

Sports industry: time to refocus?

PwC's Sports Survey 2019



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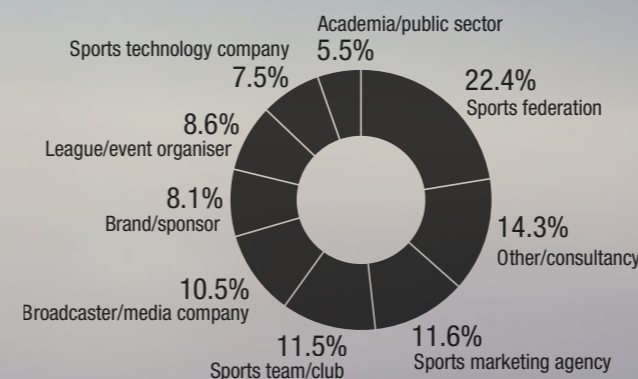
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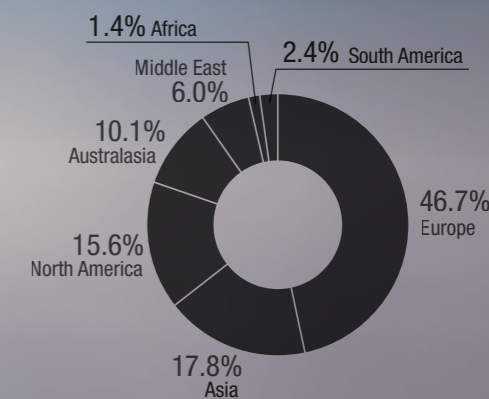
This survey was conducted by our Sports Business Advisory team between June and August 2019 through an online questionnaire distributed to sports industry leaders around the world. Because they share our vision of establishing an independent perspective on the state of the industry, a number of high-profile sports executives supported us by sharing the questionnaire with their peers. This helped us ensure broader representation across regions and industry segments. The effort was also driven by PwC and Strategy& Australia, China, India, Japan, Middle East, New Zealand and Russia. In total we received 590 responses to our questionnaire across 49 countries.

At the time of their response, each of the respondents occupied a senior/C-level position within their respective organisations. The analysis in this report is primarily based on the collective opinion of the respondents. It is complemented by data provided to us by IRIS (Intelligent Research in Sponsorship), as well as the team's knowledge and research.

Respondent profile by organisation



Respondent profile by geographical sports market they know best





Dear friend of the sports industry,

We are pleased to present you with the 2019 edition of our annual sports survey, which received a record 590 responses from sports industry leaders. This represents an increase of 120 respondents relative to our 2018 respondent base. We also saw a further improvement in the quality and seniority of the leaders we reached out to. I would like to take this opportunity to thank each and every one of you that took the time to provide us with your views.

This year, we have complemented our assessment of overall industry growth by zoning in on the opportunities presented to – and challenges faced by – sports organisations on an individual level. This is reflected in the content of the report's three deep-dive sections, all of which take an organisational point of view.

These three sections assess: (i) the importance of, and key enablers for, innovation within established sports organisations; (ii) the key benefits and challenges of direct-to-consumer content distribution and how commercially viable this channel is at present; and (iii) how sports federations are performing and where they should focus their efforts and resources in the mid-term.

In general, we see that sports organisations are playing catch-up in terms of innovation, the initial hype around direct-to-consumer streaming seems to be dissipating, and by and large sports federations have their work cut out to (re-)gain public confidence and ensure their relevance in the years to come.

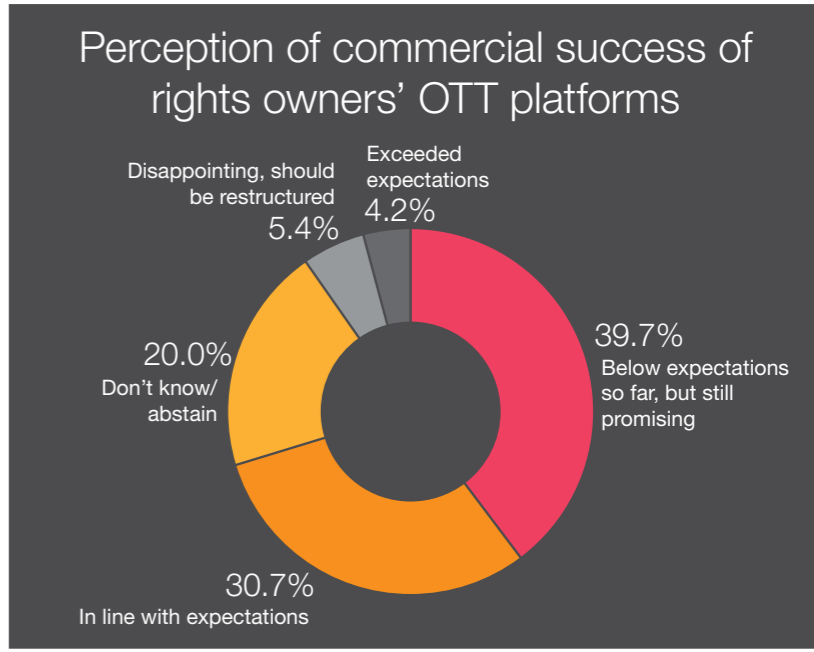
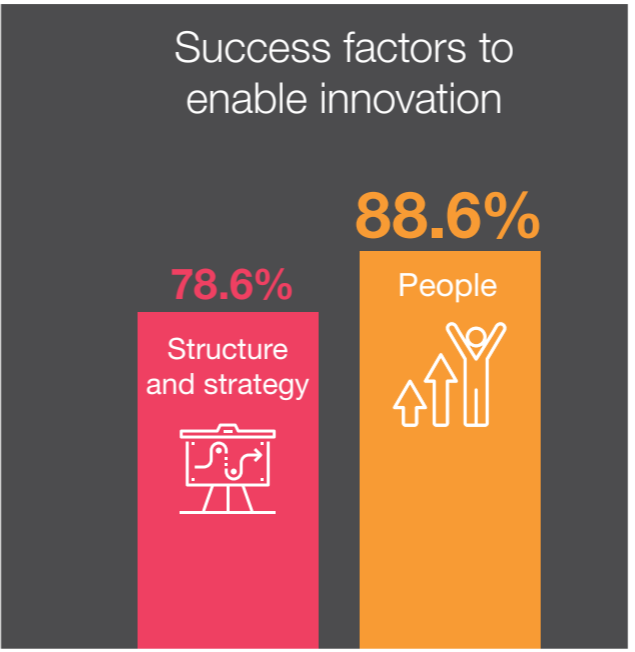
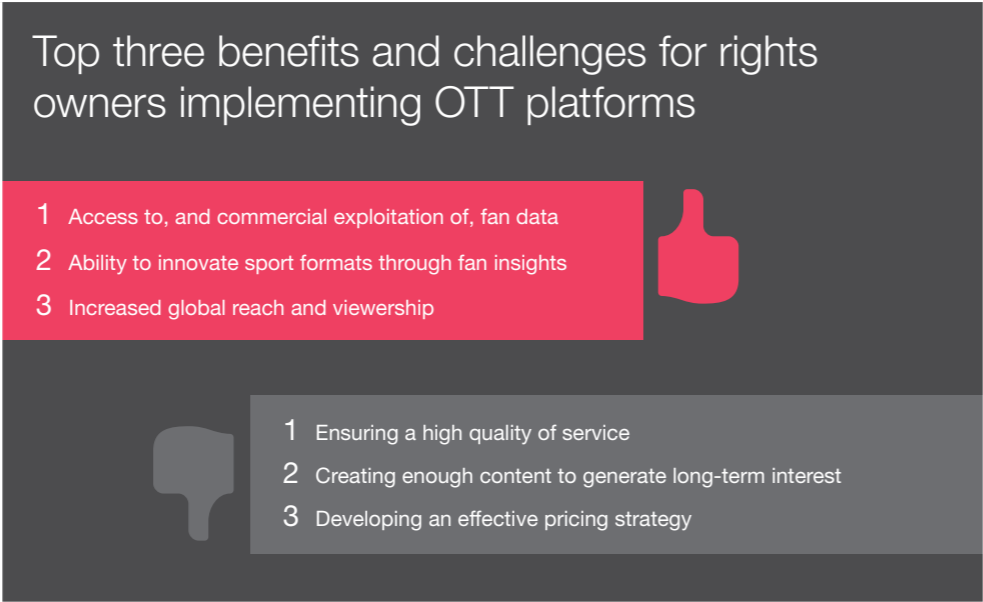
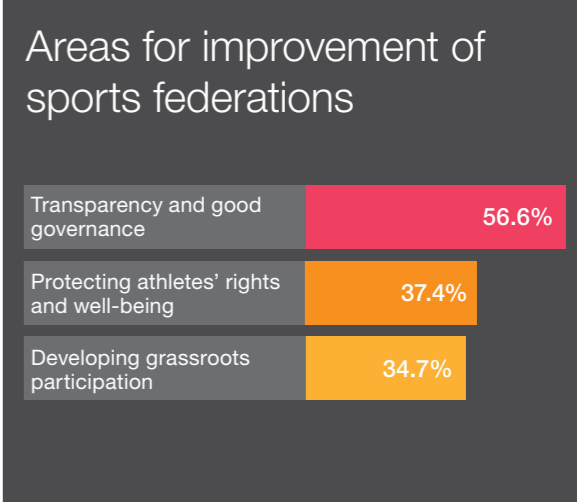
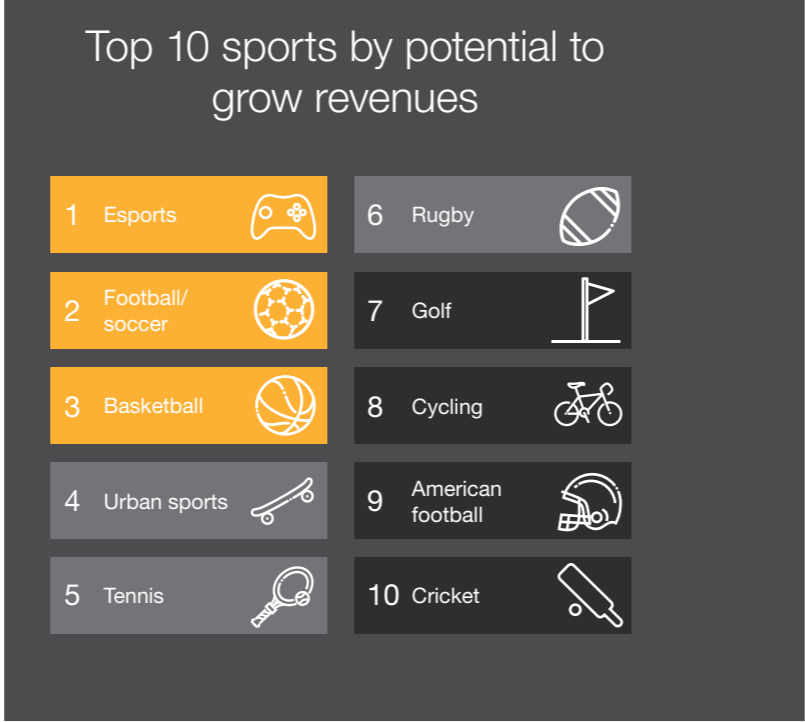
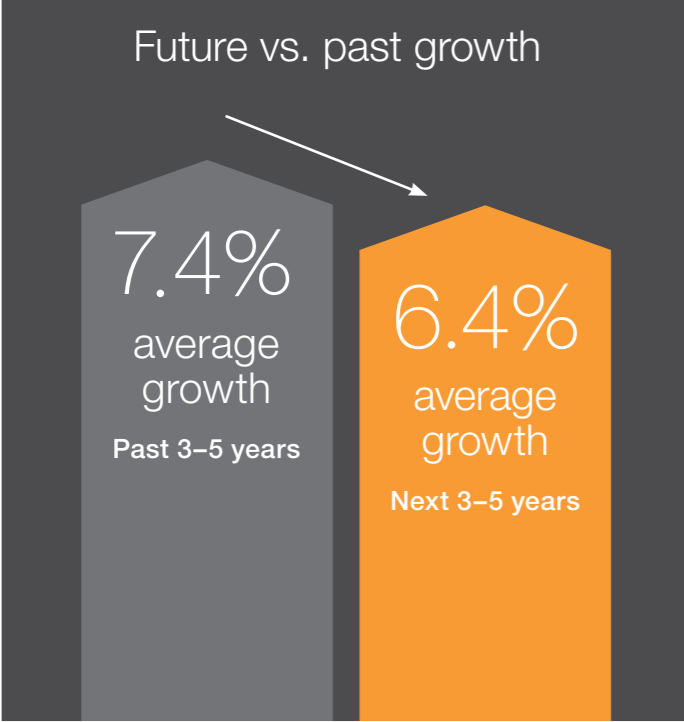
These findings all underline the same key point: a great number of rights owners, and in particular sports federations, need to transform the way they do business. While different players will be at different stages along this long journey, we hope that the insights in this report are indicative of how you should go about effecting the changes needed for your organisation to flourish.


Yours sincerely,

David Dellea

Head of Sports Business Advisory

How to stay ahead of the curve?





The state of the sports industry

Each year, we ask a select group of industry leaders what their perceptions are concerning industry growth as well as the key opportunities and threats faced by the industry. We do this to provide you with macro insights on how our industry is likely to develop in the coming three to five years. In this section, we outline the key takeaways and examine what they might mean for sports industry stakeholders. Overall, sports leaders have an optimistic outlook for the future, buoyed in particular by the strong growth expected in digital media.



Overall growth: digital is the key driver

The overall sports market is expected to grow at a healthy annual rate of 6.4% in the next 3-5 years, albeit below the 7.4% seen in the past 3-5 years. In general, growth expectations are relatively similar to last year's survey and remain robust.

