

Outlook special

Staying ahead of the game

March 2017

*‘Reaching
the sports fan
in a converging
media
landscape.’*





No sports, no glory

While sports have always been a popular way to spend our leisure time, it is now much more than just a recreational activity. Sports have become big business, driven by rapid technological developments, changing consumer demands, and the rise of international megastars.



With the benefits of widespread media coverage, the ability to reach large live audiences through various devices and access to loyal communities of fans, it is no surprise that broadcasters, publishers, advertisers and media partners are increasingly seeking opportunities in this domain. Cable operators such as Ziggo and KPN are offering sports content; publisher TMG is partnering to prepare OTT channels; and YouTube and Twitter are experimenting with the free livestreams of games.

As companies in the Netherlands (and abroad) are changing their business models and sectors are converging, unexpected parties may suddenly become competitors and unanticipated competitors may become partners. The playing field, including the players and the rules of the game, are rapidly changing.

This Special report highlights how these and other companies are focusing on sports and redefining their

business models. Business model transformations are critical as companies need to keep up with changing consumer preferences and behaviour. To understand how these preferences are changing, we asked more than 1,300 consumers in the Netherlands, across five generations, to tell us about their current and future sports (media) consumption. Based on the results, we expect further transformations going forward, as companies formulate a strategic response to these developments.



Converging media landscape

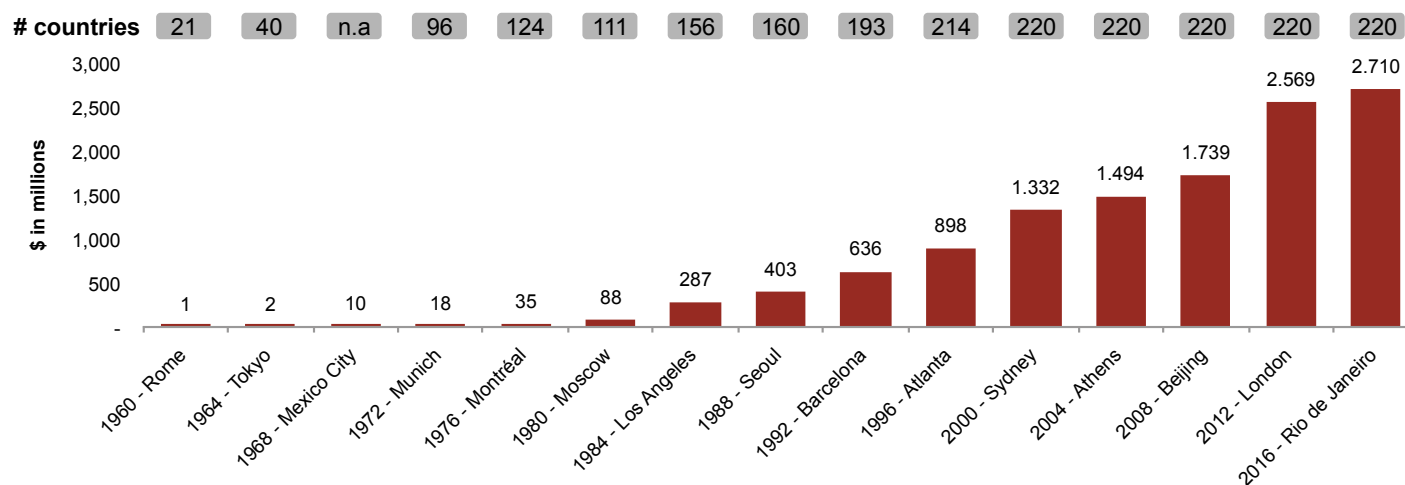
Broadcasting rights are in high demand

Because sports have the power to attract vast audiences to watch events live, the battle for exclusive broadcasting rights is intensifying. Over the past decade, E&M companies have laid out increasingly large sums of money to acquire broadcasting rights to national leagues, international tournaments and mega-events such as the Olympic Games and FIFA World Cup.

