



Deloitte's sports industry starting lineup

Trends expected to disrupt and dominate 2017



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A look back and what's ahead

Predictions are like New Year's Resolutions—there's no risk in being ambitious. Every day we watch athletes push themselves to accomplish extraordinary feats, and we believe that anything is possible. We closed out a year that saw great triumphs, including the World Series trophy returning to Wrigley Field and the spectacle of the Rio Olympic and Paralympic Games, and we begin the New Year with a look at the stories we believe could dominate the sports landscape in 2017.

But first, let's review a few of the trends and topics we highlighted last year:

- 2016 saw tremendous growth in the wearables space, particularly in game environments. Many teams are using wearables to collect data during training and conditioning sessions. Players on English Premier League champion Leicester City wore a device that monitored player performance in real time,¹ and Major League Baseball (MLB) approved the use of a sensor that can monitor pitcher workload during games in an effort to avoid Tommy John surgery.²
- eSports continued to grow at an exponential pace and took steps to both blend in with and disrupt the traditional sports industry. 2016 saw major eSports events presented on mainstream American cable networks. It also saw leagues capture traditional marketing sponsorships. For example, ELEAGUE secured both Arby's and Buffalo Wild Wings as early partners.³ eSports is expected to be a \$1B business by 2018.⁴
- As anticipated, daily fantasy sports (DFS) saw continued regulation on a state-by-state basis. In 2016, bills legalizing fantasy sports were passed in ten states, the most significant of which was New York.⁵ Congress has yet to revisit legalized sports betting at the federal level, despite the growing acceptance of DFS games. 2016 ended with the industry's two largest players—DraftKings and FanDuel—announcing a merger that is expected to close later this year.⁶

With last year's trends in the rearview mirror, Deloitte's sports practice began looking ahead to the issues and opportunities likely to be top of mind for sports executives this year.

Pete Giorgio

US sports consulting leader
Deloitte Consulting LLP

“Content is king in the evolving sports media landscape, but identifying the most effective distribution channel is equally important.”

— Brian Finkel, sports research, Deloitte & Touche LLP

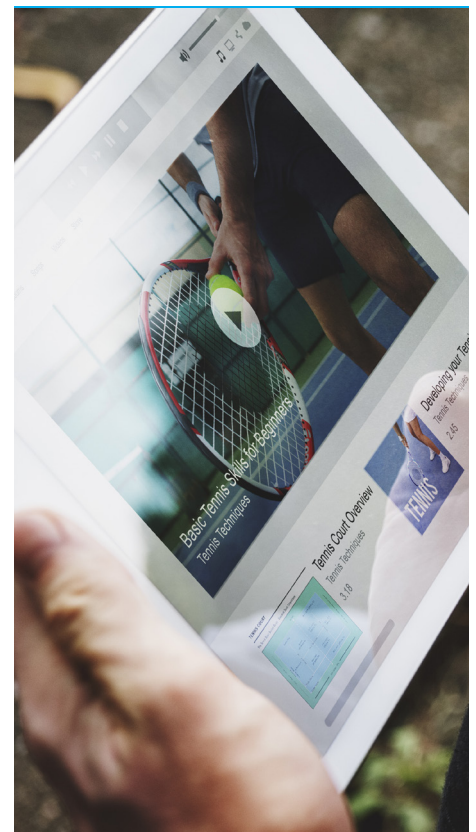
The evolution of sports media

The sports media landscape is evolving rapidly, especially in terms of who creates content and who has the right to distribute it. In last year's trends study, we looked at the impact over-the-top (OTT) platforms would have on the sports industry. 2016 saw various networks and properties announce or launch their own OTT platforms, with one of the most significant being The Walt Disney Company's investment in BAMTech to build an ESPN streaming service.⁷ Digital and mobile channels will remain a critical component in the media ecosystem in the coming year.

One trend in particular we expect to see grow in 2017 is the number of non-traditional media companies aggressively pursuing sports rights. Twitter's foray into streaming NFL games and various Pac-12 sporting events could result in other OTT platforms seeking similar live rights packages.⁸ Examples of companies that could be in the bidding for sports content are Amazon for Amazon Prime and Apple for Apple TV digital media extender.