In terms of regional differences, there are three groupings with different growth patterns:

- Europe, North America and the Australasia region are expected to see slower growth rates going forward than before. We interpret this as a sign of saturation in the sports industry, compounded by growing competition from other entertainment formats.
- With Asia and the Middle East having been the most promising markets over the last decade, growth rate expectations are stabilising but are still expected to remain robust for the next 3-5 years.

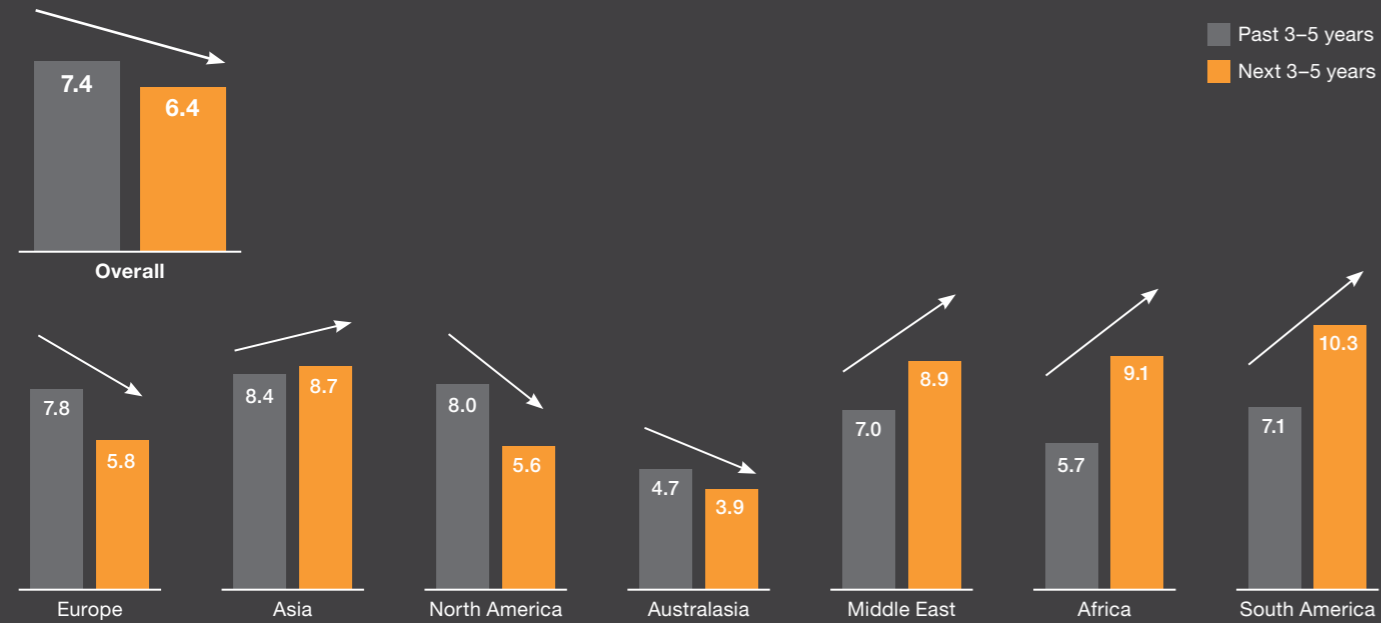
- Africa and South America are emerging and ready to catch-up. While we are still talking about small markets in relative terms, sports leaders expect the highest growth rates relative to the past 3-5 years.

Breaking the results down by stakeholder, teams and clubs are the most optimistic, foreseeing stronger growth in the future (9.1%) than in the past (8.0%). This may be a reflection of their self-confidence in controlling a key asset in the sports industry: the athletes and the stories surrounding them that fans crave.

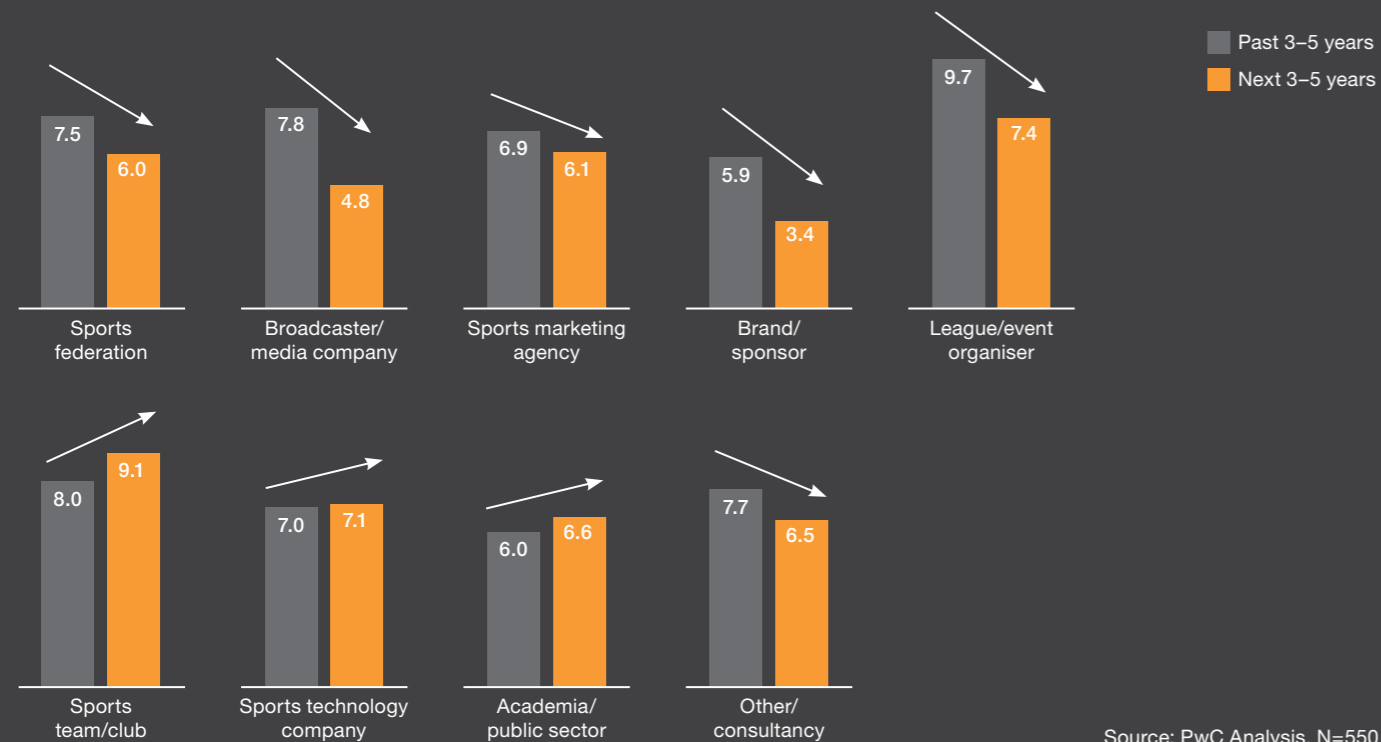
Average expected annual growth rate of 4.7% (overall)

Market growth outlook

Market growth outlook by respondents' best known market
Percentage annual growth estimates over a 3-5 year period



Market growth outlook by stakeholder
Percentage annual growth estimates over a 3-5 year period

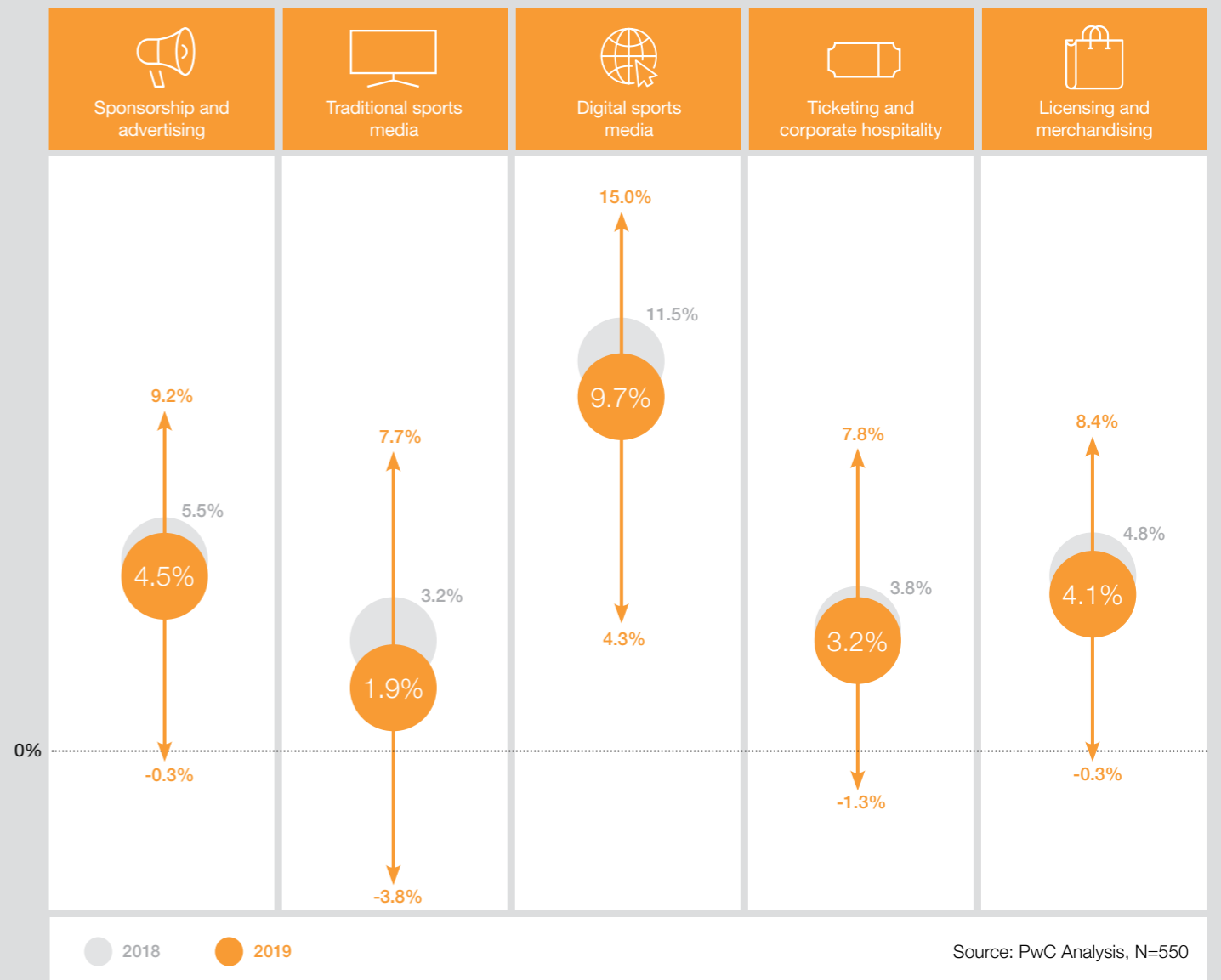


Source: PwC Analysis, N=550

In terms of revenue streams, digital media rights are expected to be the key driver of overall growth, with growth rates of 9.7% expected over the next 3-5 years. This is underlined by the fact that much lower growth rates are foreseen for traditional revenue streams, ranging between 1.9% and 4.1%. Interestingly, compared to last

year, in this years' edition respondents foresee slightly lower growth rates across all revenue streams. We interpret this as a sign of concern and uncertainty around the business impact of changing consumption behaviour.

Expected annual growth rate by revenue stream
Percentage annual growth estimates over a 3-5 year period



Source: PwC Analysis, N=550

Opportunities and threats: optimism in the face of uncertainty

Looking at the opportunities and threats affecting the ability of sports organisation to drive revenues, digital is both a friend and a foe.

To be clear: sports leaders are fundamentally optimistic. Whether it is due to psychological bias or not, sports leaders attribute considerably more importance to opportunities (70.5%) than threats (47.8%).

When considering specific factors that contribute to industry revenues, opportunities related to improving the fan experience came out on top. This applies to both the broadcast and the live product: to succeed, sports organisations have to keep innovating their approach to both channels, ensuring that they are offering more immersive, interactive and personalised experiences than their competitors.

Sports leaders also ranked synergies with gaming and esports very highly, with nearly three quarters of respondents saying this

has the potential to make an above-average or very high contribution to industry revenues. As the sports world is still getting to grips with the topic, we think this area could provide a massive crossover in terms of fan engagement, helping gamers become fans and fans become gamers.

Interestingly, respondents believe that demand from emerging markets has relatively little to contribute to broader industry growth, indicating that no quick fix is expected by merely doing more of the same in new markets.

In terms of specific factors that represent a threat to industry revenues, sports leaders effectively pointed to two areas of concern: the shifting consumption behaviour of the younger generation (due to digital), and the resulting changing competitive dynamics of how sports content is distributed.

One point that stands out is sports leaders' concern with the growing dominance of

major tech firms as a gateway to content. We interpret this as a sign of growing (and justified) doubts as to whether sports organisations will actually be in a position to benefit from the growing opportunities offered by digital. There seems to be a pervasive concern that the massive media conglomerates that are able to control both the creation and distribution of content may well be stealing the party.

Echoing the results in last year's survey, concerns around integrity may pose ethical concerns, but just don't seem to ladder their way up to the top of the agenda for sports leaders in terms of perceived business impact.

