



# LEADERS *Report*

## eSports

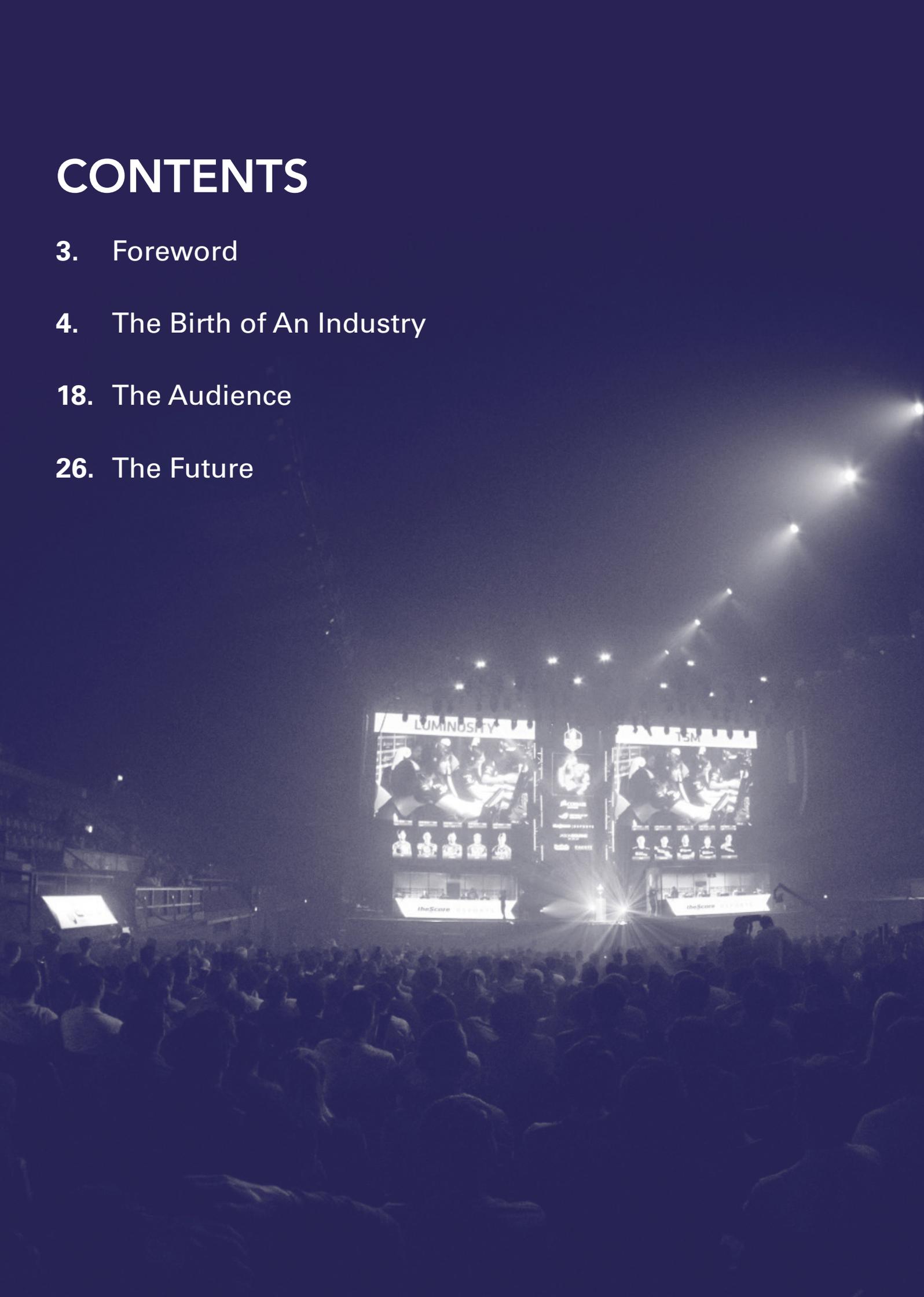
How we got to here, and what comes next

September 2016



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# FOREWORD



**George Woo**  
Intel Brand Partnerships  
& Sponsorships  
Marketing Manager



**E**xcitement around eSports seems to have reached a fever pitch in the last 18 months, but the reality is that the industry has been gaining momentum for more than a decade. At Intel, we've been involved as a sponsor of eSports events for the last 15 years, ten of which have been as the title sponsor of the Intel Extreme Masters (IEM), the industry's longest-running event series. This global tournament series is run by ESL and the figures are illustrative of the weight behind the eSports industry today: IEM has hosted nearly 60 events in major global cities, including New York, Los Angeles, San Jose, Kiev, Dubai, Hanover, Shanghai, and Cologne.

The flagship event that crowns the season with the IEM World Championship is held in Katowice, Poland, which last year attracted more than 113,000 attendees, and saw more than \$500,000 awarded in prize money. Over our history, IEM has awarded more than \$5.5 million in prize money, and while the first season of the tournament drew 500,000 video sessions, the tenth season registered 132.3 million video sessions.

Over the past ten years, IEM has grown into one of the biggest and most attractive

tournament series in the sector. Our focus remains on delivering a consistent world-class tournament experience. We work hand-in-hand with ESL to develop compelling content, drive awareness and excitement, and identify new markets to reach new audiences. This year, as we kick off Season 11, we're very excited about the addition of IEM Oakland and IEM Gyeonggi, which will be the largest IEM stadium event in Asia.

eSports and IEM definitely deliver for Intel. Gaming is a key business target and eSports is a natural extension. The game enthusiast segment is one of the most passionate and rapidly growing PC segments with 1.3 billion PC gamers today projected to spend \$100 billion annually on hardware by 2018. eSports has become a favorite pastime for coveted millennials, and there are an estimated 225 million esports viewers worldwide

Through IEM, we have established an ideal venue to showcase our innovative gaming products, as well as created an opportunity to support a passionate eSports community with exclusive, unmatched competitions from their favourite teams, and memorable experiences and connections with friends.

