Sports over IP: dynamics and perspectives

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Outline

• Framework – History of sports broadcasting
• Problem: What happens when you go over IP?
• Antitrust considerations
• System Dynamics model
• Application: Big leagues and Small leagues
The delivery model for sports - 1970

SI: 1.3M readers / week

$10M / year

(43% of US pop)

(28.7M tickets, $12.5 avg)
The delivery model for sports – MLB 1970

Salaries: ($29.3K/player, 19% of team revenue)

Over the Air TV: ~100% share

Total TV Revenue = $10M
The delivery model for sports – MLB 1985

Salaries: ($371K/player, 49% of team revenue)

Over the Air TV: 45%
Cable TV & DBS: 55%

Total TV Revenue = $136M
The delivery model for sports – MLB 2005

Salaries: ($2.9M/player, 55% of team revenue)

Over the Air TV: 10%
Cable TV & DBS: 90%
WebTV: ~.3%

Total TV Revenue = $670M

MIT Communications Futures Program
The delivery model for sports – NFL 2005

Salaries: (59% of team revenue)

Over the Air TV: 10%
Cable TV & DBS: 90%
WebTV: ~.3%

Total TV Revenue =$3B
The national TV channels landscape – OTA channels

<table>
<thead>
<tr>
<th>Television Network</th>
<th>Founded</th>
<th>% of U.S. households reached</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBS</td>
<td>1969</td>
<td>~99.00</td>
</tr>
<tr>
<td>ABC</td>
<td>1948</td>
<td>96.75</td>
</tr>
<tr>
<td>NBC</td>
<td>1946</td>
<td>97.17</td>
</tr>
<tr>
<td>CBS</td>
<td>1948</td>
<td>96.98</td>
</tr>
<tr>
<td>FOX</td>
<td>1986</td>
<td>96.18</td>
</tr>
</tbody>
</table>
The national TV channels landscape – more and more cable channels

<table>
<thead>
<tr>
<th>Name</th>
<th>Owner</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBS College Sports Network</td>
<td>CBS Corporation</td>
<td>formerly CSTV</td>
</tr>
<tr>
<td>ESPN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESPN2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESPN Plus</td>
<td>Disney/Hearst Corporation</td>
<td>A service that syndicates college sports to local broadcast and regional cable stations.</td>
</tr>
<tr>
<td>ESPN Classic</td>
<td>Disney/Hearst Corporation</td>
<td>formerly Classic Sports Network; sometimes used as an overflow for ESPN and ESPN2</td>
</tr>
<tr>
<td>ESPNews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESPNU</td>
<td></td>
<td>24 hour sports news</td>
</tr>
<tr>
<td>ESPN Deportes</td>
<td></td>
<td>college sports</td>
</tr>
<tr>
<td>Fox College Sports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fox Sports en Español</td>
<td>News Corporation</td>
<td>formerly Fox Sports Américañas</td>
</tr>
<tr>
<td>Fuel TV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MLB Network</td>
<td>Major League Baseball</td>
<td>launched January 1, 2009</td>
</tr>
<tr>
<td>NBA TV</td>
<td>National Basketball Association</td>
<td>formerly NBA.com TV</td>
</tr>
<tr>
<td>NFL Network</td>
<td>National Football League</td>
<td>launched November 4, 2003</td>
</tr>
<tr>
<td>NHL Network</td>
<td>National Hockey League</td>
<td>launched October 1, 2007</td>
</tr>
<tr>
<td>Outdoor Channel</td>
<td>Outdoor Channel Holdings Inc.</td>
<td></td>
</tr>
<tr>
<td>The Sportsman Channel</td>
<td>The Sportsman Channel LLC</td>
<td></td>
</tr>
<tr>
<td>Versus</td>
<td>Comcast</td>
<td>formerly Outdoor Life Network/OLN</td>
</tr>
</tbody>
</table>
OTA is really in a difficult situation

- Cable channels now have a competitive advantage:
  - Dual revenue stream (ads + subscriptions)
  - More than 60% penetration in the U.S.
  - Easier to aggregate Regional Sports Networks that still benefit from high ratings
  - Leagues official channels are owned by leagues: **$0 broadcasting rights**

