D2C in Sport

OC&C Perspectives

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OC&C Strategy consultants

Certified B Corporation

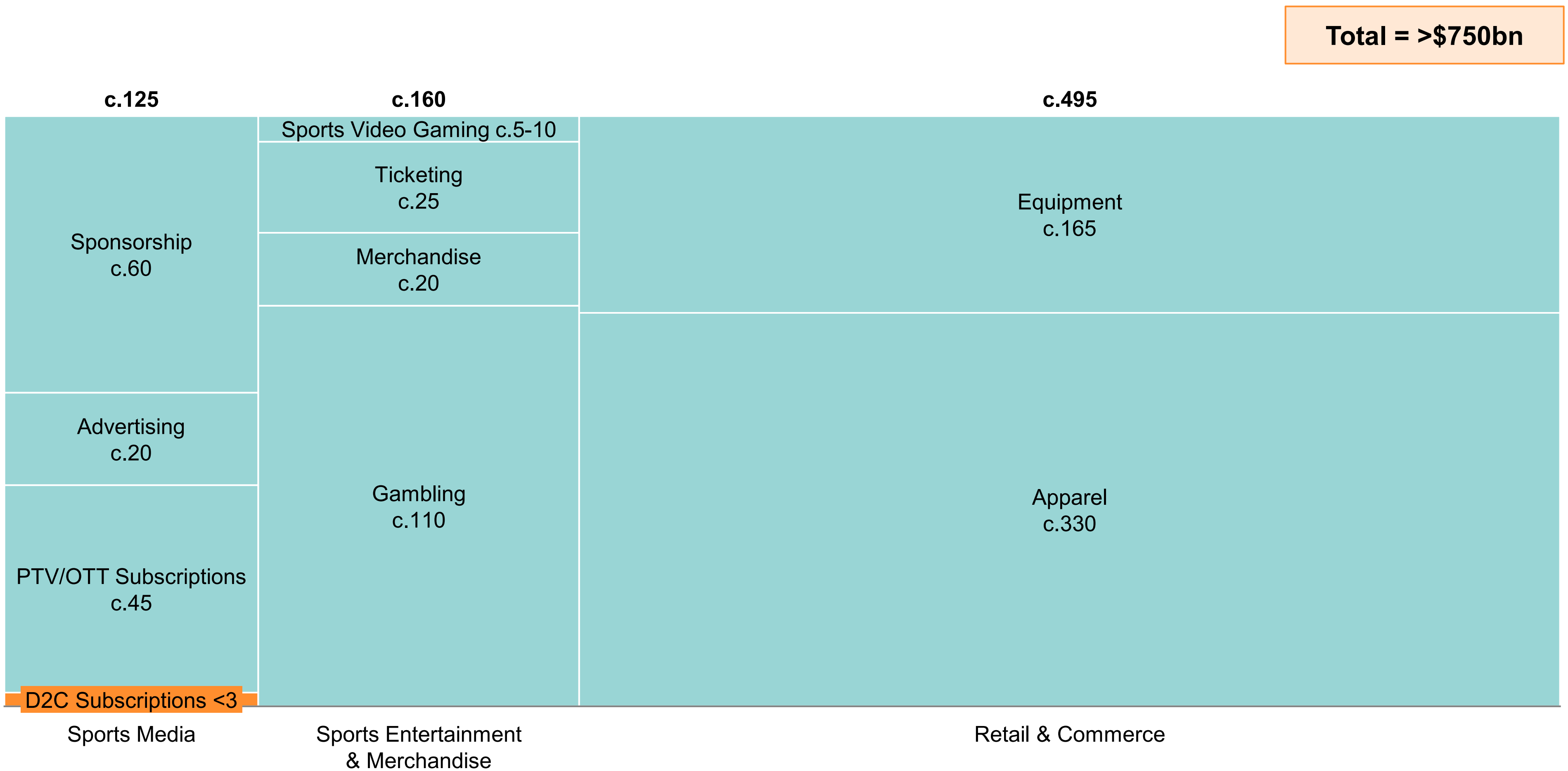
For most rightsholders, D2C isn't all it was cracked up to be… yet

- D2C was – and for many still is – **the 'next big thing' in sport**. Rightsholders of all shapes and sizes are making big swings
- However, they are increasingly getting into **the grind after the hype**, realising that despite its promise 'on paper', it is **proving difficult for most rightsholders to gain meaningful traction in D2C**
- In our view, this is ultimately because…
  - Dedicated sports fans already have a plethora of platforms fighting for their time – hence **the bar for yet another platform is high**…
  - … and most rightsholder D2C platforms, by virtue of the importance of their cornerstone rights deals, have **too narrow a content proposition to meet this bar** for all but the most dedicated of superfans
  - As a result, they are seeing **low willingness to pay, high acquisition cost**, and **retention** challenges – ultimately driving **unattractive economics**
  - All of this is exacerbated by the **major operational and mindset shifts** required to operate a successful D2C business – capabilities which most rightsholders lack
- In our view, **D2C is important to reach and engage fans where they are across a broad range of channels… but the typical approach & objectives for success *(eg monetising the superfans)* should be re-evaluated**
  - There is **very little (if any) financial upside for rightsholders in D2C media alone.** Indeed, rightsholders already capture the vast majority of value on the table under traditional B2B2C rights deals
- A clear and effective D2C strategy will need to be more ***'fan-led' (rather than 'product-led'),*** and requires bold choices across several dimensions:
  - **Clear Segmentation (by Geo / Fan Engagement Objectives):** Fans are often at different stages of development and sophistication across geos… hence market-specific strategies for D2C engagement are critical
  - **Novel Content & Proposition:** offering a compelling value exchange based on exclusive content & IP – supported by the clubs – and bundling value across multiple categories
  - **Supporting Partners:** leveraging platform/aggregation deals to broaden reach and increase revenue, without giving up the data benefits (if the deal is right!)
  - **Data Excellence:** capturing fan data with intent and purpose, and giving fans good reason to offer it up
  - **Investment in New Capabilities & Org:** D2C requires a major shift in capabilities, org structure and mindset – and working out how to build, buy and/or partner your way to it