## Credits

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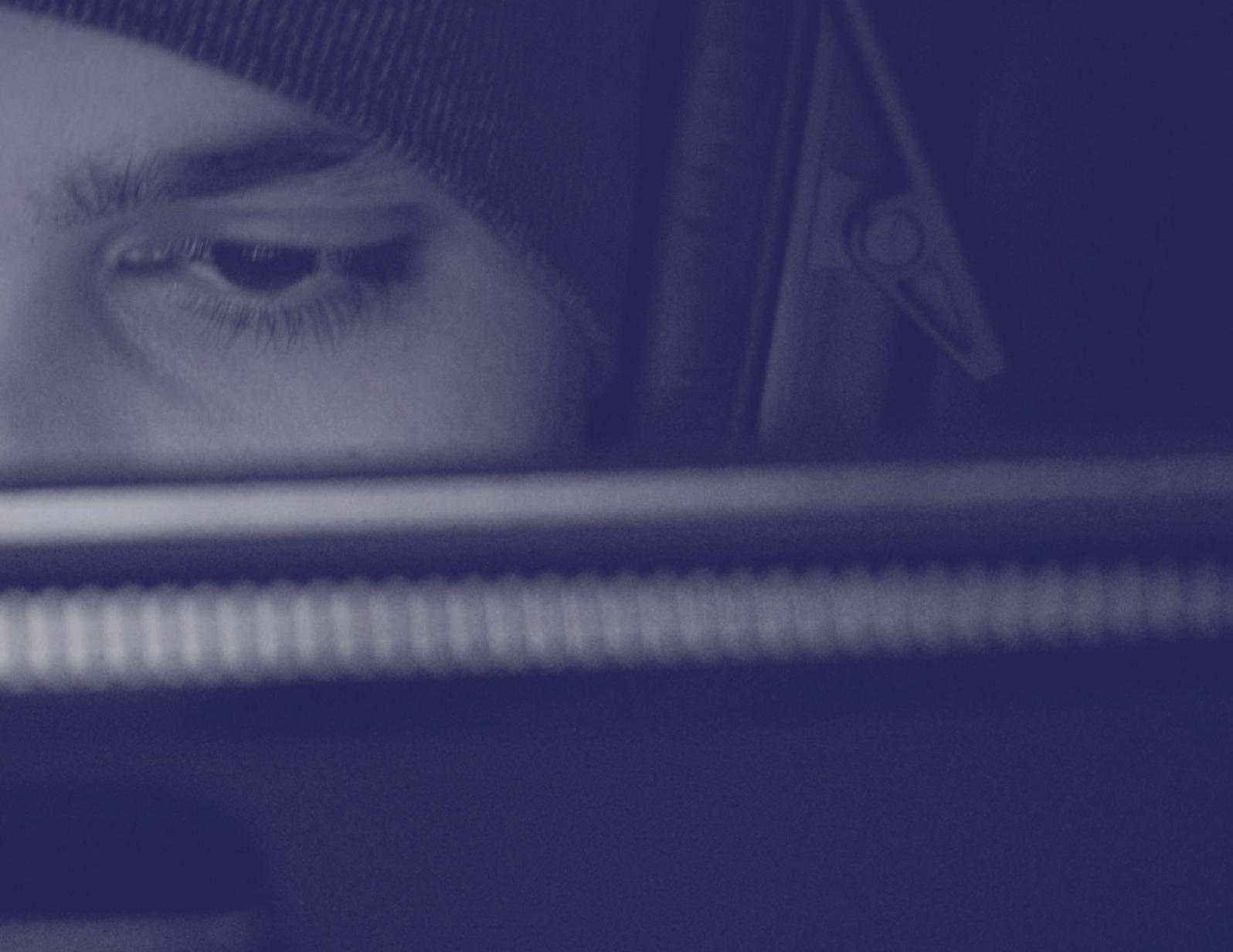
**Contributing Editor**  
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# THE BIRTH OF AN IND



# INDUSTRY

How we got to here



# THE BIRTH OF AN INDUSTRY

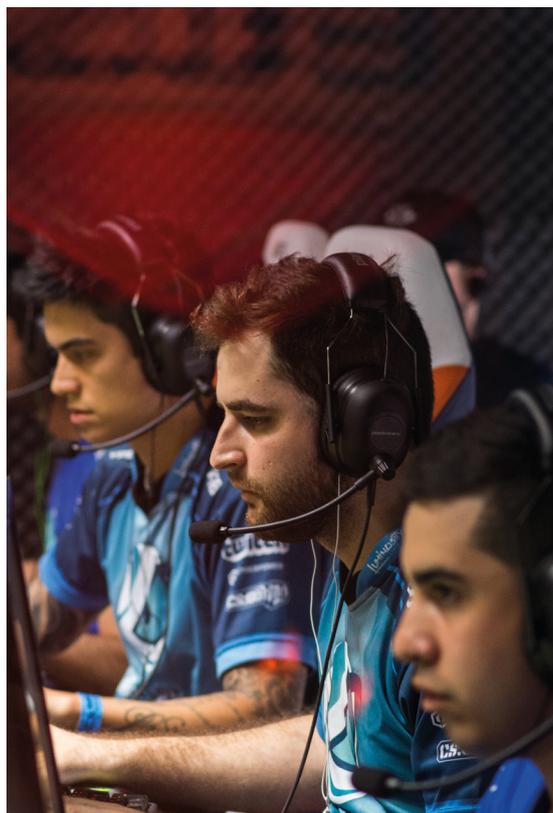
*Competitive video game playing is as old as the video game industry itself, but the turn of the century and evolution of the internet and digital streaming have led to a new golden era for eSports.*

**S**pike Laurie is wearing an SK Gaming t-shirt. The Englishman, co-managing director of ESL UK and an international director of the pre-eminent eSports company, is sitting in a hotel room in Sao Paulo, explaining to Leaders via Skype why he's wearing what he's wearing. This is no saucy video call, but an interview about the phenomenal growth of eSports, the buzz around which has had the mainstream sports and media industries talking excitedly about it as the next big for the past two years or so. Laurie, who bought the t-shirt to celebrate the victory of the SK Gaming team at a recent ESL tournament in Cologne, is targeting merchandise sales as a ripe area for exploitation for his company in what he describes as a "second golden age" for eSports.

Buzz is one thing, hard facts are quite another. And though the general forecasts are positive, there remains a degree of confusion about the market, especially from the outside looking in.

