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ESPN Navigates a New World Order: Part 1

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In the early 2010s, ESPN was at the height of its powers. As the crown jewel of the then unassailable cable television bundle, ESPN was receiving upwards of $7 every month from more than 100 million subscribers whether they watched ESPN or not. This was in addition to the multitude of ESPN offspring, including ESPN2, ESPNEWS, ESPN Classic, and The SEC Network, from which the company received additional fees. ESPN's secondary revenue stream – advertising – was also booming, as sponsors paid a premium to associate themselves with the brand and live sports content across ESPN's myriad media platforms. ESPN was known as The Walt Disney Company's cash cow, a reputation well-earned for reliably driving the performance of Disney's Media and Entertainment division and the company overall. (Hearst owns 20% of ESPN.)

By 2024, the question of ESPN's marketplace position had become legitimate and increasingly pressing for Disney/ESPN management and the sports ecosystem. In the Internet-enabled streaming era, ESPN had encountered major headwinds: declining revenue, rising costs, changing consumer behavior, and increasing competition from new marketplace entities. Most devastatingly, cable/satellite subscribers were decreasing precipitously, from 100 million at the zenith of the model (circa 2012-13) to an estimated 70m in 2023.[1] This downward trend showed no signs of slowing, with millions of homes churning out of cable/satellite annually. Meanwhile, the cost of live sports rights, which comprised a significant portion of ESPN's content portfolio, also continued to rise significantly.[2] Moreover, with the growth of the Internet and vast broadband deployment, technology now enabled consumers to self-select their content preferences, something that was not available in the "cable bundle" era. The sheer amount of entertainment and sports content on an ever-expanding array of platforms such as Netflix, YouTube, and Amazon put ESPN in a markedly different competitive situation compared to just ten years earlier. Furthermore, accelerating this shift were the "cable operators" who now considered

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themselves broadband providers first and de-emphasized the marketing of video as it became a much smaller and lower margin business for them.

To compete in a rapidly changing marketplace, Disney and ESPN took steps to establish and strengthen their position. In 2017, Disney fortuitously acquired majority ownership of Major League Baseball's streaming platform, BAMTech, which was widely acknowledged at the time as state-of-the-art streaming technology.[3] With this infrastructure in place, ESPN in 2018 launched ESPN+, its direct-to-consumer streaming platform that would serve as an add-on/supplementary service (most of ESPN's premium content was not available on the platform). In five years, ESPN+ had acquired approximately 25 million subscribers with an average revenue per user of $6.30.[4] ESPN+ was sold direct to consumers as a standalone product or as part of the Disney Bundle with Disney+ and Hulu.

ESPN+ was clearly a steppingstone to a streaming future for the company. In a decision that had been widely speculated about for years, Disney CEO Robert Iger finally confirmed in 2023 that the "flagship" ESPN network, with all its premium content, would be available direct to consumers for the first time ever in 2025. That is, consumers would not need a cable/satellite subscription to get ESPN and the litany of other ESPN networks. This represented a major strategic and operational shift for ESPN.[5] Then, in a move that came as a surprise to most in the industry, including reportedly their league partners, Disney, Warner Bros. Discovery, and Fox announced in February 2024 a joint venture that would bundle each of the companies' linear sports networks and networks that show sports into one sports streaming service.[6] Each partner would own a third of the new entity. The service was branded Venu Sports and slated to launch fall 2024.

The battle lines had been drawn. Disney was trying to strike a delicate balance with ESPN: extract as much value out of its declining linear television business in the short-term, while investing in direct-to-consumer streaming to remain a relevant sports brand and grow over the long-term, potentially in ways that could hasten the further decline of their linear television business. But with this transformation came new, difficult, and perhaps existential challenges. Could ESPN transition from a company built on a B2B business model with affiliates and advertisers to more of a B2C consumer product? Could it find opportunities for revenue growth and operate profitability, which had been a challenge across the board in streaming, while also competing for live premium rights? Could it achieve relevance with a younger generation of fans who had demonstrated a resistance to video subscription services? Was this a tipping point where the "cable operators" – a.k.a. broadband providers – get out of the video business and jeopardize ESPN's primary revenue stream? For the self-professed Worldwide Leader in Sports, the answers to these and other questions would determine its fate.