Despite its promise ‘on paper’, rightsholders have gained little financial traction in D2C

Estimated Global Sports Market Value, 2022 ($bn)

Global Estimates Exc. China & Russia



Source: OC&C experience & analysis

The challenges are many… with lessons learned for new potential efforts

1 Consumer choice fragmented as it is…

- Sports fans are already **spoilt for choice** – all kinds of platforms (clubs, leagues, broadcasters, streamers, news apps…) are vying for their attention (and money)
- As such, **the bar for additional subscriptions is high**

Need to think more broadly which revenue pools to address

2 … and D2C propositions lack breadth of content…

- Rightsholders often **lack year-round content**
- They will often seek to 'pad out' their propositions with eg highlights, archives, shoulder content – but this 'narrow and deep' approach **is not compelling enough for most fans…**
- …and internal politics means **both** (larger) **clubs and leagues will be protective of their IP**

3 … meaning willingness to pay is low…

- PayTV broadcasters (and increasingly OTT) have been able to **'overpay' for sports rights,** often **subsidising** with other content, internet, phone etc
- Rightsholders **do not have this luxury** – hence are unable to command the same price points; nor can they attract anywhere near the same volume of subscribers

Need focus on bundled value for consumers – with collaboration between teams and leagues

4 … and fan acquisition is challenging (not to mention costly)

- Appeal within the fan base is **often niche**
- There is **intense seasonality** in line with the fixture calendar
- Fans are often **reluctant to migrate between platforms** (eg from social to O&O)
- All of this adds up to **hefty investment in customer acquisition** – a capability often alien to rightsholders

Don't focus on D2C alone… B2B2C is key

5 Operations are far more complex than rightsholders expect

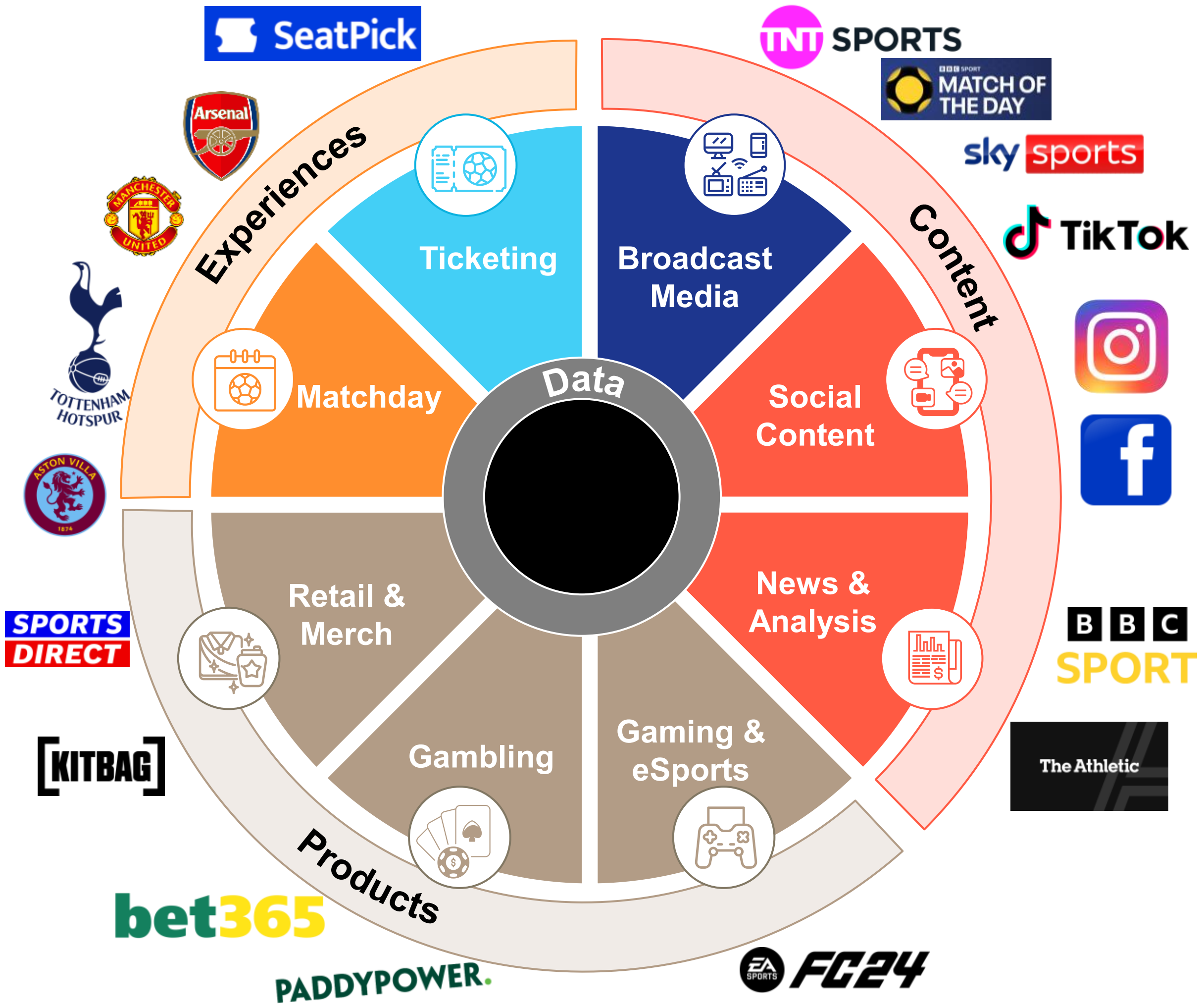
- Rightsholders are **rarely equipped with the right tech stack** to deliver D2C media effectively – broadcasters tend to do this for them
- This extends to **content production, graphics, distribution…** the list goes on