The Olympics were first televised during the Berlin Games in 1936, but the first (international) broadcasting rights weren't sold until more than twenty years later. As technological advancements (e.g. satellite broadcasts) increased the reach and number of potential viewers, the Games became more attractive to broadcasters. This is reflected in the development of television rights revenues for the Summer Olympics, which more than doubled between 2000 and 2016 (from \$1.3b to \$2.7b).¹

Over time, new forms of broadcasting rights (e.g. online livestreams) were introduced and are sometimes sold separately from traditional television rights. In 2015 Discovery Communications and Eurosport paid \$1.44 billion to acquire the exclusive broadcast and distribution rights for Europe across all platforms (free-to-air and pay TV, online and mobile devices). In order to meet IOC and local market regulations which guarantee extensive free-to-air television coverage in all territories, Discovery agreed to sub-license a portion of the rights in many markets. Dutch public broadcaster NOS, which has televised the Olympics since 1964, signed a deal with Discovery Network Benelux to acquire the 2018 and 2020 broadcasting rights for the Netherlands.

Summer Olympics broadcast revenue



¹ Source: IOC Olympic Marketing File

The most expensive television rights deal in Olympic history was recorded in 2011, when NBC paid \$4.38 billion to be able to broadcast the four Olympic Games between 2014–2020 in the United States. Four years later it was agreed that NBC could air the Olympics until the 2032 games, in a \$7.75 billion contract extension. Clearly NBC strongly believes in the power of the Olympic Games, but it will be interesting to see how it is able to keep up with shifts in media consumption habits over the next 15 years.

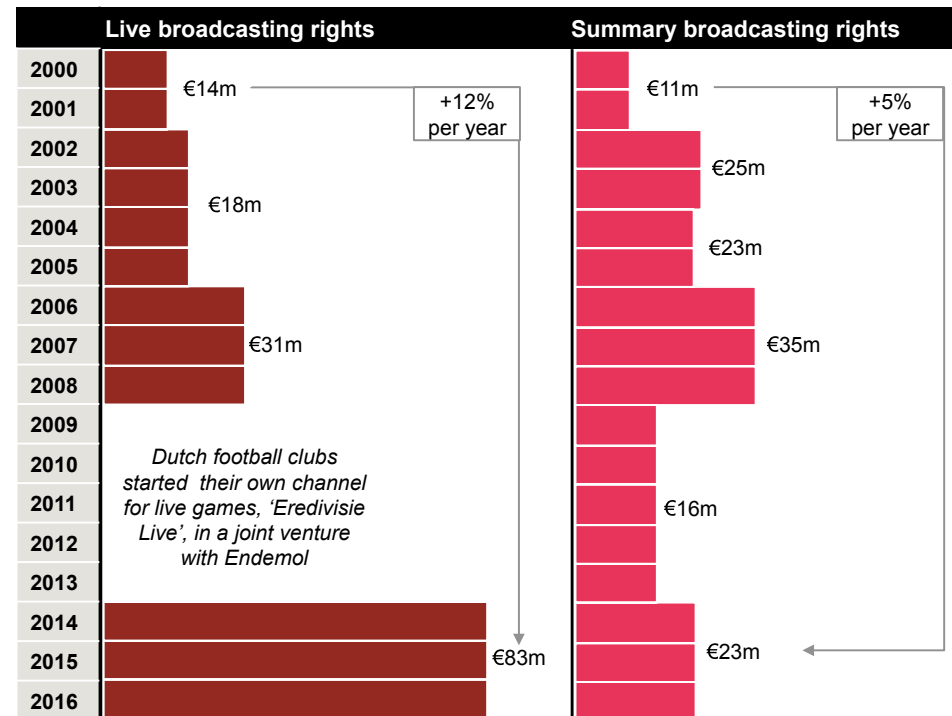
The fees for broadcasting rights to national and international leagues and tournaments are also increasing. In recent years the Dutch rights to the Eredivisie, KNVB Beker, Europa league and



Champions League have changed ownership several times, with prices progressively increasing. Whereas the rights to broadcast parts of games after the event ('summary rights') of the Dutch premier league soccer ('Eredivisie') used to cost approximately €11 million per year in 2000, the price has now gone up to approximately €23 million. During the same period, live broadcasting rights fees have increased by an average of 12% per year. The most expensive deal was signed in 2012 when Fox International purchased the live Eredivisie broadcasting rights until 2025, for a total fee of more than €1 billion (i.e. roughly €83 million for each of the twelve seasons).