## What is eSports?

Broadly speaking, eSports is a term used to describe competitive, professional video game playing. It is important to make the distinction between eSports and the video games industry in general. Video games, of course, have been around for a long time. People were able to turn professional around 20 years ago, as internet speeds suddenly made it possible



to compete with people around the world, usually via Massively Multi-Player Online (MMO) Role Playing games specially created for the medium. Stakeholders in the eSports industry include professional players in professional teams, amateur players, who make up a large part of the viewing audience too. That viewing audience can be segmented into people who consume eSports online; people who attend an increasing number of stadium or arena events; and people who watch on traditional linear broadcast television. Other key stakeholders include game publishers, some of which also run their own tournaments and events; standalone



events organisers; sponsors; digital broadcast platforms that have nurtured the industry from its birth; and major agencies and traditional broadcasters getting in on the action of late.

According to Newzoo, a Netherlands-based market intelligence firm focused solely on the games industry that has become the accepted standard for the emerging eSports market, the entire eSports industry will generate \$463 million in 2016. "In terms of audience," explains Pieter van den Heuvel, Newzoo's lead eSports analyst, "we expect there to be 292 million people who have watched eSports content this year. We see that 148 million of those are what we call enthusiasts who will actively seek out eSports content and watch it more than once a month. A large share of this is in Asia."

To put that into perspective, the same market intelligence firm has predicted that

total revenues in the wider games industry will reach \$99.6 billion in 2016.

### Where did eSports come from?

Informal competitions were being held in video game arcades as soon as the first flush of such facilities started springing up around the world in the 1970s. In 1980, Atari's National Space Invaders Championship attracted 10,000 participants across the US, with regional qualifiers leading to a tournament final in New York, sparked arcading as a mainstream hobby and put the foundations in place for the modern iteration of eSports.

Arcade competitions grew in popularity, flourishing in the 1990s, but by the latter stages of that decade, PC gaming had come to the fore, with Red Annihilation's first person shooter Quake tournament in 1997 drawing over 2,000 participants.

With the evolution of the internet came another catalyst for the growth of the eSports industry: the move away from first person shooters.

Mike Morhaime is president of Blizzard Entertainment, one of the big beast publishers in the eSports space. Speaking at the Leaders Sport Business Summit in New York this year, Morhaime explained how his start-up shifted in the early 1990s, positioning itself for the explosion that was to come at the turn of the Millennium. "We started out doing conversions and ports for other big companies," says Morhaime. "They would put out a game for PC and they would hire a little company like us to convert that game over to Macintosh or Omega. We started out doing games for Super Nintendo or Sega Genesis. But in '94 we started self-publishing games under the Blizzard label. That's when we shifted to the PC. Warcraft: Orcs & Humans was the first one and Warcraft II really put us

on the map. We launched World of Warcraft [in 2004]. People pay \$15 a month to get access to this virtual world. Up until that point, probably the most successful MMO was called Everquest and they had 500,000 subscribers so that was our benchmark at the time. We thought if we did really well we could get up to maybe one or two million. At its peak, World of Warcraft had 12 million subscribers around the world."

If the strategic pivots made by companies like Blizzard were the fuel for the eSports fires, companies like ESL provide the logs that keep them burning. In fact, ESL's company history is a reflection of the eSports industry itself. Founded in 2000, the organisation formerly known as Electronic Sports League is the most established eSports event organiser in the industry, putting on major tournaments, running national championships and leagues in scores of countries around the world. In tandem with title sponsor Intel, ESL is the organisation



*Blizzard Entertainment president Mike Morhaime at The Leaders Sport Business Summit in New York in 2016*



behind the IEM, the longest-running and probably the most prestigious global eSports series. But the ESL tentacles reach far beyond event organisation. “We’re a full, holistic ecosystem of competitive players, into tournaments and cups, into providing the anti-cheat software that allows games to be played competitively online to creating the broadcasts on a weekly basis,” explains Laurie. “We broadcast in over 29 languages around the world; to the big stadium events where we’ll have tens of thousands of people in a stadium, tens of millions of people watching online. Basically we are eSports in every single way that it could be perceived. We create merchandise and sell team clothing for the teams. There’s nothing, actually, that we don’t do, and there’s not a single publisher or developer that works exclusively with another partner. If they do work with another partner, usually we’re supporting behind the scenes. It’s a well-known secret, for example, that the Call of Duty World League that’s run by Activision, is actually a white label product that’s run by ESL. We’re a one-stop shop for eSports.”

Laurie joined ESL just under a year ago from Warner Brothers, where he was working on fighting titles such as Mortal Kombat for competition in offline environments. He says he was attracted to the organisation because “basically

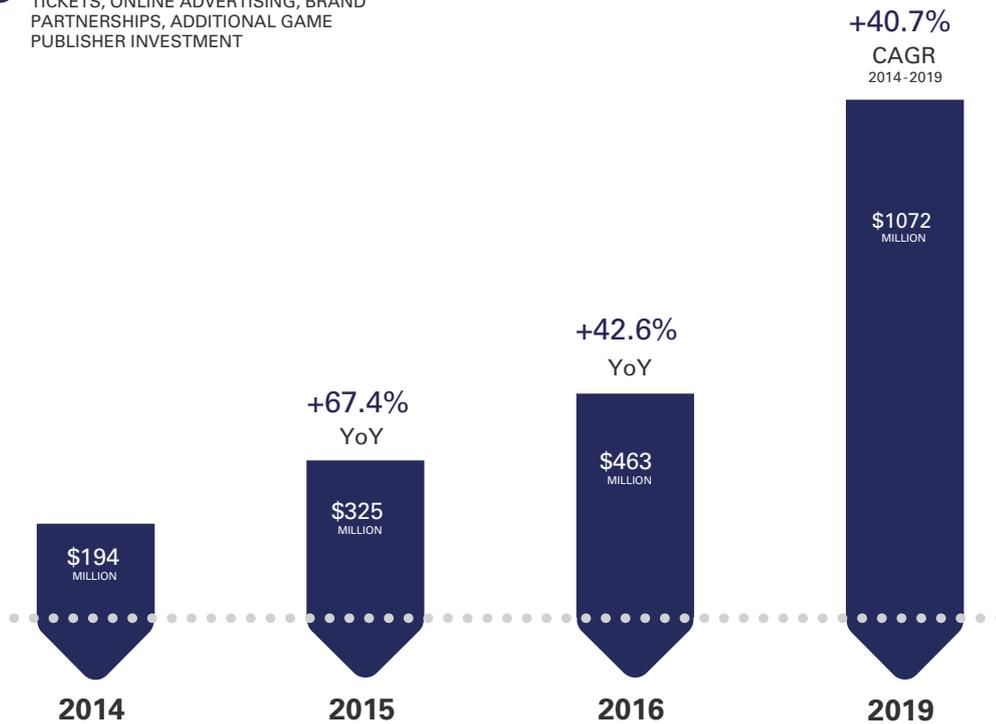


eSports was a Wild West. It was an opportunity to come in at the beginning of something where I don’t think anyone has really seen where the ceiling is yet.” The ‘Wild West’ description is apt. One of the challenges currently facing the broader eSports industry is the fractured landscape and lack of cohesive global calendar. For the outsider, it is almost impenetrable to decipher what and when the biggest events are and how they fit into a wider