Opportunities 70.5% > 47.8% Threats

Top opportunities to increase revenues in the sports industry

Percentage of respondents, Top 2 box ("above average" and "very high")

Improved fan engagement	84.9%
Enhanced media offering (e.g. tech firms, OTT platforms, interactivity)	82.4%
Improved live event experience	74.9%
Synergies with gaming/esports	72.9%
Enhanced sponsorship offering (e.g. flexibility, personalisation)	69.4%
New or revised competition formats	64.9%
Demand from emerging markets	63.8%
Amateur sports participation and tourism	50.5%

Top threats to revenues in the sports industry

Percentage of respondents, Top 2 box ("above average" and "very high")

Shift away from traditional TV consumption	65.6%
Access and popularity of alternative entertainment formats	59.5%
Dominance of major tech firms as gateway to content	55.2%
Sports content saturation in developed markets	47.7%
Decreasing loyalty of fans	40.3%
Piracy/illegal streaming	40.1%
Lack of trust in sports governing bodies	39.1%
Integrity issues (e.g. anti-doping, match-fixing)	34.8%

Source: PwC Analysis, N=590



“ The direct relationship with fans is very interesting as it gives right owners an opportunity to bring them closer to their sport and potentially monetise them more effectively in the future. However, it is also a threat, because traditionally there has been an intermediary that absorbs the risk by acquiring rights. ”

Murray Barnett

Head of Global Sponsorship and Commercial Partnerships at F1



Growth by sport: esports and football lead the way

For the second year running, esports ranks first in terms of its potential to grow revenues by sports discipline, and does so across all regions. It seems that sports leaders do not expect the excitement surrounding esports to die down any time soon.

This year, we have split esports into two categories: esports related to action, fantasy or shooter games (e.g. League of Legends, CS:GO) and esports related to simulated sports (e.g. FIFA, NBA2K). These came out first and second respectively. Contrary to shooter games, simulated sports face fierce competition for fan followership from the real version of the sport. Fuelled by the growing visibility of the FIFA eWorld Cup, the FIFA eNations Cup and the newly launched UEFA eEuro 2020, the jury is out if eFootball, for

example, will take on a life of its own and mobilise fans beyond the gaming community.

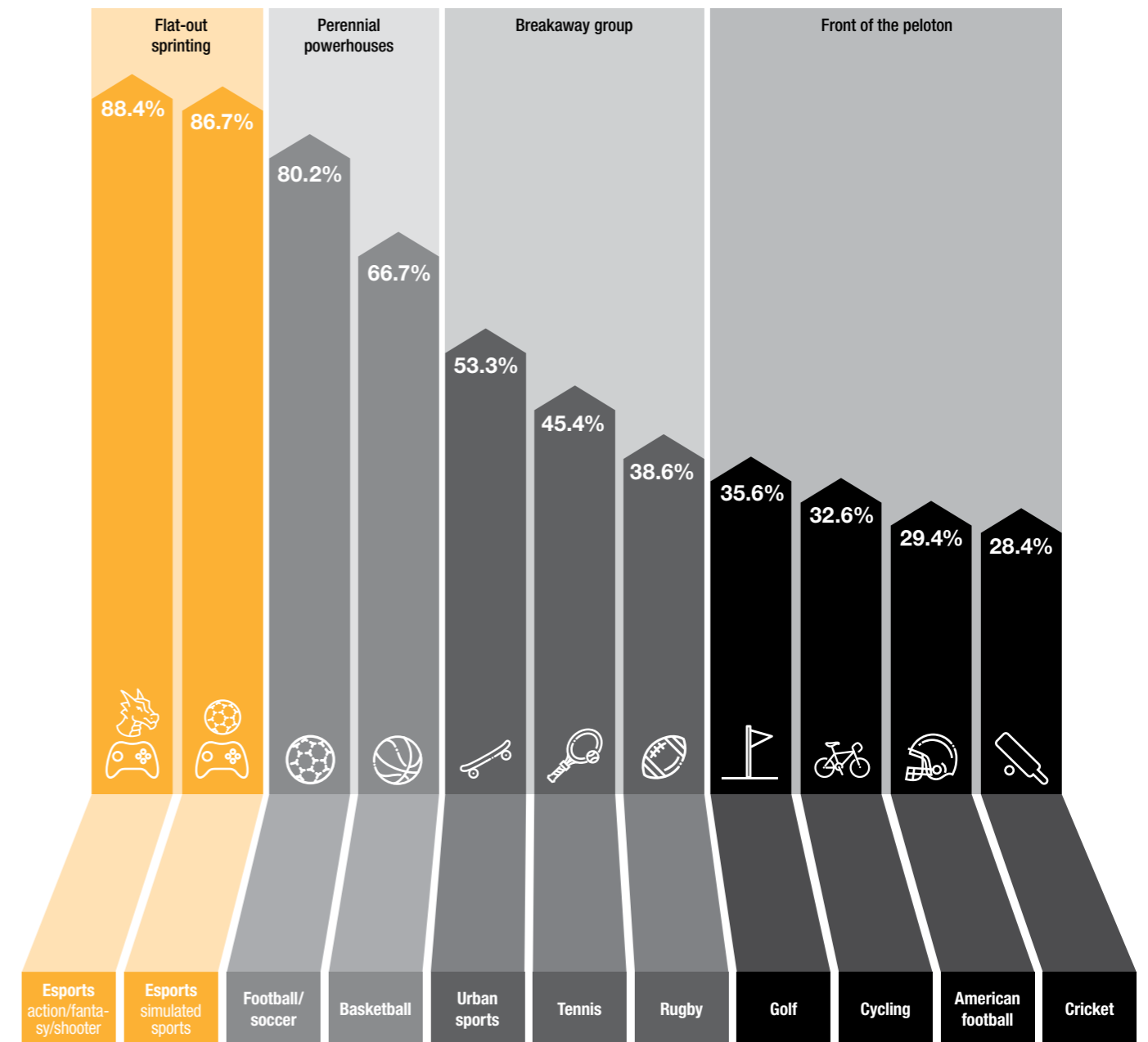
As truly global sports, football and basketball lead the way once more in terms of potential to grow revenues among traditional sports. Boasting leading properties that are cementing their position as the creators of leading premium content, both sports seem poised to continue their growth trajectory across multiple markets.

An interesting change in this year's ranking is the appearance of urban sports, which we added to the list and immediately made it into the top 10. This is testament to the growing crossover between sports and lifestyle.

Another trend that stands out this year is the gap that is forming between the top-ranked sports and the rest of the field. This is a stark reminder that the fight for relevance between sports may get tougher as the gap between the peloton and the pack gets bigger. This poses the question whether the diverse sports environment we have enjoyed in recent decades will be able to continue to thrive in this changing environment, where the "middle class" is struggling to keep up the pace.



Ranking of top 10 sports by potential to grow revenues
Percentage of respondents, Top 2 box ("above average" and "very high")



Source: PwC Analysis, N = 563

Women's sport:

From promise to real deal?

With women representing 70-80% of the consumer market – through a combination of their buying power and influence – there is huge untapped potential in the female audiences of women's sports



While certain sporting disciplines have done better than others in terms of commercialising the female editions of their sports, women's sport, and women in sport, seem to have wind in their sails. We see women's sport being powered by gale force winds rather than intermittent gusts going forward, with accelerating momentum into 2020.

There are multiple reasons behind this belief.

Firstly, in terms of basic demand for the product, 2019 has proven to be a record-breaking year for women's sport. Between March and April of this year, for example, various women's football attend-

ance records were broken, including the world record when 60,739 fans attended an Atletico Madrid vs. Barcelona match at the Wanda Metropolitano in Madrid. The FIFA Women's World Cup 2019 also marked several new viewership records, especially in teams' home countries. For example, the match between England's Lionesses and the US women's national team clocked a peak audience of 11.7 million, accounting for over 50% of the available audience share and displacing Line of Duty as the UK's most watched TV programme.

From a purely commercial perspective, the sponsorship deals we are seeing for female athletes, teams and properties are increasing in value. This spring, Barclays an-

nounced they will become the title sponsor of the Women's Super League in England, with the reported deal understood to be worth in excess of GBP 10 million. This ultimately boils down to the fact that female editions of various sporting disciplines are improving as entertainment products, which inevitably bolsters their commercial appeal.

Beyond football, women's sports at large is on the rise. While traditionally strong sports such as tennis continue to lead the way, less known formats such as the Rugby's Women's Six Nations tournament are starting to appear on the radar of big brands.

This positive trend is reflected in the way we are seeing brands activate around women's

sporting assets. The FIFA Women's World Cup in France is a great example, with Nike releasing a commercial minutes after USWNT's victory in the final.

This makes perfect sense, of course. Fan targeting through digital has unlocked unprecedented marketing opportunities, and with women representing 70-80% of the consumer market – through a combination of their buying power and influence – there is huge untapped potential in the female audiences of women's sports.

If the FIFA Women's World Cup 2019 is anything to go by, however, women's sport is also a great medium through which to reach men. According to the European

Broadcast Union, for example, 68% of the users that tuned into their online platform football.eurovisionssport.tv to watch matches were men. As the popularity of women's sport grows, such figures indicate a broad enough appeal of women's sport for sponsors and advertisers to successfully engage with both genders through it.

The greater attention brands and advertisers are paying to women's sport is also demonstrated in the greater respect given to women in sport. Women are increasingly active in sports broadcasting for both men and women's sports, be it in the studio, on the side of the field of play or on social media.

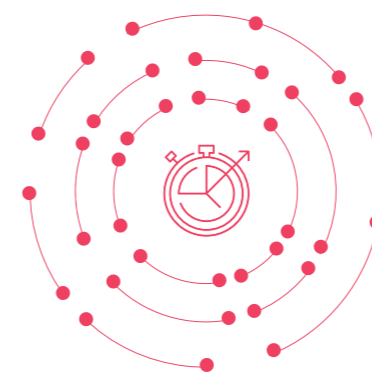
Overall, there has been a professionalisation of the women's sporting ecosystem, one that is increasingly being served by women themselves, in large part due to greater know-how among women in and around professional female sports.

All of these factors bode well for the inevitable commercial growth that lies ahead for women's sport.

Transformation and innovation

Essential to the future of sport

We surveyed sports leaders on their perceived importance of the ability of established sports organisations to transform and innovate, the extent to which they have related strategies in place, and the factors and initiatives they view as key to enabling and implementing these phenomena. Our findings show that sports organisations are largely playing catch-up and that their ability to harness the potential of their human capital – and listen to customers and fans – will be determinative of their success or failure in the future.



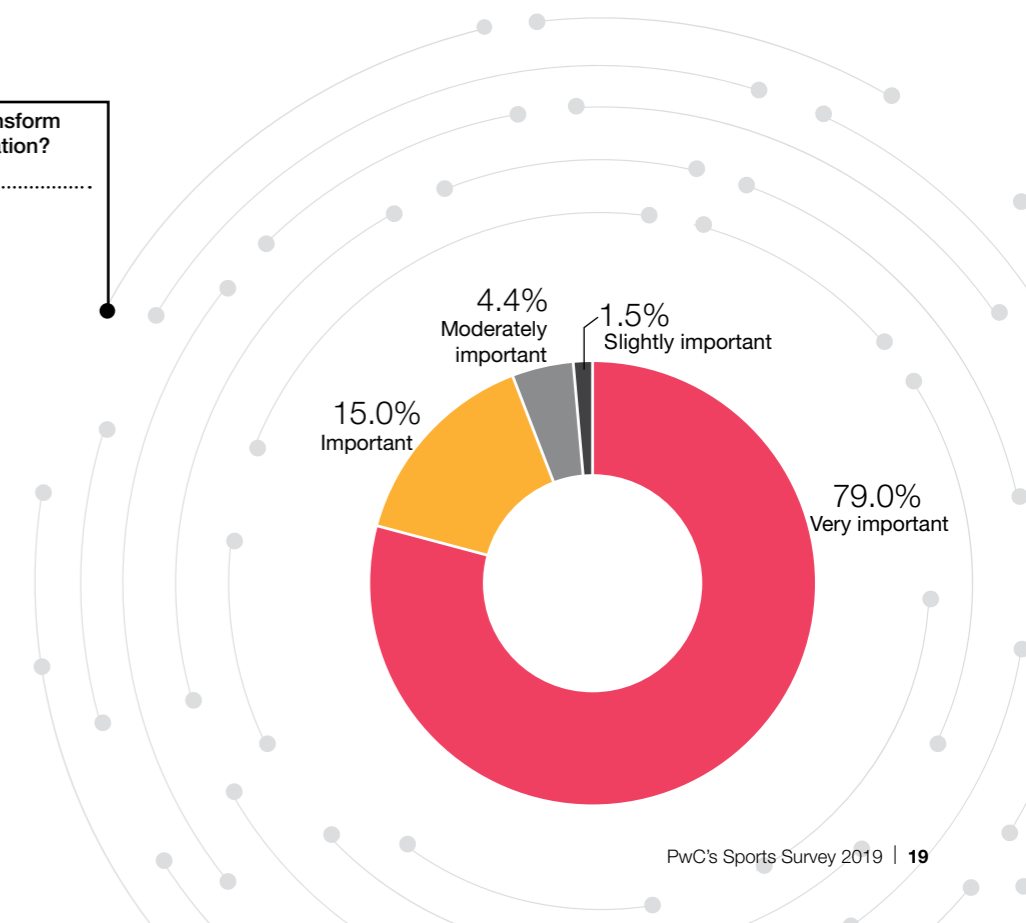
The sports industry is waking up. Now it's time to catch up.

