TWO CIRCLES
DATA DRIVEN SPORTS

SPORTS MEDIA RIGHTS' DATA OPPORTUNITY

How data and the pursuit of customer lifetime value will transform sports media rights over the next decade and drive new value for rightsholders

SUMMARY AND NAVIGATION

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INTRODUCTION

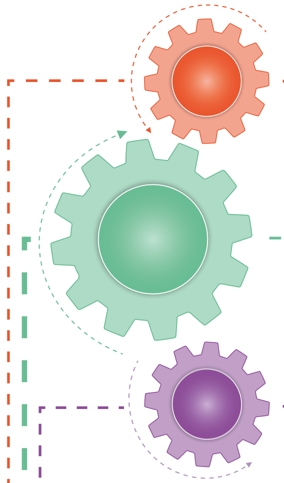
The uncertainty of the media rights landscape in sports is arguably the sector's most important challenge in the decade ahead, but also its greatest opportunity. This report first explains why, and then provides strategic recommendations for sports rightsholders to unlock growth.

THE ECONOMIC PLAYING FIELD

The changing economic conditions within the media and entertainment industry mean that generating economic profit (the total profit after the cost of capital or opportunity cost is subtracted) becomes more challenging. However, under these conditions, the unique ability of sports to build, sustain and package customer lifetime value (CLV) becomes increasingly valuable.

THE MEDIA RIGHTS FLYWHEEL

Sustainable, accelerated growth in the value of sports media rights occurs via a flywheel consisting of three connected components: **Fan Value**, **Market Value** and **Economic Value**.



Market Value

The value of the media rights as interpreted by any given buyer in any given market/territory

Fan Value

The underlying value of rights driven by the quality of the sport product, measured increasingly by Customer (fan) Lifetime Value (CLV)

Economic Value

The benefit derived from the media rights by the licensee, post-transaction, during the cycle

ACCELERATING THE FLYWHEEL TO MAXIMISE GROWTH

In the past, the relative sizes of the three wheels (representing their relative influence on turning this flywheel and accelerating value growth) were very different. **Market Value** was previously the largest cog, with market competition, dynamics and concentration in any given territory and/or region having a proportionately greater influence than either **Fan Value** or **Economic Value**. However, **Fan Value** - and the CLV it generates - is now the key determinant of growth. The opportunity for sports rightsholders to harness this potential over the next decade is very significant.

GROWING MARKET VALUE

Package Rights Strategically
Package to grow Fan Value as well as maximise financial return

Reduce Buyer Advantage
Leverage Fan Value to close the knowledge gap

Manage the Market Directly
Use agencies for enablement not outsourcing

Know the Fair Value of Rights
Employ an always-on approach to rights valuations in key territories

Understand the Buyer's Strategy
Know the opportunities and challenges that your rights address

GROWING FAN VALUE

Build The Fan Data Advantage
Premium first-party data and insight become pivotal

Develop and Extend IP with Precision
Increase innovation, but be laser-guided by CLV

Create an Omnichannel Mindset
Unify culture and strategy to focus on CLV across the organisation

Understand the Social Contract
Listen to fans first, and then speak out to gain trust

Organisational Integration
Unified strategy is supported by integrated organisational structures

GROWING ECONOMIC VALUE

Obligate Licensee Feedback
Partner with licensees to measure rights performance

Build Accretive Partnerships
Build and measure CLV together

Maintain Control of the Product
Brand consistency supports CLV and Fan Value

Leverage VIK Strategically
Identify opportunities to grow Fan Value through increasingly diverse licensee capabilities

Exploit Clawbacks Smartly
Align post-transaction negotiations to grow Fan Value

INTRODUCTION

In 2024, the global value of sports media rights will surpass USD $60 billion[1]. However, uncertainty in the decade ahead is arguably the sector's most debated, and determinative topic.

The global value of sports media rights grew at a compound annual growth rate (CAGR) of 1% between 2018-2023[1]. During the same time period, global media and entertainment revenue grew at 5% CAGR[2], global gaming revenue grew at 15% CAGR[3] and global digital advertising revenue grew at 16% CAGR[4]. Changing economic conditions in the industry during the decade ahead will present sports' biggest challenge but also its greatest opportunity.

A media rights transaction can solely determine the short, medium, and long-term growth trajectory of a rightsholder, and the extent to which it can support key stakeholders such as fans, clubs, constituent federations, athletes, grass roots organisations and, increasingly, private equity (PE). With the latter's now frequent involvement in rightsholders' capital structuring and corporate governance, forecasted media rights revenues (typically using optimistic scenarios at valuation point) are a critical bridge to achieving performance targets across the investment horizon.

As cost of capital increases, it is even more important that investment theses in professional sports (and discount factors used in any valuation analysis) are compiled from a clear understanding of the risk and opportunity ahead for, traditionally, the sector's largest revenue source.

However, with continual changes in consumption behaviour and enabling technology, rightsholders are subject to unprecedented complexity when forging their media rights strategies and, importantly, bringing their stakeholders with them on this journey. The destination, however, can be transformative. Below we distil this complexity and provide a list of strategy guardrails to drive media rights value growth over the next decade.

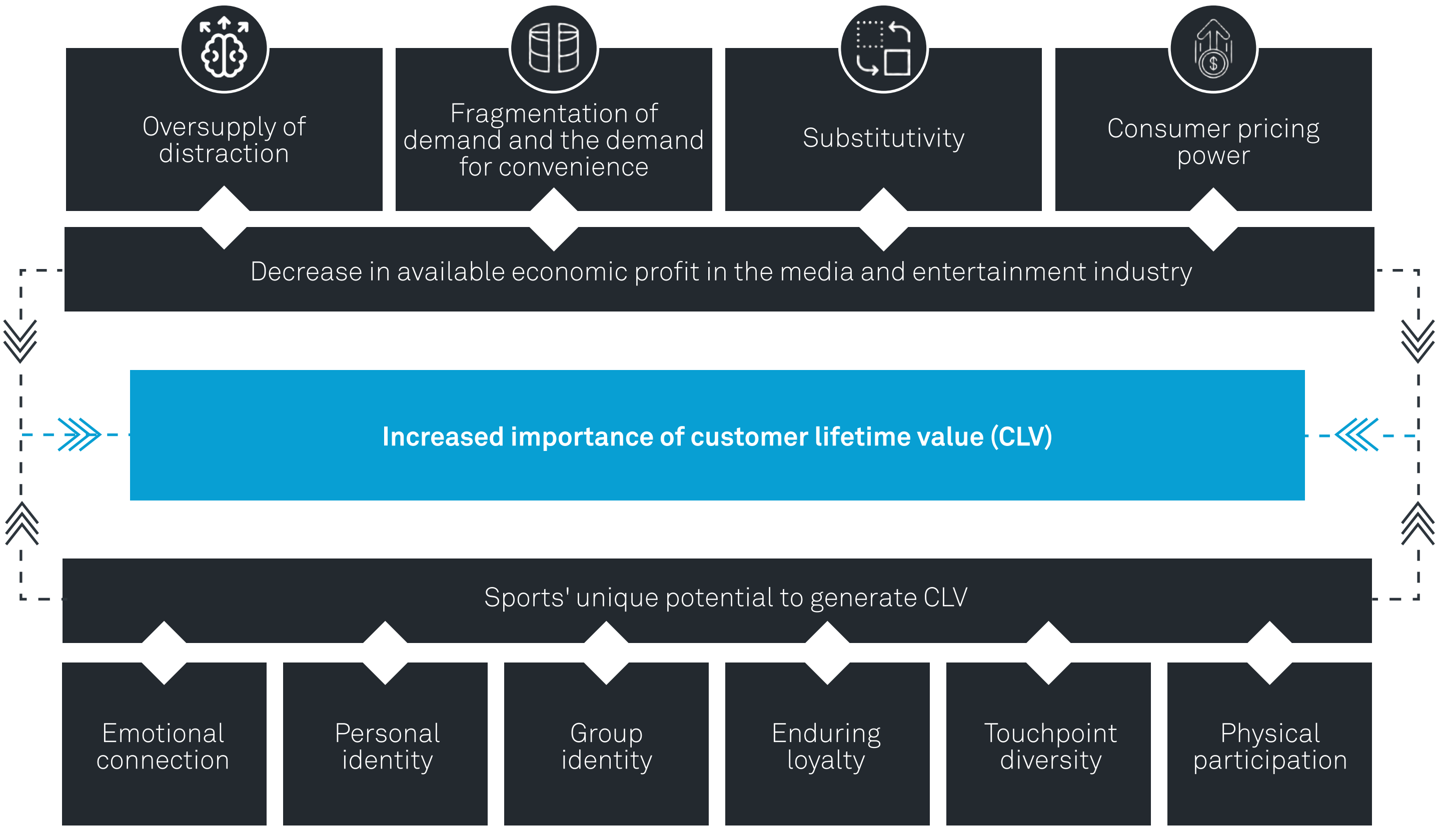
(Photo by TIMOTHY A. CLARY/AFP via Getty Images)

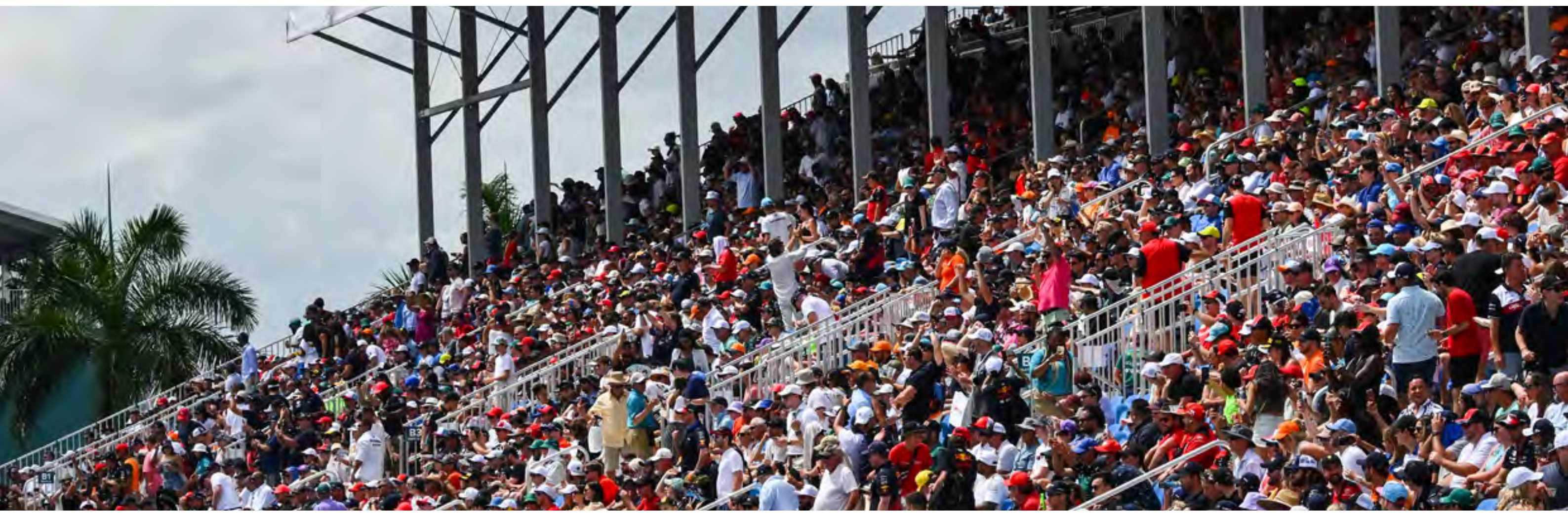
[1]*Sports Business*, [2]*PWC*, [3]*GroupM*, [4]*Statista*

BUT FIRST, THE BASICS. WHAT IS HAPPENING ON THE ECONOMIC PLAYING FIELD?

