

FANTASY SPORTS



PARK LANE
WHITE PAPER SERIES



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By Sean Clemens

With the sports industry so expansive in nature and scope, niche occupants in untraditional sections of the market often are overlooked. That fact, though, should not dismiss the relevance, clout, or moneymaking potential of these new-era entrants into the sports industry. Fantasy sports, while viewed by some as more of a gaming experience than a sports activity and dismissed by traditionalists as a technology-driven farce, has become entrenched as a force to be reckoned with in the sports industry for years to come.



While various forms of fantasy leagues were conducted in anonymity as early as the 1960s, magazine editor Daniel Okrent is largely credited with inventing the game in 1980. After proposing the idea to several colleagues, Okrent finally found an interested group of friends over a meal at New York City restaurant La Rotisserie Française—and from there, rotisserie baseball was born. Building off of this example and other offline leagues based on compiled statistics, Commissioner.com launched the first online fantasy sports site in 1997. Yahoo! followed suit in 1999 with the first free fantasy sports leagues, and the rest is history. Consistent annual growth in the 20-25% range has resulted in a \$2 billion market, with more than 20 million Americans participating in fantasy sports each year. When SportsLine.com acquired Commissioner.com at the end of 1999 for \$31 million in cash and stock, a turning point viewed as the transformation of fantasy sports “from pastime to industry,”¹ many eyebrows were raised. What skeptics failed to see was a desirable market demographic inclined to repeated consumption and a real opportunity for businesses to monetize.



All	Available	Drafted	Waiverlist
1 - 25 (2009 Projected Stats)			
Hanley Ramirez	(M)Te		
Marlins (1)	BA: .310	HR: 51	RBI: 1
Albert Pujols	(D)ra		
Cardinals (2)	BA: .340	HR: 39	RBI: 1
Jose Reyes	(D)ra		
Mets (3)	BA: .290	HR: 15	RBI: 4
David Wright	(D)ra		
Mets (4)	BA: .308	HR: 31	RBI: 1
Grady Sizemore	(W)ra		
Indians (5)	BA: .276	HR: 30	RBI: 4
Johan Santana	(S)P		
Mets (6)	ERA: 2.74	W: 19	L: 7 K: 222
Ryan Braun	(L)F		
Phillies (7)	BA: .296	HR: 42	RBI: 109
Miguel Cabrera	(1)B		
Tigers (8)	BA: .314	HR: 39	RBI: 129
SS: 2			

Active: Default League

All Players By Position My Team Search Menu



Leveraging a strong user base populated mostly by males between the ages of 18-49 and with above-average income and education levels, fantasy sports has continued to evolve and diversify. From rotisserie and head-to-head leagues to keeper leagues and auction leagues, many options are offered to



design a customizable experience. Fantasy sports have created such waves in the general market that the principles are being extended to non-sports applications, with new leagues based on fashion trends and celebrity news. This demand for the fantasy experience for those compelled by topics other than sports only demonstrates and reinforces the ubiquity that fantasy sports enjoys in 2010.

Originally viewed as a leisure activity incapable of bringing in significant revenues, fantasy sites have found ways to translate interest, page views, and participation into profit. Between pay-to-play league subscriptions, advertising sales, contest management, sponsorships, and endorsements, fantasy sports is very much a business. Fantasy news and research content reaches large audiences that are often willing to pay for knowledge they deem to be high-level, exceedingly informative, or sufficiently exclusive. In fact, the average player spends roughly \$150 a year on fantasy sports. Moreover, participation in fantasy sports has continued to grow the past several years in spite of the economic recession. Many sites have performed impressively by adjusting their business models and shifting away from a reliance on ads, which were cut down substantially by sponsor companies in 2009. Fantasy players, somewhat surprisingly, were still willing to “splurge” on subscription fees and other payments in lieu of continuing purchasing patterns in other areas.

