

Sports industry:

system

rebooting



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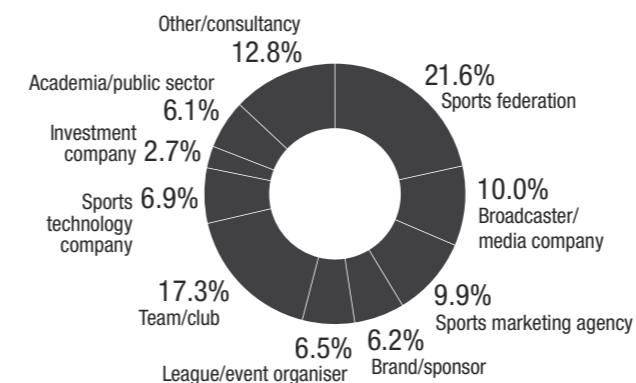
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This survey was conducted by our Sports Business Advisory team between June and August 2020 through an online questionnaire distributed to sports industry leaders around the world. Because they share our vision of establishing an independent perspective 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. The effort was also driven by PwC Australia, China, France, Germany, Hungary, India, Japan, the Middle East and Russia. In total we received 780 responses to our questionnaire across more than 50 countries.

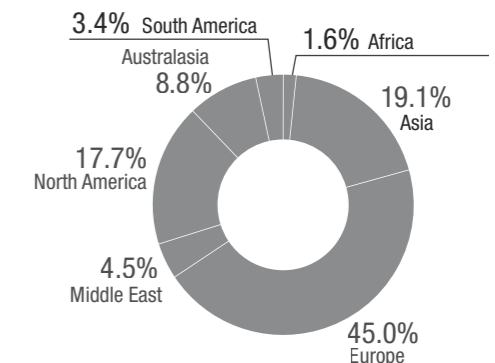
At the time of their response, each of the respondents occupied a senior/C-level position within their respective organisations. The analysis in this report is primarily based on the collective opinion of the respondents. It is complemented by data provided to us by IRIS Intelligent Research in Sponsorship and HORIZM, as well as the team's knowledge, research and views about the industry.

Respondent profile by organisation



Source: PwC Analysis, N=780

Respondent profile by geographical sports market they know best





Dear friend of the sports industry,

In this particularly turbulent time for our sector marked by COVID-19, we're pleased to have gathered the views of 780 industry leaders – a record number of respondents for the second year in a row. The continually increasing size and quality of our sample has enabled us to reinforce both the depth and validity of our analyses. To this end, I'd like to express my most sincere thanks to each and every one of you for your valuable contribution.

As expected, the 2020 edition closely reviews the short- and long-term consequences of a crisis unprecedented in the history of modern sport. Against this backdrop, we've delved into the rapidly evolving sports media ecosystem, as well as the opportunities and challenges of emancipating esports as a new discipline alongside its physical equivalent.

In general, our results show that the prevailing pessimism is cut by the many opportunities brought about by the crisis. This situation may favour the emergence of changes that have long been considered but never achieved to their full extent, whether it be hybrid sports, new revenue streams, drastic governance reforms or enhanced collaborative models.

Ultimately, as demonstrated by spectators' unwavering interest amid and after the hiatus, nothing seems to be able to undermine the inspirational capital of the sports product. This means that all the ingredients are in place for industry leaders to fully engage in the building of an equally prosperous but more robust new dawn for sports.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D Dellea'.

David Dellea

Head of Sports Business Advisory

View from the top

How to get back on track?

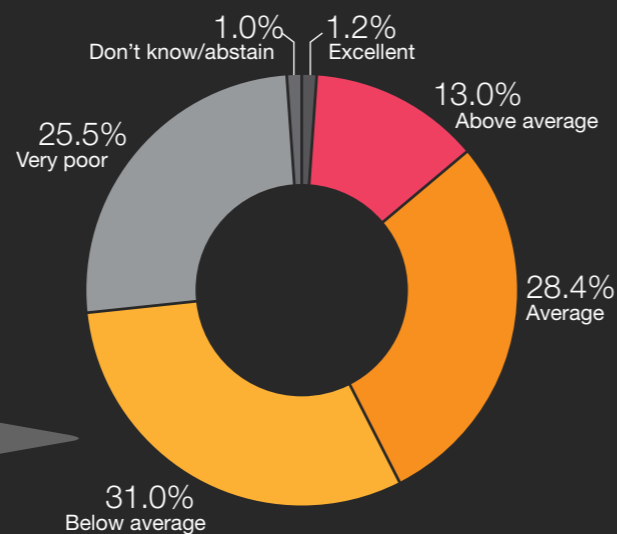
Future vs. past growth



Top 10 sports by potential to grow revenues

1 Esports	6 Golf
2 Football/soccer	7 Cycling
3 Basketball	8 Motorsport
4 Urban sports	9 Rugby
5 Tennis	10 American football

Relative to other industries, how well was the sports industry prepared to face the COVID-19 crisis?



Top three benefits and challenges for rights owners setting up an esports strategy

- 1 Engaging a new fan base
- 2 Attracting new commercial partners
- 3 Generating new revenue streams



- 1 Creating engaging content and narrative
- 2 Developing an effective monetisation strategy
- 3 Selecting the most relevant games and competition formats

Most growing sports media content types

Highlights/short-form content	90.5%
Team/athlete-generated content	81.6%
Original content/documentaries	75.7%

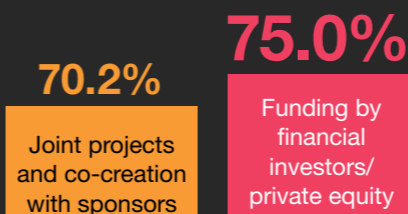
Top three industry-wide opportunities and threats

- 1 Enhanced digital media fan experience
- 2 Creation and monetisation of digital assets
- 3 Innovation in media rights packaging and distribution




- 1 Impact of health and safety crises
- 2 Reduced financial resources to invest/innovate
- 3 Dominance of major tech firms as gateway to content

Most expected collaboration models with the sports industry



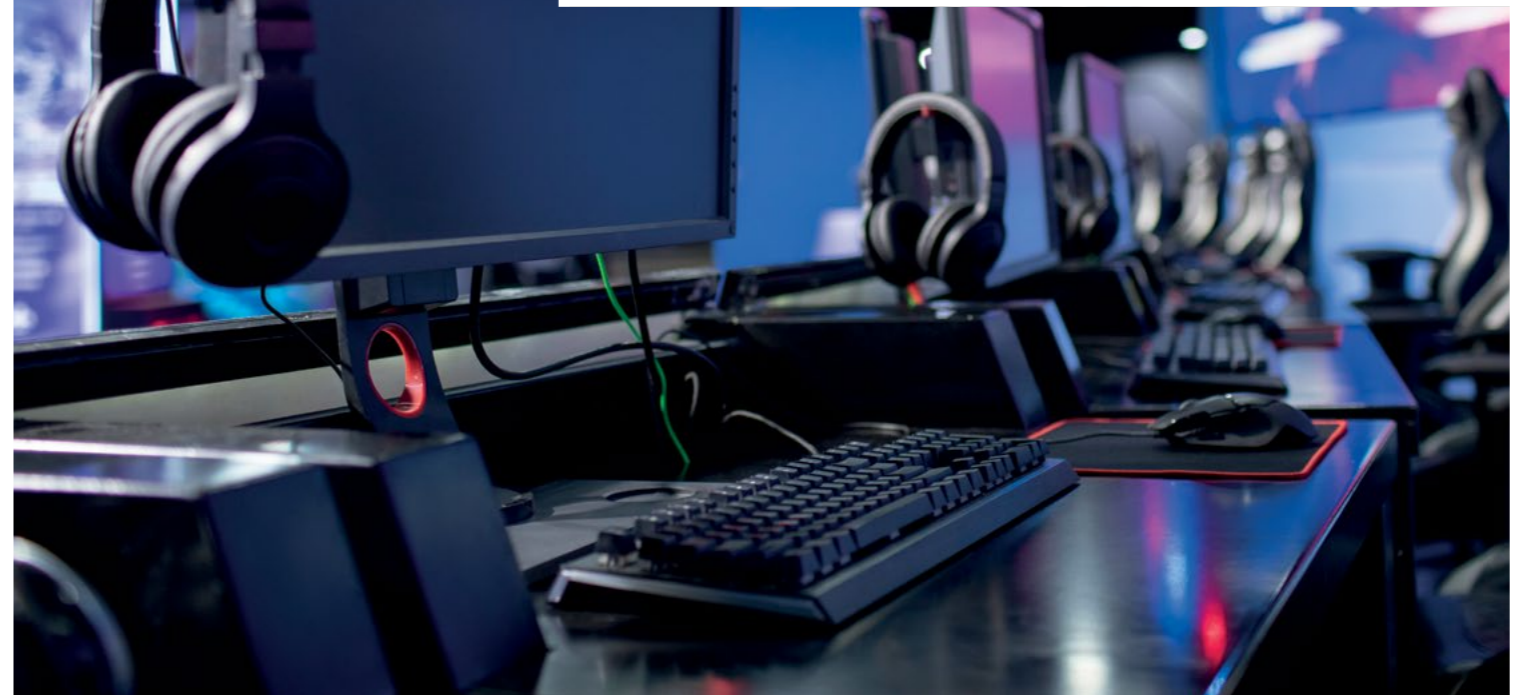
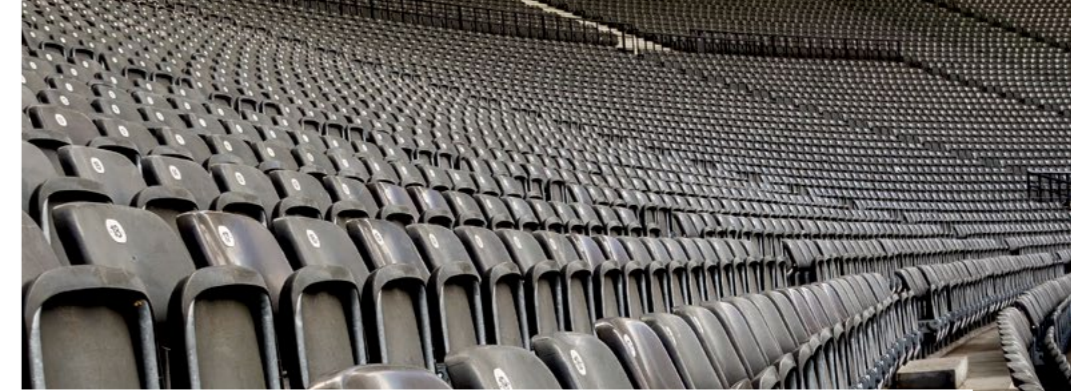
86%

of industry leaders believe that live sports viewing will become significantly richer, immersive and interactive



The state of the sports industry

Each year, we survey a select group of industry leaders on their perceptions of the growth, key opportunities and threats faced by the sports market. Through this exercise, we aim to provide you with macro insights on how our industry is likely to develop in the coming three to five years. This section outlines high level takeaways, setting the stage for the following chapters which address in greater detail the impact of COVID-19, the market dynamics reshaping sports media as well as the growing opportunities in esports.





Headlines

European Club Association predicts a EUR 3.6bn revenue shortfall for elite football

NFL's revenue could fall by USD 4bn over the coming season



Insight 1: COVID-19 undermining growth expectations

- Fully impacted by the COVID-19 outbreak, the sports market is predicted to slow to an annual growth rate of 3.3% in the next 3-5 years (down from 8% compared to the past 3-5 years). 30% of respondents expect growth rate to be zero or below.
- The Middle East and Asia – fuelled by robust governmental support, upcoming mega events and overall growing commercial maturity – report the most optimistic forecasts. Africa also anticipates steady growth thanks to an increasing influx of investments and partnerships.
- In Europe, the Americas and Australasia, the crisis has significantly lowered confidence. We nevertheless dare to see the cup half full: long-term growth prospects of above 3% per annum suggest that the industry holds robust fundamentals.

Figure 1: Market growth outlook by respondents' best known market
Percentage annual growth estimates over a 3-5 year period