Ask any pilot and they will tell you that a headwind is favorable at takeoff because an airfoil moving into a headwind generates lift. The changing economics of the media and entertainment industry have created headwinds that sports are uniquely positioned to harness. By grounding their strategies in these economic trends and what they mean for potential licensees, rightsholders can accelerate growth in the value of their media rights. The trends, now well established and commonly reported, can be consolidated into four interdependent drivers (see Figure 1). Their combined effect is a reduction in economic profit available to media and entertainment companies (i.e. what's left over after subtracting the cost of capital (or opportunity cost) from net operating profit). Under these conditions, customer retention, and the customer lifetime value (CLV) it helps generate, becomes pivotal. Media and entertainment companies are therefore increasing their focus on the accurate measurement of CLV and the content and marketing strategies to build it.

Figure 1 | The Increased Importance of Customer Lifetime Value (CLV)




(Photo by ANGELA WEISS/AFP via Getty Images)

1. Oversupply of Distraction

The media and entertainment industry is subject to a constant and rapid inflow of added content, platforms and technologies, optimised to audience preference and targeted for distraction. Total global consumption of media per day has almost tripled in the last decade[5] and with the ongoing maturation of AI generated content this inflow will continue to increase exponentially.

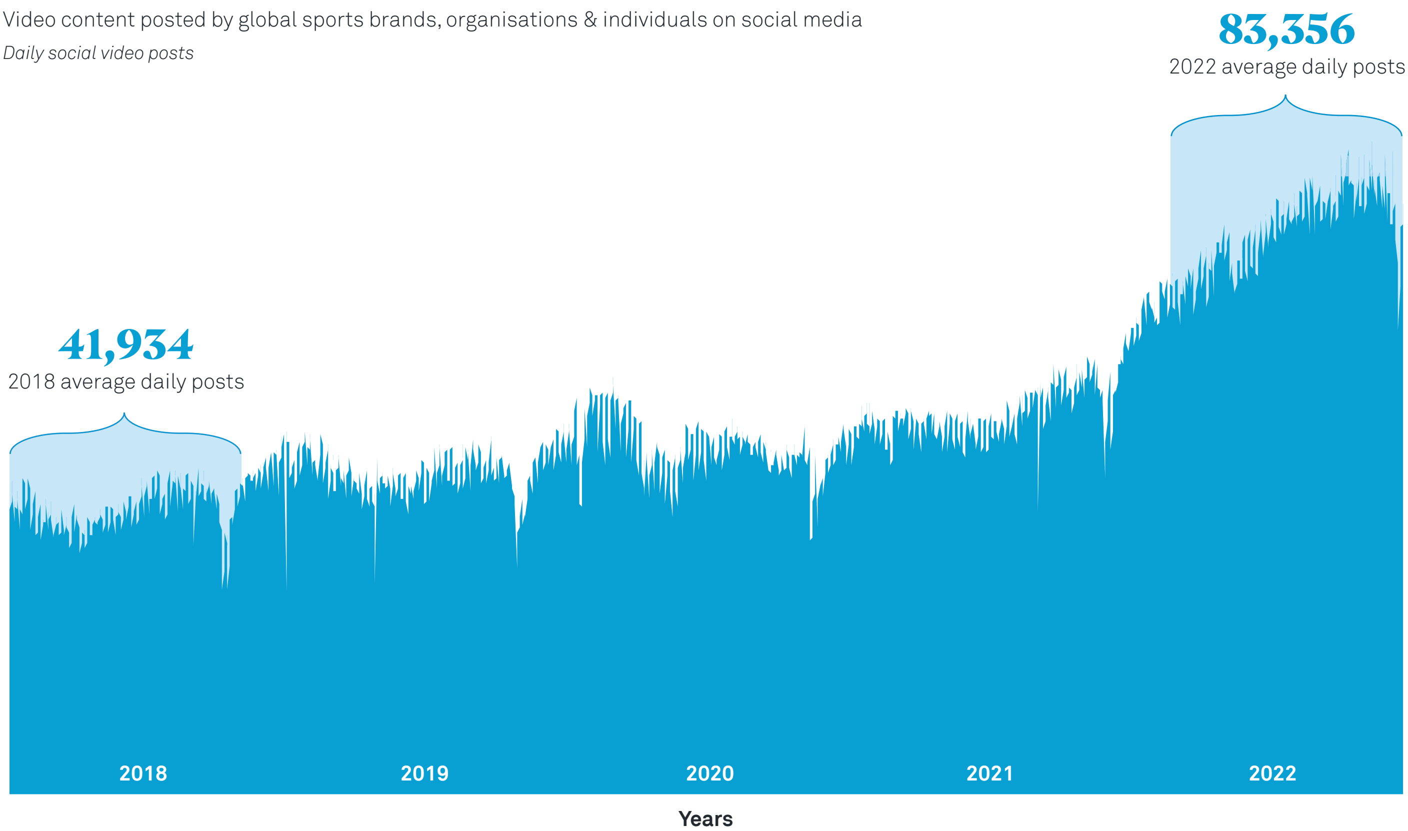
Potential licensees of sports media rights are therefore searching for highly differentiated and highly defensible content to cut through this oversupply. Sport's ability to offer this differentiated product is proven, but it also has to be careful not to become part of the problem. The average number of daily video posts on social media globally by sports brands, organisations and professional athletes has more than doubled since 2018 (see Figure 2). If licensees of sports media rights (or consumers themselves) cannot satisfy their demand for differentiated, meaningful content through sports, their investment in time and money will go elsewhere during the decade ahead.

(Photo by KARIM JAAFAR/AFP via Getty Images)

Figure 2 | Growth in Sports Social Posts

Video content posted by global sports brands, organisations & individuals on social media

Daily social video posts



Platforms included within analysis are: TikTok, Instagram, Facebook

Social posts captured above only includes video content publishing

Source: Data sourced from Tubular, Two Circles Analysis, 2023

[5] *Data gathered from GWI's Audience Insights Platform, analysis performed by Two Circles*

2. Fragmentation of Demand and the Demand for Convenience

The steady decline in linear broadcast TV as the most popular form of media consumption globally continues; from 168 billion minutes consumed per day, 35% of total media consumption, in 2012 to 252 billion minutes consumed per day – just 21% of total consumption, in 2022. Conversely, social media consumption across a growing number of platforms has tripled during this period, to 340 billion minutes consumed per day in 2022, 27% of total consumption (see Figure 3).

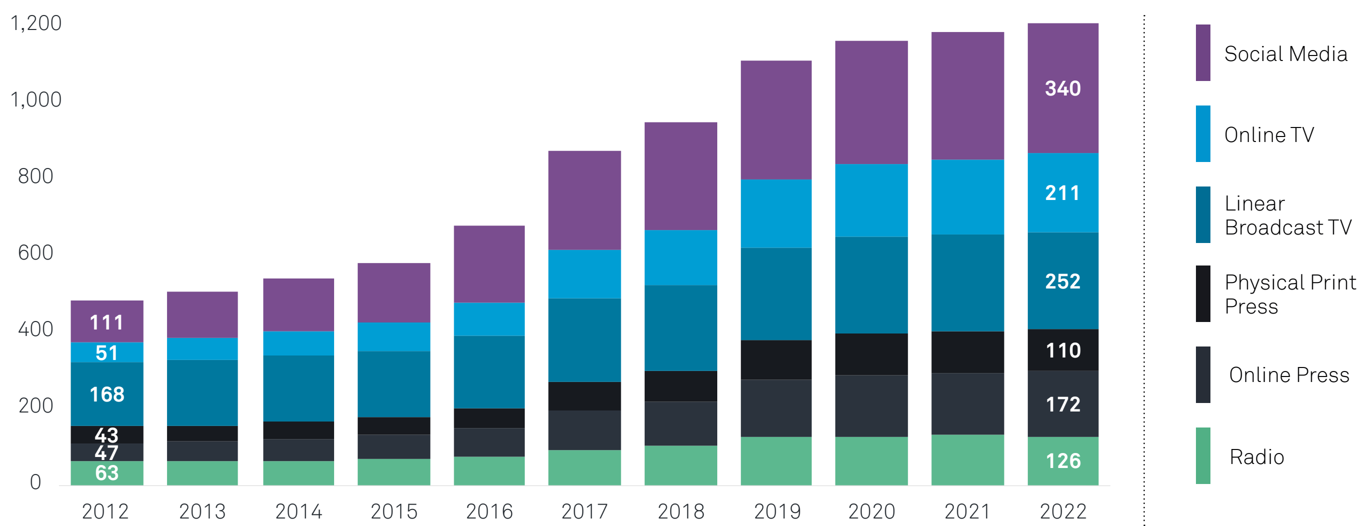
Underpinning this fragmentation of demand is the enabling power of technological development and a surging desire for convenience. For the US and UK markets combined, 85% of consumers are coveting a new 'Everything App'[6] where their desire for sports, music/podcasts, e-commerce, lifestyle, entertainment and gaming is serviced via a single access point as subscription fatigue continues to rise. Consumers' demand for convenience eventually wins out in these economic conditions. The often misquoted "if you build it, they will come" analogy from the 1989 film, Field of Dreams, is therefore increasingly misaligned to the relationship between sports content and consumers. Consumers want sports to find them, as opposed to the other way around. Platforms such as Otro, launched in 2018 with the backing of football's biggest icons, ultimately failed to persuade consumers to deviate from their habitual, convenient routes to getting their football content fix - let alone pay $3.99 a month to do so. As convenience is dependent upon intimate personalisation across the user journey, "If you build it right for the time, place and individual, then they will stay" is more appropriate for an economic playing field where the consumer is now king and queen.

