Cycling TV – An Over The Top Revolution

Television viewership of pro cycling has been going down, and the trend is likely to continue if the sport doesn't work on enhancing and modernizing its viewership strategy. The 2016 Tour de France, for example, was the least-watched edition of the sport's premier event since 2009. And this directly impacts the primary revenue source: sponsorship.

The global shift in entertainment content to on-demand online viewing, combined with pro cycling's lack of a unified broadcast licensing strategy and its escalating broadcast costs, is leading to a situation where the sport may have trouble maintaining future revenues. A smaller audience in a "number-of-eyeballs"–driven business model implies lower return on the critical investments those sponsors provide. Over the long-term, that may drive sponsors away from the sport.

In the past, we have examined how broadcast costs can be brought down, how new technology can enhance the viewing experience, and how the sport can monetize the content of its races. In this article, we look at how the sport can turn its viewership model around and increase profitability by adopting the on-demand Over-The-Top (OTT) web streaming model – similar to what Netflix, many specialty broadcast channels, and even some major sports leagues have already successfully done.

A Sport in Trouble: High viewership figures cited by the sport's major race organizers have been shown to be much less than generally advertised. For example, researchers have accurately adjusted the figures by eliminating multiple counts of the same viewer, and we now know that only 570 million people tune in to watch the Tour de France – not the 3.5 billion that Amaury Sport Organisation (ASO) has publicly stated, and which most stakeholders in cycling would like to believe. For a sport which values advertising revenue based on the number of eyeballs watching TV screens, this is not good news.

The sport hasn't really changed its TV broadcast model in decades, and it has yet to fully embrace the newest OTT streaming technologies that offer significant revenue enhancement possibilities. There is no Netflix or Amazon streaming equivalent in pro cycling; fans outside of the European markets simply have to make do with whatever broadcasters decide to put on television (or stream as an afterthought), regardless of the time slot, and whether or not the web stream is of any quality.

Going Over The Top: OTT represents the most successful business model for the delivery of media content today. It merges multiple technologies to deliver content over the internet, without the need for a consumer to subscribe to a cable or satellite provider's bundled package to have access to that content. OTT services like Netflix and Hulu allow subscribers who have high-speed bandwidth to use laptops, handheld devices, or smart TVs to "cut the cord" – to cherry-pick their preferred shows, bypassing a set-top box subscription of 200 channels (or more) to access just the desired one or two.

In essence, OTT technology merges three key features to provide a personalized viewing experience and increase marketing activation. First, it allows you to choose exactly the races you want to watch, and when you want to watch them. Second, it is able to track, aggregate and analyze data about your individual preferences – in order to build a rich, personalized profile that allows the system to recommend other value-added content.

Third, OTT is able to seamlessly insert personalized, targeted ads and purchase offers in real time, without interruption or signal degradation, within the content streaming to any viewing device, to encourage a true one-to-one relationship with those branding messages. Or perhaps a fan will be willing to pay the premium upgrade for that race, or a higher-tier of service, so as to see no ads whatsoever; just pure, uninterrupted racing entertainment.

Research predicts that worldwide OTT revenue will reach $65 billion in 2021 – double that of 2015 ($29 billion). Many traditional cable/satellite service providers now have more internet connections than cable subscribers, and they are racing to acquire content libraries and customers. From a broader business perspective today, OTT technology is also the driving force behind huge mergers in technology and entertainment.

For example, AT&T purchased DirecTV to acquire the huge subscriber base of DirecTV's satellite TV business, and is converting these customers to AT&T's online content platform. It then recently bid $85 billion for Time-Warner, aiming to acquire that company's vast content library. These moves will help AT&T retain and grow its customer base, market new content as it is produced, target advertisements to those customers, and sell value-added services and technology to maximize what each customer spends. And Disney, owner of sports entertainment network ESPN, recently acquired a $1 billion stake in a live streaming content distribution company which may soon allow it to bypass its cable/satellite distribution partners. Simply put, content is now driving the media value chain – and OTT is driving the business.

