



From trading cards to digital video: Sports NFTs kick sports memorabilia into the digital age

The chance for fans to acquire, not just view, licensed digital media of their favorite sports moments will likely cement non-fungible tokens' place in the sports content marketplace

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WHAT FAN WOULDN'T want to buy an unforgettable sports moment? Nonfungible tokens (NFTs), unique digital identifiers that use blockchain to record ownership of media, are now letting them do just that. Deloitte Global predicts that NFTs for sports media will generate more than US\$2 billion in transactions in 2022, about double the figure for

2021.¹ By the end of 2022, we expect that 4–5 million sports fans globally will have purchased or been gifted an NFT sports collectible. Interest in sports NFTs is likely to be spurred by activity in the wider NFT market, including that for digital art, the top five most valuable sales of which had generated over US\$100 million by August 2021.²

NFTs will likely create significant new revenue streams

NFTs allow ownership and use rights to be demonstrated for any piece of digital content by assigning the content a specific, nonduplicable identifier that is recorded on a distributed database, or blockchain, typically Flow or Ethereum. Ownership of an NFT *may* include ownership of the underlying digital asset, though most sports NFTs sold to date have no ownership or use rights in the underlying media. Each NFT includes a smart contract whose terms are applicable indefinitely and that executes immediately and irrevocably with each trade.

Each NFT is unique in the same way that each limited run of a physical print is individually numbered, yet otherwise identical. In this way, NFTs bring predefined scarcity to digital content. They're the digital equivalent of printed sports trading cards—which were selling for up to millions of dollars each in 2021³ and which have long been a major revenue source for teams and leagues, especially in the US market. NFTs effectively address the same needs as cards, but swap still images with digital stills or video, cardboard with pixels, binders with digital displays (mostly smartphones), collectors' fairs with online trading platforms, and third-party authentication agencies with blockchain.⁴

It may appear illogical that someone would pay for an NFT version of the same video clip that anyone in the world could watch for free.⁵ But it is arguably also irrational for a printed card to sell for seven-figure sums when the intrinsic value of the card is zero.⁶ Value in each case is a function of demand and scarcity, and it should also be noted that demand can wax and wane, and is subject to multiple factors, both endogenous and exogenous.

In 2022, the most common and lucrative application of NFTs in the sports industry will likely be the sale of limited-edition video clips of sporting moments or player cards.⁷ The value of each NFT will depend on the prominence of the athlete, the significance of the event, any additional content included within the NFT, and demand. An NFT limited to a single edition of a major event—say, a winning goal, home run, or dunk by a legendary star, bundled with a commentary by that star—could be sold at auction, while the same video but with no additional content and 20,000 available copies would be sold and traded via an online marketplace.⁸ This is analogous to some aspects of the art world, in which variants of the same work of art, but with differing numbers of certified copies, have different values.⁹

Value in each case is a function of demand and scarcity, and it should also be noted that demand can wax and wane, and is subject to multiple factors, both endogenous and exogenous.

In 2022, platforms and rights creators are likely to continue testing different ownership models to determine the optimal balance of stoking consumer demand and maintaining intellectual property rights (IPR) that respect existing third-party rights over the underlying digital assets. So far, the offer of limited IPR within sports NFTs has not dampened appetite, suggesting that demand may well be driven by the ability to demonstrate status: Scarcity drives inherent value in and of itself.

NFTs can bring additional revenue to sports leagues, teams, and individual athletes whose income has declined during lockdown.¹⁰ The largest football (soccer) NFT platform enabled US\$128 million in sales in the first nine months of 2021.¹¹ An NFT contract may stipulate that a commission on each transaction be paid to the owner of the platform that sold the NFT, and a share of that commission may then flow back to the aforementioned rights holder(s). Further, if the smart contracts enabling the NFTs are accessed via crypto, they may enable real-time remuneration to the current owners of the preprogrammed rights. This is particularly valuable given the frequently complicated rights management associated with sports.