# ESPORTS REVENUE GROWTH

2014, 2015, 2016 & 2019 | GLOBAL

● MEDIA RIGHTS, MERCHANDISE & TICKETS, ONLINE ADVERTISING, BRAND PARTNERSHIPS, ADDITIONAL GAME PUBLISHER INVESTMENT

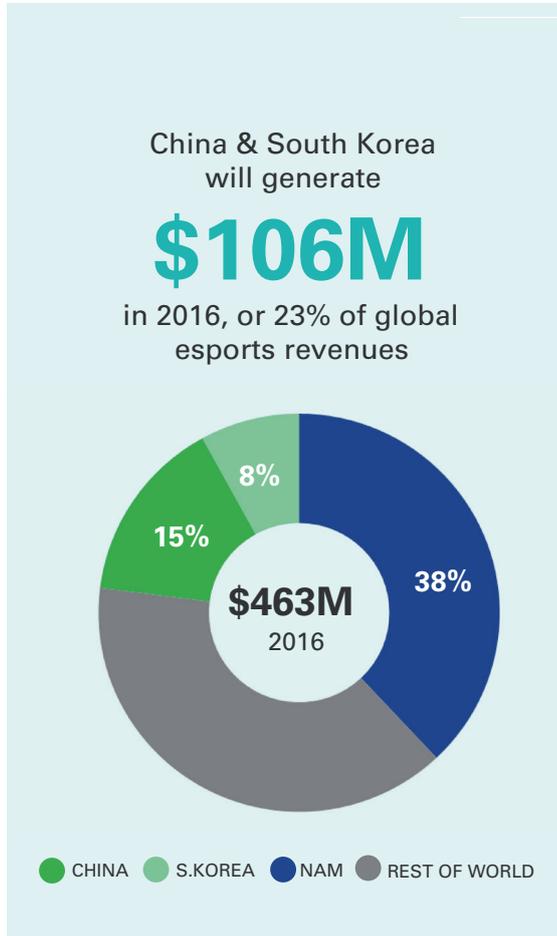


Source: Newzoo 2016 Global Esports Market Report

narrative. There is confidence both inside and outside the industry that these types of growing pains will work themselves out, but that is unlikely to happen under the guiding hand of one overarching governing body, as is the model in traditional sport. There is an International eSports Federation (IeSF). Founded in 2008, and based in South Korea, it organises major championships itself and now counts 47 member nations – though the US and the UK are not among them. “I actually just got back from Shanghai where I was talking to the International eSports Federation but I certainly don’t have an IeSF badge that I wear,” says Laurie. “I’m not convinced there should be one governing body. I think

the only people who are convinced there should be a governing body are those who are lining themselves up to be a governing body. There is a lot of gravy swilling around once you get to the governing body level of things. I think they’re organisations of the past and I don’t think within a digital world there’s any room for organisations or bureaucracy like that. I actually think it’s a danger to eSports.”

While YouTube is emerging as a strong player in the eSports world, it is no exaggeration to say that foundation of Twitch was a game-changer. Spun off in 2011 from Justin.tv, the general interest streaming platform it would go on to



Source: Newzoo 2016 Global Esports Market Report

subsume, Twitch was built as a streaming platform for gamers, allowing viewers to tune into eSports competitions, as well as follow their favourite gamers through their quotidian playing schedules and interact across a vast online community. Bought by Amazon for \$970 million in August 2014, Twitch now has 1.5 million broadcasters pushing content through the platform, and around 100 million monthly unique viewers. For individual players, the pathway to eSports success is now clear: build a following on Twitch, get noticed by teams and sponsors alike, get big.

“Being able to broadcast online at good bit rates turned it from a spectator sport of

**“Why aren’t people watching Strictly Come Dancing anymore or Downton Abbey or Ant and Dec’s jungle antics again?’ And the answer to that is that they’ve already migrated to digital platforms, and a lot of that is eSports.”**

50 to 100 people physically in a location to a globalised phenomenon where people were able to tune in to watch top-level StarCraft matches, top-level Counter-Strike matches, top-level Warcraft matches from their own home,” explains Laurie. “When that happened, that was when the snowball really started moving. It’s taken the mainstream media a long time to catch up and realise, ‘where has our audience gone? Why aren’t people watching Strictly Come Dancing anymore or Downton Abbey or Ant and Dec’s jungle antics again?’ And the answer to that is that they’ve already migrated to digital platforms, and a lot of that is eSports. In 2015, 160 million hours of ESL content was consumed on Twitch. In 2014 that was 68 million hours. That’s a lot of content being consumed by people, by the millennial audience, by the digital generation who aren’t being served by traditional media outlets. eSports is the perfect example of something that’s caught the Zeitgeist of the millennial audience.”

### The Korean phenomenon

When Newzoo’s Pieter van den Heuvel points to Asia as the home of a large majority of the 148 million eSports enthusiasts, it’s easy to assume that



South Korea is the predominant hotbed of the eSports world. Famously, Blizzard's StarCraft game became the unofficial sport of the country in the early 2000s. Morhaime takes up the story. "They started holding tournaments and the cable network started to broadcast these tournaments," he explains of the game's early popularity in the country. "And within a few years you had three cable networks broadcasting StarCraft tournaments 24/7. The top players in Korea started to become very famous and it started to become viable to be a pro-gamer as a career. And you had companies like LG and Samsung creating teams. In 2004, just a few years later, they were holding stadium events with 100,000 attendees watching the StarCraft pro league finals. Nothing like this was really happening outside of Korea. You did start to see tournaments but not really anything

of this magnitude of maturity. As a game developer, going out and watching these tournaments was a real thrill. And it set off a lightbulb in our minds in terms of the potential of gaming as a professional scene. We wanted to intentionally support that and design games for it in terms of the viewability, the spectator experience and the game balance of the games."

