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ESPN Navigates a New World Order

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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.

Part 1: 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.

Part 2: The Competitive Landscape

The sports media ecosystem was intensely competitive. Every stakeholder fought to reach, engage, and monetize as many fans as possible and constantly expand their piece of the pie. This culture of growth and forward progress was one of the many reasons sports had expanded into a multimillion billion-dollar industry.

And yet, the disruption of streaming and subsequent demise of cable was also a stark reminder of how interdependent these stakeholders were. When cable television grew, media companies had more money to spend on acquiring the live rights for sports leagues. This in turn drove up the costs of live rights, as leagues could initiate bidding wars. As sports leagues received markedly more for rights fees, they were able to pass on a portion of that revenue to their teams and team owners, who were then able to pass on a portion of that revenue to the athletes. In turn, the athletes – and some of their agents – became multimillionaires. Meanwhile, team valuations skyrocketed because of the lucrative media rights deals that seemed to be immune from broader macroeconomic conditions. The linear television business – broadcast, cable, and satellite – propped up the sports industry for decades.

By 2024, this ecosystem faced an uncertain reality, due to the demise of its safety net, linear television, and specifically cable and satellite. Its existing stakeholders – incumbent media companies, cable/satellite operators, and sports leagues – were under significant pressure to reinvent themselves. New stakeholders, specifically big technology companies, increased their participation in the ecosystem, but often in different ways – and with different motivations – from the incumbents. Meanwhile, fans experienced an explosion in available sports and entertainment content across myriad platforms, but still only had limited time and finite budget to spend. Furthermore, there had been a recent exit of key team owners, Mark Cuban and Marc Lasry specifically, who stated concerns about the future media rights marketplace for their sales of the Dallas Mavericks and Milwaukee Bucks, respectively.[22]

To better understand the environment ESPN was competing in circa 2024, this part of the case analyzes each of the key stakeholders in the sports media ecosystem, particularly through the lens of live sports rights. The stakeholders include: incumbent media companies, disruptor technology companies, cable/satellite operators, sports properties, and fans.

Incumbent Media Companies

Incumbent media companies found themselves in a similar situation as Disney and ESPN. They were trying to extract as much value out of their linear television businesses while also positioning themselves for the inevitable streaming environment. Striking this balance was not easy. Some started to simulcast premium content from their linear cable networks on their streaming platforms to drive streaming subscriptions. For example, during the 2023-24 season, Warner Bros. Discovery began simulcasting NBA games that aired on its cable network TNT on its streaming platform Max. Comcast took a different tack and decided to shutter its NBCSN cable sports network altogether in 2021 and

navigated fans to its streaming service Peacock.[23] Meanwhile, although Disney simulcasted some premium games (e.g. MLB games) on ESPN+, it also added broadcast into the mix. During the 2023 NFL season, 15 Monday Night Football games were simulcast on ABC, as were two playoff games.[24] In effect, incumbents were making an argument, intentionally or not, to customers to cancel cable. Why did they need it anyway?

While incumbent media companies struggled with the transition to streaming, a much-discussed solution was further consolidation among them. The launch of the Disney, Fox, Warner Bros. Discovery Venu Sports streaming platform was perhaps a harbinger of what was to come. Given the headwinds incumbents faced, it was possible additional consolidation would happen. Below is further context of the key incumbents in the U.S.

- Warner Bros. Discovery – Warner Bros. and Discovery merged in 2022, combining their assets, including Warner Bros.' cable sports assets TNT, TBS, and TruTV, under the Max streaming service. (Discovery's assets include cable networks HGTV and the Food Network.) Like Disney, Warner Bros. Discovery had been under significant shareholder pressure to drive profitability in streaming.

- Paramount/Skydance – Owner of assets such as CBS Sports, the Paramount+ streaming service, cable television networks MTV, Comedy Central, and BET, and the Paramount movie studio. In July 2024, Shari Redstone, heir and chair of family holding company National Amusements and Paramount, agreed to sell National Amusements to Skydance Media, owned by David Ellison, son of Oracle founder Larry Ellison.[25] Skydance then merged with Paramount, with David Ellison becoming chairman and CEO.

- Comcast/NBCUniversal – This incumbent had the healthiest balance sheet of all incumbent media companies due to their assets in broadband (Comcast) and content (NBCUniversal). Their streaming service Peacock successfully streamed the first ever NFL Wild Card playoff game in 2024, attracting 23 million viewers, a number that also included local broadcast TV audiences in Kansas City and Miami (home DMAs of two teams).[26]

- Fox – Broadcast network and cable presence with FS1 and FS2. Fox also owned and operated Tubi, an ad-supported video on demand service (AVOD), that offered consumers FAST channels, otherwise known as Free Ad-Supported Television. Fox had limited investment in sports streaming prior to the launch of Venu Sports.