To grapple with these questions, this case is organized into three main parts. First is a look back at key moments in the history of ESPN's business to provide context on the company's challenges in 2024 and beyond. Second is a survey of the competitive landscape for ESPN. Third and finally is an exploration of the various strategic options and scenarios for ESPN as it charted its future.

The Evolution of ESPN

Like the founding of other great companies, ESPN's origin story combines both a good idea and some luck. It started in 1978, when Bill Rasmussen served as the communications manager for the NHL's Hartford Whalers. He got fired. For his next act, he had the idea of going out on his own and starting a Connecticut sports television network, which would draw on the skills and knowledge he used in his previous job. With his son Scott's help, they started putting together plans to turn this vision into a reality.

The father-son cofounding duo soon found out that their idea had even more potential than they ever imagined. One of the technologies they utilized for the network was a nascent 24-hour satellite made by RCA, where they leased one of the many available transponders. Unbeknownst to the Rasmussens, the satellite had a footprint that covered the continental United States, reaching not only every home in Connecticut, but also every cable television operator in the country – and therefore every home that had cable – all 1.7 million homes at launch – all for no additional cost. Cable operators at the time were receptive to new and exclusive programming ventures (HBO, CNN, MTV, etc) as they had theretofore only served homes in areas that were incapable of receiving over-the-air broadcast signals. This gave them an opportunity to sell their services to a much broader marketplace. Bill and Scott created the Entertainment and Sports Programming Network in 1978 and decided to set up shop in Bristol, Connecticut.

The next year was filled with milestones for the startup. ESPN acquired the live rights for NCAA games, locked in United Cable TV as its first affiliate, and signed an exclusive advertising agreement in the beer category with Anheuser Busch for $1.4 million. Then, on September 7, 1979, at 6:00p, ESPN went on air for the first time with an episode of *SportsCenter*, hosted by Lee Leonard and George Grande.[7] The unpredictable, groundbreaking, and wildly successful journey of ESPN had begun.

Corporate Ownership

In the early years of ESPN, the fledgling company worked to find its footing amidst changing corporate ownership.[8] In 1979, the Rasmussens secured a seed round of funding from Getty Oil in exchange for 85% of the company. Then the broadcast network ABC, with its legacy in the sports television business, became a natural suiter for the company. On January 2, 1984, ABC bought 15% of ESPN from Getty. Just six days later, Getty Oil and Texaco merged. Texaco quickly looked to shed itself of ESPN, which was hardly core to an oil and gas company. In April of 1984, ABC purchased the remaining 85% of ESPN, buying out Rasmussen's stake as well. Now with 100% control of ESPN, ABC made the decision in September 1984 to sell 20% of the company to RJR Nabisco brands. 1984 was a busy year, and it ended with ABC owning 80% of ESPN and RJR Nabisco brands with 20%.[9]

Meanwhile, Tom Murphy, chairman and CEO of Capital Cities Communications, had been building a highly profitable and well-managed company of broadcast stations and magazine publishers. His philosophy of buying quality media assets at good values aligned well with the investing approach of

Warren Buffett, who had become an investor and advisor of Murphy's. When ABC started to struggle in the 1980s, Buffett saw an opportunity and he introduced Murphy and founding chairman of ABC Leonard H. Goldenson on a deal to acquire ABC, a company that was quadruple the size of Capital Cities. On March 18, 1985, Murphy closed the deal on this transaction, bringing ABC and 80% of ESPN under Capital Cities.[10]

It was Murphy's next deal that proved to be the most significant in ESPN's history. In 1996, he and then-Disney CEO Michael Eisner agreed to merge Cap-Cities with the Walt Disney Company. By then, ESPN had firmly established itself as an ascendant brand, so much so that Eisner said the potential growth of ESPN was the centerpiece of the deal.[11] The merger was completed in 1996, and 80% of ESPN was now under the umbrella of the world's largest and most storied entertainment company.[12] Ultimately ABC Sports would fall under ESPN's leadership.

