

In Focus:

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A league of their own:

Major U.S. sports stand out as models for Internet video

Event: Although tactics, exposure levels and economic returns vary for the Big 4 U.S. professional sports leagues in terms of Internet video presence, the group is united by a common strategy for online video migration that seeks to generate incremental revenues while preserving key relationships within the legacy TV ecosystem.

Background: Examining entry strategies among the Big 4, it's apparent that the leagues have worked carefully, at least so far, to build online pay-TV businesses without seriously disrupting the business models of the TV networks and retail pay-TV distributors that represent the most important economic contributors within the sports industry at large.

Implications: We view the approaches adopted by the Big 4 as highly instructive for the Internet video market as a whole, and possibly as a model of sorts for achieving more meaningful economic participation in a category that currently creates tension and concern for many content owners and their primary distributors.

Online sports: avoiding an ecosystem ambush

In pursuing online extensions to their primary product, the Big 4 sports leagues have largely managed to avoid some of the brushfires and tensions that have erupted around other early-stage Internet video participants.

A key strategy in that regard is pricing. Specifically, none of the four leagues has yet adopted one of the common precepts of the online video world — the idea that content has to be priced inexpensively or given away for free, even at the risk of alienating incumbent rights holders, in order to attract audiences and sustain life. Instead, the online video packages established by Major League Baseball, the National Basketball Association and the National Hockey League drift toward the premium end of the Internet video pricing spectrum. The National Football League and its partner DirecTV, which offer a season-pass Internet video service to only a limited pool of U.S. customers, also require a significant out-of-pocket commitment.

In this regard, the early-stage Internet video presence among the leagues is notable for what it doesn't do, which is to risk significant value dilution for content that enjoys spectacular economic support from the traditional television business. None of the leagues is giving a meaningful amount of live-game, regular-season content away for free on the Internet, and each of the four appears to be working to develop subscription-based online video businesses that are clearly incremental or additive to their mainstay TV rights deals, which are projected to bring the leagues, collectively, some \$17 billion in revenue from 2011–2016, according to a recent report by investment researcher Needham & Co.

By employing this shared vision of Internet video, the most popular U.S. sports leagues have achieved a result that generally has eluded other mainstream entertainment industry participants: the ability to build (or in the case of the NFL, at least set the stage for) value creation in Internet video without the taint of marketplace disruption that has typified other large-scale Internet video ventures.

That's not to say the potential for tension doesn't exist. There are pockets of activity where the leagues' online video efforts collide with the interests of existing television partners. For instance, the subscription video services offered by the leagues can be viewed as competitive to similar offerings sold by cable/satellite TV companies, and may pose a rising threat over time as the leagues' online packages increasingly support TV-connected devices.

But for the most part, the leagues have managed to avoid the sort of vocal, public skirmishes that have been provoked elsewhere by the migration of popular and valuable video content to the Internet.

This report examines the online video initiatives of the Big 4 sports leagues in that light, and attempts to draw possible connections between the sports industry and the video content industry at large in finding a workable model for Internet video participation.

Strategy overview

In our view, the sports leagues have rallied around four key strategies for exploiting the incremental value presented by delivering live-game content over the Internet while preserving or supporting the underlying TV industry ecosystem.

- Super-serving passionate fans
- Protecting local-TV and national rights holders
- Involving distributors
- Operating independently

Super-serving the sports fan

The Big 4 leagues and their roughly 130 owners appear to have reached a similar conclusion in their respective pursuits of an online video business: There are passionate fans out there, and the Internet is especially well-suited to satisfying them.

This realization is reflected in the common makeup of the leagues' online packages, which aggregate the majority of league games into monthly or season-long subscription offerings priced at \$100 per season or more and accessible through PCs and other Internet-connected devices.

Source: One Touch Intelligence, from league data. Subscriber and revenue estimates are unconfirmed, and are subject to change.

