CALIFORNIA STREAMING

GOOGLE AND APPLE COULD TRANSFORM THE SPORTS RIGHTS BUSINESS IF THEY DECIDE SPORT IS THE VEHICLE TO DRIVE THEIR TELEVISION AND INTERNET VIDEO BUSINESSES. BUT THEY ARE NOT EXPECTED TO DO SO JUST YET. **MATT CUTLER**, EDITOR OF SPORTBUSINESS INTERNATIONAL MAGAZINE, EXPLAINS WHY.

IN THE LAST quarter of 2011, Google and Apple posted net profits of $2.7 billion (€2.1 billion) and $13.1 billion respectively. Both ranked in the top 100 highest-earning American companies in the Fortune 500 list in 2011. And significantly for the sports industry, both were named in press reports as potential competitors to established pay-television operators BSkyB and ESPN in the upcoming UK tender for English Premier League football rights.

Experts in digital sports media do not believe that either will be serious bidders at the next auction, expected to begin this spring. However, they do think that the evolving digital landscape, where people are increasingly watching television content online, and the two companies' moves into internet-connected television, mean they will be taking a harder look at acquiring premium sports content in the longer term.

The two digital giants have moved towards sport from very different core operations. Google s original source of revenue was its eponymous internet search engine and associated online advertising. Apple's was its consumer electronics business, designing and manufacturing desktop computers, portable music players, smartphones and tablet computers. The two have recently entered similar spaces, notably the smartphone sector and, with less success so far, video-on-demand television.

Google, through its Android operating system, and Apple, through its iPhone, have a combined 72.2-per-cent share of the US smartphone market according to figures released last month by comScore, the digital market intelligence company. Both produce digital TV set-top boxes and Google has gone a step further by developing an internet-connected TV set in association with Sony. Apple, whose digital set-top box Apple TV has been on the market since May 2007, is also understood to be building a connected TV set that will launch this year.

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The companies are no strangers to sports broadcasting. Both offer mobile applications - produced by broadcasters and sports rights-holders - that allow the live streaming of sport on mobiles and tablets that run their Android (Google) and iOS (Apple) operating systems, in addition to their respective digital television offerings. Apple and Google receive a share of subscription revenue paid to the creators and operators of the applications.

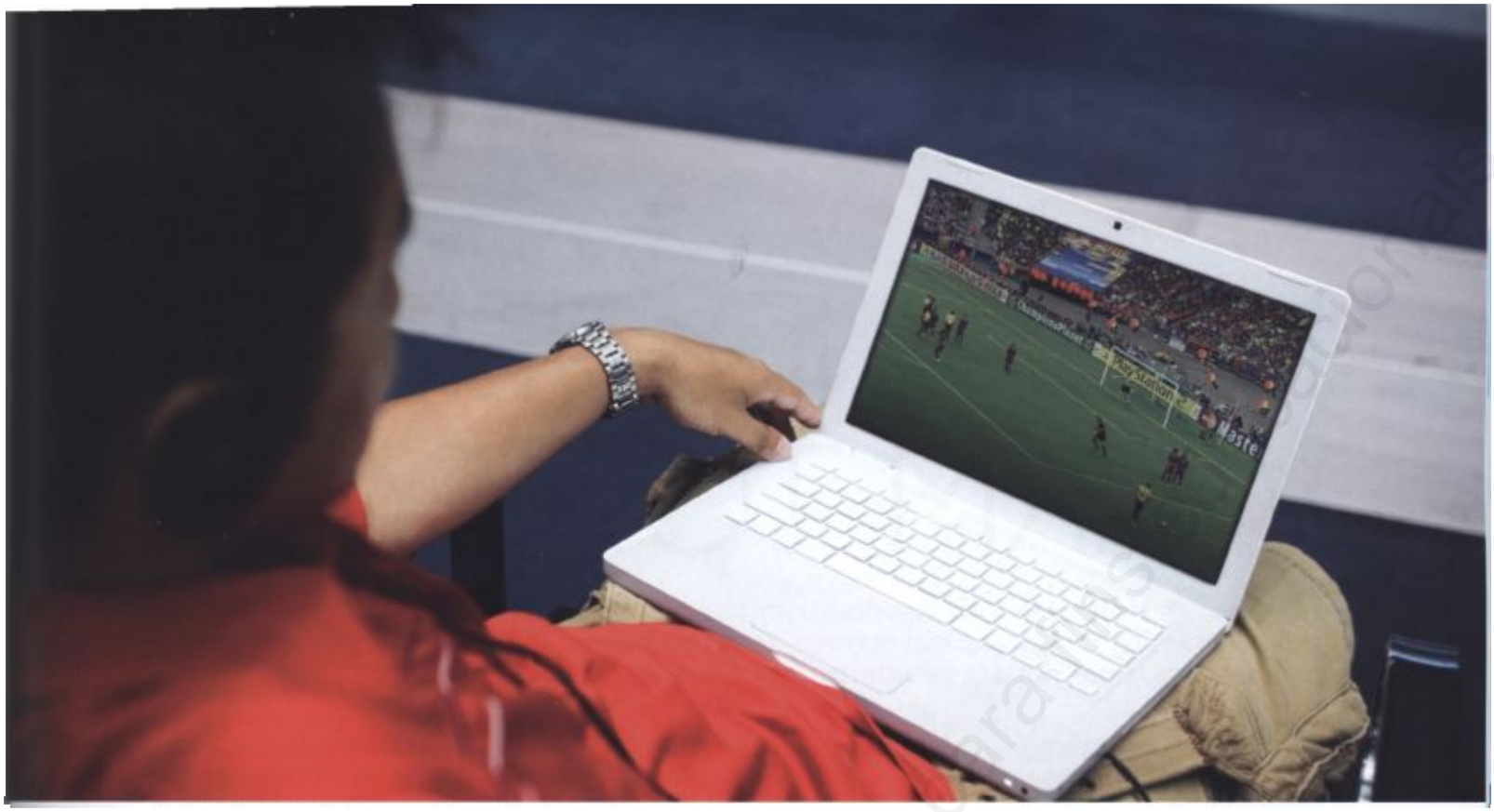
Furthermore, Google s online video-sharing platform YouTube - which it acquired for $1.65 billion in October 2006 - broadcasts live sport both on a free (advertising-funded) and subscription basis. It showed live coverage of Indian Premier League cricket on a dedicated channel in 2010 and 2011, and in July last year broadcast Copa America football live to more than 50 countries, including Argentina, México, France, Spain and the US. Where YouTube provides an upfront minimum guarantee, its advertising revenue is split 55:45 in favour of the rights-holder.