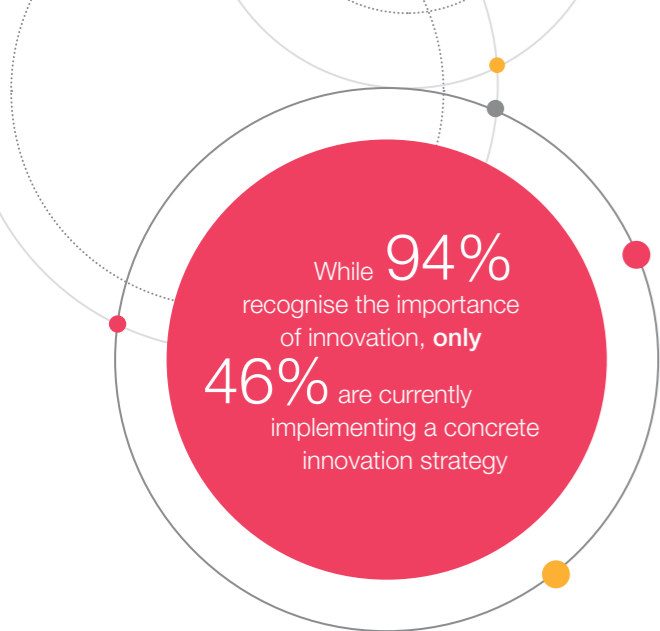
With digital disruption accelerating across the board, pressure on traditional sports is increasing. Our data shows that in Europe sports leaders are less optimistic about future growth. They are also more aware than ever of rising threats such as the shift away from traditional TV consumption and access to new entertainment formats. The writing is on the wall: sports organisations need to innovate in order to address changing consumer behaviour and compete against new forms of entertainment and (any) other form of leisure. As NBA Commissioner Adam

Silver recently put it: "We recognise that we're competing against every other possible form of entertainment, nice weather or anything else we could be doing instead of watching our games."

There is no doubt that sports leaders are fully aware of the imperative of innovation, with nearly 94% considering the ability of a sports organisation to innovate as either important (15%) or very important (79%).

How important is the ability to transform and innovate for a sports organisation?
Percentage of respondents





After years of slow progress, sports organisation are now fully aware of the need to keep pace with technological and social developments. Indeed, their very relevance depends on it – both on and off the pitch.

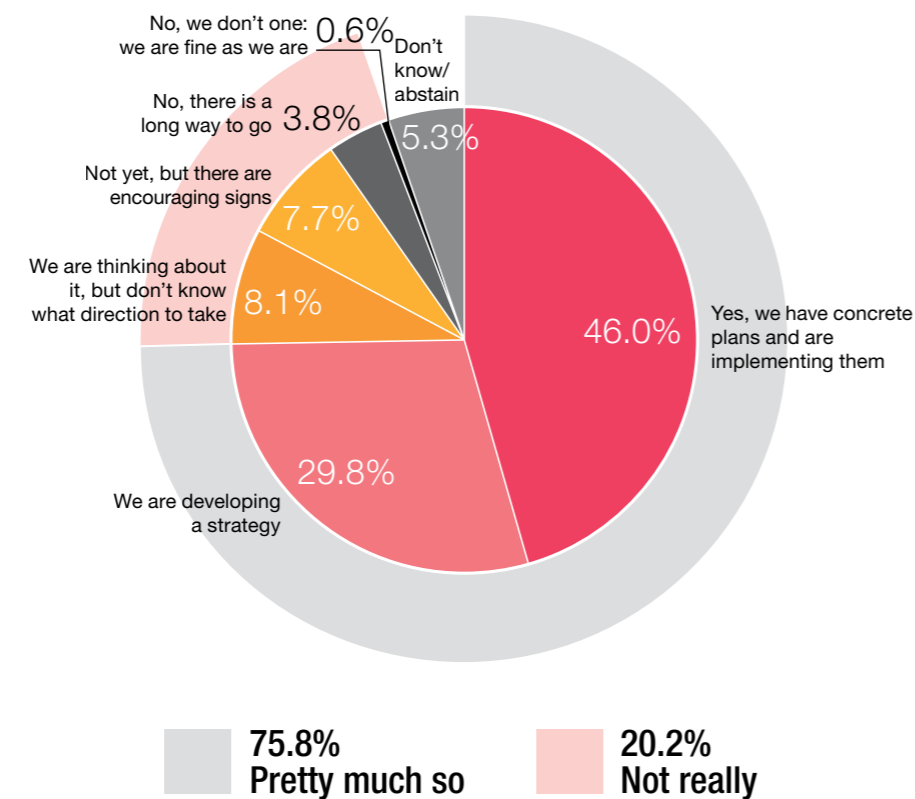
On the pitch, football is a good example of a very traditional sport that is purposefully adapting certain aspects of the game. While many sports have reflected technological advances in the rules of the game, football has long been shy in this regard. In recent years, matters have accelerated: goal line technology, VAR and the use of iPads on the bench for performance analytics – while at times controversial – are examples that are reflective of this development.

Off the pitch, innovation is arguably even more important. In North America, the industry has long understood that revenue potential lies not only in the exploitation of rights related to their own competitions. A great example is MLBAM. Created in 2002 as a limited partnership between MLB clubs as holders of digital rights, it quickly thrived as a best-in-class case of innovation. Having developed leading solutions for baseball, the company took over all of the NHL's digital properties in 2015 including its website, mobile apps, operations and distribution of its digital streaming service in a USD 600 million deal. BAMTech, a technological subsidiary of MLBAM in which the NHL was also a shareholder, was taken over in 2017 by Disney, which reportedly invested USD 2.58 billion for a 75% stake in 2017.

Beyond such leading examples, what is the industry at large doing to harness the benefits of innovation? According to the sports leaders we consulted, a lot more needs to be done: while 94% recognise the importance of innovation, only 46% are currently implementing a concrete innovation strategy.

In other words, while nearly the entire industry is aware of the need for sports organisations to transform and innovate, most protagonists still seem to be playing catch up.

Does your organisation have a clear strategy on how to drive innovation and transformation?
Percentage of respondents



Source: PwC Analysis, N = 540

Innovation requires structure, but people are key to success

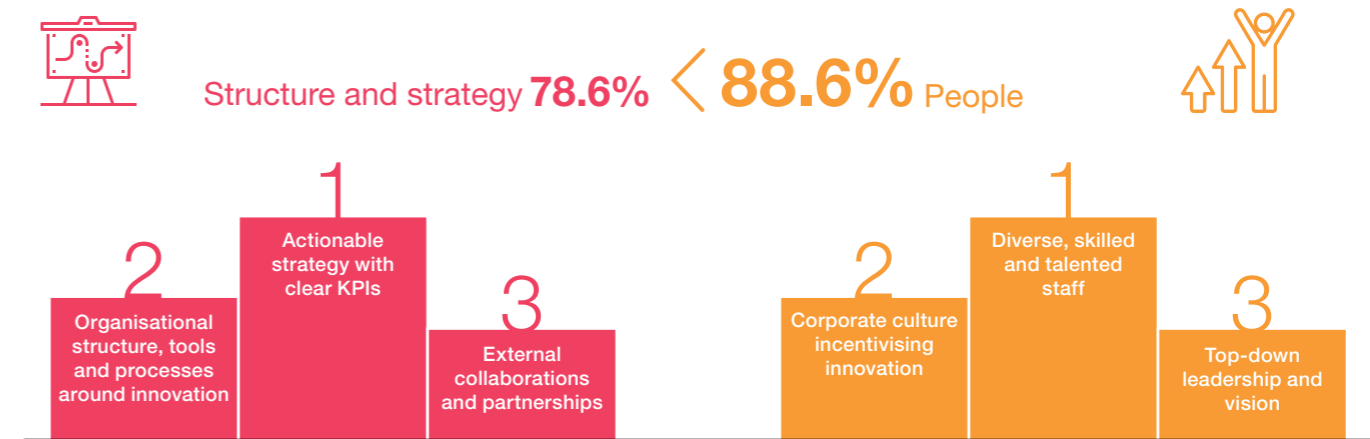
Developing the ability to innovate effectively is arguably one of the toughest challenges an organisation can face, irrespective of the industry. The examples of Nokia or Kodak struggling to evolve their products in line with changing customer behaviour is a stark reminder of how even established companies can stumble in terms of innovation.

We asked sports leaders to tell us what they think are the key factors enabling innovation. We listed three factors related to

“people” (talent, culture and leadership) and three factors related to “structure” (strategy, organisation and collaborations). Interestingly, all the factors were rated as being either important or very important to enable innovation. However, one key message clearly emerges: beyond having a strong foundation in place, with an actionable strategy and clear KPIs, success will only come if structure is followed by a modern, assertive “people” strategy.



Success factors to enable innovation and transformation
Percentage of respondents, Top 2 box (“important” and “very important”)



Source: PwC Analysis, N = 537

Our experience with clients is consistent with these results. Indeed, the majority of the work we do as sports practice involves (re)designing operating models for organisations active in sports. As part of this, our clients make tremendous efforts to ensure alignment between strategy and organisational structure, using partnerships and collaborations as a way to boost their core capabilities. This is indeed key to laying a robust foundation for success. Nevertheless, many organisations ultimately struggle to make the most of the main asset they have: the skills of their employees, both hard and soft.

Why is this the case? There is no single reason. However, one of the main complicating factors in sports is the regular prevalence of politics, which is a big drain on innovation. Political motivations tend to preserve the status quo and push leaders to manage “upwards” towards the broader stakeholders of the organisation, as opposed to focussing on empowering the talent they have to work and collaborate at their best in the face of growing market uncertainties.

Satya Nadella, CEO of Microsoft, is a great example of an excellent leader in a complex corporation. In less than five years, he managed to turn Microsoft's fortunes around

from a company headed towards failure to the most valuable company in the world. Asked about his opinion on leadership, he broke it down to three principles:

- Bringing clarity to a situation where none exists
- Creating positive energy
- Delivering success in challenging times

While easier said than done, Nadella's principles are powerful ones that many sport organisations could benefit from bringing to the fore.

An executive
point of
view

from
Jim Chaplin

CEO, SRI

“ Change is now firmly the status quo for sport and entertainment businesses globally. The pressures and complexities faced by organisations have increased exponentially, forcing business leaders to evolve fast or risk being left behind. To maintain relevance in a technology-driven world requires confidence in self disruption and a mindset open to innovation, often alongside the introduction of new skills.

In response to change, more organisations are seeking leaders from beyond their traditional domain. This trend towards a broader view of leadership is encouraging for the development of the industry as a whole, and for the creation of more diverse senior management teams. However, the risk of ‘organ rejection’ for out-of-sector hires rises relative to the scale of change for both the candidate and their new employer. A move to the equivalent role in a direct competitor is well understood; a move across industries to a different role in a distinctly different cultural environment is a road less well travelled.

Today, the success with which leadership teams assimilate new and different skills typically increases when the hiring company and the appointed candidate have a deep understanding of their respective mindsets, behaviours and – crucially – cultural fit. The risks can therefore be mitigated by measuring candidates’ expectations, developing a comprehensive onboarding programme and agreeing a vision for scale and pace of change, within the context of the operational realities of the organisation. ”

Q&A
with



Peter Hutton

Facebook’s approach to people and trying new things

To get a better sense of how sports organisations can improve their approach to innovation, we sat down with Peter Hutton, Director, Global Live Sports Partnerships and Programming at Facebook, and asked him to share Facebook’s ‘secret sauce’ in this regard.

1. You have seen many different sports organisations from the inside. What are the main differences you have noticed since your time at Facebook?

First of all, at Facebook we have a very small team dedicated to sport worldwide, which means we have to prioritise work that has a real impact. Nevertheless, we are integrated in a very large organisation that is constantly changing. This is very exciting as we get to work with people who not only have a sports background but also broad skillsets. Combined with our knowhow, this enables us continually to come up with new solutions.

2. How does Facebook empower its employees to innovate?

The culture of the company is very different from any of the organisations I’ve worked at before. Overall, we have a culture that is clearly driven by encouragement of the product teams to innovate and try new things. We are dedicated to giving everyone enough space to trial and error on ideas while not losing focus on daily business. The organisation is in general very transparent and self-critical. There is a real desire to empower everyone to work on projects they find stimulating and speak up when they have concerns or ideas. We have, for example, a weekly digital Q&A with Mark Zuckerberg where any employee can ask questions.

3. When looking to hire new employees, are there any particular characteristics you look for at Facebook?

The hiring process is very different from what I’ve experienced in the past. In order to find the person that fits best, we conduct numerous interviews. It was new for me that not only HR and potential managers conducted these interviews, but also co-workers. The clear goal is always to find the right personality fit and to harness a diversity of views and experience. Finding the right people really is a top priority around here and we put a great deal of effort into it.

4. How is Facebook learning from its customers and partners? How are you integrating data in the decision-making process?

I’ve been at a lot of companies where internal gut instinct normally wins the day. Facebook is different; we try to learn from case studies and experience and are continually looking to improve. A concrete example is our football council. Once every three months we sit together with the European clubs that have the largest Facebook fan base to learn from each other and develop new solutions based on their needs.