But while the Korean phenomenon may have propelled Blizzard's move into the creation of its own professional ecosystem – and to this day it maintains control over a number of major tournaments in which its games are played – the StarCraft story was a bubble that had to burst. "At its prime," explains van den Heuvel, "of the 50 million people that live in Korea, ten million were watching StarCraft daily. But it was hype, it wasn't that these people were necessarily

### The top games and their publishers - 2016

- League of Legends - Riot Games
- Dota 2 - Valve
- Counter-Strike: Global Offensive (CS: GO) – Valve
- Hearthstone – Blizzard
- StarCraft II – Blizzard

### The top teams and their 2016 prize money to August

- Wings Gaming (\$9.4m)
- Digital Chaos (\$3.5m)
- Evil Geniuses (\$2.9m)
- Fnatic (\$2.7m)
- Team Liquid (\$2.5m)



eSports enthusiasts. The government just pushed StarCraft as a national sport, because they were in a technological revolution. But when that became so popular, Blizzard wanted a slice of the pie. There were a lot of conflicts on who owned the media rights to this – the publisher, or the regional organiser, who said, ‘well, we make the content’. By the time Starcraft II rolled out, a lot of organisers had to stop broadcasting and players stopped playing. eSports is big in Korea but it isn’t as it was ten years ago.”

### Where are the revenues?

According to Laurie, 40% of ESL’s revenues are drawn from publishers and developers, 20% from physical ticket sales and merchandise, and a further 40% from brands. According to Newzoo’s forecasts,

brands will spend \$128 million on eSports sponsorship this year, and another \$197 million on stream or broadcast advertising. At \$325 million, brand spending accounts for 70% of all eSports revenues this year, with the likes of Intel, Coca-Cola and MasterCard all committed to the sector. By 2019, the total spend by brands in eSports is predicted to rise to \$800 million, which means more brands, and, likely, bigger deals than the current \$100,000 to \$2 million range that sponsorships typically cost in 2016. But where do those revenues go? “That \$463 million is really the classic revenue streams, like media rights, merchandise and advertising and brand partnerships,” explains van den Heuvel. “Publishers make a lot of money because they drive engagement in their games and they get in-game sales. Who’s making money on eSports? Publishers. Who’s

making money from that \$463 million? Organisers. The likes of ESL; Riot, directly from their events in terms of advertising or sponsorship; the DreamHacks; the MLGs.”

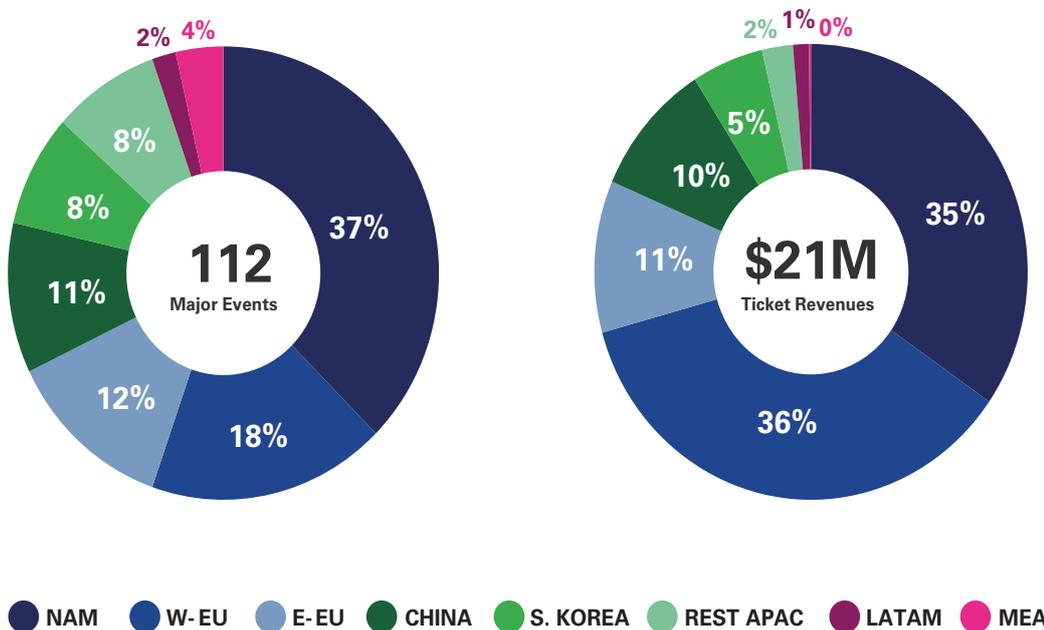
As far as Morhaime is concerned, eSports is an important element of Blizzard’s business, but it does not currently make money as a standalone unit. “What we’re most interested in doing is growing the popularity of our games,” he says. “In order to have a healthy ecosystem you have to have support from the grassroots amateur level all the way up to the professional leagues. You have to have regional tournaments all the way up to your global level. It isn’t a profit centre, but eventually we’d like it to be. We still think it’s worth it because it makes our games better and extends the life of our games. I think we believe that eventually

eSports can be a business in and of itself. I think it’s inevitable with the growing size of the audience.”

Although the likes of Turner and ESPN are high profile entrants to the eSports ecosystem of late, broadcast rights fees are, relatively, tiny. As an endemic sport of the digital generation, eSports has a challenge on its hands to broaden its revenue base away from its reliance on sponsorship. According to Daniel Ayers, lead consultant at sports digital content agency Seven League, it’s a conundrum that will necessitate different approaches. Twitch and YouTube are the most recognisable western names involved in the streaming of eSports content, but Azubu and Hitbox have also been gaining traction of late, and, of course, China has

