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Sports industry: lost in transition?

PwC's Sports Survey 2018

September 2018



pwc

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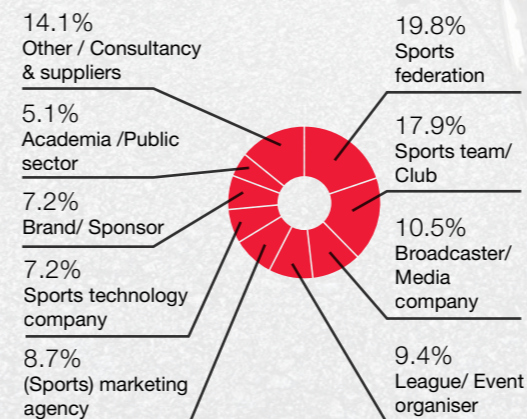
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This survey was conducted by our Sports Business Advisory team between the months of May and June 2018 through an online questionnaire that was distributed to sports industry leaders across the world. Sharing our vision of establishing an independent perspective on the state of the industry, a number of high-profile sports executives supported us by sharing the questionnaire with their peers. This helped us ensure broader

representation across regions and industry segments. PwC's global network further supported us to ensure greater participation, particularly in Asia. In total, we received 470 responses to our questionnaire across 42 countries. As participants did not always provide responses to all questions, we have included the precise number of responses received for the questions that are graphically represented within this report.

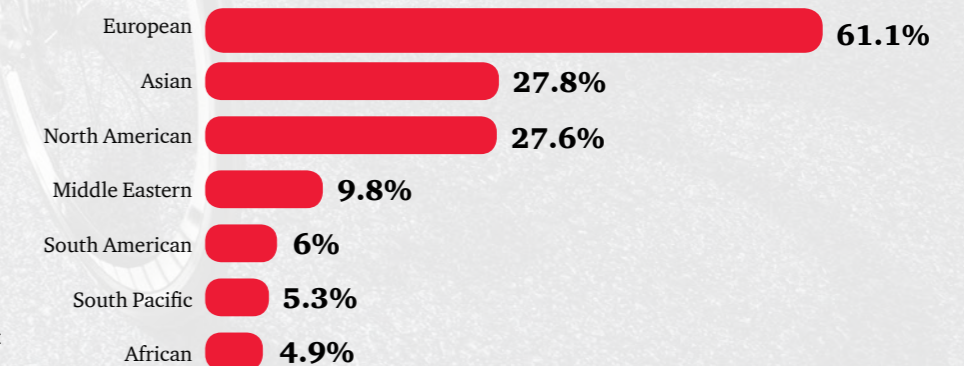
The analysis in this report is primarily based on the collective opinion of the respondents. It is complemented by data provided to us by Intelligent Research in Sponsoring GmbH, a leading independent international sports marketing research agency in Germany, as well as desktop research.

Respondent profile by organisation



Respondent profile by geographical sports market they know best

Percentage of respondents, up to 3 choices possible





Dear Madam or Sir,

We are pleased to present you with the 2018 edition of our annual sports survey. This year, we more than doubled our respondent base of sports industry leaders. This has provided us with a highly diverse set of viewpoints to analyse and derive insights that are of particular relevance to the industry.

Overall, sports leaders foresee uncertain conditions as we continue to evolve towards digital media consumption, leading us to question whether the industry may be somewhat lost in this transition. Despite the accelerating change in the business models behind the exploitation of sports rights, however, respondents expect stable market growth driven by strong underlying demand for sports content. Simply put: sport still sells.

Beyond an overall assessment of industry growth and threats, this report features three areas that we singled out for deeper analysis: (i) what the future of the sports media landscape will look like, (ii) how to drive ROI through sports sponsorship going forward, and (iii) how to approach the fast-growing space of esports. In broad terms, we hear that the transition towards the digital consumption of sports content is intensifying, causing more disruption than ever in the media space, that sponsors are behind the curve in understanding how to engage the millennial consumer, and that esports has become too commercially relevant to be ignored by traditional sports.

As we continue to expand our respondent base, we are obtaining a more representative perspective across geographies, stakeholder groups and industry segments. As such, I am convinced that our study is well on its way to achieving our vision of providing an independent, globally representative and authoritative snapshot of the state of our industry.

Yours sincerely,

David Dellea
Head of Sports Business Advisory

How to call the shots in transition?

Future vs. past growth

Over the past and next 3-5 years

7.7%
average past growth

7.0%
future growth

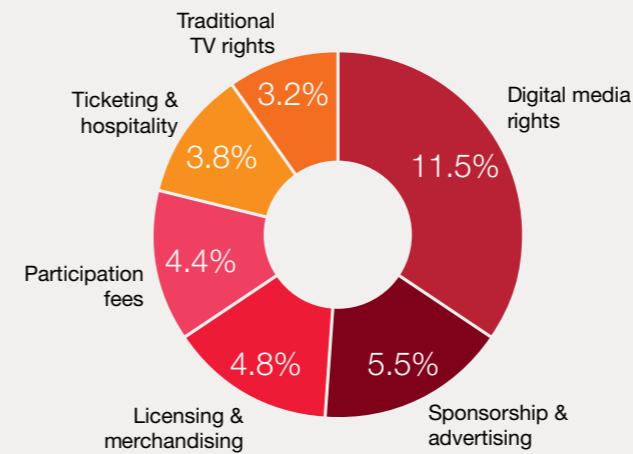
Top ten sports by growth

Potential to grow revenues globally



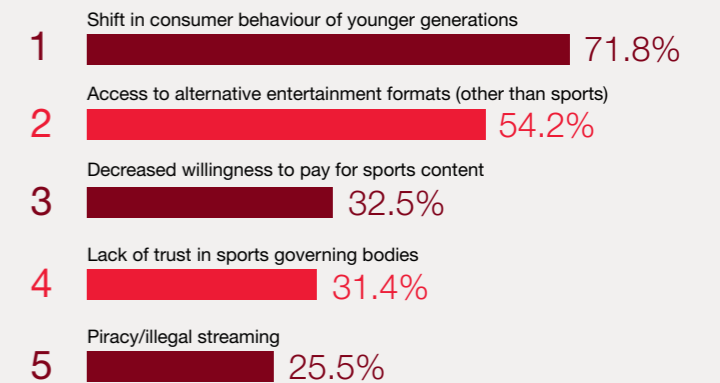
Growth rate by market segment

Over the next 3-5 years



Top five industry threats

By percentage of respondents



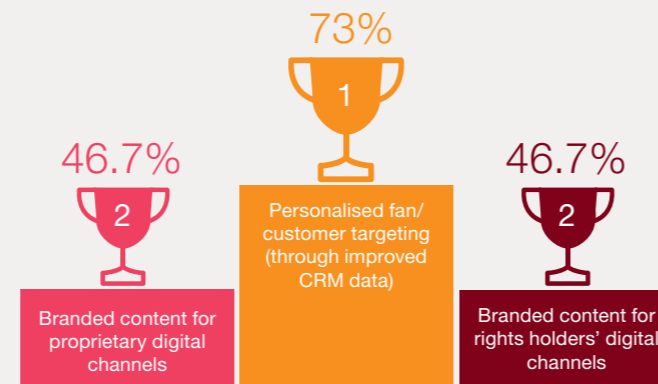
Top content and channels

Consumption in the next 3-5 years



Personalised content is king

Areas sponsors should focus on to drive ROI (by % of respondents)



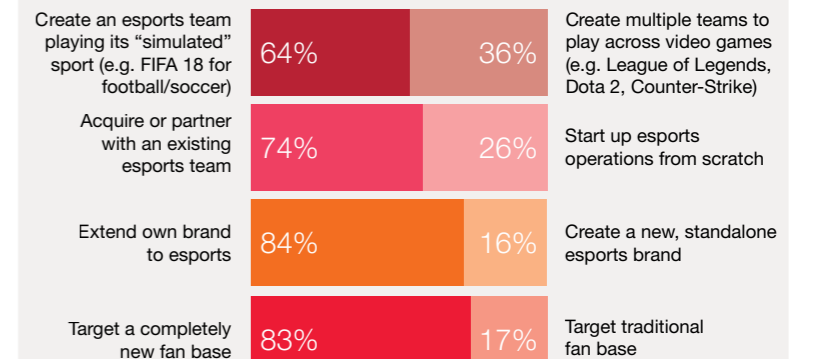
Do sponsors "get it"?

By percentage of respondents

56.3%
of industry leaders believe that senior management at global sponsors are behind the curve

Time to enter esports?

70.5% believe so, but how should they go about it? By percentage of respondents



The state of the sports industry

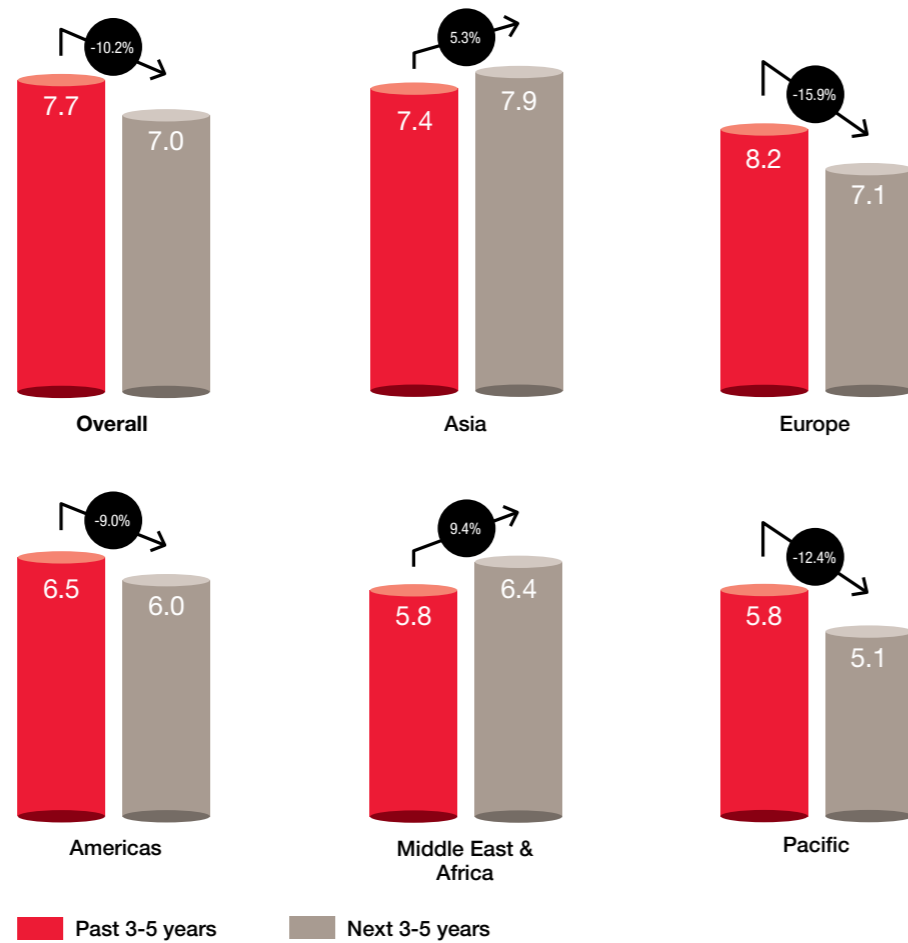


By David Della

Each year, we ask a select group of industry leaders what their perceptions are in terms of overall industry growth, by revenue stream and by individual sport, as well as the key threats the industry is facing. We do this in order to provide you with macro insights on how our industry is likely to develop in the coming three to five years. In this report, we will dive into the key takeaways and what they potentially mean for the key stakeholders in the sports industry. Overall, sports leaders foresee stable market growth driven by persistent media and sponsorship revenues as the business models behind them continue to shift towards digital.

