



THE ONLINE BATTLE FOR SPORTS IN CHINA

The goal of a \$775 billion sports industry ignited the imaginations of investors everywhere in China, leading to huge inflows of capital. Now with the entrance of Internet giants, the real sporting event is to see who can get the most users.
By Cui Ling and Fang Li

271million
The exclusive media rights for La Liga in the China region cost \$271 million

1.2 billion
The televised broadcast rights and preferred cooperation rights for the 2016-2020 China Super League seasons cost \$1.2 billion

84
Global ranking of male soccer players in China

17,600,000
Shanghai SIPG Football Club striker Asamoah Gyan's salary is \$17.6 million, the 8th-highest in the world

72
Guangzhou Evergrande Taobao Football Club is ranked at 72nd in the world and 1st in Asia





In the year since “Opinions” was released, the sports economy has been on everyone’s lips and several giants have stepped into the arena one after another.

Qatar has made life difficult for soccer fans in China. On the morning of October 9th, 2015, China lost 1-0 to Qatar in a qualifying match for the FIFA 2018 World Cup and the 2019 Asian Cup. After the match, the words of former CCTV commentator and current LeTV Sports chief content officer Liu Jianhong were probably in the hearts of many a soccer fan in China: “There’s not much time left for the China team.”

This is at least the third time that a small country in western Asia has blocked China’s soccer hopes. It seems that after years of market reform, the sports industry is still in need of further reform.

Of course, some reform is currently underway. In October 2014, the State Council released “Several Opinions of the State Council of the People’s Republic of China on Accelerating the Development of the Sports Industry and Promoting Sports Consumption,” a move that many saw as tremendously promising for the country’s sports industry, as it essentially lifted the industry to the level of “national strategy.” “Opinions” acknowledged the sports industry as an important part of China’s continued economic growth, while stating that the goal was to see the industry grow into a \$775 billion industry by 2025.

A \$775,000,000,000 dream

This goal of a \$775 billion sports industry has sparked imaginations and received constant media attention. For comparison’s sake, the size of the global sports industry

in 2014 was estimated to be nearly \$1 trillion, while the US sports industry’s annual output was \$441 billion, accounting for about three percent of its GDP. Of this \$441 billion, the fitness industry (including the construction of exercise facilities, sports club activities, sports tourism, etc.) accounted for 32 percent, sporting goods accounted for 30 percent, and the stadium business (including ticket sales, sports logo rights, souvenir sales, broadcasting revenue, advertising, and sponsorships) accounted for nearly 25 percent. Meanwhile in China the 2014 sports industry made nearly \$50 billion, accounting for 0.6 percent of GDP. Of this, sporting goods accounted for 80 percent of revenue.

In the year since “Opinions” was released, the sports economy has been on everyone’s lips and several giants have stepped into the arena one after another. In March 2014, LeTV Sports was established. In just a year’s time, it became the top platform for broadcasting sporting events. In September 2015, Alibaba Sports Group was established and China Sports Media Ltd. pledged an impressive \$1.2 billion to acquire the broadcasting rights for China Super League games from 2016-2020. Commenting on this huge deal, LeTV Sports CEO Lei Zhenjian could barely contain his excitement: “I think this is really, really great. When we look back on this five or 10 years from now, this will be seen as a milestone for professional sports and the sports industry in China.”

Soccer holds a special place in China’s sports industry. To a certain extent, the success or failure of the country’s soccer reform is an indicator of how the current round of sports reform will fare.

For this reason, October’s loss to Qatar has most likely been a cold shower for many. Going from Guangzhou Evergrande’s AFC Championships League win in 2013 to this year’s possibility of missing out on the World Cup for the fourth time (in January 2016, China’s world cup dream shattered after qualifying loss to Iran), it seems that the fundamental problem with China’s soccer and even entire sports industry has yet to change.

The source of the sports industry’s woes is that it has not yet been able to change the ingrained habits brought about by years of making Olympic gold medal its top priority. Now with the arrival of Internet companies, and their experience developing user bases, it will be interesting to see whether their “Internet thinking” will finally be able to grow the sports industry. These companies have already begun attacking the problem from different angles.