(TOLGA AKMEN/AFP via Getty Images)

Figure 3 | The Declining Importance of Linear Broadcast TV

Media consumption by channel, all 16-64 internet users globally

Minutes, billions



Source: Data sourced from GWI Audience Insights Platform, Two Circles analysis

Survey question asked: On an average day, how long do you spend on [insert media channel]?

[6] *Two Circles Analysis*

3. Consumer Pricing Power

Consumers of media and entertainment increasingly demand more for less. Growing price elasticity of demand (the change in consumption of a product in relation to a change in its price) is a longstanding trend in the industry but one that is now having an increasingly consequential effect on the strategies of companies within it. There is arguably no more significant example for sports than ESPN's plan to deliver its primary content offering direct-to-consumer in response to the continuing erosion of the cable bundle by this consumer pricing power. Although timelines are not yet specified, the company is reported to be already discussing the matter with both cable providers and rightsholders[7].

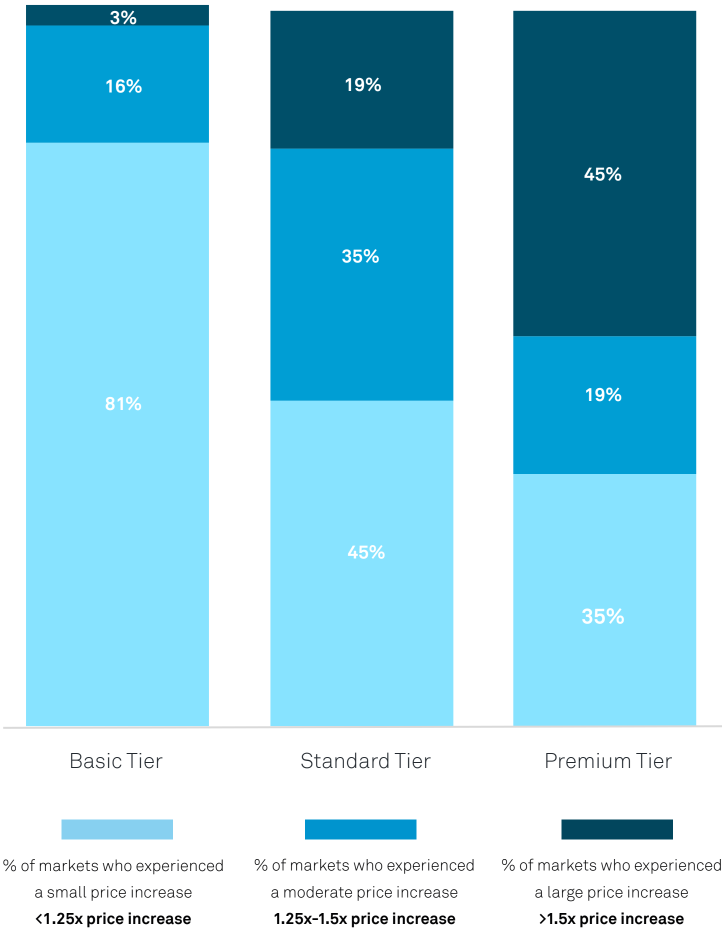
However, the same challenge awaits once the likes of ESPN transition to a direct-to-consumer service. Subscriber churn is rising, with average monthly churn for SVOD services in the US growing from under 3% per month in June 2019 to 6% per month by September 2022[8]. Subscription price increases have been cautiously deployed by Netflix globally for basic tier packages in comparison with standard and premium tier packages since 2016 (see Figure 4), indicating higher price elasticity for less avid users (basic tier subscribers receive lower resolution and lower audio quality delivery). Similarly, the new ad-supported tier launched by Netflix in November 2022 is symptomatic of a now industry-wide trend, with 76% of SVOD platforms recently surveyed planning to introduce ads by 2025[9] in response to this growing sensitivity of consumers to price. In the case of Netflix, early results are promising, in the last quarter (Q1 2023) the $6.99 "Basic + Ads" plan had a higher average revenue per user (ARPU) than its $15.49 "Standard" plan in North America[10]. The platform is also responding by advancing the way it measures CLV to inform future strategies. This includes the use of new predictive, stochastic, measurement techniques (Markov Chains) to gauge the future value of both subscribed and churned users who may (or may not) resubscribe[11].

This fight to regain pricing power across the media and entertainment industry has focused on offering more utility to consumers through: CLV-generating content (e.g. Marvel and Disney); diverse, bundled offerings across numerous products, experiences and services; highly targeted proposition/UX innovation; and increasingly complex content windowing and pricing models. Therefore, for sports, demand in the media rights market continues to move towards premium rights that are less substitutable in the minds of consumers. High volume rights (i.e. a high number of hours packaged) have also become more attractive to licensees as the ad supported business models referenced above become increasingly popular. However, even premium rights are not immune to the increasing pricing power of fans. For example, NFL Game Pass International (GPI) has seen increases in PED across a high number of markets, user segments and packages, requiring dynamic pricing and product diversification in each market to address it (see Figure 5).

Figure 4 | Netflix's Localised Pricing Strategy

Distribution of price changes among 31 markets, 2016-22

% of Netflix markets who experienced a small, moderate or large price increase

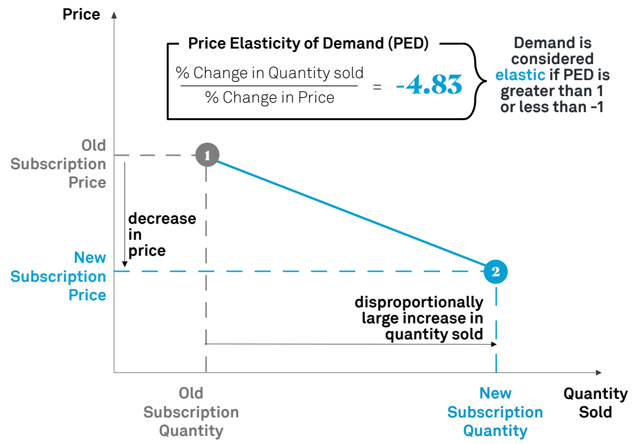


Source: S&P Global, Netflix Global Pricing Strategy, 2022

Figure 5 | Elastic Demand for GPI Products Aimed At Casual Fans

GPI Super Bowl Pass PED analysis

Change in sales / change in price



Figures 5 only pertains to new subscribers. Point Elasticity (not Arc).
Source: Two Circles Analysis, NFL

[7]Wall Street Journal, [8]Antenna Analysis – US only, Excludes free tiers, MVPD and Telco distribution, and select Bundles , [9]NPAW 2023, [10]Netflix, [11]Netflix published research

4. Substitutivity

(Photo by GEOFF CADDICK/AFP via Getty Images)

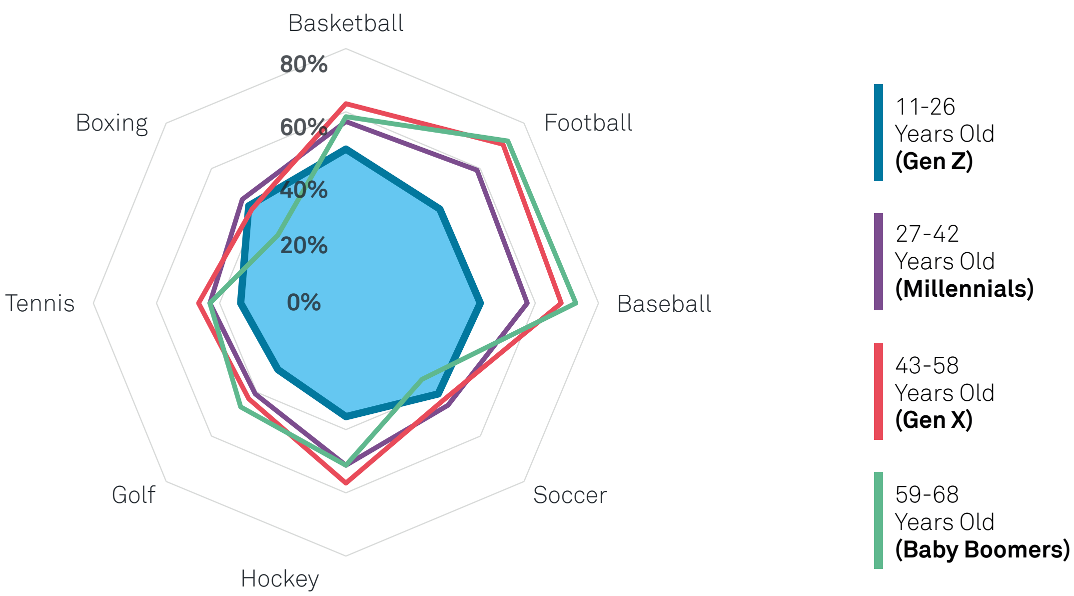
Interdependent with the other three drivers, substitutivity across the media and entertainment industry is also rising. Consumers are increasingly leveraging their pricing power to jump between content platforms, and back again. In the US, data is showing a growing tendency for SVOD platform subscribers to not only churn, but also then resubscribe to the same platform within a 6-month period – this is particularly evident in the 11-26 and 27-42 age segments[12].

However, the brand loyalty that sports can generate is universally envied. NFL GPI's 12-month subscriber retention (see Figure 12) is comparable to that of Amazon Prime's entire service offering (not Prime video alone). Given that Amazon (and Amazon Prime) frequently sits at the top of brand loyalty indexes[13] in major markets such as the US and UK, GPI demonstrates the unique potential of sports to build CLV through cultivating and harnessing this loyalty.

