



SA RUGBY PRESENTATION

Inquiry into subscription TV broadcasting services

ICASA

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Our position

1. SARU has a major responsibility to South Africa as the custodian of the game
2. It has to fulfill that responsibility very largely from its own commercial activities
3. Government funding of the sport makes up only 0,3% of SARU's income
4. SARU has to find the other 99.7% percent from its own commercial activities
5. The sale of TV rights is ABSOLUTELY CENTRAL to that revenue generation.
6. Without the freedom to maximise rights income the sport's ability to deliver on its obligations would be severely jeopardised



Our structure

The South African Rugby Union is the governing body for rugby in South Africa. We are an “incorporated association of persons”.

It serves the needs of both amateur and professional rugby. Players were not paid to play until 1996.



GENERAL COUNCIL

SUB-COMMITTEES:
Finance, Audit & Risk, HR & Remuneration,
Transformation, Franchise Rugby, Non-Franchise Rugby,
Judicial, Social & Ethics

EXECUTIVE COUNCIL

CEO

OPERATIONAL STAFF:
Rugby, Finance & Operations,
Commercial, Communications,
Legal & Compliance, Strategic
Performance Management,
Human Resources

Teams

Tournaments

Programmes

Events

Group Companies



Sport has changed

ONCE UPON A TIME...

Its responsibility was only to promote, develop and provide access to the game and manage competitions for amateur players and referees in all areas of South Africa.



Sport has changed

BUT TODAY...

We are a media business: producing content (matches, competitions, athlete-heroes) to sell to content to consumers (broadcasters, sponsors, supporters) in a highly competitive market for attention and space

The 'media' side of the business has become the critical engine to produce the revenue to deliver on old and new obligations



Those extensive obligations include...

MODERN DEMANDS

- Managing and developing eight national teams
- Marketing and promoting the sport and events
- Procuring sponsors and delivering rights
- Paying top salaries to retain the best players
- Delivering top performing national and provincial teams
- Managing international and domestic events
- Interacting with World and regional governing bodies
- Building brands and protecting IP
- Managing licensing and merchandising programmes

TRADITIONAL NEEDS

- Providing entry-level playing opportunities
- Developing and maintaining player development pathways
- Providing amateur rugby competitions
- Creating opportunities, competitions and playing pathways for women
- Supporting member unions to develop and maintain stadia and facilities
- Ensuring that rugby is accessible to wide audiences through affordable ticket pricing
- Supporting 14 provincial unions delivering rugby “on the ground”



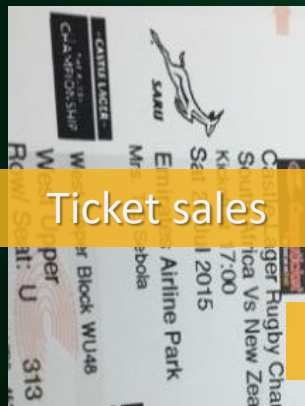
**GET INTO
RUGBY**

How do we fund it all?