Cultural change & investment in capabilities required… not for the faint hearted

Sports fans have a plethora of platforms vying for their attention – the bar for another subscription is high, and rightsholder D2C platforms rarely meet it

Sports Fan Engagement Universe

Illustrative



- Most rightsholder D2C platforms tend to focus on **non-live content** – be it archives, highlights, shoulder content – as live rights deals are often **far too cash generative to put at risk**
- For many fans, then, D2C subscriptions become **yet another platform vying for their time and money**…
- …and for most fans, they are **just not compelling enough to win**

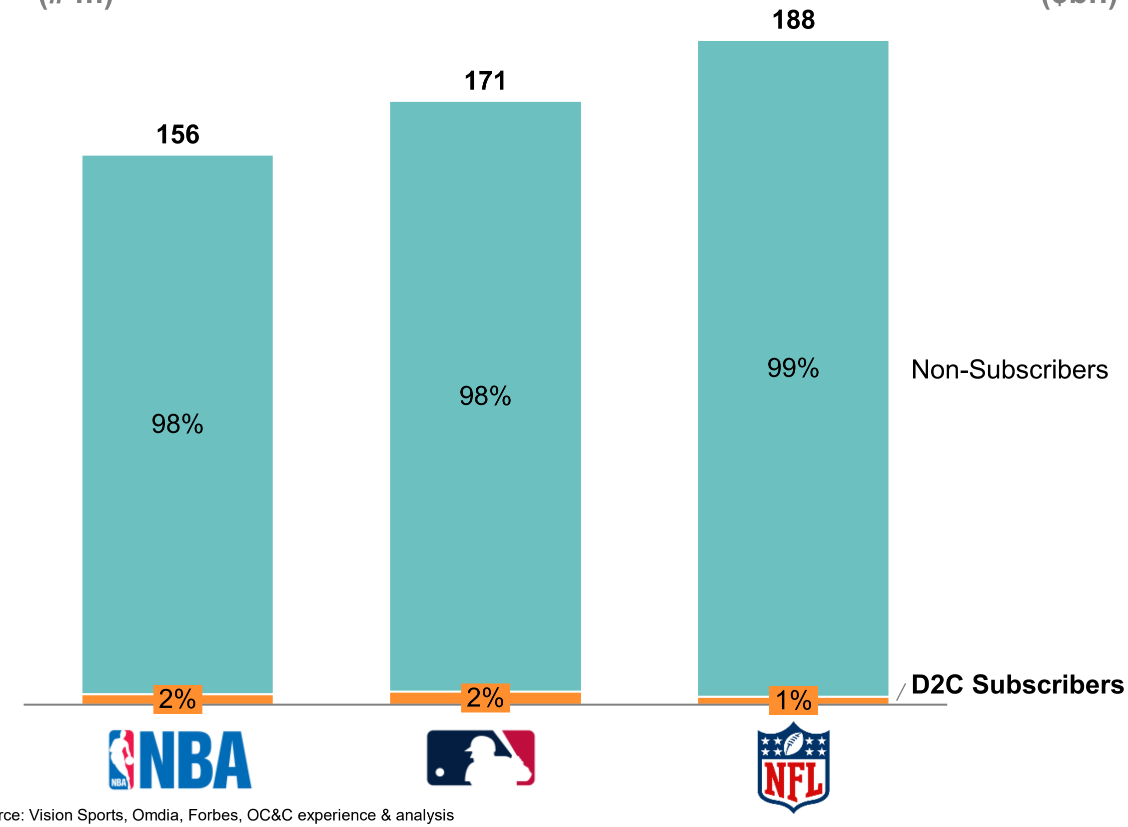
Consumer willingness to pay for D2C is low…

Current Size of Sports D2C Subscription Base

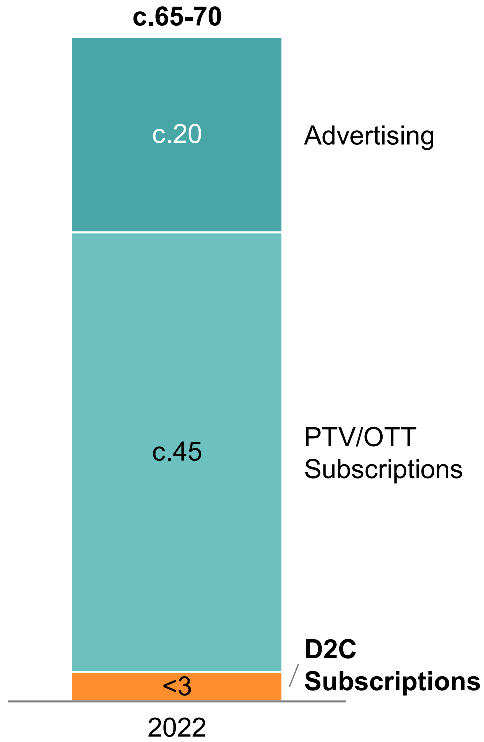
Currently only a very small proportion of fans of major US leagues subscribe to a D2C offering…

… and globally, D2C revenue is insignificant vs traditional revenue generation methods.