These changes in the media industry aren't limited to content distributors; they also extend to content owners. Consider WME | IMG, which historically has owned golf, tennis, and fashion events; represented entertainers; and exploited others' multimedia rights. Over the last two years, the company has emphasized owning content through the acquisitions of Ultimate Fighting Championship, Professional Bull Riders, and Miss Universe.⁹ Similarly, mass media conglomerate Liberty Media significantly increased its live event ownership in purchasing the international racing tour Formula One.¹⁰

In all of these cases, as consumers shift from cable to digital media, ownership of, or distribution rights to, unique content will likely be a key differentiator between companies as they seek growth opportunities.





Data and analytics: Moneyball is only half the story

Data and analytics discussions in sports typically concentrate on scouting and player development, but these conversations miss half of a team's or league's operations. One of the most significant trends in sports is the transformation on the business side as a result of big data. Having the best players is critically important, but so is having key insights to create better fan experiences, drive more revenue, and create more value. Business functions, such as finance, marketing, and sales, are seeking ways to better understand the sources of data they have access to and to improve their strategy and operations as a result.

Some sources of increased data include:

- Primary and secondary market ticket data
- In-venue beacon technology
- Merchandise and food and beverage point-of-sale terminals
- Fan interaction through social media platforms and team and league websites
- Loyalty programs

Teams and leagues have generally sought to increase the overall technical know-how of their organization so that all areas of the business are more conversant in the power of data. But creating insights is only half the challenge. Organizations need to trust and activate those insights as well. Failing to apply what's gleaned from data often is typically the biggest barrier to driving value from analytics.

Sales departments have been augmenting traditional approaches with more analytical capabilities by having better leads on who is more likely to buy, what they are more likely to buy, and when they are likely to purchase. Marketing departments are having customized, targeted campaigns. Finance is utilizing software to spend more time analyzing results rather than preparing financial reports. Media departments are capturing enhanced analytics on the consumers who interact with their digital and social platforms to improve engagement on the fly. The end goal is to improve interactions with consumers, enhance sponsorship opportunities, and support increased efficiency and effectiveness of such internal functions as finance and marketing.

“Data can dramatically improve an organization's overall ROI—on the field, in the stands, and in the front office.”

– Ramya Murali,
senior manager,
Monitor Deloitte,
Deloitte Consulting LLP



Innovating game day

The improvement of the home viewing experience has challenged sports teams to think about how they can better draw their audience to the stadium. Taking steps to incentivize fans to get off of the couch on game day is not a new endeavor. The short-term success of those now fairly commonplace ventures—technological in-stadium enhancements, visitor loyalty programs, and experiential personalization—has varied, and long-term effectiveness is, in many ways, yet to be determined.

Teams also continue to search for ways to optimize fan experience beyond the stadium walls. One way teams are improving the fan experience on stadium grounds is by partnering with already popular services, such as Uber and Amazon Prime, to enhance tailgates and viewing parties. These partnerships appeal to the coveted millennial demographic, who are already well acquainted with these types of services, and are likely to engage in experiential spending. Capitalizing on the consumer habits of this subset of the population is important, particularly in the US, where millennials now outnumber baby boomers as the nation's largest living generation.¹¹

Proximity to the stadium isn't a prerequisite for tapping new revenue streams on game day. While catering to regular attendees and season-ticket holders is obviously valuable, there's untapped potential in fan bases that have no access to the stadium at all. Over half of fans from each major sports league in the US are "displaced fans," meaning they support teams that do not play in the state that they reside. Opportunity exists in expanding reach and generating revenue from these displaced fans.

Teams for years have been looking for ways to "innovate," yet often have had a hard time defining what innovation means to them. Whether they target millennials or displaced fans by innovating the game-day experience for them, teams can take advantage of a previously underserved source of revenue.

"For years, teams have sought new ways to improve the in-stadium experience. Now, they're doing so through unique and innovative partnerships."

– Paul St. John,
sports market development leader,
Deloitte Services LP

Augmented reality and virtual reality

The sports industry is ramping up investment in augmented reality (AR) and virtual reality (VR) technologies, acknowledging their potential to disrupt content consumption. Teams and leagues believe these could be solutions for enhancing the experience for casual fans and transporting displaced fans halfway around the world into courtside seats.

To date, interest in sports has been weighted heavily in VR technology. Franchises are partnering with VR startups to install 360-degree cameras in stadiums and to offer games in virtual distribution. Teams also are incorporating VR technology into player training programs

to recreate game situations and help with decision making, while reducing the risk of overtraining or injury. However, as we would expect from any technology in its infant stage, VR still is navigating through some common drawbacks: Equipment is cumbersome, video quality is inconsistent, and users complain of dizziness.