Except for Warner Bros. Discovery, all of the incumbents owned and operated linear broadcast networks: Disney (ABC), Paramount (CBS), Comcast (NBC), and Fox (Fox). Even in 2024, broadcast television remained an important distribution channel with the greatest reach, albeit supported primarily by advertising revenue, whereas ESPN had two material revenue streams. Like cable television, however, the economics of broadcast faced similar challenges of rising programming costs (sports

rights), diminished retransmission fees as cable homes declined, and advertising revenue under pressure.

Technology Companies

Big tech had become a player in live sports rights, but for different reasons from incumbent media companies. Whereas incumbent media companies focused primarily on ratings, ad dollars, and/or affiliate fees, tech companies that expanded into media often looked to exploit sports to sell products, services, and/or devices. Linear media metrics were still of importance to tech companies that stream live sports. Advertising was a growing source of revenue for some streaming services, for example. But the linear metrics were at a lower level of priority, and these entities likely would not entertain sports rights were it not underpinning other business objectives.

Media was not the core business of the entities listed below, and live sports were often used in service of their core business. BT Sport (subsequently rebranded TNT Sports) in Europe was an illustrative example of non-linear objectives informing sports rights decisions. As a primarily broadband and phone provider, it acquired the rights to the English Premier League and packaged them with its broandband offering, giving away access to the matches for free as an incentive to grow subscribers and reduce churn.

Big tech was approaching sports in a variety of ways. Consider the below.

- Amazon – Amazon made the greatest investment to date in live rights by 2024, exemplified by the exclusive NFL Thursday Night Football package at $1bn per year. Importantly, NBC Sports produced the NFL games for Amazon, suggesting that Amazon was in the live sports rights business to support objectives that were different from those of incumbent media companies. The first-of-its-kind Black Friday NFL game offered a glimpse of the future of sports streaming on Amazon. Exclusive deals dropped during commercials, which viewers could access with the snap of a QR code to then buy the product easily via Amazon's platform. Amazon also won the rights for 11 years to a third package of NBA games starting in 2025-26.[27]

- YouTube – Alphabet-owned YouTube launched YouTubeTV, a virtual MVPD (multichannel video programming distributor), a cable/satellite substitute that offers consumers a bundle of channels, and acquired the residential rights to NFL Sunday Ticket, the NFL's out-of-market package for all games. Notably, YouTubeTV had not renewed deals with several regional sports networks, citing cost concerns. YouTubeTV had steadily grown into a viable alternative to traditional MVPDs, reaching 8 million subscribers in 2024.[28] Meanwhile, the flagship YouTube platform was a dominant force in all of entertainment in terms of time spent and a major source of sports highlights.

- Apple – One of the world's largest companies was increasingly diversifying its hardware business with a growing services business. Apple experimented with live sports rights to help drive both. An illustrative example was the global streaming rights pact it signed with MLS, which made Apple TV+ the home of the vast majority of MLS matches.

- Netflix – The streaming behemoth was thriving with "sportainment" content, such as *Drive to Survive* and *Full Swing*, which went behind the scenes to tell stories about the athletes who compete. Even its acquisition of the rights to the professional wrestling league World Wrestling Entertainment (WWE), which is decidedly scripted live content, aligned with this strategy. WWE was sticky, reliable programming and fit the Netflix model well. For much of the streaming wars, Netflix was resistant to acquiring live sports content. As Netflix co-CEO Ted Sarandos said, "We're not anti-sports, we're just pro-profit."[29] Then, in 2024, Netflix announced that it would stream two exclusive NFL games on Christmas that same year, the first of a three-year deal.[30]

- TikTok – The Chinese-owned social media platform was an increasingly popular source of game highlights, game around the game conversation, and behind-the-scenes athlete content. There was no indication that it will be a player in live rights.

- Meta – The owner of Facebook, Instagram, WhatsApp, Messenger, and Oculus experimented with live sporting events (e.g. MLB games on Facebook), but it did not appear to be a serious player in the live sports rights market. Instagram was an increasingly popular source of game highlights, game around the game conversation, and behind-the-scenes athlete content.

- X – X was like TikTok and Meta in its approach to live rights. Prior to the sale to Elon Musk, Twitter experimented with live sporting events, but under Musk's ownership did not appear to be in the market for live sports rights. Like other social media platforms, it was a popular source of game highlights, game around the game conversation, and behind-the-scenes content.

