with seasonal content create a significant risk of churn. The latest Omdia consumer research shows that even generalist online video platforms with deep catalogs such as Netflix have users cancel the service and re-subscribe only when the content of interest becomes available. For sports services focused on major events, the situation is more acute as many of these tournaments can easily be covered in the period of the industry-standard one-month trial, after which there is little reason for the consumer to convert into a paying subscription.

Distribution partnerships are also something all D2C services must consider. Disney's partnership with Verizon in the US was an important component of the immediate success of Disney+, with 20% of its subscribers in the first quarter of operation coming via the bundled Verizon offer. Many European telcos are increasingly pursuing the path of 'super aggregators,' offering their customers entertainment packages bouquet beyond traditional pay TV and incorporating online services such as Netflix. This presents opportunities for new market entrants to secure reach and high-profile cross-promotion. Pure play digital-first aggregator, Eleven Sports, has partnerships with several Portuguese telcos (NOS, NOWA, Vodafone, and Alice).

Spain's LaLiga has a YouTube channel with 5.41 million subscribers (as of April 2020) but both FC Barcelona (9.24 million) and Real Madrid had more subscribers.

Case studies

DAZN

DAZN, the digital-first subscription service, grew remarkably since it launched in Japan, Germany, Austria, and Switzerland in August 2016. Omdia estimated that DAZN had 6.5 million across its nine territories by the end of 2019.

The history of DAZN's predecessor company, Perform, in sports rights distribution provided the company with a strong base of knowledge and insight on which to build its move into subscription sports. DAZN launched in Japan with a 10-year deal with the J-League, and in Italy, replaced Mediaset as a media partner of Serie A when the group decided to withdraw from pay TV sports. In Spain last year, DAZN was able to wrest rights to Moto GP and Euroleague basketball from Telefónica.

Partnerships with local pay TV operators and telcos have been key factors in the growth of Netflix, and DAZN has followed a similar strategy. In Japan, under an agreement with the leading mobile operator, DoCoMo, DAZN is now bundled in with various packages. In the US, DAZN is available to Comcast customers equipped with an Xfinity X1 set-top box (STB) or its Xfinity Flex streaming device. Under an agreement with Sky in Italy, DAZN is bundled in with Sky's online service.

DAZN's planned switch-on in 200 territories, now set for September this year, is a bold move enabled by a robust technology platform and worldwide rights to fight sports and boxing. DAZN set up a development center in Amsterdam in 2018, planning to hire 300 staff by 2023 in research and development (R&D), customer acquisitions and retention, and third-party integration teams.

DAZN is already operating across four continents and its legacy as Perform had it operating other types of streaming services, including the ad-funded website goal.com, low bandwidth streams for betting shops, and white label on-demand services.

NBA

With basketball arguably second only to football in global popularity, the NBA (played in the US and Canada) is a major property at home and abroad. In the US, NBA games are broadcast live on traditional channels and the federation's digital platform, the NBA League Pass.

At the national level, ESPN/ABC, TNT, and NBA TV have the rights to broadcast live games under a deal signed in 2016 worth \$2.9 billion per season.

In the US, the NBA League Pass is subject to a series of restrictions. All the games broadcast on either local or national channels are not available digitally live, but they became available in the online archive three hours after the end of the game. On top of the live stream of non-blackout games, the app (available on any device) gives access to match highlights, short videos, interviews, and statistics.

Internationally, the NBA Pass is available without restrictions and is provided at different prices in each country. The price gap within different territories has raised concerns about piracy in the past. However, in the 2016/17 season, the NBA geo-localized the streaming of every game so that it is impossible to watch live content outside the country where the subscription was bought.

The NBA has signed two significant exclusive deals with digital partners—Rakuten in Japan and Tencent in China. Both are the exclusive distributors of the NBA League Pass in their respective territories. These two agreements are particularly significant as neither of the two companies is a content producer or distributor.

IPL

The IPL is a short format cricket competition created by India's cricket body, the Board of Control for Cricket in India (BCCI), in 2008. A tournament is held every year in March and April, with eight teams playing each other twice before a final playoff section.

Unfortunately, the global COVID-19 pandemic postponed this year's edition; it may even be canceled—a major setback for an event that has built into a huge property on digital platforms.

Current rights holder, Star India, first acquired digital rights to the IPL in India in 2015, paying Rs3 million (\$47,000) over three years (2015–17). Star India then renewed its agreement in 2017, this time winning worldwide TV and internet rights in a single five-year deal worth \$2.55 billion.

On Star India's watch, the IPL has set new records for live streaming, with 18.6 million concurrent live streams for the 2019 final between Mumbai Indians and Chennai Super Kings on Star India's Hotstar online platform. Star India, now owned by Disney, said that, overall, 300 million unique viewers tuned into the IPL, up from 202 million viewers in 2018.

