At the gate and beyond
Outlook for the sports market in North America through 2019
Welcome to the 2015 edition of the PwC Sports Outlook, which updates our perspective on recent results and potential opportunities and challenges to future industry growth. This year’s edition refreshes our five-year revenue forecasts through 2019 within four key segments of the North American sports market: gate revenues, media rights, sponsorship, and merchandising.

For the first time, media rights are projected to surpass gate revenues as the industry’s largest revenue segment

North America sports market by segment

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<tbody>
<tr>
<td>Gate revenues</td>
<td>16,176</td>
<td>16,116</td>
<td>15,821</td>
<td>17,372</td>
<td>17,707</td>
<td>18,251</td>
<td>18,637</td>
<td>19,385</td>
<td>19,717</td>
<td>20,122</td>
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<tr>
<td>Media rights</td>
<td>9,423</td>
<td>10,858</td>
<td>11,743</td>
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<td>14,595</td>
<td>16,366</td>
<td>18,427</td>
<td>19,150</td>
<td>19,949</td>
<td>20,630</td>
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<td>Sponsorship</td>
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<td>12,615</td>
<td>13,257</td>
<td>13,900</td>
<td>14,689</td>
<td>15,309</td>
<td>16,140</td>
<td>16,822</td>
<td>17,635</td>
<td>18,306</td>
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<td>Merchandising</td>
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<td>12,482</td>
<td>12,771</td>
<td>13,144</td>
<td>13,493</td>
<td>13,672</td>
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<td>14,252</td>
<td>14,464</td>
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<td>52,071</td>
<td>53,592</td>
<td>56,678</td>
<td>60,484</td>
<td>63,598</td>
<td>67,065</td>
<td>69,399</td>
<td>71,553</td>
<td>73,522</td>
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% change year on year

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</thead>
<tbody>
<tr>
<td>Gate revenues</td>
<td>-0.4%</td>
<td>-1.8%</td>
<td>9.8%</td>
<td>1.9%</td>
<td>3.1%</td>
<td>2.1%</td>
<td>4.0%</td>
<td>1.7%</td>
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<tr>
<td>Media rights</td>
<td>15.2%</td>
<td>8.1%</td>
<td>4.4%</td>
<td>19.0%</td>
<td>12.1%</td>
<td>12.6%</td>
<td>3.9%</td>
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<td>5.1%</td>
<td>4.9%</td>
<td>5.7%</td>
<td>4.2%</td>
<td>5.4%</td>
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<td>4.8%</td>
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<td>Merchandising</td>
<td>-0.7%</td>
<td>2.3%</td>
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<td>2.7%</td>
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</tr>
<tr>
<td>Total</td>
<td>4.2%</td>
<td>2.9%</td>
<td>5.8%</td>
<td>6.7%</td>
<td>5.1%</td>
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<td>3.5%</td>
<td>3.1%</td>
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CAGR: Compound annual growth rate

Source: PwC Sports Outlook (October 2015)

We project the sports market in North America will grow at a compound annual rate of 4.0 percent across the four segments analyzed, from $60.5 billion in 2014 to $73.5 billion in 2019.

During the outlook period, media rights are projected to surpass gate revenues as the industry’s largest segment. A first within the Outlook, this change in rank is a key milestone in an industry-wide transformation set in motion nearly a decade ago with the current cycle of rights deal negotiations. It highlights the complexity of the business of professional and intercollegiate sports in today’s environment and the challenging dichotomy of spectator sports consumption in and outside the live venue; a core challenge to sustaining growth in both the gate revenues and media rights segments beyond the outlook period.
Gate revenues

Gate revenues are projected to increase at a compound annual rate of 2.6 percent, from an estimated $17.7 billion in 2014 to a projected $20.1 billion in 2019. Despite stable macro conditions in most host markets the past few years, gate volume metrics (ticket sales and game attendance) have generally leveled off - post recovery from prior economic recession and CBA renegotiation effects - as competition from the game broadcast and price pressure on certain ticket buying segments have both continued to increase.

Projected segment growth anticipates on-going industry initiatives will successfully mitigate potential volume loss during the outlook period and further enhance revenue yield through price optimization; a result of more informed variable pricing prior to the season as well as more dynamic price change models and customized ticket promotions as the season unfolds and demand factors shift. These initiatives include further innovation of seat concepts, price structures, ticket policies, and amenity packages as market conditions and fan preferences continue to shift.