Sports Properties

By selling the live rights to their games, sports properties (leagues, conferences, governing bodies) provided the intellectual property that fueled the sports media ecosystem. For sports properties, it was all about the power of live. Compared to other forms of entertainment, sports were the most effective at attracting larger audiences that watch the content live, without time shifting. In a marketplace with overwhelming competition, the convening ability of live sports programming had no real equal and thus continued to drive its value.

Sports properties also offered at least a couple additional value propositions. Some delivered tonnage, also known as a lot of games. Think Major League Baseball, with a total of 2,430 games in a regular season. For networks with time to fill in the summer, MLB delivered the content that did just that.

Another type of value proposition from sports properties revolved around exclusivity. Formula 1 was a good example, as it had only 24 grands prix per year. Each race was an event in and of itself, enabling a network partner to develop shoulder programming and marketing to help cut through the clutter.

When sports properties sold their live rights, they sought to maximize reach, revenue, and relevance. They wanted to reach the largest audience, get the biggest check, and drive the most fan engagement from their media partnership. The most valuable properties (e.g. NFL) could usually check the box on all three. But increasingly properties made trade-offs when deciding on their media partners. The partner that could pay the most may not have had the greatest reach, for example. Take the case of Major League Soccer (MLS). Market factors led them to AppleTV+ for more revenue than they could capture in the linear marketplace but many fewer subscribers, reducing reach. As per above, this impacted the audience it attracted, the value sponsors ascribed to the league, and team valuations. Balancing reach versus revenue was a constant challenge for properties, especially in a more fragmented landscape that also included streaming.

Another important variable: Many leagues had their own direct-to-consumer apps and networks. They considered how much content to reserve, exclusively, for their apps/networks, if any. This trend started in the cable/satellite world when leagues like the NFL, NBA, and MLB all launched their own networks, which helped create some leverage in the marketplace. They could always choose to distribute some of their games via their network. In the streaming era, leagues embraced their direct-to-consumer offerings, especially for out of market games. For example, NBA League Pass, the NBA's product, consistently demonstrated its viability in the NBA's portfolio of media properties.

Because of the power of live sports programming and the competition among buyers in the league rights marketplace, the cost of sports rights had continued to rise. According to S&P Global, in the U.S. alone, $25.57 billion was spent on rights fees during 2023. That number was estimated to rise to over $30 billion by 2025.[31] The NBA, for example, agreed to 11-year deals with Disney/ESPN and Comcast/NBCUniversal, in addition to Amazon. The combination of all three packages totaled $77 billion in rights fees for the NBA, a more than 2.5x increase in annual fees over their previous deal.[32]

But for other sports properties, there were signs that rights could be peaking. The English Premier League, the most competitive football property in the world, signed a new deal in the UK with Sky Sports that netted it a 4% increase in the rights fees, but also resulted in up to 100 more matches being included in the package to achieve a moderate increase in rights fees.[33] Sky's fee per game went from $12M in the previous deal to $5M in the new deal. La Liga and the Bundesliga also saw an erosion in rights fees with their latest deals.[34]

Critically, the growth in sports media rights underpinned the sky-high valuations of sports teams and leagues in the modern era (**Figure 1**). But the question as to whether rights would continue to grow and power the rest of the industry remained open and complex.

Figure 1 Team Valuations

	2005		Current	
	Avg. value ($m)	Avg. revenue multiple	Avg. value ($m)	Avg. revenue multiple
NBA	$302	3.0x	$3,855	10.9x
MLB	329	2.3x	2,318	6.4x
NHL	163	2.1x	1,327	6.4x
NFL	819	4.3x	5,108	8.8x

Source: Forbes, JP Morgan[35]

Cable and Satellite Operators

Cable and satellite operators, also known as Multichannel Video Programming Distributors (MVPDs), were in the crosshairs of technological disruption in media. On the one hand, the secular decline of cable was cutting right at the heart of these companies. On the other hand, and perhaps to their credit, most cable companies aggressively invested in broadband Internet to maintain control over the pipes that deliver content into consumers' homes. As it turned out, the business of broadband was not only a hedge against the decline of their video business but also became a growth business for these companies. In fact, some operators looked to get out of video or had done so already. Cable One, for example, made the decision to focus only on broadband and exited the cable video business.[36] It was a sign of the times.

Some operators, perhaps reluctantly, were staying in the video business for the time being but reimagined what the future might be, inclusive of streaming. As an example, Charter Communications, which operated Spectrum, one of the largest cable providers in the country, was in a highly scrutinized negotiation with Disney over a new carriage/affiliate agreement in 2023. For decades, Disney had leverage in these negotiations; it owned the most valuable channels, and if they took them away from an operator, there was a real possibility that operator would lose customers to a competitor who had Disney's channels. Given the realities of the cable business, the negotiations in 2023 were different.