Fans by League vs # D2C Subscribers, USA 2022 (# m)



Estimated Global Sports Media Market Value, 2022 ($bn)



Source: Vision Sports, Omdia, Forbes, OC&C experience & analysis

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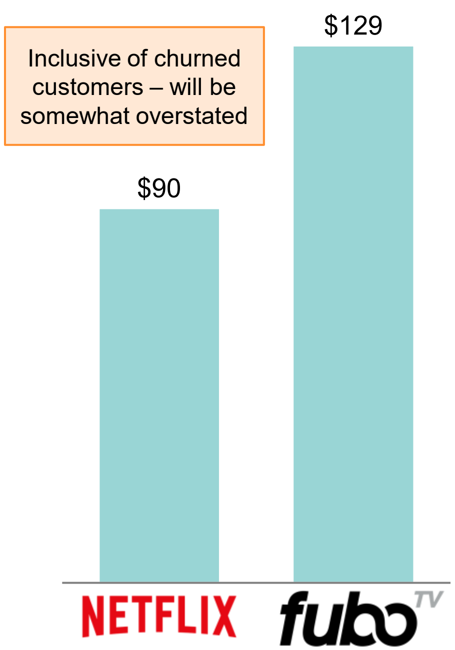
… and the economics are incredibly tough

D2C Economics

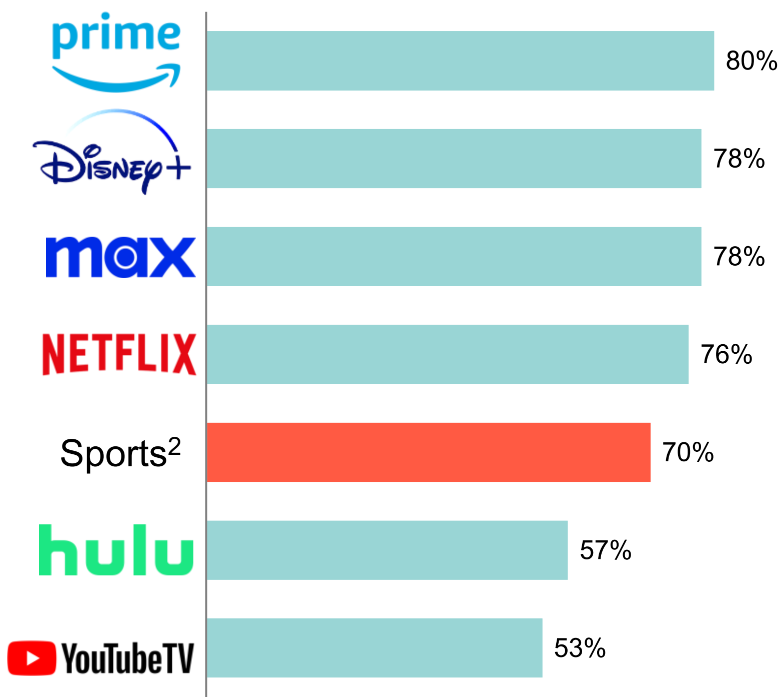
CAC in D2C media is high…

2023 Marketing Spend per Net New Paid Subscriber, Major D2C Streaming Providers[1]
($ per net new customers)



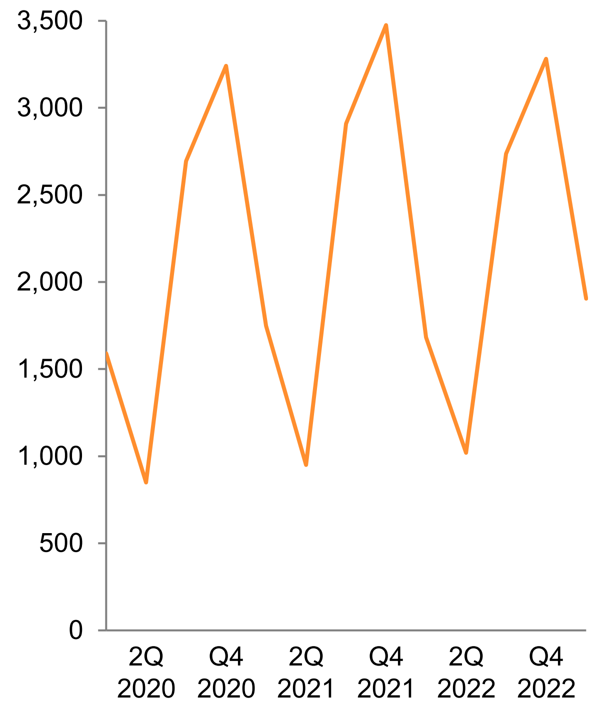
… coupled with generally poorer retention for sports D2C vs other TV / film…

12 Month Subscriber Retention Rates (%)



… and major seasonal fluctuations in line with the calendar

NFL+ & NFL Game Pass Subscribers, Q1 2020-Q4 2023 (000)



1. Marketing costs divided by net increase in paid subscribers vs 2022
2. Benchmark calculated as the weighted average from 10 comparable sports OTT products

Source: Ampere Analysis:, Annual Reports, Omdia, OC&C analysis

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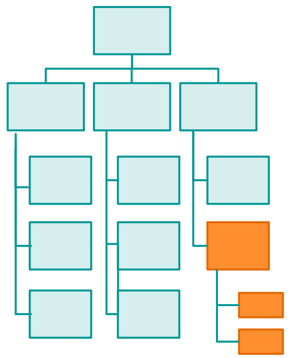
Early D2C efforts in sports have often been incremental to the existing op model… more structural changes are often required for success

