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# Sports media marketplace quickly evolving but still robust

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"No longer will the networks keep paying ever-increasing fees for sporting events."
— President, CBS Sports

When would you guess this was said?

Would you believe in the Feb. 11, 1985, Sports Illustrated? The NBA was generating just $22 million a year from CBS. Then, after NBC paid $601 million for four years, the same executive said, "I definitely see network rights fees plateauing." Doesn't sound out of place in 2017, does it? Deja vu all over again?

Sports networks have been perpetuating this narrative, hoping to lower rights-seller expectations, alleging that rights fees can go no higher, while they continue to do just that. Seizing upon perceived weakness, like the May 3 news that first-quarter cord-cutting led to 762,000 fewer subscribers, or recent ESPN layoffs, it might seem from this "alternative fact" rhetoric that the generational run-up of sports media values has peaked.

Let's take a careful look. Over my 40 years in the business, prices for major sports media properties have actually grown at double-digit annual rates, fueled by the importance of the sports-content product to media providers driving demand and ample cable-subscriber revenue igniting competition. Can this phenomena be perpetuated or will cord-cutting stall it?

While the sports media marketplace is undergoing significant change, it remains robust. Here's why explosive value growth should not abate:

■ Cord-cutting/shaving is relatively minor. It's a glacially slow process. So far, subscriber counts have only fallen about 1-2 percent each year. There are 2 million more MVPD subs today than in 2007. Despite "skinny bundles," most network subscriber levels are similar versus a decade ago. Higher per-subscriber increases for must-have sports networks outstrip declines in number of those subscribers, and household formation continues. This means the current $108 billion MVPD revenue is still growing — but just less than previously anticipated. Kagan projects $116 billion in 2026, and expect a larger sports share.

■ Sports is essential to MVPDs. Sports networks continue to be "must-haves." Competition among 3-4 cable/satellite/telco providers in most markets provide insulation from network drops, with sports enabling them to hold on against the rising tide of SVOD services. Plus, the growth of TV Everywhere is increasing the relevance of MVPDs to mobile-first consumers.

■ Virtual MVPDs picking up the slack. The launch of new "cable-like" packages by Hulu, YouTube, Sony, Amazon, DirecTV Now and Sling that include linear sports networks — most paying higher wholesale prices — are offsetting some of the declines from traditional MVPDs.

■ Over-the-top players adding demand. Sports has long been a new media technologies battlefield. New entrants join the ecosystem to distinguish themselves. Amazon (with a larger market cap than major sports players Disney, Fox and Comcast combined) just paid $50 million to stream the NFL's Thursday night games (up from Twitter's $10 million) for games already widely distributed via broadcast and cable. It can benefit from Prime subscription service lift, and the NFL can benefit from Prime. Google, Facebook and Hulu having hired sports programming experts. How long before leaders like Apple or Netflix come to play?

■ Finite supply. Unlike general entertainment, which only requires a decent script and production financing, more marquee sports content simply can't be created. The human body and the calendar impose physical limits. With growing demand chasing the essentially fixed supply, rights prices can only go up.

Social media makes it easier for fans to gather in front of screens, on virtual or real bar stools.
Photo by: GETTY IMAGES

■ New priorities change status quo. New team owners that come from hedge funds and private equity eschew tradition. They're more interested in revenue growth justifying the high prices they paid for entry into the most exclusive of clubs. Leagues looking to fund compensation for concussion liability or new collective-bargaining obligations are more open to new opportunities like jersey advertising, sports betting and esports. Colleges needing to cover new student athlete-related costs are also adapting. Schools are changing conferences or playing new Thursday and Friday night football games to generate more TV revenue from the same inventory.

■ New technology. Virtual and augmented reality and 4K are recent examples of ways that sports rights use expands. Next generation custom curation engines will make it easier for fans to consume events of interest. This will grow audiences, further propelling media asset values.

■ Social. Social media has made it easier and more efficient than ever for fans to join together and enjoy sports on a "virtual" bar stool. According to Nielsen, sports drives more than 50 percent of social TV conversations on Twitter. This stokes and catalyzes demand, and ultimately increases viewership, just as second screen experiences have energized participation (lean forward) in what was previously a (lean back) passive viewing experience.

■ Media/distribution consolidation. Media and distribution companies are combining. AT&T+DirecTV+Time Warner; Verizon+AOL+Yahoo; Comcast+NBC. Each is an example of content ownership with distribution platforms, which provide more ways for large content investments, like sports rights, to pay off, justifying higher rights fees.

■ Eliminating the middleman. New opportunities for sports entities to "self-publish" via streaming provides a safety valve

should traditional networks look to trim rights fee payments. WWE, UFC and the NHRA have already launched. While there is added risk, going direct and owning the customer relationship is king in digital.

Traditional sports media rights relationships are still successful, provide broad exposure and are financially rewarding. Every network executive I know covets at least one major property they don't have, which will keep the pressure on. During the past two years, the NBA and Big Ten have again nearly tripled their annual rights revenue. That same former CBS Sports president said recently, "Sports properties are like beachfront properties."

The sky is not falling, but the revenue landscape is more challenging. Maximizing media revenue now requires both maximal leverage placed on traditional sources and an open assessment of new ideas. Sports is no less popular, so sports networks with a cache of high-profile rights will have to raise prices to offset penetration declines from lost non-sports subscribers. Don't succumb to the convenient notion that sports rights values have somehow reached a crescendo. History, and many positive developments, strongly suggest to the contrary.

Bill Gates said, "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10."

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