Charter ended up not going as far as Cable One, but articulated its doubts on the video business in a widely circulated deck on the future of multichannel video.[37] This informed the distribution deal it did with Disney, which included the right to distribute Disney's streaming platforms (Disney+ on a popular Spectrum's package and ESPN+ on Spectrum's more sports-centric tier – both without an additional charge to customers).[38] Charter argued successfully that Disney had been taking some of its best content from its linear channels and putting it on to its streaming services. They argued that it is only fair that their customers still have access to that content, and should not have to pay twice. As part of the deal, Charter also stopped carrying several Disney and ESPN linear networks such as Freeform. The Disney-Charter deal was perhaps a harbinger of future distribution agreements for networks and cable/satellite operators.

Another sign of the changing distribution landscape was DirecTV's decision to offer customers a "No Locals" package. This would remove the local broadcast stations from the channel lineup and save customers of the package $12 a month.[39] Customers could choose to opt out for the summer months and then come back for NFL season or forgo local stations altogether. In turn, the retransmission fees that incumbent media companies receive for distribution of their broadcast stations through cable and satellite operators could go down materially, putting even more pressure on revenue from linear broadcast assets and, by extension, sports rights fees.

Fans

The final, and arguably most important, stakeholder in the competitive landscape were the fans themselves. If there was one word that summed up the impact of streaming on the fan experience, it might be choice, which had both benefits and costs to all in the ecosystem. Streaming led to an unbundling of media networks and content, and as a result, it unleashed a new era of consumer choice in sports and entertainment in at least three ways: choice in how to access content, choice in what content to watch, and choice in what networks or services to use.

First, consider choice in access. At the highest level, streaming via broadband internet became a third way that fans accessed video content. The other two were cable/satellite and over-the-air (OTA) broadcast using an antenna, the dominant way to access television prior to cable/satellite. Although streaming penetration continued to grow, households in the U.S. still used the other two sources in varying degrees. According to Nielsen estimates in November of 2023, 59.7% of households accessed content via cable/satellite or a vMVPD, 12.4% via OTA with no vMVPD, and 27.9% streaming via broadband internet only with no vMVPD.[40] Importantly, households often accessed content in multiple ways (e.g. subscribe to both cable/satellite and a streaming service or use an OTA antenna and a streaming service). At the household level, deciding between these three or some combination of them was one important choice for fans.

Among the times when this decision most frequently took place was during a household move. Historically, American consumers reevaluated their media, entertainment, and internet choices during this time of transition. After significant activity in the housing market from the summer of 2020 to the spring of 2022, the number of houses sold slowed down considerably by 2024.[41] Based on precedent, it was reasonable to predict that traditional pay TV might fall even more preceiptously once the housing eventually rebounded.

Fans not only had the choice of how to access content, but they also had orders of magnitude more content available, particularly across streaming. As media and technology companies invested in the streaming business, they brought more content to those services to attract and retain customers. In turn, the growth of video titles increased exponentially. Nielsen offered some insight into this trend. The number of distinct video titles to choose from across all of media and entertainment – broadcast, cable,

and streaming – rose to 2.7 million in 2023, up from 1.9 million in 2021.[42] Although the writer's and actors' strike of 2023 and push toward profitability in streaming curtailed some growth in available titles, the seemingly never-ending supply of content in the streaming era was likely here to stay. And yet, there were still only 24 hours in a day.

In an environment of seemingly infinite options, the "paradox of choice" arguably became more pronounced.[43] Having more options made it harder to choose. For example, in June 2023, viewers spent 10 minutes 30 seconds deciding what to watch, up from 7 minutes 24 seconds in March 2019.[44] The streaming era was in many ways an entertainment paradise – consumers got what they want when they wanted it, but only if they could find it. In the era of the cable bundle, consumers came up with a channel repertoire to deal with the paradox of choice. They found their channels and stuck to them. In 2013, the average household had 189.1 channels available to them, yet only watched 17.5.[45] In the streaming world, fans began to develop their own heuristics to simplify viewing, which inevitably would include some sports programming and services over others.