Figure 6.1 | Shallower Interest in Live Sports Among Young Fans

Interest in watching live sports content, by age cohort

% of US sports fans



[12]*Deloitte, Two Circles Analysis*

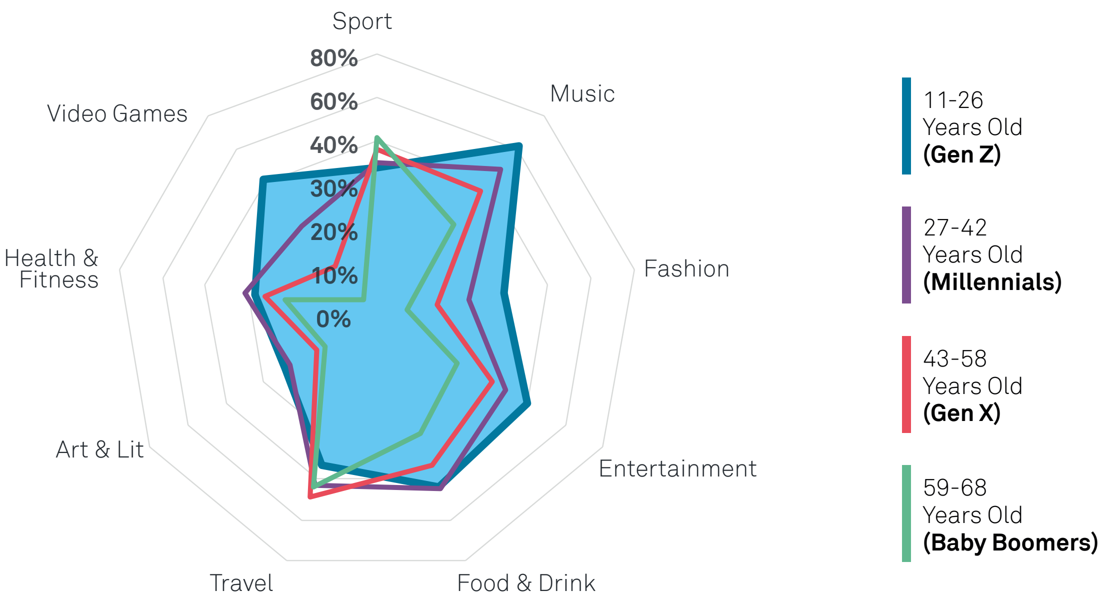
[13]*Brand Keys Customer Loyalty Leaders List 2020-2022*

But, again, sports need to be careful. Over a quarter of 11-26 year-olds in the US have never viewed live sports on TV and over half have never attended a live sports event. In comparison with 27-42 year-olds, 11-26 year-olds are twice as likely to declare that they "never" watch live sports. Sport is the 11-26 year-old segment's sixth most popular leisure activity, lagging behind Music, Food & Drink, Video Games, Entertainment Shows, and Travel; the lowest ranked in comparison with all other age cohorts (see Figure 6.2). If we analyse sports participation in younger segments as a predictor variable for future fandom, over time we see an evident decline in the US market (see Figure 7). This is particularly acute in lower income households, with children aged between 6-17 in households of annual income less than $25k experiencing a 10% drop in participation in the last 10 years. Like all content genres at an economic level, sports are becoming increasingly substitutable. However, unlike the majority of these other genres, sports have the latent (or already evident) brand loyalty to counter it.

Figure 6.2 | Sport Less Popular Than Other Leisure Activities

Interest in leisure activity in the US, by age cohort

% of US population

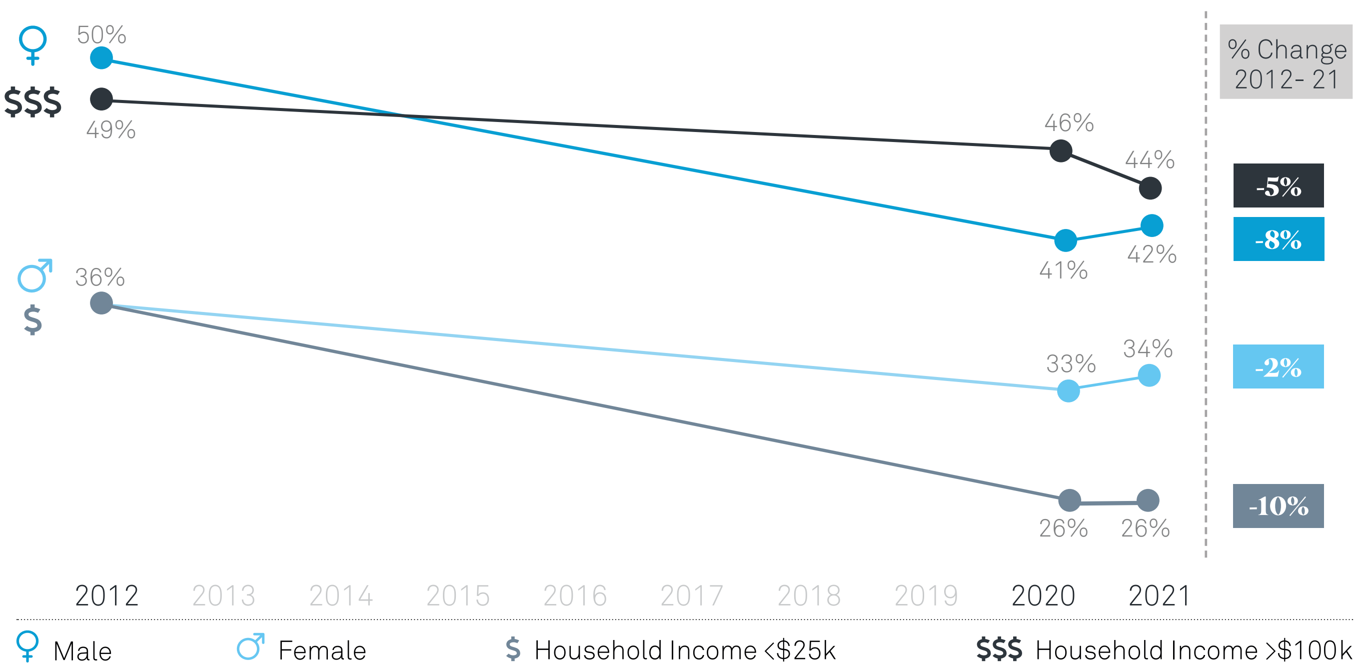


Source: Two Circles Analysis, 2023

Figure 7 | Sports Participation in Decline Among Children

Female and lower-income children have very low participation rates

% of US children aged 6-17 who regularly play sport



Source: Sports & Fitness Industry Association (SFIA), 2022

THE MEDIA RIGHTS FLYWHEEL

Returning to our aeronautical analogy, how can sports harness these economic headwinds to create sustained, long-term growth in the value of media rights?

Growth in the value of sports media rights occurs via a flywheel consisting of three connected components: **Fan Value**, **Market Value** and **Economic Value**. These are represented below by connected cogs of different sizes, the size depicting the relative influence on the speed of the overall flywheel of each value type.

Figure 8 | The Media Rights Flywheel

Market Value is defined as the value of the media rights as interpreted by any given buyer in any given market/territory.

Key Market Value question asked by a potential licensee of media rights:
What do I need to pay to license rights and under what contractual terms?

Fan Value is the underlying value of rights driven by the quality of the sport product and its brand equity, measured increasingly by customer (fan) lifetime value (CLV).

Key Fan Value question asked by a potential licensee of media rights:
How strong is the product at capturing and growing customer lifetime value in my market(s)?

Economic Value is defined as the benefit derived from the media rights by the licensee, post-transaction, during the cycle. This can be commercial benefit (e.g. CLV, average revenue per user (ARPU)) or strategic benefit (e.g. support of a new platform launch).

Key Economic Value question asked by a potential licensee of media rights:
How will I extract and leverage **Fan Value** to beat **Market Value** and therefore gain a return on my investment?

Turning this flywheel requires strategic alignment and data integration between each of the three value types. Although growing each of the value types has always been, and continues to be, essential in achieving cycle-on-cycle media rights value growth for rightsholders, in the past the relative sizes of the three wheels (representing their relative influence on turning this flywheel) were very different. **Market Value** would have previously been the largest cog, with market competition, dynamics and concentration in any given territory and/or region having a proportionately greater influence on the growth rate of media rights value than either **Fan Value** or **Economic Value**. The result of this was the popularity amongst rightsholders of shorter rights cycles where permitted, allowing the capture of sequential uplifts in the value of rights. However, current market conditions, created by the four economic drivers above, have switched **Fan Value** and the CLV it generates to be the key determinant of growth – leading, in turn, to extended rights cycles being frequently the preference of both rightsholders and licensees. Below we explain this further and provide a summarised playbook to grow all three value types and accelerate the flywheel.

THE RIGHTSHOLDER STRATEGY

Accelerating the Media Rights Flywheel to Maximise Growth

(Photo by PANKAJNANGIA/AFP via Getty Images)

Turning the Fan Value wheel

1. Build The Fan Data Advantage

Rightsholders understand the importance of first-party data but frequently do so without universal consensus, with some stakeholders seeking to prioritise shorter-term profitability in place of longer-term capital investment in data infrastructure and analytics. Doing the former in place of the latter now, however, will lead to lost ground on the **Economic Playing Field**.

This stark inflection point for rightsholders is the result of CLV's increasing importance in the media rights market. Rightsholders are, however, uniquely positioned to build CLV through the long-term intimacy they have with fans across multiple physical and digital touchpoints.

However, to cross the chasm between strategy and successful execution, rightsholders need to capture, structure and activate data effectively. This requires the appropriate tools and a long-term outlook. Such a continuing commitment will increase the accuracy and efficacy of predictive models and generative AI used to interpret fan demand. As accuracy increases, so does the success of subsequent IP and marketing investment designed to grow CLV. Data can range from granular transactional, demographic and psychographic segmentation to predictive behavioural and propensity AI modelling - but building this **Fan Data Advantage** needs to be a sustained strategic priority for the rightsholder across the organisation.

"To cross the chasm between strategy and successful execution, rightsholders need to capture, structure and activate data effectively. This requires the appropriate tools and a long-term outlook."

The Fan Data Advantage created via the virtuous cycle of fan data capture, CLV generative insight, optimal IP creation and effective marketing by rightsholders becomes even more important in the cookieless world. The value of the first-party data and insight on which CLV is built, to advertisers, sponsors and media rights licensees, continues to accelerate dramatically and is now resulting in the adoption of data clean rooms enabling collaborative, second-party audience development.

A data clean room is a secure way for media rights licensees and rightsholders to work together to meet the ever-increasing consumer expectations for (hyper) personalised experiences and content in a privacy-safe manner and in the absence of cookie-driven behavioral tracking. It is a closed, secure, cloud-based environment that allows both parties to match data for advanced measurement, enhanced analytics and more effective consumer targeting through the creation of co-mingled audience cohorts. In doing so, it enables the clear attribution of value to rightsholders' first-party data during a media rights transaction, and provides the means for data value exchanges across lengthening license terms.

