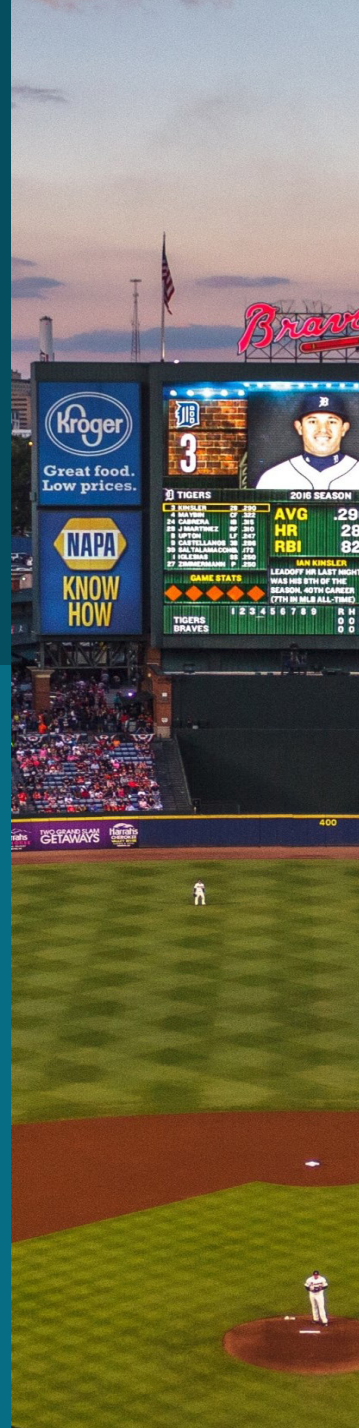




MANAGEMENT
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LEVELLING THE PLAYING FIELD

How technology is creating
opportunities for lower tier sports



DIGITAL ENGAGEMENT AND THE NEW WINNERS IN SPORT



Sport is entering an era where new commercial strategies can pay off.

Sporting organisations have seen a period of significant revenue growth, driven in particular by record broadcast rights. However, the benefits have mostly accrued to the few top tier sports that attract global audiences; lower tier sports have been left behind.

As sports fans increasingly turn to digital channels, new opportunities are opening up for all tiers of sports to grow audiences, deepen engagement and increase revenues.

In this piece, we will consider the new models that can help sports organisations increase their revenues in three key areas:

- Media rights
- Sponsorship
- Matchday and merchandising revenue

We will then consider the implications of these new models on both short-term and long-term commercial strategies and the demand for increasingly sophisticated strategic partners to help optimise these opportunities.

THE EXPANDING DIGITAL SPORTS MARKET

Main revenue streams in sports



Media



Matchday & merchandising



Sponsorship

The sports industry is generating record revenues. Media rights have been the largest driver of growth, with broadcast rights almost doubling in value since 2013, to reach \$56bn globally in 2023. Further increases are expected as broadcasters compete for crucial live sports content to retain advertisers and subscribers.

The majority of this media spend goes to the few tier one sports organisations delivering major global audiences, leaving broadcasters with limited budget to spend on lower tier sports.