Operating Model Types for D2C

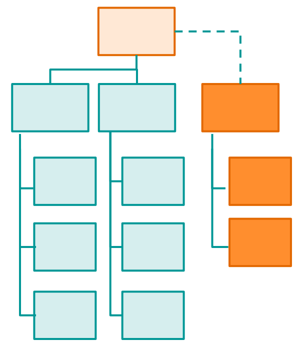
Core Expanded



"Another distribution channel for our core content"

Typical sports organisation mindset

Digital Separated

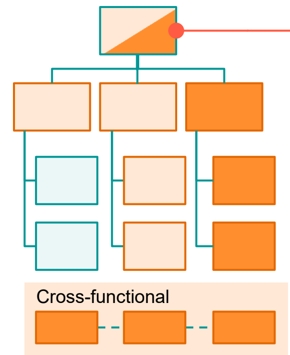


"New revenue stream for the future"

"Joint ventures"

"Important for the future but I don't trust our core business"

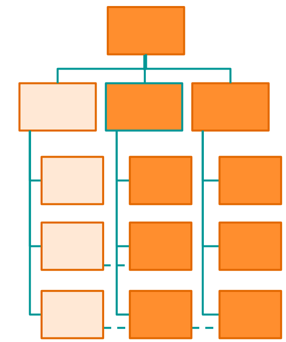
Digital Elevated



Ambidextrous leadership involves managing the legacy and new business in parallel. This relies on strong top-down commitment

"Important for the future – now"

Digital Redesigned



"Do or die"

"It's only a matter of time before we get disrupted"

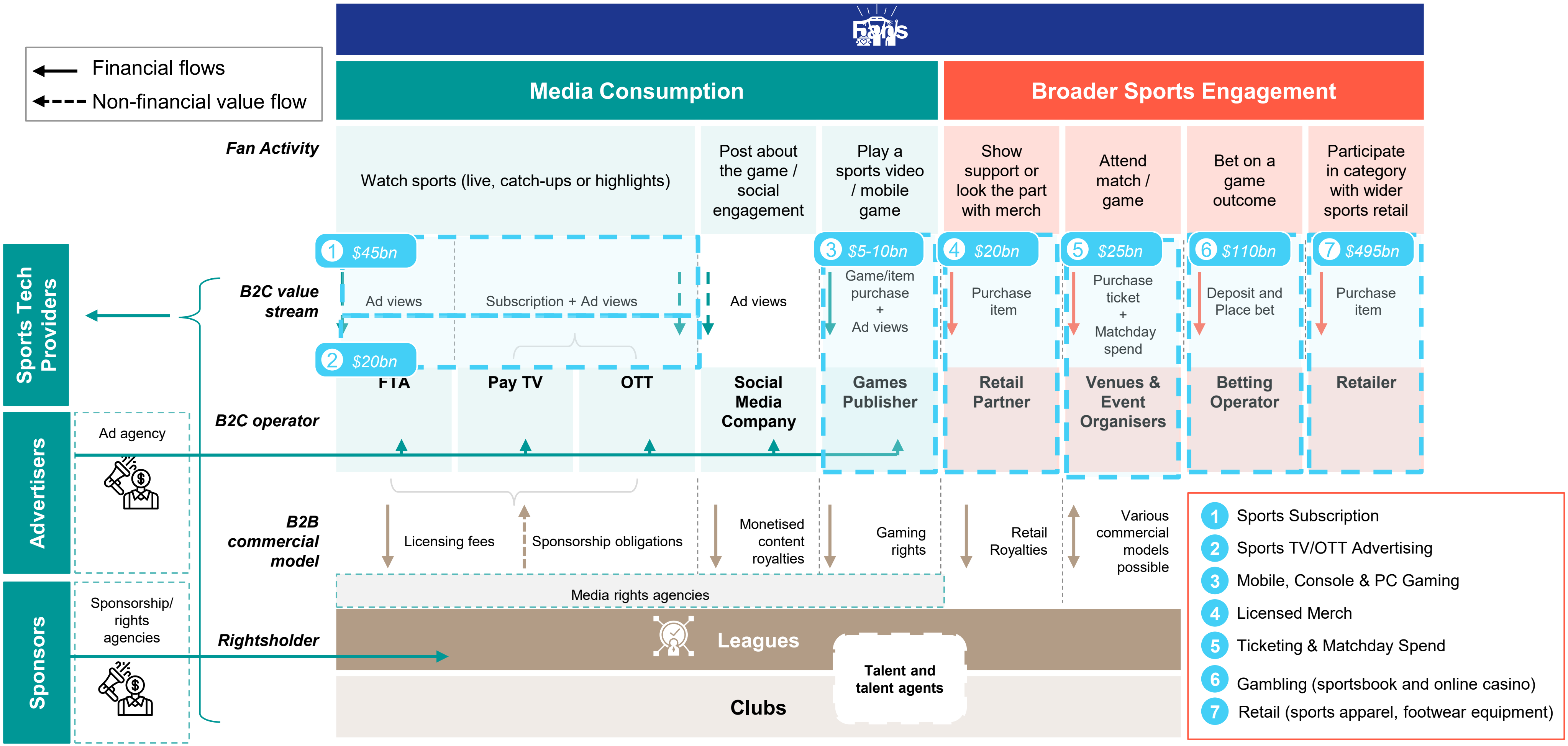
More likely to succeed… but greatest cultural change required

Direct Report | Input into | Working directly on D2C | Incentivized/ involved in D2C

Source: OC&C analysis

Despite these challenges, there is a vast and complex ecosystem for rightsholders to exploit…