In the past, once media rights had been licensed, a rightsholder would typically lose the ability to derive deeper generative insights on CLV stemming from the activity of the licensee. Similarly, the licensee would be dependent upon its own user insight to capture (increasingly scarce) economic profit across a range of rights or sports with differing audiences. By building the Fan Data Advantage and using technology such as data clean rooms to harness it, rightsholders and licensees can collaboratively enhance CLV in a focused, secure and mutually beneficial way.

Furthermore, as licensees' consumer propositions continue to evolve in response to the economic trends noted above, offerings such as connected TV (CTV), free ad-supported streaming (FAST) and ad-supported SVOD will directly benefit from the improved advertising addressability resulting from this value exchange. With 80% of advertisers with media spend of more than USD $1 billion this year expected to use data clean rooms[14], the technology's place in realising the value of premium first-party data in sports is expected to become increasingly relevant across both media and sponsorship markets.

"A data clean room is a secure way for media rights licensees and rightsholders to meet the ever increasing consumer expectations for (hyper) personalised experiences."

GROWING AND ENRICHING AUDIENCE DATA WITH DATA CLEAN ROOMS

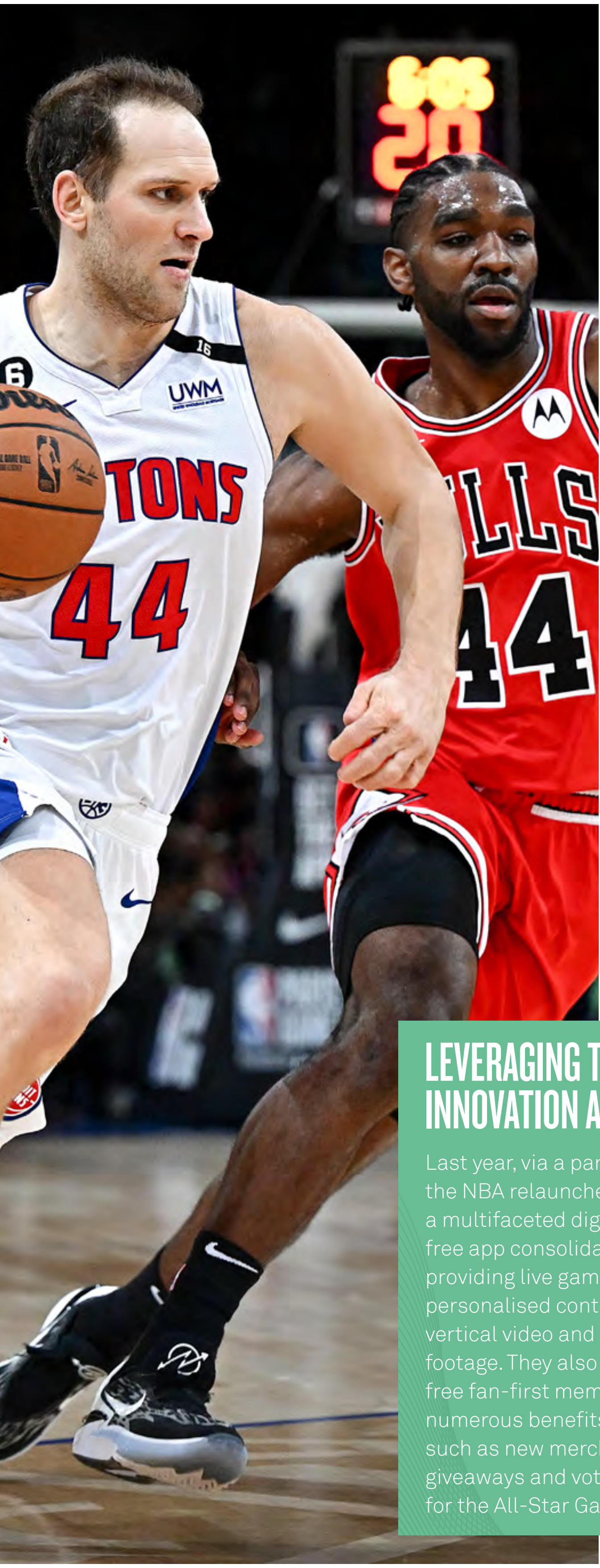
A recent partnership between a free-to-air (FTA) broadcaster and a top six Premier League Club demonstrates the potential of first-party data collaboration between rightsholders and rights licensees. By overlaying and matching the club's fan data with the FTAs broadcast video on-demand (BVOD) viewer data, the club was able to deepen its understanding of its own fanbase by gaining anonymised user-level insight into each individual's content preferences, device usage, consumption habits and more. Furthermore, it unlocked a richer and more granular ability to build lookalike audiences for digital advertising campaigns – ultimately driving return on marketing investment and lowering customer acquisition cost (CAC). The clean room technology, provided by InfoSum in this example, guarantees 100% data transparency and ensures that no data is transferred between either party[15]. This protects fan privacy and ensures data security while driving tangible commercial upside.

(Photo by PAUL ELLIS/AFP via Getty Images)

[14] *IAB's 2023 State of Data report - spanning 200 surveys and 20 interviews among data decision-makers at brands, agencies, publishers, and retailers.*

[15] *Infosum*

2. Develop and Extend IP with Precision



(Photo by ANNE-CHRISTINE POUJOULAT/AFP via Getty Images)

From digital, OTT and experiential asset creation, to original content, competition format and rights innovation, IP ecosystems can create bundling and packaging opportunities to increase both rightsholder and rights licensee pricing power. However, for rightsholders to build connected and integrated IP ecosystems that realise their CLV potential, they need to do so through deep, data-driven innovation and insight. Developing IP that fans actually want, that is differentiated and defensible against substitutivity, but connected in a way that removes any friction in user experience, depends on building the **Fan Data Advantage**. Avoiding the temptation of new entrants in the (ever-more-powerful) technology hype cycle,[16] and hastily building IP around such entrants, is easier said than done; but Fan Data wins arguments – ask your fans – or even better, know them well enough so you don't have to.

By measuring the success of such IP investment with longer-term KPIs such as CLV, rightsholders will avoid trying to be all things to all people which, under new market conditions, will (very) quickly erode **Fan Value**. With license terms increasing in length, rightsholders will have greater financial certainty from which to make these precise investments in fan-centric IP that builds and protects CLV, before other forms of entertainment dilute it. As we see from the **Economic Playing Field**, reducing the substitutivity of sports by consistently focusing strategic investment on building and measuring CLV will harness the economic headwinds to grow sports' value in the media rights market.

"Fan Data wins arguments - ask your fans - or even better, know them well enough so you don't have to."

LEVERAGING TECHNOLOGY AND PRIORITISING INNOVATION AT THE NBA

Last year, via a partnership with Microsoft, the NBA relaunched their NBA App, creating a multifaceted digital gateway for fans. The free app consolidates the fan experience, providing live games via NBA League Pass, personalised content, social media-friendly vertical video and behind-the-scenes footage. They also introduced NBA ID, a free fan-first membership programme with numerous benefits (in return for fan data), such as new merchandise drops, ticket giveaways and voting to select the starters for the All-Star Game[17].

Further examples of continual, targeted IP innovation at the NBA include a solution-oriented technology incubator program "NBA Launchpad", shared reality experiences for fans on large-scale LED-dome systems in urban centres, the pioneering Top Shot NFT marketplace, and a partnership with Marvel producing alternative broadcasts to tackle the increasing problem of aging live viewership[18].

[16]*Gartner*, [17]*Forbes*, [18]*Microsoft & NBA*

NFL GPI CONTENT & FEATURES THAT DEEPEN RELATIONSHIPS & EXTEND IP

Live games at the core of the proposition: surfaced up to 16 games each week of the season, across multiple devices, and distributed 6 different alternative live game broadcasts, giving a wide range of viewing options and experiences.

Content tailoring: developed new highlights formats to cater for various audience segments and to drive engagement, resulting in the delivery of 4 different highlights packages for each game of the NFL season.

Enhanced, bespoke and local content: local language commentary in live and on-demand games introduced to broaden audience appeal.

Depth in content offering: unlocked the largest global library of NFL on-demand content, including Hard Knocks, NFL Films and A Football Life.

Easy surfacing and access onsite: created content carousels onsite to recommend content types and formats based on fan personalisation.

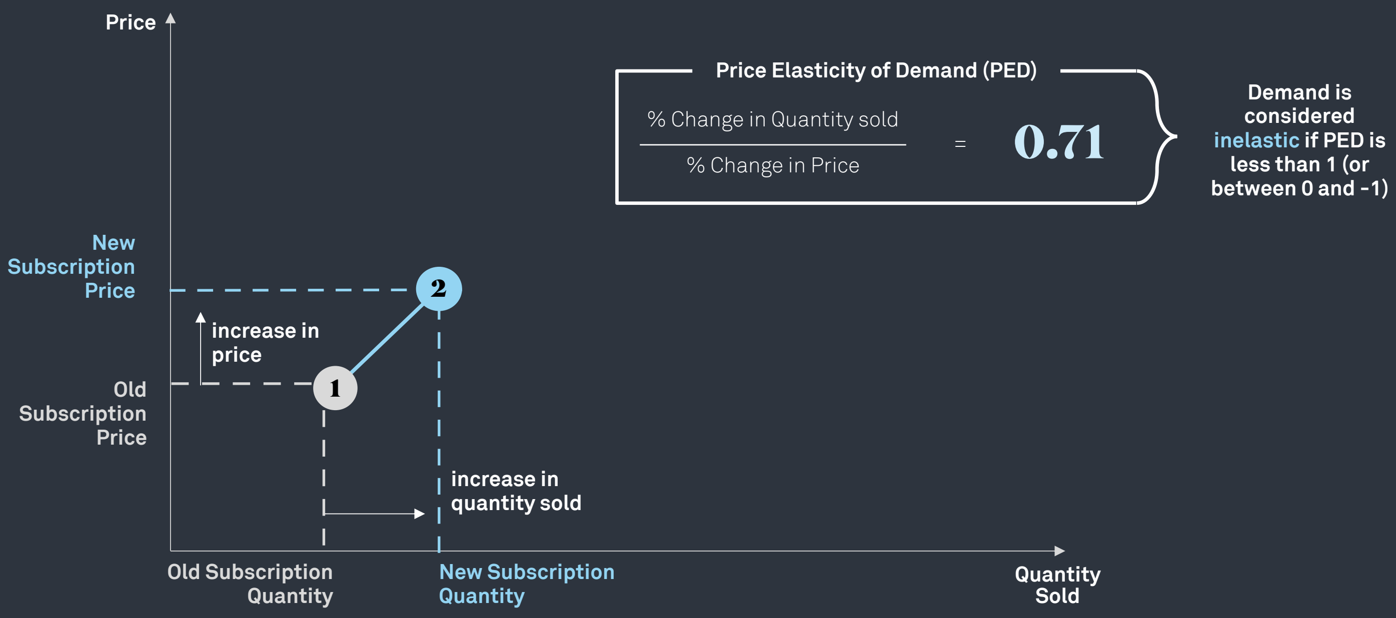
Source: Two Circles, NFL

By prioritising features, content and IP that enhanced the CLV of its most avid fan segments, GPI was able to successfully counter price elasticity of demand

Figure 9 | Inelastic Demand for GPI Products Aimed At Avid Fans

Game Pass International Season Pass Pro PED Analysis

Change in sales / change in price



PED calculation only pertains to acquired subscribers. Point Elasticity (not Arc).