Intellectual property (IP) wars

“The sports industry has really gone crazy,” says PPTV Sports Deputy General Manager Dong Li half-jokingly and half-serious. One of the “crazy” things that Dong is referring to is the rising price of broadcasting rights for sporting events.

With the backing of government policy, a



huge amount of capital began pouring into the industry.

Its impact was huge, especially when it came to broadcasting rights, which saw prices increase 10-20 times in many cases. Similar to the entertainment industry, IP sits at the top of the sports industry pyramid, while media and communities are in the middle, and consumers and fitness centers are at the bottom. For this reason, if companies want to hold a place at the top of the pyramid they must first secure IPs, which of course in turn has led to rising prices in this area.

The prices we are seeing today would have been hard to imagine two or three years ago, as for years almost all sporting event rights were monopolized by CCTV. However, the decision of “Opinions” to “allocate resources in accordance with market principles,” “encourage the participation of multiple parties,” and “loosen broadcast rights” has opened the door to marketization. The inflow of large amounts of capital gave Internet companies a foot in the door and caused the sports industry’s limited sporting-event resources to become a source of unimaginable growth. It has also exposed industry leader CCTV to intense competition.

In addition to the loss of its monopoly of Chinese Super League sporting events, in May 2015 CCTV lost the rights to produce and broadcast live content for the Chinese Football Association — China Sports Media now has the contract until 2018.

In August 2015, PPTV Sports announced it had sealed a five-year exclusive deal with La Liga for the league’s media rights in China, to the tune of \$271 million.

Dong has said that his experiences closing the La Liga deal still excite him to this day. “Suning Commerce Group Vice President Li Bin took part in the negotiations from start to finish. When the time came to make the final decision, he hopped on a plane to Barcelona for two days of negotiations during which he would neither sleep nor rest.” As the negotiating price



kept rising, PPTV Sports came under increasing pressure. Li worked 15 to 16 hours a day going over every detail of the contract, refiguring costs, and submitting bids based on his calculations.

Changes in the status quo have also changed CCTV’s positioning and attitude. A decade ago, CCTV was irreplaceable. In 2004, ESPN Star Sports, who at the time held the broadcast rights to England’s FA Premier League, approached CCTV with plans to bring league events to China through CCTV. The former was willing to

provide CCTV with the broadcast rights in exchange for advertising time during matches and cash payments, yet CCTV turned them down.

For 12 years, this world-class organization’s matches did not appear on any CCTV channel. This is one of the reasons that the Premier League’s return to CCTV for the 2015-2016 season was seen as one of this year’s five major breakthroughs in sporting event broadcasting rights.

Even though it’s only been around a year now, LeTV Sports has also gone a bit



Sports media companies can only continue developing at a fast pace when they have access to the best of the world's sporting event resources.



"crazy" when it comes to fighting for broadcasting rights. Currently, LeTV Sports has the rights to 17 types of sports for a total of 121 sporting events (75 of these are exclusive, seven are shared with one other company, and 39 are non-exclusive). That's an average of 4,000 matches a year and this number is still growing.

The Wanda Group has gone even further. In August 2015, Wanda acquired the United States' World Triathlon Corporation for \$850 million. Holding the license to three Ironman Triathlon events for a total of a 91 percent market share of the world's long-distance Ironman Triathlons, this was a huge step for Wanda. Actually, this wasn't the only move the group made in the sports industry this year, but in fact was its third overseas acquisition. The previous two were Wanda's acquisition of a 68.2 percent stake in Infront Sports & Media for \$1.14 billion and acquiring a 20 percent stake in Atletico Madrid for \$49 million. One of the world's largest sports marketing and media companies, Infront Sports & Media possesses the marketing rights to the 2018 and 2022 World Cups, exclusive marketing rights for FIFA soccer events in 26 countries and regions in Asia for the years 2015-2022, and the broadcast rights to all seven of the Winter Olympics sports federations.