Market growth of OTT services has truly disrupted the traditional entertainment industry, but for it to work in pro cycling, the sport's key players must be willing to change and adapt – and they must realize and accept that the existing business model of "counting eyeballs" will not be successful in the OTT space. Cycling's current reliance on negotiating TV contracts through licensing (where the broadcaster sells advertisements to offset the video feed acquisition), or via time-buys (where the race organizer simply buys airtime) – break down on the internet. Saturating a time slot with ad spots quickly becomes ineffective when consumers have increasing control over the demand of *when*, *how*, and *where* they want to watch a show.

Generating New Revenue: OTT generates revenues by providing premium content, in a personalized on-demand format, via three different subscription models. The most recognizable one is called subscription driven video-on-demand (SVOD); this is how Netflix sparked the OTT revolution. Transaction-based VOD (TVOD) is the "pay as you go" model, like Amazon or iTunes where you pay for each show as viewed. Advertising-supported (AVOD) providers like Hulu deliver your content with customized marketing placements or sponsor branding within the programs you watch. All three models could be adopted by pro cycling, even simultaneously, to enable different tiers of services – depending on how they are priced and what fans are willing to pay for.

OTT enables sponsors to connect directly with a viewer; in essence, it can create one-to-one relationships with high-value consumers. The technology measures who is watching, how long, when during the day, what races, and other content they browse while online. The key difference as compared to today's inexact and largely unscientific marketing models (based on wildly inaccurate viewership numbers) is that OTT technology drills right down to the level of the individual person – not a large population of *similar individuals*.

These kinds of customer-specific advertising opportunities can be priced higher; likewise, the premium for an advertising-free viewing experience can also be appropriately priced to offset the marketing loss. In the few short years since the first OTT services launched, these revenue models have matured and now all you need is valuable content, interested sponsors, and loyal fans – all assets which pro cycling already has. This can drive higher future revenue for the sport.

Key Challenges: Big sports entertainment brands like the Ultimate Fighting Championship (UFC) still cooperate with cable/satellite TV to deliver content like pay-per-view events, but increased subscriptions to the entity's "Fight Pass" programs for exclusive fights, content, and replays has multiplied the brand's profitability. Pro cycling can also move in this direction, but there are significant challenges to get to the point where the UFC is today.

An obvious barrier, and not one easy to overcome, is for the race organizers and teams to break with the UCI's WorldTour model and create a professional league (as we suggested over a year ago in our business plan for an international cycling league). The UCI is regulator, not a league owner, and in reality should have no place in determining the licensing valuation or rights for privately-owned races like the Tour of Flanders.

Even assuming the UCI remains in control, pro cycling's race organizers must still try to cooperate to set a consistent standard for a race viewing experience – specifically the kinds of camera shots and the display of enhanced data like dynamic time splits and rider biometrics. Similarly, they must aggregate legacy content, and protect enough of it from non-licensed channels (such as on YouTube or Steephill.tv) that it retains its value.

The UFC, for example, has efficiently used litigation to prevent its licensed and original content from being "pirated" or shown anywhere else other than on Fight Pass or via its licensed broadcast and pay-per-view partners. While some intrepid services offer WorldTour race feeds by virtual private network (VPN) today, few are broadcasting this valuable content through that kind of semi-legal technical workaround.

Even though pro cycling's political landscape is challenging, race organizers need to compromise and create a coherent content licensing model, because its broadcast content is tremendously undervalued today. This change is long overdue, and is desperately needed if there is to ever be proper valuation of content aired for free or via bundled packages on major networks worldwide – let alone any kind of online "Netflix of Cycling" portal, where fans could sign up for a season-long service with multiple subscription service tiers.

The streaming technology is proven and readily available. Personalization data can be purchased from multiple search engine and web analytics companies; global media delivery partners can digitize the race programming for delivery to any streaming device; and advertising management service partners can activate the marketing. Unfortunately, the economic structure of pro cycling itself is currently the least mature component of this potential future model.