As for the remaining 20% of ESPN, private equity firm KKR acquired this ownership stake when it bought RJR Nabisco in 1988. KKR held onto it until 1990, when Hearst Corporation purchased it. Hearst retains this stake to this day. When Murphy of Cap-Cities initially acquired ABC and ESPN, he and his longtime business partner Dan Burke had the option to buy KKR/RJR Nabisco's 20% stake in ESPN vis a vis their ABC ownership. Instead, they looked to lay off some of the risk of owning of ESPN, which is why they sold it to Hearst, who was a partner in other nascent cable properties such as the Arts & Entertainment Network and Lifetime Television. When Murphy retired, he was interviewed by Charlie Rose who asked him what his biggest regret was. Murphy stated, "Selling 20% of ESPN to Hearst."

The First Affiliate Fee

When ESPN started, it gave away its content to cable operators for free. Advertising was its only revenue stream, and quite simply, it needed to reach more people to make more money. The quickest way to achieve distribution was not to charge for it. As ESPN's business matured, however, this strategy would prove untenable, especially as it began to bid for premium live sports rights, which were key to ESPN's future growth. This would dramatically increase the company's operating costs, which advertising revenue alone could not cover.

While ESPN struggled to manage its balance sheet in the early years, the broader cable industry experienced its own share of growing pains. For example, in 1982, the high-profile CBS Cable network collapsed after a little more than a year in operation, forcing CBS to take a $30 million loss. The network invested in original performing arts and culture content but had difficulty finding and monetizing through advertising an audience on cable that would justify its investment. The failure made some in the industry question the whole proposition of cable television.[13]

This situation led then-ESPN CEO Roger Werner to go to the cable operators with a Hail Mary of sorts. He attempted to charge cable affiliates for something they had been receiving for free. But Werner

knew ESPN drove value for the cable operators; it was bringing in subscribers to the bundle. If the company did not start getting paid for the value it was delivering, it would have to go out of business, which could threaten the cable operators' businesses as well. The pitch worked, and operators began paying four cents per subscriber in 1983 and 1984. Meanwhile, ESPN continued to expand its advertising business as well.

ESPN's Growth Accelerates

With a dual-revenue stream business model – affiliate fees and advertising – ESPN was positioned for future success. But, like any business, it would need catalysts for growth. Over time, it found three critical growth drivers – the National Football League (NFL), the introduction of direct broadcast satellite (DBS), and the corresponding demand for new channels from both cable and satellite operators.

First, the NFL was, and remained even in 2024, the most valuable sports property in the United States, and ESPN's business would undoubtedly benefit if it had the NFL on its air. By 1987, it did. ESPN acquired a half season of Sunday Night Football, which consisted of 8 second-half season games. Turner ultimately, and briefly, had the first half. ESPN was the only cable network in that first three-year deal. The second three-year deal the league sold a first half season package to Turner and renewed ESPN's second half season package. Ted Turner had overpaid for the MGM library and was teetering on bankruptcy, and a consortium of cable operators agreed to pay Turner a premium for TNT with the NFL package to get him back on solid footing as TNT was critical content for the operator's consumer value proposition.

For a sports television network that was not even ten years old, the NFL was a certificate of authenticity and an accelerant for ESPN. To pay for the NFL, ESPN passed on a surcharge to affiliates to cover their costs in acquiring the rights. ESPN gave affiliates the option not to show the NFL and thus avoid paying the surcharge. No affiliate took that option.