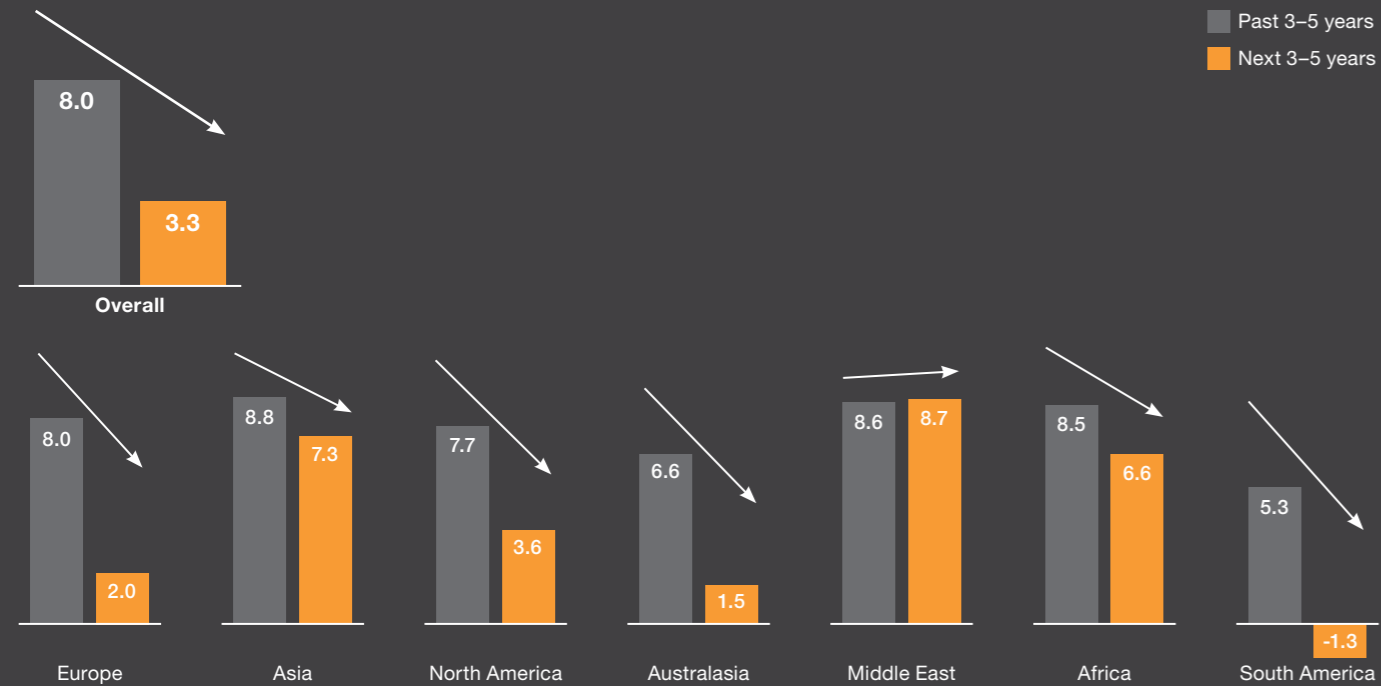
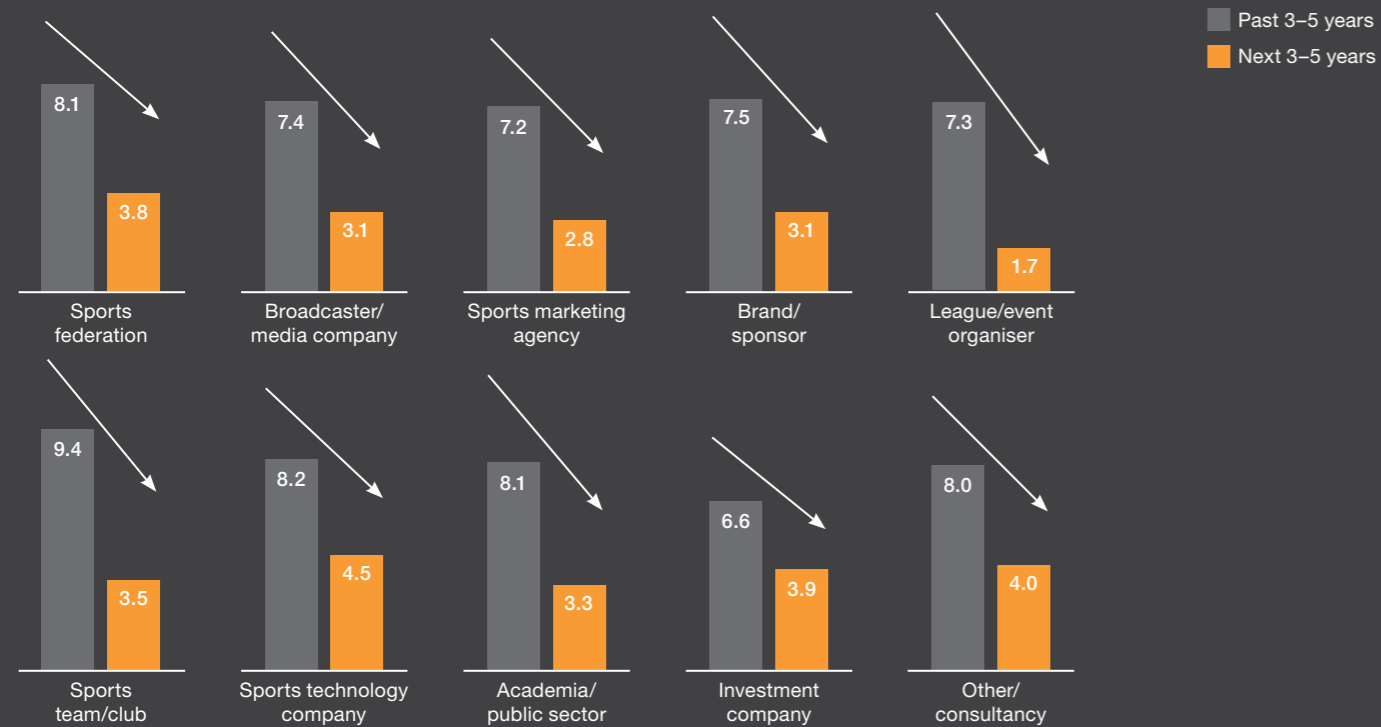
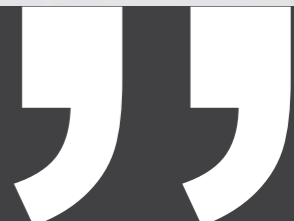
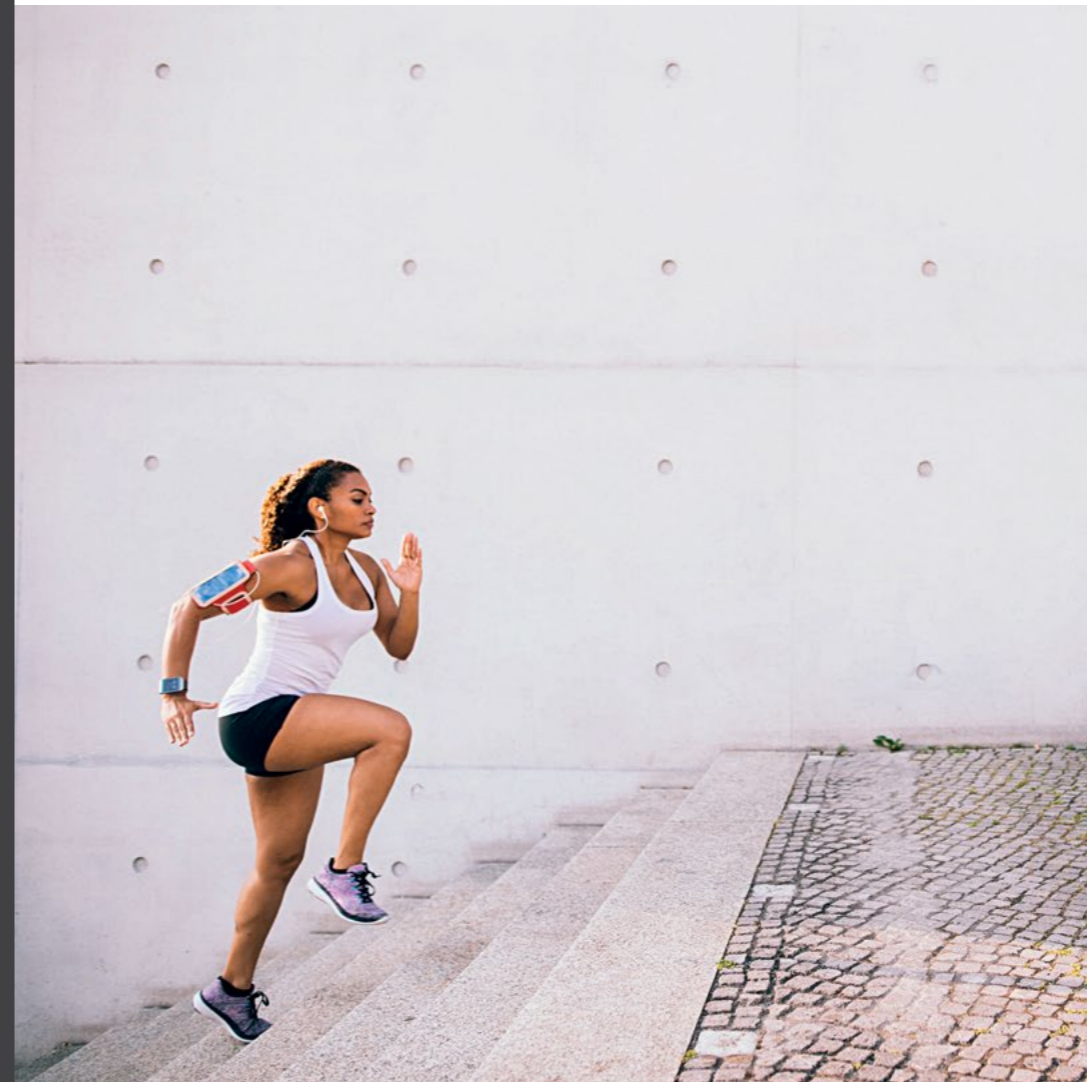


Figure 2: Market growth outlook by stakeholder
Percentage annual growth estimates over a 3-5 year period



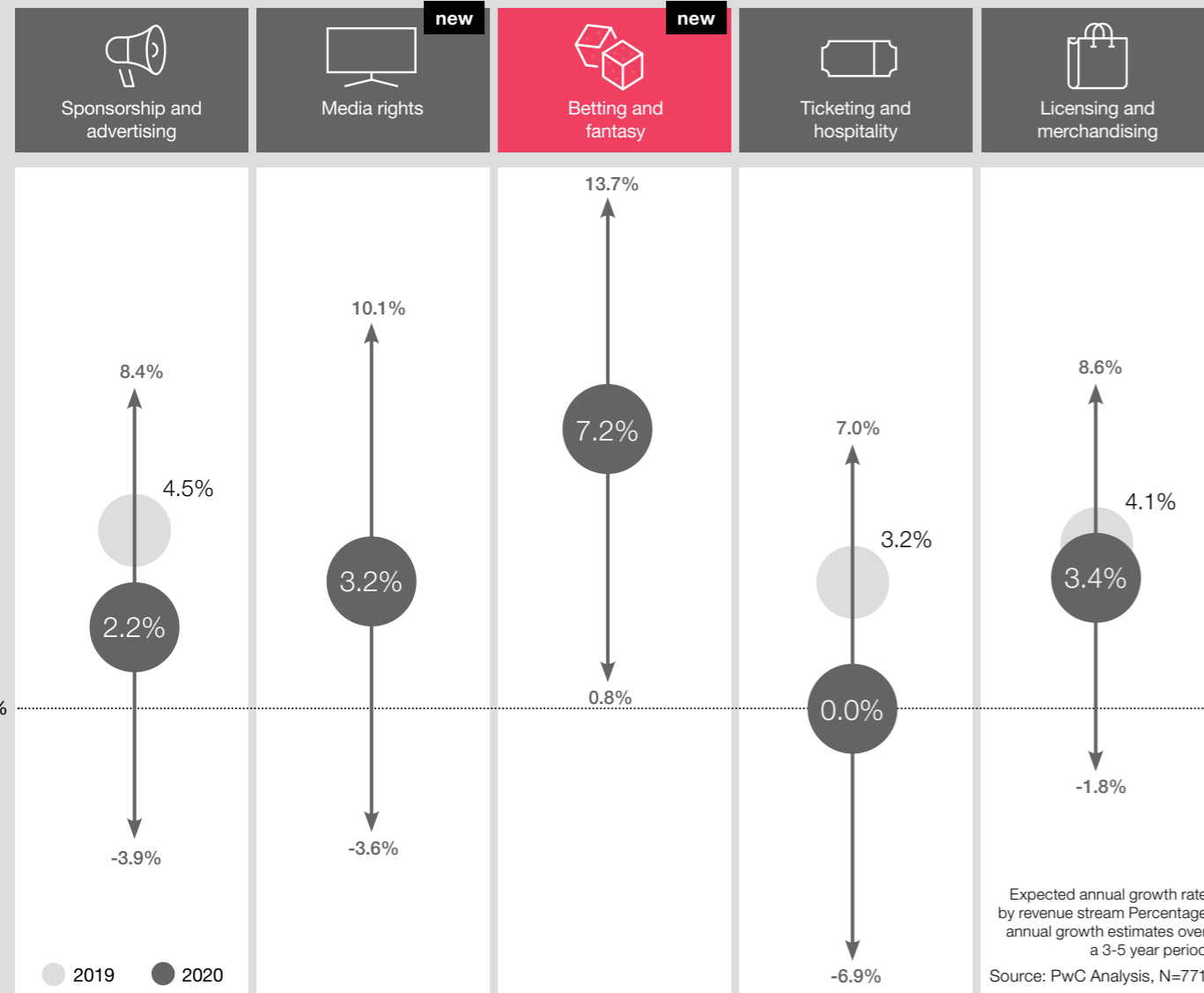
Source: PwC Analysis, N=771



Never waste a good crisis.

Winston Churchill

Figure 3: Expected annual growth rate by revenue stream
Percentage annual growth estimates over a 3-5 year period



Insight 2: Betting and fantasy presenting greatest growth prospects

- Betting and fantasy are predicted to become key industry drivers in the next 3-5 years, with an anticipated yearly growth of 7.2%. These favourable forecasts are mainly due to the rapid acceleration of the betting market in the United States since the lifting of the federal ban in 2018.
- For rights holders, these prospects imply the growing potential of both core (e.g. betting partnerships, licensing of game data rights) and adjacent (e.g. integration of betting and fantasy into live broadcast) betting-related revenues.
- Concerning sports' historical revenue streams, licensing, merchandising, media rights and sponsorship are still expected to grow slightly over the next few years (3% on average), while ticketing and hospitality are projected to remain flat.

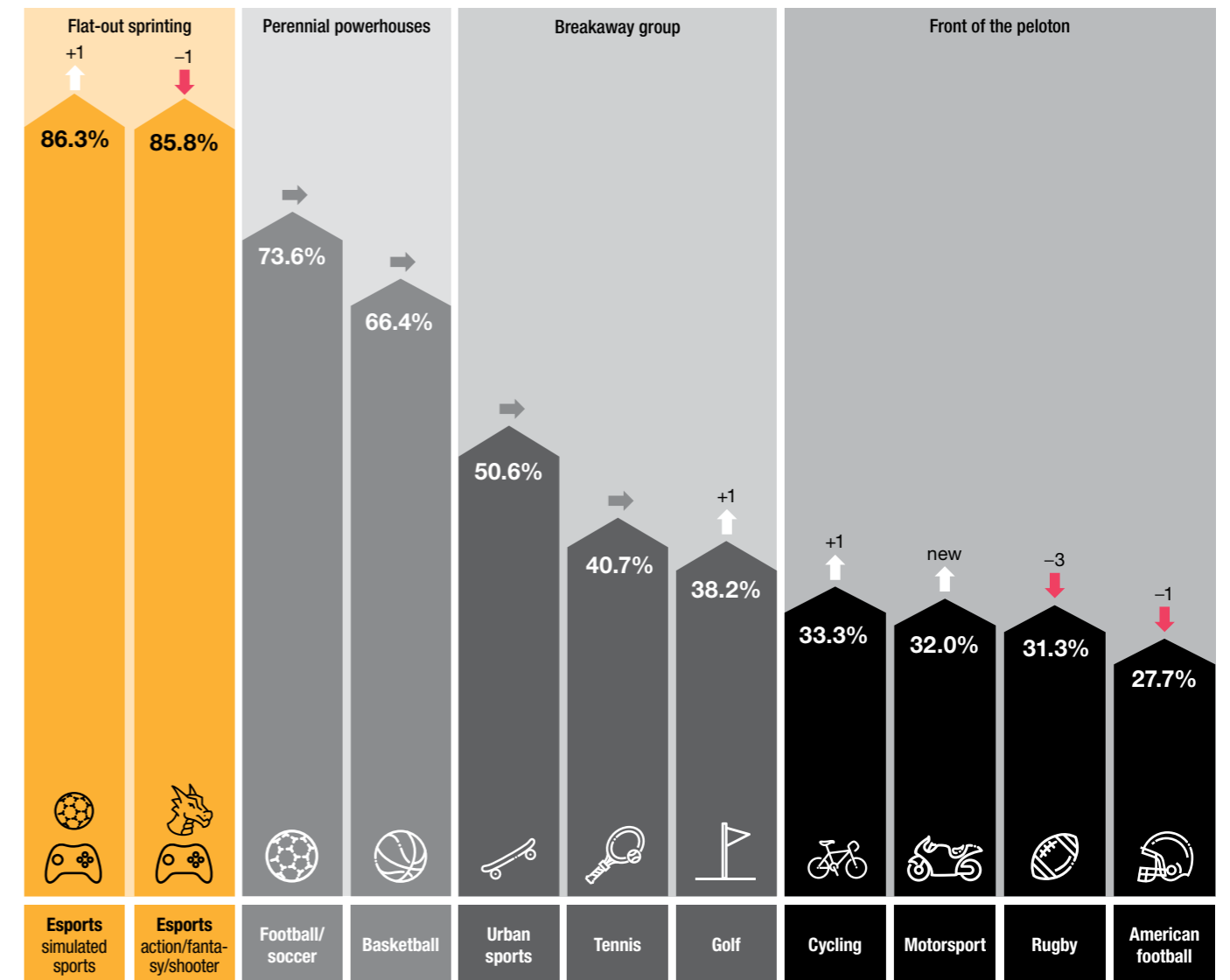


Headlines

Sports betting legalisation fosters value of performance data

Betting-related companies outperform overall market at Wall Street

Figure 4: Ranking of top 10 sports by potential to grow revenues
Percentage of respondents, Top 2 box ("above average" and "very high")



Insight 3: Esports accelerating its rise as fastest-growing category

- Benefiting from unprecedented exposure in the mainstream media, esports unsurprisingly emerged as the big winner of this lockdown period. The simulated sports genre, which temporarily turned into a substitute for real, physical sports, is even ranked first by respondents.
- The growth potential of the ultimate global games – football and basketball – remains robust, as confirmed by the large broadcast audiences recorded by the major competitions at the time of their respective restarts.
- Interestingly, motorsport moved up to 9th place – up 5 ranks from the last edition. This may be tied to the recent experiments by flagship properties such as Formula 1 and NASCAR during the hiatus, reaping great success with innovative fan engagement campaigns.



Headlines

FIBA announces its first esports competition for national teams

LaLiga's global viewership grows by 48% at restart



“
It’s time to
accelerate direct
relationships
with fans.”

Timo Lumme, CEO/Managing
Director at IOC Television &
Marketing Services

Insight 5: Rights market pointing out opportunities through diversification

- In contrast to the historical model, the sports hiatus has put negotiation power in the hands of content buyers over rights owners; a symbolic paradigm shift that is likely to impact the dynamics of rights tendering.
- Given that media companies are also being severely hit by the crisis, the future suggests a more diversified, risk-sharing revenue pattern, which might imply more transactions of lower values on average.
- We believe that the greatest potential for positive disruption lays in media rights, where we expect a softening of current exclusivity terms and growth of collaborative distribution models.



