

## What's the right call on wireless?

*As devices become more sophisticated, sports properties must figure out a business model that will please partners and consumers. Unfortunately, there's no app for that.*

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The CEO of MLB Advanced Media likes to joke that the iPhone has become his primary mode for watching baseball when at home, not because he prefers it that way, but because of the family pecking order.

"I've lost the remote," said Bob Bowman, whose company has been at the forefront of developing content for Apple's devices. "First it goes to my wife. Then my daughter. Then my son. Then my dog. And finally, if everybody else has gone to bed, I get the remote."

And so Bowman, who never quite took to perching in front of the big TV with a laptop at his side, has adopted the iPhone not only as an option while on the go, but also as a second screen in his own living room.

In fact, watching games and running other applications is the way he most often uses the transcendent device. He doesn't use it for e-mail, preferring a BlackBerry Bold 9700. He still carries a full-feature cell phone to text with his wife and children.



Bowman concedes that he is not typical. He has a big, barking dog in the wireless fight, running a company that built an iPhone app that was downloaded by more than a million subscribers last season, along with apps for BlackBerry and Android. Few in the rank-and-file carry multiple wireless devices.

Still, the distinct manner in which Bowman uses his iPhone — for media, rather than communication — speaks to the degree to which the wireless landscape has shifted in the last few years.

What started as a mobile phone rapidly blossomed into something else entirely — a handheld computer that can make phone calls, but distinguishes itself as a media device, able to deliver, among other things, live streaming video via the Internet.

One in five phones shipped in the U.S. in 2008 was a smartphone capable of accessing the Web. By the end of last year, smartphones accounted for one in four U.S. shipments. Smartphones will outship laptops by the end of this year and surpass the entire PC market by 2012, a recent Morgan Stanley report predicted.

The same report predicted that, within five years, more users will connect to the Internet via mobile than do on desktop computers. And that, eventually, wireless Internet will grow to twice the size of wired, driven by a convergence of factors:



SHANA WITTENWYLER

**Bob Bowman**  
MLBAM

- Rapidly expanded high-speed penetration (3G and faster to approach 50 percent in North America by year's end)
- Social networking
- Demand for video
- Rapid improvement in devices

The implication for sports, long term, likely will be felt most on the multimedia side, as the rapid adoption of mobile streaming video turns the wireless device into a TV that fits in your pocket.

The device that ESPN envisioned four years ago when it tried and failed at the phone business has arrived. Exactly what that implication is — what content, on which devices, consumed how? — remains to be seen.

“Anyone who says they know where the world is going on this is lying to you,” said Brian Rolapp, senior vice president of digital media for the NFL. “So you need to be flexible.

“What do people want? How do I distribute it and create value? Do I have an exclusive relationship or a non-exclusive relationship, and who do I partner with? . . . The answer for all of us is, well, it depends. We have a mix. And I imagine that mix will change going forward.”



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**Most properties did not anticipate how quickly wireless devices would evolve.**

## Changing strategies

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Already sorting through a maze of ramifications as they adapt their media contracts to make the most of streaming video and audio online, sports properties now must navigate the rapid growth of a generally underanticipated channel of distribution, the wireless phone.

And there is this significant wrinkle for the leagues: Wireless has been a lucrative sponsorship category for most of them, generating as much as \$40 million annually for the NFL and upward of \$50 million for NASCAR. In the process of building those deals, all but one of the properties, Major League Baseball, granted exclusive content.

Now that wireless is not just a sponsor category, but a mode of distribution, the equation has shifted.

The leading wireless carriers, Verizon and AT&T, have market shares of about 32 and 30 percent of U.S. wireless subscribers, respectively. The two other players, Sprint and T-Mobile, have about 17 percent and 12 percent. Distributing content exclusively through any of them means passing up at least two-thirds of the market.