Recently, competition has intensified further, as publishers, social media platforms and others have joined traditional broadcasters in the battle for media rights. YouTube, for instance, has been signing deals with sports leagues and broadcasters with the aim of becoming the preferred online sports channel. In May 2016, YouTube experimented with a free livestream of the UEFA Champions League Final, which had more than 2.2 million views. Twitter is also bringing sports onto the table. In the summer of 2016 Twitter launched its first sports livestream, broadcasting Wimbledon tennis with live tweets and commentary directly alongside the stream. In the fall of the same year, the social media giant started experimenting with the livestreaming of several NFL games. Initial reviews from fans were positive. Rumours are also linking Amazon with broadcasting rights for tennis events like the French Open, as well as other sports such as rugby, golf, football and motorsport. A video on-demand style platform with live sport would allow Amazon to offer its subscribers something they currently cannot get from competitor Netflix.

Development of Eredivisie broadcasting rights







New business models emerge: cross-media partnerships

In a world in which owning a unique asset is increasingly needed to attract audiences, many E&M companies in the Netherlands are also turning to sports to strengthen their key assets. Recent strategy updates, launches of product offerings, and announcements of strategic partnerships of listed companies, such as De Persgroep, TMG, Ziggo KPN and Sanoma, illustrate that these communities are all experimenting with their offerings.

TMG, for instance, has announced plans to launch a news and sports OTT channel in partnership with Talpa (expected Q2-2017). TMG will combine its own extensive content repository and subscribers audience with Talpa's capabilities to produce video content and, for instance, with Apple TV's technology as a distribution channel. In October 2016, cable operator Ziggo and publisher De Persgroep (DPG) announced a partnership with regard to online sports videos.



Sports media landscape in the Netherlands

	 Television	 Print	 Digital	 Broadcasting rights	
Publishers	TMG		Telesport	Telesport <i>Partnership with Talpa for OTT</i>	<ul style="list-style-type: none"> Partnership with Talpa to launch OTT channel. Exact OTT rights unknown at publication of this special
	De Persgroep		Algemeen Dagblad	AD.nl <i>Partnership with Ziggo Sport</i>	<ul style="list-style-type: none"> Partnership with Ziggo Sport to present video-content on AD.nl AD is KNVB media partner
	Sanoma/SBS	SBS 6 Veronica	Phryso	NU.nl sport	<ul style="list-style-type: none"> UEFA Champions League (2015-2018) Jupiler League (summary), Johan Crujff cup 'Nederlands elftal' matches
Broadcasters	Publieke Omroep	NPO Sport		NOS.nl Sport	<ul style="list-style-type: none"> Olympic Games 2018 and 2020 (sublicense) Eredivisie (summary until 2017), World cup qualifiers 'Nederlands elftal' Speed skating (2014-2019), Tour de France
	RTL Nederland	RTL 7		RTL Sport Update	<ul style="list-style-type: none"> UEFA Europa League (2015-2018) Premier League Darts Rugby League 4 Nations
	Discovery	Eurosport 1 Eurosport 2		Eurosport Player	<ul style="list-style-type: none"> Olympic Games (2018-2024) Ligue 1, Serie A (both until 2019) UEFA women's Champions League Athletics World and European championships Tennis Grand Slams
Cable Operators	Ziggo	Ziggo Sport Ziggo Sport Totaal		Horizon Go <i>Partnership with AD/De Persgroep</i>	<ul style="list-style-type: none"> Formula 1, NASCAR, Indycar Premier League (2016-2019) Primera División (until 2018) Basketball-NBA, golf, rugby, hockey, tennis
	KPN	FOX Sports		KPN Goal Alert FOX Sports Go	<ul style="list-style-type: none"> Eredivisie Live (until 2025), Jupiler League KNVB Beker Bundesliga, UEFA Europa League FA Cup, ATP tennis, MLB, NFL, UFC

“Approximately 20% of consumers born after 1981, spend at least one hour per day on smartphones, laptops or tablets checking for sports updates.”

Ziggo can draw on the sports rights owned by parent company Liberty Global, including: European Cup and World Cup qualifiers; Formula 1 racing; and NBA basketball, Dutch volleyball, basketball, handball and hockey. The aim of the collaboration is to bring the wealth of Ziggo Sports videos to the attention of the sports minded readers of 'AD.nl'. This provides consumers with an online environment full of high quality sports news, supplemented by relevant videos. While these are two examples of recently announced strategic

partnerships, in some cases it may also be possible to achieve a similar set-up in-house. Sanoma, for instance, can offer consumers sports coverage both on television (SBS and Veronica) and online (nu.nl).