Finally, the move to streaming also led to the creation of new streaming products and services for fans to choose from. YouTube, Netflix, Amazon Prime, Disney+ and Hulu were the biggest players, while Peacock, Apple TV+, Max, Paramount+, and YouTubeTV, to name a few, also vied for market share. And specific to the sports world, there were sports-focused services like FuboTV and DAZN as well as the various league direct-to-consumer offerings such as NBA League Pass, NFL Sunday Ticket, and MLB.tv and regional sports network direct-to-consumer offerings (e.g. NESN+). In a sea of options, there was a limit to how many services people will subscribe to, although that number could be a moving target. According to a study by Leichtman Research Associates, U.S. households had a mean number of 4.1 subscription video on demand/direct-to-consumer services in 2023, up from 2.9 in 2020.[46]

The explosion of choice – in how, what, and where to watch video content – also had implications for fans in at least a couple of ways – cost and discoverability. From a cost perspective, consider the choices that fans needed to make (**Figure 2**).

Figure 2 Cost of Media and Entertainment

Internet

Service	Average cost per month
Broadband internet	$70

Cable

Service	Average cost per month
Basic cable TV	$74
Premium cable TV	$147

Streaming

Service	Basic with ads, per month	Premium/ad-free, per month
Netflix	$7	$15.50, $23
Hulu	$8	$18
Disney Plus	$8	$14
Max	$10	$16, $20
ESPN Plus	$11	
Peacock	$8	$14

Note: Hulu, Disney Plus, and ESPN Plus were also sold in bundles. Hulu and Disney Plus were $10 and $20 with and without ads, respectively. All three were $15 and $25, with or without ads, respectively.

Live TV Streaming (vMVPDs)

Service	Basic TV package, per month
Philo	$25
Sling TV	$40
YouTubeTV	$73
Hulu Plus Live TV	$77
Fubo TV	$80
DirecTV Stream (with RSNs)	$109

Source: CNET analysis; average internet and cable package prices determined by averaging prices from major internet and cable providers in six major cities, Grantville, KS, Atlanta, GA, Houston, TX, Staten Island, NY, Kalamazoo, MI, San Francisco, CA.[47]

At the base level, regardless of the packages, most fans would pay on average $70 a month for broadband internet. Then the decision was whether fans would pay for a bundle of channels – either through a traditional pay TV package via cable or through a live TV streaming provider. Up until recently, much of premium live sports was accessible only through these channels, which was why sports was often thought to be propping up the bundle. Fans could also decide to forgo channel bundles altogether and go with a monthly menu of streaming services only.

The challenge for sports fans was that, depending on where games are offered, the costs could add up considerably. Consider a fan of the Premier League, University of Florida, NFL, and Miami Heat (their local NBA team). Here were the options (**Figure 3**).

Figure 3 Sports Fan Example: Media Services

Sport	Broadcast	Cable	Streaming
Premier League	NBC	USA Network	Peacock
University of Florida	ABC	ESPN networks	ESPN+
NFL	CBS, NBC, ABC, Fox	ESPN	Amazon, Peacock
Miami Heat	ABC	ESPN Bally's Sports	Amazon/Bally's

Source: Casewriters.

What could this fan do? To access content on both broadcast and cable networks, the fan would likely need a bundle of channels. The first consideration could be YouTube TV, but that service did not carry local Heat games (no distribution deal with Diamond Sports Group/Bally's Sports). Maybe this fan would have to go with a traditional pay TV package to get everything they needed. That package, with premium local sports, was priced at $147. But this fan also wanted to watch the Premier League, which was available through NBC, USA Network and Peacock, which was priced at $8/month with ads and $14/month without ads. That would also give this fan access to an NFL playoff game on Peacock, so that was an advantage. But if they wanted to watch Thursday Night Football on Amazon Prime, that would be another $15 (which comes with other benefits such as free shipping on products). Meanwhile, ESPN showed some University of Florida content on its linear cable networks as well as ABC, but not all, so if this fan really wanted to stay connected to their alma mater, they would also need ESPN+ at $11 a month. The final tally, including Internet, could look something like the below (**Figure 4**).

Figure 4 Sports Fan Example: Cost of Media Services

Service	Cost, per month
Internet	$70
Premium Cable	$147
Peacock	$8
Amazon Prime	$15
ESPN Plus	$11
Total	**$251**

Source: Casewriters.

Of course, this was not the only configuration to make this sports media diet work. Perhaps this fan lived in an area where antennas could be used to reliably broadcast ABC, NBC, CBS, and Fox into the home. The fan could then toggle between antenna and various streaming platforms to watch their favorite leagues and teams. It would not be as seamless of a user experience as scrolling the guide in a cable or satellite environment, but it would get fans the content they wanted. All the options in this era

of media required more effort and, in some cases, more money on the part of fans to actually be a fan. Moreover, fans in streaming could subscribe to watch a specific game or season and then unsubscribe, whereas in the cable bundle era the value was different and the technology did not make it easy or efficient. Therefore, cable/satellite companies did not see this type of churn.