The logic behind these moves is clear: sports media companies can only continue developing at a fast pace when they have access to the best of the world's sporting event resources. Looking at a past exam-

ple, ESPN was able to rise to prominence so rapidly by relying on its access to high quality media rights. In the opinion of Shankai Sports CEO Feng Tao, while China's Internet companies are limited to working with foreign marketing companies, Wanda has a leg up on them since it now has direct access to the TV industry and the upper reaches of sports industry pyramid, as well as the opportunity to take part in the policy-making process when it comes to sports media in China.

Building a community

For Internet companies, broadcasting and licensing rights are the key to increasing traffic. However, each company has its own way of dealing with these rights once they have them.

When it comes to core leagues like the Premier League and La Liga, the content produced is already pretty much set in stone, and most of the remaining work involves tailoring this content to fit the needs of consumers. For instance, when PPTV Sports got the La Liga rights, it pushed for important matches to be held at ten in the morning Beijing time so fans would no longer have to get up in the early hours of the morning to watch matches.

The sports industry tends to follow the so-called "80-20 rule" — basically, 20 percent of a company's high-level or large-scale sporting events will pull in around 80 percent of traffic and attention.

For this reason, many in the industry tend

to focus their money and effort on the industry's high-level events. However, the rise of the Internet has caused the long-tail model to replace the 80-20 rule and, in other industries, allowed e-commerce and its theoretically unlimited shelf space to defeat traditional retail stores. Amazon is a classic example of this.

Perhaps LeTV Sports' Lei Zhenjian says it best: "The most attractive thing about the Internet is that it allows a small number of people to find another small number of people." This is revealing in that it shows that obtaining broadcasting or licensing rights isn't LeTV Sports' actual goal. While talking to *China Entrepreneur*, Lei pointed at the LeTV Sports app on his phone: "We probably have the greatest amount of sporting event content out of any other company in the world. By utilizing this huge amount of content, we hope this app can become an entry point for users to find sports content and sporting events."

Some people have a hard time understanding why LeTV has gone to such great lengths to acquire broadcasting rights. However, the answer again most likely lies with the long-tail model. Among the long list of broadcasting rights that LeTV has acquired, long-tail content can probably be divided into two groups: The first are those sporting events belonging to a popular sport but that are not that popular themselves, such as soccer's Copa Libertadores de América tournament or US Major League Soccer matches. The second are



niche sports such as cycling.

Actually, if you're a true soccer fan it's really easy to understand LeTV's logic. Chen Cong, creator of soccer app Dongqiudi, says that soccer fans need to feel like they have a relationship with a particular team (or a particular player). For example, when it comes to female soccer fans in China, one of their favorite players is the handsome Brazilian player Kaka. And where does Kaka play? In the United States. This is one of the reasons why LeTV need not worry that no one is going to watch Major League Soccer matches. Similar to how a number of small streams come together to form a mighty river, small, dedicated followings can add up to huge amounts of traffic in the end. All LeTV has to do is help these small groups of users find the matches they love and in this way the traffic from a bunch of smaller matches can end up rivaling that of the biggest sporting events.

From the moment LeTV Sports was established, they immediately put out a smartphone client in order to get fans used to watching entire matches (as opposed to simply highlights) on their phones. In just a year, this client has garnered quite a large following of dedicated users.

Without a doubt LeTV paid a pretty penny to acquire its broadcast rights. In fact, when asked about the rising prices in the current market, Lei doesn't deny that LeTV had a hand in bringing this about. Actually he seems rather proud: "The current market boom was created by LeTV Sports. To put it bluntly, last year we were newcomers to this industry. I had to change the industry's previous value chain, otherwise I wouldn't have gotten involved. The facts show that we've succeeded. Not only have we brought in more capital, we've raised the level of IP prices."

When it comes to smaller sports, Lei admits that a large amount of traffic isn't his main goal — what's most important is the type of community they end up creating.

"During the second half of the year, we will introduce two products," Lei says. "One



PPTV Sports' plans will focus on La Liga. Pictured: PPTV Sports VP Dong Li

is LeTV Golf and another is LeSki. Our intention is to allow these loyal fans of golf and skiing to find people with similar interests and establish new relationships through a relatively independent platform."