Headlines

J. League and DAZN agree on a collaborative, profit-share rights deal

Chelsea signs its first non-exclusive, short-term partnership with Duracell

Opportunities **71.7%** > 47.1% Threats

Figure 5: Top opportunities to increase revenues in the sports industry
Percentage of respondents, Top 2 box (“above average” and “very high”)

Enhanced digital media fan experience (e.g. UX, interactivity)	89.3%
Creation and monetisation of digital assets	82.9%
Innovation in media rights packaging and distribution	72.2%
Innovation in sponsorship rights packaging (e.g. flexibility, targeting)	70.4%
Monetisation of gaming and esports	69.9%
Improved on-site fan experience	62.6%
Monetisation of betting and fantasy	54.5%

Source: PwC Analysis, N=780

Figure 6: Top threats to revenues in the sports industry
Percentage of respondents, Top 2 box (“above average” and “very high”)

Impact of health and safety crises	69.3%
Reduced financial resources to invest/innovate	58.1%
Dominance of major tech firms as gateway to content	45.8%
Growing complexity to reach/service fans	44.4%
Sports content saturation/scheduling conflict	41.0%
Piracy/illegal streaming	40.8%
Declining interest in live sports content	30.5%

Insight 6: Health crisis squeezing resources and investments

- Looking at threats, the COVID-19 crisis is unsurprisingly top of the agenda for sports leaders, with primary concerns around reduced financial resources to invest and innovate.
- On the bright side, most sports leaders agree that sports’ capacity to engage audiences remains intact, as interest in live sports content is not expected to drop.
- Facing today’s dramatic challenges and tomorrow’s uncertainties, the sports industry urgently needs to ask itself what concrete initiatives should be prioritised to accelerate change despite significantly reduced resources.



Headlines

European football prepares for the age of austerity

COVID-19 pushes rights owners to revise their approach

Insight 4: Digital strengthening its position as major opportunity driver

- Survey results show that sports leaders fully recognise the digital fan experience as a top priority, although few organisations have yet managed to deliver it in a way that allows it to acquire and retain fans sustainably.
- The COVID-19 pandemic has significantly weakened physical entertainment, reinforcing the value of both immersive and interactive technologies to compensate for sports’ diminished visual and social experiences.
- Highly rated by survey respondents, sports properties’ digital assets can unlock a broad space for growth (**Deep Dive I**), in particular by making use of the rising interest in short-form and on-demand content.



Headlines

NBA brings in innovative digital enhancements for the season restart

Formula 1 plans to make use of its digital sponsorship set-up to partner with seven regional betting partners

“COVID-19 has been a digital accelerator and an enabler for change. Vision and strategy suddenly became must-haves to secure sports’ future legacy. At FIVB, the threat has been turned into an indisputable opportunity.”

Guido Betti, TV & Marketing
Director at FIVB

Deep Dive I

The growing opportunity of monetising digital assets

Digital assets are touted as a significant opportunity by sports leaders, ranked second as a top prospect to increase revenues. In the context of transition from linear to digital consumption and growing interest in non-live content, digital assets can indeed provide an opportunity to de-risk dependency on live events and diversify revenue streams.

To harness this potential, it's essential that rights owners advance their ability to clearly package, value and commercialise digital assets, moving away from merely considering them as a tool for indirect sponsorship monetisation.

Alongside Spanish start-up HORIZM, we've developed a simple maturity framework to help rights owners navigate their development agenda. As highlighted in figure 7, making digital assets an integral part of the commercial strategy requires alignment and concerted progress across multiple dimensions within the organisation, including strategy, structure, leadership, performance and technology.

To illustrate the impact, we've singled out three main key performance indicators (reach, engage, monetise) to track progress towards greater maturity in commercialising digital inventory (figure 8). Each element works incrementally and ensures a compounding effect to uplift revenues.

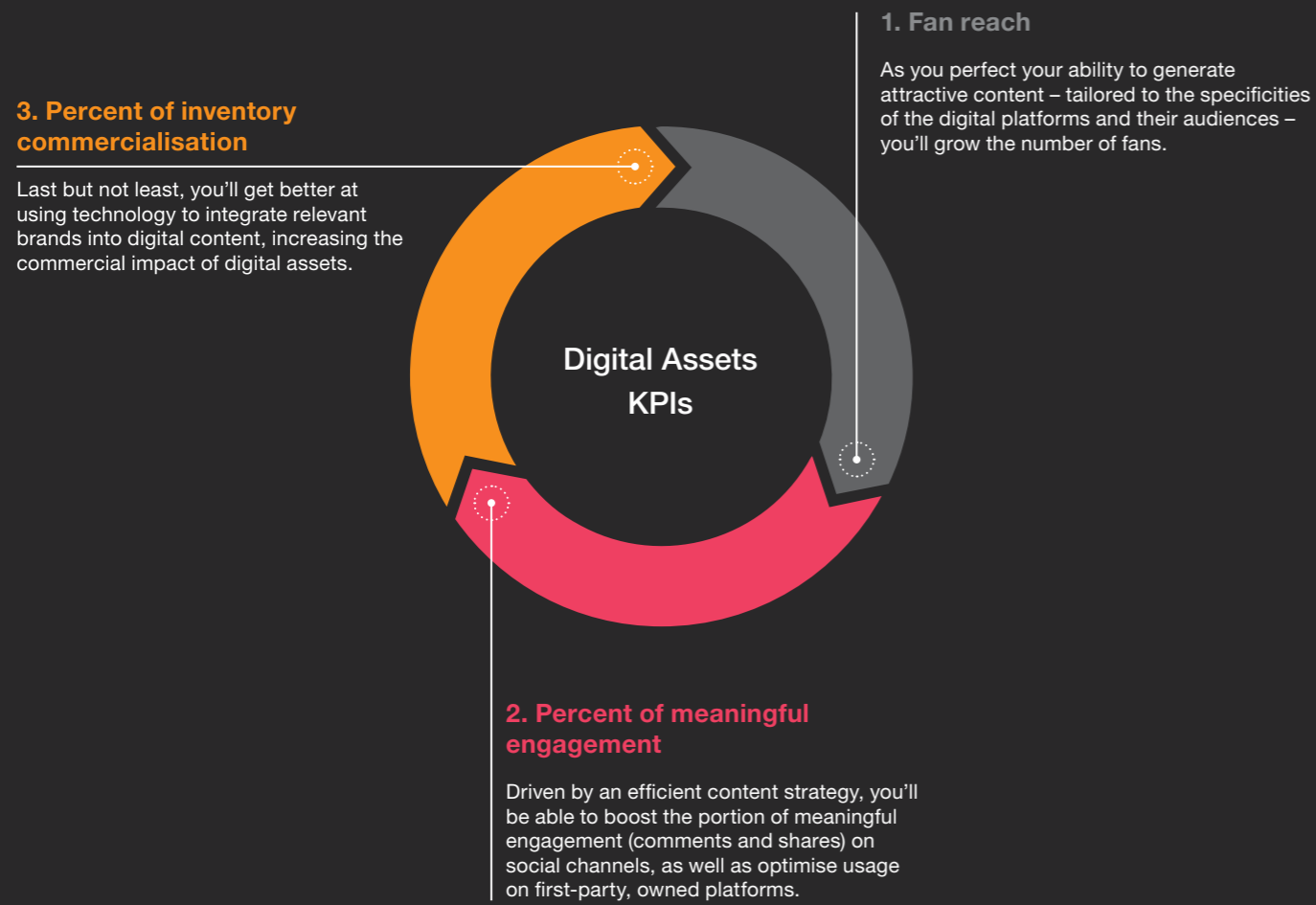
Demonstrating the potential of digital assets in the context of social media, HORIZM provided us with anonymised data collected from a sample of clients (figure 9). Any sports organisation (irrespective of size) has the potential to gain a significant uplift in revenues by going from stage 1/2 to stage 3/4. Interestingly, only increasing the number of fans (or followers) has alone the smallest impact, whereas boosting engagement and extending the commercial inventory truly drive up the commercial value. The size of the prize may be an uplift in revenues up to 12 times.



Figure 7: Maturity framework for commercialisation of digital assets

	Stage 1	Stage 2	Stage 3	Stage 4
Commercialisation of digital assets	Indirect commercialisation through activation	Individual assets are commercialised opportunistically	Packages of digital assets are commercialised	Digital assets are integral part of overall commercial strategy
Strategy	No strategy	Plan with outlined digital activities	Clear vision and strategy for digital transformation	Business-aligned strategy and roadmap
Structure	No specific digital skills in-house	Selected core-skills centralised and agency	Centralised hub and dedicated resources (more insourcing)	Decentralised and re-skilling
Leadership	Limited buy-in	Verbal support but inadequate resourcing	Sponsorship and increased investment in digital assets	Appropriate investment and resource allocation
Performance	Volume-based KPIs	Quality-based KPIs	Value-based-KPIs	Lifetime value KPIs
Technology	Default channel-based analytics	Customised channel-based analytics	Make use of market analytics platforms and reports	Tailor-made dashboard based on own data warehouse

Figure 8: KPIs to track progress of commercialisation of digital assets



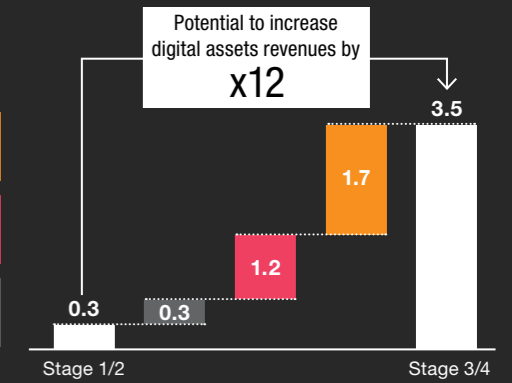
Source: PwC Strategy&, Capabilities-Driven Strategy + Growth

Figure 9: Case study A/B: commercial potential of digital assets

Case study A

Mid-tier football club (Big 5 league), primarily local audience

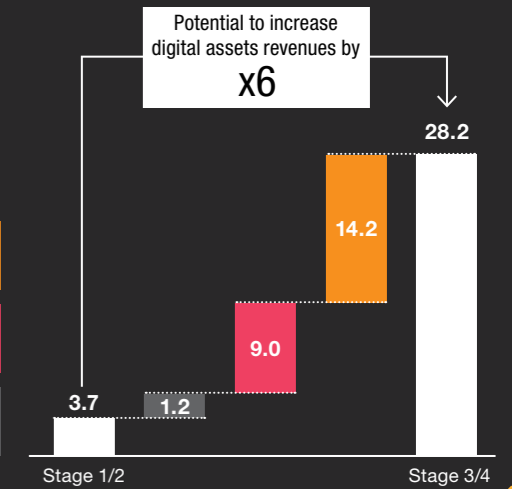
	Stage 1-2	Stage 3-4
% of inventory commercialisation	10% commercialised	60% commercialised
% of meaningful engagement	1.0% of total engagement	2.5% of total engagement
Fan reach	2 million fans, of which 5% international	5 million fans, of which 30% international



Case study B

Top-tier football club (Big 5 league), primarily global audience

	Stage 1-2	Stage 3-4
% of inventory commercialisation	10% commercialised	60% commercialised
% of meaningful engagement	2.5% of total engagement	4.5% of total engagement
Fan reach	32 million fans, of which 60% international	48 million fans, of which 65% international



Source: HORIZM Data, PwC Analysis, Figures in USD millions



Impact of

COVID-19

Winds of change

We surveyed sports industry leaders on both the short-term impact and long-term implications of the COVID-19 crisis. Results indicate that the sports sector was less prepared relative to other industries, with a full recovery expected no sooner than 2022-2023. Investigating the potential changes arising from the crisis, digital transformation, revenue diversification and investments from external stakeholders are the market prospects most likely to be accelerated. We also looked at how strategic collaborations are expected to impact the sports landscape going forward.



Insight 7: COVID-19 catching sports off guard

- Like all industries predicated on events and mass gatherings, the unprecedented health crisis brought about by COVID-19 has impacted the sports market at its very core.
- The sports sector is just not used to external crises, as its major blowbacks often come from within the industry itself (e.g. corruption and doping). This has shaken the sense of security and untouchability in which the sector has wrapped itself in recent years.
- In many instances, risk management and contingency plans were not in place. Short-sighted funding, cash flow and cost management practices were drastically exposed.

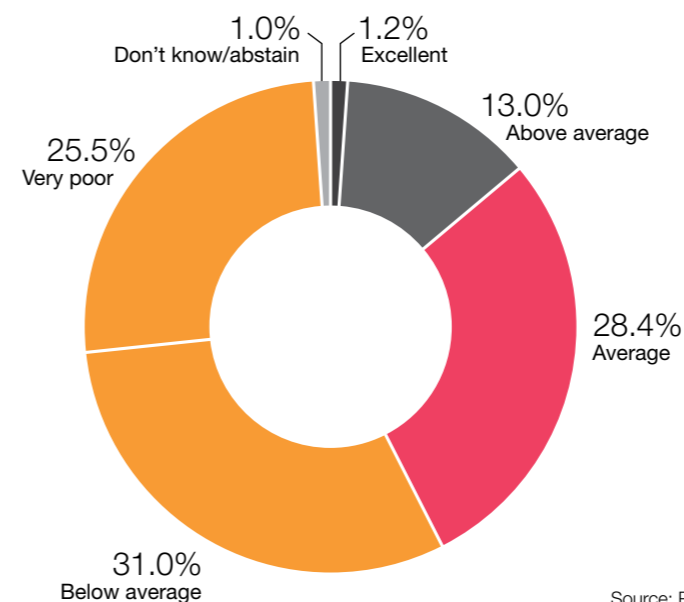


Headlines

XFL files for bankruptcy caused by COVID-19 crisis

British sport fears GBP 700m loss due to the pandemic

Figure 10: Relative to other industries, how well was the sports industry prepared to face the COVID-19 crisis?
Percentage of respondents



Source: PwC Analysis, N = 698



Only when the tide goes out do you discover who has been swimming naked.

Warren Buffett

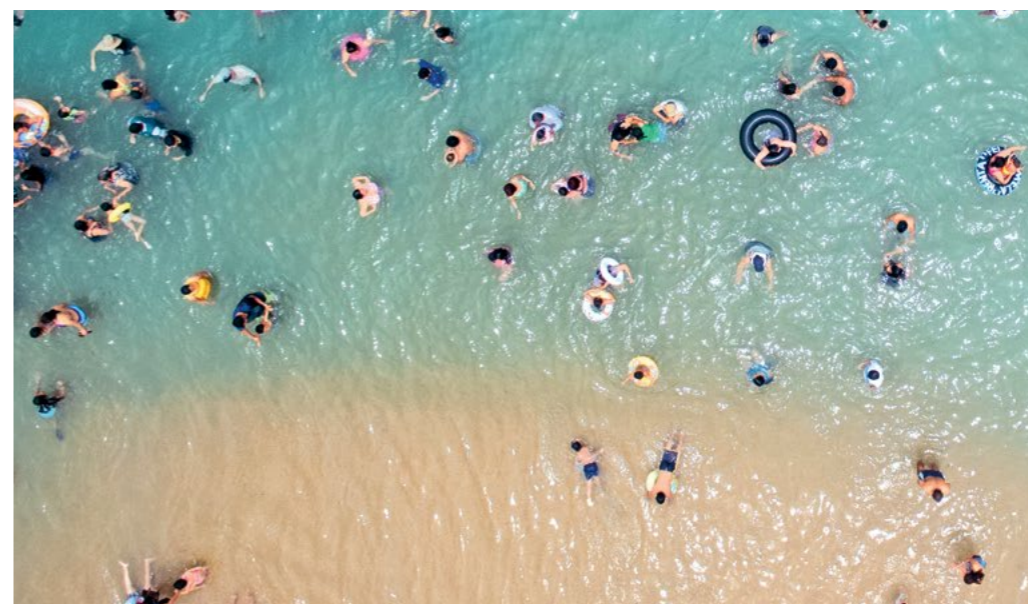
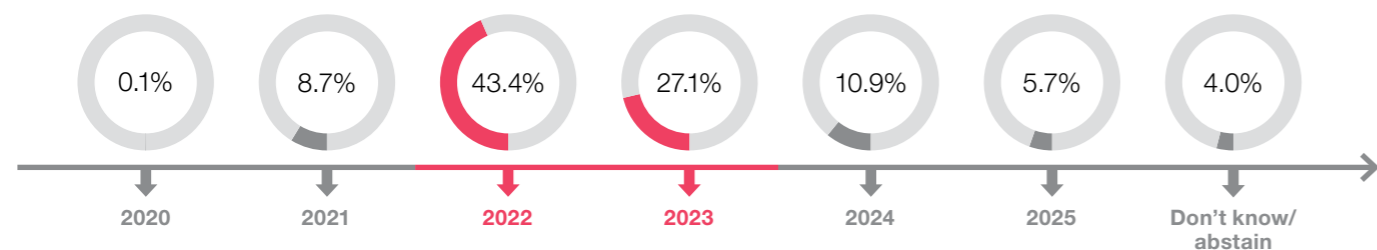


Figure 11: By when do you think the sports industry will have fully recovered to pre-COVID-19 levels?
Percentage of respondents



Source: PwC Analysis, N = 698



Insight 8: A crisis shaking the industry's foundations

- COVID-19 has revealed systemic weaknesses within the sports sector, which makes a scenario of imminent recovery highly unlikely. The industry is in for a longer period of recovery and reorientation.
- Beyond the outright cancellation or postponement of major events, competitions that did restart are suffering from severe event-day revenue shortfalls, which is frontally impacting sports organisations (starting with the smallest). For their part, participation sports have entered a long, challenging period as people shy away from mass gatherings (**Deep Dive II**).
- The crisis has also contributed to redesigning the sports calendar, with the benefit of experimenting with new formats but, on the other hand, the risk of unbalancing schedules that were already on the edge.