These needs are not cheap to run

Generating revenue is essential to fulfill primary developmental obligations

Globally, sporting bodies have relied upon the following sources of income



Ticket sales



Sponsorship



The sale of broadcasting rights



Subsidies and grants

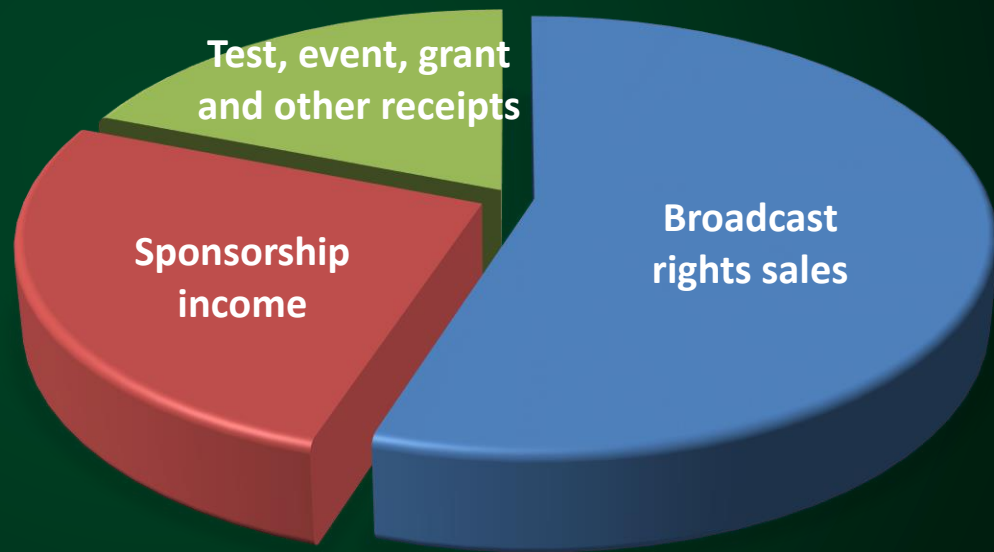


Merchandising

And the greatest of these is rights

SARU generated revenue of R1,217bn in 2017

1. Broadcasting rights represented 55% of income
2. Sponsorship 26%
3. The remaining 19% was generated through test and event participation receipts, grants and merchandising and licensing royalties



Why broadcasting rights matter

- Maximising income from broadcast rights sales is critical for sports bodies
- They are sports' primary and most reliable source of income
- Federations' ability to meet their obligations would be severely compromised if the income from the sale of broadcasting rights were to be reduced
 - The professional game would also be compromised: players would seek greater remuneration elsewhere
 - Most at risk would be the developmental end of the sport: development projects do not generally have commercial value in themselves
- That would have the potential to reduce local competitiveness, reduce attractiveness of the product and consequently the rights fees that could be commanded by sporting bodies. It has the potential to be a vicious circle.

How broadcast rights sales work

- We can only sell what we control.
- And we can only control access to matches in South Africa
- We do not sell the rights to matches played by SA teams overseas in either domestic or international competitions.
- Those rights vest with the hosting nation.
- We do not receive broadcast rights income from Springbok matches overseas.
- We do not receive broadcast rights income from mega rugby events
- We have no input in the sale of those broadcast rights



What does SA Rugby sell?

- ~~X~~ Rugby World Cup
- ~~X~~ HSBC World Rugby Sevens Series
- ~~X~~ Sevens Rugby World Cup
- ~~X~~ Olympic Games Sevens
- ~~X~~ Commonwealth Games Sevens
- ~~X~~ Junior World Championship
- ~~X~~ November Springbok Tests



What does SA Rugby sell?

- ✓ June Springbok Tests
- ? The Rugby Championship
- ? Vodacom Super Rugby
- ? Guinness PRO14
- ✓ Currie Cup
- ✓ Craven Week
- ✗ Varsity Cup



How broadcast rights sales work

- The rights we own are to international and domestic matches in South Africa
- But they are elements in a broader rights sales picture
- The sale of our domestic rights are factored into the sales of rights as part of joint venture competitions
- The broadcast rights to Super Rugby, Rugby Championship and PRO14 are part of alliances with SANZAAR and Celtic Rugby (unlike other SA sports)
- The tournament formats, number of matches and broadcast rights sales strategy are determined in partnership with seven other international federations (between the two competitions)
- The costs of participation – both direct and indirect – are high

How broadcast rights sales work

- Sporting federations generally rely on independent international consultants or agents to maximise rights sales in a very niche and specialist field
- Sports bodies and their consultants are best placed to decide how, and to whom, to sell these rights taking into consideration various factors. They include:
 - Balancing the need for income with maximising exposure
 - Funding development to expand opportunities for participation
 - Promoting social cohesion by ensuring that sport teams represent all sectors of society.