Bike racing is an example of one of these smaller sports. LeTV Sports has the rights to the Grand Tours (the Tour de France, La Vuelta a España, and the Giro d'Italia), four of the Classics, and five major public races.

"LeTV Sports allows bike racing fans to find the most complete cycling content from around the globe on our content platform. As it turns out, the kind of people that enjoy this content tend to be very similar to those people who love to go cycling as a hobby," Lei says.

This last part is very important to LeTV Sports' plans. Because while the number of fans of mainstream sports is very large,



“The motivation behind sports and Alibaba’s other sectors is to create an emotional connection. Athletes are an important part of connecting everyone together emotionally. Additionally, our platform has numerous sports brands. Using T-mall International we can bring these brands to the international market.” – Zhang Dazhong, Alibaba Sports CEO

they do not tend to be consumers. Fans of smaller niche sports, however, are quite the opposite: it’s much easier to transform them from participants to consumers. This is the main reason that LeTV Sports chose cyclists as the target of its first product in the app sector.

While buying broadcasting rights helps guarantee traffic, high traffic doesn’t necessarily translate to high revenue. “Cycling, however, is different. We’ve discovered that fans of bike racing very quickly take up cycling themselves,” Lei says.

While the long-tail model has its advantages it also presents challenges, such as figuring out how to properly allocate resources. A championship match in Europe will probably bring in tens of thousands of viewers, but maybe only a thousand or so people are interested in watching the Indian Super Cup. If you have too many matches going on, finding enough announcers can end up being a problem.

According to Lei, a lack of resources is a problem for traditional content producers, but when it comes to Internet companies their main focus isn’t providing content so much as getting users involved.

“In the future I will hand over the announcer’s booth to fans. My hope is that users will end up joining our content production,” Lei says, pointing to Wang Sicong’s Panda TV, an online broadcast platform similar to Twitch, as an example.

Currently there are numerous new ways for people to broadcast themselves online,



and Lei thinks it’s not too much of a stretch to imagine fans taking on the role of sports announcers themselves — something that would be unimaginable in the realm of traditional media.

Users are the core of any Internet company. According to Feng Tao, once China’s per capita GDP broke the \$5,000 barrier, people across China began becoming active participants in the sports industry. This is incredibly important for Internet companies, because no matter if it’s PPTV or LeTV Sports, these companies aren’t satisfied with just earning revenue through advertising — what they really want to do is earn an endless stream of revenue from all these new participants. “In the past, bicycles were just a mode of transportation. Now, they’ve become a hobby,” Lei says.

As for those other companies that have spent huge amounts of money to get the

rights to world-class events, they too are competing for users.

Dong Li doesn’t deny that the price to obtain the La Liga rights was far from cheap. With only five years to work with, PPTV Sports’ goal is to start turning a profit by year three. “We would consider this a relatively good result,” Dong says.

Establishing a user base also factored into PPTV Sports’ thinking when signing the five-year contract. Dong pointed to the way the current rights for the Premier League are handled to explain why PPTV was willing to take such a long-term chance with La Liga. While Supersports has the rights to the Premier League for 2013-2019, they only cooperate with partners on a yearly basis. However, annual contracts are not good for an Internet company.

“You can’t hold onto users when you only have an IP for a year,” Dong says.

Fighting upstream

Although the goal is to get to users, at this point in the industry’s development, acquiring broadcast rights is an unavoidable part of the process. This puts the industry’s newcomers in an awkward situation: every company that acquires sporting event rights has to deal with the risks the marketing cycle brings. The partner a company works with today may end up cooperating with a higher bidder three to five years down the line. For example, PPTV Sports’ contract with La Liga will end in 2020, while LeTV Sports has more than 200 sporting



Chinese Sports

event contracts that may or may not be able to be continued in just a few years.

Alibaba Sports CEO Zhang Dazhong puts things plainly: "When it comes to IPs, it's not enough just buy them. I spent 20 years buying, buying, buying. If everyone just keeps focusing on buying IPs, then all they are doing is transforming the traditional sports industry model into one that fits an online model. The best IPs are those that you create yourself."