Market growth stable, with most optimism in Asia, least in Europe

Market growth outlook by respondents' region
Percentage annual growth estimates over a 3-5 year period



Source: PwC Analysis, N = 406, 414

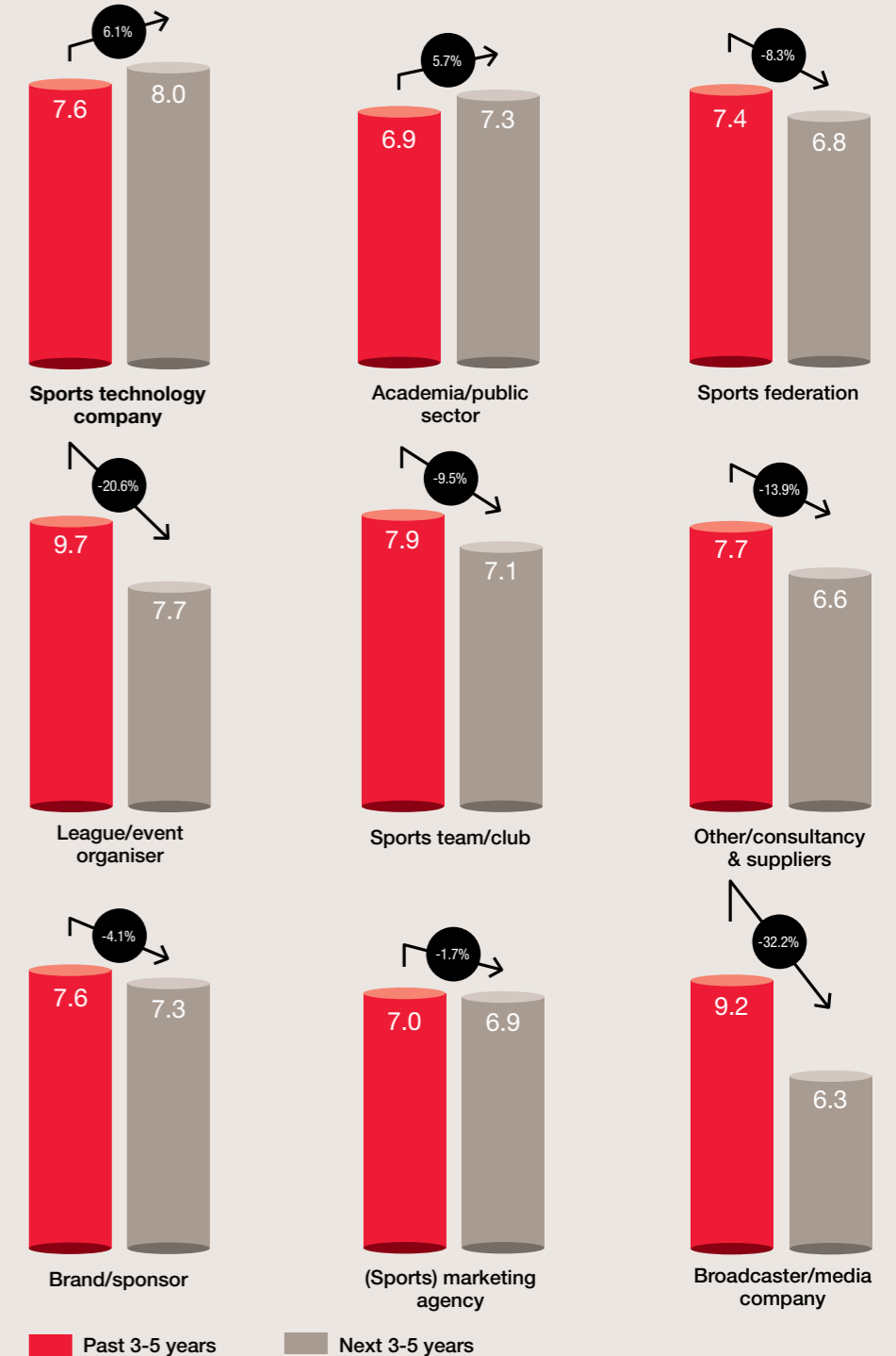
Sports leaders across the board expect industry growth rates to decrease from 7.7 per cent in the past 3-5 years to 7 per cent in the next 3-5 years, which represents a slowdown of 10.2 per cent. In the 2017 edition of our survey, sports leaders were significantly more doubtful, with growth rates expected to decrease from 8 to 6.4 per cent over the same timeframe (a 20.7 per cent slowdown). We read this as a suggestion that market conditions across the industry are stabilising as we progress in the transition from traditional to digital media consumption, with sports leaders continuing to predict healthy growth in absolute terms.

Considering growth expectations through to 2022, the most optimistic respondents are based in Asia, expecting a growth of 7.9 per cent (compared to 7.4 per cent in the past 3-5 years). Respondents based in Europe came in second, predicting growth of 7.1 per cent, albeit expecting a 15.9 per cent slowdown compared to 8.2 per cent growth for the past 3-5 years. Respondents based in the Americas region, growth is expected to decrease from 6.5 per cent to 6 per cent, equating to a 9 per cent slowdown which may signal the industry's concern with growing saturation in North America in particular. Last but not least, respondents in the Pacific region predict growth to decrease from 5.8 to 5.1 per cent (a 12.4 per cent slowdown).

Sports tech firms optimistic, broadcasters and leagues less so

When considering the perceptions of past and future growth by stakeholder type, the leading optimists are sports technology companies (from 7.6 to 8 per cent, or a 6.1 per cent acceleration in growth), reflecting the wealth of opportunities provided by technological innovation.

Market growth outlook by stakeholder
Percentage annual growth estimates



Source: PwC analysis, N = 406, 414

On the other hand, broadcaster/media companies were the least optimistic stakeholder type (from 9.2 to 6.3 per cent, or a 32.2 per cent deceleration in growth). League/event organisers also stand out with a significant deceleration, albeit still predicting growth of 7.7 per cent, which is second only to sports technology companies. In our view, this mirrors a combination of factors that are prevalent in the market today. One of the more significant factors is that the industry is experiencing more price pressure than ever before. This is primarily due to greater competition from other entertainment formats and the resulting reduced willingness to pay among consumers. Also contributing to this expected deceleration is the fact that certain top leagues are experiencing stagnation in their media rights values due to increasingly saturated markets, particularly on the domestic front.

Media and sponsorship rights to keep growing as models evolve

Looking at how sports leaders perceive future growth by revenue stream, digital sports media rights was identified as the most promising segment, with an 11.5 annual percentage growth rate in

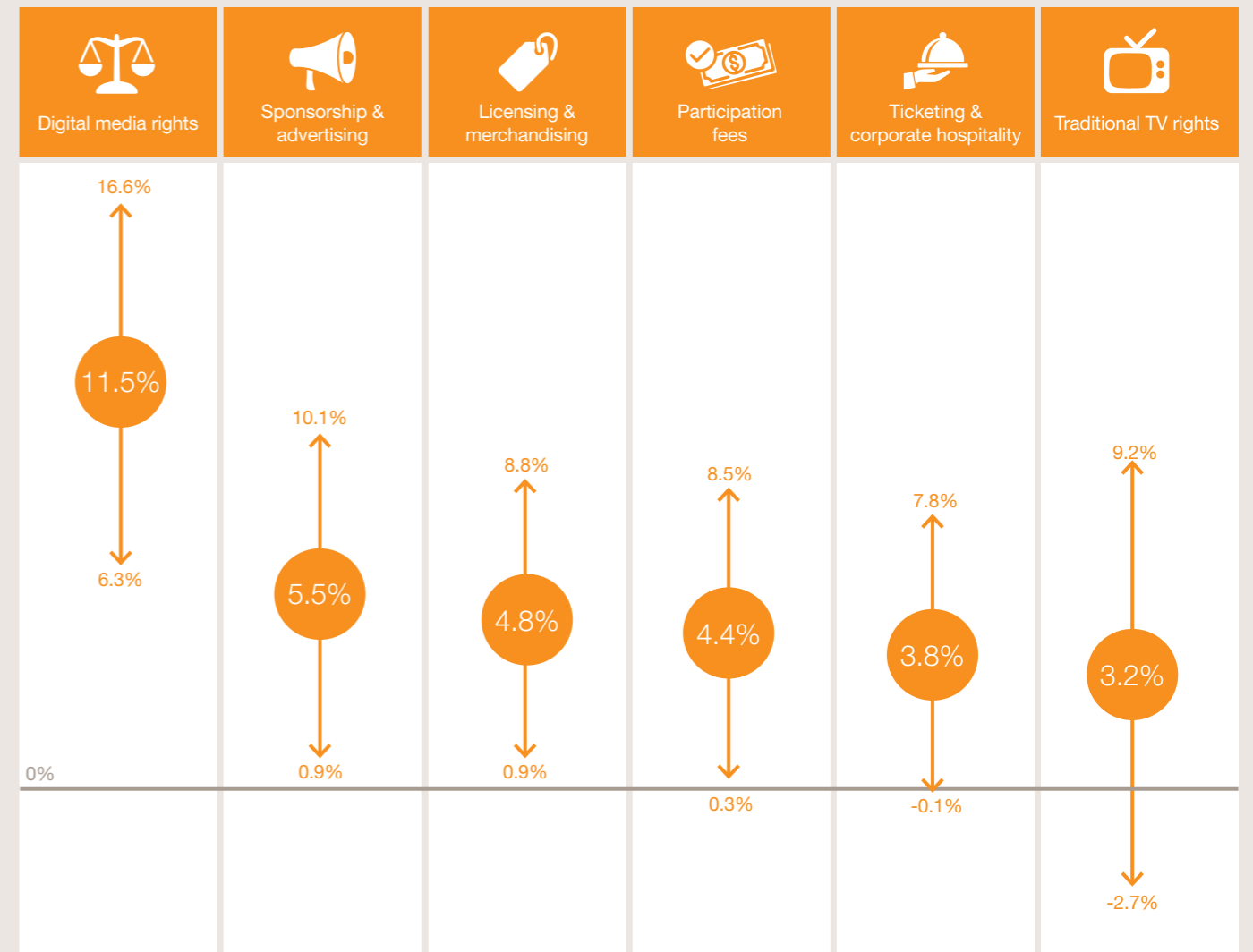
the next 3-5 years, more than 3.5 times that expected for the traditional TV rights segment (3.2 per cent). These numbers come as no surprise given the ongoing shift from traditional to digital consumption. Although some respondents predict the value of traditional TV rights to decline going forward (as represented by the lower range of -2.7 per cent), the majority of our respondents still project them to grow at an average of 3.2 per cent, underlining the importance of not neglecting this channel during this transition. It is key not to lose sight of the fact that many people still want to watch live sports on TV, especially among the older generations. The PGA Championship was a good example of this type of oversight, where viewership figures increased by 73 per cent relative to last year's event. As Tiger Woods mounted a serious challenge for the title, the failure to secure a linear broadcast deal in the UK left fans scrambling to subscribe to digital streaming platform Eleven Sports. This is a stark reminder that sports properties need to focus on understanding all of their audience segments, catering to their consumption channel preferences.

As we transition towards greater digital consumption, sports properties that are able to leverage their cross-platform data effectively will be well-placed to help sponsors reach their target audience at a more granular level.

Sponsorship and advertising came in second with a healthy 5.5 per cent growth, reflecting the exponential growth of activation opportunities available to sponsors through digital. As we transition towards greater digital consumption, sports properties that are able to leverage their cross-platform data effectively will be well-placed to help sponsors reach their target audience at a more granular level. For sports properties with a global audience, this is of particular relevance as the development and adoption of virtual advertising technology proceeds. In sum, there will be no shortage of growth opportunities as the model for sports sponsorship continues to evolve.



Expected annual growth rate by revenue stream over the next 3-5 years
 Percentage average annual growth rate estimates
 Arrows indicate range of respondents' answers within statistical confidence



Source: PwC analysis, N = 377-414

Esports overtakes football in growth potential

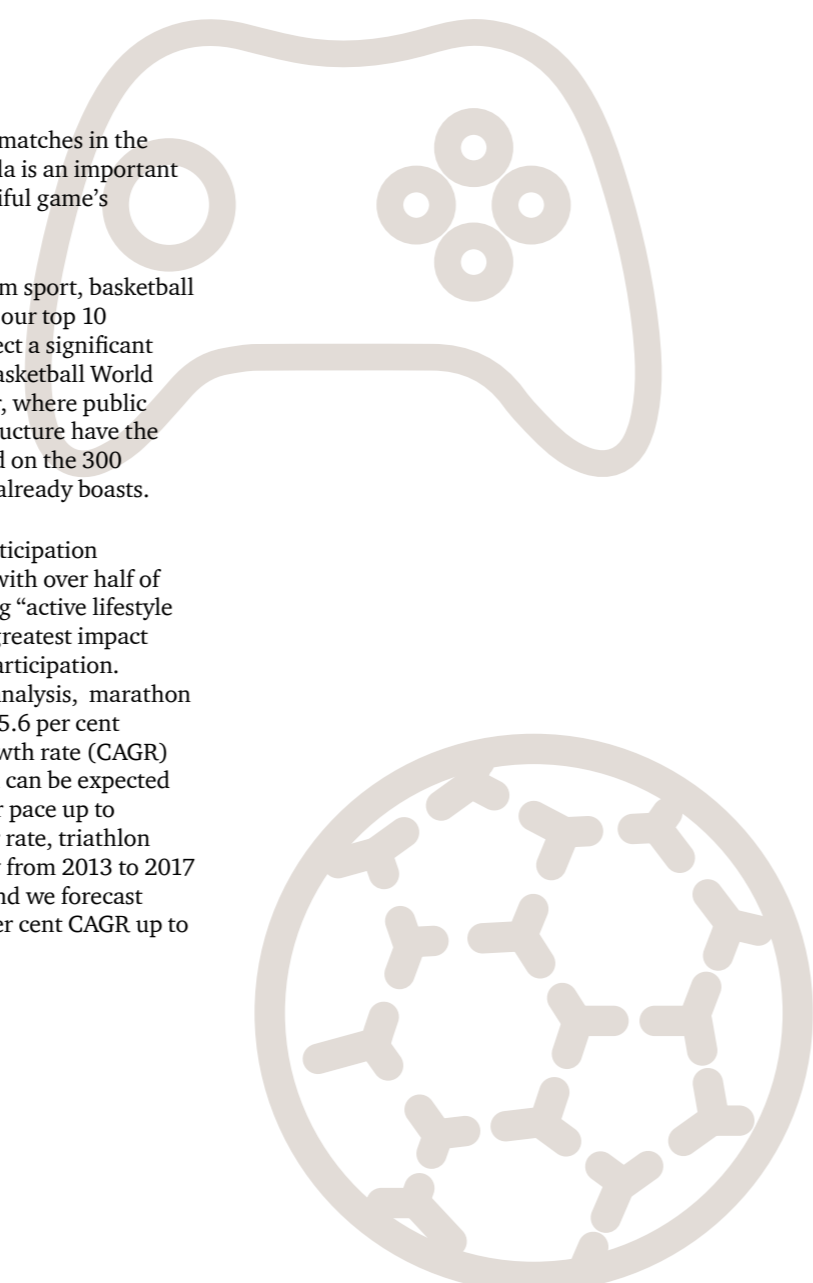
When asked which sports have the highest potential to grow revenues globally, sports leaders overwhelmingly picked esports, replacing football, which was top in 2017, as the one that will grow the most. As explored in more depth in the esports section, this was to be expected, with the esports economy forecast to double in size by 2022.