The dynamic realized

The industry continues to seek ways to redefine the season ticket holder relationship and further enhance value to ticket holders through the amenity package and greater flexibility in the date and seat location rights afforded to members. The adoption of dynamic pricing for single game tickets, as first highlighted in last year’s Outlook, has plateaued across the major pro leagues; currently at 45 percent of major pro league clubs.

Early adopters continue to refine and expand their use of dynamic pricing, including in support of season ticket trade and buy-back programs. Yet, dynamic pricing, as currently deployed by the industry, continues to almost exclusively address the recapture of ticket value from secondary markets. The ability of dynamic pricing to incentivize advanced purchase has been constrained by the timing of price adjustments, limited amount of inventory adjusted, and conservative range in which clubs have been willing to increase prices. Anticipated opportunities to drive volume through in-season price reduction strategies have been limited by improved stratification of the game schedule and seating bowl within the pre-season variable pricing structure and otherwise not seized in down years out of continued deference to the longer-term value proposition to ticket holders.

Dynamic pricing model adoption

The adoption of dynamic pricing for single game tickets has plateaued

Source: PwC Sports Outlook (October 2015)
Reasons for non-adoption of dynamic pricing include limited single game inventory, administrative costs, and the use of alternate strategies to secondary markets, including direct participation in official ticket exchanges, partnerships with third-party platforms, and more aggressive season ticket holder policies such as delayed ticket delivery, ticket resale restrictions, and ticket transfer fees.

**Driving fan behaviors**

Fan (loyalty) rewards programs have re-emerged as an industry leading practice to enhance fan engagement and improve gate revenue fundamentals, including account conversion and retention rates. More than 40 percent of major pro league clubs currently offer fans a rewards program in addition to universal adoption of rewards programs, in some form, across major intercollegiate athletics, primarily in support of annual fund development. Data analytics and technology have enabled this new generation of major pro league programs – more than 80 percent implemented since 2012 – in areas where past generations of rewards programs failed; allowing clubs to more efficiently track fan activities, understand fan preferences, and disseminate benefits to fans.

Rewards program adoption levels and their respective scopes and structures vary across the five major pro leagues. Approximately 53 percent of major pro league adopters currently limit their respective programs to season ticket holders while the others have opened their programs to all fans. Open access program roll-out peaked between 2012 and 2013, with more recent adoption concentrated in programs exclusive to season ticket holders. Approximately 25 percent of existing programs are sponsored and/or have a crossover element with another consumer brand from sectors such as retail, restaurant or airline.

Point systems remain the standard method to credit fan activities and, based on accumulated points, assign rights/status and disseminate other benefits that reward targeted fan activities. Existing major pro league programs vary widely in terms of point earning activities, redemption methods, and other points-related policies.
Point earning activities

Game attendance and social media activity are the most common point earning activities across major pro league programs - more than 75 percent and 60 percent of existing major pro league programs award points for attending games and engaging in social media, respectively. Other common activities recognized include retail/concession purchases, team mobile app usage, and remote viewing of live games. Fan tenure and early arrival to games are two other common activities awarded in major pro league programs exclusive to season ticket holders.

Less common, but still notable activities being rewarded to drive other fan behaviors include mobile payment, digital ticketing, and new member referrals.

More than 60% of major pro league rewards programs award points for attending games and engaging in social media

![Major pro league rewards programs - Point earning activities](chart)

Source: PwC Sports Outlook (October 2015)
**Point redemption methods**

Rewards program benefits include exclusive memorabilia and merchandise, fan experiences on game day and at private events, ticket, concession and retail discounts, and other priority rights. A la carte redemption of points through a digital or physical storefront is the most common method of accessing benefits – deployed by more than 80 percent of existing major pro league programs. The majority of MLB programs exclusively redeem points through an a la carte platform while the majority of other major pro league programs offer a la carte redemption and one or more other methods such as auctions or raffles. Auctions are more prevalent among programs restricted to season ticket holders; while raffles are more common among programs available to all fans.

Less common across major pro league programs, yet notable is rewarding various benefit packages based on account status or certain accumulated points levels; a core element of the donor rewards program model within intercollegiate athletics.

<table>
<thead>
<tr>
<th>Benefit level</th>
<th>A la carte</th>
<th>Auction</th>
<th>Raffle entry</th>
<th>Program exclusive to season ticket holders</th>
<th>Program available to all fans</th>
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<tr>
<td>0%</td>
<td>80%</td>
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Source: PwC Sports Outlook (October 2015)
Points-related policies

The majority of existing major pro league programs, nearly 80 percent, place term limits on points earned within the program. Points earned within 50 percent of these programs expire at the end of the season, regardless of date earned. Another 17 percent of programs set points to expire one-year after the points were earned/rewarded.