Source: NFL, Two Circles Analysis

3. Create an Omnichannel Mindset

A clear understanding of the purpose of each constituent in a rightsholder's IP ecosystem, and each marketing channel employed across the fan experience, should not be a remit reserved for the marketing department alone. The challenge for rightsholders is to cut through the **Oversupply of Distraction** from competitors (e.g. media companies, games publishers, advertising technology providers, social media platforms) who are rapidly taking attention share through seamless user experiences, increasingly accurate contextual targeting and highly integrated omnichannel strategies.

In response, rightsholders need to treat each touch point with each fan as a unique relationship, informed by previous interactions and tailored to what he/she/they expect from the brand in that moment. Any internal stakeholder ambiguity as to the strategic purpose of a touch point, whether that be developed IP (e.g. OTT platform, fantasy game, event day experience, e-commerce store, web 3.0 product, premium original content) or a marketing/commercial channel (e.g. out-of-home, experiential, social media, paid media) risks misaligned execution and a level of disjointed experience that fans no longer accept. An example specific to media rights is the ongoing development of a rightsholder's retained rights position and/or rights innovation programme. In the past, this activity has primarily been undertaken to fuel rightsholder D2C and B2B2C fan propositions and marketing strategies. Opportunity cost analysis and management was required to ensure the right balance was met between the value derived from these retained rights by the rightsholder and the **Market Value** sacrificed to do so. Now, retaining specific rights in the context of growing mutually benefical (for both rightsholder and licensee) **Fan Value** and CLV, changes the assessment criteria when doing so. When CLV is the unified, measured objective across the organisation and its stakeholders, an omnichannel mindset is established and Fan Value is grown.

GROWING FAN VALUE AT THE MLS THROUGH AN OMNICHANNEL MINDSET

Now in its 28th season, MLS has shown a consistent commitment to growing Fan Value through an Omnichannel Mindset. The league has almost tripled in size since its debut season in 1996, growing from 10 teams to 29 teams this season, with the average team valuation growing by 85% since 2019[19]. A focus on continued, targeted IP innovation, while maintaining an active voice on important causes and initiatives meaningful to their fans, has built loyalty and CLV (88% of MLS fans say community is a key driver behind their fandom).

Resulting commercial potential has galvanised investment from a host of celebrity owners from Matthew McConaughey, Will Ferrell, and Reese Witherspoon to Patrick Mahomes, Oscar De La Hoya and David Beckham. Such celebrity involvement adds further to the omnichannel potential of the League and MLS's fanbase is responding. Gen Z and millennials account for 61% of MLS's fan base[20], indexing very highly in comparison with other US leagues. Perhaps the most significant demonstration yet of the MLS's commitment to Fan Value is the ten-year, $2.5-billion ($250-million-per-year) deal with Apple which has created an international (across more than 100 countries) and domestic viewing experience free from any broadcast restrictions. Unifying the league's local and national broadcast rights under one global platform brings high fan accessibility and the potential for further collaborative innovation with Apple to grow Fan Value in the decade ahead. Such innovation potential is not limited to technology, with reports suggesting that Apple played an important role in financially enabling the recent deal to bring Lionel Messi to the league.

(Photo by PATRICK T. FALLON via Getty Images)

[19]Sportcal, [20]MLS, Navigate

4. Understand the Social Contract

Sports' power to foster allegiance and create emotion at scale is unequalled. With this power comes a great responsibility to drive positive change in society. Sports are rising to this challenge but there remains so much still to do. The new generation of sports fans is a generation of activists. Therefore, sports need to meet their expectations proactively, as opposed to waiting for the next highly publicised movement or zeitgeist to jump upon reactively.

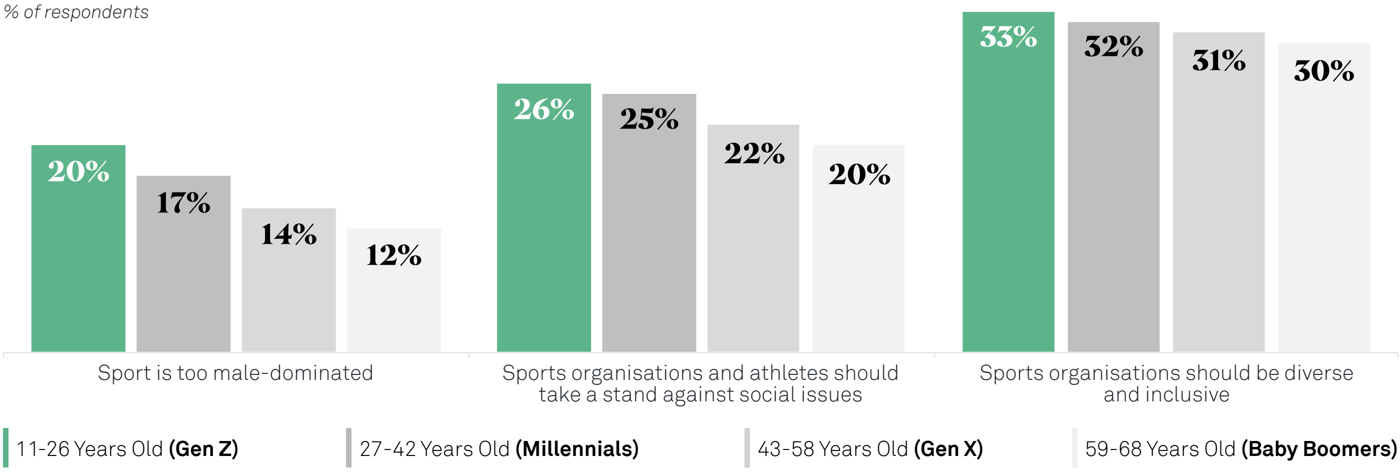
Also, more than ever before, any stance taken needs to be demonstrably impactful. Data is starting to show signs of Gen Z becoming increasingly aware and critical of sports' role within wider society. They expect more from brands and corporations, but will increasingly only value those that engage in activity that has a clear impact (see Figures 10 & 11).

For rightsholders this means actively and constantly listening to the sentiment of their fans and wider society while executing community management strategies (both digitally and in person) that uncover passion points which are inherently fluid in nature. It is one thing to acknowledge that such points exist, it's another to process this quantitative and qualitative insight into prompt and authentic action that speaks with fans, not at them. If rightsholders prioritise earning this trust, fan advocacy and CLV is the reward.

Figure 10 | Young Fans' Differing Views on Sports' Role in Society

Global 16-64 years-old internet users who agree with the below statements

% of respondents



Source: GlobalWebIndex (GWI), 2022

Figure 11 | Brand Advocacy Among Gen Z

Gen Zers who say the following would most motivate them to advocate for a brand online

% of respondents

	% of respondants	Index vs other age groups
Access to exclusive IP, content or services (e.g. music, videos, etc.)	22%	1.13
Love for the brand	35%	1.09
When something enhances my online reputation/status	17%	1.06
The feeling of taking part/being involved	24%	1.06
When something is relevant to my friends' interests	22%	1.06

Source: GlobalWebIndex (GWI), 2022

5. Organisational Integration

By committing to building the **Fan Data Advantage** and then leveraging it to grow CLV through targeted IP development, collaborative omnichannel and data strategies, and increased fan empathy, **Fan Value** is grown. However, to grow it quickly, rightsholders need to be organisationally and strategically integrated. At one end of the spectrum this could mean rightsholders undertaking Agile transformation, with a complete redesign of operational culture, methods and structure to breed nimble cross-functional execution and innovation. A far more realistic, and instantly achievable, practice is to ensure that a unified list of objectives and key results (OKRs) is built, endorsed, and adopted across each corner of the organisation. The focus of these simple but critical OKRs should be the performance of the other four Fan Value drivers noted above.

Rightsholders' governance structures can make such operational alignment very challenging. Short-termism in decision making across areas such as capital deployment and commercial strategy is a common resulting theme that could become more common with the growing influence of private equity. There is no (bar for a handful of rightsholders) immediate feedback loop on the perceived future value of such decisions that a stock market provides. But, by integrating and orientating the organisation around a common goal of growing and measuring Fan Value, the immediate feedback loop from fans becomes both actionable and sacrosanct.

(Photo by CHARLY TRIBALLEAU via Getty Images)

Turning the Market Value wheel

1. Package Rights Strategically

Packaging media rights must not solely focus on extracting the highest short-term **Market Value** but, critically, balance this with **Fan Value** growth. This is particularly important as media rights terms extend both in length (e.g. 2022 changes to the Melandri Law in Italy removing the restriction placed on Serie A to sell in 3-year cycles internationally) and in territorial coverage (e.g. Apple and MLS' 10-year global rights deal). Therefore, retained rights strategies and rights innovation (both within and between cycles) informed by the **Fan Data Advantage** and carried out in the context of increasingly **Accretive Partnerships** (see page 21) with media rights licensees, are crucial to fueling Fan Value and therefore accelerating the media rights flywheel.

FORMULA ONE BUILDING LONG-TERM MEDIA RIGHTS VALUE THROUGH STRATEGIC RIGHTS PACKAGING

Following its acquisition by Liberty Media, Formula One accelerated its investment in digital products to build more direct relationships with fans. In 2017, F1TV launched as a tiered offering in a selection of markets. Over time, the organisation reserved non-exclusive live rights for its core F1 TV Pro offering in key markets whilst also increasing its aggregate global media rights value.

F1 TV Pro has recently launched in India in response to challenging market conditions, streaming all race weekends for $3.99 per month (or $29.99 annually[21]) and allowing F1 to build Fan Value in the territory in preparation for maximising Market Value in the future.

F1's now seminal behind-the-scenes docuseries "Drive to Survive", enabled by strategic media rights packaging, contributed to the increase in Fan Value that has supported the exponential rise in media rights value in the US market (ESPN renewing in June 2022 at a multiple of approximately 17x from their previous deal)[22].