NFTs are also an opportunity to enhance relationships with fans. Rights holders should

consider how best they could apply NFTs to enhance the fan experience by enabling them to acquire and display NFTs of their team, as well as to contribute to decisions such as player of the month (in Japan), or even which songs are played during game intervals (in Italy).¹² In some cases, NFTs can also be used within fantasy sports league applications, with each NFT representing a player who could be part of a team entered into season-long competitions.

As NFTs' scope evolves, an additional category may include athlete-designed or -branded digital versions of physical world objects, such as sneakers, that only exist digitally. As an example, the Gucci Virtual 25 is a digital shoe design that can only be worn using augmented reality.¹³ Again, some may question the logic behind this, but others may be equally perplexed by the sale of a pair of physical shoes for US\$1.8 million, or the purchase of digital skins by tens of thousands of video game players.¹⁴

Paying for digital-only content may feel unfamiliar to some. A decade ago, this behavior was niche. But the evolution of spending within video games points to a burgeoning, now mainstream acceptance of the concept. In 2022, gamers will likely spend tens of billions of dollars on virtual currencies that they then use to purchase game-related artifacts and capabilities that only exist virtually, for which there is infinite stock, which is only displayed on a screen, and for which the marginal cost of "manufacturing" is close to zero.¹⁵



THE BOTTOM LINE

Most sports-related NFT activity in 2022 is likely to take place in those sports with the largest fan bases and revenues, namely, football (soccer),¹⁶ basketball, baseball, American football, and ice hockey. Over time, however, all sports are likely to have some form of NFT offering. These can be to commemorate a single event, be it a Formula 1 driver attaining a record number of world championships or a football player scoring their hundredth international goal. A major initial consideration will be whether NFT activities are best carried out at the league, team, or athlete level.

Creating an NFT-based sports collectible platform will likely remain a complex, challenging exercise in 2022. Ten key steps to help create a successful platform include:

- Confer a specific set of rights for content that could be sold as video clips and associated metadata within an NFT.¹⁷
- Build or work with an online platform that can cope with surges in transaction volume and global demand.
- Identify a partner that can mint content into an NFT, noting that costs for minting vary considerably.¹⁸
- Generate a scalable process, assisted by artificial intelligence, to identify and grade clips that could be sold as a set.¹⁹
- Incorporate a robust “know your customer” process, as any tradable asset could become a vector for money laundering. Don’t overlook the unique compliance considerations such as VAT, sales tax, withholding taxes, and accounting principles that may apply to the issuer or holder of the NFTs. Implement procedures to thwart insider trading.
- Make the service as attractive to those on pocket-money budgets as to high-net-worth individuals looking for long-term investments. The price of entry should start at a few dollars, but occasional high-value trades will add sizzle to the service.
- Iterate tirelessly, experimenting with ways to keep different types of collectors engaged, such as team-building sprints, sports betting, and other challenges.²⁰
- Consider complementary activities such as fantasy team-building competitions, an activity that could also be used to collect data about fans, with their permission.
- Have a zero-carbon plan. As transactions are recorded on blockchain, which as of 2021 was renowned for being carbon-intensive, sports entities should identify approaches that are energy-efficient—for example, by using a proof-of-stake consensus model such as Flow, as used in the NBA’s Top Shot platform—rather than proof-of-work approaches such as Ethereum.²¹
- Finally, consider video clips as just the beginning of an NFT strategy. NFTs can also be applied to other sports products such as tickets to a game and physical collectibles. NFT tickets can include a smart contract that directs a percentage of any resale of the ticket back to the issuing club.²² Additionally, NFTs could be applied to physical collectibles such as autographed baseballs or cyclist jerseys, further increasing the technology’s ability to generate revenues for sports entities. Finally, sports entities should also consider other blockchain applications, such as currencies.

The 2021–2022 season could be the first in which NFTs start to make a major mark from a revenue perspective. If the experience of early adopters proves positive, the market should continue to grow and be an important part of the digitization, globalization, and commercialization of the fan experience.