The next deal with the NFL exponentially grew ESPN's and the cable operators' businesses. When preparing to bid on the Sunday Night Football package starting in 1998, the company decided to go back to its affiliates with a different proposition, as the risk of cable operators not electing to sign a rider that would include the NFL games was too much of a financial variable. Hence, in exchange for including the NFL package and the concomitant surcharge from the prior deal into the base affiliation agreement, ESPN would agree to moderate the annual service fee increases for ESPN in those agreements to 10%. Also negotiated into those agreements was a provision to take the 10% to 20% were ESPN to acquire a full season NFL package in the future, which it ultimately did. ESPN signed up all its affiliates to this new agreement before the next negotiations with the NFL began. The company ended up getting a full season of Sunday Night Football in the next NFL renewal – an eight-year deal for $600m annually to the NFL. And it proceeded to increase its affiliate fees, as per their agreements, 20% each year for the next seven years.

The second growth driver for ESPN was the introduction of DBS. Prior to DBS, the cable operators had a virtual monopoly in every local market they operated. They were the only game in town. This made it more difficult for networks like ESPN to gain leverage in affiliate fee negotiations. DBS created new and instantaneous universal national competitors in the marketplace, most notably with DirecTV (1992) and Dish Network (1995) as DBS options. Now customers could access ESPN via satellite providers, a fact that was particularly helpful during carriage disputes with cable operators. For example, consumers would be advised, "If you can't get ESPN through your cable provider, switch to DirecTV or Dish." With DBS providers in the marketplace, negotiating leverage shifted back to ESPN.

A third and related accelerant of ESPN's growth was the demand for new channels and content as a result of the DBS players entering the marketplace. DirecTV and Dish came to market with thousands of channels. In response, cable operators, who were laden with 35 channel analog platforms, invested billions of private capital into their systems and expanded capacity to match the DBS capacity (John Malone referred to DBS as "Death Star"). So they went to companies like ESPN in search of additional networks to compete and to justify retail price increases to pay for the investment in their cable systems. As a result, ESPN created new channels such as ESPN2, ESPNEWS, ESPNU, and ESPN Deportes to meet this need/opportunity.

As a complement to this initiative and to counter the rapid consolidation among cable operators that created leverage at the negotiating table, ESPN approached Disney with a pitch to consolidate all Disney, ABC, and ESPN linear networks under one umbrella – the Disney and ESPN Media Networks. Now all channels in the company, including ESPN's networks, Disney Channel, ABC Family, and ABC's broadcast stations were bundled together and licensed to cable and satellite operators. In addition, Disney and ESPN Media Networks went to market representing all the Hearst television stations (ESPN's 20% owner). This strategy resulted in another step change in both distribution (number of homes reached) and affiliate fees for all the channels of the Walt Disney Company, helping it take a wide economic lead in the linear networks business among others in the industry.

The ESPN Content Engine

ESPN not only launched new channels, but it also had to create content for these channels – and a lot of it, around the clock. In turn, the company developed a content portfolio consisting of (1) live rights to sporting events from professional sports, college sports, and amateur sports and (2) news and information programming.

Over time, live sports rights had become the lifeblood of ESPN's business. They were premium branded content that attracted fans, justified affiliate fees, and commanded advertising dollars. ESPN had been home to the NFL, NBA, college football, Major League Baseball, FIFA World Cup and many other properties. Having these marquee sports rights was crucial to ESPN's business and specifically their affiliate revenue stream. In their contracts with affiliates were programming covenants, which stipulated that ESPN airs select sports with a specific number of live hours. If the company did not

reach those thresholds, it could affect affiliate fees. From the cable/satellite operators' standpoint, if ESPN did not have, say, the NFL on its air, the network would become less valuable to customers and therefore justified an adjustment in the affiliate fee it pays.