5. Concretely, what can traditional sports organisations learn from Facebook, particularly in terms of innovation?

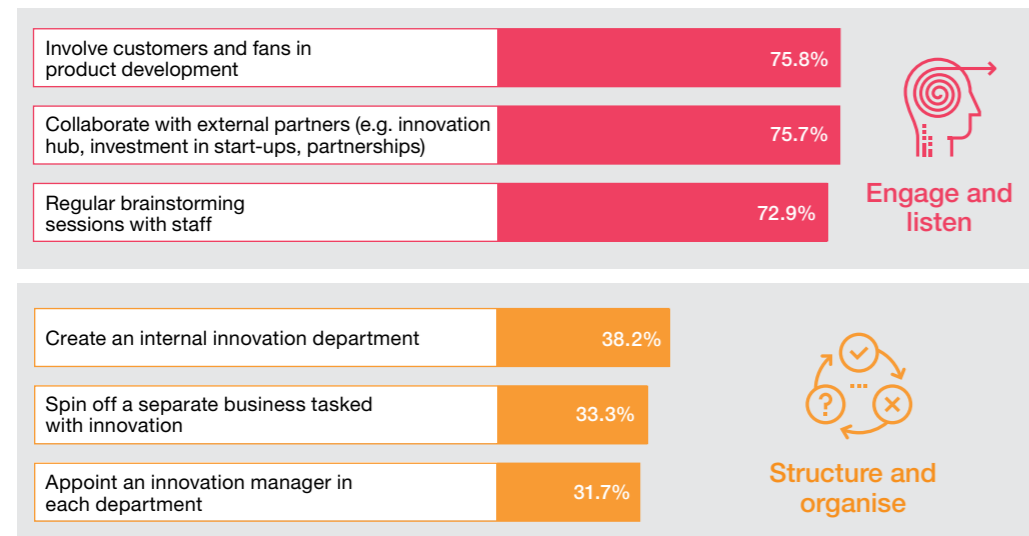
I really like the fact that staff are encouraged to speak up in meetings regardless of their experience, and that diversity is actively promoted throughout the company. I’ve often been asked by people in sports organisations to share opinions with their own top management, as they feel they are unable to do this themselves. Furthermore, here at Facebook you really feel that the organisation is continuously evolving. We set our goals every six months and adapt our structure accordingly without losing sight of the essential elements of our business.

Delivering innovation is about listening to your customers, partners and staff

To better understand how to deliver innovation effectively, we also asked leaders to rate certain concrete initiatives.

Initiatives to implement innovation and transformation

Percentage of respondents, Top 2 box ("important" and "very important")



Source: PwC Analysis, N = 538

Initiatives related to engagement came out clearly ahead of initiatives related to changing organisational structures. This confirms that sports organisations need to bolster their ability to engage and actively listen to stakeholders if they are to master innovation. To be able to do so requires agility and the maturity to accept (temporary) failure as a necessary a step towards success.

This is best exemplified by the tenets of design thinking, which is anchored in the ability to open up the innovation process by incorporating and acting on external input with agility.

Among the options we presented to them, sports leaders think that involving customers and fans in product development is the number one initiative to implement innovation and transformation (75.8% rated this aspect as either important or very important).

Looking outside of sports, there are no shortage of examples of companies that have successfully integrated customer feedback as part of their product development and design process.

Perhaps one of the most inspiring cases is LEGO. After averting bankruptcy in 2003, it redefined its path to success by doing something very simple: taking time to engage with and listen to its customer base. Through The Future Lab, LEGO developed low-risk, low-cost innovation techniques that led to the rapid creation of minimum viable prototypes. Expanding on that, LEGO Ideas was launched, an online crowd-sourcing platform that allows customers to share and vote for ideas they would like to see added to the product line.

The sports industry also features strong examples of fans actively involved in the innovation process.



"It is essential for sports organisations to understand the consumer through quantitative and qualitative insights and by building a consumer-centric culture inside the organisation."

Claudio Borges
Global Director Digital Planning, Adidas

F1 launched F1fanvoice, an official online community for fans to contribute to the sport via surveys, polls and forums. The initiative allowed F1 to tap into fans' ideas, all while fostering a strong sense of community and vested interest in the sport.

FIFA also provided a great example by launching a GitHub competition asking football-passionate developers around the world to think about solutions related to voice recognition technology. The NBA, Man City or Bayern Munich are other organisations that regularly organise hackathons and similar events, inviting and incentivising experts to think about their challenges and develop suitable solutions.

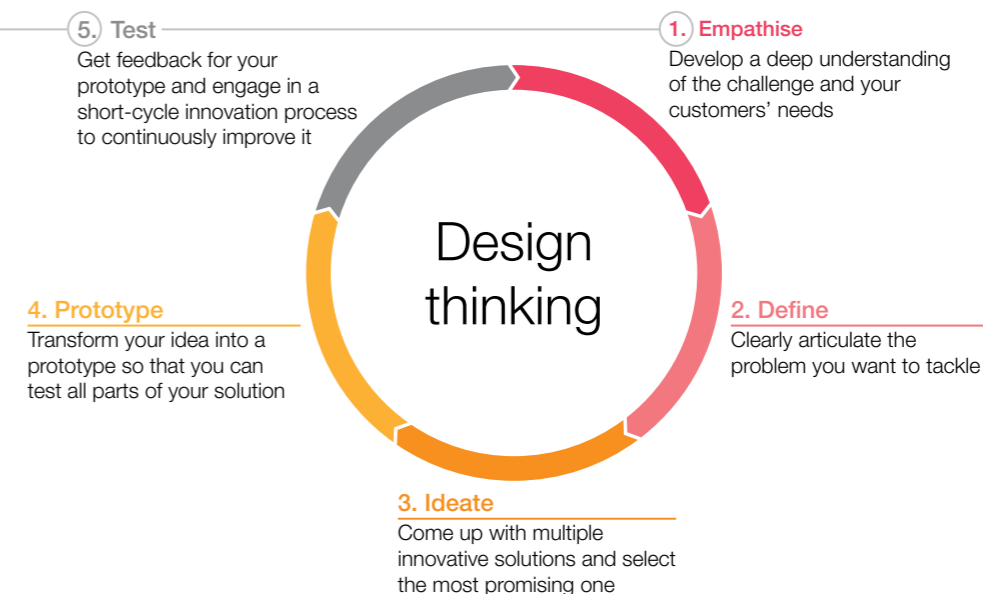
Something that is recognised by sports leaders as well, working with external partners is another essential channel to implement innovation and transformation (75.7% rated this aspect as either important or very important).

Working with sponsors provides an unrivalled platform to drive innovation. Examples are countless, with the likes of Microsoft, IBM, SAP or Alibaba taking on important roles as sponsors and innovation partners.

Working with partners does not necessarily mean sponsors, however. There is a growing number of organisations collaborating with start-up or innovation hubs. For example, UEFA recently launched a start-up competition, gathering international start-ups to share experiences and help UEFA address and try to solve some of its current business needs. In the United States, the NBA, which has a strong track record in this space, has teamed up with Warner Lab to develop new digital content solutions for basketball and beyond.

5 steps of design thinking

The innovation journey starts and ends with your customer



Source: Design Thinking model, by the Hasso-Plattner Institute of Design at Stanford (d.school)

The six characteristics of superior innovators

1. Aligning innovation and business strategies

Employees need to be very clear in purpose as to why and what they are innovating. Resources should be funnelled into research and development that will have the most impact on future success, not things that will divert attention away from achieving relevant business goals.

2. Company-wide cultural support for innovation

Overall company culture plays an essential part enabling successful innovation. An innovation mindset needs to be proactively integrated into both mission and organisational structure.

3. Top leadership is all in

Executive input and support plays a large part in creating an innovative culture. Leadership provides vision to align the overall direction of R&D efforts, and importantly, is often the only thing able to overturn older methods of management and red tape that get in the way of innovation.

4. A customer-first approach

Deeper, continuous and iterative customer insights are an absolute key capability in coming up with innovative ideas and have to be handled as critical to the success of the innovation process.

5. Choice of the right projects

'Fail fast and fail often' goes Silicon Valley's mantra. While innovation may go through multiple stages, it is the decision making on which projects to 'green light' at the front end that are most important drivers of long term success or failure.

6. A holistic approach to innovation

Simply throwing money at research and development will not result in success, and indeed, when done poorly, is likely to push companies towards negative outcomes. Successful innovator must exemplify all five of the above characteristics, not just one or the other.

Source: PwC Strategy&, 2018 Global Innovation 1000, What the Top Innovators Get Right



As demonstrated in this section, innovation does not happen by accident. It is the result of deliberate actions to create enabling structures and populate these with people that possess the talent and skills to make it happen. It is an iterative process that embraces collaboration, customer feedback, "fast failure" and learning from mistakes. It requires courage and a sense of overall purpose. For established sports organisations, the stakes for this purpose couldn't be higher: remaining relevant in an increasingly competitive and disrupted industry.

Direct-to-consumer: Engaging sports fans in the digital age

In the sports media space, we considered recent trends in digital media consumption, the many paths rights owners are using to distribute content through digital platforms, and the merits and challenges of doing so direct-to-consumer. Sports leaders tell us that successful OTT distribution is by no means a walk in the park and has been commercially underwhelming to date. We see OTT as a potentially impactful, albeit non-essential part of understanding your audience through a holistic fan engagement strategy.

Digital media consumption: a closer look

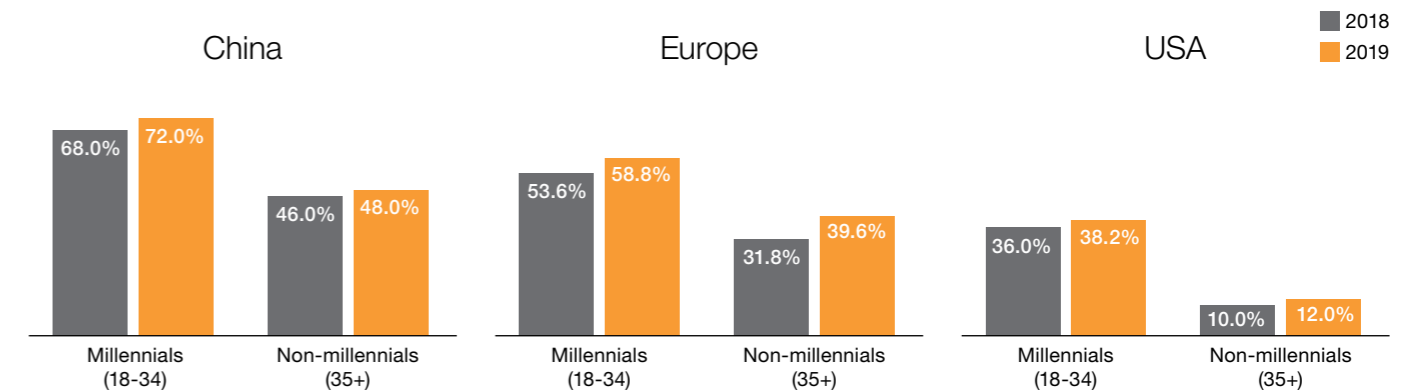
It is now universally accepted that the future of sports consumption will (ultimately) be digital. While traditional linear TV will continue to play a fundamental role in the years to come, with older generations continuing to spend a significant amount of time watching “the old way”, the trend towards digital is clear – and so is its growth potential.

Across the entertainment and media sector, content owners and media distributors are focused on the big prize: market dominance “at scale” across digital media consumption.

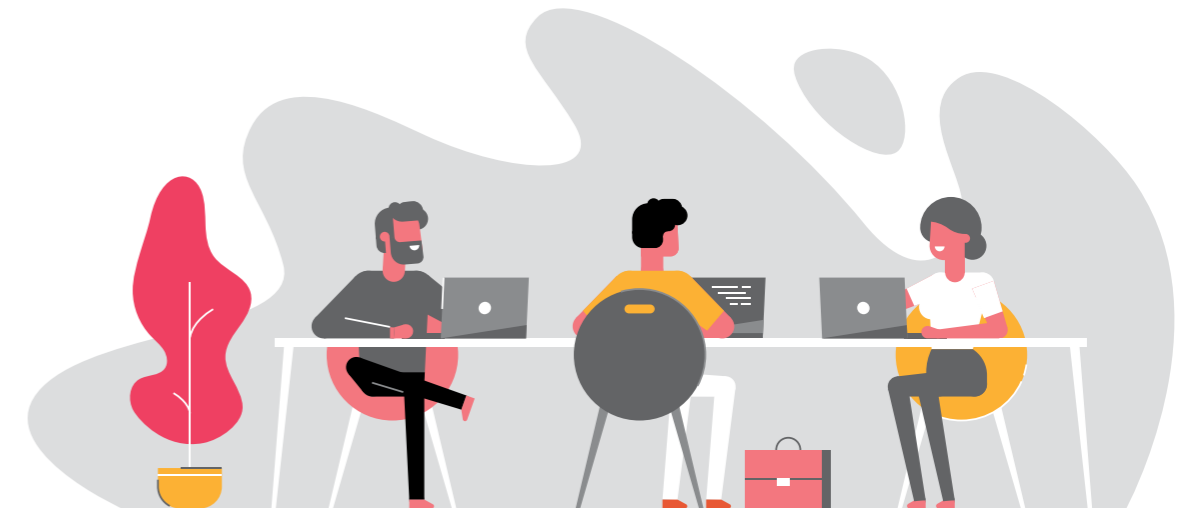
This raises important questions for sports rights owners on how they approach their own digital media distribution strategy and the possible use of OTT platforms, which we will address in this section in more detail.

To set the stage for the debate, we asked IRIS Intelligent Research in Sponsorship to share a snippet of their latest consumer research on digital media consumption. Their study covers samples in the US, Europe and China of consumers that have access to the internet and have expressed an interest in sports (top 2 box).

Consumption of TV sports content through streaming
Percentage of respondents, Top 2 box



Source: IRIS Intelligence | 01/2019, CAWI, N=1021 internet users interested in sports (Top 2 box). Europe includes France, Germany, Italy, Spain and United Kingdom.



In general, the online streaming of sports content has continued to increase over the past year, with percentage point increases of between 2% and 8%. A big driver has been the growing number of traditional TV providers making their content available on digital platforms, along with a greater amount of sports content distributed digitally by rights owners and pure OTT providers.