Considered as the only truly global sport, football's sustained growth prospects can be explained by its continued efforts to grow in less mature football markets. Furthermore, the doubling in size of the World Cup as of 2026, which will provide an additional 16 countries with the possibility to qualify, is likely to make a strong contribution to football development globally. A similar effect can be expected from recent developments in Europe, for example, where the transnational nature of the UEFA Euro 2020 and inauguration of the UEFA Nations League will create more incentive for investment in the game across the continent. Following in the footsteps of the NFL and the NBA, La Liga's recent decision to cross the pond

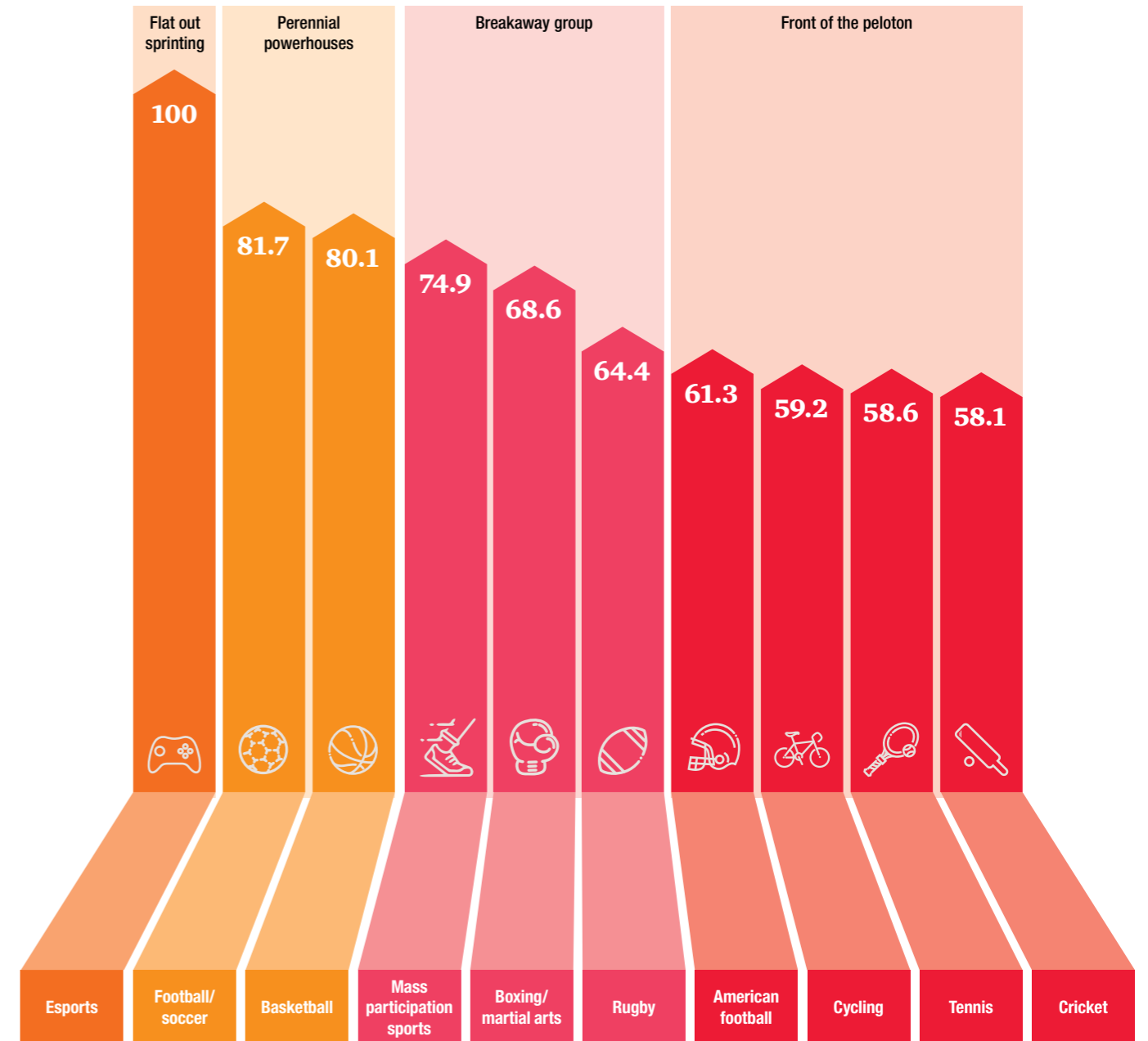
and stage competitive matches in the United States or Canada is an important milestone in the beautiful game's ongoing growth.

As the other global team sport, basketball retained third place in our top 10 rankings, and can expect a significant boost from the FIBA Basketball World Cup in China next year, where public investments in infrastructure have the country poised to build on the 300 million participants it already boasts.

Significantly, mass participation sports ranked fourth, with over half of respondents attributing "active lifestyle trends" as having the greatest impact on increasing sports participation. Indeed, based on our analysis, marathon registration grew by a 5.6 per cent compound annual growth rate (CAGR) from 2013 to 2017 and can be expected to continue at a similar pace up to 2022. Albeit at a lower rate, triathlon registrations also grew from 2013 to 2017 (1.5 per cent CAGR) and we forecast them to grow by 2.5 per cent CAGR up to 2022.



Ranking of top 10 sports by potential to grow revenues globally
Rank based on weighted scoring system



Source: PwC analysis, N = 353-419

Threats abound from shifts in consumer behaviour

As in 2017, the number one threat faced by the industry is the shift in consumer behaviour of younger generations, with over two thirds of sports leaders choosing it among the top threats the sports industry should be concerned about (up from 56.6 per cent last year). This comes as no surprise, as recent studies have shown that younger generations are transitioning their entertainment time away from traditional TV in favour of mobile devices.

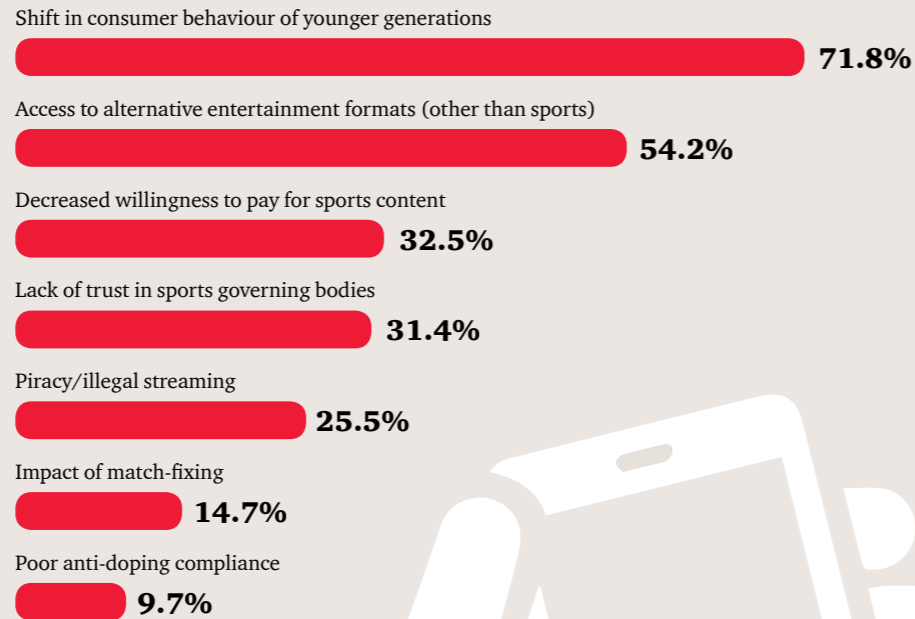
Given that this cohort is one whose purchasing power will only increase going forward, it is logical that understanding their behaviour is a top priority for the industry, and sports content and distribution channels will increasingly need to be tailored to their preferences.

With the likes of Netflix investing USD 8 billion in 2018 in original content and the rise of esports and gaming, competition in the entertainment space is fierce.

Access to alternative formats gained one position from third to second place in our top five table, with over half of respondents choosing it as a top threat (up from 28.6 per cent in 2017). With the likes of Netflix investing USD 8 billion in 2018 in original content and the rise of esports and gaming, competition in the entertainment space is fierce and we predict that this threat will remain a top threat for the foreseeable future. To draw a link with the number one threat and as recently contended by Adidas' global creative director, arguably anybody who competes for the attention

Top threats of greatest concern to the sports industry

Percentage of respondents, up to three choices possible



Source: PwC analysis, N = 443

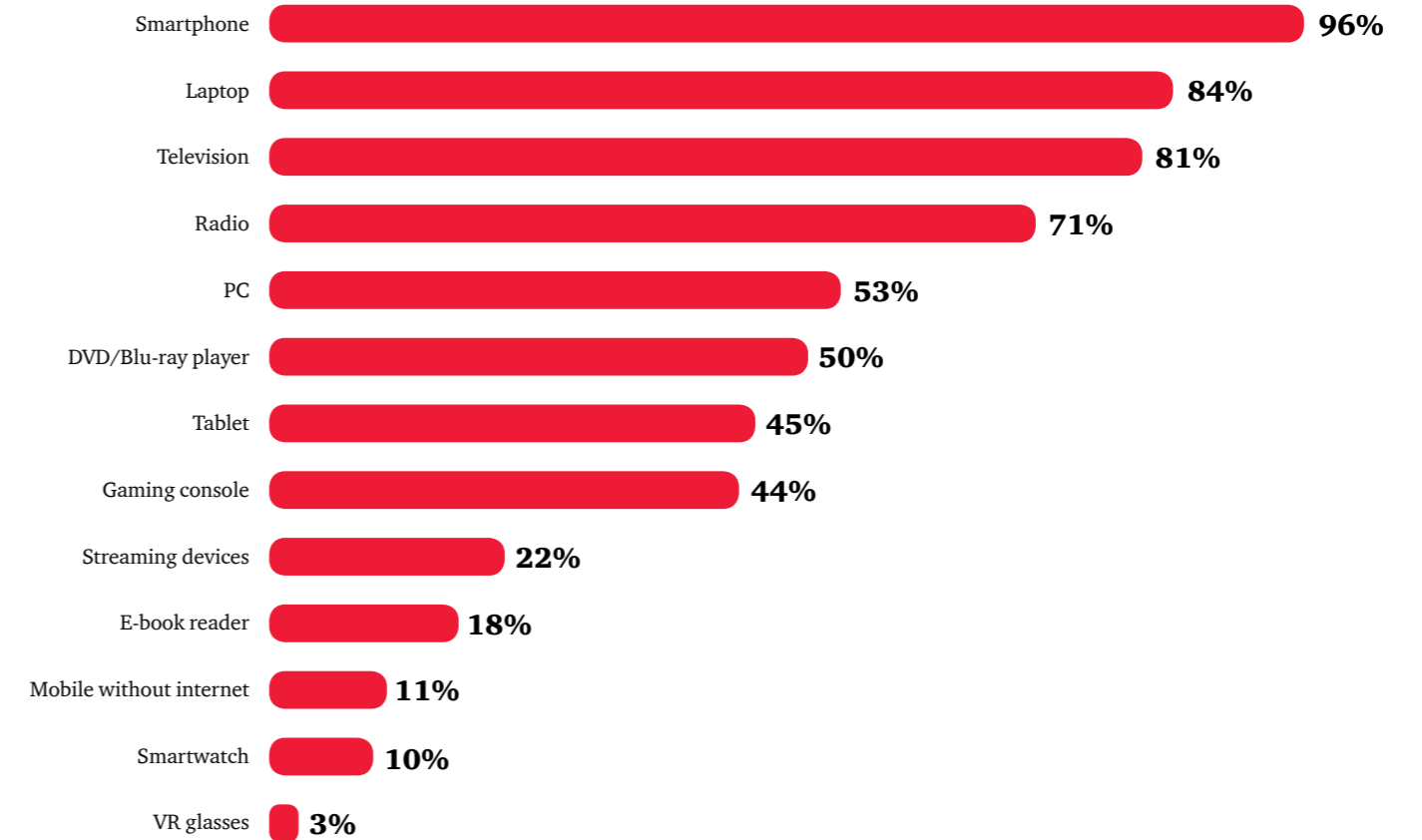
of a young person is a rival for a share of their wallet, given the limited amount of money they have to spend.

