Sink the Mothership? VERSUS could be going after market share at some point

Is the VERSUS Network about to become a worthy competitor to ESPN? Would sports fans, leagues, cable and sat providers benefit from a merger of NBCU and Comcast? The most recent speculation surrounding the sale of NBCU revolves around comments by Vivendi CEO Jean-Bernard Levy, reiterating Vivendi's desire to divest themselves of their 20% stake in NBCU. From Reuters ;

NBC Universal could be floated on the stock market if France's Vivendi decides to sell its 20 percent stake in the group majority-owned by General Electric, Vivendi's chief executive said on Tuesday.

AND

Sources close to the discussions have said GE is negotiating a sale of a majority stake in NBCU to cable operator Comcast to create a powerhouse spanning TV broadcast, cable networks, movie and theme parks worth about $30 billion.

Such a deal would depend on Vivendi's selling its stake.

Those who are doubtful that this deal will happen frequently point to the negative reaction the rumoured deal has met with from the market. In 2004, Comcast failed to acquire a different media giant, Walt Disney Co. (which includes ESPN and ABC), a potential deal that engendered the same negative reaction. Earlier this month BusinessWeek reported;

It's become an almost Pavlovian response among Wall Street analysts and money managers: holding their noses when an executive proposes bringing content (movies and TV shows) and distribution (cable, satellite, and Internet) under one roof.

And so when investors learned on Sept. 30 that Comcast CEO Brian L. Roberts was considering a deal to take majority control of General Electric's (GE) NBC Universal (NBCU), the cable giant laid an egg on Wall Street. Its share price fell 7% the next day, to 15.67. The Street's worry was clear: Roberts' yen for NBCU's movies and TV shows would divert his executive team from the core business of providing cable TV, broadband, and phone service to Comcast's nearly 25 million subscribers.

Roberts has had a bad rap on Wall Street ever since 2004, when the cable company bid $54 billion for Walt Disney and then walked away once the Mouse House played hard to get. Roberts is mindful of that and of the Street's obsession with quarterly numbers. But he also needs to manage for the long haul. That means finding a way to offset slowing growth at Comcast, which is losing subscribers to phone and satellite companies and could suffer as more viewers move to the Web to watch movies and TV shows

Reuters reported in a separate piece concerning the possible sale of NBCU;

To some investors, Comcast's bid might trigger a sense of deja vu. In 2004, Roberts launched a hostile and audacious $54 billion bid to buy Walt Disney (DIS.N), but ultimately failed. Since then, investors have feared the cable company would make a similarly large and possibly value-depletive deal.

Those who believe that this deal makes sense see the value to Comcast in NBC’s content (including their cable channels), a stake in online video streaming website Hulu and a better position in the ongoing battle between networks and cable operators over carriage fees. Earlier this month, Brian Steinberg reported for Advertising Age;

Comcast's interest is obvious, particularly after the once-sleepy concern made a bid in 2004 for Walt Disney Co. Gaining control over NBC would give Comcast scads of content to ship over its cable and broadband lines, and it would add a raft of cable networks that have two streams of revenue -- subscription fees and advertising.

In looking at big media companies, "the best businesses that all of us have in the entertainment business are the cable content channels, and those channels, with that dual revenue stream, are really good businesses," said Stephen Burke, chief operating officer of Comcast, at a recent investor conference. "And I think we wouldn't be doing our job if we didn't try to figure out a way to get bigger in those businesses."

In a second piece on the proposed NBCU/Comcast deal, Mr. Steinberg wrote;

Media that relies primarily on ad revenue is suffering far more than those companies that have a hefty revenue stream coming directly from customers. Comcast, for example, is clearly betting that consumers will continue to be willing to pay for the content they want, when they want it. The company already gets hefty monthly fees from its cable and broadband subscribers, and it gets consumers to pay extra for premium, pay-per-view and digital video recorder options. Now *it's looking to be in control of not just the pipes, but what comes through them.*

Earlier the WSJ reported on the battle between TV networks and cable operators over carriage fees. Cable channels (including ESPN) have been outperforming “over the air” channels because of their “dual revenue stream” of advertising and carriage fees. As ad rates decline, CBS has successfully negotiated some deals for carriage fees and News Corp. (Fox) is seeking the same. In some markets, local TV stations are threatening to withhold their “over the air” signals from cable companies if a resolution is not found. If Comcast acquires NBCU, the WSJ reports that the stakes will rise in the “fees for carriage” dispute.

The issue could become more heated if Comcast Corp. takes control of the NBC network. Comcast, the biggest cable operator in the U.S. by subscribers, is in talks with # General Electric Co. about a transaction that would give it control of NBC Universal and its namesake broadcast network, according to people familiar with the matter. If that deal goes through, Comcast could influence how forcefully NBC will push cable operators for subscription fees. It's also possible that regulators would step in to oversee Comcast's deals with NBC and other broadcast networks.

Of particular interest to readers of this site is the impact that an NBCU/Comcast deal would have on VERSUS Network. Could this signal the beginning of VERSUS growing into a worthy competitor to ESPN?

In a separate report for the WSJ , Sam Schechner reported;

Comcast Corp. executive Jeff Shell said at an industry conference in June that expanding the sports business at his cable networks was the "top of our list over the next five years."