Headlines

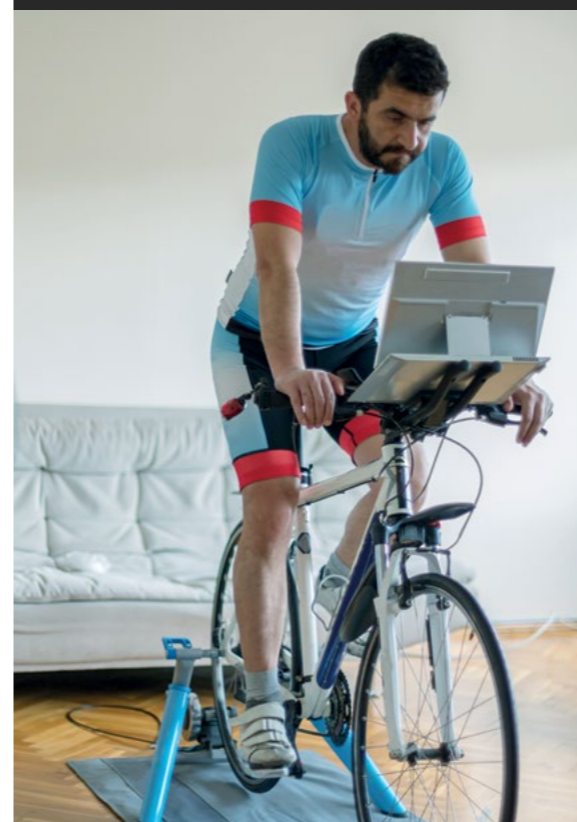
International Ice Hockey Federation cancels 2020 World Championship

IOC President and Prime Minister of Japan postpone Tokyo Olympics to 2021



Deep Dive II

Combining physical efforts with virtual overlay, will hybrid sports keep endurance events going?



Amateur participation sports such as running, triathlons and cycling are suffering heavily from the crisis. These disciplines are highly dependent on mass, physical participation. Their format (rather long and slow) does not allow the shortfall to be recouped through significant media-related revenues.

Acting as pioneers, UCI has just launched its first Esports World Championships alongside technological provider Zwift, whereas Super League Triathlon is using the same supplier to power a new competition called SLT Arena Games. Both formats channel real-life performance into virtual racing.

Amid this uncertainty, the overlap between real and virtual sports is increasingly converging. This blurring of boundaries takes on a new dimension with the emergence of the hybrid sports model, which merges sports-like physical efforts with esports' virtual rendering.

Hybrid already offers innovative use cases within professional sports (e.g. Digital Swiss 5, Virtual Tour de France). Circumventing most health restrictions, the model can also be conveniently applied to mass endurance events, as already experimented with by Asics and runDisney. All things considered, we believe that participation sports will have to go hybrid to overcome the downturn.

We believe that hybrid has the potential to carve out a promising value proposition for participation sports by attracting a balanced mix of both (virtual) spectators and (connected) participants. Relying on the same training and performance model, triathletes, runners and bikers can smoothly try their hand at this new category; the investment in equipment more or less compensates for the logistical costs of getting to event sites.



Figure 12: Most likely outcome of the COVID-19 crisis
Percentage of respondents, forced trade-off among two options



Source: PwC Analysis, N = 698



Insight 9: Health challenges accelerating transformation

- The crisis essentially accelerated all underlying trends shaping the industry, bringing a wide range of emerging products and solutions to life.
- Sports organisations have multiplied experiments, giving rise to the first virtual stands, hybrid competitions, virtual player drafting, digital press conferences and summer tours. Beyond media, the next laboratory phase is already focusing on stadium and venues, where health and safety technology is poised to profoundly redefine the spectator experience.
- We believe that sports organisations should take an integrated approach towards transformation (**Deep Dive III**), balancing visible, fan-facing innovation (e.g. immersive features) with deeper, structural changes around the way of working or back-end infrastructure (e.g. data and cloud capabilities).



Headlines

Borussia Dortmund organises "Virtual BVB Tour of Asia"

Realife Tech raises USD 7.2m for event safety product



Insight 10: Greater risks pushing a new, diversified revenue model

- Sports organisations are highly dependent on a few, high-value revenue drivers. The crisis has redefined the relationship between rights sellers and buyers, empowering the latter and thus putting tangible pressure on the traditional model.
- Rights owners facing particular danger are those with less diversified revenue streams, a narrower portfolio of commercial partners, and not benefiting from financial contributions from wealthy stakeholders.
- We share the view that sports will be forced to diversify and open up to new revenue streams, which will shape a more liquid, transactional market based on a broader portfolio of partnerships.



We are re-examining our business model. Traditional events have been and will be affected for an indefinite time: we thus need to explore other revenue streams.

Robert Fasulo, Executive Director, International Surfing Association



Insight 11: Has the era of game-changing reforms arrived?

- Overall, the COVID-19 crisis is widening the gap between bigger and smaller sports properties. As the attractiveness of their product is fundamentally driven by maintaining a competitive balance, leagues and federations are facing a "moment of truth" testing solidarity mechanisms.
- The jury is out on whether governing bodies will take advantage of the crisis to address systemic issues, notably by establishing new, more drastic regulations and financial management standards.
- Doubling up pressure for reforms, sports has been coming out of its microcosm by emancipating itself towards a more assertive societal role, with leagues and athletes becoming leading figures combating racism and inequality.



World Rugby is looking at governance and decision-making for a post-COVID world, recognising that new and younger audiences want to see an inclusive, diverse, and socially-responsible sport.

Alan Gilpin, COO, World Rugby



Insight 12: Sports on the back-foot, calling upon investors

- The sports financial model, characterised by short-termism and fragile cash flows, has been severely tested by the health crisis by forcing it to draw on its (often meagre) reserves.
- This underlying vulnerability, combined with a decline in financial valuations, has further boosted the existing interest of private equity funds, which have become increasingly active and seeking opportunities for investment (**Deep Dive IV**).
- If transactions were to materialise, we would then witness a form of convergence towards the top-down, North American model, where sports would increasingly develop under the wing of private companies driven by return on investment.

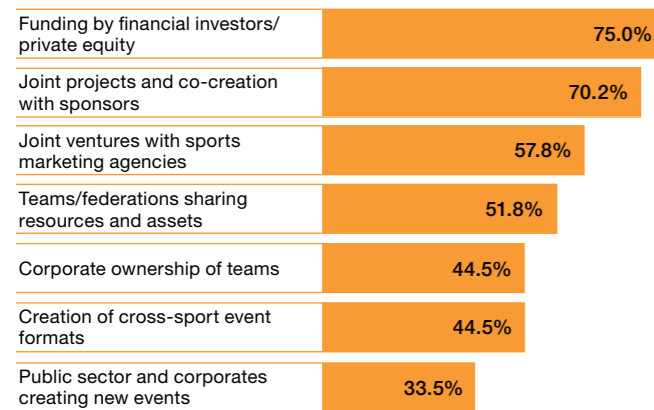


Headlines

Private equity funds aim to relaunch Serie A

CVC acquires 28% share of PRO14 Rugby

Figure 13: Most prevalent collaboration models expected within the sports industry
Percentage of respondents, Top 2 Box (“likely” and “very likely”)



Source: PwC Analysis, N = 436



Insight 13: Increasing complexity fostering collaboration

- Respondents widely assume that the downturn will lead to an increase in collaboration between stakeholders in the sports ecosystem. Collaborations have the potential to trigger higher revenues, greater funding for strategic initiatives, as well as synergies that allow cost reductions (**Deep Dive V**).
- Exponential growth of complexity within the business sphere in general is also reaching the sport industry. This reinforces the relevance of expertise pooling and collaborative models, implying the sharing of both risks and assets.
- While cooperative models are already deeply integrated in the sports ecosystem (especially through the syndication of rights), we share the view that current challenges will drastically accelerate collaboration and value co-creation, both to increase revenues and reduce costs.



Headlines

NBA utilises Microsoft partnership to bring in virtual fans

Formula 1 collaborates with sponsors AWS and DHL around driver performance and esports



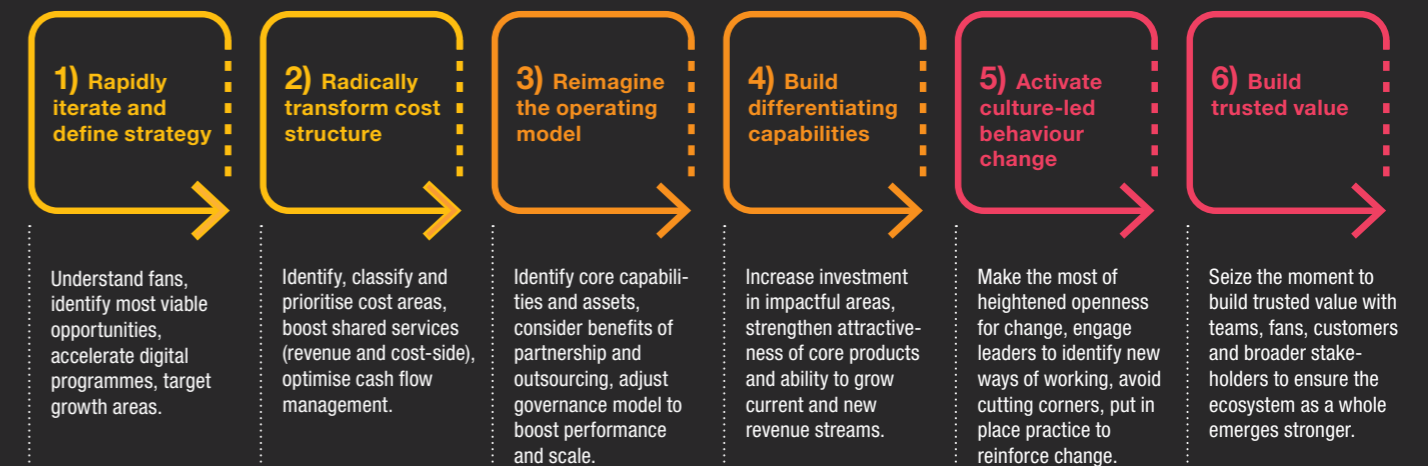
Deep Dive III

How to get fit for recovery?

Sports leaders are clear that the COVID-19 crisis is not a short-term affair: nearly 44% of respondents expect the recovery to be by 2023 or later. Under such a premise, it's of paramount importance to make sure that organisations develop a clear roadmap towards recovery, using short-term funding and governmental schemes to set the foundation for a more sustainable future.

Concretely, the methodology below (figure 14) from PwC's Strategy& uses a six-step approach to help sports organisations reach long-term prosperity:

Figure 14: Transformation roadmap for sports organisations



Source: PwC and Strategy& Analysis

An executive point of view



from
Christian Müller
Senior Vice President, Infront Sports & Media

Appeal and caveats of private investments for rights owners

“ The past few years have seen an unprecedented rise of private investments in sports. While this has been common in North America, the COVID-19 crisis has accelerated the trend in Europe as well. According to Pitchbook, 10 deals amounting to almost one billion dollars were concluded in 2019 in Europe alone. One of the few most recent examples is the broad line-up of private equity firms and agencies (including Infront) competing for the chance to invest in the Italian Serie A.

What should rights owners watch out for in such a context? Based on our experience, the single most important aspect is making sure interests are aligned towards a shared long-term vision for the sport. This is ever more important, especially considering that investors may have a shorter window to valorise (and exit) their investment compared to traditional rights owners. Funding should enable long-lasting advantages, like launching new sports formats, D2C channels, or technological advancements that collectively and sustainably increase fan reach and engagement.

To that end, an essential aspect is establishing a clear governance structure that will keep interest aligned while ensuring a new level of entrepreneurial agility and professionalisation to boost commercial activities. Indeed, the entry of a private investor will make a true difference only if it enables a “new way of working”, access to fresh talent and strategic thinking that would have been impossible to incubate in the context of a traditional rights owner and its structures. ”

As head of business development at Infront, Christian has been working with leading rights owners for over 20 years, implementing innovation and growth strategies to commercialise their IP.



Deep Dive IV

Football’s breeding ground for private equity

In recent years, institutional investors including sovereign wealth funds, traditional private equity firms, venture capitalists and boutique sports funds have shown increasing levels of interest in the sports industry. As mentioned above, there’s no sign of this process slowing down.

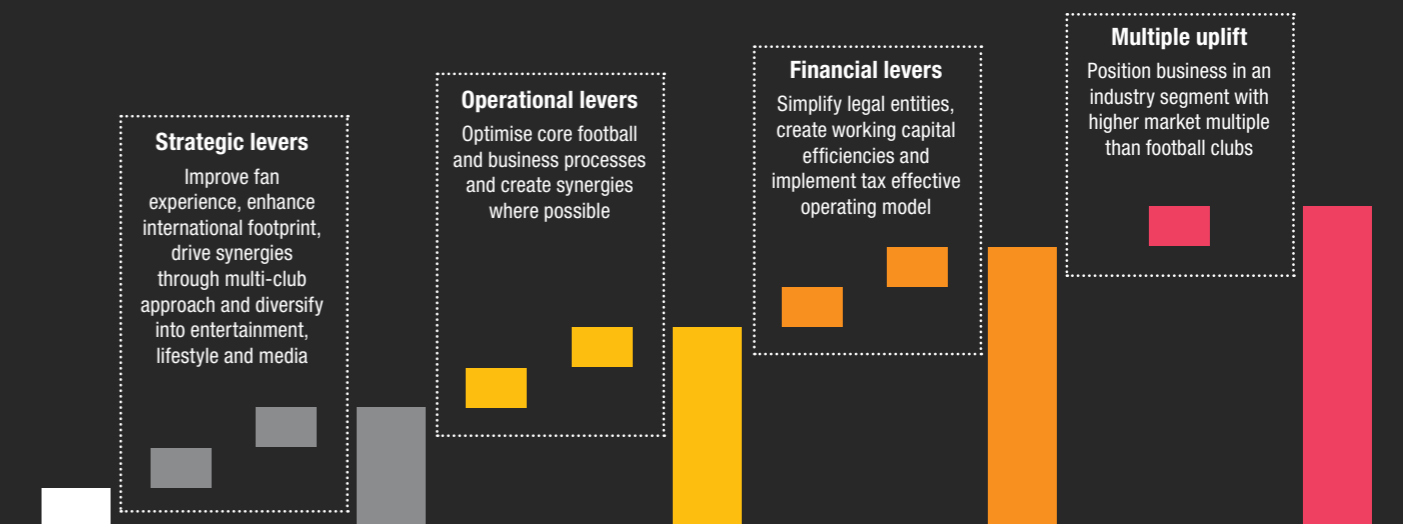
More than others, the football world has seen an influx of private equity investors buying clubs across major international leagues (e.g. Redbird Capital with Toulouse FC, Elliott Management with AC Milan).

Severely impacted by COVID-19, many clubs are currently facing deep economic challenges. This has created more opportunities for private equity, as teams are increasingly looking for external support to ensure their viability.

Undoubtedly, football offers an attractive investment case due to its huge global audience, strong revenue growth over the last decade, growing franchise valuations, and further potential to create value. This is best illustrated by Manchester City, which was acquired for GBP 210m in 2008. In 2019, Silver Lake acquired a minority stake in City Football Group – Manchester City’s holding company – which valued the group at USD 4.8bn.

But more concretely, what are the avenues for private equity funds to generate value when investing in football? As illustrated in figure 15, we describe the overall investment rationale through four main levers: strategic repositioning, business performance improvement, financial optimisation and, ultimately, multiple uplift.