Coming in third was consumers' decreased willingness to pay for sports content (32.5 per cent), which is strongly linked to the fifth most prevalent threat of piracy/illegal streaming (25.5 per cent), with the high-profile case of BeoutQ in Saudi Arabia likely heightening respondents' sensitivity to this matter. Significantly, the lack of trust in sports governing bodies has dropped two places from second to fourth,

with only 31.4 per cent of respondents identifying it as a top threat (down from 47.1 per cent in 2017). Match-fixing (fell out of the top five at 14.7 per cent, down from 21.7 per cent in 2017) and poor anti-doping compliance (9.7 per cent, down from 13.8 per cent in 2017) are not perceived as big threats either. One could argue that the ethical nature of such issues results in more of a spotlight being placed on them in the press and among sports governing bodies, rather than actually being a big concern for industry leaders at large.

Daily device usage among 14-34 year olds

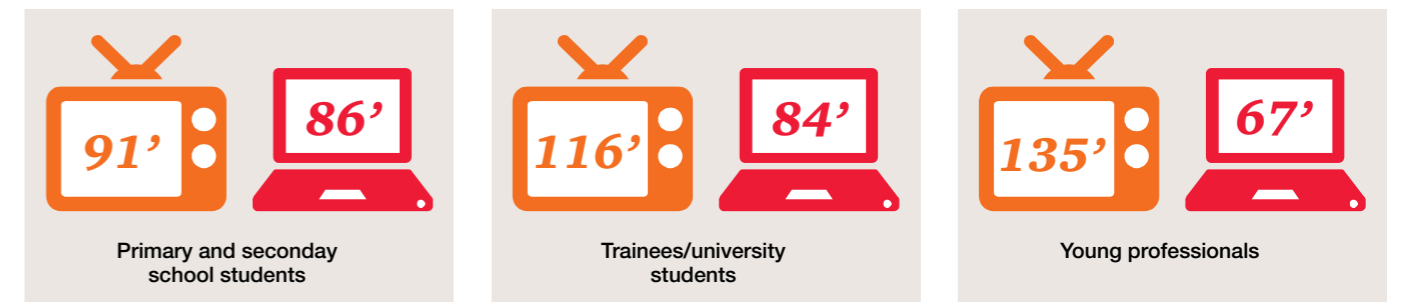
Percentage of respondents using the device on a daily basis



Source: IRIS Intelligence | Market Research - 02/2018 - CAWI - Survey N = 301
Response panel: representative for 25 global markets

Daily device usage to consume videos on TV and online screens

Average number of minutes of daily usage for TV and online screens for different types of viewer

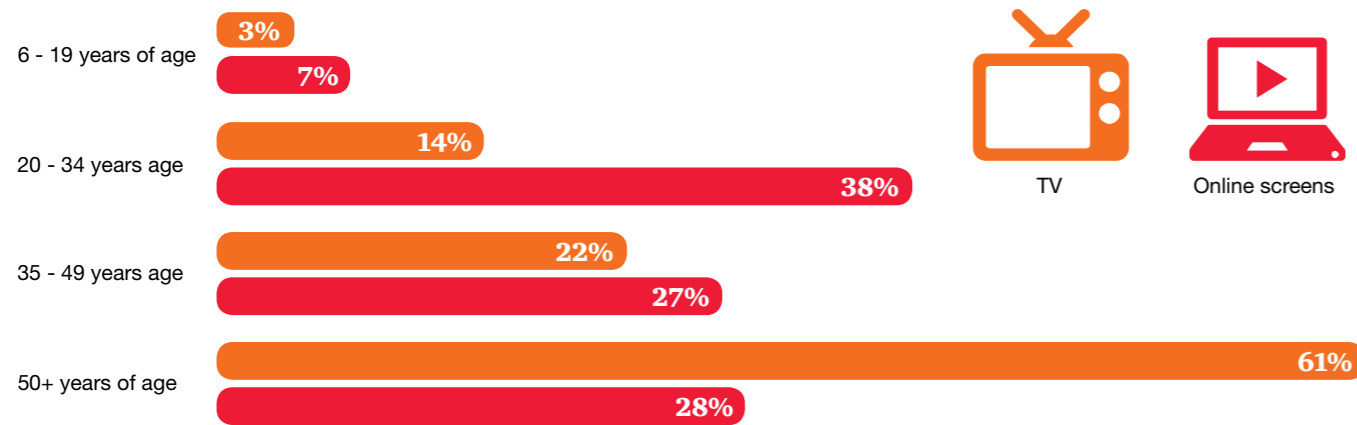


Source: TV | Online | IRIS Intelligence | Ratings analysis, representative for Europe
Online screens = mobile, laptop, desktop and tablet

Myth or reality: should sports leaders be so concerned about the shift in consumer behaviour of younger generations?

Data provided by IRIS | Intelligent Research in Sponsoring

Football viewership during 2016-2017 season for top five leagues in Europe
Percentage of viewership for traditional TV and online screens, split by age bracket (sum = 100%)

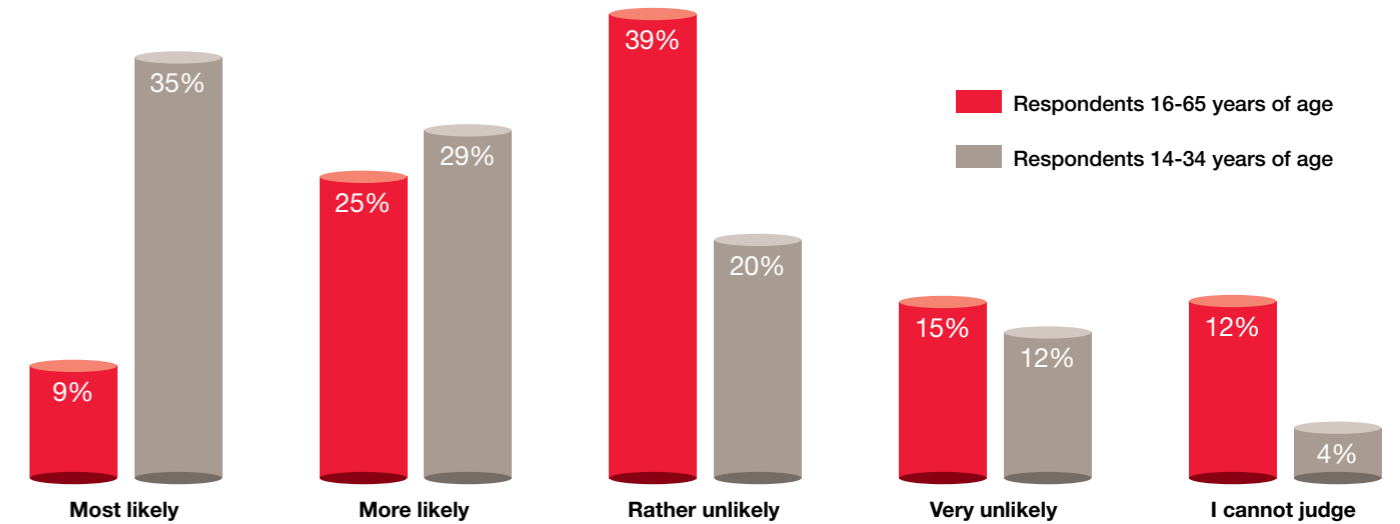


Source: TV | Online | IRIS Intelligence | Ratings analysis
Online screens = mobile, laptop, desktop and tablet
Top five leagues = top divisions in England, France, Germany, Italy and Spain

Looking at recent TV and online viewership figures for European football (see graph above), only 17 per cent of TV viewers are under the age of 35, whereas the equivalent figure for online viewers is 45 per cent. It is clear that we are currently in the midst of a generational

divide: while younger generations are consuming the same content as older ones, they are doing so through different channels, preferring digital consumption via smartphone, tablet and other methods of OTT distribution.

2018 survey of VoD users on likelihood that traditional TV services will be completely replaced by VoD offers
Percentage of responses of current VoD users



Source: IRIS Intelligence | Market Research - 02/2018 - CAWI - Survey N = 1'024 for 16-65 year olds, N = 301 for 14-34 year olds
Response panel: representative for 15 global markets

Pointing in the same direction, recent video on-demand (VoD) user surveys that are representative for 15 markets (see figure 2 above) paint an even clearer picture of this generational divide: 64 per cent of respondents between the ages of 14 and 34 think that traditional TV services will be completely replaced by VoD offers, while only 34 per cent between the broader segment of 16 and 65 year olds share the same opinion.

This cements the intimate relationship between online screens and on-demand consumption, celebrating today's media industry mantra: content whenever, wherever and however you want it. Au revoir traditional TV, and bonjour online screens. The jury is now out on understanding what the implications will be for rights holders, media partners and brands with regard to content strategy.

Myth or reality: should sports leaders be so concerned about the shift in consumer behaviour of younger generations?



Sports media: out with the old, in with the new?



By Lefteris Coroyannakis

In the media space, we asked sports leaders what types of content, which channels and which new players will dominate the sports media rights landscape going forward. We also comment on expectations of how the value of sports media rights will evolve, as well as what respondents believe to be the key growth drivers behind this value. Our findings underline the intensifying pace with which sports media consumption is transitioning to digital platforms, how tech firms are playing an increasingly central role and that the demand for sports content remains sky high.

Sports content retains throne and goes digital in earnest

In the next 3-5 years, sports leaders predict that the consumption of all types of sports content will grow. Consumption growth is also expected across all media channels with the exception of free-to-air broadcasters, which are forecast to experience a slight decline. This reflects the industry's confidence in the sustained high demand for sports content across multiple platforms.

In terms of sports content types expected to grow the most, highlights/on-demand video came out on top, a format which is well-suited to the way in which our consumption habits are evolving to be increasingly mobile, online and short-form. It is more important than ever to cater to fans with appealing content before and after, as opposed to just during, sporting events. That said, the unique appeal of live sports allows it to retain its "must have" status among buyers, as demonstrated by respondents' continued bullishness on the continued growth of live video content, which

came in second. This is particularly the case with regard to premium sports properties.

Beyond live and highlight video, the rise of user-generated content in sports is well reflected in the responses we received, with confident growth estimates across team, athlete and fan-generated content. The native, social and often viral nature of user-generated content is a strong recipe for reaching, engaging and monetising young audiences and achieving commercially-relevant levels of engagement with them. With an abundance of such content, the sports industry is in a great position to capitalise on the well-documented shift of our attention from traditional to social media platforms.,

The native, social and often viral nature of user-generated content is a strong recipe for reaching, engaging and monetising young audiences.

The currency of social media is attention and the winners, from clubs and leagues to brands and advertisers, will be those that can capture that attention and activate revenues around it.



Simon Meehan, COO and Co-founder, Footbolé

In terms of channel growth, tech firms (in the broad sense) came out on top. Although their business models differ, as a collective they are perceived as having the greatest growth potential in the coming 3-5 years, narrowly ahead of pure OTT offerings. This is likely due to the noise that the likes of Facebook, Amazon and DAZN have been making

in the market in recent times (see below for a more in-depth look at the latest developments).

Of the eight options we provided to respondents, the top six in terms of prospective growth are digital, and the bottom two are linear. This is a reflection of the conversation having moved on

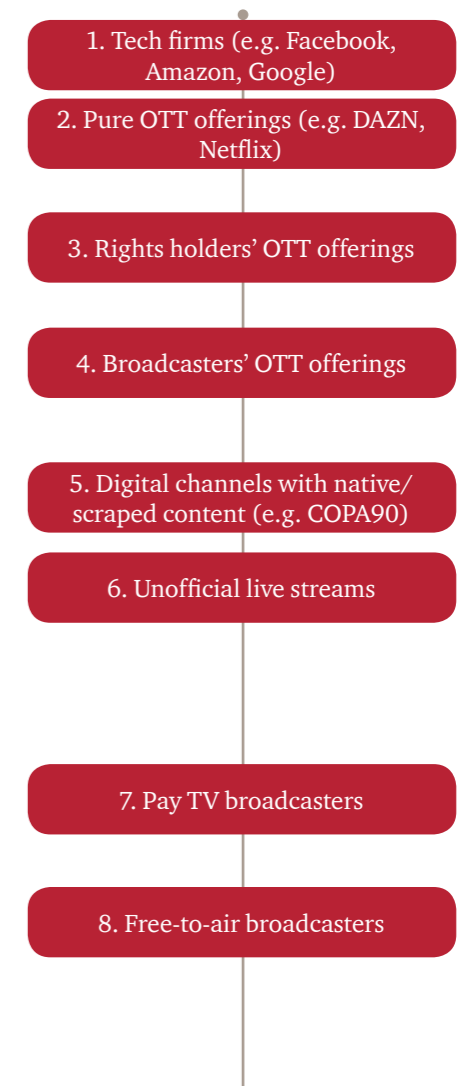
from whether or not the disruption caused by new digital entrants is transitory. They are clearly here to stay, with the debate shifting to whether and how traditional and digital players can co-exist in the mid- to long-term.