Very few existing major pro league programs – less than 10 percent – currently afford point holders the rights to resale, transfer and/or donate/gift points to other parties.
Fan zones: The social experiment

As featured in last year’s Outlook, facility modernization remains an industry priority, despite the current new build cycle winding down, given the need to further enhance and differentiate the in-venue experience; yielding projects focused on in-venue connectivity and repositioning premium seating. Fan zones – otherwise referred to as fan decks or fan plazas - have become a core building program element of new build and renovation projects used to transform underutilized areas of the seating bowl and concourses.

Nearly 50 percent of major pro league venues currently feature one or more fan zones with a dedicated footprint, in either purpose built or retro fitted space, to promote fan interaction as well as offer innovative and communal game day experiences. Facility designers will likely continue to carve out space in the building programs of new and existing venues for fans who desire a deeper shared experience or to engage in the event from more than a reserved seat.

Fan zones located within the seating bowl or with direct sight lines to the event represent more than 75 percent of the fan zone inventory across major pro league venues. The remaining inventory, more common in NBA and NHL arena venues, is located outside the seating bowl on concourses or plazas and typically is accessible to all ticket holders. Access to fan zones with a live view of the event is more evenly split between open access concepts and restricted access models which require a member pass or ticket add-on.
Media rights

Media rights are projected to increase at a compound annual rate of 7.2 percent, from an estimated $14.6 billion in 2014 to a projected $20.6 billion in 2019. As first noted in last year’s Outlook, the segment continues to increase in size as the industry works through the current deal cycle and additional sports properties realize the higher valuation of sports content with the runoff of prior generation deals. Local TV rights in MLB, NBA and NHL will likely contribute to the overall sector growth with more than 35 percent of current deals set to expire over the next five years, albeit on a smaller scale than the national rights deals entered by the major pro leagues, athletic conferences and other sanctioning bodies that are predominately driving industry-wide growth.

While media rights are projected to become the industry’s largest segment by 2018, its pace of growth is expected to slow towards the end of the five-year period; representative of mid deal cycle conditions absent the one-time effects of several new deals for major properties realized through 2016. Yet, the segment should continue to recognize higher than indexed growth of existing rights deals through the end of the period as rights owners continue to carve out or reserve in-demand digital assets and further monetize this inventory under new deals or through in-house ventures. Related initiatives involving a la carte and streaming media are allowing consumers to purchase specific content (i.e. media rights for a single game or season package for a specific team), watch games in a condensed format shortly after completion, and watch replays on league platforms before they are available through general media.

Segment fundamentals and base rights fees should remain strong given the popularity of sports programming with consumers and advertisers (e.g. strong broadcast ratings). However, as consumer and advertisers continue to migrate towards Internet-connected devices and "second-screen" activity, it is more likely the tradition pay-TV model will have transformed (e.g. smaller channel packages, reduced rates) by the next deal cycle of major sports property rights. As a result, the next deal cycle, currently outside the outlook period, is unlikely to realize the same rights fee premiums as were applied during the current cycle as cable providers sought to secure sports content in support of the overall pay-TV package model.
Sponsorship

Sponsorship is projected to increase at a compound annual rate of 4.5 percent, from an estimated $14.7 billion in 2014 to a projected $18.3 billion in 2019. The segment is expected to be surpassed in size by media rights in 2015 despite strong segment fundamentals, including longer term deals, higher renewal rates, and enhanced inventory yields. Multi-year deals which insulated much of the segment during the recession period have begun to runoff and the inventory is expected to either be renewed or reassigned at terms favorable to the industry which should sustain the segment’s recent year-on-year growth – a result of customized, integrated deal packaging and a deep pool of sponsorship dollars aided by stable economic conditions and the industry’s continued relaxation of prior brand category restrictions.

Future segment growth, projected to be second highest across the four segments, will also likely be supported by further brand category rights segmentation and new sponsorship inventory resulting from digital media platforms, uniform rights, and incremental in-venue signage and naming rights opportunities. Brand sponsorship of new inventory, however, is expected to represent, to some extent, the shift of existing sponsor commitments from one sport property or piece of inventory to another versus new fees to the industry. The net effect of new inventory will depend on future economic conditions and the industry’s ability to expand sponsor rosters yet maintain value proposition to existing partners.