Figure 15: Main value levers for football-related investments



Source: PwC Analysis

Deep Dive V

From saving costs to making use of strategic collaborations

COVID-19 has had a ravaging impact on sports organisations, with revenue shortfalls estimated between 30 to 40%.

The effect of such huge financial pressure, which may persist for a while, has catalyzed questions around how to reform sports organisations' operating model to the top of the agenda.

The first impact has been shaping a sensible approach towards cost reductions. While some organisations may have opted for a solidarity-based method ("every department contributes..."), we are of the view that sports organisations should be strategic about reducing costs. Making

use of "Zero-based activity assessment" methodology by PwC's Strategy& (figure 16) offers an indicative framework addressing cost savings in a strategic manner.

The second impact relates to understanding who is best suited to do which activity within the organisation. This is where collaborations take on a central role, making sure that each activity is delivered by the organisation (or partner) that is judged to be the most impactful and cost effective.

How do we expect this to materialise in the sports industry?

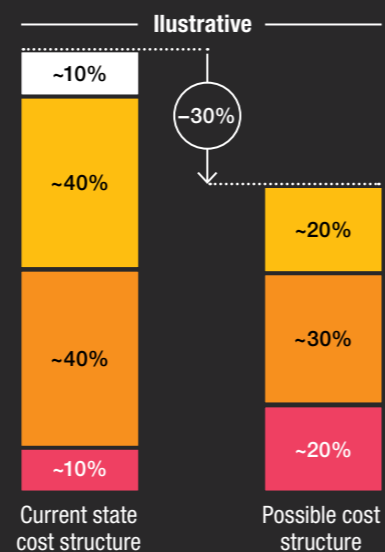
- Firstly, we assume a greater push for shared services, particularly for sports

leagues. Areas of focus are likely to be around further syndication of rights for revenue generation, procurement of centralised technology platforms and centralisation of (non-strategic, non-differentiating) back-office functions.

- Secondly, we predict that many governing bodies will be increasingly willing to separate sports governance and development (inherently political) from commercial exploitation. Strategic investors, either contractually or through equity investment, will concretise this approach by bringing in critical capabilities and assets, starting with entrepreneurial agility.

Figure 16: Zero-based activity assessment model by PwC Strategy&

Cost type	Description	Action
Not required	Legacy investments and activities that no longer support the post COVID-19 strategy	Eliminate
Lights on	Bare minimum activities that "keep the lights on" in the business	Be ruthless – aim for cost levels below competition
Table stakes	Basic competencies/activities required by everyone to participate in the sports industry	Cut costs but keep the balance to maintain "good enough" quality
Differentiating activities	Activities that provide a competitive advantage needed for future differentiation	Invest at levels above peers to gain a competitive advantage



In a nutshell

The sports industry was far from being prepared to absorb a shock of this magnitude, shattering the false sense of security on which it had been relying for years. The entire sector has been affected, from grassroots to elite, with fundamentally harmful effects on properties that are highly dependent on physical manifestations.

Beyond the structural risks inherent in the industry's natural ties with crowds and events, the crisis also brought systemic weaknesses to the surface, suggesting prospects for profound change. Indeed, the then-weak signals related to shifting consumption behaviours, mutation of revenue models, as well as the arrival of external investors have now become tangible trends. It's vital that sports organisations fully address these issues with the perspective of turning them into opportunities.

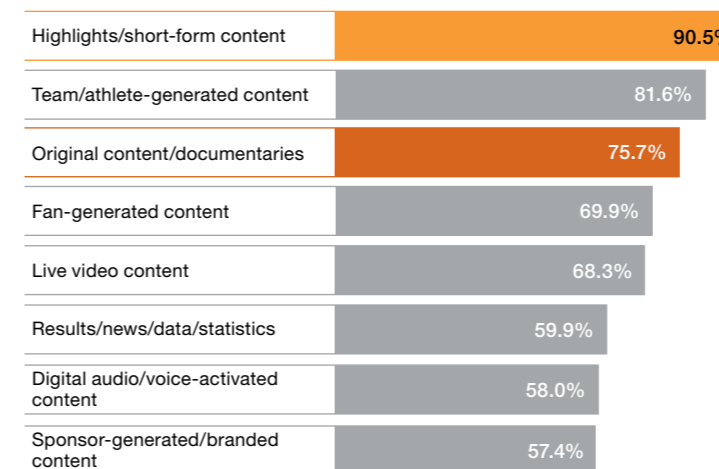
All in all, the underlying challenges only shed light on the importance of innovation, proactivism and cooperation to protect and support the growth of the industry over the medium- and long-term. With regard to collaboration, we foresee the end of the historical, in-house vs. outsourcing binary model in favour of more symmetrical schemes, driven by value co-creation and shared accountability of results.

Sports media

Navigating the age of complexity

We surveyed sports industry leaders about the market forces that are incessantly reshaping how sports content is consumed. As the landscape is shaking up, we also asked trade-off questions to test diametrically-opposed scenarios. The findings demonstrate that sports media distribution is predicted to continue fragmenting drastically, driven by a wider variety of content formats, media players, enabling technologies and consumption behaviours. In this increasingly complex market, our analysis also shows that the growing relevance of platform integration may herald a push for reconsolidation and broader content accessibility in the ecosystem.

Figure 17: Expected growth of sports media consumption by content types
Percentage of respondents, Top 2 Box ("grow" and "grow significantly")



Source: PwC Analysis, N = 665



Insight 14: Highlights arising as the "new free-to-air"?

- As a proven engine to drive audiences, a broad range of media companies wish to acquire premium sports content, although only a few are actually able to afford live rights.
- Building on its affordability, on-demand nature and increasing popularity among millennials (**Deep Dive VI**), we see the highlights format gaining tangible attractiveness for media companies, affirming its commercial value.
- For rights owners, the pressure for brand and partner exposure (as most live content is locked behind paywalls) is becoming untenable. In this context, we expect further acceleration for highlights, which may become established as the "new free-to-air".



Headlines

UEFA partners with WSC Sports to create and distribute automated highlights packages

Alex Springer acquires Bundesliga highlight videos' rights



Insight 15: Original content shaping a flourishing market

- Streaming giants' deep market penetration is reshaping watching habits among media consumers, fostering on-demand as the dominant format.
- While live content has been severely weakened by the COVID-19 crisis, sports has an inexhaustible narrative potential to convey inspirational, scripted stories (whether short- or long-form). On-demand also gives an ongoing relevance to content libraries, allowing media partners to enhance usage and combat churn while maximising rights owners' IP exposure (**Deep Dive VII**).
- Driven by a clear convergence between supply (sports' deep storytelling potential) and demand (rise in OTT offerings), we expect growth of the on-demand sports content market to accelerate, particularly benefiting rights owners with premium IP.



Headlines

Michael Jordan's docuseries "The Last Dance" breaks audience records

DAZN bets on non-live content to retain subscriber base

Deep Dive VI

Highlight consumption grows among all age groups

To support our analyses on sports-related content types, we asked IRIS (Intelligent Research in Sponsorship) to share some of their consumer research on sports media.

As detailed in figure 18, millennials' consumption of highlights experienced a growth of 103% over the last five years to reach an average of 05:43 hours per week, which is getting close to live sports. The underlying pattern clearly underscores the growing relevance of short-form content, which is assumed to be

more effective at engaging younger fans' shorter attention span.

Even more enlightening: highlights are gaining popularity among non-millennials as well. This age group now consumes an average of two hours more highlights per week compared to 2015, which represents a tremendous growth of 138%.

As sports media consumption is firmly migrating towards streaming, IRIS data demonstrates that the underlying trend

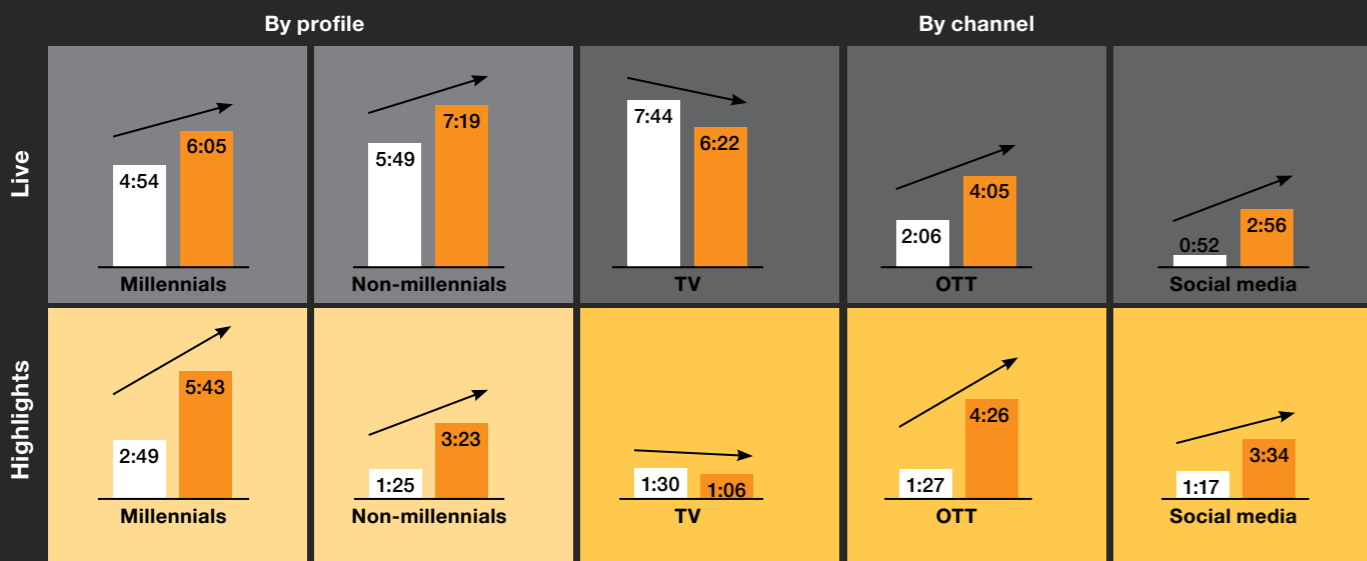
is all the more striking within OTT (205% growth from 2015 to 2020), which only reinforces highlights' strategic significance.

While gaining wide adoption, the remaining question is around highlights' commercial potential. What is a fair value for a format that is consumed at par with live content and, on top of that, with a greater level of attention?

Data provided by Iris



Figure 18: Average time spent per week consuming sports content, live vs highlights



■ 2015 ■ 2020

Source: PwC Analysis, IRIS Intelligence | Market Research – 02/2015 02/2020 – CAWI – Base: Top-2 Interested people – Millennials 18-34 years of age (n = 4612), Non Millennials 35-65 years of age (n = 16'655)

Deep Dive VII

From event to IP to flatten the attention curve

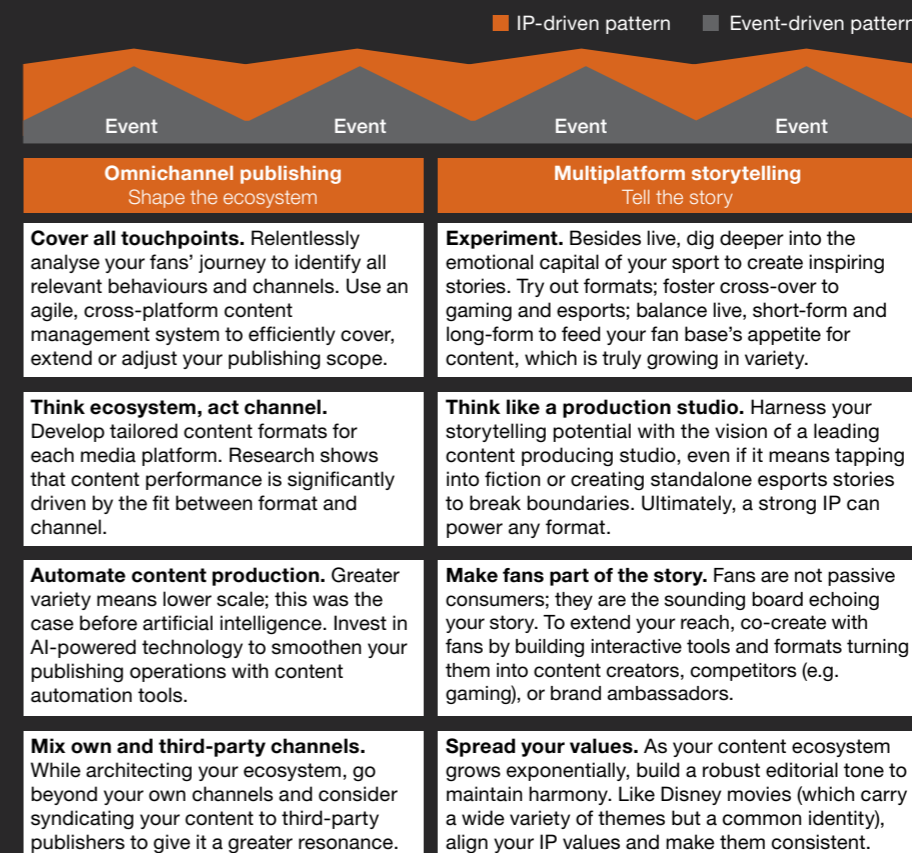
Sports organisations have long relied on event-related emotions to engage fans. This strong dependency can be reflected by peaks and valleys when illustrating the volume of sports-related conversation. When the COVID-19 pandemic hit hard, it revealed the undeniable value of crisis-proof, on-demand, non-event-related content verticals.

We believe that the industry urgently needs to achieve greater independence from undermined live games and events by becoming an integrated, fully-digitalised media and entertainment platform, shaping its brand narrative around its IP rather than just around physical manifestations.

The future pattern aims to show a more flattened curve with a reduced dependence on live events, which will be nothing more than vital links across an "always-on" and omnichannel, IP-driven narrative.

To successfully pivot from an event focus to an IP focus, sports properties need to learn how to master both omnichannel publishing and multiplatform storytelling, bridging the gap between enabling technologies and content creation (see figure 19).

Figure 19: Enablers of sports media' IP-driven pattern



Source: PwC Analysis

FC Barcelona's firm move towards entertainment

With the launch of its members-only OTT platform (Barça TV+) covered by a new content production unit (Barça Studios), FC Barcelona gives itself the means to perform way beyond its sports activities.

Making use of a globally-renowned IP, Barça Studios has already produced several original documentaries for both its own and third-party channels (e.g. Netflix and the docuseries Matchday).

Recently, the Spanish club teamed up with Sony Music to co-create a fictional animated docuseries aimed at younger audiences (Talent Explorers). This innovative format further dissociates the Catalan brand from the pitch, which is diversifying into an inspirational force for the creation of entertainment content.

Whereas most premium live content is still locked in B2B media rights deals, FC Barcelona's resolute approach towards multiplatform storytelling aims to generate additional content and commercial engagements; a necessity to effectively compete against non-sports entertainment giants (e.g. Fortnite).

Figure 20: Expected growth of sports media consumption by channel types
Percentage of respondents, Top 2 Box ("grow" and "grow significantly")

Social media platforms	86.1%
Super-aggregators (e.g. Apple TV+, YouTube TV)	85.0%
Pure streaming and OTT offerings	84.9%
Rights owners' OTT offerings	77.9%
Unofficial streams/piracy	47.6%
Pay-TV broadcasters (cable and online)	32.0%
Free-to-air broadcasters (cable and online)	22.6%

Source: PwC Analysis, N = 647

Figure 21: Expected growth of sports media business models
Percentage of respondents, Top 2 Box ("grow" and "grow significantly")

Freemium (paid access to certain content or features)	69.1%
Pay-per-view and microtransactions	66.6%
Integrated in-play/live betting	65.7%
Native advertising (e.g. branded content, virtual advertising)	64.9%
Unbundled subscriptions (sports content only)	58.1%
Bundled subscriptions (sports, entertainment, telecom)	56.1%
Classic advertising (e.g. pre-roll/mid-roll)	14.7%
Public service broadcasting	13.1%

Source: PwC Analysis, N = 647



Insight 16: Traditional broadcasters aren't dead, yet they urgently need to pivot their business

- Traditional broadcasters are struggling to escape the stigma of diminishing relevance. However, we're convinced that they remain well-positioned to best serve sports consumers.
- Their long-term expertise in storytelling and audience management, their potential to aggregate content, as well as their ability to roll out an omnichannel value proposition (cable, digital, OTT) represent robust competitive advantages.
- While the perceived association between traditional broadcasters and historical TV models remains strong, media companies which are bold enough to pivot away from paywalled bundles with flexible offerings, all while managing their base of fixed costs, are definitely here to stay.