If Comcast's bid to control NBC Universal succeeds, it would advance Mr. Shell's goal overnight, creating a potential new rival to #" Walt Disney Co.'s ESPN.

As the cable-TV giant and NBC Universal's parent, # General Electric Co., work through details of a deal that would merge Comcast's cable networks with GE's NBC Universal, people close to the negotiations say the two companies see the creation of a combined sports business as a key benefit of a partnership.

The new company would marry Comcast's VERSUS and Golf Channel cable-sports networks and multiple regional sports networks with NBC Universal's broadcast-sports operation and rights to major sports events, including a Super Bowl and two Olympic games.

AND

VERSUS is in 75 million homes and averaged 125,000 viewers this year through Oct. 4, up 17% from a year earlier, according estimates from Nielsen Co. "We have a huge opportunity," Mr. Shell said of VERSUS *at the June marketing conference in New York, to create "another sports brand in America," he said. Still,* VERSUS*'s average number of viewers is less than a seventh of ESPN's, and just over a third of that on ESPN2.*

In the aforementioned BusinessWeek piece, sports media consultant and former president of CBS Sports, Neal Pilson is quoted;

With NBC, Roberts will "have effectively created a potent competitor to ESPN," says Neal Pilson, a former CBS sports executive who now consults. Pilson figures Comcast will use NBC Sports' national platform to complement its 11 regional sports networks, which include major markets such as New York, Chicago, Philadelphia, and San Francisco. Throw in Comcast's Golf Channel and VERSUS*, which has college football and pro hockey games, and the new entity* *clearly would give agita to executives at ESPN headquarters in Bristol, Conn.*

Assuming the deal is concluded (far from certain), how would the sports industry react to VERSUS attempt to compete with ESPN? Last year when ESPN acquired the rights to the BCS, in the process obliterating any competing bid, many wondered if it was proof that ESPN could and would own the rights to any and every sports property that they wished. Did the ESPN/BCS deal hammer home the message that the ad supported "over the air" model will never compete with the "dual revenue stream" cable for sports rights? The March to Cable was one of The Sports Business Journal's stories of 2008.

*Sports have been migrating from broadcast to cable for a long time. For the past several years, late-round playoff games from MLB (TBS), the NBA (TNT and ESPN) and the NHL (*VERSUS*) have been telecast exclusively on cable.*

But 2008 could be known as the year when the dam finally broke, thanks in large part to ESPN's four-year, $495 million bid to poach the BCS games from Fox.

In the aftermath of the deal, broadcasters said they were unable to compete with ESPN's dual revenue stream of affiliate and advertising fees. The big question is whether broadcasters will be able to figure out a way to compete with the newfound strength of the cable networks.

Soon after the ESPN/BCS deal, John Ourand reported for The Sports Business Journal on industry concerns over the dominance of ESPN;

…some bemoaned the fact that no other network — broadcast or cable — was able to come close to ESPN's bid.

Obviously, there’s no recession, and all roads lead to Bristol,” said Howard Katz, the NFL’s senior vice president of broadcasting and media operations.

The deal, which saw ESPN bid $100 million more than Fox to secure the BCS rights, had attendees questioning what broadcasters had to do to be able to compete for future rights.

Cable networks, like ESPN, have an advantage thanks to their dual revenue streams from advertising and affiliate sales.

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As it stands now, executives seemed to be preparing for more sports to follow the money to cable, ***and some openly rooted for other networks, like VERSUS, to step up and compete with ESPN.***

“This is going to force the market to create a competitor to ESPN,” said PGA Tour executive Gil Kerr.

A much more robust VERSUS could provide sports properties a welcome alternative to ESPN. Currently, if a sports property is not a partner with ESPN, they get less “play” from the ESPN multi media giant. The NHL, formerly an ESPN partner and a current partner of both VERSUS and NBC, has complained that their exposure on ESPN’s flagship “SportsCenter” has diminished significantly since their rights deal was not renewed.

Along with sports properties, the cable and sat providers might embrace a legitimate rival to ESPN. These industries have long been unhappy with the cost of sports programming. Disputes over “sports tiers” and carriage fees have been widespread. At $4.00 per subscriber, ESPN is easily the most expensive cable channel. By comparison, VERSUS currently charges $0.20 to $0.25 per sub. Rick Horrow wrote earlier this month for BusinessWeek (Mr. Horrow also hosts a sports business talk show on VERSUS);

Moreover, the strong platform the new entity would provide would likely give Comcast more leverage when negotiating carriage fees with ESPN. Comcast and other cable companies are paying approximately $5.8 billion to carry ESPN's seven domestic networks this year, according to the Journal. (Author’s note, “Journal” is the WSJ)

In the larger scheme, VERSUS is likely a small consideration in the discussed NBCU/Comcast deal. Should it happen, the affects on sports fans, sports properties, MSOs and ESPN will be interesting to watch. Fairly or not, there is considerable enmity in the sports industry towards ESPN, who justifiably argue that they should not be criticized over their staggering success. If VERSUS doesn’t answer the call to challenge the WWL, how long until somebody else rises to the challenge?

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