The Road Ahead: The first and most important change cannot be repeated enough: pro cycling must first overcome its historical business conflicts and agree on a common broadcast licensing model. While race organizers could offer exclusive web-based race viewing subscriptions – perhaps containing packages like RCS (Giro d'Italia and related races) or ASO holdings, for example – fans are not likely to waste the time and expense to sign up on multiple race websites, multiple times, for multiple events.

Pro cycling can avoid this trap by offering a unified content license, on a competitive basis, to an elite pool of bidders, thus maximizing the value of its broadcast content rights. A smaller number of licensed cable/satellite and OTT distributors, but with a larger overall distribution footprint and more advanced technology, would command a higher overall content valuation than all of the individual races combined today. And more importantly, it could present the consumer with a strong OTT value proposition: sign up once, choose your preferred level of service, and enjoy a full season of racing.

Service delivery partnerships are the key to hitting the market faster, without the burden of investing more resources into owning, maintaining, and staffing information technology assets than on the actual race production. Pro cycling needs these kinds of technical, business, and OTT distribution capabilities, but obviously no race organizer has the roughly $1 billion on hand (like Disney) to build or buy an OTT platform. However, once there is a portal or competing portals, each with legitimate licensing and subscription tiers, there would be direct "gate" revenue from the fans. And the improved consumer data would support higher advertising premiums, as well as more innovative and lucrative marketing strategies.

There are other business decisions to consider, such as whether or not cable/satellite licensees should be allowed to re-stream races over their own OTT services, called “skinny bundles.” This practice helps the cable/satellite provider retain customers, like Eurosport’s Player service. But the race organizer usually only recognizes profit from the original TV broadcast licensing agreement. In other words, the race organizers’ profits get diluted in these arrangements, and without a higher valuation of the license up front, race organizers are essentially throwing profit away.

A dedicated pro cycling OTT service would generate far more direct revenue for the sport if it reserved the streaming rights in the future. The new Olympic Channel, quietly launched online by the IOC at the end of the Rio Games, may be the prototype of this future state. The IOC could increase the webstream license premiums for its broadcast partners, which would increase its overall revenues, or just stream its Games and take the revenues directly.

ASO has invested the most and could be the first OTT mover in pro cycling, forgoing a sport-wide strategy for the portfolio-driven approach. However, ASO may be risk-averse in the short term due to free-to-air commitments with French TV and its other European market licensees. Velon could develop a similar teams-based content aggregation approach with race organizers like RCS and International Management Group (IMG) to compete in this space. But there is far more upside if all parties could somehow cooperate to build just a few pro cycling-branded OTT channels, rather than dozens of individual race channels.

Closer to home, there is a big opportunity for an entrepreneur to create a single cycling portal for racing content in the Americas. Few North American races can afford TV broadcast time-buys, but connecting with dedicated fans via an OTT service could increase viewership and provide race organizers with valuable revenues. USA Cycling could drive up the value of its new Pro Road Tour calendar by helping such an effort along, either as a broker to connect online sponsorships, or as a partner/investor to start a service.

Most critically, delivery of cycling's most valuable content by OTT can help drive the sport’s overall future growth. Even though the majority of pro cycling’s viewership takes place for free in Europe and Great Britain, diehard fans outside of this traditional market have the proven financial means, access to technology, and emotional connection to the sport to pay a premium for its content. How the sport connects with and values that growing and affluent fan base will have a big impact on pro cycling’s profitability in the future.

After all, no one expected the on-demand entertainment revolution to completely rewrite the broadcasting landscape in less than a decade. It is now likely that the majority of all content will be delivered online in the not-too-distant future. The opportunity for pro cycling is more than just meeting its fans’ needs; the sport’s key stakeholders have a once-in-a-generation opportunity to set aside their business differences and make the sport more accessible, globally available, and profitable than ever before.

Joe Harris and Steve Maxwell, November 9, 2016