LEAGUE	SERVICE OVERVIEW	SERVICE(S)	FEATURES	EST. ONLINE SUBSCRIBERS (000)	EST. ONLINE SUBSCRIPTION REVENUE (mil.)
MLB	Easily the most aggressive of the leagues in online video, MLB began its digital-content operations in 2000 and has expanded every year since. With 2 mil. subscribers projected for the 2011 season, its MLB.TV represents one of the most far-reaching video-subscription services on the Internet, trailing only Netflix. Pursuit of more ad support is emerging as new growth avenue.	MLB.TV (\$99)	Out-of-market regular season games	2000	\$250
		MLB.TV Premium (\$119)	Out-of-market regular-season games + DVR control, home/away broadcast choice		
		MLB Post-Season (\$19.95)	On-demand access to completed games (U.S.); live access for international subscribers		
		MLB At Bat (\$14.99)	Mobile-device access to MLB.TV subscription		
NBA	Has offered live or archived out-of-market games during regular season through online packages since 2006. Beginning with 2009-2010 season, the league made online games available independent of cable season-subscription packages. Current availability and pricing depends on outcome of league labor negotiations. (Pricing shown here is from 2010-2011 season.)	NBA League Pass Broadband (\$189)	Up to 40 out-of-market regular season live games plus replays	400	\$60
		NBA League Pass Broadband Choice (\$119)	Slimmer package features games from 7 fan-selected teams		
		NBA Playoff Pass (\$79)	Online access to playoff games (finals \$10 extra)		
		NBA League Mobile Pass (\$30)	40+ games/week on mobile device (requires broadband subscription)		
NFL	Limited online exposure for live games, with streaming of "NFL Sunday Ticket" package available only to customers in areas where DirecTV signal isn't available. NBC offers live stream of Sunday Night Football game telecast.	NFL Sunday Ticket To Go (\$350)	All live games, limited to areas DirecTV signal can't reach.	30	\$10
NHL	Began subscription online streaming of regular-season games in 2008 after removing requirement that subscribers pay for cable/satellite "Center Ice" package in order to receive games online. Growth has been solid, with total subscribers up 37% in 2010-2011 from the prior season, according to the NHL.	NHL Gamecenter Live (\$169)	Up to 40 out-of-market games/week. DVR functionality, home or away broadcasts. Game replays/highlights, classic game archives.	300	\$55
		NHL Vault (\$4.95/month)	Archive of 500+ classic games		

In the context of the U.S. Internet video market, these are relatively expensive offerings.

For example, MLB's premium package, at \$119 for the five-month baseball season (plus another \$20 for playoff games), equates to roughly \$28/month. That's more than 3x the amount of a monthly subscription to Netflix's video-streaming service or to Hulu Plus, and 77% more expensive than the \$79 annual cost for Amazon's Prime Instant Video service. In addition, there is a wide range of premiere television content available on the Internet for free, from providers including Hulu.com, YouTube and a range of network-operated websites such as ABC.com, Nickelodeon.com and others. This migration of content to free-to-view websites has been at the center of long-simmering tensions between content companies, which want wide exposure for programs, and pay-TV distributors, which want to protect the value of their payments for the same content. The sports leagues have been able to sidestep the dispute by attaching premium rates to their online content.

It's possible that the sports leagues could attract more subscribers at reduced price points, such as a Netflix-like \$7.99/month for access to games. But that sort of pricing strategy risks undermining the core sports-TV ecosystem, which involves generous rights fees paid by TV networks that, in turn, are compensated by retail pay-TV distributors.

Sports-TV ecosystem

League/content holders ► TV networks ► cable/satellite/telco-video providers ► subscribers

It appears the leagues are willing to trade the possibility of high-volume take rates for premium pricing appealing to a smaller pool of high-interest fans. This approach tends to minimize potential disruption to incumbent rights-payers and elevate value perceptions while generating meaningful per-subscriber revenues.

Protecting rights holders

Following the model established by Major League Baseball, the NBA and NHL have built in safeguard mechanisms that create a sort of geographic force-field around local broadcasters, regional pay-TV sports networks and national TV networks.

By enforcing blackouts, the leagues create an important demarcation that removes a potential threat to important broadcast and pay-TV rights holders. A similar approach holds for national telecasts, which result in game black-outs among the online offerings.

Season-pass subscription video pricing (non-promotional)

MLB:	\$99 – \$119
NFL:	\$350
NBA:	\$119 – \$189
NHL:	\$169

Source: One Touch Intelligence, from league data

Involving distribution partners

The sports leagues also have mitigated some of the competitive impacts from their online ventures by providing similar packages to pay-TV distributors. Each of the broadband/online offerings from the MLB, NBA and NHL has a subscription-video counterpart available through a cable or satellite TV provider. In fact, in the case of the NBA and NHL, the current online packages are the offspring of earlier cable/satellite offerings. (Subscribers previously could access games online only if they subscribed to a cable/satellite season-long package.)