Some fans also pirated the content. The Internet was no stranger to piracy. The introduction of Napster crippled the music industry for years. Only recently had the industry figured out how to offer products and services that people were willing to pay for instead of steal (although piracy in music certainly still existed). In the world of sports, the extent to which live games and matches were streamed illegally was difficult to pin down. As one indicator, Oddspedia did a survey of 3,200 NFL fans to understand the share of fans who illegally streamed their favorite team's games, by team. Cincinnati Bengals fans, at 51.6%, led the way, followed by Packers, Bills, and Ravens fans, all at a 47% share or more.[48] Certainly, NFL programming was the most popular in the United States and therefore in very high demand. It was also arguably the most accessible, available free over the air via an antenna, as well as through the cable bundle, and through streaming services. If the piracy was happening with the NFL, it was happening with other leagues, the extent of which was unknown.

Many avid fans went to great lengths – either legally or illegally – to watch their favorite teams and leagues. But not every fan was this avid. As one indicator, the Pew Research Center conducted a survey of almost 12,000 Americans in August of 2023 about their sports fandom. They found that only 7% of U.S. adults said (1) they "follow sports extremely or very closely" and (2) they "talk about sports at least every day". The population who did these two things was what Pew defined as "superfans".[49] Of course, there were many other conceptions and definitions of sports fans. But in the streaming era, with more choice in how, what, and where fans consumed entertainment and sports content, it was fair to consider the potential impact of fan avidity on the future of the ecosystem. The Pew survey also found that 62% of Americans said "they follow professional or college sports not too or not closely at all".[50] What, if anything, would it take to get these potential viewers to seek out, pay for, and watch a game? Were avid fans large, influential, and willing to pay enough to keep the ecosystem healthy?

Regardless of a fan's avidity, the marketplace of live sports services and platforms had changed considerably in the streaming era. With more choice had also come more fragmentation, with important implications on the costs of being a sports fan and the ease of finding the games fans cared about watching.

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The sports media ecosystem was comprised of interdependent and in some cases competitive players – the incumbent media companies, disruptor tech companies, sports properties, cable and satellite operators, and the fans themselves. How this ecosystem would change and evolve in the streaming era was uncertain, and a question at the center of it all was the future and fate of ESPN.

Part 3: The Future of ESPN

On October 18, 2023, the Walt Disney Company did something it had never done before – it reported the financial performance of ESPN. For the first time ever, the investing public got access to ESPN's financials, which were previously rolled into and publicly reported under Disney and ESPN Media Networks. This was a byproduct of a recent restructuring of the Walt Disney Company, led by CEO Robert Iger, now in his second tenure on the job. The company would have three "collaborative" segments: Disney Entertainment; Disney Parks, Experiences, and Products; and ESPN.[51] As a component of the restructuring, Disney also laid off 7,000 employees, part of significant cost reduction initiatives.[52] Separating out ESPN into its own operating unit also made it easier to bring in strategic partner(s) to the company, something Iger continued to work toward. A partner could come in to help with marketing and/or content as well as investment as ESPN charted a new era.

As of Q2 FY24, Disney reported the following financial performance for its Sports segment (**Exhibit 1**).[53]

ESPN Domestic generated revenue of $3.866 billion at the quarter ended March 30, 2024, up 4% year-over-year. ESPN Domestic also had operating income of $780 million at the quarter ended March 30, 2024, down from $858 million a year earlier, a 9% decline. Disney cited the reasons for the year-over-year decline in operating income were airing an additional College Football Playoff game and fewer affiliate subscribers. Offsetting the losses were "contractual rate increases" for affiliate fees and growth in advertising revenue.[54]

In the same earnings report, Disney also reported on the state of the ESPN+ streaming product. While subscribers were at 24.8 million, down 2% from the previous quarter of 25.2 million, the average revenue per subscriber rose to $6.30 due to price increases, which also helped offset further losses in operating income compared to the prior year (**Exhibit 2**).

This snapshot of ESPN's business at Q2 2024 represented of many of the issues facing ESPN: decline in cable subscribers, increase in the costs of live rights, and the inability of the streaming business to date to offset losses from cable.

In this environment, ESPN's future would be determined in part by how it managed two of the fundamentals of its business. The first was the rights fee obligations that ESPN had to its various league and conference partners into the future. The second was revenue coming in from affiliate fees/subscriptions. Of course, ESPN also had other business drivers – news and information on the content side, and advertising on the revenue side. But both were secondary to the live rights and affiliate/subscriptions.