It's not just about the money

- When selling rights, sports bodies also need to consider:
 - The capacity to distribute all desired events created by the federation;
 - The audience share or reach of the broadcaster;
 - The production budget and appetite and capacity to make investments;
 - World-class production quality and expertise and experience, to satisfy national and international market standards;
 - The ability of the broadcaster to pay for the broadcasting rights;
 - And the ability of the broadcaster to market the rugby events and to advance the federation's brand.

Why exclusivity?

The granting of exclusivity to the purchaser of the rights is a global practice because:

- It maximises revenue for the sporting body (exclusivity is variously estimated as being worth a premium of between 40% and 100% of the total value of the rights)
- It promotes investment in the quality of production of the sport, increasing the attractiveness of the sport to consumers and in turn to sponsors
- It enables broadcasters to differentiate their product offering, innovatively package the content and promote and market the content to the benefit of viewers.
- Exclusivity promotes competitive bidding to maximise revenue
- National interest is promoted by *Sports Broadcasting Services Regulations*, ensuring that significant rugby events that are available on FTA television in South Africa

Is the current model working?

SARU would argue 'yes'. It has derived the following benefits from exclusive sales:

- Extensive distribution of rugby matches per season (+/- 1 500 hours excluding match build-ups and reviews) on a channel that is primarily dedicated to rugby
- Production of high quality content, meeting international standards allowing for international distribution and a significant contributor of revenue to SARU
- High levels of exposure and brand recognition for South African rugby, attracting sponsors and significant additional revenue
- Enabling the professionalisation of the sport, by allowing the competitive remuneration of players, coaches and referees
- Ensuring sustainable domestic rugby competitions
- Promotion of the sport in rolling out grassroots training and development

ICASA Proposed Remedies: Shortening of Exclusive Contracts

- Rights have been negotiated and sold in five-year tranches since 1996 to encourage capital and other investment into the broadcast commercial relationship.
- The shortening of the rights period would jeopardise values and have the knock on effect of calling into question the SANZAAR and Celtic Rugby joint ventures as it would threaten the alignment of the arrangement and their reason for existence.
- Broadcaster appetite would be reduced as they require a reasonable period to recover costs and earn a reasonable return on a big investment
- The consequences would be a material negative impact on the amount of the rights fee, the investment by the broadcaster in the product, and consequently the experience of the viewer

ICASA Proposed Remedies: Rights splitting

Sports bodies have two objectives from rights sales: maximising value and the broadcast hours of their sport. To achieve those objectives sports need:

- The flexibility to package rights in the manner that it deems necessary to achieve the twin objectives
- This may include creating packages of rights as it assesses market conditions.
- It is the sports federation that is best placed to determine those market conditions against its objectives to best monetise its rights and sustain the business
- Sporting federation independence allows the avoidance of broadcasters purchasing only marquee competitions and leaving other areas of sport un-distributed.
- Multiplication of rights holders has the potential to multiply transaction costs as sports bodies may have to enter into and manage multiple agreements

Legal question marks

- SARU does have concerns both as to process and as to the potential implications of ICASA's intervention for third parties such as SARU and the parties it in turn contracts with.
- At this point, we would simply note that SARU reserves its rights to deal with any concerns it may have in relation to considerations of legality before the appropriate forum and at the appropriate time.
- It is of course SARU's sincere hope that on receiving submissions from various stakeholders that such steps prove to be unnecessary

The implications of change

1. Intrusive regulation of the sale of sports broadcasting rights in South Africa would inevitably have grievous financial consequences for sports federations such as SARU.
2. It would have a calamitous impact on SARU's ability to deliver on its main constitutional objective to promote, develop and support all levels of rugby in the Republic
3. And compromise SA Rugby's capacity to field internationally competitive provincial and national teams – the international success of which since 1995 has acted as a powerful nation-building tool



**QUESTIONS
THANK YOU**