AR shouldn't be overlooked as VR's technological younger brother. Apple is investing heavily in AR and is preparing to enable their operating systems to support the technology.¹² The sports industry should anticipate and capitalize on this advancement by considering the potential

benefits of integrating software into the real world.

The Pokémon Go craze proved that augmented reality apps are in high demand and can be easily integrated into daily life. While VR may keep sports fans on the couch, AR has in-stadium applications. AR apps could customize venue signage for each user, tell fans where a friend is sitting, or overlay stats on players in a game. Unlocking the ultimate value of AR and VR in sports will take trial and error for startups and franchises alike, but there's no denying the impact these technologies will have on the industry.

“Virtual reality gets more of the attention, but augmented reality often has more practical applications for fans. Keep an eye on this technology in 2017.”

– Mike Aronesty, US sports leader,
Deloitte & Touche LLP



“With increased investments in digital technologies, sports teams must manage the cyber risks that can result from such innovations. The very tools used to gain a competitive advantage could expose organizations to new cyber threats.”

– Vikram Kunchala, Deloitte Advisory managing director, Deloitte & Touche LLP

Cyber risk in the sports industry

The priority for sports leagues and teams to be secure has traditionally focused on protecting the safety and wellbeing of physical assets—fans, athletes, and venues. However, the industry's increasing adoption of digital technology, analytics, and an online presence has exposed a new class of assets and vulnerabilities that extend well beyond the physical realm into cyberspace. The question no longer is whether you will be hacked, it's what your response will be when you face a cyber-attack.

Recent cyber incidents made public by leagues and teams have given credence to the theory that malicious actors can be successful in attacking sports organizations using some of the most common attack patterns reported across industries.¹³ In one example, a franchise fell victim to an email phishing scam that leaked sensitive player financial information. Another breach involved an attack by the scouting director of one team who used stolen credentials to hack into another team's database, accessing the club's player notes to gain competitive advantage.

Sports organizations can benefit from shifting the organizational paradigm to being secure and mastering fundamental information security practices.

We also know the traditional discipline of security, isolated from a more comprehensive, risk-based approach, is not enough to prevent the constantly changing landscape of cyber incidents. Greater focus is needed on gaining more insight into industry-specific threats and responding more effectively to reduce their impact. The industry's innovative use of technology and data will create first-order cyber risks that must be managed. Attractive targets and channels to exploit include interconnected technology used by leagues and teams to transform the fan experience, advanced analytic intellectual property to measure performance, and even the availability of technology aiding players and teams with in-game strategy execution. Through an ongoing program to become secure, vigilant, and resilient, sports organizations can be more confident in their ability to protect value for a more holistic set of strategic and evolving assets.



Diversifying the sports enterprise

The value of professional sports franchises has increased significantly over the past decade, driven largely by new state-of-the-art stadiums, lucrative media rights fees, and an overall dearth of teams available for sale. Because of the multimillion- or billion-dollar purchase prices, owners are identifying ways to unlock the value of their team assets as the core of a greater sports and entertainment enterprise. While business diversification isn't a new concept, it is manifesting itself in the sports industry in unique ways.

We expect to see more of the following the coming year:

- **Mixed-use developments:** Stadiums increasingly are becoming the cornerstone of large mixed-use entertainment districts featuring hotels, restaurants, office space, and retail. These developments give owners the opportunity to capture fan spending before and after a game, as well as tap new revenue streams outside the traditional sports business. Over the next couple years, mixed-use projects are expected in cities including Atlanta, Boston, Los Angeles, and San Francisco.
- **Nascent sports leagues:** Given the similar business models and generally low cost of entry, owners and players are beginning to buy into new sports, such as eGaming and drone racing, which have significant growth potential. With access to and operating rights at stadiums and arenas, owners are able to reach a new generation of fans that may have less exposure to traditional stick-and-ball sports.
- **Start-up incubators:** Similar to investing in new leagues, owners also are getting more involved in the start-up community, creating business incubators and becoming outside investors in companies working to introduce new technology into the sports and entertainment industries. By expanding their personal business portfolio through such incubators, owners have at their disposal innovative products that can enhance the fan experience. If successful, they then can tap their network to make the product available to other teams and leagues.

These are just a few of the ways team owners are using their franchises to build a larger, more diverse sports enterprise. As the value of teams continues to skyrocket, expect both existing and new owners to seek ways to find a return on their investment.