Endnotes

1. As of September 2021, NFTs were available or expected for the NBA, UFC, and baseball. The NBA's Top Shot was the most established of all the platforms, with trading volumes of about US\$700 million by August 2021. LaLiga in Spain is reported to be launching it in June 2022. See: Eben Novy-Williams, "UFC to sell first NFTs as fighters gain share of licensing," *Yahoo News*, August 5, 2021; Tracy Hackler, "Panini America unveiling 2021 Prizm Baseball NFT Blockchain packs Monday," Panini America, August 22, 2021; Cryptoslam.io, "NBA Top Shot sales volume data, graphs & charts," accessed October 7, 2021; Jacob Feldman, "NBA Top Shot maker to create LaLiga NFT collectibles," Sportico, August 23, 2021.
2. The definition of art is both subjective and in a current state of flux. At the time of writing, in early September 2021, art included penguins, drawn digitally, and selling for thousands of dollars each. As well as penguins, there are kittens, ducks, apes, and more. New forms of art are always controversial, and NFTs are just the latest trigger for a chorus of disapproval. Trading volumes on the OpenSea marketplace, the largest for NFTs, was US\$2.5 billion in the first half of 2021. The value of the top 5 art sales was US\$102.83 million as of August 26, 2021. See: Olga Kharif, Vildana Hajric, Justina Lee, and Bloomberg, "Rolexes and Lamborghinis are so yesterday. NFTs are the new digital 'flex'," *Fortune*, August 28, 2021; Nfttrending.com, "NFTs are going mainstream as trading volume reaches new record level," August 3, 2021; Daniel Phillips and Stephen Graves, "The 15 most expensive NFTs ever sold," *Decrypt*, August 26, 2021.
3. Mark Saunders, "List: Highest-selling sports trading cards of all time," ABC 10News, April 25, 2020.
4. Twitter may soon enable NFT owners to show their owned items within their Twitter handle. Taha Zafar, "You might soon be able to show your NFTs as Twitter avatars!," *Cryptoticker.io*, September 29, 2021.
5. The valuation of art will always be subjective, and the discussion on what any piece of art is really worth is likely to be perpetually inconclusive. For one discussion, see: *Art Reveal Magazine*, "5 reasons people buy expensive art—the psychology behind the purchase," August 21, 2020.
6. One of the best-known names in physical sports cards has launched an NFT series for UFC. See: UFC, "UFC and Panini America to deliver first-ever UFC NFT trading cards," press release, August 4, 2021.
7. Each video moment is likely to be accompanied by a wide array of data explaining the context in which the play happened. See: SportsPro, "What is NBA Top Shot? Dapper Labs' Katy Tedman explains the NFT platform everyone is talking about," May 4, 2021.
8. For NBA Top Shot, tiers are Common, Fandom, Rare, Legendary, and Ultimate,, each of which has differing levels of scarcity. See: NBA Top Shot, "Moment Collectible tiers," October 2021.
9. There are often limited, numbered editions of prints made from an original artwork; an individual number and a signature are two indicators of authenticity. These prints are identical, save for the number, in the same way that a video clip is made unique via its incorporation into an NFT. See: S&P Gallery, "How do limited editions work?," May 17, 2021.
10. As an example, revenues for European football contracted by 13% in the 2019/2020 season. See: Dan Jones and Chris Wood, *Riding the challenge: Annual review of football finance 2021*, Deloitte, July, 2021.
11. Tom Bateman and Reuters, "Sorare football NFT game raises €580 million in record-breaking fundraising round - but what is it?," *Euronews*, September 21, 2021.
12. Fan tokens can be offered that provide owners with votes to make these kinds of decisions. In Japan, the full legality of each service has not yet been established. One of the players in the space, FINANCIÉ, is not regulated by the Payment Services Act or Financial Instruments and Exchange Act. See: Jeff Wilser, "In Europe, football NFTs and tokens are no fantasy," *CoinDesk*, September 14, 2021; Tim Alper, "Fan tokens booming at Japanese pro football clubs," *Cryptonews.com*, July 22, 2021; FINANCIÉ, About page, accessed October 7, 2021.