Interestingly, however, the share of US consumers watching sports through digital channels is relatively small, which reflects the resilience of the domestic TV market and the wealth of linear channels with sports programming. Among sport-inter-

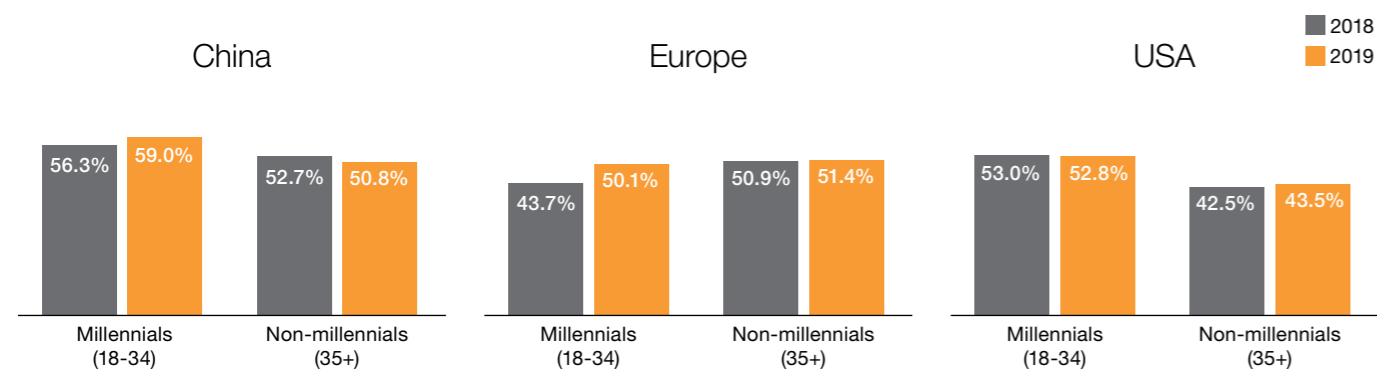
ested millennials, only 38% stream sports online compared with 72% in China and 59% in Europe. The difference is even more striking among non-millennials, with only 12% streaming sports online compared with 48% in China and 40% in Europe.

In turn, China's strong numbers could be the result of the more modest number of linear sports channels available to Chinese consumers. This has offered greater opportunities for OTT providers, which have duly entered the Chinese market, mobilising nearly three quarters of mainly urban, sports-interested millennials to consume sports content online.

Most importantly, however, the Chinese have an unrivalled affinity for online solutions, which inevitably extends to media consumption.

For its part, Europe has experienced a significant disruption of local markets, with OTT providers enjoying an increase in popularity and consistently adding to their respective sports rights portfolios. Although each market has experienced differing development, the trend towards digital consumption is ubiquitous, with nearly 60% (and counting) of sports-interested millennials consuming sports content online.

Willingness to pay for the top four sports in the relevant country as part of streaming service
Percentage of respondents, Top 2 box



Source: IRIS Intelligence | 01/2019, CAWI, N=1021 internet users interested in sports (Top 2 box). Europe includes France, Germany, Italy, Spain and United Kingdom.

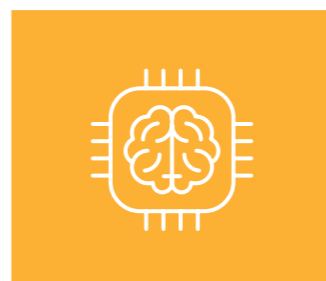
As part of the analysis, IRIS also provided data with regard to consumers' willingness to pay for the top four sports in the relevant country to be part of a streaming service.

The first clear takeaway here is that consumers are generally willing to pay to access content, with over 50% of respondents across most regions and age groups stating their willingness to do so. Year-on-year growth is particularly strong for millennials, while older generations seem to have plateaued. This could suggest a dilemma on the part of older generations – one that is not faced by cord-cutting or cord-never millennials – of choosing between their cur-

rent pay TV subscriptions and adding new paid OTT services.

Looking at regional differences, willingness to pay has remained flat in the US and even decreased among millennials. Interestingly, this trend is not observable across all sports: more detailed analysis suggests that millennials' willingness to pay for football and basketball has grown, while for American football and fighting sports it has declined. This would demonstrate that willingness to pay to stream sports is no longer a general question, but rather a concrete reflection of rights owners' and event organisers' ability to engage effectively.

Possibly for the same reasons, Europe and China also feature significant variations between sports, although millennials generally showed a greater willingness to pay compared with 2018. A possible interpretation could be that millennials' consumption behaviour, contrary to that of non-millennials, is less related to top events or a particular team's performance. This is exemplified by the stark decrease in the willingness of non-millennials to pay for sports that recently staged a world championship, compared to that of millennials, which is much more stable.



The race for fans' attention (and primary data)

As the 'attention economy' takes over, sports leaders are clear that the ability to engage fans effectively is the number one opportunity to grow revenues, with 84.9% of respondents stating so. Succeeding or failing at this will be determinative in delivering sponsors that additional edge, while offering fans additional options to consume content according to their preferences.

In order to do so, rights owners have naturally teamed up with media and tech companies to reach and monetise fans with impactful digital content. The examples are countless:

- Leading platforms such as Facebook, Netflix and Amazon have released original content with properties such as Formula 1, the NFL and football teams or athletes such as Tom Brady.
- Emerging short-form mobile video platform TikTok has also entered the scene with high-profile partnerships such as the one with Borussia Dortmund.
- DAZN has continued its relentless international development through the acquisition of premium content, mirrored by niche players like mycujoo for long-tail content.
- Most interestingly, rights owners are also partnering with hybrid organisations like 433 or COPA90, which blend agency and content production work with an impressive following on mainstream social media channels.

These partnerships beg the question: should rights owners be placing all their eggs in the basket of intermediaries? Beyond the attractiveness of tapping into their expertise and reach, the current fluidity in the media sector coupled with the limited data shared by such intermediaries are cause for concern.

Disney's bundling of ESPN into their newly launched OTT Platform Disney+ is a stark reminder that the media space is consolidating and going forward just a few players will be calling the shots – and sports content is no exception.

“Data must be at the heart of all growth strategies. This goes beyond CRM by including device ID's, cookies, browser information, content mapping etc. to develop a detailed picture of fans. It is the only way to start understanding more about how to sustain a high-performance D2C strategy.”

Sanjit Atwal
CEO, Halfspace

Our respondents recognised this point, with 55.2% identifying the dominance of major tech firms as a gateway to content as a major threat to industry revenues. As a result, rights owners across the board have been compelled to consider distributing content direct-to-consumer, thereby further developing direct fan relationships and the potential benefits this brings. Obviously, not every rights owner has the core capabilities or resources to get such a strategy off the ground successfully. That said, we are of the view that in today's environment every rights owner should have a direct fan engagement strategy together with a clear vision as to whether or not a streaming platform should for a part of that.

To add some colour to the debate, we asked sports leaders what they think are the main benefits for rights owners of implementing their own OTT platforms.

Access to fan data came out on top, either for commercial purposes (80.1% of respondents) or to generate insights enabling product improvement (70.4% of respondents). Access is only the beginning, though: many players lack the infrastructure and know-how to derive commercial value and insight from the data at their disposal. A lot of them are still scrambling to get legacy systems to talk to each other, let alone have the necessary CRM systems and analyti-

cal capabilities in place to make the most of this opportunity. In all too many cases, rights owners are not yet in the position to use fan data to their benefit, having long neglected its importance while succeeding through the sale of traditional rights. As understanding data is the key to success in a world where content is primarily consumed through digital channels, rights owners that feel unprepared should act now to avoid falling behind.

Another top aspect mentioned by our respondents is the ability to increase global reach and viewership, considered by 70.1% of respondents as either important or very important. Indeed, rights owners that have been savvy in structuring their (digital) media rights deals have had the opportunity to ensure broader coverage. An interesting case of a sport having implemented a long-term – and so far successful – multi-platform strategy is the NFL's entry into the German market. While selected games are available free-to-air, all games are also available on the streaming platform DAZN with German and English commentary as well as via the league's official streaming service, the NFL Game Pass. After having barely any awareness a couple of years ago, last year's Super Bowl had a viewership share of 40% on German TV.

“Key to succeed in D2C is to start nimble and develop a strategy with the right partners, invest in data and digital marketing capabilities, and involve fans and athletes in the initiatives. Build your offering with the fans in mind, enlarging the view on what they really like beyond the core sports content: think entertainment.”

Carlo De Marchis
Chief Product & Marketing Officer
at deltatre



Rights owners' OTT platforms: are they delivering?

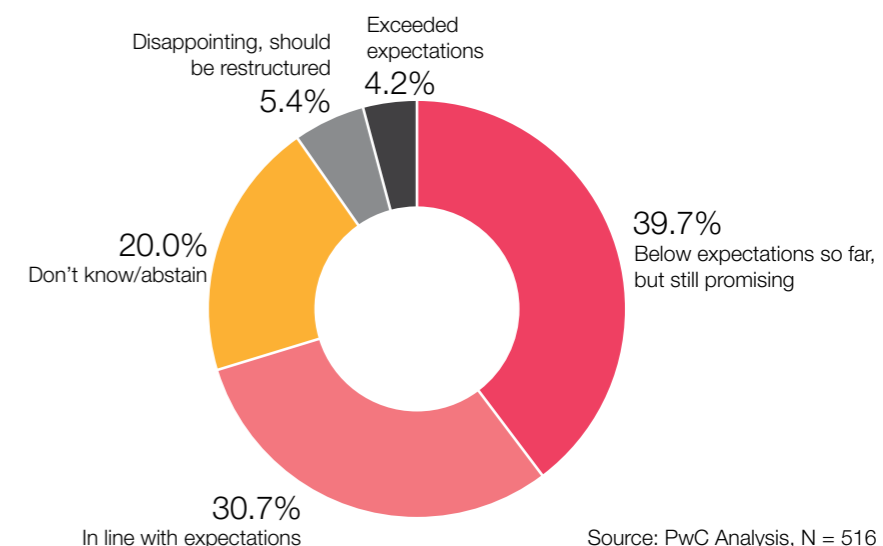
Armed with the confidence that younger generations are willing to both consume and pay for premium digital content, and with a clear view of the benefits of distributing content direct-to-consumer, a growing number of rights owners have taken the step of launching their own OTT platforms. These have varying degrees of maturity and have experienced different levels of success to date, with few rights owners having had the courage (or contractual ability) to offer access to premium content. Many of these platforms have become outlets for on-demand original content or second-tier live content, or are used as “back-up” channels for streaming premium live content in markets that were not covered by traditional media partners.

Given the mixed results to date, we thought it would be a good time to examine the commercial success of rights owners' streaming platforms to date. How have things worked out so far?

The responses of the sports leaders we consulted indicate that the hype around OTT platforms as the commercial silver bullet for rights owners is over, with 45% of respondents viewing results so far as below expectations or disappointing. Only 4.2% think results so far have exceeded expectations, and just under a third view them as in line with expectations.

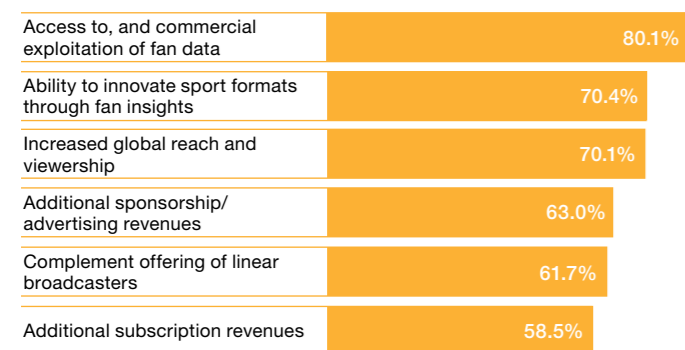
In attempting to understand the reasons for this, we asked respondents to outline what they felt were the greatest challenges faced by rights owners in implementing such platforms.

Perception of commercial success of rights owners' OTT platforms
Percentage of respondents



Benefits for rights owners of implementing an OTT platform

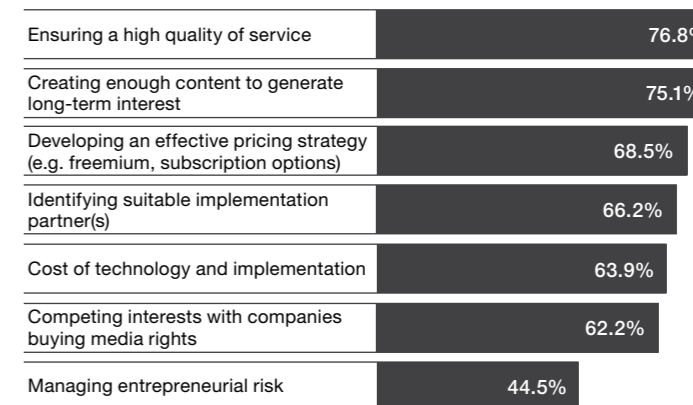
Percentage of respondents, Top 2 box (“important” and “very important”)



Source: PwC Analysis, N = 513

Challenges faced by rights owners in implementing an OTT platform

Percentage of respondents, Top 2 box (“important” and “very important”)



Source: PwC Analysis, N = 514



According to 76.8% of respondents, the main reason has been the challenge of ensuring a high-quality service, followed closely by challenges in creating sufficient content to generate long-term interest (75.1%). Rights owners face a big problem in keeping pace with huge content production and distribution machines like Netflix, Amazon or DAZN that are competing for the same entertainment budget. Especially smaller sports with less high-end competitions have issues keeping fans on their platforms. Unfortunately, simply shifting a linear TV feed onto a digital platform does not make it more exciting or engaging for the digital-first generation, which has more and more demanding expectations of the features live sports streaming should offer.

Developing an effective pricing strategy also ranked high on the list of challenges, with 68.5% of respondents naming it as either an important or very important concern. As

demonstrated by numerous studies, there is no doubt that people's willingness to pay for digital sports content is on the rise, as consumers appreciate the value of accessing engaging and personalised content. The difficulty lies in finding the right balance between free and paid content, and in ensuring an effective funnelling of fans' attention from free content to platforms that allow for direct (or indirect) monetisation.