First, rights fee obligations were a major driver of operating costs for the company. Below is a table with estimates of ESPN's rights fee payments from its partners on an annual basis (**Figure 5**). It was

developed based solely on publicly reported terms of the rights agreements between ESPN and its partners. The specific times during fiscal years when the payments come due/hit the earnings report were not reflected here. The table is intended for educational purposes only.

Figure 5 ESPN Rights Obligations

	Estimated ESPN rights fee obligations by property and year/season. All fees in $m.												
Property	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**2031-32**	**2032-33**	**2033-34**	**2034-35**	**2035-36**	**Est. Total Owed to Property**
NFL	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700			27,000
NBA	1,400	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	30,000
MLB	550	550	550	550	550								2,750
CFP*	608	608	1,300	1,300	1,300	1,300	1,300	1,300					9,016
SEC	811	811	811	811	811	811	811	811	811	811			8,110
NCAA	115	115	115	115	115	115	115	115					920
U.S. Open	70	70											140
NWSL	15	15	15	15									60
UFC	300	300											600
UFC PPV	200	200											400
AAC	83	83	83	83	83	83	83	83					664
Big12**	100	228	228	228	228	228	228						1,468
ACC	240	240	240	240	240	240	240	240	240	240	240	240	2,880
F1	85	85											170
NHL	400	400	400	400									1,600
Wimbledon***	33	33	33	33	33	33	33	33	33	33	33	33	396
PGA	75	75	75	75	75	75	75						525
WNBA****	25	67	67	67	67	67	67	67	67	67	67	67	762
Est. Annual Total Rights Obligation	**7,810**	**9,180**	**9,217**	**9,217**	**8,802**	**8,252**	**8,252**	**7,949**	**6,451**	**6,451**	**2,940**	**2,940**	

*With the new deal beginning in 2026-27, ESPN has agreed to sub-license some early round College Football Playoff (CFP) games to TNT. Sublicense fee not publicly reported, but it will offset ESPN's total CFP rights obligation.

**ESPN's share of the rights fee starting in 2025-26 not publicly reported, but ESPN reportedly has 60% of the inventory of this package, so this number reflects 60% of the total commitment between ESPN and Fox ($2.28b).

***New agreement runs from 2024 through 2035. Terms not publicly reported. $33m per year is reported rights fee from previous deal and is used here. New rights fee likely higher.

****ESPN's share of the rights fee starting in 2025-26 not publicly reported. The $67m number is 1/3 of the overall $200m package three partners (Disney/ESPN, Comcast/NBCUniversal, and Amazon) agreed to pay the WNBA over the course of an 11-year deal.

Note: This table includes information only from publicly reported rights agreements between ESPN and its partners and/or industry reports on these rights agreements.[55] It is not 100% exhaustive and is intended for educational purposes only. Many reports suggested ESPN's total rights obligations exceeded $10 billion annually and over $2 billion to produce that content.

Source: See Endnote 55.

Moving on from the cost side of the equation, revenue generation must also be considered. ESPN had two different ways to drive monthly subscription revenue: affiliate fees and direct-to-consumer subscriptions. The table below modeled both revenue sources in several scenarios to get a total annual revenue number, which was then subtracted from the total rights obligation. It used the estimated total rights obligation from 2024-25 (**Figure 6**).

Figure 6 ESPN Revenue Projections – Subscription Business

Affiliate Subscribers (m)	Average Revenue per Affiliate Sub ($)	Total Affiliate Revenue per month ($m)	Total Affiliate Revenue per year ($m)	DTC Subscribers (m)	Average Revenue per DTC Sub ($)	Total DTC Revenue per month ($m)	Total DTC Subscriber revenue per year	Total Sub Revenue (Affiliate + DTC) year ($m)	Est. Total Rights Obligation 24-25 ($m)	Net: Sub Rev minus Rights Obligation ($m)
100	10	1,000	12,000	0	$0	0	0	12,000	7,810	4,190
70	10	700	8,400	25	$6	150	1,800	10,200	7,810	2,390
60	10	600	7,200	25	$6	150	1,800	9,000	7,810	1,190
60	10	600	7,200	20	$6	120	1,440	8,640	7,810	830
50	10	500	6,000	45	$6	270	3,240	9,240	7,810	1,430
50	10	500	6,000	35	$6	210	2,520	8,520	7,810	710
35	10	350	4,200	50	$6	300	3,600	7,800	7,810	-10
25	10	250	3,000	50	$6	300	3,600	6,600	7,810	-1,210
20	10	200	2,400	70	$6	420	5,040	7,440	7,810	-370
0	10	0	0	100	$6	600	7,200	7,200	7,810	-610
70	10	700	8,400	25	$7	175	2,100	10,500	7,810	2,690
50	10	500	6,000	45	$7	315	3,780	9,780	7,810	1,970
50	10	500	6,000	35	$7	245	2,940	8,940	7,810	1,130
35	10	350	4,200	50	$7	350	4,200	8,400	7,810	590
25	10	250	3,000	50	$7	350	4,200	7,200	7,810	-610
20	10	200	2,400	70	$7	490	5,880	8,280	7,810	470
0	10	0	0	100	$7	700	8,400	8,400	7,810	590