These transformations are symptomatic of companies that are redefining their position in this rapidly changing landscape. This high pace, enabled by technology, is critical, as companies need to keep up with new forms of competition and changing consumer behaviour.



Consumer insights

To understand the impact of changing consumer behaviour on broadcasters, publishers and other E&M companies, we asked more than 1,300 consumers in the Netherlands, across five generations, to tell us about their current and future sports (media) consumption. We asked them about: their media preferences and use of digital platforms; their willingness to pay for content; and the importance of sports in selecting a (newspaper, television or internet) subscription.

Changing media consumption

Television isn't dead yet

In an increasingly diverse media landscape, television remains the number one medium for following sports across all generations. The oldest generation ('The Digitally disengaged') is particularly fond of this medium – 90% answered that they watch at least 25 minutes of sports programming on television per week. In this group television is preferred over other traditional media, such as radio and print. Unsurprisingly, the members of the youngest generation ('The Technoholics') still watch some sports on television, but use a combination of social media and online websites to keep track of their favourite sports teams and athletes. Even while watching matches in stadiums or live on TV, these consumers are often seen checking their handheld devices (smartphones, tablets) for live statistics, player biographies or commentary on social media sites.

Even though approximately one-fifth of the respondents expect to watch less sports on television over the next five years, the majority predicts television to remain relevant. However, since consumers also state that sports must be watched live, it seems significant that obtaining (live) broadcasting rights is essential. If television broadcasters lose media rights to online platforms, audiences will likely follow.
















Digital and social media are gaining market share





While the majority of the respondents still prefer to watch sports live on television, alternatives such as internet livestreams and social media are quickly gaining popularity. Digital media especially is favoured amongst the youngest two generations (consumers born after 1981). Approximately 20% spend at least 1 hour per day on smartphones, laptops or tablets checking for sports updates. The two oldest generations have not adopted the digital alternatives as quickly as younger consumers. In fact, 73% of these consumers indicate that technological developments have not influenced the way they experience sports. Having been

introduced to digital media platforms later in life, it is not first nature to them. Social media and mobile devices are rarely used for this purpose, but these consumers do check websites on laptops and tablets. 52% of the Digitally disengaged and 71% of Baby boomers check sports related news using a laptop or tablet at least once a week.

Over the next five years, the majority of growth in digital media is expected to come from younger consumers. These consumers in particular expect to use social media and online videos related to sports more frequently. Digital giants, such as YouTube and Twitter, are trying to incorporate this trend by increasing their sports offering.

Snapshots of the 5 generations

	Technoholics	Digital natives	Digital immigrants	Baby boomers	Digitally disengaged	
General	Birth year	After 1995	1981-1995	1965-1980	1945-1964	Before 1945
	Age	Below 22	22-36	37-52	53-72	Above 72
	%population	24%	19%	22%	26%	10%
Preferences	Sports	 	 	 	 	 
	Media platform					

Sporting events  World championships  Olympic games  European championships  Dutch leagues



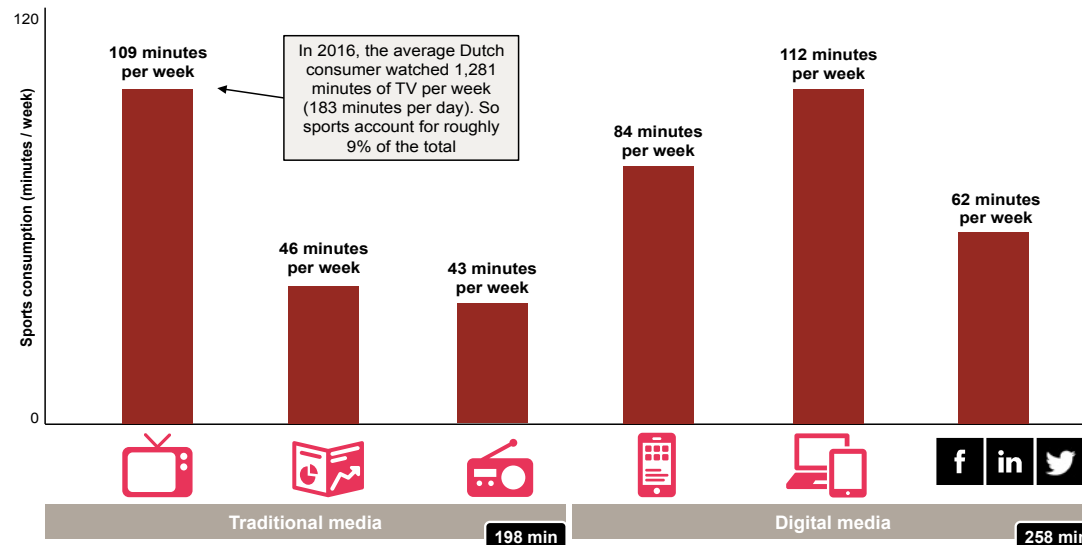
Older consumers are not expected to jump on the social media bandwagon, but do expect to visit sports websites (on laptops and tablets) more often.