Speaking about the NBA, he points out that 50 years ago it was just a private organization, but now everyone treats it like a king.

Sporting event operations have been a part of the LeTV Sports ecosystem right from the beginning. It's clear the company's goal is to further establish a foothold in the industry by either bringing sporting events into China, working with other organizations to co-host these events, or organizing and hosting these events itself.

This past summer's International Champions Cup was the first event LeTV Sports had a hand in bringing to China. As one of the most influential pre-season events in international soccer, the cup has previously been successfully held in the US and Canada twice. The year 2015 marked the first time the event was extended to Asia and as one of the main organizers for the events held in China, LeTV Sports was no longer just a broadcast platform but also had the right to take part in business operations and development.

Looking back on the event, Lei says: "The International Champions Cup was a preliminary attempt for us. This was the first IP that was ours. From the perspective of a sporting event, it was extremely successful, probably the most successful sporting event in the entire Chinese market. Although we didn't produce much user generated content [UGC], we made major changes when

it came to our professionally generated content [PGC]."

After becoming an event organizer, LeTV Sports brought in a large amount of users and professional organizations to be part of the event. Because it had more say as an organizer, the company was also able to make first-time use of some advanced technology, such as providing a 360-degree virtual reality live stream to provide some

experiences that viewers wouldn't traditionally have had access to.

For instance, the concept of player tracking was also something new. "If users only want to watch Cristiano Ronaldo during the match, then my cameras will follow Ronaldo from start to finish," Lei says.

Qiu Zhiwei, a vice president for LeTV Sports sporting event operations, revealed that LeTV Sports spent a nine-figure (CNY)



Alibaba also plans to make IPs its core as it uses its ecosystem to create a sports economy that involves all levels of Chinese society. Pictured: Alibaba Sports CEO Zhang Dazhong



Chinese Sports

RARE IPs IN CHINA

China Super League
2016-2020



China Sports Media Ltd.

CBA
2012-2017



Infront Sports & Media (China)

amount on the Cup. Because it was the first time they were organizing the event, they expected to take a loss, but looking at the final commercial results, they ended up breaking even.

Public records reveal that LeTV Sports brought in several big name sponsors for the event, including brands like Samsung, EA Sports, Luyuan Electric Vehicle Co., Suning Yigou, and Adidas. According to news reports, Samsung invested more than eight figures (CNY) on the event, while other companies spent several million yuan. Altogether, revenue earned from sponsors reached approximately \$4.6 million.

Another major source of revenue came from ticket sales. Since this was Real Madrid's first-ever match in Guangzhou, it set off a ticket-buying frenzy that sold out all available seats — to the tune of approximately \$4.6 million.

Ticket prices and demand in Shanghai are higher than in Guangzhou, so a conservative estimate puts ticket sales for the events at more than \$9 million. Money earned by sponsors added to ticket sales brings revenue into the region of \$14 million. Going further and considering online

advertising and licensing revenue, total revenue reaches \$15 million, which matches the nine-figure (CNY) investment costs mentioned by Qiu.

In addition to bringing popular events to China, companies are attempting to organize their own events. A new policy enacted at the end of last year has only added to this impetus: except for national-level multi-sport events and a small number of special sporting events, national commercial or mass sporting events no longer need government approval.

This move has opened the door for any legal organization (including national athletic organizations) to organize or host these events and although China Super League and CBA events are not included, it has still helped pave the way for mass sporting events in China.

Now that the focus of sports in China is no longer about earning prodigious numbers of gold medals, mass sports that everyone can get involved in are becoming the new focus of the sports industry's development. As these mass sports become increasingly popular, they represent a potential major source of revenue for Internet companies.

PPTV Sports' Happy Run series of events is one attempt to develop mass sporting events. Unlike other major events that are all about selling a brand and related merchandise, the Happy Run series looks to create a quality sporting experience that combines PPTV Sports' platform, sporting events, and communities. One part marathon and one part festival combining the best elements from food and music festivals, Happy Run's focus is on creating a strong sense of participation. According to Dong, PPTV Sports has been very happy with the results of this self-owned IP so far: "This was just us testing the waters to see if we could combine our platform and sporting events, but we have seen a broad spectrum of people participating and we've managed to establish it as a brand."

