Street & Smith's SBJ SPORTS BUSINESS JOURNAL

OPINION

RSN landscape: Fans will see games but the business risk has shifted substantially

BY ROB DIGISI

12.10.2024

Friday, Nov. 15, was a key milestone in the evolving regional sports network (RSN) saga. But the story is not over!

On that day, a U.S. bankruptcy court approved Diamond Sports Group's (DSG) plan to emerge from bankruptcy, and they have a new lease on life. FanDuel replaced Bally's as a naming rights partner, and this subsidiary of Sinclair Broadcasting is set up to be in business for at least the next year. Only two years ago, DSG was the exclusive distributor of live games in the local markets of 42 MLB, NHL and NBA teams, and they had a market cap of $10 billion. After a tumultuous two years, the company is down to 27 team deals and has a market cap between $600 million and $1 billion.

The RSN business model, fueled by both advertising sales and the affiliate fees paid by pay-TV distributors (MVPDs), has been in rapid decline over the past four to five years, with consumers opting for streaming services over the cable bundle. For decades, RSNs held substantial leverage over the MVPD because of the "must have" value of live local sports. They've benefited from the golden egg formed by 100% of an MVPD's customer base paying for service that about only 10%-15% regularly accessed. Despite the MVPDs' desire to create a premium sports tier to keep basic cable prices low, teams and RSNs eventually prevailed, as live games are perceived to be a sovereign right in any given community.

With this substantial cash flow, RSNs were able to secure exclusive, long-term partnerships with local sports teams whose games attract the 18- to 49-year-old male demo so valuable to insurance companies, cellphone providers and automotive brands. Media rights deals simply require the teams to deliver games. The RSNs handle production, secure carriage by the MVPDs and sell ads. All the financial risk is with the RSN, and the teams enjoyed substantial, annually recurring and increasing revenue streams.

Fifteen teams have moved on from DSG. In 2023, Warner Brothers Discovery shut down its three, leaving 10 teams seeking a new plan, and since 2021, Comcast has either closed or sold three NBC Sports RSNs, leaving six teams off to pursue alternative distribution solutions.

Thirty-one teams among MLB, the NHL and the NBA had to change the way they do business and are losing $40 million to $100 million a year in annual guaranteed revenue. DSG reports that guaranteed rights fees were renegotiated from $1.5 billion in 2024 to $982 million in 2027.

A few new models are emerging that combine local broadcast, local cable and direct-to-consumer (DTC) streaming. League production houses such as MLB Network and NBA Entertainment have geared up to turn live games into television programs. Fans will get their games, but the business risk has shifted substantially.

The revenue model will transform from guaranteed contracts to revenue dependent upon DTC subscriptions and ad sales, highly sensitive to the size of television audience. Teams will have the challenge of structuring a player payroll when a significant revenue source has shifted from fixed to variable. Ad sales models are dominated by upfront and discounted commitments combined with the higher priced scatter market where buyers can wait to assess audience size. Now the teams will take on a risk that was once entirely owned by the RSN.

Incentives will change. Teams will be faced with the decision to increase payroll in order to win more games this season, increasing subscription demand and driving ad revenue. But increased payrolls are no guarantee of success as injuries, poor performance or bad luck is always possible. Will this new dynamic trickle down to player contracts? Will there be enough competition for guaranteed contracts in these sports to continue? Large-market RSNs in New York, L.A., Chicago and Boston are still generating substantial contracted revenue, so particularly in baseball, the divide between the haves and have-nots will increase. Teams in the midst of scrambling for a new local TV/streaming arrangement were certainly in the market for Juan Soto. No one was surprised that the two New York teams, the L.A. Dodgers, Boston Red Sox and Toronto, representing all of Canada, were the final teams in the hunt.

Complicating matters further are the collective-bargaining agreements in MLB and the NHL due to expire at the end of the 2026 seasons. Can the new dynamics be incorporated into a CBA and keep both sides happy? With such uncertainty, both sides will have to adjust to a model that has far less predictability.

Sports franchise valuations have been increasing rapidly since Steve Ballmer acquired the L.A. Clippers for $2 billion in 2014. In October, Jeff Vinik sold the Tampa Bay Lightning for $1.8 billion, a healthy gain on his $93 million purchase in 2010. The Boston Celtics are for sale, and with a strong RSN partner in NBC Sports Boston, the owners will likely garner a big number. But the marketplace may be significantly different for small-market team experimenting with a new hybrid local media arrangement.

In addition to substantial leaguewide national media deals, franchise valuations have been driven by long-term contracts for sponsorships, team outfitting deals, luxury suites and reliable season ticket bases. For MLB, NHL and NBA teams, RSN media rights fees have been a significant and predictable revenue source. Local media revenue is now contingent upon maintaining audience size, so valuations may suffer until an alternative solution matures.

Fans may not immediately notice how their teams change due to the shifting risk surrounding television audience size. For those owners whose gambles pay off, their leadership will be praised. For owners who swing and miss, loyal followers will not be happy. Either way, we’re embarking on a new business model laden with incentives and consequences that we have not seen in decades.

Rob DiGisi is founder and president of Iron Horse Marketing, a sports marketing consultancy, and a frequent featured speaker on the business of sports. He teaches graduate-level sports management at the Wharton School of the University of Pennsylvania.