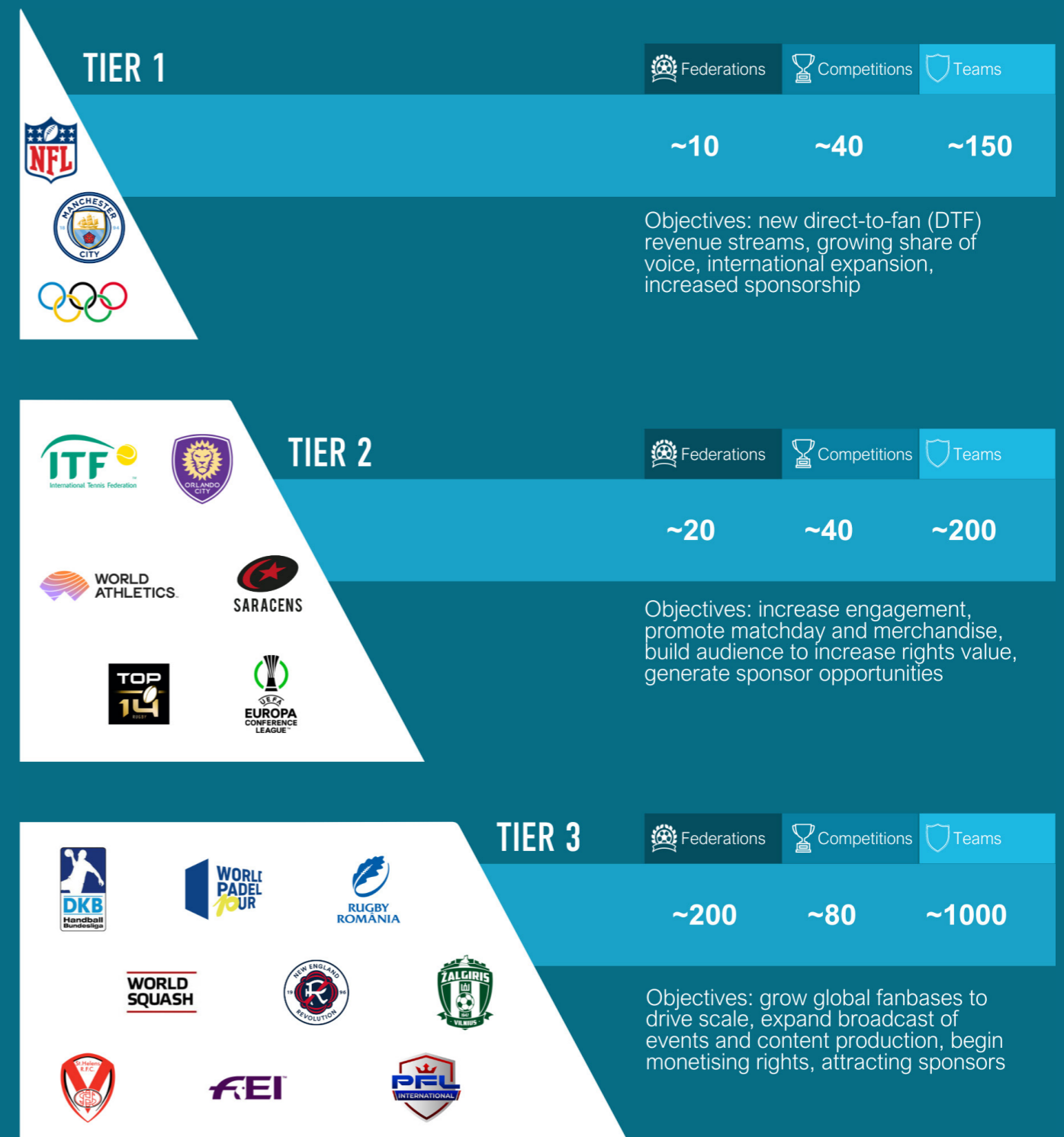
However, digital channels and platforms are now offering opportunities for organisations to build new fanbases (particularly amongst younger demographics), improve engagement and increase monetisation.

These platforms offer opportunities for all tiers of sports:

- For tier one organisations, with significant TV rights revenues, digital can support new creative approaches to standing out in an already saturated market, open up new, direct-to-fan ('D2F') revenue streams and increase sponsorship and international expansion.
- For lower tier organisations, digital platforms mean they can scale across geographies which, with the right commercial capabilities and partners, can drive new revenue streams.

Increasing digital engagement is enabled by innovation from a new generation of technology and services companies, for example D2F streaming apps, and new partnership models, which can reduce upfront costs while allowing revenue sharing.

Commercial goals of sports organisations by type and tier



INNOVATIONS IN MEDIA

New digital platforms are creating demand for new media content, while innovations in broadcast services are making production cheaper and more accessible.

New types of content

Content strategies in this sector are increasingly data-led. The ability to understand and access individual fans has led to bespoke, targeted content, optimised across social media, with the aim to magnify awareness and engagement.

Innovations, such as VR and AR, and multimedia venue experiences are being tested.

- At the SoFi stadium in LA, the LA Rams are partnering with 8i to offer AR experiences such as virtual player locker rooms and interactive play diagrams.
- Innovation is not just limited to billion-dollar stadiums, QPR, of the English Football League, is partnering with Imagine AR to create an interactive mobile fan experience within its fan zone.

Innovation in broadcast services

Producing quality, live content is costly and complex, requiring multiple cameras and, for some sports such as rallying and surfing, operations in remote locations. For many lower tier sports, these costs have been prohibitive. Evolving production technologies are now increasing the feasibility of live content production.

