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Offering live sports online could harm league, team revenues

By Geoff Baker, *Seattle Times staff reporter*

Inside sports business

A somewhat stunning development took place this month when Dish Network announced an online streaming package that includes ESPN.

For $20 per month, customers purchasing "Sling TV'' will gain all ESPN and ESPN2 programming over the Internet without needing a cable TV subscription.

No, this probably isn't the cable TV sports death knell some initially touted it as. But it's still groundbreaking since live sports has long been considered the remaining TV property invulnerable to "cord cutters" dumping cable for Hulu, Netflix and other streaming options.

Until now, if viewers wanted live sports, they still needed to pay for cable. So, offering even some sports programming online sends yet another signal of big changes looming for the current TV business model.

Steve Schwartz, a Seattle-based sports marketing agent who until last year was a vice-president of affiliate relations for DirecTV Sports Networks, says the Dish announcement is merely the latest indication the old way of doing things isn't sustainable.

"I think the beginning of the end (of the TV model) started way before this,'' he said. "This is just another baby step in that direction.''

National and regional sports networks form the highest costs in most cable bills, but only a fraction of viewers actually watch them. The only reason viewers keep paying is because they are forced into packages that "bundle" sports networks in with other programming.

"The huge cost of sports programming is getting subsidized by everybody now paying for cable,'' Schwartz said. "Now we see cracks in that foundation, where the subsidy is starting to leak away.''

Irate cable TV viewers are demanding that providers offer cheaper packages. And some have done just that by cutting out the expensive sports channels altogether.

Any move to offer online-only sports content without a cable TV subscription will be seen as hastening the current model's demise. And if more viewers opt out of cable TV sports packages for online-only viewing, it could potentially harm revenues that leagues and teams have become increasingly dependent on.

A Seattle sports fan dropping cable TV for Dish and its ESPN offering would no longer be subsidizing the Mariners-owned ROOT Sports NW network. The Mariners rely heavily on cable subscribers to fund a large part of their operations.

Still, opinions remain divided as to how big of a blow this truly is.

Initial reaction hailed the Dish offering as a “revolution” against the cable TV sports model. But Schwartz and other analysts have since noted the deal isn’t too different from what’s already out there.

For one, Sling TV is still a “bundled” package rather than a pick-and-choose “a la carte” offering. Dish has packaged ESPN and ESPN2 with a bunch of non-sports channels including HGTV, TNT, TBS and CNN for the $20 monthly price.

Other than including ESPN, that’s not too different from what TV viewers already pay for the lowest end packages from Dish and other providers. It’s unlikely too many viewers would ditch cable TV just to pay for this lineup online.

Instead, Schwartz feels the Dish offering is geared more to those in the “Millennial” generation not already paying for cable TV and instead doing their viewing entirely via online streaming.

ESPN receives about $6 monthly for each of the 90 million viewers subscribing to its programming through various TV bundles. The industry-wide consensus is that only 20 percent of those viewers actually watch ESPN and fewer still would pay for it “a la carte” if not forced to through cable TV bundling.

And so, ESPN didn’t risk going the “a la carte” route online with Dish either.

Instead, ESPN negotiated that Dish include it in yet another “bundle” alongside lesser-valued ESPN 2 and a handful of other channels. And Dish is paying ESPN the same $6 rate per online subscriber that the network receives for television viewers.

So, ESPN keeps its profit margin and paid viewership numbers. And it also likely adds new Millennial viewers online who weren’t already paying for it.

Pretty smart business move.

But Schwartz still sees this as ESPN and Dish adapting to the reality of viewers — especially younger ones — shifting TV habits online.

As those viewers age, a more dramatic shift could occur if they become accustomed to paying for their sports online instead of via TV subscription.

“I think that’s why companies like Dish are starting to set that precedent now,’’ Schwartz said. “Those Millennials are going to grow up.’’

No one knows where this will all lead. But anything giving viewers more choice risks harming the unimpeded TV revenue stream enjoyed by teams and leagues.

“It’s something looming out there,’’ Schwartz agreed. “All teams need to keep an eye on it.’’ ■

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Steve Schwartz, principal
206 992-3554
sschwartz@sportsmarketingpartners.com

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