## GLOBAL EVENT NUMBERS & TICKET REVENUES

MAJOR ESPORTS EVENTS AND TICKET REVENUES | 2015 | GLOBAL



Source: Newzoo 2016 Global Esports Market Report

## GLOBAL EVENT PRIZE MONEY

2005 -2015 | GLOBAL

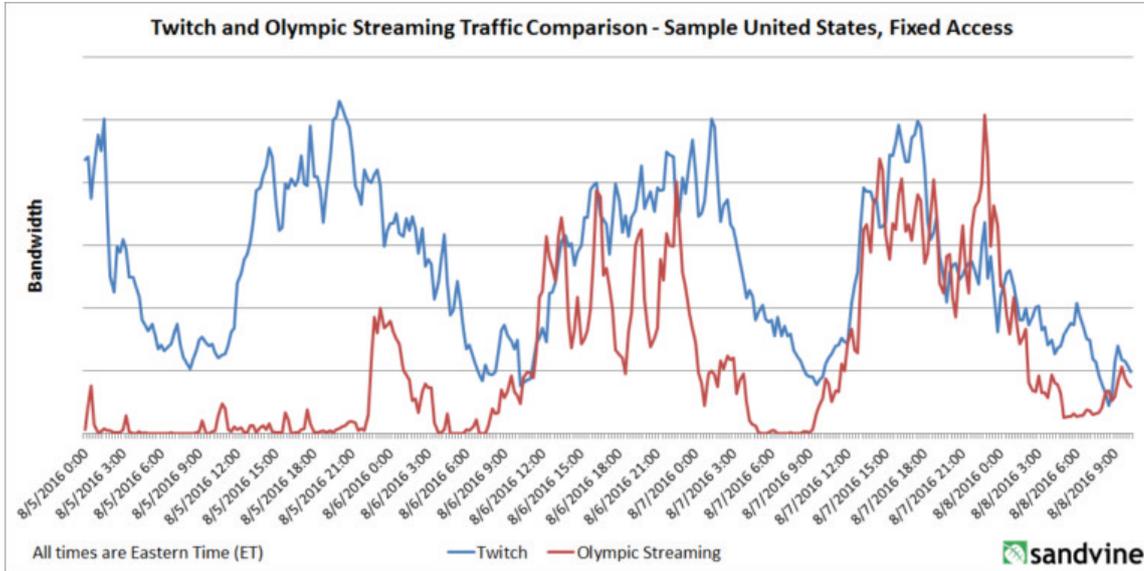


Source: Newzoo 2016 Global Esports Market Report

its own suite of wildly popular eSports streaming platforms, including Douyu, Ouya and Panda. “The question you have to ask,” posits Ayers, “is do you want to grow your broadcast rights pillar? Perhaps you want to accept that you’ve gone straight past broadcast to a streaming model and you’re happy with that. If you’re going straight to a model of working with Twitch or YouTube, then out the gate your model is that 45 per cent of the ad revenue is going to the platform. That doesn’t seem like a brilliant starting place. That’s the place we got to in the music industry after years of going, ‘we had a great model, there was loads of money; now we don’t anymore, I guess we’ve got to do this thing that makes us some money instead of no money.’

**“It isn’t a profit centre, but eventually we’d like it to be. We still think it’s worth it because it makes our games better and extends the life of our games.”**

“The thing they do have which is incredible is the donation piece. People subscribe to individual gamers’ channels, and they maybe get some virtual goods, but really it’s just to show their support. Once you get bigger, do you lose the authenticity that allows that to happen?”

Source: [www.recode.net](http://www.recode.net)

*Data from one US network operator during the Rio Olympics shows Twitch traffic exceeding Olympic streaming*

## What are the misconceptions?

Very few video games will be successful as eSports titles. According to van den Heuvel, there is a fairly precise formula for what makes a successful eSports game. "It needs to be cheap, and it needs to be intuitive," he says. "I would also say that it needs to be spectator-friendly. You see a lot more games now shipping with a spectator mode, so that it's easier to have camera angles to view the game. Does it have to be PC? No, but it definitely helps because consoles cost money. The most popular eSports titles don't evolve that much. So League of Legends is a game that's free. There are weekly patch updates but those are minor increments which maybe change which champions are strong, or which strategy a team uses. This is interesting because it keeps the dynamic changing. It's the games that have every year a new version, such as Call of Duty, console games, that have really found it hard to become a popular eSport. Call of Duty has done a pretty good job in the US, but globally Call of Duty is not even in the top five eSports. There's no console title in the top five popular eSports,

just because it is so hard to maintain a large player base if you bring out a new version of the game every year."

Sport simulation games tend to be console focused, and therefore have struggled to make it to the top-tier of the eSports world. "They have always reached a different demographic than the likes of League of Legends and Counter-Strike," explains van den Heuvel. "That demographic of course also watches normal sports. The question for them is do you want to watch people play Fifa, or do you want to watch people playing soccer?"

As far as Ayers is concerned, the barriers facing sports simulation games breaking through in the eSports world are not insurmountable. "You'd definitely back EA to push it through," he says. "EA will have a much easier sell to make to football clubs, most of which they already have a relationship with. It's much easier for a club to see itself getting involved in a football simulation game. It's more difficult to say, 'you need to get involved in Counter-Strike; who do you want to be – the terrorists?'" 

**The Birth of an Industry**

**eSports**

How we got to here, and what comes next



# THE AUDIENCE

Who they are, and



# AUDIENCE

and how to reach them



# THE AUDIENCE

*The latest data suggests there will be 180 million eSports enthusiasts by 2019. The audience is growing and the demographics are morphing too.*

**A**ccurately mapping and defining the eSports audience is not the work of a moment. Different geographical markets are at different stages of eSports maturity, there are a multitude of game titles to play, or watch others play, and new competitions springing up all the time. The whole sector is underpinned by developing and changing technology, which has led to the creation of new platforms that remain unfamiliar to many. And perhaps most critically of all, there is still no universally accepted definition of what 'eSports' actually is.

The term continues to mean different things to different people. To some, not least the marketing community which has picked up on increasing corporate interest over the past two or three years, the term 'eSports' can easily become a catch-all for gaming, encompassing not only professional video game tournaments, but wider online activities and even virtual reality.

Some, meanwhile, continue to assume the term refers only to the electronic version of traditional sports, an assumption exacerbated by several leading sports organisations launching parallel e-tournaments and several football clubs hiring a professional gamer to represent them.

The more specific and increasingly accepted definition of eSports is the professional side of gaming, primarily the tournaments played by a small but growing group of professional gamers, who train as athletes,

often competing as part of professional teams in front of large audiences and who, in some cases at least, have transformed themselves into online celebrities, focal points of hardened gaming communities.