When the NFL signed a five-year sponsorship and rights deal estimated to be worth \$200 million in 2005, it put the wireless delivery of game audio exclusively into the hands of Sprint, a provider that, for all its NFL bells and whistles, now misses five out of six cell phone users. Sprint has expanded that NFL content as its technology has advanced, but its market share continues to shrink.

“I don’t get it,” said Bowman, who has answered challenges from some MLB owners who wonder why they aren’t getting a larger share of the wireless sponsorship pie. “To the extent you did a network deal with any of those three [Verizon, Sprint or T-Mobile], you’re giving up a lot of folks. And there is no evidence anyone has switched to any of those carriers for content. They’ve switched for a device, called iPhone, but not for content.

“There’s no right or wrong strategy. Just different. But, for us, we would hear from a lot of fans if we said in order to hear the game you have to be on this network. Maybe we could’ve made more money, but it’s

not in the global interest of baseball to not give people the best content on whatever device they have, in our view.”

When it comes to wireless strategy, each of the five larger leagues lands at a different point in the spectrum. The range looks like this:

■ MLB has remained agnostic in its wireless approach, building applications aggressively for the iPhone and taking swings on Android and BlackBerry and eschewing any exclusive sponsor relationship with a wireless provider. Its best content lives on Apple devices, but that’s because up until recently the iTunes store has been the only clean way to distribute pay content on mobile devices.

■ The NBA makes its content available equally across all platforms, but it doesn’t look quite as agnostic as MLB out of respect to its wireless sponsor, T-Mobile. So while the NBA builds for iPhone and sells on iTunes, you’ll see all its promotion focused on T-Mobile’s MyTouch, with Dwyane Wade, Charles Barkley and Dwight Howard featured in advertising.

■ The NFL makes live, out-of-market broadcasts of its games available across platforms and providers, but it does so in a work-around that makes it easier for the league to face big-spending wireless sponsor Sprint. The NFL’s out-of-market package is available on wireless to Sunday Ticket subscribers via DirecTV, which owns the rights exclusively. The league also feeds Sprint valuable exclusive content, headlined by live audio from every game and live video, including games, from NFL Network.

■ Locked into an exclusive rights deal with Verizon in the U.S., the NHL only recently began making its out-of-market audio package available on wireless, and then only on Verizon. It’s close to rolling out an impressive wireless version of its GameCenter Live package for iPhones — with live audio, in-game highlights, and condensed game video. But for now that will be available only outside North America. A similar product will be available for Verizon devices eventually, according to NHL app developer NeuLion.

■ With the most lucrative wireless deal in sports, NASCAR, not surprisingly, works exclusively with Sprint on the wireless front. Still, long-term rights deals with Fox and Turner Interactive, as well as Sprint, predated the increased demand for live video on the mobile device, and the sport seems to be struggling to apply its model to the changing wireless world.



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**NASCAR’s sponsorship with Sprint predated the increased demand for live video on mobile devices, so the property has struggled to get up to speed with the shifting marketplace.**

A few years ago, NASCAR’s point person on media rights, Paul Brooks, tried to explain the division of the sport’s assets while negotiating with ESPN’s John Skipper. He walked through what belonged to the broadcasters and what was held by Turner Interactive and by Sprint. Skipper looked perplexed.

“It’s twisty, isn’t it?” he said.

Brooks concedes that it is, and that the evolution in technology has meant even more bends and turns. When Nextel signed on as the series sponsor nearly a decade ago, it envisioned little use for the Internet on its devices, so most of those rights — including mobile Internet — are held by Turner. Most of the content rights Sprint holds today pass through Turner. And nothing gets streamed unless a broadcaster wants it streamed.

It’s not surprising that the first forays into a subscription product featuring live TV via mobile have come through the leagues’ out-of-market packages. They don’t bump heads with local or national TV broadcasts.

The pitch from the leagues to the networks has been that the wireless product is more likely to supplement a TV broadcast than it is to replace it. Most of the live video available on the phone during national telecasts is stuff you won’t see on TV.