(Photo by SEBASTIEN BOZON/AFP via Getty Images)

2. Reduce Buyer Advantage

Media rights licensees, particularly when renewing licenses in low-competition markets, have previously leveraged greater knowledge of past rights performance during negotiations vs the rightsholder. As the headwinds in the media and entertainment market have strengthened, this information asymmetry between the buyers and sellers of media rights frequently created weak negotiation positions for the latter. Rightsholders can now close the gap in negotiation advantage by conducting continuous, detailed, omnichannel measurement of rights performance and exploiting the **Fan Data Advantage** built through the strategic prioritisation of **Fan Value**.

> *"Rightsholders can now close the gap in negotiation advantage by conducting continuous, detailed, omnichannel measurement of rights performance."*

[21] Marketing Week, [22] Formula One

3. Manage the Market Directly

The tacit and explicit knowledge of the sports media rights market required to optimise **Market Value** should not be sourced intermittently via agencies or intermediaries but be continually built within the rightsholder itself. Targeted B2B marketing strategies should be employed, establishing and exploiting B2B CRM capabilities, to ensure the market is sufficiently informed to allow budget planning far in advance of a media rights licensing process. Agencies and/or intermediaries become important catalysts for the rightsholder to build these internal capabilities, as opposed to transient service providers who gain from keeping any knowledge gleaned during a rights transaction as tacit. Instead, agencies' sole focus should be to empower the rightsholder to connect and accelerate the flywheel and build long-term, sustainable media rights value.

LA LIGA'S DIRECT, B2B APPROACH TOWARDS INTERNATIONAL EXPANSION

La Liga's sustained globalisation strategy over the last decade has been a driving force behind its growth, particularly with respect to media rights. Through direct collaboration with international media partners in high-potential markets such as China, Thailand, and Indonesia, La Liga has been able to significantly enhance the reach and distribution of its OTT products, LaLiga Pass & LaLiga Plus. Additionally, strategic expansion of relationships with existing e-sports partner, EA, and its global Grassroots initiative, has opened up the league to a younger demographic. Moreover, the league's recent partnership with CVC has afforded its constituent clubs access to a substantial €2 billion capital war-chest, which can be utilised to fund technology, innovation, internationalisation, and sporting growth initiatives. Meanwhile, the value of the league's international media rights experienced a 30% surge between 2019-20 and 2021-22, eclipsing the 15%[23] growth observed in domestic rights over the same period.

4. Know the Fair Value of Rights

Triangulate top-down (through benchmark and market concentration modelling) and bottom-up (through Fan Value and CLV modelling) valuation models, and sensitivity analyses of each, to provide a continually maintained map of rights values across key territories. This clear understanding of fair value at any point in time will allow nimble opportunity cost analysis (e.g. for potential D2C distribution), assessment of unexpected rights clawback opportunities, and long-term financial forecasting to inform capital deployment and investment strategies.

(Photo by MICHAL CIZEK/AFP via Getty Images)

[23] *SportBusiness*

(Photo by YASIN AKGUL/AFP via Getty Images)

5. Understand the Buyer's Strategy

Immerse a small strategy team in the 360° context of buyers. Acute understanding of the economic challenges and opportunities facing potential rights licensees will drive successful media rights go-to-market strategies and rights packaging. This includes analyses of buyers' financial performance (via published financial statements, financial ratios and industry commentary), market timing (e.g. versus other in-market tenders and/or wider economic sentiment), market dynamics (e.g. market concentration), and strategy evidence (both explicit and implicit). The comprehensive narrative built with regard to each potential buyer is then fed into **Managing the Market Directly** to ensure B2B marketing is targeted and timed appropriately.

(Photo by YASIN AKGUL/AFP via Getty Images)

THE IOC: EXCELLENCE IN STRATEGIC ANALYSIS

The IOC is committed to unique levels of depth in its media rights planning, allowing it to understand both the fair value of rights and the strategies of buyers in any relevant market and at any specific time. This allows maximisation of **Market Value** across multi-event cycles as the IOC grounds its strategic decisions in data-driven scenario planning – each scenario representing different possible futures within the media and entertainment sector across the decade ahead. By playing out strategic choices against each possible scenario, **Market Value** is maximised in a way that builds long-term **Fan Value**.

Turning the Economic Value wheel

1. Obligate Licensee Feedback

Wherever possible, contractually obligate rights performance data feedback according to pre-set OKRs by the rightsholder. This formalised and contractually defined feedback loop is of increasing importance as licenses extend in both length and territory coverage. Rights performance and dashboarding provides direct and continuous OKR tracking, while the data clean room environments described above allow the benefit provided by the rightsholder to the licensee via premium first-party data to be reciprocated through the second-party/cohort data and insight returned by the licensee. Closing this data feedback loop between licensee and rightsholder, supported by the rightsholder's **Fan Data Advantage**, allows the localised strength of licensees' rights promotion to be translated back into the growth of (all important) **Fan Value**. By learning what is working in a specific territory with a specific audience segment, rightsholders can grow CLV.

(Photo by CHRISOPHE SIMON/ANP/AFP via Getty Images)

2. Build Accretive Partnerships

Creating deep, collaborative and structured partnerships with licensees, empowering them as custodians of rights in any given territory, will bring transformative, cycle-on-cycle, results. **Economic Value** is created by proactively and collaboratively building shared CLV insight to drive IP creation (e.g. digital, commercial, content, licensing, event, experiential) and cooperative marketing is then required to ensure its success. Again, as license terms continue to lengthen, and the fight against the **Oversupply of Distraction** and increasing **Substitutivity** continues to intensify, newer models of long-term, integrated and functional engagement with media rights licensees will become crucial to building **Economic Value** post-transaction and translating this back into **Fan Value** growth.

Collaborative IP ecosystems, built through shared CLV insight, will offer significant commercial and revenue share opportunities for both parties. The boom in retail media networks (RMNs) in the US market is a useful indicator of the potential of such alignment. RMNs are digital advertising networks built by online retailers using unique levels of customer insight to drive both brand building and performance marketing for advertisers closer to the point of sale. Commonly referred to as the 'third wave' in digital advertising (search being the first wave, followed by social media as the second), advertisers in the US spent $37bn on RMNs in 2022[24] and are set to spend $45bn in 2023[25]. Rightsholders can offer a similar solution to licensees, allowing highly targeted and effective promotion of rights (and 3rd party advertising) driven by the **Fan Data Advantage** and the return on advertising spend (ROAS) it can deliver.

EXPANDING ESPN & WIMBLEDON'S DECADE-LONG SYMBIOTIC RELATIONSHIP

The extension of Wimbledon & ESPN's long-standing relationship to 2035 shows the value of long-term, accretive partnerships to both sides of the media rights transaction. Wimbledon have empowered ESPN as long-term custodians of their rights in North and South America by enabling the development of the ESPN broadcast facility at Wimbledon. This state-of-the-art, on-site proprietary ESPN broadcast studio includes multi-camera court presentation, HDR (High Dynamic Range) video capabilities and 360 degree Ultra High Definition (UHD)[26] cameras ensuring that each court is essentially treated as its own production studio.

[24]Financial Times, [25]McKinsey, [26]International Broadcasting Convention, Wimbledon, 2022

3. Maintain Control of the Product

Accretive Partnerships with licensees will build **Economic Value**. However, to ensure this translates back into **Fan Value** growth, a rightsholder's brand output also needs to be strictly aligned to a centralised strategy while allowing value-adding localisation by the licensee only where relevant or required. This level of brand consistency is increasingly essential to maintain omnichannel marketing performance and the resulting prominence of a rightsholder in the ever more competitive consideration set of fans. Whether you are a disciple of Byron Sharp[27] or not (!), brand distinctiveness and salience is a core driver of **Economic Value** and its translation back into **Fan Value**.

BUILDING ECONOMIC VALUE VIA FANTASY PREMIER LEAGUE WHILE MAINTAINING BRAND CONSISTENCY

With over 11.4m[28] players, Fantasy Premier League (FPL) exemplifies the flywheel approach. Successful IP was designed and developed with a focus on building Fan Value - for it then to be translated into Market and Economic value. FPL has helped forge accretive partnerships with broadcasters built on the value of first-party data and CLV insight. For example, it helps deepen interest and affinity across every live match (as opposed to those involving a single team) as well as delivering direct audiences through targeted notifications within the product itself. It also, through the sharing of user insights, delivers multiple marketing and editorial opportunities for the licensee, from targeted campaigns and content to in-match use of Fantasy IP and data. Each use of the FPL IP is controlled and brand consistency is maintained to ensure that each activity designed to boost Economic Value translates back to Fan Value.

4. Leverage Value In Kind (VIK) Strategically

Licensees increasingly operate highly diversified businesses in response to the changing economic conditions described above. Propositions frequently stretch across hardware, software, communications, cloud, e-commerce, experiential, gambling, content production, music, gaming and content licensing. As license periods lengthen and territorial coverage widens, VIK opportunities will hold increasing potential for growing **Fan Value**. Rightsholders need to exploit these opportunities strategically to accelerate the flywheel, whether they are defined at the point of transaction (with an attributed value) or via any post-transaction extension through a subsequent commercial partnership. The operational synergy provided through strategically deployed VIK with increasingly diversified buyers can solidify the link between **Economic Value** and **Fan Value**, but only by using the **Fan Data Advantage** to ensure exciting VIK opportunities are not wasted or missed.