In most cases, ESPN was a "renter" of live sports rights, in which it paid the rights holder (e.g. a league or conference) an annual fee over an agreed-upon amount of time for the rights to broadcast the game and use highlights to support ESPN's news and information portfolio of programming. As a renter of rights, ESPN and other rights holders had some flexibility. For example, if a property were underperforming, it could decide not to renew it.

Conversely, ESPN tried a different model from renting rights. It created, owned, and operated the X Games, an extreme sports competition with both a summer and winter version. ESPN ran the X Games since they were founded in 1994, but the brand and event never proved profitable enough for the company. It struggled to expand beyond the endemic extreme sports audience into more of a mainstream audience. As a result, it sold a majority stake in 2022 to MSP Sports Capital.[14] In the sports media business, outside of the X Games, motorsports such as Formula 1, NASCAR, MotoGP, and combat sports like UFC, no other sports leagues were really for sale or, even if they were, could easily be sold due to the governance composition and structure of sports leagues. In leagues like the NFL, NBA, and Premier League, it was unlikely that billionaire team owners would collectively give up control of their assets, even if it added billions more to their family offices. Teams in many respects were "vanity" assets.

While live rights were the bread and butter for ESPN, news and information programming was also core to the company. The flagship news and information show *SportsCenter* was synonymous with the ESPN brand. From a business standpoint, this content could also be high margin, as it was inexpensive to produce and still offered a strong advertiser proposition. It was also critical to the ESPN flywheel (a concept ESPN created well before the concept was coined or popular). Coverage on ESPN news and information content helped drive tune-in to the live games on ESPN, and once the live games were over, there was navigation to post-game programming for highlights, analysis, and press conferences.

At the same time, news and information programming was not without its challenges. For starters, it was commodified, undifferentiated content. The score of the game was the same if a fan got it on ESPN, the local news, or social media. A larger challenge with news and information was the issue of editorial integrity, especially for a brand like ESPN. ESPN walked a delicate line over the years, especially with its live rights partners. The company was expected to have journalistic independence, but it also was in business with the leagues it covers. A high-profile example of this unique relationship was the production and airing of the scripted television series called *Playmakers*, which was a gritty inside look at the world of NFL players. Although it was a fictional series, it hit closer to home than the NFL preferred, and at the league's request, ESPN canceled it. Head of ESPN Content at the time Mark Shapiro said in a *New York Times* interview, "It's our opinion that we're not in the business of

antagonizing our partner, even though we've done it, and continued to carry it over the N.F.L.'s objections. To bring it back would be rubbing it in our partner's face."[15] Another relevant example was "Deflategate" where the league took umbrage with ESPN's coverage of the controversy surrounding the New England Patriots. As ESPN looked expansively at different partners in the future, editorial integrity remained an issue that cut to the core of ESPN's brand.

ESPN Brand Differentiation

From its humble beginnings as the Entertainment and Sports Programming Network, the abbreviated and legal version, "ESPN," had become synonymous with sports and one of the most recognizable brands in culture. In some respects, ESPN's brand grew organically at the outset. When ESPN went to market with its second cable channel, the company proposed it to the cable operators as "Sport TV." Every affiliate customer questioned why. ESPN had built a strong brand with growing awareness. Why not use it? ESPN2 was born. As ESPN introduced new media platforms in the future, the company made sure the four letters were front and center, so much so that the comedic film *Dodgeball* parodied the broad reach of the ESPN brand with a network called ESPN8 The Ocho.[16]

In the world of linear television, the best networks were often navigational marketers, driving viewers of one show to tune-in to another. Perhaps no network did it better than ESPN. The company was effective at cross-platform promotion, not just on its linear television assets (e.g. from ESPN to ESPN2), but also from ESPN TV to ESPN on ABC to ESPN.com to ESPN Magazine to ESPN mobile apps and so on. To inform cross-platform content and marketing strategies, ESPN Research studied the potential cannibalization of all its platforms and found the opposite was true. A heavy user was a heavy user. If fans watched SportsCenter at least an hour every day, for example, they were also more likely to spend more time consuming content on ESPN Radio and playing ESPN Fantasy. This helped ESPN create a brand ecosystem that kept fans engaged.