The collapse of the pay-TV model is the biggest threat, whereas D2C represents a unique opportunity for sports to regain the lion's share of the value chain.

Geoffroy Bourbon, Vice President,
Sales & Sponsorships at ATP Tour



Headlines

NBS Sports migrates premium sports content to OTT platform Peacock

Disney offers Hulu, Disney+ and sports-related ESPN+ for free to Verizon clients



Figure 22: How will the sports media landscape evolve in the next 3-5 years?

Percentage of respondents, forced trade-off among two options



Source: PwC Analysis, N=660

**Insight 17: D2C morphing into B2B2C**

- After a period of euphoria, survey results show that enthusiasm for pure rights owners' OTT offerings as substitutes to media partners is waning.
- Nevertheless, well-operated D2C strategies bring tangible benefits to rights owners: a better understanding of their fan base through data, additional revenues, a supplementary touchpoint to either recycle or experiment new content formats, as well as robust leverage within rights-selling negotiations.
- Also, we expect OTT solutions to act as a trojan horse for the emergence of hybrid, B2B2C models, where rights owners service media partners with turnkey solutions. Everyone will focus on what they do best: rights owners delivering experience and storytelling, with media partners managing viewers and churn.

**Headlines**

European Professional Club Rugby launches OTT platform to cover markets without TV deals

Bundesliga's OTT offerings complement B2B deals with broadcast partners

**Insight 18: Media market moving from illiquid and exclusivity-based to liquid and collaboration-based**

- Rights owners have mainly generated revenues from a few large-scale, exclusive rights deals in a cyclical pattern; this model has created a robust yet illiquid market, exposing the industry to significant risks.
- Even though the survey results speak for the resilience of the historical model, we dare to claim that both rights owners and broadcasters need to learn how to rely less on exclusivity going forward.
- We expect tendering processes to open up to a broader range of potential buyers, including smaller media companies, evolving the content distribution model towards collaboration and greater accessibility.

**Headlines**

Swiss competitors Swisscom and UPC agree on sharing their respective sports assets

Content Area's sports rights trading platform fluidifies the market

**Insight 19: Cutting through the noise with a richer, data-driven fan experience**

- Deprived of on-site audiences and flagship content, the COVID-19 pandemic has pushed rights owners to new heights of creativity in order to reshape and augment the digital fan experience.
- Content holders have drastically accelerated their digital plans, giving birth to numerous and fundamentally variable – in terms of both quality and utility – augmented features (**Deep Dive VIII**).
- Within an uncertain and austere environment, it's all the more critical for rights owners to control their technological investments, going beyond buzz words and peer pressure to precisely aligning with fan expectations.

**Headlines**

Fox Sports' new app offers set of augmented features to be refined based on usage

Bundesliga partners with Amazon Web Services to deliver a personalised fan experience

Deep Dive VIII

Amplifying OTT broadcast

OTT providers were widely celebrated as the saviours of sports broadcasting. Purely Internet-based players, combined with younger brands, were the hope of many rights holders to effectively reach and engage younger audiences.

While digital platforms are enabled to enhance user experiences, OTT has not yet delivered in that regard. However, our respondents agree that enhanced user experience is the future of sports consumption, as confirmed by market studies around the preferences of OTT viewers (figure 23).

While Twitch is firmly democratising interactive, social broadcasting, leading to the market entry of bespoke solutions like LiveLike and Maestro, the COVID-19 crisis'

acceleration of digital trends has given rise to promising use cases within the sports industry, like the NBA League Pass offering games in VR and integrating betting through digital overlays.

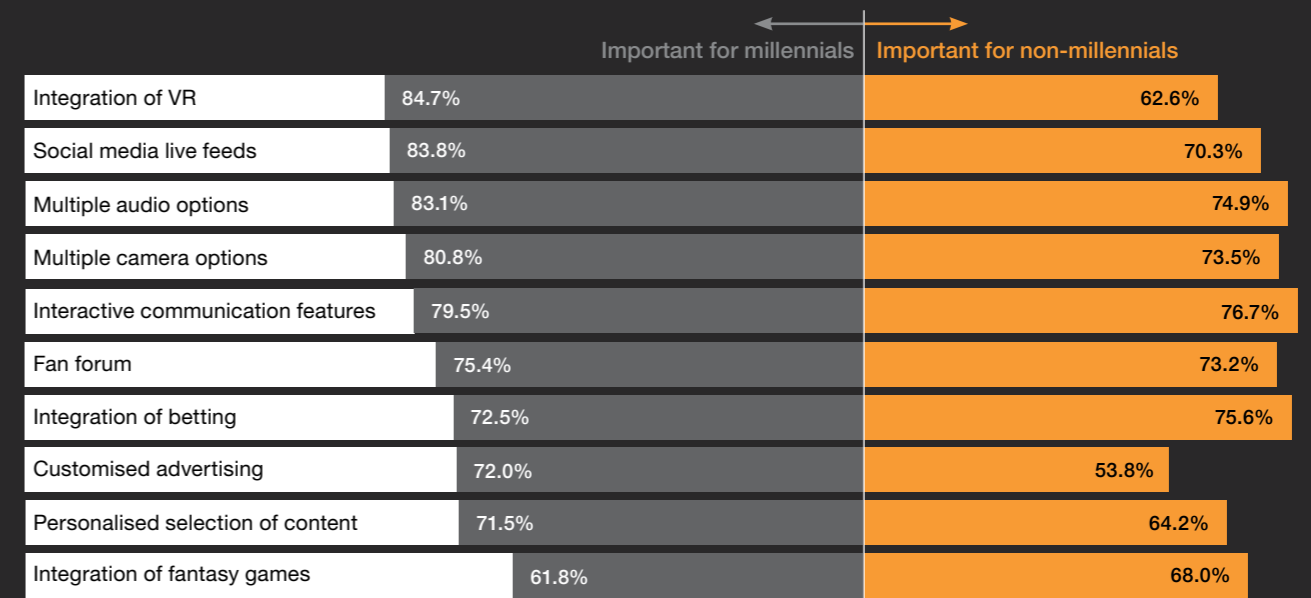
Besides best practices, it should be recalled that fan experience is a multi-faceted and fast-evolving field, closely related to fluctuating fan behaviours. The framework in figure 24 helps manage complexity by identifying five main experience layers, each of which addresses different needs (e.g. consuming, playing and interacting).

While experience augmentation requires a clear roadmap and, above all, partnering with technology providers, directly addressing fan behaviours also brings as-yet-untapped monetisation opportunities.

Sports is the last genre to reinvent content around modern fans' lifestyles. COVID-19 is accelerating this process, though the structure of the media rights market remains a barrier.

Paul Kandel, Head of Strategy, Intel Sports

Figure 23: User preferences for optimal sports media experience on OTT, top-2 box



Source: PwC Analysis, IRIS Intelligence | Market Research – 02/2020 – CAWI – Base: Top-2 Interested people in sports – millennials 18-34 years of age (n = 4.612), Non millennials 35-65 years of age (n = 16.655)

Figure 24: OTT user experience layers

Layer	Usage	Key features	Monetisation
Data	Identify	<ul style="list-style-type: none"> OTT players are empowered to identify users with high granularity: the ultimate foundation supplying fan experience A well-operated, data-driven strategy not only enables platforms to prioritise content and deliver personalised experience, but also monitor the relevance of the feature roadmap 	Use first-party data to nurture a powerful advertising ecosystem, which can be operated at high scale with programmatic
Immersion	Consume	<ul style="list-style-type: none"> COVID-19's empty stadiums have fostered the need for immersive media experiences, whether multi-screen or augmented reality Boosted by 5G, AR and VR-based solutions are rolling out multiple use cases. This is high time for OTT to go beyond experiencing, and start adopting 	Offer premium pay-per-view fees for VR games, or integrate automated, virtual product placement
Interactivity	Engage	<ul style="list-style-type: none"> OTT has a recognised potential to stand out from classical, linear broadcasting, utilising video streams as a gateway to social or open content co-creation Sports participatory culture can be channelled into a wide range of features, virtually bringing fans closer to their peers (or idols) 	Publish branded content within in-play chat, offer paid "watch together" opportunities hosted by celebrity
Personalisation	Browse	<ul style="list-style-type: none"> Enabled by advanced data infrastructure, personalisation grows in relevance exponentially (just as variety of preferences expands) Personalisation precisely acts as the catalyst showing what users want, and hiding what they don't, while leaving enough room to explore 	Operate virtual advertising within live streams, displaying tailored advertising messages for each user
Gamification	Play	<ul style="list-style-type: none"> Building on the growing popularity of fantasy leagues and their ties with betting, gamification stands as the most promising fan experience layer monetisation-wise While OTT struggles to handle churn, gamification's ability to embed reward programmes acts as a valuable asset for retention 	Enable users to turn in-game predictions into bets with betting partner, propose open and closed fantasy challenges with entry fees

Source: PwC Analysis



”

The biggest challenges remain fragmentation, the collapse of the bundle and what will re-emerge in its place. The current levels of fragmentation across all genres are unlikely to be sustainable.

Tom Broom, Senior Vice President, Business Development Entertainment and Digital at IMG

How will the sports media landscape evolve in the next 3-5 years?
Percentage of respondents, forced trade-off among two options



Insight 20: Super-aggregators heralding the “Great Reconsolidation”

- Across the sports and entertainment industries, the so-called “streaming war” is proving to be a scourge for both platforms and users, incurring significant marketing costs for distributors and high subscription fees for consumers.
- While content holders are increasingly recognising the value of aggregation over exclusivity by multiplying carriage deals, enhanced connectedness in the digital space is, for its part, driving ecosystem integration.
- Despite a fragmented rights market, we foresee the “Great Reconsolidation” of media consumption, notably fostered by a handful of dominant content and tech players acting as super-aggregators (**Deep Dive IX**).

Headlines

Apple TV+ adds showtime and ad-free CBS All Access as part of its offering

Reelgood streaming aggregation app launches integration with Android TV, Amazon Fire TV and LG smart TVs



Deep Dive IX

The sports media landscape over time

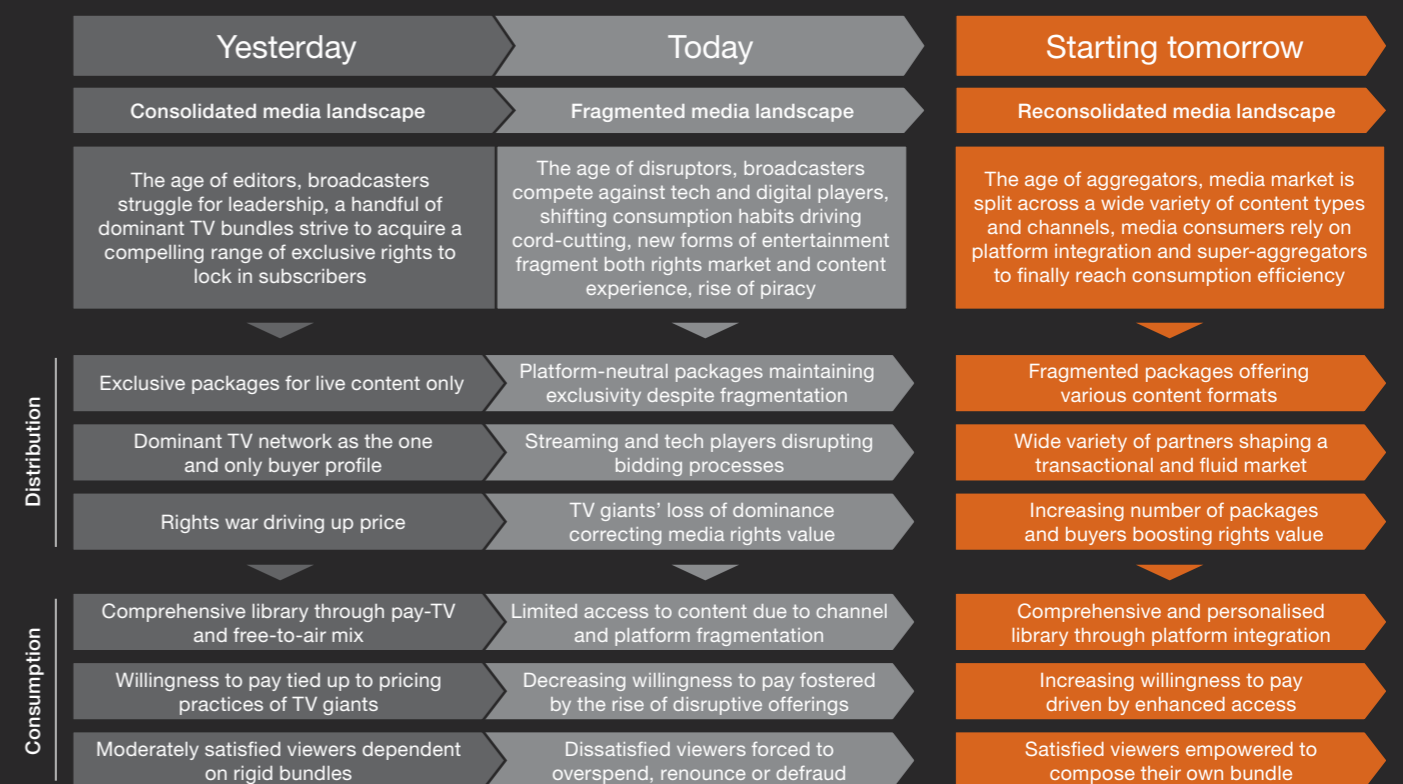
Formerly dominated by TV giants imposing rigid bundles but offering wide-ranging content libraries, sports media has evolved towards a highly fragmented market. Directly impacted by this channel chaos, dissatisfied fans are now forced to overspend, renounce or stream illegally.

Indeed, platform integrators will be both commercially and technologically equipped to offer fluid, consumption-efficient offerings, creating revenue models that acknowledge and absorb churn, rather than desperately struggling against it.

Even if the sports rights ownership model is far too structured to enable the imminent rise of a Spotify-type value proposition, we still interpret market dynamics as moving towards consolidation, notably through carriage deals, platform integration and super-aggregators.

Conversely, it can be expected that rights owners will achieve growth by further fragmenting their rights packages, fundamentally dissociating the distribution (fragmented) from the consumption (consolidated) market.

Figure 25: Sports media landscape over time



Source: PwC Analysis



In a nutshell

Historically, the industry has drawn its commercial value from live sports. The COVID-19 shock has weakened this, fostering the adoption of alternative content formats. This new pattern pushes sports properties towards shaping their content strategies beyond events, paving the way for omnichannel and multiplatform storytelling.

The acceleration in cord-cutting, piracy and audience fragmentation are putting tangible pressure on the value of sizable, exclusive media rights deals. This underlying threat raises important questions on how rights owners should approach exclusivity. We predict the near-term adoption of more diversified content distribution models, shaping a liquid market.

Augmenting the fan experience might be on everyone's lips, but sports-related digital platforms haven't cracked it yet. As immersive solutions go mainstream in line with technological progress, consumption preferences need to be understood with higher granularity to enable the design and implementation of features that meet their needs.

In the broad scheme of things, the dynamics of the sports media market are becoming more complex. As sports are being consumed in a pluralistic way, marking the end of the historical monopoly of the live format, the proliferation of content buyers is contributing towards forming an ecosystem that is increasingly difficult for content distributors to control. This is the dawn of a new, convoluted reality in a market once simplified by the dominance of TV giants.

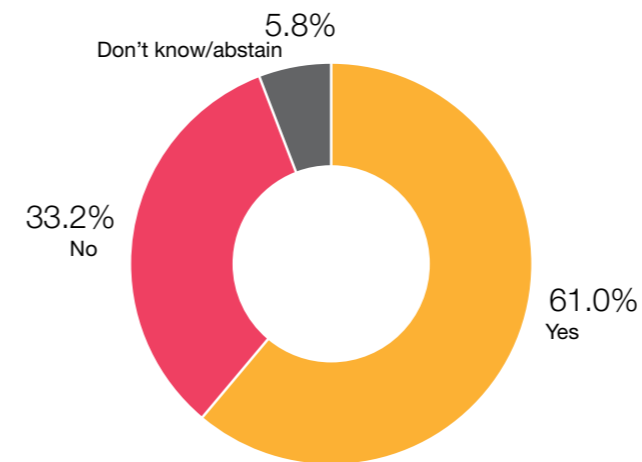


Esports

The great emancipation

We asked sports leaders whether esports was delivering commercial success and if simulated sports esports will be a mainstream viewership product. We also surveyed the potential of esports to create value for rights owners and the important challenges in entering this industry. Our analysis indicates that the commercial success to date has been mixed, but that esports is clearly worth persevering with. Esports can create value through engaging new fans, attracting new partners and generating new revenue streams, whereas the challenges are creating engaging narrative and developing an effective (monetisation) strategy. We also reflected on the emerging opportunities that mobile gaming might provide for sports organisations.