(Photo by Michael Steele/Getty Images)

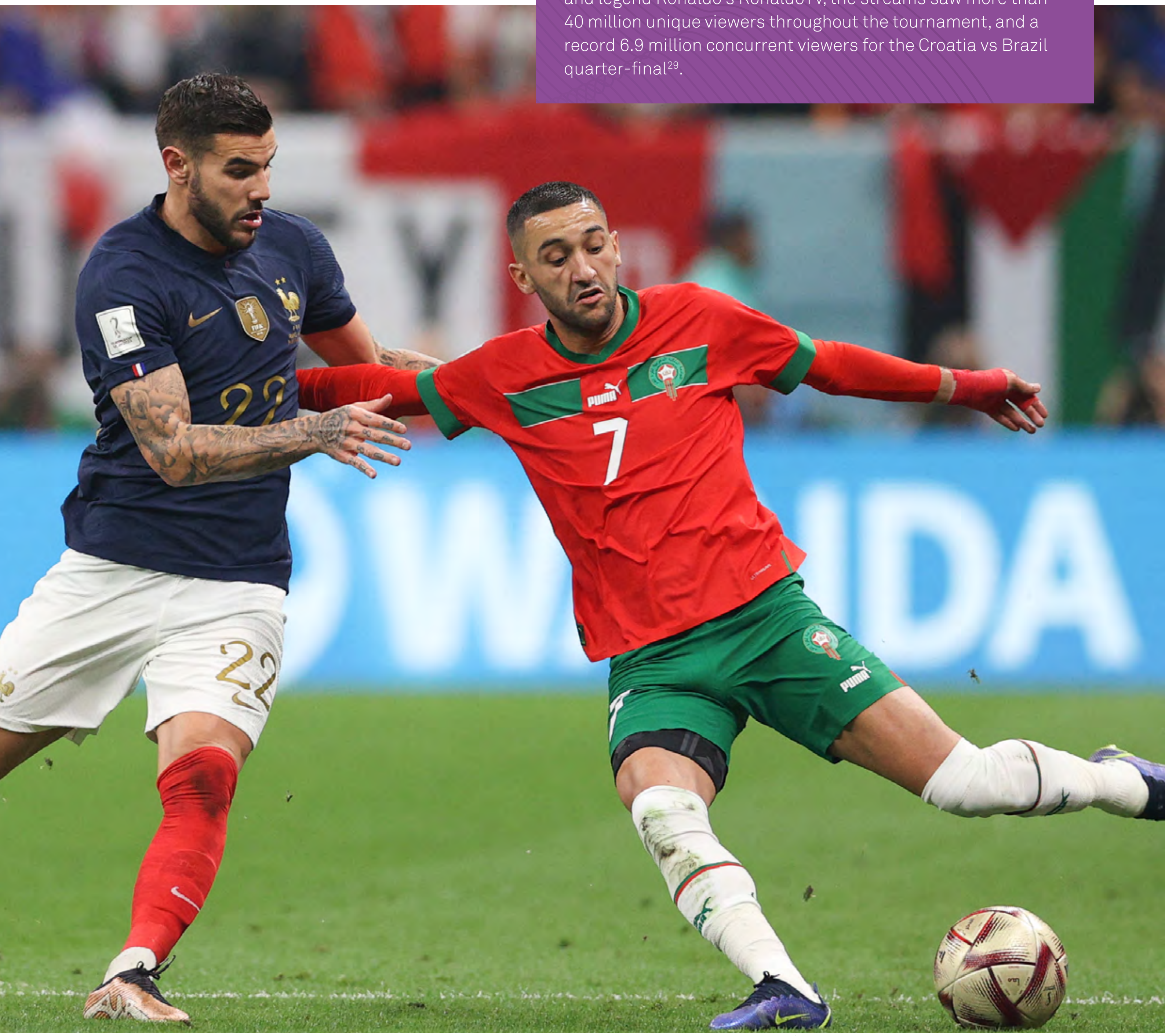
[27] *Byron Sharp is a renowned marketeer and author of several books on brand growth including "How Brands Grow: What Marketers Don't Know", Oxford University Press, 2010,* [28] *Premier League*

5. Exploit Clawbacks Smartly

Economic Value may also depend on alterations mid-term of rights licensed. For example, there may be an opportunity for the rightsholder to recover rights and/or boost their existing carved-out/retained rights position. For such clawbacks to be consistent enough to operationalise (given they could differ across multiple markets) yet sufficiently targeted to increase CLV and **Fan Value**, a standardised negotiation framework needs to be compiled in preparation for such opportunities. Precise alignment of clawbacks at scale grows Fan Value more effectively.

EXTENDING FIFA'S REACH THROUGH INNOVATIVE, INFLUENCER DISTRIBUTION

During the FIFA World Cup Qatar 2022™, FIFA leveraged their D2C streaming platform, FIFA+, to stream all FIFA World Cup Games in Brazil for free – helping to bring three times more Brazilian fans to FIFA's digital platforms when compared to 2018 FIFA World Cup Russia™. Through innovative and creative delivery, FIFA+ brought the game to an all-new digitally native audience that craves new formats and viewing experiences. Also, after partnering with viral Brazilian YouTuber Casimiro and legend Ronaldo's RonaldoTV, the streams saw more than 40 million unique viewers throughout the tournament, and a record 6.9 million concurrent viewers for the Croatia vs Brazil quarter-final[29].



(Photo by ADRIAN DENNIS/AFP via Getty Images)

[29] FIFA

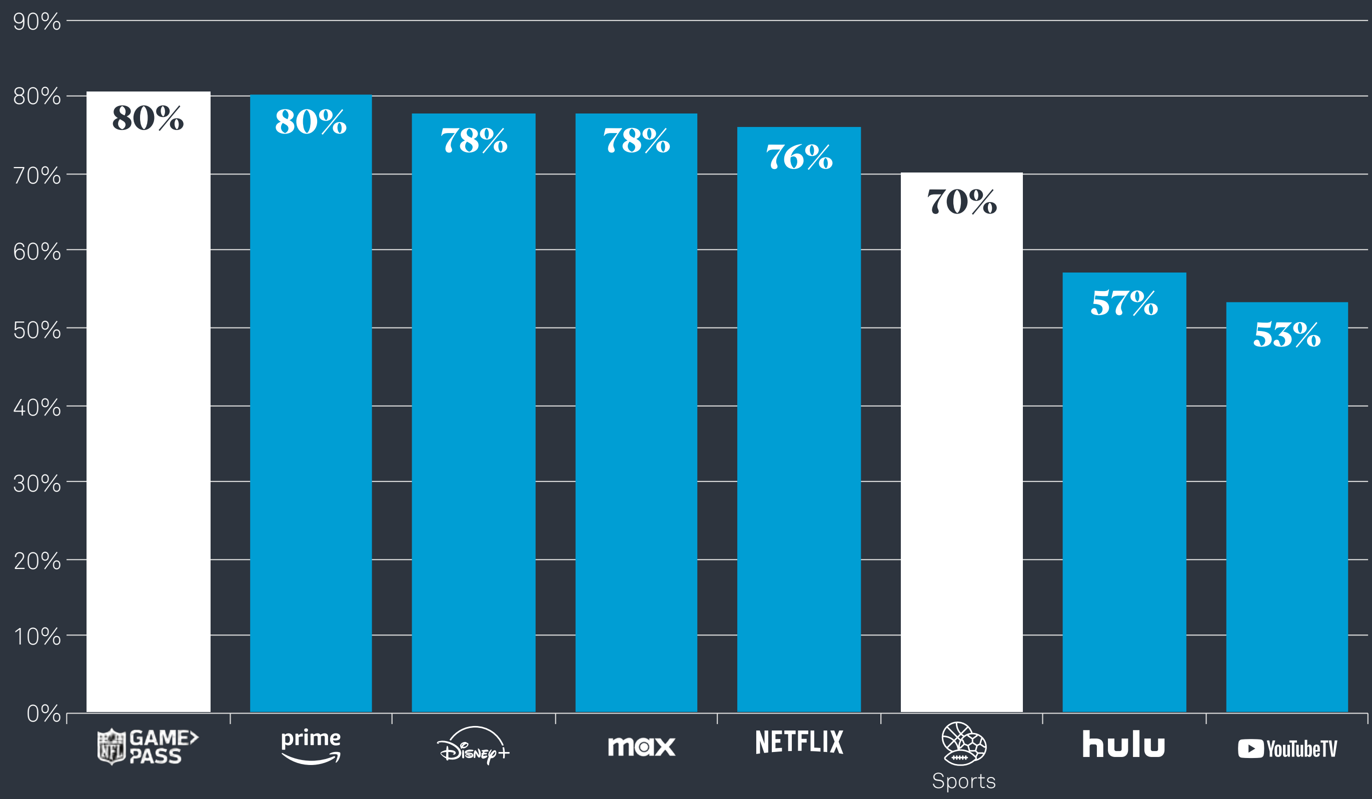
NFL GAME PASS INTERNATIONAL: THE FAN VALUE EFFECT

The NFL Game Pass International (GPI) proposition was launched by the NFL in 2006. From 2017, OverTier held the rights to operate GPI in Europe (61 countries and territories), and between 2017-2019 it introduced a suite of user-led product innovations to personalise viewing experience – to more fans and across more platforms. All marketing, proposition, insight, and commercial strategy during this period was led by Two Circles, while Deltatre provided the streaming platform. The Two Circles relationship expanded in 2019 to cover a global remit, across 181 territories. The partnership provided an end-to-end marketing solution, powered by a cross-functional obsession with audience insight, to hit aggressive subscriber growth targets and grow **Fan Value**. For the last six years the NFL and Two Circles prioritised CLV across data, marketing, content, commercial and proposition workstreams to drive 80% annual subscriber retention by 2023 (see Figure 12). From dynamic behavioral segmentation and propensity modelling, to continual testing of price elasticity, promotions and content, and deep personalisation of the user experience, GPI was the leading source of NFL's new international first-party data records over the six-year period[30] (outside of North America and China).

Every evolutionary step taken by GPI was designed to develop **Fan Value**, creating a value exchange that NFL fans across the world would come to, and return for, season after season. The successful sale to DAZN of GPI early in 2023 demonstrated the efficacy of this approach and the new primacy of Fan Value and CLV in driving the value of sports media rights.

Figure 12 | GPI's Market Leading Customer Retention

Twelve Month Retention Rates (%)



Amazon Prime retention rate relates to Prime as a whole, not solely Amazon Prime Video

Game Pass retention rate relates to the Season Pro SKU (the highest value SKU available)

The "Sports" benchmark is calculated as the weighted average of 12-month retention rates from 10 comparable sports OTT products Source: Ampere Analysis: Subscription Video Economics, Two Circles Analysis, 2023

[30] *NFL, Two Circles Analysis*

WHAT'S NEXT

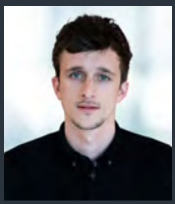
Next report topics from Two Circles include "**The Anatomy of Customer Lifetime Value in Sports**" and "**Finding Fandom - Originating and Acquiring Fans**".

ABOUT THE AUTHORS

Two Circles grows the value of media rights by providing industry-leading services across **Fan**, **Market** and **Economic Value** – and uniquely integrates each to accelerate the flywheel.

We work in partnership with sports rightsholders and media companies globally to create strategies that maximise the value of media rights for both licensee and licensor.

JON KILMARTIN
Director, Media Strategy & Insights



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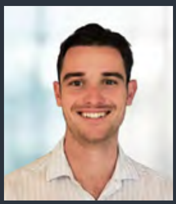

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