ESPN burnished its brand in other influential ways. In 1994-95, ESPN challenged its creative agency Wieden+Kennedy to come up with a campaign that served three objectives: (1) position Bristol as the center of the sports universe, (2) communicate that ESPN was a huge sports fan talking with other fans, not a big corporation talking to fans, and (3) demonstrate that ESPN takes sports seriously, but not itself too seriously. The creative output in support of these objectives was the now famous "This Is SportsCenter" campaign, which took a cue from mockumentary *Spinal Tap*. The company greenlit the campaign for three months initially, and it was one of many brand marketing experiments it ran. Three decades later "This Is SportsCenter" became one of the most successful brand campaigns of all time. Top athletes across sports such as Michael Jordan, Serena Williams, Tiger Woods, Derek Jeter, Wayne Gretzky, and Peyton Manning were featured, but they were never paid to participate. Only donations were made to the charity of their choice.

"This Is SportsCenter" and other brand campaigns such as "It's Not Crazy, It's Sports" were critical in helping ESPN differentiate itself in the marketplace. When producing a live game broadcast, it could

be difficult for any production to distinguish itself from competitors through attitude and personality; production technologies (e.g., first down line for American football) were universal. So ESPN had to look to other ways not only in its marketing campaigns but also in its news and information content to stand out from competitors. The traveling college football pregame show *College GameDay*, set on college campuses with former coach Lee Corso revealing his pick for the game-of-the week by wearing the mascot head of his preferred team, was an example of ESPN's approach to branded content. Although still a challenge, brand differentiation was easier for ESPN to achieve before the Internet transformed how fans watched and talked about sports.

ESPN on the Internet

The disruptive force of the Internet presented new opportunities and challenges for ESPN. In the linear television business, ESPN created a proverbial moat around both its live rights and news and information content. For example, there was only one place to watch MLB Sunday Night Baseball, and for the sports-hungry avid fans across the U.S., *SportsCenter* was really the only comprehensive source of sports news on television. The barriers to entry to create, produce, and distribute sports content in the world of linear television were simply too high. Only a few players on both the content and distribution sides of media could realistically exist and operate profitably.

As the adoption of the Internet and smartphones increased rapidly in the 2000s, these same barriers to entry started to lower and, in some cases, go away altogether. This was particularly true in the space ESPN once dominated – news and information. Now, virtually anyone with passion and ability could become something of a sports journalist. Blogs, podcasts, and social media platforms all emerged as go-to sources of sports news and debate/conversation. And even heretofore small, niche sports such as surfing and cornhole that would rarely get covered in mainstream media could find an audience on the Internet.

ESPN's culture of entrepreneurial thinking and innovation pushed it toward the Internet strategically and experimentally. It launched the first version of its website, ESPNET SportsZone, in 1995. Six years later, ESPN Broadband, a video service accessible via high-speed modem, was brought to market and eventually became ESPN360.com, ESPN3.com and then ESPN3. These services offered non-premium live sporting events that served specialized segments of fans (e.g. college volleyball, cricket). With the advent of the iPhone and Apple app store, ESPN developed a number of mobile apps, including the flagship ESPN Mobile and ESPN Fantasy apps. The company was also aggressive in expanding its presence on third-party social media platforms such as Facebook, Twitter, YouTube, Instagram, and others.

In an acknowledgment that consumer behavior was starting to change, ESPN worked with its affiliates to launch WatchESPN, a product that enabled cable/satellite customers to stream ESPN networks via the Internet. To do so, customers had to "authenticate" that they were cable/satellite subscribers before getting access to the product. This was an early attempt to adapt to changing customer preferences

while also maintaining the "golden goose" of the cable bundle. The introduction of streaming would soon put enormous pressure on this strategy.