- More and more deals are cut with these channels (e.g. NFL)

<table>
<thead>
<tr>
<th>Period</th>
<th>AFC Package</th>
<th>NFC Package</th>
<th>Sunday Night</th>
<th>Monday Night</th>
<th>Thu/Sat Night</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-1986</td>
<td>NBC</td>
<td>CBS</td>
<td>None</td>
<td>ABC</td>
<td></td>
<td>$420 million/yr</td>
</tr>
<tr>
<td>1987-1989</td>
<td>NBC</td>
<td>CBS</td>
<td>ESPN (2nd half)</td>
<td>ABC</td>
<td></td>
<td>$473 million/yr</td>
</tr>
<tr>
<td>1990-1993</td>
<td>NBC</td>
<td>CBS</td>
<td>TNT (1st half)</td>
<td>ESPN (2nd half)</td>
<td>ABC</td>
<td>$900 million/yr</td>
</tr>
<tr>
<td>1994-1997</td>
<td>NBC</td>
<td>FOX ($395 million/yr)</td>
<td>TNT (1st half)</td>
<td>ESPN (2nd half)</td>
<td>ABC</td>
<td>$1.1 billion/yr</td>
</tr>
<tr>
<td>1998-2005</td>
<td>CBS ($500 million/yr)</td>
<td>FOX ($550 million/yr)</td>
<td>ESPN ($600 million/yr)</td>
<td>ABC ($550 million/yr)</td>
<td>ESPN</td>
<td>$2.2 billion/yr</td>
</tr>
<tr>
<td>2006-2011</td>
<td>CBS ($622.5 million/yr)</td>
<td>FOX ($712.5 million/yr)</td>
<td>NBC ($650 million/yr)</td>
<td>ESPN ($1.1 billion/yr)</td>
<td>NFL Network ($0/yr)</td>
<td>$3.085 billion/yr</td>
</tr>
</tbody>
</table>

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10/29/09
Now going online... MLB example

• MLB.com is the #1 online portal for baseball (well ahead of ESPN.com)

• MLB.TV rebroadcasts games on a computer via Internet since 2002. The blackout and out-of-the-market policies still stands, but time-shifting is possible.

• Now streaming to iPhones as well ➔ Place-shifting
Scenario Classification

Three main “disruptive” architectures:

**#1: Content is king** -- Sports over IP using MLB.TV:
MLB takes control over almost the whole value chain, from content creation to aggregation/distribution
ISP as “dumb pipe”

**#2: Broadcaster is king** -- Sports over IP using Fancast/Versus:
ISP uses an in-house platform to gather content and customers
Customers pay for cable, get content online for free

**#3: Rebroadcasting** Sports over IP using justin.tv (pirate):
Justin.tv is the app and access provider
ISP as “dumb pipe”
Scenario Classification

Parallel with digital music:

#1 Content is king -- Sports over IP using MLB.TV:
Madonna contracting her tour promoter for her CD releases

#2 Broadcaster is king -- Sports over IP using Fancast / Hulu:
Warner using online platforms (iTunes) to sell mp3s

#3 Sports over IP using justin.tv (pirate):
Napster, KaZaa

Is the same sequence going to happen for Sports? Will those three models compete with each other? Is one going to prevail?

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Overview of the regulation for Cable:

- 1960s: the FCC did not want to regulate cable

- First regulatory move: Cable Communications Policy Act of 1984 (deregulation with constraint on margins)

- Re-regulation: Cable Act of 1992 (regulation of basic rates for cable providers)

- Finally, deregulation: Telecommunications Act of 1996 «effective competition will keep prices down»
SpoIP and Antitrust

Where is the value going?
Overview of the regulation for Sports Broadcasting:

• **Sports Broadcasting Act (SBA) of 1961**  
  (league = single entity, allowed to act as a monopoly)

• ... and that’s it.

• Is this really still adequate today?

