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Regional sports networks' restructuring can strengthen sports

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With Diamond Sports Group's bankruptcy, catastrophic predictions for sports leagues, teams, players and fans are increasing. The implosion of the U.S.'s biggest owner of regional sports networks risks contracts with nearly half of MLB, NBA and NHL teams. Add to that Warner Bros. Discovery, which is already reducing its payments to three baseball clubs and threatening Chapter 7 bankruptcies with liquidations, rather than DSG's Chapter 11 restructuring.

RSN contracts are generally teams' second-largest source of revenue (and home to most of their games). Without those checks, assert some, teams will be squeezed, players' salaries pressured, and resources to improve fans' experiences will vaporize. So is sports, that abiding global passion, about to collapse from its own profligacy?

Not likely. In fact, the right kind of restructuring can accelerate sports growth.
First, Diamond's demise primarily resulted from its flawed decision-making: acquisition overpayment and over-leveraging; overly aggressive digital rights negotiations; and a late, incomplete and overpriced streaming product.

NBA and NHL teams have the last months of their regular seasons at risk now. MLB teams' full seasons are threatened. Bankruptcies normally take months (maybe years), but the affected leagues promise fans will still see their local games live. SBJ's John Ourand's extensive coverage quoted both RSN groups' interest in maintaining game telecasts, noting that WB Discovery has added impetus (to retain national NBA rights). The leagues still may need to intercede, as both RSN groups won't continue most license agreements without fee reductions, perhaps leading to bankruptcy-simplified contract repudiations. And next season comes quickly for the NBA and NHL, when the full schedule's risk will pressure all parties. Leagues' backup distribution arrangements -- perhaps unneeded this season -- likely will be activated in some areas next season. The leagues are focusing properly on fans rather than short-term financial gains, but economics are the goal for RSNs.

And irrespective of game broadcasts in the short-term, isn't the market discounting the future of RSNs, given the persistent decline in cable households? Cord-cutting does threaten the existence of these intermediaries between teams and cable operators. Operators pay RSNs distribution ("carriage") fees, combining with channels' ad sales to form the twin revenue streams fueling RSNs' historic values. Both streams are under attack: Carriage fees for sports channels are a cable provider's biggest programming costs, and ad revenue is pressured as cord-cutting drops audience delivery. All RSNs have the same core dynamics, but Diamond's debt load left no margin for adjustment. And as the two RSNs seek to renegotiate, much of their top talent is being wooed away (e.g., by MLB's Local Media group).

Yet the picture beyond the RSNs is more promising. Cord-cutting isn't a sign of waning sports interest; as shown by research from Spain's La Liga and others, younger viewers mirror the avid fandom of their elders -- they just express it differently.

Most importantly, streaming increasingly delights fans with ubiquitous viewing, added features and better pricing. Standard cable channels like RSNs could also be digital providers to cord-cutters -- if they can make the economics work for cable systems. The most direct route is in Washington, D.C., where local teams owner Monumental Sports (our client) now controls its RSN and digital networks. They'll improve the fan experience no matter the viewing platform.

What strategic vision supports such a step? First, history. For 25 years, sports teams' valuations have outpaced the stock market substantially. Second, technology: 2.5 billion more people will access streamed content over the next 5+ years, and 30% to 40% projected global GDP growth will make viewers' payments easier. Third, data: by adding direct-to-consumer digital services, teams and leagues finally gain the path and knowledge to sell more to their growing fan base.

And finally, globalization. The best sports teams center in their local communities, while attracting new global fans. Soccer is a model: The famed FC Barcelona sells the bulk of team merchandise outside Spain, and it has branded youth academies in 34 countries. Global brands are built on streaming and fan engagement tools; so too must be new RSNs. Stand-alone channels like DSG's reflect the antithesis of globalization, reaching a tightly circumscribed ring around a team's stadium (e.g., NBA teams' 150-mile radius).

Three parties have direct stakes in ensuring all fans keep access to local games: leagues, teams and -- presuming financial adjustment -- cable operators. RSNs' middleware status made sense when owners had aggregated negotiating power matching cable companies'; when RSNs offered the only access to most major pro teams in a market; and when they achieved economies of scale producing content and selling advertising. Any future replacement of the RSN tier would require new roles for the remaining participants. Teams want both revenue and reach, and traditional RSNs don't seem likely to provide either.

Distribution negotiations may be handled best by leagues directly with national cablers. Alternatively, teams could arrange distribution with their local cable system. Live sports' strength as the last "appointment viewing" for many cable subs incentivizes both sides. In addition to the added weight of league participation in these negotiations, teams can provide certain non-game programming exclusively to cable systems (perhaps behind-the-scenes series like F1's "Drive to Survive").

Teams must ensure they can stream to cable-cutters. Without RSNs, some teams and leagues may license their rights to existing SVOD services, which are expected to account for roughly one-fifth of all sports licensing this year, growing at 70%+ a year. Local TV station groups are also interested in carrying more sports.

Advertising can become the responsibility of leagues (national accounts); or cable systems (with local sales staffs in place); or regional ad networks like Premion; or teams via increased sponsorship sales staff. Eliminating RSNs leaves more ad revenue for those remaining participants.

In short, RSNs' bankruptcies are a disruption but not an existential threat to the sports ecosystem. Decision-making should focus on fan needs, and leverage technology to upgrade the viewing experience. Each layer of the delivery world has to add true value. Financial engineering often obscures business fundamentals; fans want restructurings accomplished quickly, resulting in more sustainable distribution