ESPN and Streaming

Despite the launch of WatchESPN, all signs were pointing toward the inevitability of a direct-to-consumer ESPN offering, which customers could buy without a cable/satellite subscription. With Netflix racing out to an early and dominant lead in what became known as the streaming wars, The Walt Disney Company made it a strategic imperative to catch up and compete in this next phase of media and entertainment. In 2017, it announced the acquisition of 21st Century Fox, which significantly bolstered its content library. Also included in the deal was the 30 percent ownership stake that Fox had in the streaming platform Hulu, which made Disney the majority owner of Hulu as a result.[17] Combine this with the acquisition of streaming technology provider BAMTech, and Disney's significant investments in content, technology, and product would position it to capture market share in streaming.

Disney's first foray into streaming was with ESPN. In 2018, the company launched ESPN+, its first ever direct-to-consumer platform, with Disney Streaming Services (erstwhile BAMTech) as the technological backbone. It was fundamentally a supplementary/add-on service. ESPN had amassed more live rights in its portfolio than the programming hours it had available on its linear networks, so ESPN+ was a platform fans of sports that were not shown on linear could go to watch their favorite teams or athletes. The Ivy League, for instance, did a deal with ESPN+ to stream their games. Most Ivy League action would not draw a significant audience on linear ESPN networks, but the small, yet loyal fan base might buy and watch the games on ESPN+. In some respects, the ESPN+ programming strategy was like the approach taken with ESPN in the early days of cable television (e.g. Australian Rules Football and slow pitch softball) and then later with ESPN360/ESPN3.com/ESPN3.

To preserve the value of ESPN on linear television, the company was initially hesitant to bring marquee programming onto ESPN+. A turning point was the decision to stream live UFC matches on the platform, which proved to be the most valuable growth property for ESPN+. Not only did the company attract large audiences for pay-per-view matches available on ESPN+, but it was also able to convert a portion of these fans into paying subscribers.[18] And the UFC was not live content that was incumbent on any ESPN networks, so there was little or no resistance from its linear distribution partners. The success of the UFC was a proof point to other rights holders that ESPN+ could be a viable distribution channel for live events. Over time, ESPN started to distribute some premium content, which might otherwise have been reserved for its linear networks in a previous era, to streaming. For example, the seven-year deal with the NHL that began in 2021-22 featured exclusive games on ESPN+. The platform also effectively became the home of the NHL's out-of-market streaming package, which was previously known as NHL.TV.[19] The great migration to streaming had begun.

At that point, it was only a matter of time until ESPN offered its flagship linear networks direct-to-consumer. Throughout its history, consumers would need a cable or satellite subscription to access

ESPN. Despite pleas over the years by politicians, regulators, and consumer advocacy groups, ESPN resisted selling its networks “a la carte” because of concerns about the potential impact on the bundle, which could negatively affect operators and raise prices for customers. With the growth of streaming, it was inevitable that ESPN would complement its place in the bundle and go direct-to-consumer with all its premium live rights. The question was when. In late 2023, Disney CEO Robert Iger confirmed that 2025 would be the year that ESPN would finally go direct-to-consumer, a project dubbed ESPN Flagship. By mid-July 2024, the name, pricing, and distribution strategies were unclear to the public.

Then, in a surprising move, Disney announced in 2024 the creation of a joint venture with Warner Bros. Discovery and Fox. The three companies would bundle all their networks containing any sports content into a streaming service and launch it in fall 2024 under the name Venu Sports. It would include ESPN, ESPN2, ESPNU, ESPNEWS, ESPN+, ABC, ACC Network, and SEC Network from Disney; Fox, FS1, FS2, and Big Ten Network from Fox; and TNT, TBS, and truTV from Warner Bros. Discovery.[20] Each company would own a third of the venture, they would get paid a licensing fee from the service for their channels, and they would also keep all profits from advertising sold on each of their respective channels. It reminded some in the industry of Hulu, a previous joint venture among Fox, Comcast/NBCUniversal, and then later Disney, which was conceived as a bridge between linear television and the streaming world. Notably, this new service would not include sports content from other major rights holders in the industry, Comcast/NBCUniversal and Paramount, both of which had long-term rights deals with the NFL and soccer properties like the English Premier League (Comcast/NBCUniversal) and Champions League (Paramount).