Looking outside of sports, gaming may provide an interesting example of successful "freemium" models. Virtually any game has a free-to-play version that drives initial engagement. A price-sensitive – or uncommitted – gamer may continue on that basis. This provides only little monetisation potential, and yet expands the reach and popularity of the content. From there on, consumers are funnelled into a full spectrum of value propositions with varying monetisation models: a subscription, a one-

off fee or plenty of in-game transactions that upgrade the experience.

What does the future look like in terms of sports media pricing models? It is clear that the paradigm of exclusivity and free-to-air vs. paid content has its days numbered. We believe rights owners will have to provide an effective entry-point to consume content that is free of charge, non-exclusive and broadly accessible. From there, they will have to develop an effective product and pricing strategy to funnel consumers in line with their evolving preferences and needs. This will be painful in the short term as it will likely cannibalise traditional media rights revenues. Long term, however, it may be the only way to maintain the appeal of sports content for generation Z.

In summary, there is no single way to engage fans effectively. All distribution channels, be they direct or intermediated, should be considered based on their respective merits (and challenges). In a world where media and sponsorship are converging and rights owners

need to have the sophistication of digital advertisers to attract partners, the winners of tomorrow will be the players who are able to build direct fan relationships and develop an intimate understanding of their audience, be it through streaming or other means.



Play



“ Sports federations should carefully reflect if future OTT income will balance out with reduced revenues from traditional media due to reduced exclusivity, as well as the costs to develop, maintain and run an OTT solution with the same quality standard. ”

Stefan Kürten
Executive Director, Eurovision Sport

Role of sports federations

What next?

As the sports industry has entered the digital age, sports federations are under growing pressure from various angles. We asked sports leaders how they feel federations are performing across a number of areas, and where they should focus their efforts in the next 3-5 years. We also reflected on the specific opportunities that gaming and esports might provide. Our analysis shows that federations still have work to do to re-gain the confidence of the sports community. Also, federations need to focus on innovating formats and rules, broadening reach, and collaborating with investors and commercial entities.

Federations on a journey of self-improvement

Over the last couple of decades, the sports world has come under increasing scrutiny, with louder demands for better governance and integrity in the face of recurring corruption and doping scandals. This has brought the role of sports federations into question, with many commentators raising doubts as to whether they are fit for purpose.

A couple of relatively recent – and highly significant – developments have illustrated that international federations in particular will have to do more to remain relevant and cannot rest on their laurels. In 2017 the European Commission ruled that International Skating Union (ISU) rules imposing penalties on athletes participating in competitions not sanctioned by them were in breach of EU antitrust law. Similarly, in 2018 the International Swimming Federation (FINA) threatened athletes with a two-year ban if they swam in the first edition of the recently

launched rival competition called the International Swimming League (ISL), raising the prospect of further legal disputes. Although FINA ultimately brought its regulations in line with anti-trust law, such punitive tactics have laid bare the struggle certain federations are facing to maintain a position of strength.

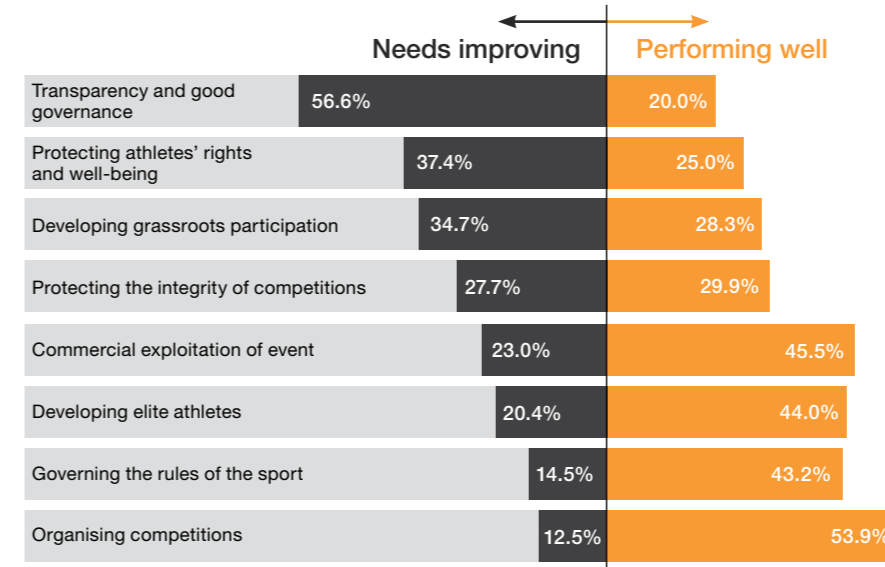
With the proliferation of new events established by private actors, should we not just allow the free market to determine winners and losers? If so, what role would be left for sports federations that are outperformed by the competition? We are of the view that federations remain vital to the development of a healthy and sustainable sports ecosystem, but in many instances must step up their game to remain relevant in the governance and development of their respective sports.

The global development of a sport needs a common set of rules and a cross-border effort to ensure the integrity of competitions. This requires stakeholders to come together in order to agree upon joint outcomes and initiatives. We believe that membership organisations with a representative governance model, although at times slow-paced, remain best suited to forging agreement and coordinating efforts effectively.

Furthermore, the important societal role played by sport requires investment in sports development in order to ensure a broad and diverse base of participants and talent. We believe that only not-for-profit organisations can genuinely work towards this goal.

That said, international federations must be held accountable for their performance in relation to the above-stated goals.

How do you rate the performance of sports federations in the following areas?
Percentage of respondents, Top/bottom 2 box



Source: PwC Analysis, N = 525

The sports leaders we surveyed did not shy away from pointing to the areas where performance has been lagging. Transparency and good governance was identified as the key area for improvement, with 56.6% stating that performance needs improving. Respondents also pointed to improvement potential for protecting athletes' rights and wellbeing (37.4%), developing grassroots participation (34.7%) and protecting the integrity of competitions (27.7%).

“ We need to be faster, pro-active, more professional, with integrity. ”

Francesco Ricci Bitti
President, Association of Summer Olympic International Federations

Effective strategies require focus

The sports industry is undergoing unprecedented disruption. With technological advances creating new possibilities for both content creation and distribution, sports fans are developing consumption preferences they even didn't know existed a few years ago. In such an environment, where the new normal is constantly evolving, federations face a big challenge in determining where to focus their efforts. What initiatives should be pursued? What angle should be taken on new opportunities? What risks are worth taking, and which should be avoided?

The list of open questions is long. To wade through this ambiguity, federations must start by defining a strategy that works for them. It is essential to set themselves on the right path by defining a clear set of objectives that enable organisational focus.

At PwC, we break strategy definition down into three key areas (see figure): way to play, capabilities system and product and service

fit, which lead into the fourth and decisive area: an organisation's right to win. These questions are not only relevant for private organisations: sports federations also need to ask themselves where they stand in each of these areas. They are competing for attention and relevance, not only with other sports, but also with the broader media and entertainment industry. Needless to say, there is no one-size-fits-all to defining a strategy. Every organisation needs to be able to develop a unique approach as to how it wants to face the marketplace.

To shed more light on how a federations' strategies may take shape, we asked sports leaders to pick from a non-exhaustive set of strategic trade-offs. Take the responses not as an end, but rather as a means to an end: sparking a debate about strategy.

What did we learn from the industry's collective wisdom?

Federations should be making innovation in formats and rules a centrepiece of their way to play. Also, when balancing a federation's sports development and commercial functions, development should be prioritised.

Looking at products and services to bring to market, sports leaders still think that traditional sports should come first, while developing a complementary gaming or esports offering also ranked highly. Thinking of distribution, the long game for federations should be to reach and engage the broadest possible viewership base over short-term monetisation.

When thinking of their capabilities to exploit events and content, federations should focus more on collaborating with external parties. There was no clear winner as to whether to build resources in-house or spin off commercial or digital functions externally: our results indicate that both approaches have merits.

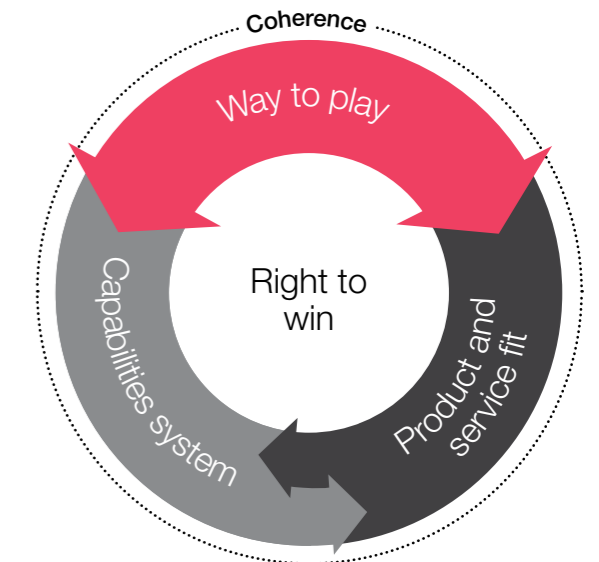
PwC Strategy & capability based strategy framework

Way to play: In what way are we going to position ourselves in the marketplace to generate value for our customers and stakeholders? How will this differentiate us?

Product and service fit: What are we going to sell and to whom? How does this product fit with our capabilities and way to play?

Capabilities system: What do we need to do particularly well to generate value? What allows us to deliver consistently? What combination of processes, tools, knowledge, skills and organisation will make it happen?

Right to win: How coherently are we bringing together our way to play, capabilities, products and services? Do we have a "right to win" compared to competitors?



Source: PwC Strategy &, Capabilities-Driven Strategy + Growth

Where should sports federations focus their efforts in the next 3-5 years?

Percentage of respondents, forced trade-off among two options



Source: PwC Analysis, N=522

Forget esports for a moment, do you have a gaming strategy?

The staggering growth of esports has created a new challenge for federations, who like many other sports organisations are scrambling to distinguish real opportunities from media hype or false promises. Sports organisations are increasingly engaging with esports, and sports leaders are beginning to make esports a strategic priority. In fact, when faced with a trade-off between focusing on traditional sports or developing a complementary gaming and/or esports offering in the next 3-5 years, nearly half of respondents (46.5%) are of the opinion that federations ought to focus on the latter.

Although esports is the buzzword on everyone's lips, a number of organisations are liable to forget that esports has emerged

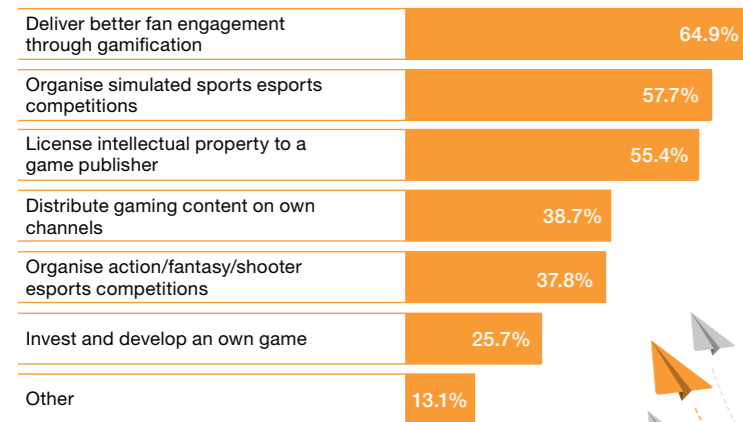
from the gaming industry, which is where we believe their primary focus should lie. Debating esports without a gaming strategy makes little sense as 95% of esports viewers are gamers. This critical point changes the discussion for sports organisations and introduces a number of new opportunities that can help federations achieve their objectives.

By prioritising a gaming strategy, federations can broaden their thinking beyond simply organising a competition for their sports simulation game and consider different options that have greater potential to drive global reach, fan engagement and revenue growth. Recent technological advancements have increased the oppor-

tunities for mobile gaming, and federations may consider how a portfolio of different mobile-first sports games can engage fans globally and grow their audiences. Furthermore, the gamification of sports provides exciting opportunities to attract sports fans in new ways, creating unique experiences. Interestingly, 64.9% of survey respondents identified the delivery of better fan engagement through gamification as the most attractive gaming and esports opportunity for federations.

Attractiveness for sports federations of selected gaming and esports opportunities

Percentage of respondents, Top 2 box



Source: PwC Analysis, N = 242



When developing a gaming strategy, federations must consider the following questions:



Is it possible to govern the digital versions of our sport?



Is there a leading simulation game for our sport?



Do we have a relationship with the relevant game publishers?



What assets and capabilities do we have to create value within gaming and esports?



How aligned are our different stakeholders on gaming and esports opportunities?



How can gaming drive our digital strategy?

As federations consider the most appropriate way to engage with esports, they must not forget that any pinnacle competition requires a thriving ecosystem at its base and a clear pathway to the top. All too often, attention is only paid to the top of the pyramid and the base is forgotten, despite the latter being where the long-term value is often generated.

Federations that decide to engage with esports should consider how they grow the whole pyramid around their selected games and leverage their considerable experience and expertise in increasing participation and creating robust development pathways. Federations must work collaboratively with game publishers to create a compelling competition experience and grow the selected game ecosystem from grassroots to elite levels. This will result in a long-term, mutually beneficial relationship that helps both organisations achieve their objectives.