For example, in the postseason last year, MLB gave viewers angles from cameras in both dugouts, down the foul lines and behind home plate. The app that the NBA sold during last year's All-Star Game offered isolated views of individual players. When Sprint Cup races air on TNT, Turner rolls out a product called Race Buddy that includes in-car and pit road cameras, which also are available on Sprint wireless devices.

All are neat supplements, but feeble replacements — unless, of course, the other option is missing the game, or race, entirely. Still, when Brooks has pitched the other networks on incorporating Race Buddy, he has encountered resistance.

"All of this will evolve to the right place over time as we work with our partners," Brooks said. "But it's not as if you can just wake up and change direction and find a whole new category of opportunity because something that wasn't invented when you made a deal has gotten hot. Our partners have bargained very specifically for what rights they have. So whatever we do has to work in step with them.

"We can't just change the rules because somebody invented something yesterday and it's cool."

Lengthy sponsorship contracts bring stability and security, but they also can make it more difficult for properties to adjust to a changing landscape.

"Long term in Internet television is like six months," said Chris Wagner, executive vice president and co-founder of NeuLion, the Internet TV developer. "You have to have look-ins on some of these contracts so you can see if what you're doing is still the right thing, and maybe you can adjust."

The NHL, which is a NeuLion client, included exclusive media rights in its wireless sponsorship with Verizon three years ago. The original vision was for Verizon to push NHL highlights as part of its V-Cast service, for which customers paid a monthly fee. As the model has shifted away from those packages and toward apps, the NHL has seen its menu of wireless offerings fall behind the other leagues.

The NHL will be the last of the big four leagues to offer its out-of-market TV package for wireless, and the only one to marry it exclusively to one carrier, meaning it will get about one-third the level of distribution of the other leagues.

That's not a position any league would choose for the long term.

"It's a temporary condition," said Perry Cooper, the NHL's senior vice president of direct and digital marketing. "We haven't missed the opportunity and we're not going to miss the opportunity. We're positioning and poising ourselves for that and we'll hit that point where you have mass usage and our content will have that kind of potential to deliver against that reach. The market is not there right now."

Between the agnostic approach of MLB and the parochial views of NASCAR and the NHL lie the NBA and NFL.

While the NBA is similar to MLB in its philosophy of building apps for broad distribution, the two differ markedly in other aspects. MLB develops and manages all of its digital business. The NBA handed it over as part of a joint venture with Turner Interactive. Its out-of-market TV package is handled by MobiTV, bringing a further degree of separation.

MLB and the NBA also have taken different paths on pricing. Both offer a free, or Lite, app with live box scores and schedules. But after that, the NBA offers more choices and price points.

With all that said, the NBA is similar to MLB where it likely will matter most: distribution philosophy. It promotes T-Mobile extensively in exchange for its sponsorship fee, but provides it with little exclusive content.



GETTY IMAGES

**The NBA makes wireless content available across all platforms, but all of its promotions in that area focus on league partner T-Mobile. The display above, featuring Dwyane Wade, is one such example and was used during this year's All-Star festivities in Dallas.**

“We’re not willing to tell a fan that their choice of a particular device or carrier means that they’re shut out from accessing our great content,” said Bryan Perez, senior vice president of NBA Digital. “[That] presents certain challenges in terms of how we can market on other platforms. We try to stay more focused on the app platform than the carrier or specific devices. We just focus on the storefronts that you’re able to purchase this on. That allows us to stay true to our great partners with T-Mobile and yet still advance this business opportunity in an appropriate way.”

While it is not shy about offering exclusivity — evidenced by its billion-dollar out-of-market deal with DirecTV — the NFL says it will be increasingly careful about what it stashes with one wireless provider as the opportunities there broaden.