Video continues to pull away from print

Consumers are increasingly using digital platforms to consume sports content, at the expense of traditional media. However, the importance of print for reaching a subset of the population should not be underestimated. The older two generations predominantly still use newspapers and magazines to read up on sports news. Most younger fans, on the other hand, are no longer willing to wait until the day after a match to read about the outcome in the newspaper. Younger consumers increasingly seek real-time information and are already more focused on reading updates on their mobile phones, laptops or tablets.

Print is expected to experience a faster decline than any other type of media in the next five years and will have to reinvent itself to remain relevant. Traditional sports writing obviously can't compete with digital media in terms of providing information real time, but it can differentiate itself with high quality content and analyses. Instead of looking at digital media as a competitor, it should be viewed as a complementary factor: a website or app provides the information consumers want to know right away, while print can provide an in-depth analysis and review. The announced partnerships between Ziggo and AD and between TMG and Talpa, which allow short videos to complement written content (online) are good examples of initiatives which build on this idea.

Average sports media consumption



Purchasing decisions

Willingness to pay for sports, but not at any cost

The majority (62%) of Dutch consumers has never paid to watch sports on television or online. This is because either consumers are satisfied with the quality of the sports content readily available on television or they find premium sport subscriptions too expensive. Of the consumers that have paid to watch sports, the majority has a television subscription with additional pay channels. Pay-per-view (pay to watch a single match) both online and on television is still in its infancy in the Netherlands. One consumer said that this was due to the current price differential “If I add sports to

my television subscription it will cost me €15 per month, watching a single game on-demand costs €8. In that case I would rather have the subscription and be able to watch more.”

More than 60% of respondents who do not currently pay for sports content, believe they will not do so in five years’ time either. Of the respondents who do expect to pay for sports content in the future, approximately half expect to switch to a television subscription that has additional pay sports channels. Pay-per-view is expected to increase slightly, but will still be a small part of overall consumption.



Sports content to attract subscriptions

Approximately one-fifth of respondents commented that sports content is an important factor when determining their newspaper, television or internet subscription. **For 18% premium content is even considered a reason to switch their subscription to another provider.** This is especially true for Digital immigrants and Digital natives, who typically have “triple-play” packages combining Internet, (digital) television and telephone services.

Cable operators such as KPN and Ziggo, which can offer customers premium sports content, will likely benefit from this trend. In fact, in its preliminary 2016 results VodafoneZiggo announced that it has successfully increased its number of subscriptions and reduced its year-on-year customer churn and, although exact figures are not available, Ziggo Sport undoubtedly benefited from the ‘Max Verstappen effect’ in Formula 1 racing.

Generational differences

While the above observations hold for Dutch consumers as a whole, it seems that ‘one-size-fits-all’ does not apply to sports. There are some intriguing differences in sports consumption and preferences between consumers of different generations.

Male/female comparison

In general, men in the Netherlands are more interested in sports leagues which are played throughout the year, while women seem to favour large sporting events which only occur once a year or less. Perhaps this is driven by the more social nature and ‘uniqueness’ of major events. During World Championships for instance, friends and families often gather for viewing parties, whereas this is not typically done for regular league games. And during the Olympics sports other than football (e.g. gymnastics, figure skating, hockey, swimming), which may appeal more to women, receive more media attention.