When the sports streaming JV was announced, many questions were raised about its prospects and potential and some that raised existential issues for the sports media ecosystem. On the revenue side, what impact would this new streaming service have on cable/satellite operators? Live sports had been holding together the cable bundle in the face of threats from streaming. Now, fans wouldn’t need a cable subscription to watch some of their favorite professional and college sports. Would this be the final death knell for cable television? And what would be the response of cable operators, who had wanted to offer this type of sports skinny bundle for years? On the other hand, how many fans realistically would sign-up and stay with the service? It was reportedly targeted to a population of 40 million potential customers, many of which were in younger demographics, who subscribe to Internet service, but not pay television.[21] Would they be willing to pay?

The JV also forced realistic questions about the future costs of live rights. It was unprecedented in sports for three live rights buyers, all of whom competed against one another for the rights to sports properties, to come together and work as partners in a new service. This type of collaboration, in theory, could return some of the leverage in rights negotiations back to the media companies, perhaps rationalizing rights fee increases that marquee leagues had been able to charge for decades. The United States Justice Department seemed likely to examine this joint venture, as it pooled an estimated 55% of all U.S. sports rights, per Citi. Reportedly due to non-disclosure agreements, the major league

partners of these companies (e.g. NFL, NBA, MLB) were not informed about the discussions of the new service until they were ready to announce it. According to the rights agreements, the companies were allowed to take their existing channels and distribute them in a new service without the league's consent.

From the launch of the supplementary service ESPN+, to the eventual direct-to-consumer offering of ESPN "Flagship", to the creation of a sports streaming service with two other partners/competitors, ESPN's strategy and investment in streaming took shape. And in doing so, ESPN was well on its way to transforming from a B2B to a B2C company.

Transforming from B2B to B2C

ESPN had grown exponentially as a company through its B2B dual-revenue stream model. Although it had its mission to serve fans, ESPN's paying customers were cable/satellite operators on the affiliate side and brands/sponsors on the advertising side. As ESPN moved further into the streaming era, it became more of a B2C company, selling a "retail" media product directly to customers. It would be in the business of customer acquisition and customer retention/reducing churn. It would also need to be hyper focused on driving profitability, which meant finding ways to produce content efficiently. And it would need to innovate in how it used technology to serve its customers. These were all new ways of working for ESPN, and it would require talent with different skill sets and revamped organizational structures.

The implications of this transition to B2C were vast. More so than anything, ESPN could no longer make financial decisions based on stable economic assumptions of past models. When the company operated in the B2B world of linear cable television, there was more certainty about the marketplace. Churn, for example, was hardly an issue. Customers rarely dropped cable or satellite. If anything, they may have changed providers from Comcast XFinity to Verizon Fios, but they often remained a paying subscriber of a cable/satellite operator and hence ESPN's. As a result, ESPN decision makers could make reasonable predictions about its future financials, putting it in a better position to make strategic bids on sports rights, for example. In the B2C world of streaming, the market was more volatile, not to mention it had been extremely expensive to compete, making profitability a distant goal for some players in the market.

Conversely, going direct to consumer, ESPN was gaining several advantages: it would own the customer relationship and first-party data, the digital interfaces and capabilities of streaming platforms would give it more ways to enhance the viewing experience, and it would reach fans where and how they were spending time. But the loss of financial stability and certainty from the B2B business model could not be underestimated – especially in the face of unrelenting competition for fans' time and money.

Endnotes

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