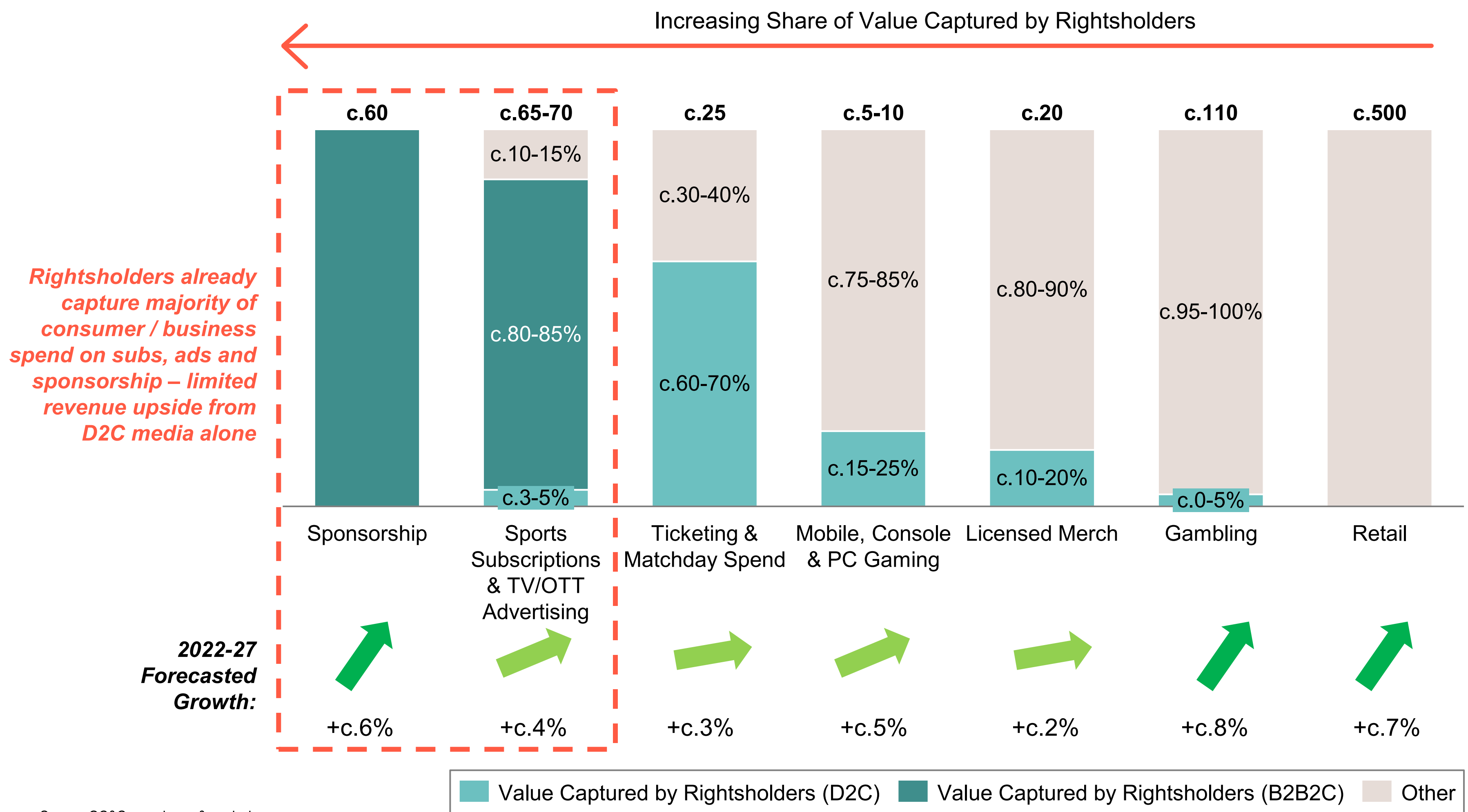
Sports Media, Retail and Leisure Ecosystem Overview



… with very little upside for rightsholders trying to exploit media revenue – there is significantly more to play for further afield

Rights Holders Value Capture of Estimated Global Sports Market Value, 2022 ($bn)

Global Estimates Exc. China & Russia



Source: OC&C experience & analysis

Learnings from sport and beyond help to surface the kinds of themes that should be front-of-mind when considering a D2C strategy

Takeaways

D2C media in sport will continue to have its place…

- **Engaging Underserved International Communities**
- **Maintaining Competitive Tension**
- **Building a Consumer Data Asset**

… but a clear and effective D2C strategy will require bold choices across several dimensions

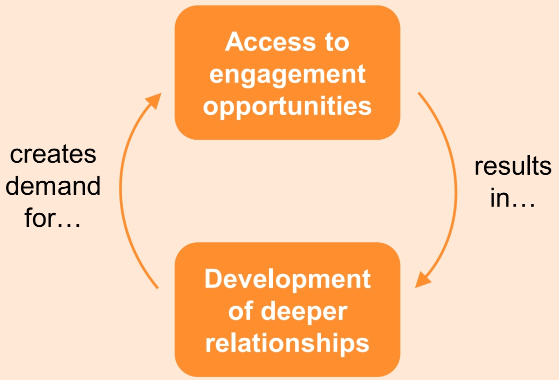
		Case Studies
Clear Segmentation	• Size and nature of fan base will vary by geo **– D2C strategies need to be market-specific** and tailored to local market needs (eg to increase reach, drive engagement, and/or monetise different fan segments)	F1, OVERTIME, LALIGA, weverse
Novel Content & Proposition	• **Offer something distinctive** that fans can't access elsewhere – *exclusive content, gamification, merch…* • **Bundle value** – media alone is rarely enough	The New York Times, DAZN, Pampers Club, OREO
Supporting Partners	• **Accept that you can't always migrate the fans** across platforms – you might need to meet them 'where they are' • **Don't be afraid of platform deals** – often the best way to maximise reach – **though be mindful of data implications**	Mr Beast, NBA, MLB, Dude Perfect
Data Excellence	• **Develop a concrete fan data strategy** – what will it be used for? *(eg 3P activations, cross-sell, content recommendation engine)* • Design data capture mechanisms **in keeping with the strategy** – make it feel coherent	Under Armour, NRC, Pampers Club
Capabilities & Org	• **Identify the missing capabilities** – and work out whether to buy, build or partner • **Explore 'unconventional' skill sets** in the team • **Consider top-down org structure,** and where D2C needs to 'sit'	The New York Times, HBO max, Disney+