The Beijing Happy Run's 4,000 available spots were grabbed up in just five days.

Dong confirms that Happy Run is already turning a profit, with most of the revenue coming from sponsors and registration fees. Instead of pocketing this money, PPTV Sports has reinvested it into broadcasting these events, adding a dozen cameras, and even making use of technology such as drones, GoPros, live-blogging, and even satellite coverage to enhance the experience of those who want to watch the event online. Organizing these events on their own has also provided valuable experience that the PPTV Sports team has used when covering larger events that they purchased the rights to, such as the Shanghai International Marathon, for which PPTV Sports has the exclusive online streaming rights.

DOMESTIC OWNERS OF TOP IPs

La Liga
2015-2020



LFP

PPTV

NBA
2015-2020



TenCent

Premier League
2013-2019



Xinying Sports



Professional football, the most sophisticated sector, is becoming increasingly commercialized, and is being impacted by the market economies of the US and UK.

In addition to Happy Run, board games and fantasy soccer are other areas into which PPTV Sports is making a trial run. Dong Li explained that some simple games that have mass appeal (such as board games) actually already have communities that have been around awhile and so are much easier to develop.

LeTV Sports has also been working to develop its own IP. According to Lei, this will mainly be divided into five areas: marathons, soccer, basketball, winter sports, and car racing. Some of these areas will focus mainly on professional events such as car racing, while others will include mass sporting events. "We will organize different events based on the markets in different regions," Lei says.

Developing an IP is a very effective strategy to expand a company's user base, but in China it also means dealing with a market environment that is not yet fully mature. With marathons, for instance, quite a bit of the cost goes to providing security, whereas in other countries security tends to be handled by working with local governments.

In Lei's opinion, even though new policy supporting the sports industry has been released, it will take a while to put into practice. "The government is encouraging private capital to get involved in sporting events, but each region of China moves at a different pace. In the long run, sporting

events can make the people even healthier and so should of course receive support from local governments." In order to work more closely with local governments, LeTV Sports plans to establish a VP of government relations.

External factors aside, organizing events requires teams of experienced professionals. In August 2015, LeTV Sports and the Chongqing Daily Press Group established the Chongqing LeTV Sports Industry Development Company.

"You can't have sports without the support of people, resources, and the government," Lei says. "The Chongqing Daily Press Group has excellent professional teams and the [local] government wants to bring in sporting events to revitalize dormant resources within the system."

Sports is not a simple business. Well-known sports commentator and England soccer expert Yan Qiang says that soccer is actually a "super-commercialized" sport: "It's more complicated than your average business. Professional football, the most sophisticated sector, is becoming increasingly commercialized, and is being impacted by the market economies of the US and UK."

Giving an example, Yan Qiang explains that the Premier League has 20 teams with 35 first-string players each, plus coaches, managers, and other supporting members,

which creates an ecosystem that only involves two to three thousand people — yet 30 to 40 thousand people play soccer in England.

So how are these two groups connected? According to Yan, "Football isn't just some business, it's a lifestyle aimed at staying healthy. People take part in this sport every weekend not just for the mental and physical satisfaction, it's also a way to socialize with our social groups. . . . As the biggest sport in society, a lot of support is given to those at the top of the pyramid. Business opportunities can be found in the participation of the public, and can be found in the commercialization of major sporting events, but what's even more important to keep in mind is that this sport is supported by every layer of society."

Soccer and sports in China represent far more than the success or failure of just one team. In the words of Brazilian writer Paulo Coelho: "The most important thing is football because it's the ultimate art form, uniting people and giving them cause for celebration. It reinforces team spirit without taking away a person's individuality. Society should take the beautiful game as an example: we need to live together as a group, but respect each other's differences."

Bringing different people together in harmony, this is the greatest gift the sports industry can bring society.