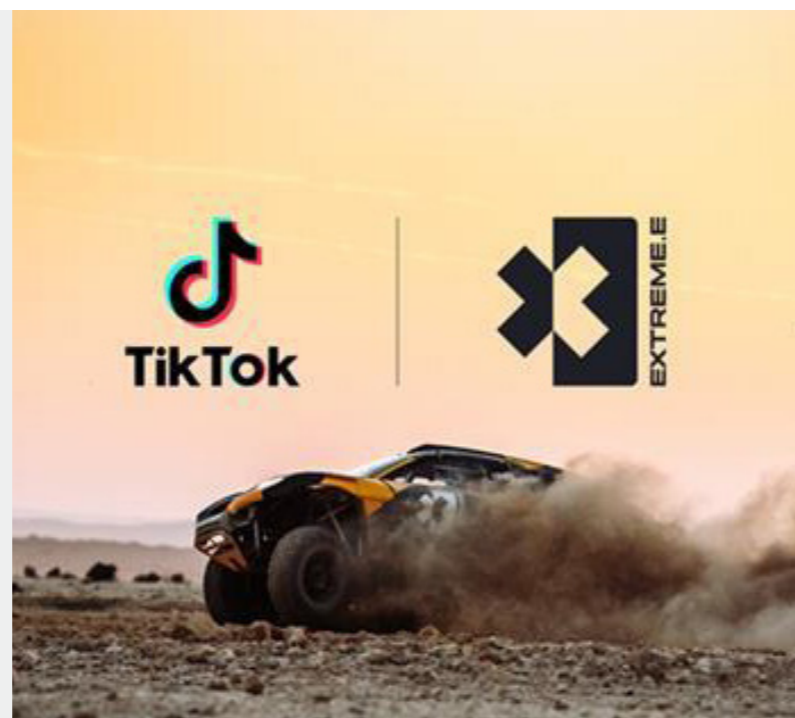
- Remote production shifts key production elements back to a studio, driving synergies across productions and reducing the people and equipment required at a sports venue.
- Automatic production, using AI to replace manual tasks.
- New equipment, such as drone cameras, enables more cost-effective filming of complex events such as the E1 World Championships.
- Live streaming technology, for example in amateur ice hockey, offers a significantly cheaper solution to traditional live broadcast.

Service partners are using these technologies to expand the market, provide turn-key propositions and develop new platforms for lower tier sports.

Example of new content innovation



Little Dot grew the Extreme E fanbase by delivering tailored content based on target audiences and real-time social trends. Facilitated by the acquisition of the Locowise social media analytics platform, Little Dot delivered 320k new TikTok followers and over 110m video views to Extreme E.



Examples of innovation in broadcast services



Riedel acquired SimplyLive (remote production) and partnered with Studio Automated (automatic production) to build an affordable, turn-key production solution for lower tier sports.

LiveBarn offers free automated live streaming and video production solutions to >4k venues in North America. Revenue, typically from amateur sports, is shared with teams and venues.

New digital channels

Sports organisations are expanding onto digital platforms. ‘Over-the-top’ (‘OTT’) players, which bypass traditional TV gatekeepers to provide content directly to viewers are increasingly competing for live rights. OTT players such as DAZN, Amazon Prime and Apple TV+ accounted for 21% of media rights value in 2023, up from 13% in 2022.

However, this model still puts an intermediary between sports organisations and fans. To avoid this, some are connecting directly using a variety of models.

1. Larger sports, such as La Liga, Formula 1 and the NBA, have invested in their own OTT solutions, giving them direct access to fans, and fan data, to grow engagement outside mature TV markets. For example, the NBA app offers premium or ad-supported access, exclusive deals and content, while promoting sign up to its NBA ID, which enables data gathering, personalisation and targeted promotion to fans.
2. Organisations who lack the capital and scale to launch their own platforms can use white label OTT solutions. Endeavour Streaming, for example, offer a streaming platform which is used by tier two sports such as the UFC or WNBA to offer a deeper range of live content beyond the limited events on broadcast TV. Tier one organisations (such as UEFA or Tottenham Hotspur) use the platform to monetise archive and non-live events.
3. Additionally, a new breed of revenue-sharing OTT platform is emerging, and Sportall's multisport platform is an example of this. It does not acquire rights but offers a share of its advertising and pay-per-view revenue to its sports partners. It has grown since 2019 to serve 40 different rights holders across 80 sports, giving it the scale to invest in infrastructure to deliver a quality fan experience and the marketing to optimise growth.