13. Gucci, "Gucci sneaker garage," accessed October 7, 2021.
14. Kanye West's first pair of Yeezys sold for US\$1.8 million. See: Bryan Hood, "Kanye West's \$1.8 million Yeezys are now the most expensive sneakers ever sold," *Robb Report*, April 26, 2021.
15. In the first quarter of 2021, spend on mobile video games was estimated at US\$22.2 billion, up 25% year over year. The majority of this spend would be on in-game content, rather than to pay for the download. Spend would be on a range of content, from double-point multipliers to seeds for virtual farms or custom colors for digital cars. Spend on in-game content on console and PC games is additional to this. Revenues for *Fortnite* in its first two years of operation were about US\$9 billion, all of which was from in-game spend. Revenues for EA's *Ultimate Team* service were US\$1.62 billion in 2020. See: Mike Minotti, "Sensor Tower: Mobile game spending hit \$22.2B in 2021 Q1, up 25% from 2020," *VentureBeat*, April 5, 2021; Mitchell Clark, "Fortnite made more than \$9 billion in revenue in its first two years," *The Verge*, May 3, 2021; Ronan Murphy, "How much money does EA Sports make from FIFA & Ultimate Team?," *Goal*, June 10, 2021.
16. In September 2021, Spain's LaLiga announced a deal with Sorare for the creation of NFT cards for players. See: Sorare, "LaLiga partners with Sorare to enter the world of NFTs," press release, September 9, 2021.
17. Manchester City, which won the English Premier League in 2020–2021, launched a commemorative NFT. See: Man City, "City drop NFT collection to mark Premier League win," press release, May 19, 2021. A series of Lionel Messi NFTs was launched in early August 2021. See: ESPN, "Messi has an NFT of his own: One-of-a-kind art for a one-of-a-kind player," August 5, 2021.
18. The cost of minting can be several hundred dollars per item, or can be zero, as per the charges for using Blockparty, which is based on the Flow blockchain. See: Flow, "Partner spotlight: Blockparty – premium NFT marketplace," July 20, 2021.
19. This selection process could otherwise be very time-consuming: For example, each weekend of the UK's Premier League, Spain's LaLiga, or Germany's Bundesliga could require the analysis of 900 minutes of game play per league, not counting extra time and after-match interviews. With a sport such as basketball, which features multiple point-scoring moments during each game, identifying clips may be easier than for soccer, where a game may conclude goalless after 90 minutes, and have fewer memorable moments for an algorithm to discern, or a Formula One race, which may see little overtaking on some circuits.
20. As an example, for the 2021–2022 season, fans attending an NBA game will be able to preorder NFTs of plays they saw live. These will be on sale at a physical kiosk, and NFTs will belong to a new tier called Fandom. See: Ledger Insights, "Dapper Labs' NBA Top Shot to launch NFTs at live games," August 5, 2021.
21. Justine Calma, "The climate controversy swirling around NFTs," *The Verge*, March 15, 2021.
22. The Dallas Mavericks NBA team is already considering this approach. See: Kai Morris, "Dallas Mavericks to provide NFTs with tickets starting next season," *The Tokenist*, June 16, 2021.

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Acknowledgments

The authors would like to thank the following individuals for their contributions to this chapter: **Sam Blackie, Neil Clements, Emmanuel Durou, Ralf Esser, Richard Folsom, Peter Giorgio, Dan Jones, Kim Lachman, Rob Massey, Seiji Morimatsu, Hanish Patel, Adriano Picinati di Torcello, Jarick Poulsen, Suhas Raviprakash, Shin Satozaki, Matthew Sinclair, Lee Teller, Ayako Tobe, and Motoko Yanagawa.**

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