We also see a difference in terms of willingness to pay for sports content: **38% of male consumers has paid to watch sports in the past year, compared to only 26% of female consumers.** A likely explanation is found in the different viewing preferences of men and women. Men typically follow national leagues, but are increasingly interested in international leagues. They are no longer satisfied just knowing how Ajax, PSV and Feyenoord are doing in the ‘Eredivisie’, but also want to read about how Barcelona and Real Madrid are performing in the ‘Primera División’ for instance. This is possible of course, but live access to these games is typically only possible through a paid subscription or pay-per-view option.

Technoholics

The *Technoholics* include teenagers and young adults born after 1995. In terms of sports preferences, this group is less interested in Dutch sports leagues than any other generation. Having grown up in an increasingly international society, these consumers look across borders and are more interested in foreign leagues and major events, like World and European Championships.

Generally speaking, *Technoholics* are more social, practical, visually oriented and technology-proficient than the generations before them. Nearly half of this group (49%) state that they never check print media for sports information, instead preferring television, mobile websites and social media.

An important criteria for these consumers, who have limited disposable income and who have grown up with free content on the internet, is that information is available for free. 67% has never paid for sports content and the vast majority does not expect to do so in the future. Further research in coming years is required to test under which circumstances the *Technoholics* may be willing to pay for content. We anticipate a decline in the use of traditional media over the next five years, with print media shrinking even further as readers can access content online (for free).





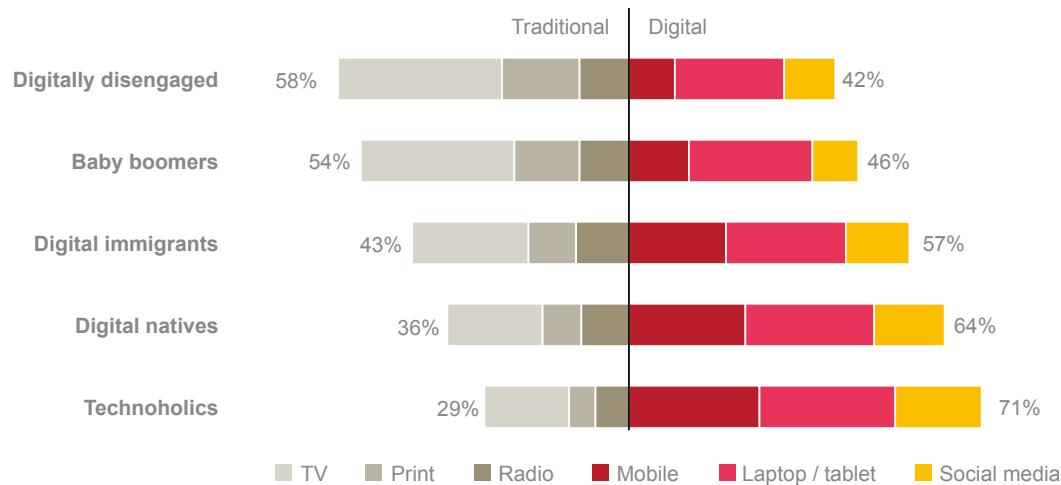
Digital natives

Digital natives were born between 1981 and 1995 and grew up in a culture of digital technology. Their extraordinary ease with technology means that it permeates every aspect of their lives. These consumers still watch some television, but are least satisfied with the quality of available sports programming. They are increasingly searching for alternatives to paid sports channels (e.g. online). In fact, 43% of the *Digital natives* indicated that they have paid for sports content during the past year. Their dissatisfaction with free content, coupled with their rising disposable income, makes *Digital natives* more likely to pay for sports content than consumers of any other generations going forward as well.

In terms of future media consumption, the pattern for *Digital natives* is quite similar to that of *Technoholics*. Print media is expected to show a decline at the expense of mobile, and in particular mobile websites.



Sports consumption traditional versus digital media



Digital immigrants

Digital immigrants are the last generation to have grown up before the widespread adoption of digital technology (born between 1965 and 1980). Given their background in both traditional and digital media, these consumers are somewhat caught in the middle. They are not as focused on traditional media as the two older generations, but at the same time are not quite as adept at using digital media as the two younger generations. Social media is used to some extent (13% of total consumption), but laptops and tablets (24%) are preferred among this generation. For these consumers, video content is a 'nice to have' rather than a 'must have', as long as websites offer high quality written reviews and commentary. That being said, we do anticipate this to become more important over the next five years as the use of digital media continues to increase.