Top sports content type to be consumed over the next 3-5 years
Ranked based on a weighted scoring system



Source: PwC analysis, N = 408-425

Top consumption channels over the next 3-5 years
Ranked based on a weighted scoring system



Source: PwC analysis, N = 345-417

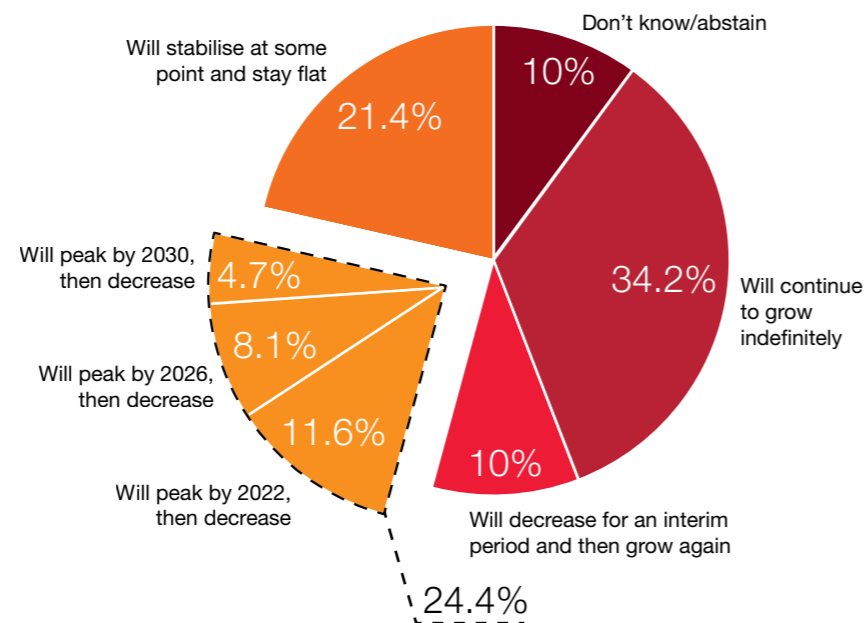
No consensus on rights values going forward

Despite sports content remaining king and the proliferation of platforms through which it can be consumed, there seems to be no consensus on the evolution of the global sports media rights market going forward. The more likely scenarios predicted by respondents are (i) that it will continue to grow indefinitely (34.2 per cent), (ii) that it will peak in either 2022, 2026 or 2030 followed by a decline (collectively 24.4 per cent), or (iii) that it will stabilise at some point and stay flat (21.4 per cent).

Despite sports content remaining king and the proliferation of platforms through which it can be consumed, there seems to be no consensus on the evolution of the global sports media rights market going forward.

With competition from pure OTT platforms intensifying and ad revenues being diverted from traditional TV to digital platforms, the refinancing of rights fees is becoming increasingly challenging for both pay and free-to-air broadcasters. However, given how essential sport content is to their business models, traditional players are left with little alternative than throwing everything but the kitchen sink at rights holders to access their content. All the while, they are pressured to innovate with their own content and channel strategies in order to attract viewers and generate (new) revenue streams.

Projected trajectory of global sports media rights values
Percentage of respondents, only one choice possible



Source: PwC analysis, N = 430

As the market continues to transition from linear to digital, new market entrants with business models that may well allow for greater monetisation than traditional players could offer significant growth perspectives for rights in markets that seemed to be broadly saturated. Given digital players' data-driven business models and their

resulting ability to value rights with more precision, this is unlikely to lead to the speculation and ensuing rights bidding wars that have characterised traditional TV rights auctions in the past. In addition, where the business models of bidders differ, rights holders must have a firm grasp of what drives value for them in order to steer negotiations effectively.

OTT entrants a key growth driver of rights value

According to our respondents, the number one development driving up the value of sports media rights is the market entry of non-traditional Pay TV entrants. This perception was likely bolstered by recent deal-making among OTT players for premium football rights in a number of territories. It is also well-aligned with the lofty 11.5 per cent annual growth forecast for digital sports media rights in the coming 3-5 years that our respondents predict.

The number one development driving up the value of sports media rights is the market entry of non-traditional Pay TV entrants.

The second most important development here is the increasing ability of rights holders to sell direct-to-consumer, which adds another revenue stream that contributes to the monetisation of media content. Recent high-profile examples of this are Formula 1's launch of F1 TV in May of this year, Juventus' unveiling of Juventus TV, coinciding with the arrival of Cristiano Ronaldo, and Borussia Dortmund's relaunch of BVB-TV in association with Sportradar. The former even contains live race content in countries where the digital rights are held by F1 owner Liberty Media, and is targeted at the most engaged of F1 fans; so-called "petrolheads" of a mostly younger demographic who are already consuming the sport digitally.

Completing the podium was the market entry of telecommunication companies, the deep pockets of which have tended to push up rights values. In the case of BT, which entered the fray for domestic English Premier League rights for the 2016-2019 cycle, its bidding war with Sky drove the overall value of TV rights above GBP 5 billion. In the face of rising competition from Netflix and Amazon, it left with few options other than to content share with Sky in order to fill the non-sport entertainment gap in its offering.

It is now a top priority for all rights holders to develop a direct relationship with their consumers.

Chris Guinness, Head of Asia Pacific, IMG

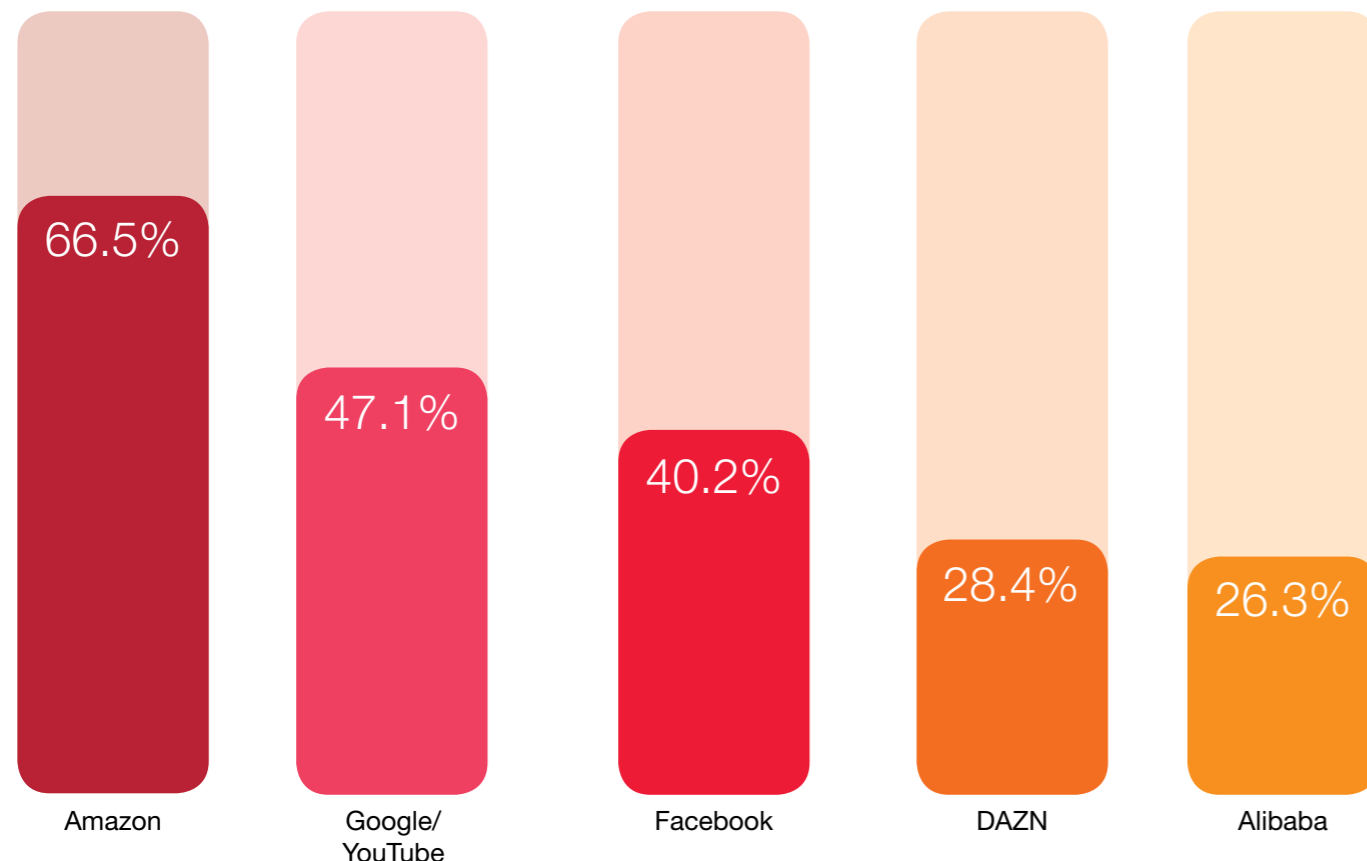
Tech firms no longer on the sidelines, but which players will dominate tomorrow?

When respondents were asked which technology companies they expect to dominate the global digital sports media rights market going forward, Amazon

came out on top (chosen by 66.5 per cent of respondents), with Google/YouTube in second place (47.1 per cent) and Facebook (40.2 per cent) in

third. While their respective strategies are underpinned by different business models, a number of tech firms have earned their seat at the negotiating table.

Top 5 dominant players in digital sports media rights market going forward
Percentage of respondents, up to three choices possible



*Source: PwC analysis, N = 433

NB results could be skewed as Amazon acquired its English Premier League domestic rights package one day before we launched the survey, while Facebook and DAZN had yet to make their latest deals until after the questionnaire was closed

As was widely reported, Amazon broke ground in early June of this year by becoming the first non-traditional broadcaster to acquire one of the English Premier League's domestic rights packages. The package consists of 20 matches over two match days per season for the 2019-2022 rights cycle, including the popular Boxing Day fixture list. The price tag has not been announced but observers suspect that the package, which was one of the two that had been left on the table following the auction process earlier in the year, was snapped up at a heavily discounted rate. Regardless, it has already proven to be a great strategic move for Amazon to establish its brand as a serious player in the sports broadcasting market. More substantially, it will provide them with ample opportunity to experiment with various monetisation models until the next Premier League rights auction scheduled for 2021 by doing what it does best: capturing and analysing relevant data in order to increase Prime subscriptions, better target its customers and boost sales.

In February of this year, YouTube made big strides in its cord-cutting venture into live TV by announcing the addition of a broad array of sports content to its YouTube TV streaming service, which is currently only available in the US for USD 40 per month. It now boasts an attractive sports portfolio that ranges from the NBA and MLB to the UEFA Champions League and English Premier League, to College Basketball and marquee PGA events. As the sports fan becomes increasingly accustomed to consuming content via digital platforms, YouTube TV's offering is undeniably compelling for US consumers.

As for Facebook, whose sports content drive is now being spearheaded by former Eurosport CEO Peter Hutton, recent deals (and subsequent or expected sublicensing deals) in the Indian subcontinent, Southeast Asia and Latin America for a series of premium football rights have successfully placed the social media giant on the sports media rights map. Thanks to its 2 billion plus active users globally and the abundance of user data this generates, Facebook is uniquely placed to monetise through ad revenues. In this sense, its scale allows it to apply the traditional free-to-air economic model in a digital context, especially in the big markets (from a user base perspective) such as those where it has acquired rights.

DAZN has also been making noise through a number of recent rights acquisitions, most notably in boxing and Italian football. Through its recent launches in Italy and the US, the sixth and seventh countries in which it now offers its streaming service, and it's the naming of Cristiano Ronaldo as its global ambassador, momentum is growing for the posterchild sports OTT outfit. That

The packaging and structuring of media rights to suit a mix of different channels, including in a same territory, is going to increase in complexity. Rights holders must adapt to this new reality from an operational as well as financial standpoint. Bumpy road ahead.

Vincent Gaillard, CEO, European Professional Club Rugby

said, it remains to be seen whether a pure sports OTT play can reach the critical mass to substantiate its business model.

In theory, all of this should be good news for consumers, with more choice, convenient access and, at least in the short term, better prices. It also spells a new era of competition for sports rights, which could drive their overall value up further depending on how effective the various players' monetisation models, and ability to distribute at scale, will be. Either way, as long as sports content remains premium, properties will need to cater to consumers on both old and new channels in order to maximise returns.

Myth or reality: is “live” dying a slow death?

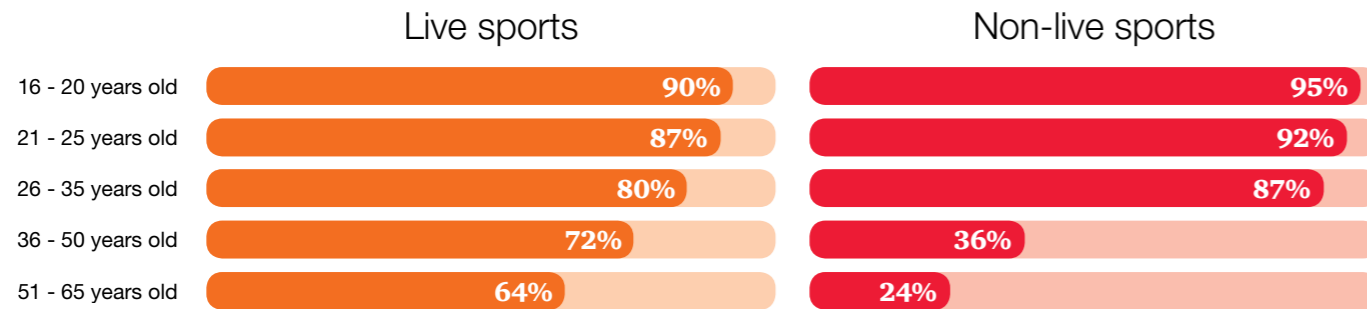
Data provided by IRIS | Intelligent Research in Sponsoring

As mentioned in our previous “Myth or reality” section, it is clear that younger generations are shifting from traditional TV to online screens. The question we

must now ask ourselves is whether live content will be consumed online to the same extent that it has been through traditional TV. How is live holding up?