Though hundreds of competing sites occupy the market landscape, the fantasy sports space is dominated by ESPN, CBS, and Yahoo!. While ESPN has many sites under its umbrella, “Yahoo! and CBS [mostly] run their own business-to-consumer-

focused fantasy games,”² says Kelly Perdew, CEO of RotoHog, an online platform developer that provides fantasy services to media and advertising clients. The three sites occupy nearly half of the market share for the “draft and trade style business for the primary sports,” according to Perdew. CBS focuses much of its business on commissioner game pricing that offers a customized draft and trade setup for \$179 per season. Many sites charge for auxiliary applications such as live scoring and draft kits as well.

Going forward, players on the business side of fantasy sports have honed in on several opportunities. First, as the space is intimately tied to digital technology, integration with social media and mobile phone



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applications will be key. Participants can not only advertise their platforms and leagues through their social network profiles, but they can link up with competitors to engage in some friendly banter, streamline additional research information, or display their performance to friends outside of their leagues. Taking advantage of the growing omnipresence of mobile apps also will be paramount, as various platforms compete to create the most efficient mechanism to reach users at their fingertips and at all hours of the day. Second, sites will continue to build out their offerings to entice fans of sports not yet commonly consumed in the fantasy space. Currently, 85% of fantasy users play football, while 45% play baseball. Soccer, though it is the world's sport, has not fully caught on in the fantasy community. Especially with the World Cup approaching in the summer of 2010, fantasy providers are poised to more heavily penetrate the unsaturated international market of soccer fans. Cricket is another intriguing opportunity, although the lower broadband use in countries like India poses a potential problem. Third, sites will likely pursue in-game revenue in the near future. As "fantasy sports is a carve-out of the online gaming laws," according to Perdew, it is legal to hold cash competitions. The development of this element will be particularly compelling, as its direction could impact the fantasy sports experience significantly. Other areas of concentration for competing sites will include virtual goods and shorter time frames (quicker hits and the aforementioned mobile interfaces).

Though some question the growth in fantasy sports users in the future, Jeff Christiansen of fantasy football site FFToolbox.com responds, "It does seem like we've reached a point where everyone who wants to play is playing. But I say that every year, and every year, our traffic goes up."³ As Brendan Dwyer points out in *Sports Business Journal*, many myths regarding the consumer



base and related buying habits and level of interest have been debunked by recent studies, suggesting a diverse market that can endure further entrants and evolution.⁴ As efforts are made to bring in different demographics, fantasy sports offerings will certainly have to change as well, which will only strengthen the stability and foothold of the industry.

Perhaps most telling is the unexpected way in which fantasy sports has changed sports as a whole. Before fantasy sports, fans identified with and rooted for their favorite team almost exclusively. Their favorite players generally tended to be on those teams, and their collective moods often hung by a thread with each success and failure of those teams. Only occasionally did fans develop a liking for players outside of their favorite teams, and in most of these instances, rooting for these other teams and following these other games were done halfheartedly. Now, with both casual and ardent sports fans invested considerably in their fantasy teams, more and more fans tune in to pull for individual triumphs for players across a wide range of teams. This results in more games viewed with interest and more potential marketing power for the sports. Matthew Gould, spokesman for MLB.com, says that fantasy sports “[bring fans] closer to the game. It makes them a better fan.” And, he notes, “a better fan is key to becoming a return customer.”⁵




¹Ankeny, Jason. "The Reality of Fantasy Sports." *Entrepreneur*, September 2009. Web. 11 Apr. 2010. ²Perdew, Kelly. "Re: Fantasy Sports White Paper research." E-mail to the author. 4 Mar. 2010. ³Ankeny, Jason. "The Reality of Fantasy Sports." *Entrepreneur*, September 2009. Web. 11 Apr. 2010. ⁴Dwyer, Brendan. "Research debunks fantasy football's negative stereotype." *Sports Business Journal* 12.43 (2010): 20. Print. ⁵Dahle, Stephanie. "Fantasy Sports Become Big Business." *ABC News/ESPN Sports*, 2 Apr. 2008. Web. 11 Apr. 2010.

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ABOUT PARK LANE

Park Lane is a Los Angeles, California-based investment bank that provides investment banking advisory services for professional sports teams and sports-based businesses. If you are interested in learning more about Park Lane, please visit our website at www.prkln.com or contact Andrew Kline at 310-201-8496 or via email at awk@prkln.com.

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