Note: This table is based on publicly available information and models out scenarios that vary based on number of subscribers via affiliates and direct-to-consumer and the average revenue per subscriber. Average revenue per affiliate sub includes ESPN as well as other ESPN networks (ESPN2, ESPNEWS, etc.) This table is for educational purposes only.

Source: Casewriters.

This table represented a few of the scenarios that ESPN had faced or will face in the future. For example:

- ESPN at the height of the cable bundle with 100 million subscribers at roughly $10 per month for ESPN networks.
- ESPN in 2024 with roughly 70 million Affiliate subscribers and 25 million ESPN+ Direct-to-Consumer (DTC) subscribers.
- ESPN continues to lose Affiliate subscribers and DTC subscribers remain constant or decrease.
- ESPN continues to lose Affiliate subscribers but grows DTC subscriber base to varying degrees.
- ESPN increases average revenue per user for DTC to $7.

The variables in this model could be changed to explore various scenarios with different subscriber numbers and average revenue per subscriber (for both Affiliate and DTC) as well as different values for total annual rights obligations.

Both the rights obligations and revenue modeling illustrated the opportunities and challenges that ESPN faced in a new era. Could the company increase revenue enough to grow profitably? If so, how? Would it have to make tough choices on which sports properties to invest in? If so, which made brand and economic sense for the company? The golden age of ESPN in the cable bundle was over. Tough

decisions about the strategic direction and economic sustainability of the worldwide leader in sports were looming.

Conclusion: Where would ESPN go from here?

In some ways, the challenges facing ESPN were like those discussed about myriad companies and industries in business school classrooms around the world. Amidst rapid technological change, ESPN was forced with the choice to either disrupt itself or be disrupted. The rising costs, declining revenue, changes in consumer behavior, and overheated competitive environment added further complexity to the situation.

For its part Disney remained publicly bullish on the growth prospects of ESPN, even as the brand navigated so much disruption. As Iger pointed out in the November 8, 2023 earnings call:

> *Another core building opportunity is taking ESPN, which is already the world's leading sports brand, and turning it into the preeminent digital sports platform allowing us to reach fans in compelling new ways and fully integrating key features into our primary ESPN offering.*[56]

How could ESPN become the preeminent digital sports platform of the new streaming era? What would be the implications on the league and conference media rights? Team valuations? Player salaries? Agent commissions? The answers would shape the future of the sports world.

Exhibit 1 Disney Q2 FY24 Sports Financials

Sports

Sports revenues and operating income (loss) are as follows:

($ in millions)	Quarter Ended March 30, 2024	Quarter Ended April 1, 2023	Change
Revenue			
ESPN			
Domestic	$ 3,866	$ 3,733	4 %
International	341	366	(7) %
	4,207	4,099	3 %
Star India	105	127	(17) %
	$ 4,312	$ 4,226	2 %
Operating income (loss)			
ESPN			
Domestic	$ 780	$ 858	(9) %
International	19	19	— %
	799	877	(9) %
Star India	(27)	(99)	73 %
Equity in the income of investees	6	16	(63) %
	$ 778	$ 794	(2) %

Source: The Walt Disney Company Q2 FY24 Earnings Report.

Exhibit 2 Disney Q2 FY24 ESPN+

Second Quarter of Fiscal 2024 Comparison to First Quarter of Fiscal 2024

In addition to revenue, costs and operating income, management uses the following key metrics to analyze trends and evaluate the overall performance of our ESPN+ DTC product offering[1], and we believe these metrics are useful to investors in analyzing the business. The following table and related discussion are on a sequential quarter basis.

	March 30, 2024	December 30, 2023	Change
Paid subscribers[1] at: (in millions)	24.8	25.2	(2) %
Average Monthly Revenue Per Paid Subscriber[1] for the quarter ended:	$ 6.30	$ 6.09	3 %

[1] See discussion on page 16—DTC Product Descriptions and Key Definitions

The increase in ESPN+ average monthly revenue per paid subscriber was due to increases in retail pricing and higher advertising revenue.

Source: The Walt Disney Company Q2 FY24 Earnings Report.

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