## Who are the eSports fans?

If not quite a label coined by marketers – although it should not be overlooked that marketing is very much at the core of eSports, with established game publishers essentially using its major tournaments as a sales driver for major titles - the term 'eSports' is generic. Gamers who enjoy watching professionals ply their trade are far more likely to describe themselves as fans of either playing or watching specific genres of games or individual titles than as a fan of



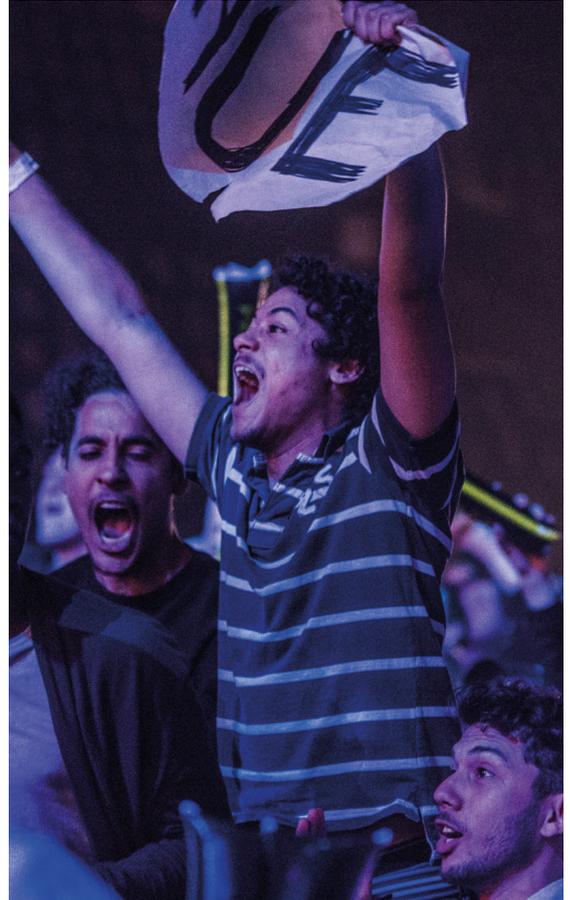
*Peter Moore, Chief  
Competition Officer  
at EA*

eSports in general. That presents particular complications when it comes to identifying, counting and analysing a fan base.

Pinning down the 'eSports' fan, then, is a significant challenge. The commonly held beliefs are that they are predominantly young and male – an online-literate generation of millennials (itself a phrase with many definitions, but generally considered to be 18-34 year olds) and centennials (those born after 2000). They are adept at mastering new platforms and comfortable conversing online; indeed, so-called centennials have never known anything other than an online and social media world. They are very often participants as well as mere viewers, for example playing online against other like-minded individuals or communicating via live messaging platforms as they watch the professionals in action. They are savvy uploaders, downloaders, sharers and likers, used to accessing content on-demand at the click of a button or swipe of a screen.

Given the huge numbers around audiences and the current and potential size of the market – in its 2016 annual report, industry monitor Newzoo is forecasting 180 million enthusiasts and 165 million 'casual viewers' by 2019, while streaming platform Twitch claims to have 45 million gamers active each month – it is no surprise that eSports has essentially become a byword for commercial opportunity.

While most predictions are that an already large and committed audience will continue to grow, some close observers quietly suggest there are no guarantees: there is little way to predict the impact of the continuing evolution in the technology that fuelled the creation of eSports, nor any bank of historical evidence which would indicate that the current audience

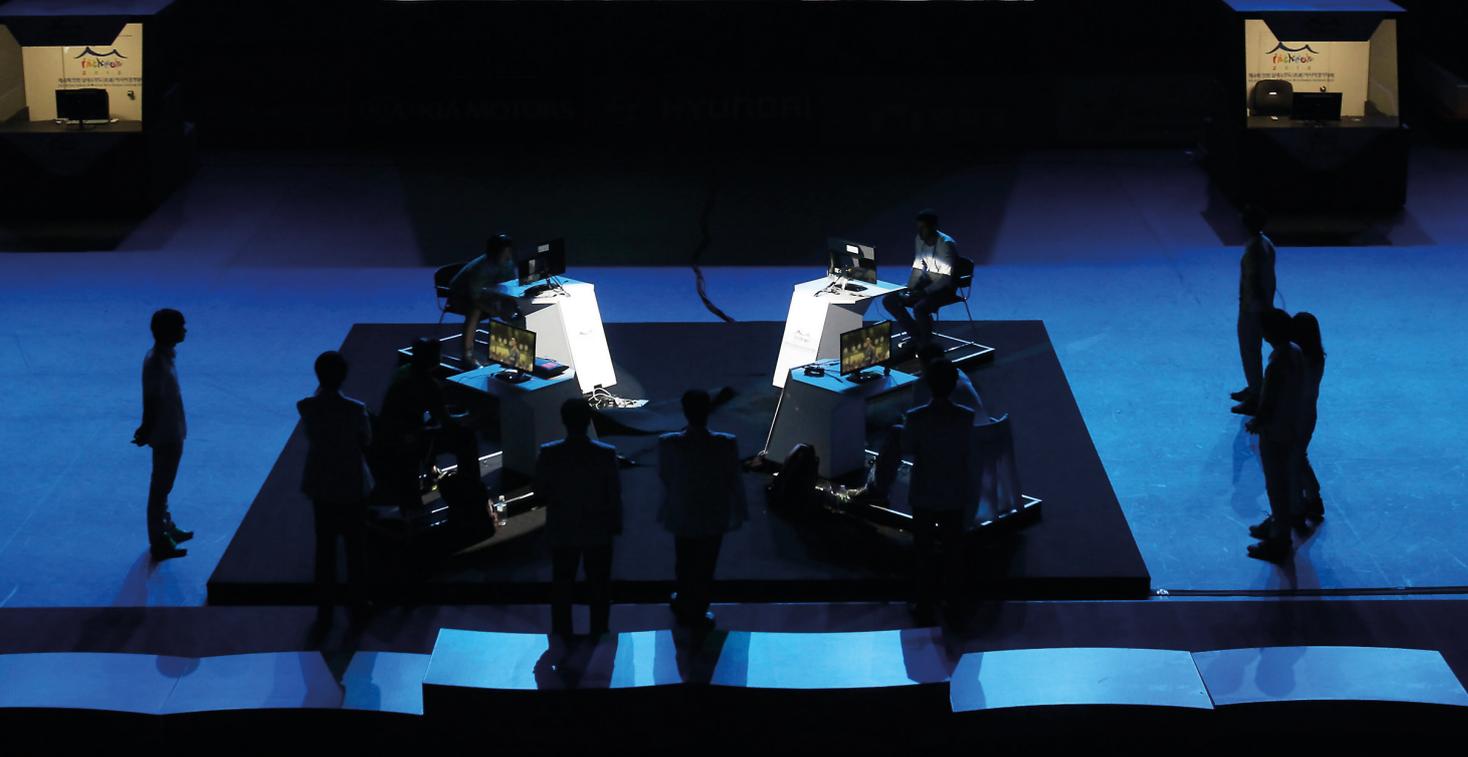


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**“Gamers who enjoy watching professionals ply their trade are far more likely to describe themselves as fans of either playing or watching specific genres of games or individual titles than as a fan of eSports in general.”**

will continue to watch and participate in eSports as they get older.