In the NFL's case, online rights holder DirecTV allows "NFL Sunday Ticket" live games to be accessed over the Internet only in areas where DirecTV's signal is unavailable. The approach severely limits online game availability, but protects the interests of DirecTV, which paid \$4 billion in 2009 to extend its "Sunday Ticket" exclusive rights for four years. (We estimate there are fewer than 50,000 NFL Sunday Ticket online subscribers in the U.S.)

By making lookalike national packages (and similar suggested retail prices) available to pay-TV distributors, the leagues have built-in defense mechanisms against criticisms that they're favoring their own online services at the expense of retail partners.

Even so, there is potential for some pushback by distributors here. For one thing, the encroachment of the leagues' online sports packages toward the television set (as opposed to purely a computer-viewing model) positions the offerings as a more direct affront to cable/satellite packages. As the table below shows, the MLB, NBA and NHL now make their online packages available over a number of Internet-to-TV devices, setting up more direct comparisons and competition with pay-TV services. A subscriber who receives MLB.TV over a TV-connected Apple TV or Roku receiver, for instance, is extremely unlikely to pay twice for the MLB's similar Extra Innings service from a cable/satellite provider.

Supported devices for league streaming packages

	MLB	NBA	NFL	NHL
Mobile devices				
Android devices (various)	■	■	■	■
Blackberry (various)		■	■	
iPhone	■	■	■	■
iPod Touch	■	■	■	■
iPad	■	■	■	■
Palm			■	
TV-connected devices				
Boxee	■			
Internet-connected TVs (various)	■			■
Popbox Internet media player	■			
Roku Internet video receiver	■	■		■
Playstation 3 game console	■			■
Apple TV	■	■		

Source: One Touch Intelligence, from league data

Blackout policies

MLB

- **Regular Season Local Live Blackout:** All live games on MLB.TV and available through MLB.com At Bat are subject to local blackouts. Such live games will be blacked out in each applicable Club's home television territory, regardless of whether that Club is playing at home or away.
- **Regular Season Weekend U.S. National Live Blackout:** Due to Major League Baseball exclusivities, live games occurring each Saturday with a scheduled start time after 1:10 p.m. ET or before 8 p.m. ET and each Sunday with a scheduled start time after 5 p.m. ET will be blacked out.

NBA League Pass

- Nationally and locally televised games are subject to blackouts and are not available on NBA League Pass Broadband (regardless of home or away).

NHL Gamecenter Live

- Due to local blackout rules and regulations, game broadcasts that are available to watch on television in your local market and nationally televised games are not available to watch live or within 48 hours of game completion.

Even outside of the TV realm, the expanding feature sets and user experiences associated with the online versions of league packages — DVR-like controls, graphic accompaniments, camera-angle selections and more — aren't universally available in the TV products, potentially heightening the competitive impact to pay-TV operators.

But even as they adorn their online products with attractive bells and whistles, there are other ways that sports leagues can work with pay-TV partners to further their agendas. In 2009, for example, MLB.TV began offering access to online telecasts of local games in San Diego (Padres) and the NYC area (Yankees) through "TV Everywhere" authentication arrangements with regional cable sports networks and cable operators in those markets. The arrangements make it possible for cable customers to watch local teams online over MLB.TV so long as they've established that they are authorized pay-TV subscribers. Although other similar arrangements have yet to emerge in other markets, the approach signals that there are additional ways for sports leagues to add value for incumbent pay TV operators.

Avoiding middlemen

Although at some level the sports leagues may be operating in competition with their own distributors, we believe the leagues would present a greater threat to the existing ecosystem if they were to support an independent online sports-video aggregator rather than control their own services.

The astonishing rise of Netflix is the easy target here. There are executives within the pay-TV industry who continue to insist Netflix would not have grown as rapidly in video-streaming without the support of a key content supplier, Starz Media Inc., which provided film rights that helped to make Netflix's early streaming entry attractive. Although Netflix has gone on to secure attractive content from a variety of sources (and Starz, ironically, has allowed its agreement with Netflix to expire), the anecdote underscores how important premiere content is to third-party aggregators.

So long as sports leagues control their own online video offerings, as opposed to assigning rights to an aggregator, the leagues have the ability to shape, market and price their services in accordance not only with their own economic ambitions, but with the broader interests of the TV industry in mind. In the end, reduced friction from the existing TV ecosystem, more so than a market-disruptive growth strategy, may be the key ingredient that helps the online subscription packages thrive.

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