Rolapp says the league gave itself the flexibility to react to that unpredictable, evolving market beginning in 2005, when it re-evaluated its view of media in conjunction with its broadcast deals. Rather than considering new media vs. old media or analog vs. digital, it simply categorized media in one bundle.

As a result, DirecTV’s out-of-market deal made it the exclusive rights holder across all platforms, allowing it to stream games via broadband to viewers who can’t mount a dish on the roof and offer them as a wireless app to subscribers who might like to leave the couch on the occasional Sunday. Sprint got exclusivity for most other wireless content. Those divisions got the NFL whopping prices for both packages.

Still, the world has changed since that last wireless contract, and the NFL expects its deals will change along with it. As more fans move to smartphones, distribution becomes more of an issue. The NFL has made its Red Zone Channel a priority, and it sees great potential for it to expand quickly on smartphones.

“Our mobile deal is up after the season and we’re in the middle of figuring out what the model is going forward,” Rolapp said. “Not only might it change as far as level of exclusivity, but it also may change in terms of what we package in.”

Sprint executives did not comment for this story, despite repeated attempts to secure an interview.

### Which approach is best?

For all the momentum it has on this front, MLB still has not convinced many of its brethren that its strategy is the winner on the financial ledger. Not yet, for sure. And not for a while, at least as most of them see it.

It’s simple math. MLB will charge \$14.99 for its app this year. Apple takes 30 percent off the top of all the apps it sells. If MLB sells 500,000 apps this year, a reasonable expectation coming off of about that many sales last season, it will generate \$5 million in revenue.

Considering that the NBA and NHL sell far fewer out-of-market subs via cable and satellite than does MLB, according to industry insiders, they would expect to sell fewer out-of-market TV apps — certainly not enough to equal the money they get from deals with wireless sponsors.

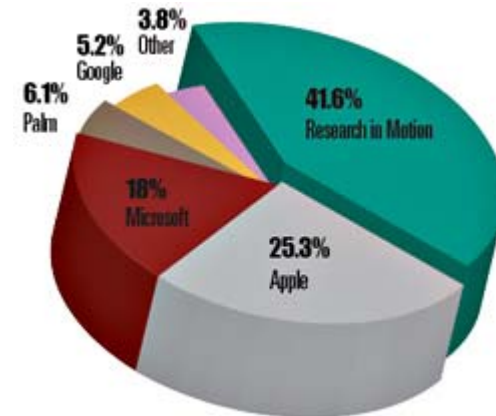
### What they’re dialing up: Mobile content consumption

Category	iPhone	Other smartphones	Other cell phones
Music	65%	35%	12%
Games	61%	48%	21%
Social networking	58%	43%	14%
Messaging	48%	42%	15%
News	40%	31%	9%
Videos	23%	12%	3%
Banking	22%	16%	4%
Restaurants	18%	14%	4%
Shopping	14%	9%	2%

Source: Morgan Stanley: The Mobile Internet Report 2010

### Smartphone market share

Google’s Android is positioned to overtake Palm after only a few months on the market.



Note: Market share for December 2009  
Source: comScore

"Look at the numbers and, lo and behold, a rights deal, on the margin, starts to win," Cooper said. "That is how it is today. That approach positions a company to allow the market to play itself out, hopefully well, with its current partner. And then you're positioned to take advantage of mass adoption."

For his part, Bowman isn't so sure that the other leagues' revenue from sponsorships exceeds his take from wireless content. Maybe some do, he says. But not all. He is convinced that the benefit he gets from daily reach, with 80 percent of subscribers using their MLB At Bat app every day, exceeds whatever he might be giving up in sponsorship fees.

It is interesting, and completely coincidental, that Bowman used a hockey story to describe his philosophy on meshing his company's strategy with all the possible outcomes in the evolving wireless Internet world.

As the story goes, a rookie once approached Wayne Gretzky and asked where on the ice he should go to get the puck.

"You just go," Bowman said, parroting Gretzky, "and I'll get you the puck."