India's high level of mobile ownership and lack of fixed internet connections has been a key to Hotstar's success. All games are streamed live, with full coverage and six language soundtracks available on the paid-for packages and scores and highlights available for free. A partnership with the mobile operator, Reliance Jio, has also helped drive usage.

Manchester United

One of the most renowned clubs in the English Premier League, Manchester United has also been one of the most active of European clubs in developing its broadcasting service. The club launched MUTV, then a pay TV channel, in partnership with partners ITV and Sky, in 1987. Both partners were bought out, with Manchester United taking full control in January 2013.

At the time, MUTV was available in 80 countries but is now, according to the club, available in 172 countries. In the UK and some countries, MUTV is available as an a la carte pay TV channel and (since the 2016/17 season) a subscription service available direct from the MUTV.com website. The MUTV app is also on iOS and GooglePlay and platforms including Roku, Amazon Fire, AppleTV, and Xbox.

Live rights to the club's Premier League games are not available on MUTV, although highlights and in some countries time-delayed matches are shown subject to local rights agreements. MUTV does show pre-season friendly matches and exhibition games as well as women's, academy and youth team games. Other content includes press conferences, behind-the-scenes magazine programming, and interviews with past and present players.

Manchester United views its app as vital to reaching younger demographics who are more willing to watch content on connected devices and smart TVs than conventional TV sets. Full ownership of MUTV, it says, lends "a greater degree of control over the production, distribution, and quality of our proprietary content and better insight into how to evolve our digital media strategy." In the financial year to June 2019, MUTV generated total revenue of £10.1 million (\$13 million), out of total broadcasting revenue of £241.2 million (\$304 million).

Appendix

About Vindicia

Simplify subscription payments and create the ultimate fan experience

Delivering an amazing subscription service is more complex than just offering great content. Sports organizations must make it easy for fans to engage, pay, and stay. For a start, you must attract their attention, and be able to refine promotions to drive the highest returns. And supporting one or two payment methods will not deliver championship performance. Your fans need to be able to use their preferred payment methods and currencies.

Once you have developed different offerings to get customers engaged, you will want to grow that base. However, managing growth can get away from you without scalable technology in place, especially when you are dealing with surges around hot seasons or important events. Customer retention is as important as growth, and churn—active and passive—is the main enemy of a subscription business. Being able to partner with advertisers provides another monetization route.

Vindicia empowers sports organizations to overcome these challenges and focus on providing an enhanced fan experience with live events and exclusive content. With Vindicia to manage the subscription lifecycle, you can offer fans what they want, help them pay the way they prefer, and keep them coming back. Vindicia's subscription intelligence connects you to data that helps you understand your fans better—and makes it easier to provide the data advertisers crave for targeting and personalization.

Vindicia: Your subscription game plan

Vindicia supports the entire subscription lifecycle. You monetize more fans, retain them longer, and apply data-driven subscription intelligence to increasing revenue.

Subscription flexibility

With Vindicia, you can package your content in a variety of subscription and one-time purchase options, including:

- Seasonal subscriptions
- Team-focused subscriptions within league-based services
- Pay-per-view events
- One-time viewing options, including the ability to watch parts of a game
- Special offers and bundles for VIPs and season ticket holders

You'll be in good company. FC Barcelona is set to launch the new Barça TV+ service, using the Vindicia subscription management platform. It's designed to delight and monetize fans while giving the club more insight into what fans want.

Source: Vindicia

Vindicia leads the field in subscription lifecycle management

More than 100 business-to-consumer (B2C) companies, including many sports leaders, prefer Vindicia when choosing a subscription management solution. Why? Vindicia focuses on optimizing the elements necessary for global subscription success. Vindicia processed more than 940 million transactions worth more than \$38 billion. Delivering performance at scale supports Vindicia's clients' ability to provide the best subscription experience to their customers. It adds up to subscription joy for all.

Learn more at www.vindicia.com/sports.

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Omdia consulting

Omdia is a market-leading data, research, and consulting business focused on helping digital service providers, technology companies, and enterprise decision-makers thrive in the connected digital economy. Through our global base of analysts, we offer expert analysis and strategic insight across the IT, telecoms, and media industries.

We create business advantage for our customers by providing actionable insight to support business planning, product development, and go-to-market initiatives.

Our unique combination of authoritative data, market analysis, and vertical industry expertise is designed to empower decision-making, helping our clients profit from new technologies and capitalize on evolving business models.

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We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Omdia's consulting team may be able to help your company identify future trends and opportunities.

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