INNOVATIONS IN MATCHDAY & MERCHANDISING

Matchday and merchandising are the revenue streams organisations can most directly control. Data-driven marketing, to target and tailor messages to particular fan segments, can drive growth in these revenues.

Digital targeting

Digital marketing allows brands to identify who are their most likely customers, when they are most likely to purchase, and what message will stimulate conversion. All of this is powered by detailed customer data from across channels.

Customer data platforms (‘CDPs’) are now a standard tool, combining digital engagement, transactions and third-party data sets, to coordinate effective communication across channels. In sport, CDPs are being used to enhance direct connections with fans, and sports specific tools such as KORE Software are being developed.

Effective targetting can increase revenue, and even build new fanbases.

- Swedish team AIK, with Datatalks, generated >€100k profit from season ticket sales by tailoring marketing to the 2% of its fans most likely to buy a season ticket.
- LAFC worked with KORE to create a database of potential fans, and with tailored messaging sold 17.5k memberships and 100% of executive boxes for its first season.

This ability to identify potential fans, and target their specific interests, allows lower tier sports to optimise growth strategies.

CASE STUDY: NEW DIGITAL CHANNEL



Sportall helps right holders increase visibility and monetise their content through a revenue share.

~1 million registered users

~40 rights holders across ~80 sports



Revenue generation

- **Subscription & pay-as-you-go:**
Offers pay-per-view / pay-per-time. Users can also subscribe to a single sport (£2-4 per month).
- **In-stream advertising**
- **Sponsorships**

Revenue share with rights-holders

- **Revenue share depends on services provided**
i.e. Sportall keeps a higher share if it produces the content vs. only streaming it.

CASE STUDY: DATA-DRIVEN MARKETING



Kore helps sports and brands improve marketing effectiveness.

Kore has become a one-stop-shop for sports data by acquiring Hookit - an AI powered spontech platform.



Old sponsorship measurement model

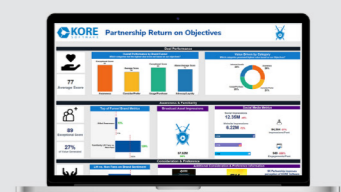
- Uses structured data (static and updated infrequently).
- Descriptive analytics post-campaign.
- Uses surveys and third-party data to estimate earned media value based on impressions.
- Historically used by rights holders and sports brands.



New spontech model

- Uses real-time data.
- Predictive and programmatic analytics.
- Uses real-time social media data to estimate earned media value based on engagements, cost per engagement and promotion quality.
- Increasingly used as sports consumption shifts to digital.

Customer Data Platform (CDP)



INNOVATIONS IN SPONSORSHIP

Sponsorship is beginning to take over as the major driver of revenue growth.

Brands increasingly see the value of sports marketing. Fans have deep emotional connections with their teams which offer big opportunities for brand amplification, particularly when aligned with effective targeting.

Digital-led partnerships and sponsorships

Traditional sports sponsorship favoured the biggest teams with the largest audiences. However even lower tier sports have passionate fans, meaning small investments by sponsors can generate massive publicity. This gives space for creativity and partnerships designed to align sport and brand core values.

Data-driven sponsorship and measurement

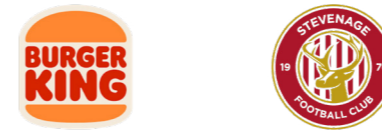
For brands used to measurable ROI, it can be hard to justify the spend to get a logo on the front of a kit or the side of a stadium. As sports build their digital interactions with fans, they are able to accrue the data and prove the effectiveness with AI analytics.

Virtual advertising

Sponsorship in sport has typically focused on broad placement opportunities – naming rights, kit and equipment sponsorship and advertising boards at venues. Innovation is starting to change these dynamics. For example, virtual advertising (inserting specific ads into live-sport feeds, through virtual overlays on LED boards at the venue) allows rights holders to negotiate multiple marketing deals targeting different demographics. This is particularly effective on OTT platforms with good viewer data.

These innovations are creating opportunities for successful marketing that does not rely purely on the raw size of the audience, opening up new possibilities for lower tier sports. As targeted digital marketing devours the share of traditional advertising, it is increasingly hard to justify spend on old-style marketing.

Example of digital-led partnership & sponsorship



Burger King ran a successful campaign by sponsoring Stevenage Town's kit for £50k. This rewarded fans who shared social media clips of them playing with the team on the FIFA video game. The campaign became viral, creating £2.5m of earned media, making Stevenage the most popular team in the game during the campaign, and seeing the club sell out its kit for the first time ever.