Segmentation: The music industry is increasingly focusing on maximising the monetisation potential of its most devoted 'superfans'

Music Industry 'Superfans' Case Studies

The music industry is realising the potential of the 'superfan'…

- Within the music industry, **superfans have previously been under-monetised**, and not offered enough opportunities for reaching their full spend potential
- Various platforms are now emerging to **tap into this market**, and support further monetisation opportunities through a **virtuous cycle**:



- Access to content is through a **mix of subscription and non-subscription methods**, to maximise spend per fan

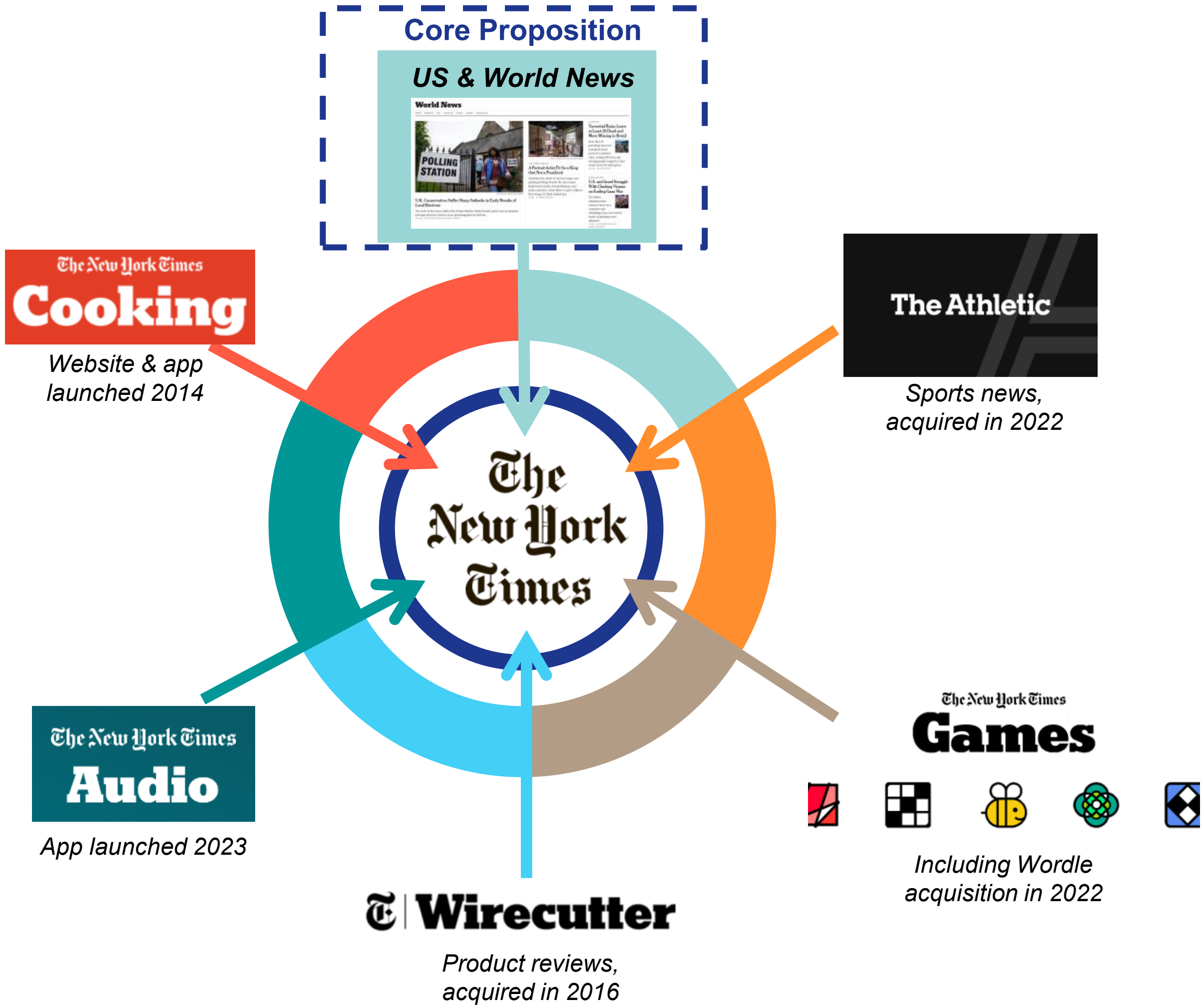
… with various platforms successfully providing superfans opportunities for higher engagement and spending

	Description	Offering	Success
weverse	• Owned by Hybe, Weverse is an app and web platform that creates a global fan community • Currently focused on K-Pop artists	• **Exclusive artist content:** e.g. music videos, teasers, live streams • **News & articles** • **Direct artist interactions**: private messaging, fan letters • **Merchandise**	• **>100m downloads** • **>10m MAUs** • **>$50m annual revenue**
EVEN	• Designed for artists to connect directly with fans • Offers artists a greater share of earnings vs traditional streaming platforms	• **Early access:** to music releases, merchandise and tour tickets • **Virtual events:** e.g. meet and greets, listening sessions	• Current waitlist of **4,000+ artists** wanting to join the platform
WARNER MUSIC GROUP (in development)	Warner music group are also currently developing a similar app to offer more content for 'superfans', who they believe are currently under-monetised in the music industry		