“Owning a sports franchise presents tremendous opportunities to create value beyond the traditional team business, which also helps justify large purchase prices.”

— Ben Paik, principal, Monitor Deloitte, Deloitte Consulting LLP

“Social media has given athletes a much bigger platform to support and advocate for causes they are invested in, but also comes with a greater responsibility to be role models for others.”

– Sarah Goldwasser, senior manager, Deloitte Consulting LLP

Social activism in sports: The next generation

Athletes have long been generous about leveraging their public personas to support causes that are important to them, their families, or their communities. Teams and leagues have gone a step further, commercializing and promoting broad causes such as breast cancer awareness, childhood fitness, and natural disaster recovery efforts. But the recent activism spearheaded by Colin Kaepernick and Carmelo Anthony, among others, and now present across the US professional leagues, harkens back to the nonviolent resistance movements of Muhammad Ali and Kareem Abdul-Jabbar in the 1960s. Players increasingly are using TV air time, their uniforms, and post-game press conferences as a way to draw attention to the issues or injustices that feel most critical to them, while teams and leagues stand by with varied levels of support.

These activities have resulted in a reemergence of the fundamental question about the role athletes play in political and social activism. While there are strong,

mixed perspectives on whether athletes should use their status as high-profile figures to advance such public positions, particularly in the context of their on-field play, there's also growing sensitivity to how these activities might be impacting the sports industry. The rise of these politically- and socially-minded activities may be a factor that impacts fan perceptions and shifts in viewership of live sporting events. As political and social topics permeate headlines in the coming year, many athletes will likely continue to use their platform to bring awareness to the issues that matter to them most, leaving teams and leagues with decisions to make regarding how to enable, manage, or redirect this momentum.





Protecting the brand from corruption

In addition to protecting physical and cyber assets, it is crucial for organizations to protect their brand. In this area, we see a significant trend emerging: Business leaders are joining forces with government, law enforcement, academia, and civil society to restore trust in the integrity of sports and inspire real change. For example, in April 2016, more than 40 groups from various sectors met in Madrid under the umbrella of the Sport Integrity Global Alliance (SIGA) to generate new ideas, share leading practices, and drive reforms in good governance, financial integrity, and betting.¹⁴ Deloitte was one of the founding members of SIGA, and a representative sits on its Executive Committee.

Initiatives like SIGA offer a starting point to create a common platform to unite all of the stakeholders involved in anti-corruption efforts. They also help create opportunities for governments, business, international and professional organizations, and civil society to discuss problems; share ideas, experience, and useful policy tools; launch anti-corruption projects; and jointly make strategic decisions. Moreover, effective coordination can reduce the “siloeing” that is so widespread today as stakeholders take

individual actions that often duplicate the actions of others.

In the long run, we expect to see this trend grow as stakeholders feel the urgency to establish leading practices and international standards in order to help restore trust and inspire real, lasting change. And we expect to see more initiatives like SIGA designed to promote effective regulations, stronger oversight, and more stringent monitoring of the business of sports.

“Using lessons learned from other industries, businesses can—and should—play a key role in eliminating corruption and restoring integrity in sports.”

– James “Chip” Cottrell, Deloitte Advisory partner, Deloitte Financial Advisory Services LLP

Let's talk sports industry trends

We believe these are the topics that are going to impact the business of sports, both on and off the field, over the next 12 months. But invariably new stories, trends, and themes will emerge that further disrupt the industry, derail the game plan for executives, and delight us as sports fans. Please tweet [#DeloitteSports](#) to share the sports trends or opportunities that are on your mind in 2017.

Contacts

Pete Giorgio

US sports consulting leader
Deloitte Consulting LLP
pgiorgio@deloitte.com
+1 617 437 3459

James "Chip" Cottrell

Deloitte Advisory partner
Deloitte Financial Advisory Services LLP
jhcottrell@deloitte.com
+1 804 334 2395

Ramya Murali

Senior manager
Deloitte Consulting LLP
rmurali@deloitte.com
+1 212 829 6033

Mike Aronesty

US sports leader
Deloitte & Touche LLP
maronesty@deloitte.com
+1 973 602 6225

Paul St. John

Sports market development leader
Deloitte Services LLP
pstjohn@deloitte.com
+1 617 437 3641

Brian Finkel

Sports research
Deloitte & Touche LLP
bfinkel@deloitte.com
+1 917 943 8494

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