Are we also experiencing a shift away from live content, or is the shift only related to the channel of consumption? There are no straight answers.

Sports viewership through online screens, age split for live vs non-live consumption
Percentage of respondents consuming live or non-live for different age brackets



Source: IRIS Intelligence | Market Research - 02/2018 - CAWI - Survey N= 1'024 - 16-65 year olds
Response panel: representative for 15 global markets
Online Screens= Mobile, Laptop, Desktop, Tablet

Looking at the data above, 64 per cent of people above the age of 50 watch live sports through online screens, demonstrating that the older generation is adapting to new ways of consuming live. As for non-live content, however, less than a quarter of those above 50 consume it online. This seems to suggest that the majority of older people are somehow “satiated” by live, and do not feel the need to consume once the event is over. This would support the hypothesis that older people consume live sports on digital in a similar way to how they used to consume it on traditional TV, tuning in and taking the time to watch a full broadcast. For the younger generations, this picture is very different. First and foremost, the sports industry can let out a sigh of

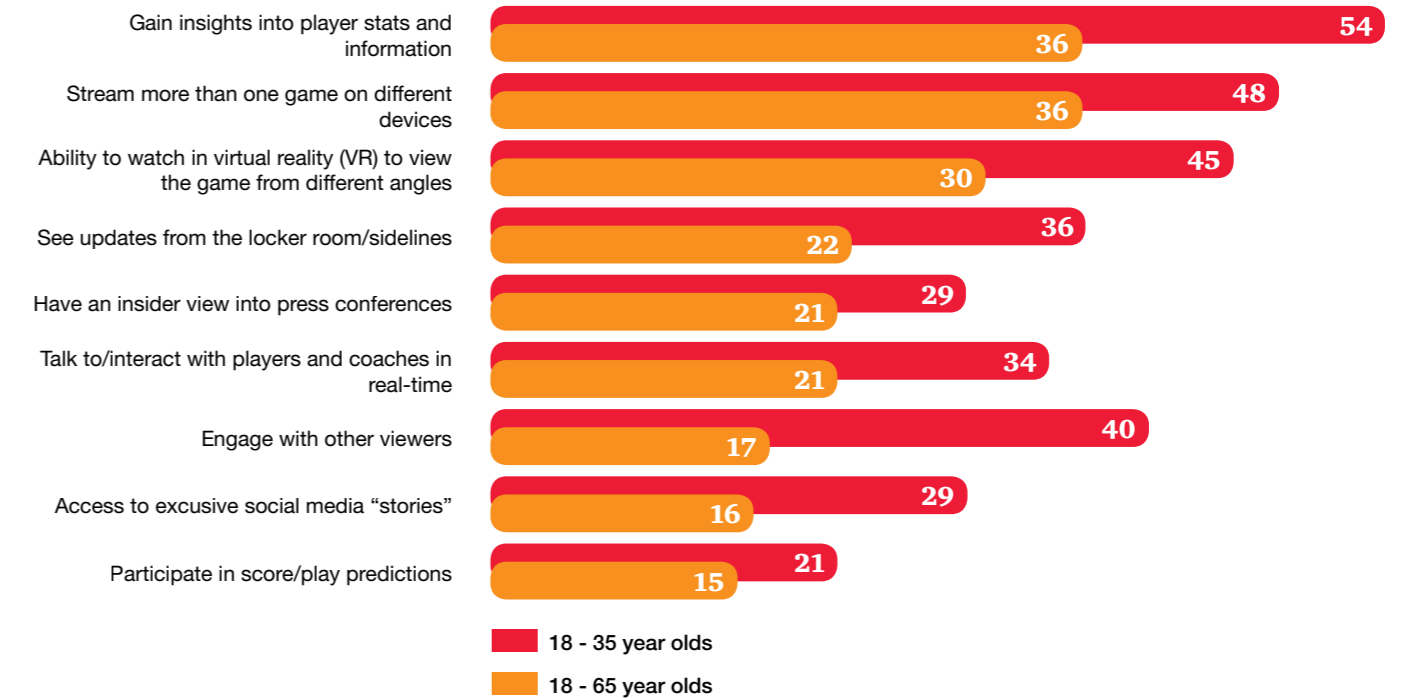
relief as more than 80 per cent of up to 35-year olds say they consume live sports through online screens, demonstrating just how relevant live remains. However, the good news comes with a twist: an even greater proportion of the same cohort claims to be consuming non-live content as well. This hints at a completely different consumption pattern across generations.

Our hypothesis is that although viewers under 35 years old still tune in to watch live events, they don't seem to be doing so with the same degree of intensity as those over 35 years of age. Take TV viewers in the US, for example: in recent figures published by eMarketer, over 70 per cent use a second screen while watching TV. Over 91 per cent are using

smartphones as their second screen, and 74 per cent of the second screen content they consume is unrelated to what they are watching on TV. Viewers under 35 years old watch live in a more distracted manner, and for shorter durations than those over 35, or only tune in for the most premium, socially engaging, must-see content.

Sports may well be the last man standing in terms of content that can motivate viewers to switch on a traditional TV, or any digital device for that matter, at a specific time.

2017 survey on the most desired future features of live sports streaming
Percentage of respondents



Source: IRIS Intelligence | Market Research - 12/2017 - CAWI - Survey N = 1'024 for 18-65 year olds, N = 322 for 18-35 year olds
Response panel: representative for 25 global markets

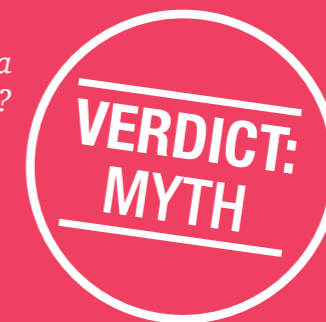
Sports may well be the last man standing in terms of content that can motivate viewers to switch on a traditional TV, or any digital device for that matter, at a specific time. However, as viewers adapt to a world in which on-demand is the new norm, the level of quality and engagement required to motivate people to tune in and consume content at a specific time increases significantly. This is confirmed by a recent survey across 25

markets asking about a series of features desired when streaming live sports: 18 to 35-year olds are far more demanding in their expectations than the broader segment of 18 to 65-year olds (see graph above).

What is the key takeaway here? Going forward, the winners in the race for live spectators will be the ones innovating the most on and off

the pitch, integrating the variety and personalisation of on-demand within a context of live consumption, all while ensuring a seamless transition into the conversations taking place on social media.

Myth or reality: is “live” dying a slow death?



...as long as it keeps fans on the edge of their seats

Sports sponsorship: driving return on investment in the digital age



By Stefanie Vogel

We surveyed sports leaders on the extent to which they believe senior management at global sponsors appreciate the ongoing shift in consumer behaviour with regard to sports media, where sponsors should be focussing their energies to drive ROI in the next three to five years, and how they foresee the value of global sponsorship rights evolving going forward. What are sports leaders telling us? We hear that sponsors are behind the curve in engaging millennials and that personalisation of content and knowing your fans are key elements to succeed in tomorrow's sponsorship landscape.

Sponsors behind the curve in understanding shift in consumer behaviour

Over half (56.3 per cent) of industry leaders believe that senior management at global sponsors either do not, or only partially appreciate the shift in consumer behaviour with regard to sports media. Our sense is that sponsors are generally confident in their ability to interact with those consuming the events they sponsor. However, the million-dollar question remains unanswered: how to engage with the myriad of fans who are talking about these events online? How can a sponsor be relevant in the context of that conversation? In our view, the solution lies in the convergence of sponsorship and media, whereby sponsors' content creativity is what will set them apart.

The times when sponsors could solely rely on the approach of a "turnkey" sponsorship package are clearly over.

The times when sponsors could solely rely on the approach of a "turnkey" sponsorship package, submit artwork for billboards and passively watch it generate returns are clearly over. Going forward, it is crucial for them to develop digital content strategies that generate value from, and for, specific sports properties. More so than before, such strategies should include ideas that are off the beaten path and may require

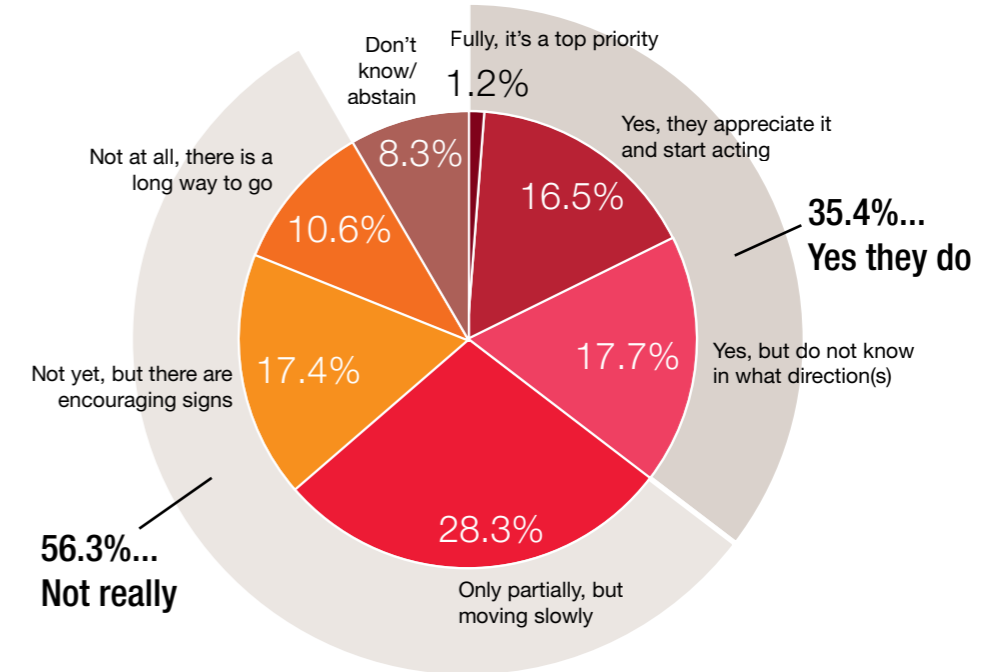
a collective leap of faith in the initial implementation phase. As millennials rarely find themselves in the boardrooms, sponsorship managers will need to build strong cases to convince senior management of the need to implement such innovative ideas.

A good example is how the various shoe brands (Nike, Adidas, Under Armour, and the disruptive Big Baller Brand) are activating through the video game franchise of NBA 2K. It is no longer just about players wearing branded shoes in the game; users can now create their own player and have them sign an endorsement deal with one of the companies. This is a unique way of creating a sense of customer loyalty, not because their favourite NBA player wears a certain shoe brand on the court, but rather due to their created player wearing that brand in their favourite video game.

To implement such strategies effectively, brands are going to have to break down any remaining organisational silos between marketing and sponsorship, fostering collaboration and optimal use of resources. In light of increasing pressure to deliver ROI from their association with sports properties, it is only through integrated strategies and activations that they will get the most bang for their sponsorship buck.

Do sponsors "get it"?

Generally, does senior management of sponsors fully appreciate the shift in consumer behaviour with regard to sports media?
Percentage of respondents, only one choice possible



Source: PwC analysis, N = 407

How to engage the millennial consumer

With the rise of digital media consumption, sponsors' priorities are changing. Millennials are interacting with brands differently, with authenticity and identity being at the top of their agenda. While exposure through mass media continues to be important, brands now have to consider a number of additional factors to ensure that their sponsorship decisions result in effective engagement across multiple dimensions.

The good news is that millennials are active consumers seeking high levels

of engagement. Fan, team and athlete-generated content is growing at a rapid pace and has led to companies such as Bleacher Report becoming legitimate sports content channels, aided by their acquisition of viral user-generated content/social media accounts. This creates a two-way street around content, which is key to the successful engagement of the modern sports fan.

Media consumption is also changing, with growing fragmentation across channels and devices. Consumption of

traditional TV is giving way to online, which is reinforced by the proliferation of the types of media that can be consumed on demand (e.g. highlights, data/statistics, behind the scenes content, personal posts of athletes and fans). This is both a challenge and an opportunity: while consumers are presented with numerous content options that make it harder for brands to stand out, these brands now have a multitude of opportunities to drive their messages home.