Source: Desk Research, OC&C analysis

Content & Proposition: The New York Times have successfully diversified their content and created a broader proposition to improve engagement

Case Study: New York Times



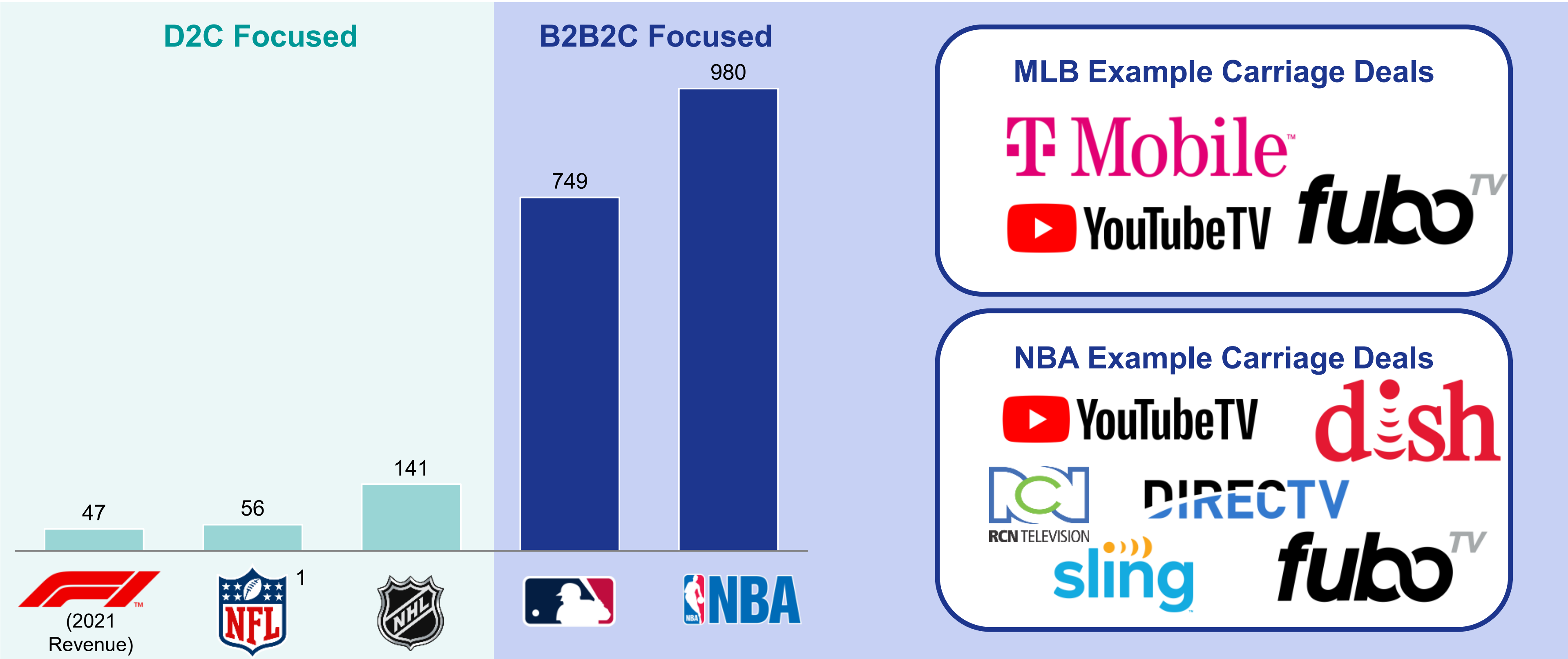
NYT's strategy of extending their offering beyond their core news offering is resulting in…

- **Higher traffic** to NYT website
- **More time** spent engaging with **NYT content** per user
- Wider range of **monetisation opportunities**
- Access to a **more diverse user base**
- **Cross-sell** opportunities

Source: OC&C analysis

Supporting Partners: The largest rightsholder ‘D2C’ platforms are those which have leveraged third party distribution to broaden their reach

2023 Revenue of Sports Subscriptions ($m)



A **B2B2C strategy using carriage deals** can allow rights holders to **leverage well-established distribution networks**, increasing the **reach of their content** and the **revenue** that they can generate

1. Includes revenue from both NFL+ and the NFL Game Pass (distributed by DAZN)

Source: Omdia, OC&C analysis

Data: Most rightsholders have not yet 'cracked the code' around fan data – but we see others using creative techniques to capture and leverage 1P data

1P Data Case Studies

	Pampers Club	Under Armour	NRC (Nike+ Run Club)
Consumer Proposition	Loyalty programme to drive D2C purchases via exclusive offers (eg fast shopping) and discounts	Map My Fitness – workout tracker and planner	Run planning, coaching and tracking (inc. leaderboards and comparison)
Data Captured	Basic parent & child demographics and profiling	Broad spectrum of health and activity data – proprietary (workout tracking) + integration with OS health apps	
Deployment & Monetisation	Increases share of wallet + drives consumers towards D2C (higher gross margin)	Personalised shopping recommendations	Personalised shopping recommendations + informs product placement deals in coaching videos

Takeaways

- ✓ **Don't capture data for data's sake** – identify what you want to do with it, and work backwards from there
- ✓ Create a **compelling value exchange** – give them a reason to offer up their data
- ✓ **Integrate with 3P data sources** where possible & relevant…
- ✓ …but **invest in the tech to build a single customer view** – the right Customer Data Platform (CDP) is key

If you'd like to discuss these topics further, we'd love to hear from you!

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