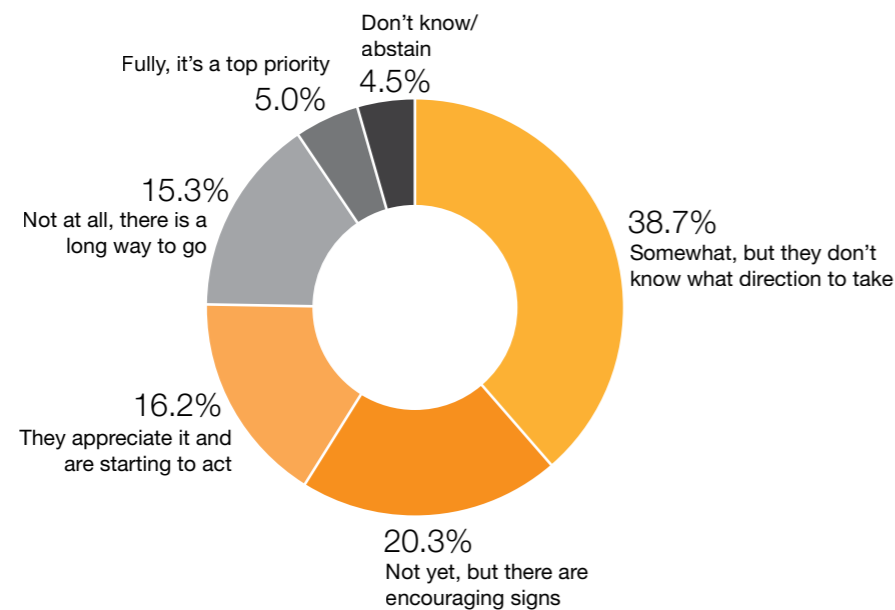
The challenge for federations is to develop assets and capabilities that create value for game publishers to dissuade them from independently growing their own game ecosystem without involving them.

Ultimately, it is clear that gaming and esports offer federations new and exciting opportunities to grow their sports reach, engagement and revenues. Has this message come across clearly enough to federations? The sports leaders we surveyed are not certain. 38.7% think that senior leadership at federations is unclear regarding which direction to take. We believe this reflects the significant complexities of the gaming and esports ecosystem and particularly the challenge for federations to engage with it in an authentic way.

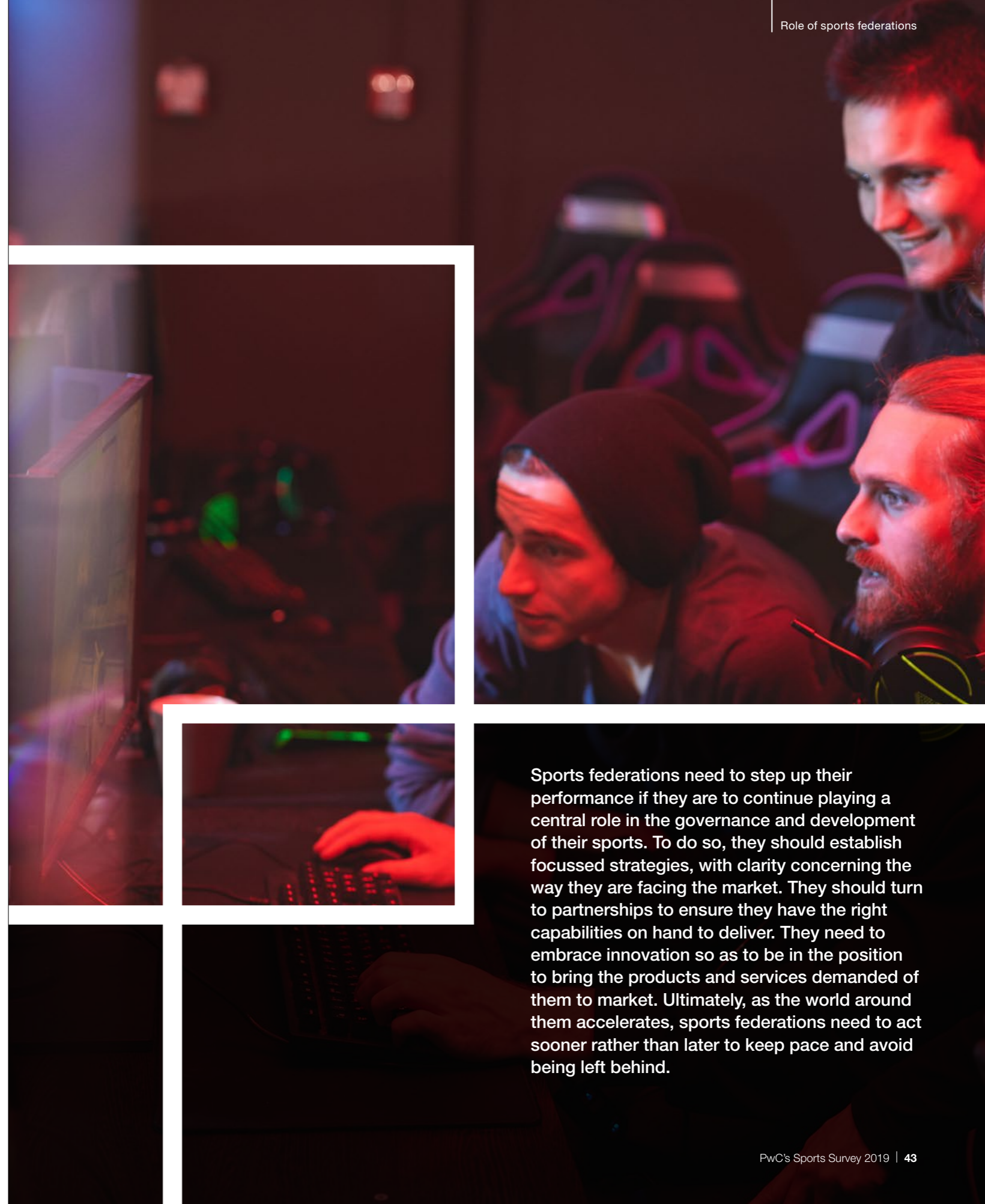
“Sport fans are increasingly looking for “lean-in” entertainment experiences and want to be part of a narrative instead of passively consuming content. Gaming and esports will take centre stage over the years to come, especially in a world where real and virtual experiences will eventually intersect.”

Christian Volk
Director eFootball & Gaming, FIFA

Does senior management of sports federations fully appreciate the growing opportunities in gaming and esports?
Percentage of respondents



Source: PwC Analysis, N=242



Sports federations need to step up their performance if they are to continue playing a central role in the governance and development of their sports. To do so, they should establish focussed strategies, with clarity concerning the way they are facing the market. They should turn to partnerships to ensure they have the right capabilities on hand to deliver. They need to embrace innovation so as to be in the position to bring the products and services demanded of them to market. Ultimately, as the world around them accelerates, sports federations need to act sooner rather than later to keep pace and avoid being left behind.

Partnership with third-party investors

A new dawn for agencies?

72.0% of sports leaders have stated that federations should focus resources on partnering with third-party investors or commercial entities, as opposed to fully controlling own events and content (28.0%). This result raises the question of the future role of sports marketing agencies in the evolving sports ecosystem.

As illustrated in the chart, agencies have played a fundamental role in developing sports marketing and have been jointly responsible for a significant portion of the revenue windfalls that have benefited federations and teams over the last 20 years. ISL, TEAM Marketing, Endeavour (IMG), Infront, MP Silva and Lagardère, just to name a few, have all been instrumental.

In recent years, however, the role of agencies has been gradually decreasing in many cases, compounded by a trend towards in-sourcing by rights owners keen to maximise profits.

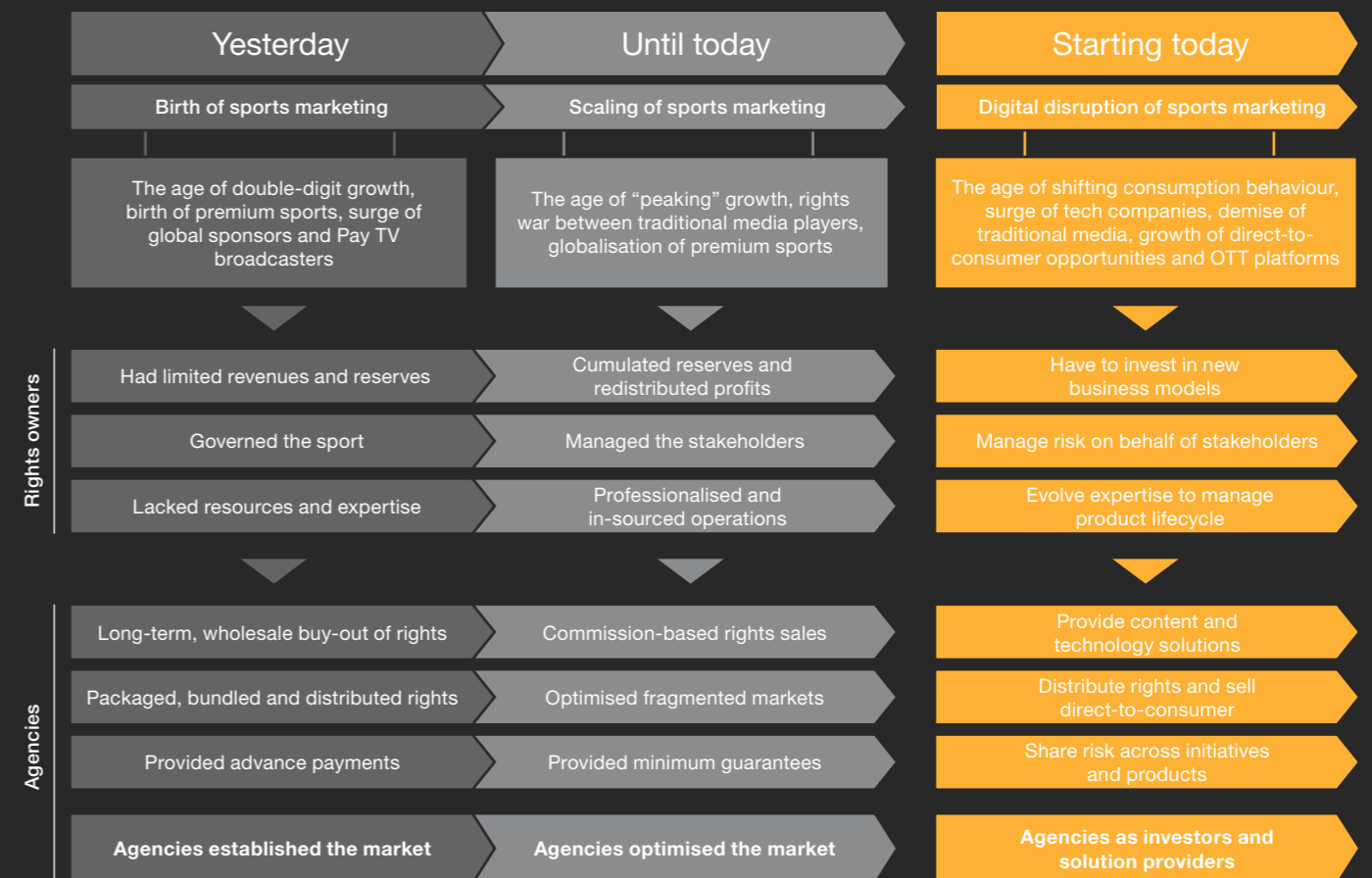
As we are entering a new age that is rife with uncertainty, we are of the opinion that agencies will see a new surge in relevance, as rights owners are caught in the crossfire between stakeholders demanding a steady re-distribution of commercial revenues, and the growing entrepreneurial risks related to (digital) media distribution and D2C strategies.

The growing interest of private equity funds in investing in commercial entities alongside rights owners – albeit it highly controversial

– is testament to this trend. Take, for example, CVC's reported GBP 225 million investment in the Rugby Premiership and reported interest in investing GBP 500 million in the Six Nations Championship rugby union competition.

Will private equity funds also become agencies, will agencies act as private equity funds or will both find ways to bring their best to the table and collaborate? Watch this space...

Relevance of sports marketing agencies over time



Source: PwC Analysis

Notes and sources

Growth Opportunities and threats & Women in Sports

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Our service offerings



Corporate strategy

Business planning

Organisational design

Governance and compliance

Independent business review and due diligence

Market analysis and benchmarking

Mega-event feasibility and impact assessments

Our clients



Brands

Event organisers

Host cities

Sports federations

Leagues and teams

Media companies

Sports marketing agencies

Sports ministries

Sports tech firms

Our Sports Business Advisory team

The Sports Business Advisory team was established by PwC Switzerland in 2012 and has evolved into PwC's sport business hub for Europe, the Middle East and Asia. The team helps sports industry players design effective strategies, identify new growth opportunities and optimise their operations to meet their business goals. Working closely with PwC teams and functional experts in various

territories throughout our network, we have delivered projects for a variety of organisations across the EMEA region. Since 2016, we have published PwC's Sports Survey annually, checking the pulse of the sports industry on growth expectations and a wide range of strategic and organisational topics. We hope you found the fourth edition of this publication insightful.



David Dellea

Head of PwC Sports Business Advisory
Focus areas: strategy, organisation and commercial

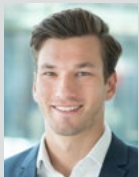
✉ david.dellea@ch.pwc.com



Clive Reeves

Focus areas: sporting operations, organisation and gaming/esports

✉ clive.reeves@ch.pwc.com



Alexander Stolz

Focus areas: strategy, operations, digital media

✉ alexander.stolz@ch.pwc.com



Clemens Kuerten

Focus areas: strategy, innovation and technology

✉ clemens.kuerten@ch.pwc.com



Fabio dell'Anna

Focus areas: tax and legal structuring

✉ fabio.dellanna@ch.pwc.com



Patrick Balkanyi

Focus areas: financial audit, assurance and risk

✉ patrick.balkanyi@ch.pwc.com



Ioannis Meletiadis

Focus areas: strategy, technology and ticketing

✉ ioannis.meletiadis@ch.pwc.com



Claudio Prante

Focus areas: deals strategy, due diligence

✉ claudio.prante@ch.pwc.com

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