Facility naming rights, as mentioned in last year’s Outlook, will likely continue to contribute to short term growth within the segment following a period of relative inactivity during and immediately following the national economic recession. Approximately 40 percent of major pro league teams are currently either without a deal or with existing deals set to expire in the next five years. Furthermore, nearly 10 major pro league teams are moving into new facilities within the period, a handful of which are relocating from venues without a naming rights partner.

Sponsorships are expected to be surpassed in size by media rights in 2015 despite strong segment fundamentals, including longer term deals, higher renewal rates, and enhanced inventory yields.
Licensed merchandise sales are projected to increase at a compound annual rate of 1.4 percent from an estimated $13.5 billion in 2014 to a projected $14.5 billion in 2019. The segment remains a relatively saturated market in North America with broad coverage of key consumer product categories and deep penetration of traditional buyer segments. Beyond expanding the female retail market and industry coverage of select other product categories, future segment growth will likely be tied to economic conditions and further innovation within retail sales models and distribution methods.

Physical storefronts within the industry’s stadiums, arenas and ballparks are being overhauled and expanded to enhance product displays and foot traffic flow. Further, concepts such as experiential shopping with entertainment features, store within a store configurations, and fast fashion and exclusive in-venue product formats are being programmed into the team store footprint to increase traffic and yield.

Technology is also improving the segment’s underlying fundamentals; enabling customized promotions, direct-to-consumer web, social media buy buttons, rewards program incentives, in-venue mobile payment, in-seat ordering and delivery, and real-time inventory production which remove friction points and better capitalize on the passion of the live event.

Two other notable measures being taken by major pro league clubs to expand retail operations and improve results are the in-house operation of the retail business and the positioning of official team store locations outside the stadium, arena or ballpark. Approximately 40 percent of major pro league clubs have an in-house retail operation and approximately 45 percent of major pro league clubs have one or more satellite locations of its official team store. In-house retail operations are most prevalent in the NBA (57 percent) and least prevalent in the NFL (30 percent). The venue’s F&B service provider is the most common external operator of a club’s retail business versus a separate service firm who specializes exclusively in retail. Partnerships with big box retailers is an emerging alternate or supplemental strategy to the operation of official satellite store locations.
**Historical data**

Historical estimates and future projections were built starting with the collection of historical data from a variety of sources, including confidential and proprietary sources. Third-party sources of publicly available information, including trade associations and government agencies, were also consulted and their information used indirectly as part of the proprietary calculations.

**Projection methods**

All projections are built around historical and current data alongside informed assumptions from our industry specialists related to factors likely to impact future trends, including economic, demographic, behavioral, technological, competitive, and other drivers. Multiple models were developed for each segment and the alternate results were reconciled by our industry specialists to represent the most accurate and likely scenario of future trends based on our professional experience and knowledge.

**Growth rates**

Annual year-on-year growth rates and compound annual growth rates (CAGRs) have been calculated and presented in this report. The CAGRs show the average annual growth between the five years of 2015 to 2019 in each segment and are calculated using the following formula:

\[
CAGR = 100 \times \left( \frac{Value \text{ in } 2019}{Value \text{ in } 2014} \right)^{1/5} - 1
\]

**Inflation**

All figures are reported in nominal terms reflecting actual spending transactions and therefore include the effects of inflation.

**Glossary**

- **CAGR** - Compound annual growth rate
- **CBA** - Collective bargaining agreement
- **MLB** - Major League Baseball
- **MLS** - Major League Soccer
- **NBA** - National Basketball Association
- **NFL** - National Football League
- **NHL** - National Hockey League

**Rewards program redemption definitions**

- **À la carte** - accumulated program points may be redeemed items (e.g., merchandise, experiences, tickets, etc.) available to participating members through a digital or physical storefront. Items are valued and redeemed for a fixed number of points which are predetermined and published by the program administrator.
- **Auction** - members may bid their accumulated program points against other members, typically through electronic submission. The highest bidding member or members are awarded the auction item(s) in exchange for total points bid.
- **Raffle entry** - members may redeem accumulated program points and/or participate in an activity specified by the program administrator (e.g., in-game trivia) for entry into a raffle competition in which the winner receives a predetermined reward item.
- **Benefit level** - members may access reward items of varying values linked to their corresponding membership tier. Membership tiers are either predetermined (e.g., based on member tenure, price of ticket package, etc.) or may be updated throughout the program as points are earned and accumulated.
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