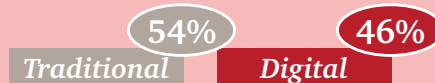




Baby boomers

Baby boomers were born between 1945 and 1964 and have experienced the birth of computing and information technology first hand. While these consumers do typically own a laptop / PC, they still prefer traditional media for following sports. In fact, 72% of the *Baby boomers* indicate that technological developments have not (or only to a limited extent) influenced the way they experience sports. Television is by far the most popular medium (used by 95% at least once a week), but this generation can still be reached by radio, newspapers and magazines as well.

More so than other generations, *Baby boomers* expect to continue using traditional media to access information about sports. Less than 10% expects their use of television, radio and print media for this purpose to decline over the next 5 years.



Digitally disengaged

Born before 1945, the *Digitally disengaged* generally came into contact with digital technology after turning 50. As a result, the adoption of digital technology by these consumers has been – and often still is – challenging. Exemplary of this statement is the fact that 63% indicate they never use digital media (mobile, laptop, tablet or similar) to access sports content. Consumers in this group typically have a “triple-play” subscription, combined with a separate newspaper subscription. It appears as though these consumers do not choose a subscription based on sports offering. Less than 15% indicate that sports is an important factor in this decision. Just like with Baby boomers, we expect (linear) television and radio to remain popular with the *Digitally disengaged*.



Sports consumption across generations

	Technoholics	Digital natives	Digital immigrants	Baby boomers	Digitally disengaged
I am satisfied with the quality of sports on TV	65% Yes	55% Yes	57% Yes	66% Yes	73% Yes
I have paid for sports content (in the last year)	33% Yes	43% Yes	35% Yes	27% Yes	18% Yes
Sports should be watched live	44% Yes	50% Yes	36% Yes	40% Yes	39% Yes
Sports offering is reason to switch subscription	18% Yes	25% Yes	22% Yes	13% Yes	9% Yes



Staying ahead of the game

Although we see considerable variance in digital consumption share across generations, the continuing trend towards digital media types is visible across all generations. Media companies should expect demand in digital alternatives to grow as consumers from every generation turn away from their traditional offerings (albeit at different speeds).

These developments pose significant challenges to various parties, including publishers, broadcasters, cable operators and advertisers.

- **Publishers** are facing difficult times as consumers are turning away from print and are increasingly requesting video-content. They need to ask themselves several critical questions, the first of which is: Is my business model future proof? If not, what options are available? Is it possible to leverage existing resourcing and skills and put them to a different use? Do I want or need to enter a partnership with a broadcaster, cable operator or other industry player? If so, what content should be provided and what will the revenue model look like? Licenses for sports video content are expensive, so how can I monetise new initiatives when digital giants like YouTube and Twitter are offering online (sports) content for free?
- For **broadcasters** it is important to assess which programming will likely suffer from changing consumer behaviour (decline in linear television). They have now chosen sports as a strategy to secure large audiences, but it comes at an increasingly high price. Broadcasters should therefore ask themselves whether it is sustainable to keep up with rising prices and how far they are willing to go. Are popular sports like soccer worth the investment or is a broad portfolio of sports also attractive to consumers? Another consideration is how to deal with the competition from publishers and cable operators. Does it make sense to start an your own OTT or other digital media platform for instance?
- **Cable operators** should determine how important sports are to their business models and how much they are willing to pay for premium content. For ca. 20% of the Dutch population sports is a reason to switch subscription, but how do you ensure your offering remains attractive and differentiated? And as an entire generation that is accustomed to free content reaches adulthood, how do you convince them to pay for additional content (now and in the future)? Is it possible to make pay-per-view more attractive through price reductions, special combi-packages, etc.? Or is there an opportunity to increase prices by offering unique content?
- **Advertisers** should consider which channels allow them to best reach their target audience now and in the future. Is there a future in advertising on linear TV around sports events or does it make sense to focus efforts on other platforms? In that sense, it is also crucial to consider whether the organisation has the right skills to be successful on these platforms. As broadcasting rights skyrocket and advertising space becomes more expensive as well, advertisers may question whether targeting sports still makes sense. The million dollar question then remains: are there alternatives to sports that provide the same benefits, but at a lower cost?

In the Netherlands, various players (publishers, cable operators, etc.) are already rolling out new initiatives in response to industry developments. There is no single recipe for success as each player has different strengths and assets they can leverage, but it will be interesting to see who is able to stay ahead of the game and who is left behind.



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