Figure 26: Has your organisation engaged with esports yet?
Percentage of respondents



Source: PwC Analysis, N = 636



Insight 21: Sports organisations widely engaging with esports

- Over the last 2-3 years, sports organisations' level of engagement with esports has accelerated significantly. The discourse around it has evolved from scepticism to embracing and learning.
- While many sports properties utilised virtual competitions to entertain their audiences, COVID-19 has amplified the underlying trend (**Deep Dive X**). This unprecedented period has given rise to promising use cases at the crossroads between sports and video games.
- The hiatus is over: sports organisations should now develop a long-term plan to capitalise on the esports opportunity, with the vision of achieving sustainable growth.



Headlines

F1's Virtual Grand Prix series achieves record-breaking viewership

Video game giants thrive in the pandemic



Engage with it! Learn, study and understand why a whole generation loves gaming and why games are now bigger than movies. Only when understanding the size of gaming will they understand the opportunity in esports.

Michael Broughton, Advisor, Acceleration Equity

Deep Dive X

COVID-19's impact on esports growth

To fill in the gaping holes left by physical sports during the COVID-19 lockdown, many turned to gaming, including sports properties investing in esports activities to keep audiences engaged.

We have investigated this unprecedented situation with the help of market analysis carried out by IRIS (Intelligent Research in Sponsoring). Unsurprisingly, the consumption of simulated sports esports literally exploded at the heart of the crisis, tripling the number of hours watched (figure 27). Action, fantasy and shooter genres also experienced significant growth, with an increase of about 50%.

It is worth mentioning that the COVID-19 effect seems to have had a lasting positive

impact on the popularity of gaming as a media product. Indeed, when comparing pre- and post-crisis data, the chart hints at a generalised uplift in consumption compared to the pre-crisis period. Of course, only time will tell if the trend will be sustained in the long run.

Interestingly, three aspects stand out when comparing action, fantasy and shooter with simulated sports genres:

- Firstly, the top-100 accounts for action, fantasy and shooter generated 500m hours watched in week 1 of 2020, dwarfing the 5m generated by simulated sports.
- Secondly, action, fantasy and shooter titles generated on average >180 hours

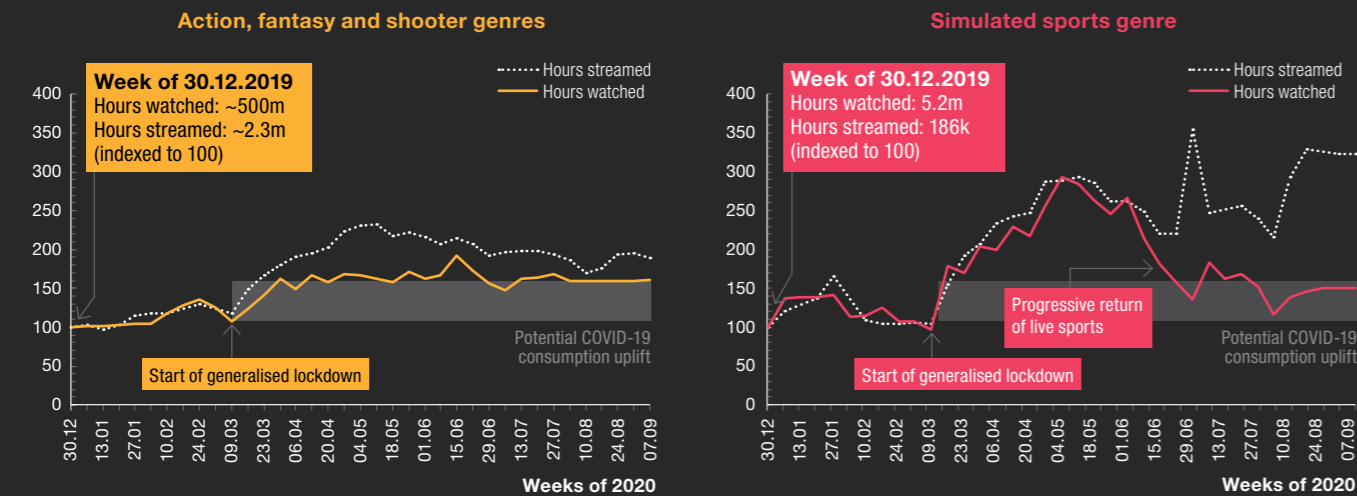
watched for every hour streamed, compared to 23 for simulated sports (nearly 8 times fewer hours). This shows that simulated sports esports is not a mature media product yet.

- Thirdly, while the number of hours streamed for simulated sports remained high, the number of hours watched dropped significantly once real, live sports returned. Despite the advantage of being recognised and understood by a wider audience, there's still a long way to go for simulated sports to sustain high viewership in parallel to physical competitions.

Data provided by Iris



Figure 27: Streaming and media consumption of gaming during COVID-19 crisis

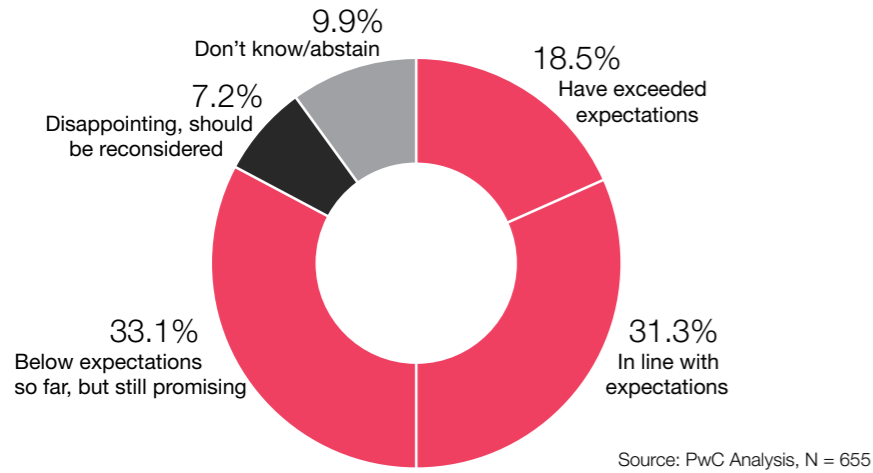


Source: PwC Analysis, IRIS Market Intelligence 08/2020 | Number of hours watched and number of hours streamed on YouTube and Twitch, for top-100 accounts of each title per platform; titles included: LoL, Dota 2, CS:GO, Fortnite, Battlegrounds

Source: PwC Analysis, IRIS Market Intelligence 08/2020 | Number of hours watched and number of hours streamed on YouTube and Twitch, for top-100 accounts of each title per platform; titles included: FIFA, NBA2K, Madden NFL, F1, PES



Figure 28: Perception of commercial success of rights owners' esports initiatives
Percentage of respondents



Clarity on an organisation's gaming strategy is a pre-requisite for sustainable, long-term success in the world of esports.

Christian Volk, Director of eFootball and Gaming, FIFA



Insight 22: Esports' mixed results to improve over time

- It's unrealistic to expect esports to deliver quick wins given its early development stage, requiring both patience and resilience from sports organisations.
- We believe that a gaming-first approach provides the most robust foundation to build upon, as games pave the way for both casual and competitive gaming to develop.
- To achieve consistent results over time, esports (intended as the virtual variation of the real sport) should be considered as a genuine new discipline within each sports ecosystem (**Deep Dive XI**).



Headlines

UCI and Zwift launch cycling esports as a new discipline

World Sailing creates eSailing World Championships in partnership with Virtual Regatta

Deep Dive XI

Esports driving the advent of multi-layered competition ecosystem

We expect governing bodies to increasingly recognise virtual variations of their sport as new disciplines. So, it's crucial to accurately classify and define these, establishing appropriate regulations, involving relevant stakeholders and developing standalone go-to-market strategies.

We believe that considering esports as a new discipline will enable it to develop with a clear position within its respective ecosystem. This approach should mirror the development of new game formats like T20 cricket, FIBA 3x3 and Hockey 5s. Sports investors like Monumental Sports

& Entertainment and Harris Blitzer Sports & Entertainment have also added esports as a vertical alongside traditional sports and entertainment venues.

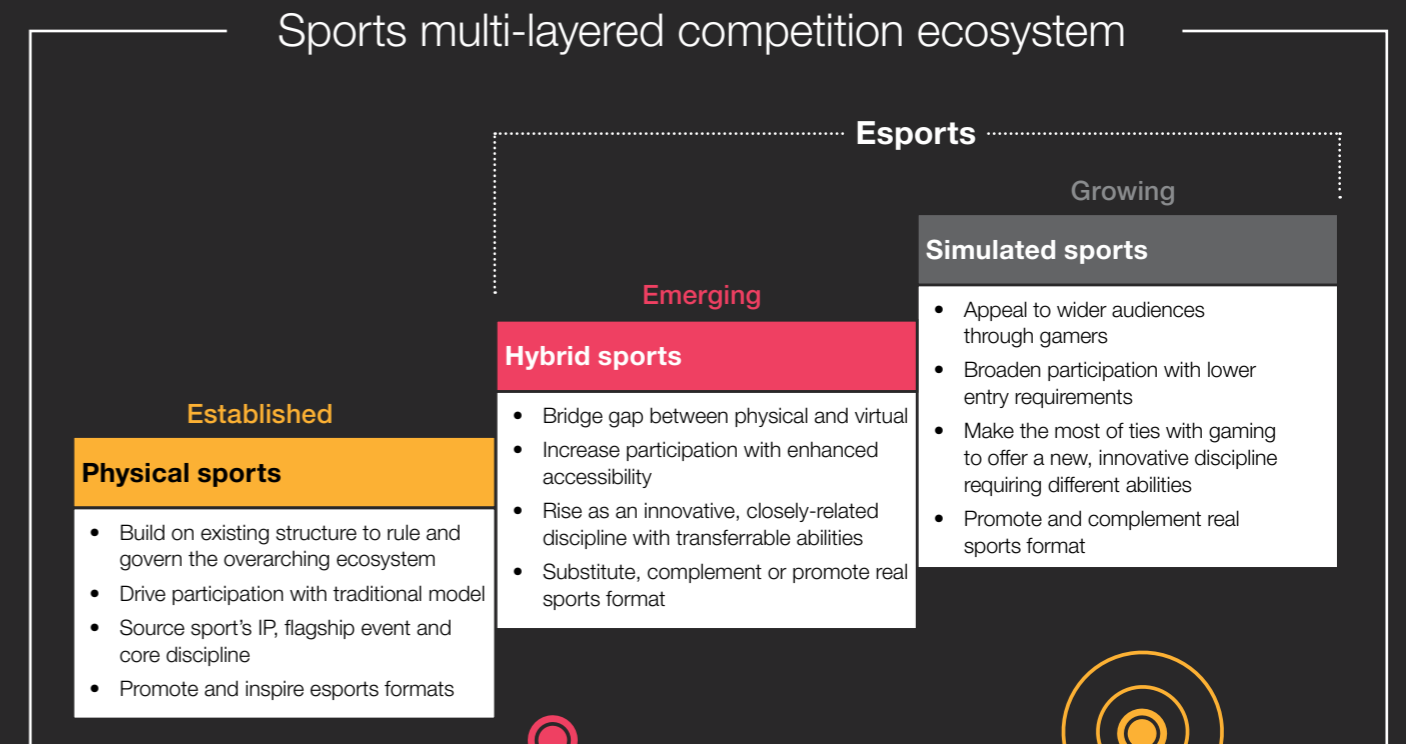
To cut through the landscape complexity and develop tailored development programmes, rights owners should distinguish between simulated esports (e.g. FIFA eWorld Cup) and hybrid esports, which refers to physical efforts with digital rendering (e.g. Digital Swiss 5).

Going forward, we predict that the addition of virtual disciplines will contribute to

the creation of a multi-layered ecosystem, where each physical sport will have its simulated and hybrid equivalents. Ultimately, each subdiscipline will carry out different functions and bring specific benefits to the overarching body (figure 29).

Clearly, the shaping of such an ecosystem will take significant time to mature. As opposed to those who seek immediate returns, we expect rights owners that have long-term perspective for building standalone products and verticals to benefit the most from sports' growing virtualisation.

Figure 29: Sports multi-layered competition ecosystem



Source: PwC Analysis

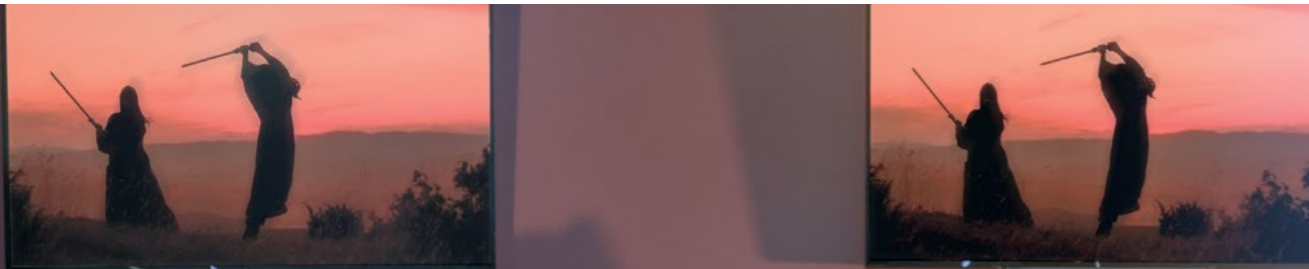
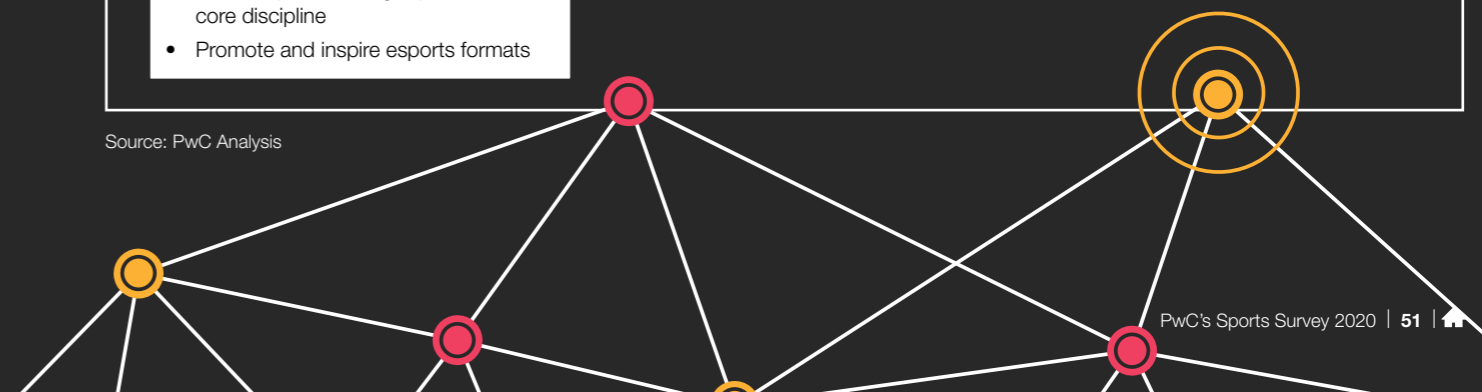
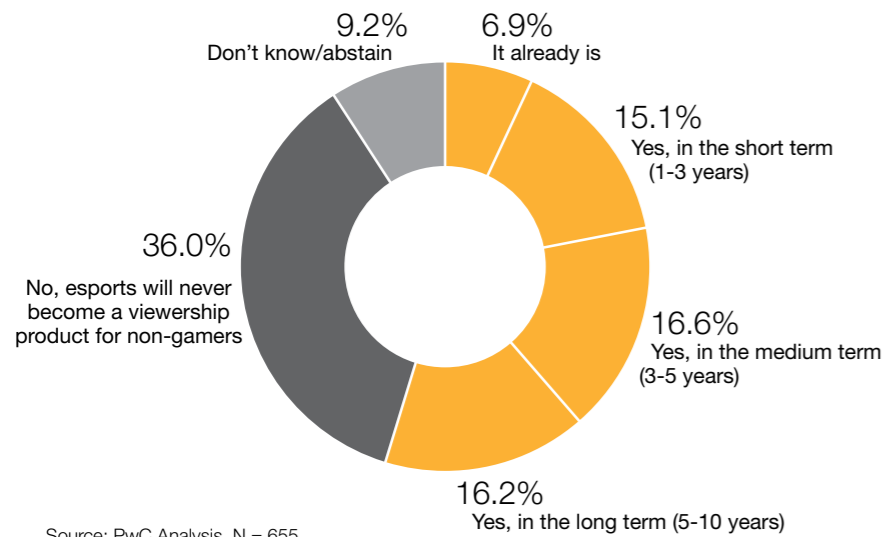


Figure 30: Will esports become a mainstream viewership product for non-gamers?
Percentage of respondents



Source: PwC Analysis, N = 655



Insight 23: Simulated sports esports starting on the path of mainstream viewership

- While divided on the question, most survey respondents believe that, in the medium- to long-term, simulated sports esports will manage to turn into a mainstream viewership product (**Deep Dive XII**).
- Indeed, we think that this will happen as gaming grows, products improve, media coverage increases and technology advances. We expect that game modes will increasingly be developed with esports in mind, offering an improved visual experience for non-players.
- Most notably, younger athletes who've grown up with gaming as a cultural norm provide a natural bridge between virtual and traditional sports. As a result, we perceive simulated sports esports as a great opportunity to attract both gamers and non-gamers, and thus democratise the viewership.