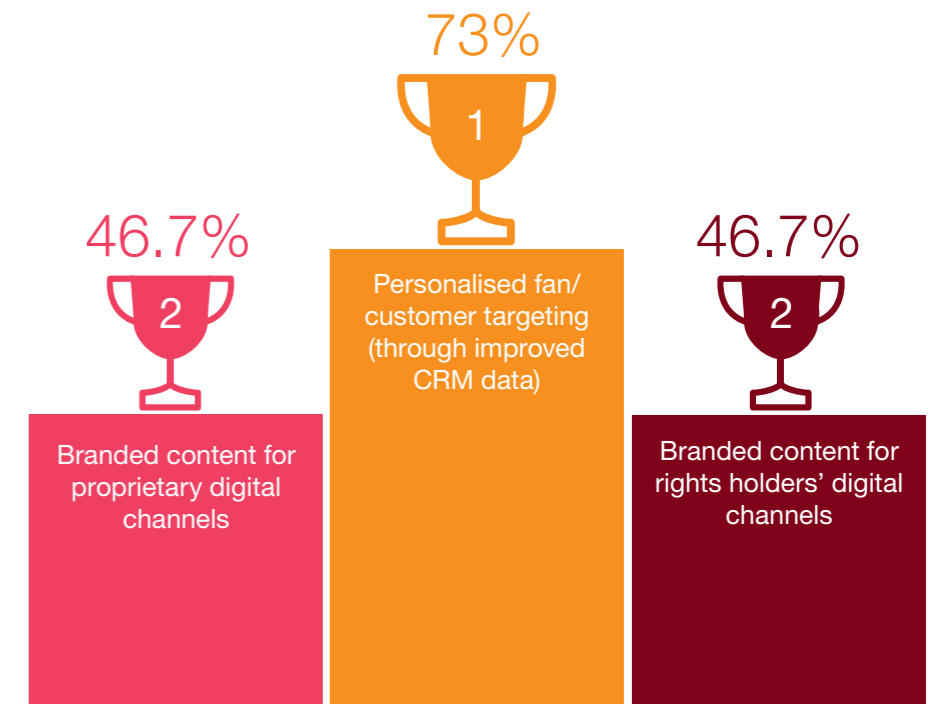
Personalised content is king

In this changing environment, what should sponsors' strategies be focused on in order to maximise ROI? With nearly three quarters of respondents' votes, personalised fan/customer targeting (through improved CRM data) was by far the priority focus area. This is understandable given that the modern day "secret sauce" in the sports sponsorship world is to know who your fans are, what their customer preferences are, and find effective ways to monetise that knowledge.

Of particular interest in this context is the development of virtual advertising, which has been implemented this season by the German football league for international feeds after Supponor's technology passed its quality check in March of this year. As live sports consumption is moving online, rights holders are increasingly empowered to deliver the degree of customer targeting that is now expected by brands. The end game is to integrate data from multiple touchpoints (social media usage, ticketing, merchandising, etc.) in order to build fan profiles which will facilitate real-time targeting.

How is this possibly going to affect the sponsorship strategy of rights holders? As the value of personalised content rises, we envisage sponsorship relationships to become more sophisticated, with rights holders offering bespoke packages to an ever more select group of brands looking to buy access and engage fans in unique ways. At the same time, rights holders may look to attract more

Top 3 areas sponsors should be focused on in next 3-5 years to drive ROI
Percentage of respondents, up to 3 choices possible



Source: PwC analysis, N = 407

brands specifically interested in gaining visibility in specific territories or certain audience profiles, offering them the type of targeted reach that they are currently only able to achieve through other media channels. Under such a perspective, the "sponsors" of the future will likely mutate into true "partners" of rights holders, featuring a strategic agenda around the sport.

It is all about the fans

Branded content, be it on sponsors' digital channels or on those of rights holders, is the other area respondents believe sponsors should be focussing on to drive ROI. This reinforces our belief that all stakeholders need to be in the content game, where those with the most engaging and authentic content win.

All stakeholders need to be in the content game, where those with the most engaging and authentic content win.

In this new reality, sports properties are making wholesale changes to their approach to content management. Simply producing linear content is no longer sufficient to generate added value for sponsors. By engaging with sports, brands aim to build strong, coherent and authentic brand identities that speak to their target audiences. This will increasingly mean gaining control and access of the core assets of the sport: teams and athletes, their stories and values, and, most importantly, their fans.

This trend may favour platforms that are focussed on aggregating fan-centric, shoulder-programming content, offering the much-needed platforms for sponsors to engage on a more diverse and continuous basis (e.g. COPA90, Dugout).



Working closely with players to facilitate access and optimise activations is essential to driving the global engagement that sponsors are now demanding.

Jérôme de Chaunac,
Managing Director, Paris Saint-Germain, Americas

A final point worth mentioning is that only 23.4 per cent of respondents believe that sponsors should be focussing on conversion through e-commerce. In a retail world dominated by e-commerce, we would expect this to be higher up on the priority list. Indeed, a key feature of any sponsorship package should be a call to action that makes it more likely for viewers to part with their cash for products or services being offered by sponsors. Heineken's highly acclaimed UEFA Champions League campaign "Share the Drama" gave fans the opportunity to enter competitions by, for example, proving they had bought a six pack of the company's beer and sharing their details with them via WhatsApp. A scenario where Amazon is delivering that six pack of beer by drone may soon be less far-fetched than we think, as evidenced by its recent decision to become the title sponsor of the 2018 IRONMAN World Championship and, more significantly, the event's official sports nutrition retailer.



No consensus on tomorrow's sponsorship values, but more stable than media rights

Broadly speaking, the respondents' predictions on the evolution of global sponsorship rights are similar to those

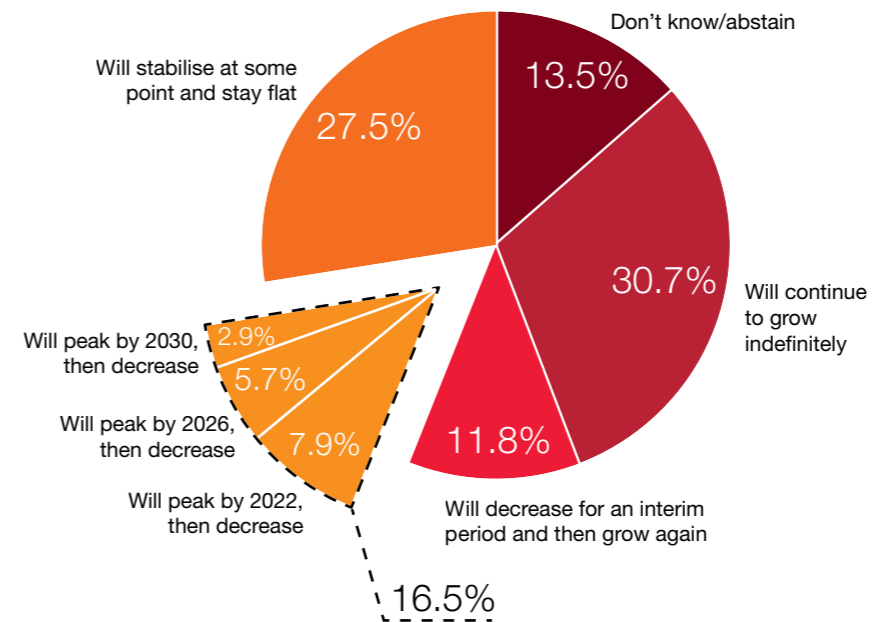
on media rights, and the inherent link between these two revenue streams will likely see them develop in tandem.

Sports leaders have a similar viewpoint on sponsorship values' potential for indefinite growth (30.7 per cent) relative to media rights (34.2 per cent), with a smaller proportion envisaging a mid- to long-term decrease (cumulatively 16.5 per cent responding that sponsorship rights will peak by 2022, 2026 or 2030 and then decrease, compared to 24.4 per cent for media rights).

If we also consider that 27.5 per cent of respondents believe the sponsorship rights market will stabilise at some point and stay flat compared to 21.4 per cent for the media rights market, it could be argued that these results collectively indicate that sponsorship values may be slightly more stable than media rights going forward.

Regardless of how rights values will evolve, a fundamental shift is occurring in how sponsors perceive value. This is changing what they want out of their sponsorship relationships, and it is now up to rights holders to step up to the plate and give them what they need.

Projected trajectory of global sports sponsorship rights values
Percentage of respondents, only one choice possible



Source: PwC Analysis, N = 407

Esports: serious business



By Clive Reeves

In terms of the data points we sought from our respondents on esports, we asked them what traditional sports can learn from esports, if they believe it should be included in the Olympics and what traditional sports teams should do to take advantage of the opportunities presented by it. We also asked their view on the main reasons behind traditional sports' hesitance to enter the esports market. The results demonstrate that esports can no longer be ignored and that traditional sports organisations would be wise to devise concrete strategies on how to approach this fast-growing space.

Living up to the hype

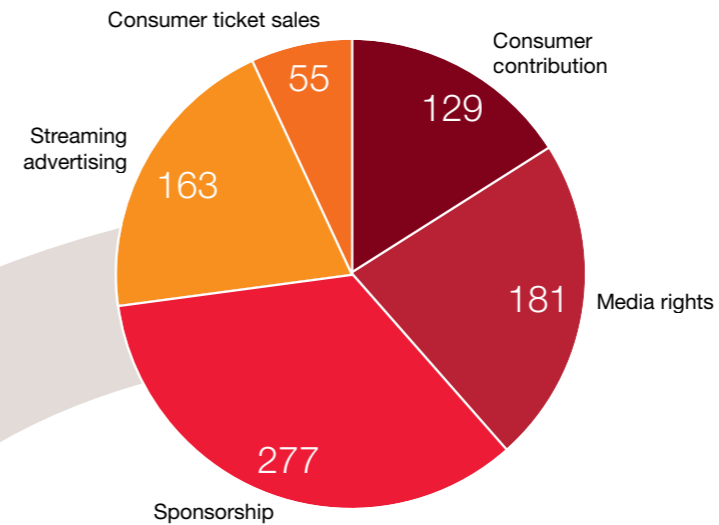
The excitement surrounding esports gained momentum in 2018, as the industry showed signs of further maturation. Over the past year, publishers (such as Blizzard Entertainment and Riot Games) have introduced franchise leagues, traditional sports (such as the NBA and F1) have launched esports competitions and mainstream broadcasters (such as ESPN and Sky Sports) have started airing esports content. These developments substantiate the promise held by the esports economy, which we estimate to reach USD 804.9 million in 2018 (a 29.8 per cent year-on-year jump from 2017). This jump is driven by a significant growth in direct (sponsorship and streaming advertising) and

Media rights are forecasted as the revenue stream that will have experienced the biggest year-on-year jump in 2018, up 49.6 per cent from 2017.

indirect (media rights) investment by endemic and increasingly non-endemic brands. Media rights are forecasted as the revenue stream that will have experienced the biggest year-on-year jump in 2018, up 49.6 per cent from 2017. Sponsorship, which is already the leading revenue stream in terms of volume, will also grow by 24.8 per cent.

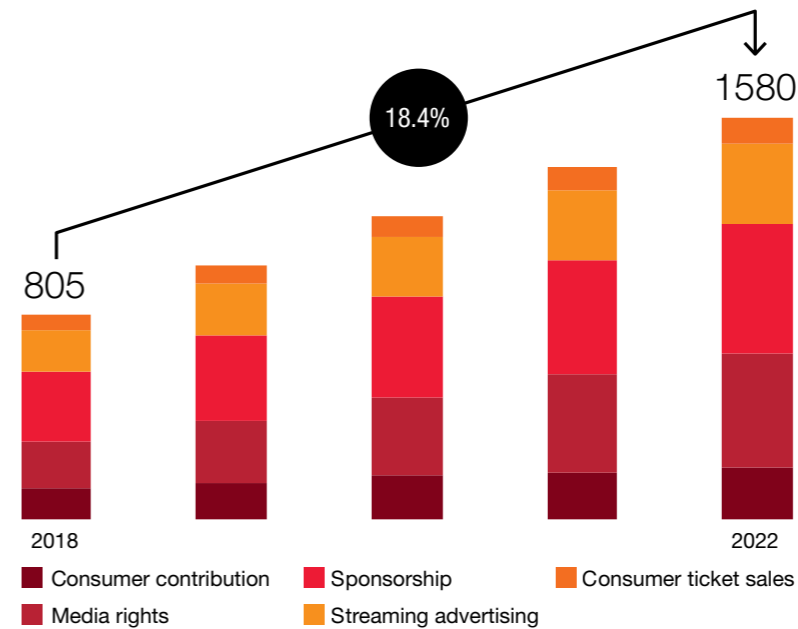
Looking forward, our latest Global Entertainment and Outlook data forecasts a growth of global esports revenues to USD 1.58 billion by 2022, representing a healthy 18.4 per cent compound annual growth rate (CAGR) from 2018. The drivers of this growth are sponsorship (USD 500 million, 31.7 per cent of overall revenues), followed closely by media rights (USD 449 million, 28.4 per cent of overall revenues, thereby significantly closing the gap on sponsorship) and streaming advertising (USD 316 million, 20 per cent of overall revenues). Of the five revenue streams measured in the Outlook, the slowest-growing one – consumer contribution, which encompasses consumer spend on compendiums for esports events and battle passes for virtually attending esports events – will still increase by 12.7 per cent CAGR from 2017 to 2022.