North American cricket broadcaster Willow TV is one of YouTube's subscription sports channel operators. Willow s channel on the website has a mixture of pay and free content: paying subscribers can watch live and highlights cricket action, while non-paying users can watch some highlights clips. Payments are made via Google s online payment processing service Google Checkout.

Several new YouTube sports channels were launched last year under a scheme in which the company offered several million dollars in funding to content creators in the form of advances against future advertising revenues. These included four action sports channels: Alli Sports, Network A, Red Bull Channel and Ride. YouTube has exclusive rights to each channels content for a year, but rights-holders retain ownership, with YouTube responsible for selling advertising. Once the advances are earned back, YouTube shares advertising revenues with the rights-holder.

SEA-CHANGE SOON?

Apple has yet to directly buy rights for live sports content, and in Googles case, the



upfront guarantees for the IPL and Copa America on YouTube are understood to have been about $1 million - relatively small figures for live and international rights for top sports content. Given Apple and Google s standing in the smartphone market and need to push their television produets, how close are they to ramping up their interest in sports rights, and competing for top-end content like English Premier League domestic live rights?

The evidence to date suggests that the worlds leading sports broadeasters are not under threat from Apples and Googles billions in the short term. Google looks most likely to acquire sports content, but only where it can do so cheaply and the content will drive large audiences to YouTube.

YouTube is understood to be having conversations with most major rights-holders. The company s focus is on live rights for premium sports in territories where internet penetration is high and so the potential audience large. However, it is thought to be targeting rights valued with "six or seven zeros rather than eight," one insider said.

The English Premier League rights in China would fali perfectly into this bracket. The rights are currently valued at $12 million per year and have the potential to attract tens of millions of viewers. Streaming the matches for free on YouTube in an advertising-funded business model would be sensible business for Google and could also be attractive for the Premier League as it would mean wide exposure in a strategically-important market. Especially considering the only broadeaster offering nationwide free-to-air coverage - state broadeaster CCTV - is notorious for paying low rights fees.

Googles recent recruitments suggest that its appetite for sport is growing. Stephen Nuttall, former commercial director at BSkyB, joined in January as YouTubes sênior director for sport in the Europe, Middle East and África region. He will work alongside the likes of former Eurosport head of business development Tomos Grace (strategic partner and development manager of sport for Europe, Middle East and África) and former Terra head of content distribution and Globosat head of content sales and distribution Federico Goldenberg (content partnerships at YouTube Brazil).

Apple is considered less likely to enter the races for premium exclusive sports content. For a start, it has no online streaming platform like YouTube. Apple s iTunes media download service is a successful retail system but is set-up for on-demand, not live content.

There are similarities in the two companies' current business models that suggest the time is not right for them to take a big step into sports content acquisition.

Both Apples and Googles television produets are so far targeting the video-on-demand market rather than the live content market. As such, Apple TV and Google TV are considered platforms that consumers use in addition to pay-television, rather than offering an alternative to existing services.

Two digital media experts who have worked closely with the companies say that neither Google nor Apple is yet in a position to challenge established television broadeasters for exclusive premium pay-television sports rights in major markets. Both say that Apple and Googles positions in the mobile, tablet and connected television spaces mean the two already make money from live sports broadeasting without having to pay rights fees. There is as yet no need for them to make the leap from being the partner of sports broadeasters to being their competitor.

"YouTube would be crazy to go ahead and compete with established broadeasters for high-value sports rights, competing against people that they are and should be working with," said one. "And why should they pay to acquire second- or third-tier sports rights when they dont have to? The business model they have at the moment - partnering with rights-holders and broadeasters and giving them a revenue share of advertising - is a good one.

"The broadeasters remain in the best position to keep control of the sports distribution business, as the visionary ones continue to grow their service offering to consumers. They have existing rights and they are in the best position to extend their reach to additional platforms. Adding a new platform - web, tablet, smartphone and even OTT (over-the-top - television delivered via the internet) - is less effort for them because they're already investing in the sports business."

Fonte: Sportbusiness international, London, n. 176, p. 54-55, March. 2012.