Headlines

eNASCAR drives TV audience with esports product

Media companies' Eleven Sports and ESPN invest in esports as a new content vertical

Growth of esports gambling confirms viewers' interest

Deep Dive XII

Action, fantasy and shooter genres largely drive esports viewership

To better understand the viewership differences between simulated sports versus action, fantasy and shooter genres, we've analysed IRIS data on the weekly ratio between hours streamed and hours watched since January 2020. From this so-called **return on streaming** (figure 31), some interesting insights emerge:

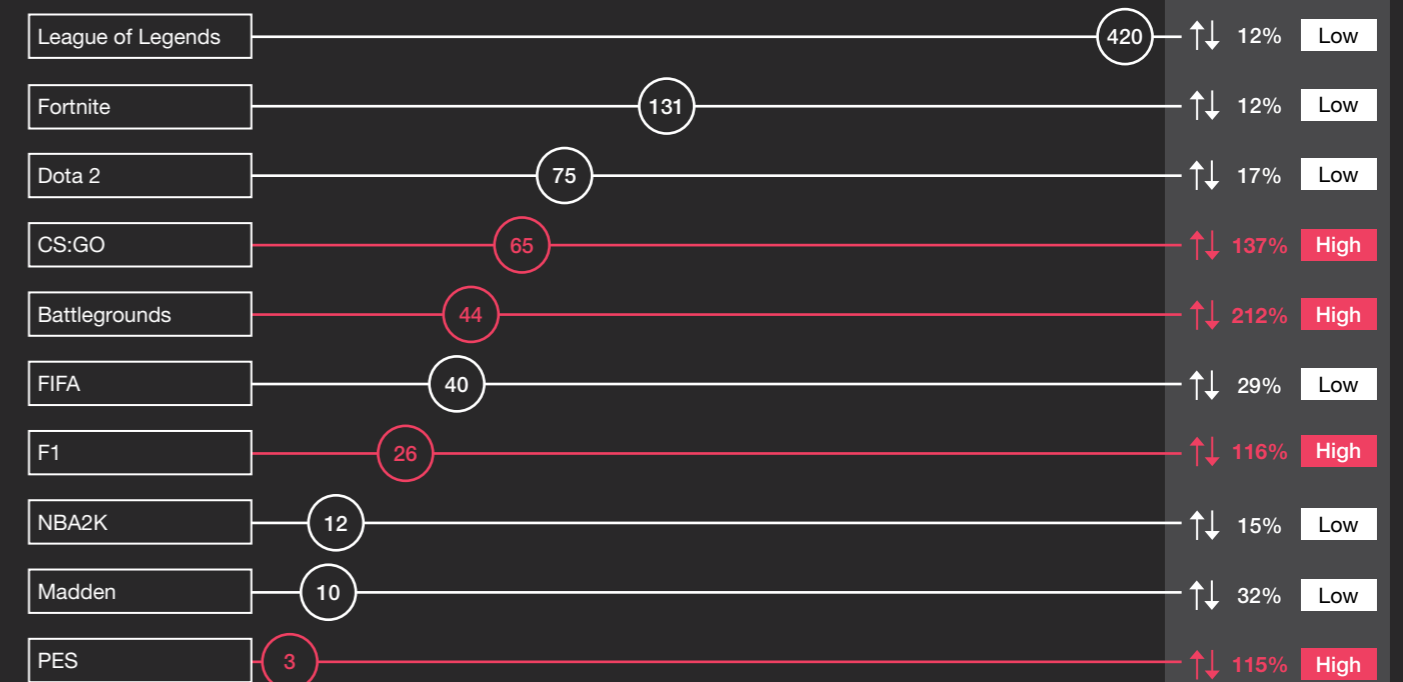
- Firstly, League of Legends ('LoL') is clearly setting the standard, with an average of 420 hours watched for every hour streamed. Riot Games is reaping the benefits from its massive investment in developing a strong competi-

tive ecosystem, which today features 12 professional leagues qualifying for the world championship.

- Secondly, there's a significant gap between titles in regard to the volatility of their **return on streaming**. Indeed, some titles have clearly managed to break free from flagship one-off events, using their IP for week-in week-out media consumption.
- Thirdly, action, fantasy and shooter esports genres are still firmly ahead of the curve compared to simulated sports, which are led by FIFA.

As mentioned earlier, the cup may be half empty or half full. Either this is proof of a structural disadvantage as a media product (which is cannibalised by real sports media), or merely an indication of a potential that, once the adoption curve rises, will be exploited to its full extent.

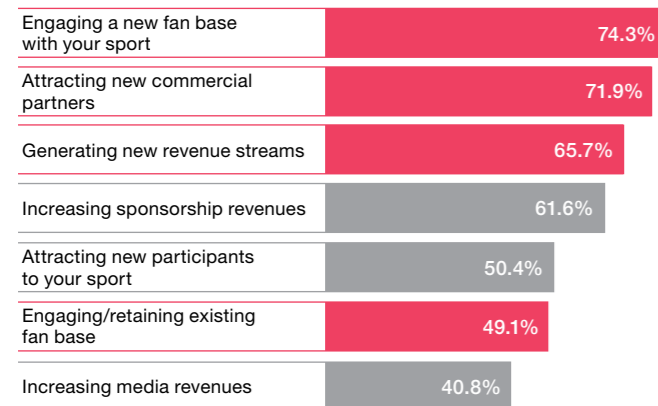
Figure 31: "Return on streaming", by genre and title



Source: PwC Analysis, IRIS Market Intelligence 08/2020 | Number of hours watched divided by number of hours streamed on YouTube and Twitch, for top-100 accounts of each title per platform. +/- Percentages represents 1 standard deviation divided by the average value.

Figure 32: Top esports benefits for rights owners

Percentage of respondents, Top 2 Box (“above average” and “very high”)



Source: PwC Analysis, N = 385



Insight 24: Esports driving both fan acquisition and retention

- As recognised by respondents, building esports into a new vertical can certainly open up opportunities to attract new audiences, commercial partners and, ultimately, revenue streams.
- We believe that the underlying opportunities will still require significant time and efforts to materialise, especially given the challenges of building an effective monetisation strategy.
- On top of that, esports has demonstrated value to retain and engage existing audiences. While physical events are still undermined due to the COVID-19 crisis, esports represents a valuable asset for feeding content-hungry fans, building on the multi-platform storytelling pattern.



Headlines

F1 perceives esports as a platform to reach younger fans

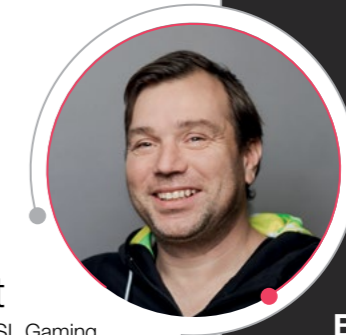
NHL uses esports to keep fans engaged

An executive point of view

from

Ralf Reichert

Founder and co-CEO, ESL Gaming



By now it should be clear: esports is not a hype but a phenomenon

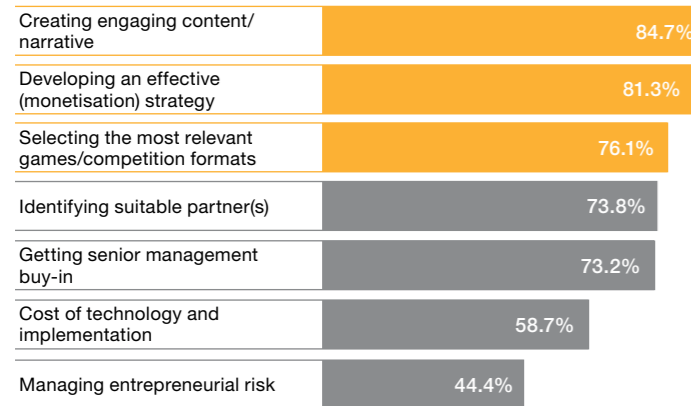
“As simple as it can get, core to esports – and all other sports – has always been the joy of playing. That is where it all started. By introducing rules, gaming has culturalised playing and added a competitive edge to this form of enjoyment. Sport as we know it today is about more than playing games and competing: we’ve built an infrastructure around it consisting of leagues and tournaments, enabling a great experience for fans across the globe. Esports has all of this, too. There’s no difference. It’s about helping people unleash their maximum potential. As a pioneer in this industry, ESL has been at the centre of the esports movement for almost 20 years. While the scene has become more professional, the “why” never changed: to create a world where everybody can be somebody.

While there are already many good examples of (traditional) sports organisations embracing esports and its community, we’re not even close to reaching the end of this path. Gaming and esports are here to stay, and many organisations will find themselves at a disadvantage if they don’t start to appreciate and ultimately engage in this sector. Connecting to today’s young and digital audience has never been more challenging and an involvement in esports can serve as a remedy for those firms trying to reach the unreachables.

Let’s stop simply leaning back and start to lean in together. There’s significant value we can add together for athletes, teams, fans, game developers, brands and media partners. ”

Ralf is a serial entrepreneur, avid gamer and esports evangelist. Ahead of its time, in 2000, he founded ESL, today the world’s largest independent esports event organiser.

Figure 33: Challenges for rights owners to set up an esports strategy
Percentage of respondents, Top 2 Box ("important" and "very important")



Source: PwC Analysis, N = 385



Insight 25: Rights owners' main esports challenges lie in storytelling, format and monetisation

- Creating a competition doesn't equal creating relevance. Building a strong narrative to contextualise athletes, teams and events is fundamental to the success of esports.
- To choose the right competition formats and build a strong esports platform (ranked as the third biggest challenge), we believe that rights owners must intensively collaborate and co-create with existing stakeholders, including the game partner.
- The above model obviously needs to achieve financial sustainability. As it's still unclear whether the sports industry's traditional revenue streams can bear fruit in the esports context, sports organisations are exhorted to design tailored, esports-specific monetisation models.



Headlines

Real Madrid partners with EA to integrate Volta mode's storyline

NBA and Bundesliga operate esports vertical by making the most of existing stakeholders and competition structure



Embrace, engage and embody esports into the core of the organisation. It is here to stay, so those who adopt and adapt will benefit the most.

Jason Lohe, President at Gameplan Impact

Deep Dive XIII

Beyond esports, mobile gaming will form a critical part of future gaming and esports strategies

Although controlling a game's IP can drive significant value from the gaming and esports ecosystem, it's extremely hard for sports organisations to bypass publishers ownership-wise, especially considering the large financial and technical resources required for developing blockbuster games.

For its part, mobile gaming has lower entry barriers as it costs considerably less to develop and publish mobile games. Mobile gaming can indeed provide sports organisations with a great opportunity to use existing IP, create new digital assets and grow their digital audience. To date, sports has been slow to enter the mobile gaming sector but, given its size and growth, it's definitely an area worth exploring.

The continued penetration of smart-phones across the world, the major developments in 5G and the imminent advent of cloud gaming platforms all speak in favour of mobile gaming.

Concretely, micro-games can offer a broad range of benefits for the IP owner, notably around fan engagement, data capture, in-game advertising and micro-transaction payments.

The market for mobile gaming is rather saturated, and the chances of creating a single hit game are low. Taking a portfolio approach by trying out several formats and concepts could be an effective way to manage risk.

In the medium-term, we expect new business models to emerge through greater collaborations between mobile gaming developers and sports organisations.

Key mobile gaming questions:



How will the mobile gaming strategy complement digital and gaming strategies?



What types of game(s) do you want to create?



Which game developers will make the best partner?



Which markets are to be targeted?



What assets and capabilities are required to monetise the game(s)?



How will you use the data captured via the games?

In a nutshell

Generally speaking, it is clear that the COVID-19 crisis has favoured the acceleration of virtual entertainment, improving the odds for simulated sports esports. While our analysis shows that the underlying trend is likely to continue over the long term, it should nevertheless not be taken for granted. Sports organisations need to carry full responsibility for their esports strategy and ride the wave before other games win and lock in consumers.

The central insight from our survey is the importance for rights owners to stop considering esports merely as a fan engagement tool but as a genuine discipline with its own rules, fans, heroes, and culture. Developing such a model is similar to developing a new product or a brand; it can only be part of a long-term process. The advent of hybrid sports – which puts an end to the perennial debate about the physical aspect of esports – has now reinforced both the legitimacy and potential of virtual sports within federations' discipline portfolios.

Reflecting on the trends impacting the media market for traditional sports, rights owners must be inclined to experiment and diversify, with the vision of building their very own revenue ecosystem. If simulated sports esports does not yet have a dominant financing model, the wide variety and speed of the market imply that this may never be the case. For this very reason, the sports industry must be bold enough to break down boundaries and dogmas in order to truly emancipate itself both creatively and financially. This, to us, is the only path to esports success.



State of the industry



Impact of COVID-19



Sports media



Esports

PwC Sports Survey data

Market growth outlook

Expected growth by revenue stream

Ranking of top 10 sports by potential to grow revenues

Top opportunities and threats

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By when the sports industry will have recovered to pre-COVID-19 levels?

Most likely outcome of the crisis

Most prevalent collaboration models expected

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Expected growth of sports media consumption by channel

Expected growth of sports media consumption by business model

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Greater risks pushing a new, diversified revenue model

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Sports on the back-foot, calling upon investors

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Traditional broadcasters aren't dead, yet they urgently need to pivot their business

D2C morphing into B2B2C

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Cutting through the noise with a richer, data-driven fan experience

Super-aggregators heralding the "Great Reconsolidation"

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The growing opportunity of monetising digital assets

Will hybrid sports keep endurance events going?

How to get fit for recovery?

Football's breeding ground for private equity

From saving costs to making use of strategic collaborations

Highlight consumption grows among all age groups

From event to IP to flatten the attention curve

Amplifying OTT broadcast

The sports media landscape over time

COVID-19's impact on esports growth

Esports driving the advent of multi-layered competition ecosystem

Action, fantasy, and shooter genres largely drive esports viewership

Mobile gaming will form a critical part of future gaming and esports strategies



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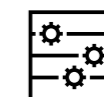
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Our service offerings

- Corporate strategy
- Business planning
- Organisational design
- Governance and compliance
- Independent business review and due diligence
- Market analysis and benchmarking
- Mega-event feasibility and impact assessments



Our clients

- Brands
- Event organisers
- Host cities
- Sports federations
- Leagues and teams
- Media companies
- Sports marketing agencies
- Sports ministries
- Sports tech firms

Our Sports Business Advisory team

The Sports Business Advisory team was established by PwC Switzerland in 2012 and has evolved into PwC's 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 teams and functional experts in various

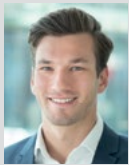
territories throughout our network, we've delivered projects for a variety of organisations across the EMEA region. Since 2016, we've published PwC's Sports Survey annually, checking the pulse of the sports industry on growth expectations and a wide range of strategic and organisational topics. We hope you found the fifth edition of this publication insightful.

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