Global esports economy in 2018 (US dollar millions)



Sources: PwC, Informa Telecoms & Media, Ovum

Global esports economy (US dollar millions)
Figures in US dollar millions



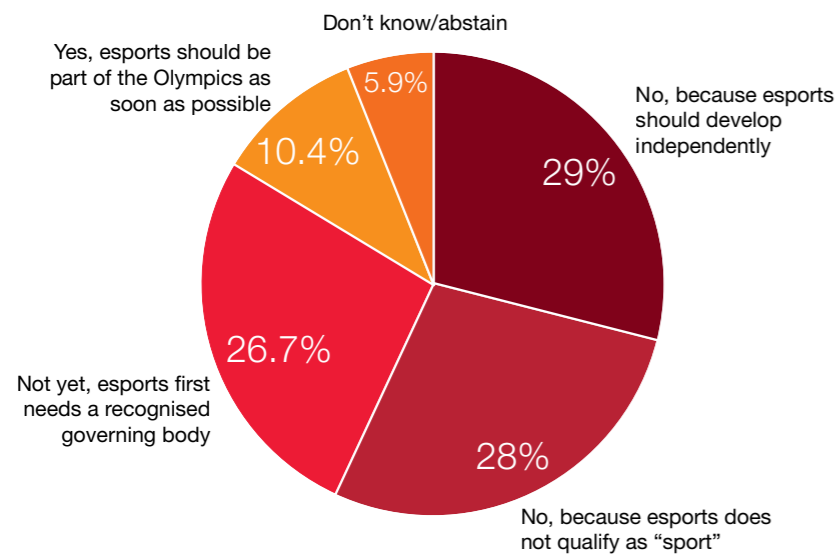
Sources: PwC, Informa Telecoms & Media, Ovum

Is esports an Olympic sport?

Following the 6th Olympic Summit in late October 2017, the International Olympic Committee (IOC) recognised esports as a “sporting activity” and was asked “to explore this area further and come back to the Olympic Movement stakeholders in due course”. This has intensified the debate surrounding the potential inclusion of esports as an Olympic sport, an idea that has been floated very publicly by the Organising Committee for Paris 2024, and that led to the organisation of an Esports Forum by the IOC and the Global Association of International Sports Federations (GAISF) on 21 July of this year.

As far as our respondent base is concerned, an overwhelming majority of 83.7 per cent believe esports should not (yet) be included as part of the Olympic Games. The reasoning behind this view is split between those who think esports should develop independently (29 per cent), those who do not see esports as a sport (28 per cent) and those who think esports needs a governing body before it can aspire to be an Olympic sport (26.7 per cent). These three themes came out strongly at the aforementioned Esports Forum, along with a lengthy debate on the compatibility of esports that contain violent content with Olympic values.

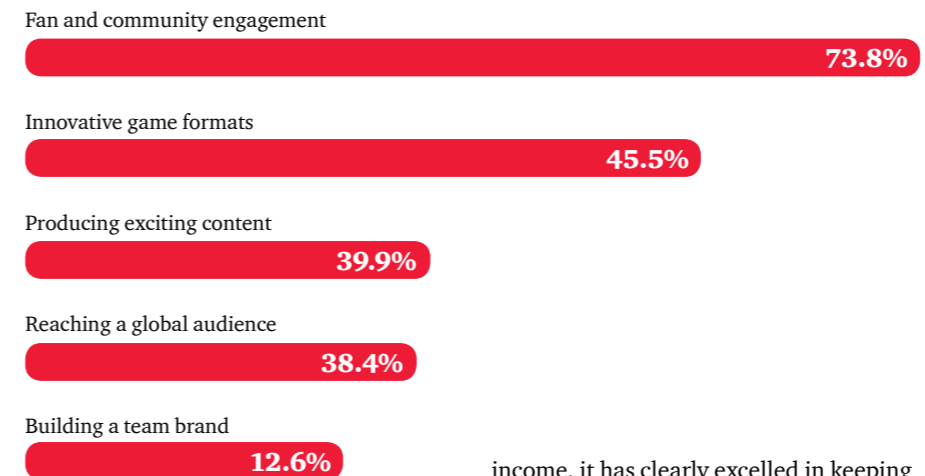
Should esports be included in the Olympic Games?
Percentage of respondents, only one choice possible



Source: PwC Analysis, N = 404

Kings of fan engagement

Top 5 things traditional sports can learn from esports
Percentage of respondents, up to three choices possible



Source: PwC Analysis, N = 404

These findings indicate that for the time being, esports shall remain distinct from traditional sports. While esports is in many ways a competing entertainment format, particularly among the younger generations, it can certainly co-exist healthily. Indeed, respondents were of the view that there is a lot that traditional sport can learn from the staggering growth in esports, particularly with regard to fan and community engagement (73.8 per cent).

Traditional sports also believe there is something to learn from esports within the areas of innovation in game formats (45.5 per cent), producing exciting content (39.9 per cent) and reaching a global audience (38.4 per cent), all of which facilitate fan engagement and community building. While the nature of esports has allowed it to attract young, digitally native fans with high disposable

income, it has clearly excelled in keeping this fan base highly engaged. With an ageing viewership across most traditional sports, they would be wise to take note.

For example, as the NBA 2K League, a partnership between the NBA and video game company Take-Two Interactive, gets ready to enter its second season, Commissioner Adam Silver has repeatedly acknowledged that the NBA itself should seek out ways to adapt to the esports broadcasting style. These include using different audio and video feeds, fan interaction such as commenting, real-time statistical analysis and two-screen experiences. While it has yet to be determined which of these techniques will be implemented, we can expect to see a number of them tested in the international markets where rights are currently less restricted (US digital rights are contracted through to the 2024-2025 season) and there is a growing interest in the game. Given the NBA's track record of adapting to new trends, it will be worthwhile following these developments closely.



An executive point of view from Peter Warman, CEO, Newzoo

Traditional sports and gaming share just as many similarities as differences, which is exactly why both worlds can learn so much from each other.

Already, the sports industry is increasingly embracing digital streaming. Not only is it experimenting with new forms of engagement and direct-to-consumer business models, but sports companies are now looking to the games industry as a whole for inspiration. Traditional sports can especially learn plenty of valuable lessons from esports—a sector with which it shares a striking number of similarities.

As a result, I expect to see more innovation in the development, distribution, and monetisation of sports content. This will be driven by today's young consumers, who—when it comes to every form of entertainment—have vastly different expectations compared to previous generations.

At the same time, esports can learn many a lesson from traditional sports, especially in terms of how the industry operates. Until now, monetising viewers has rarely been a concern for gaming companies. This is where firms will look to traditional sports companies for guidance. Going forward, we expect that the trade of content rights will be esports' fastest-growing revenue stream.

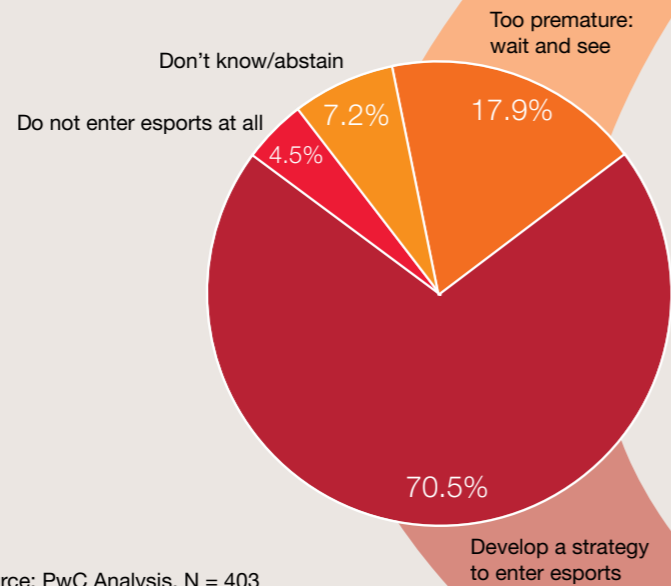
I foresee a bright future ahead for esports and traditional sports companies that understand and embrace their differences, particularly those that learn from each industry's triumphs and missteps.



Esports can no longer be ignored, but how to proceed?

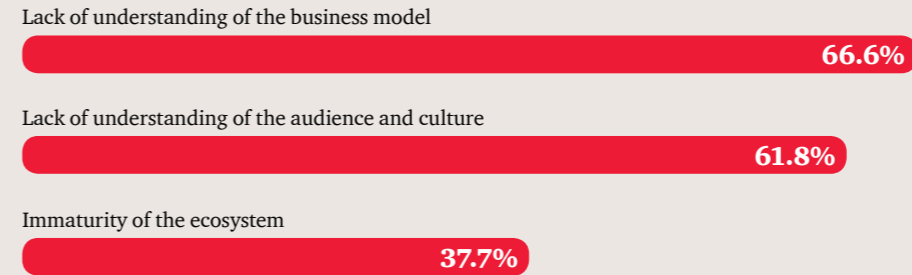
When asked whether they should enter esports or not, 70.5 per cent of respondents said they would develop a strategy to enter esports, 17.9 per cent believe it is too early to decide and only 4.5 per cent advise against entering.

What a traditional sports team should do regarding esports
Percentage of respondents, only one choice possible



Source: PwC Analysis, N = 403

Top 3 reasons traditional sports are hesitant to enter esports
Percentage of respondents, up to three choices possible



Source: PwC Analysis, N = 374

If such a large proportion believe that esports cannot be ignored, why do they continue to hesitate entering the market? According to our respondents, the top reasons are a lack of understanding of the business model (66.6 per cent), a lack of understanding of the audience and culture (61.8 per cent) and the immaturity of the ecosystem (37.7 per cent).

Going one step further, we asked respondents which of the below strategic trade-offs bear the most potential for traditional sports entering the esports market. The picture that emerges is one of a cautious approach, whereby respondents are of the view that traditional sports should enter esports in a low-risk manner.

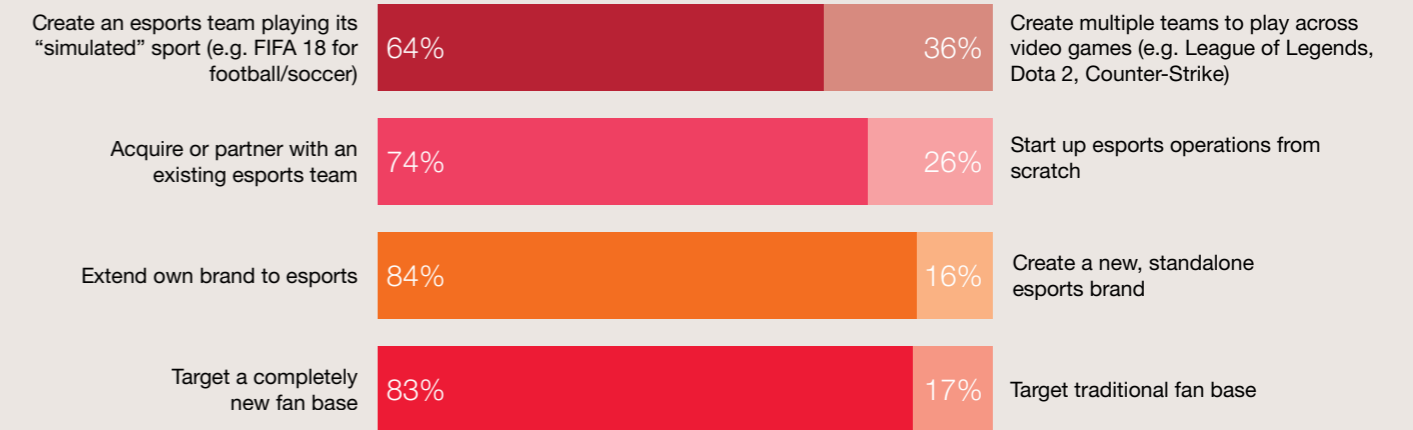
markets, such as North America and Asia, this overall picture supports our view that European sports teams have approached esports in a conservative manner so far.

credible position on esports. This will provide a platform for the development of a strategy that best fits with each entity's respective business context and overall commercial strategy. As esports continues to mature and grow, it is becoming abundantly clear that overlooking it is no longer an option and now is the time to consider how to get involved.

While we are observing aggressive approaches in more mature esports

The continued growth of esports raises a strategic conundrum for traditional sports organisations, with many executives debating what to do next. For those in such a position, it is important to be well informed in order to take a

Strategic trade-offs for a traditional team to enter esports
Percentage of respondents, trade-off among two options



Source: PwC Analysis, N = 220-267

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Our service offerings



Our Sports Business Advisory team

PwC's Sports Business Advisory team was launched by PwC Switzerland in 2012 and has evolved into a sport business hub for Europe, the Middle East and Asia. The team helps sports industry players design effective strategies, identify new growth opportunities and optimise

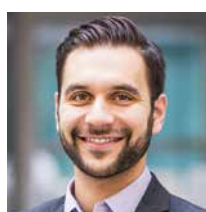
their operations to meet their business goals. Working closely with PwC firms in various territories throughout our network, we have delivered projects for a variety of organisations across Europe, the Middle East and Asia. Since 2016, we have published PwC's Sports Survey

annually, checking the pulse of the sports industry on growth expectations and a wide range of other strategic topics and commercial levers. We hope you have found the third edition of this publication insightful.



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