**Update:**  
*American Needle vs. NFL*
SpoIP and Antitrust

Market power for the leagues...
Lessons:

• Regulation is broken (Sports Broadcasting Act is not relevant)

• Regulators are watching broadcasters, want « effective competition. »

• Back-and-forth regulatory moves make long-term projections difficult
  ➔ What will be done about Web broadcasting?

• For now:
  • Cable providers & broadcasters will have to respect net neutrality
  • Leagues may have to completely disintegrate content production and distribution (e.g. MLB & MLBAM) to comply with Antitrust
SD model: Methodology

• Use of System Dynamics to model the market for Sports viewing and the interactions between fans, leagues, broadcasters and policymakers.

• Competitive model between:
  - Cable TV (e.g. ESPN)
  - Web TV (e.g. MLB.TV)
  - Pirate Web TV (e.g. justin.tv)
Potential Fans

Casual Fans (Video)

Rabid Fans (Live)

League Popularity

Fan Creation Rate

Rabid Fan Creation Rate
Potential Fans

League Popularity

Fan Creation Rate

Casual Fans (Video)

Rabid Fan Creation Rate

Rabid Fans (Live)

Demand For Video Content

Demand For Live Performances

Cable / Paid TV

Licensed Internet

Un-Licensed Internet

Demand For Video Content

Demand For Live Performances

Demand For Video Content

Demand For Live Performances

Demand For Video Content

Demand For Live Performances

Demand For Video Content

Demand For Live Performances
Potential Fans → Casual Fans (Video) → Fan Creation Rate +

Casual Fans (Video) → Rabid Fan Creation Rate +

Rabid Fans (Live) → Demand For Live Performances +

Stadium Prices and Attendance +

Team Revenue +

Licensed Internet +

Un-Licensed Internet +

Cable / Paid TV +

Content Attractiveness +

Demand For Video Content +

League Popularity +

Fan Creation Rate +

Demand For Live Performances +

Stadium Prices and Attendance +

Team Revenue +
Potential Fans

Casual Fans (Video)

Rabid Fans (Live)

Fan Creation Rate

Rabid Fan Creation Rate

League Popularity

Content Attractiveness

Demand For Video Content

Demand For Live Performances

Cable / Paid TV

Licensed Internet

Un-Licensed Internet

Demand For Live Performances

Stadium Prices and Attendance

Team Revenue

(Local Sports Blackouts)
Potential Fans

Casual Fans (Video)

Rabid Fans (Live)

Fan Creation Rate

Rabid Fan Creation Rate

League Popularity

Demand For Video Content

Demand For Live Performances

Content Attractiveness

Demand For Live Performances

Team Revenue

Cable / Paid TV

Licensed Internet

Un-Licensed Internet

Broadband Demand

Stadium Prices and Attendance

Team Revenue

Licensed Internet

Team Revenue

Stadium Prices and Attendance

Internet Innovation

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MLB average ticket price
MLB players’ salary

MLB Player salary

average player's salary

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MLB revenues from traditional TV

MLB TV revenues

revenue for cable TV

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Application: Small leagues vs. Big leagues

Example of small league over IP: **Sail.TV**

- Created in 2006 in the UK
- Free Web TV, totally ad-supported.
- User-generated content can be uploaded
- Content is available on-demand (for free for now)
- Featured the 32nd America’s Cup
- Very small share of online traffic.
## Our bet

<table>
<thead>
<tr>
<th></th>
<th>Big leagues</th>
<th>Small leagues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Content is king</td>
<td>😊</td>
<td>😞</td>
</tr>
<tr>
<td>Broadcaster is king</td>
<td>😞</td>
<td>😊</td>
</tr>
</tbody>
</table>
Big leagues
Small leagues
Conclusions

• SpoIP is slowly disrupting traditional Sports Broadcasting
  • Leagues moving down the value chain
  • Cablecos moving up the value chain?
  • Piracy threat

• The legislation needs to be fixed
  • Sports Broadcasting Act irrelevant nowadays
  • Does Web broadcasting need to be regulated? How?

• Different challenges and opportunities for small and big leagues
Thank you!

Any questions?