Example of data-driven sponsorship & measurement



Hookit, acquired by KORE Software, uses AI software to track social media data in real-time and estimate earned media value ('EMV'). It has used this successfully to help brands, such as Red Bull, Bose and Visa, assess the value of their sponsorship relationships.



Example of virtual advertising



ISG is a virtual advertising provider, which has grown significantly since 2018 (32% CAGR). Working with competitions such as Serie A, the Champions League and Formula 1, they create localised advertising overlays, allowing global brands to tailor messages to specific markets, and rights holders to create new packages of slots tailored to local advertisers.



COMMERCIAL PARTNERSHIPS

As sports organisations look to build more direct relationships with fans, they need to evolve their commercial capabilities and develop relationships with a new type of service partner.

Traditionally sports organisations have relied on intermediaries to drive their commercial revenues. While this allowed them to focus on core operations, it left commercial strategy in the hands of partners driven by short-term incentives, at the expense of longer-term growth.

Opportunities for organisations

Organisations are building in-house teams to manage their commercial operations more holistically. Increasingly these organisations need pathways to identify fans, increase engagement and monetise them across multiple digital channels. This requires a more sophisticated commercial function.

For tier one sports, this often means building extensive in-house teams. Formula 1 expanded from a marketing team of two in 2015 to more than 100, bringing in-house many functions previously left to partners and race promoters. In some examples, co-investors are willing to invest in infrastructure and initiatives to grow the sports in the longer-term. While lower tier sports are also expanding commercial operations, they lack the resources to build such broad capabilities. Instead they are looking to a different breed of partner to support their commercial strategies.

Opportunities for service partners

The landscape of services into sport has historically been fragmented, with discrete agencies covering particular specialist areas, such as sales, marketing, content, technology and data. Sports organisations are now looking for partners who can offer support across many of these areas to bring together a cohesive commercial strategy.

The growing role of data increases the value of having a limited number of partners manage organisations' full commercial market strategies and execution. This has been a catalyst to roll-ups in the industry, with the aim of creating players able to provide support across marketing, rights and talent. This has been seen with acquisitions by marketing agencies (such as Two Circles), rights holders (such as Endeavor) and talent representation (such as Wasserman). Further consolidation is likely, as lower tier sports look for cost effective, one-stop solutions, which they are unable to build in-house.









CASE STUDY: COMMERCIALISATION STRATEGY

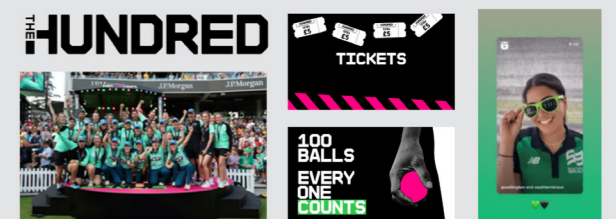


Two Circles supports commercial strategies through a broad service proposition

Initially founded to inform strategy and expanded capabilities through acquisition

- 2019**  Acquired by Bruin Sports Capital for ~\$40m.
- Bolt-on acquisitions**
- 2020**  Expand into sports rights sales by acquiring TRM.
- 2021**  Deepen capabilities in ticketing and hospitality through acquisition of Sports Ink.
- 2022**  Acquire Livewire Sport to add content production capabilities.
- 2023**  Move into design and digital transformation through Codeware acquisition.
- 2024**  Charterhouse investment at a valuation of >\$300m.

Two Circles supports The Hundred with data, content production, ticketing and fan engagement



CONCLUSIONS

Growing digital engagement is creating opportunities for sports organisations across all tiers and opening up the market for new service providers.

1. Technology is making production cheaper and more accessible, and enabling direct access to fans. It is also a catalyst for new content, engaging new younger fans who are attractive to sponsors.
2. Sponsorship is likely to be the biggest driver of growth going forwards, as digital engagement diversifies the options for partnership and improves measureability.
3. Increasing use of data is allowing sports organisations to target fans with more relevant content, and drive engagement and emotional connections. This in turn, is helping them augment matchday, merchandising and sponsorship revenues.

Lower tier sports organisations, with limited ability to invest, are increasingly willing to share revenues on new platforms. In addition, the complexity and potential of digital commercialisation is catalysing demand for service providers able to support across multiple activities.

All of this is opening up opportunities for buy and build investors willing to look holistically at the sports services market.



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