For many brands in 2016, however, the current eSports audience appears sizeable and desirable enough to at least consider an investment. The marketing world



is, at the very least, intrigued. As Peter Moore, Executive Vice President and Chief Competition Officer for renowned game publisher Electronic Arts' new Competitive Gaming Division said of the fanbase in a recent Repucom whitepaper on eSports: "I don't think they're even a 'cord-cutter', they're a 'cord-never'"

He continued: "I don't think this consumer ever sat in the living room and waited until 8pm to watch a sitcom. They sit in their bedrooms and they stream Twitch and they select from millions of YouTube videos they want to watch that interest them. I think what the big brands and the C-suite executives are saying is 'we have to find a way to talk to these guys, otherwise we're going to lose an entire generation of customers'.

Briton Chester King is one of many attempting to ride the eSports wave.

He has established the International eGames Committee (IEGC), a not-for-profit organisation which aims, as he puts it, to "positively help shape the future of video competitions". Most visibly, the organisation has created the eGames, a national team competition, the first full version of which is planned for Korea in 2018. More broadly, the IEGC is one of several initiatives underway to try and instil more structure into a cluttered and increasingly congested space, which should, in turn, encourage greater corporate interest.

"There are a few brands that currently 'get' eSports," King says, speaking in August and citing Intel and Coca-Cola as particularly noteworthy examples – the latter, incidentally, already has a Head of Global Gaming on its books, underlining its commitment. "eSports is the undiscovered goldmine for brand marketing," King



continues. “The majority of players and viewers of eSports are that hard to reach demographic of young people who no longer watch TV. I personally feel it is perfect for FMCG, media – film and music – finance, and tech brands like Fitbit.”

As with so many major modern-day investments in sponsorship, there is general agreement that authenticity is at the heart of a successful eSports partnership. For a young audience, in particular, first impressions count. “It’s all about how the brand makes their introduction,” notes Florian Le Bihan, a former pro-gamer who now runs operations for Fnatic, one of the West’s most established professional teams. “It needs to be soft and light. I know a lot of brands who have done it really wrong – they’ve not done it organically and it has been really, really bad. There are brands

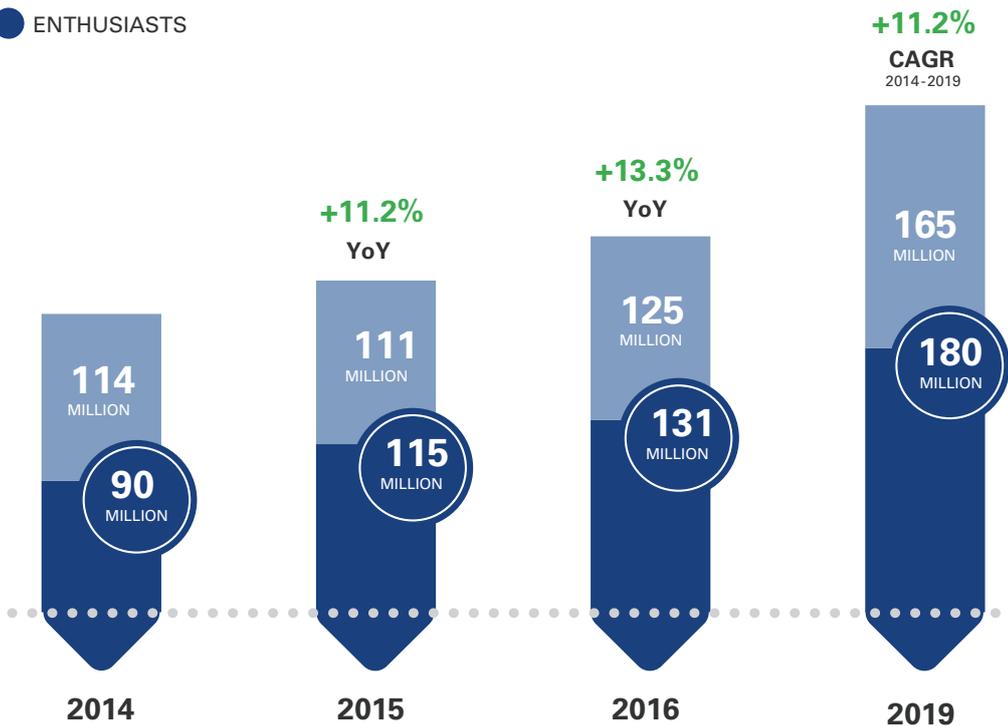
that are more perceptive about the fanbase, usually the endemic gaming brands.” King, who after establishing the British eSports Association is undertaking a three-month consultation with the public and industry to help shape the future of the sport in the country, concurs. “Brands need to really understand this market and the differences in the leagues, games, publishers, teams and players.”

There are myriad ways for brands to connect with an eSports’ audience: advertising on platforms such as Twitch is one obvious entry point, while in-game branding is another rapidly developing area. At Electronic Arts, Moore has a team working on just those types of integrated brand partnerships. As he explained, a light touch and a detailed understanding of the market is essential: “It’s complex and wrought with challenges – if you’re a little too ‘over’, the

## THE GLOBAL ESPORTS AUDIENCE

2014, 2015, 2015 & 2019 | GLOBAL

- OCCASIONAL VIEWERS
- ENTHUSIASTS



Source: Newzoo 2016 Global Esports Market Report

gamer doesn't like it," he said. "You've got to be careful it doesn't break the suspension of reality that gamers love. It just can't look too corporate or commercial."

He added of brands: "I think you have to go in with eyes wide open and be seen to support the event rather than sponsor the event. And you've got to find a piece of intellectual property that you are comfortable with. There are m-rated [suitable for a mature audience] shooters and there are brands that have issue with that."

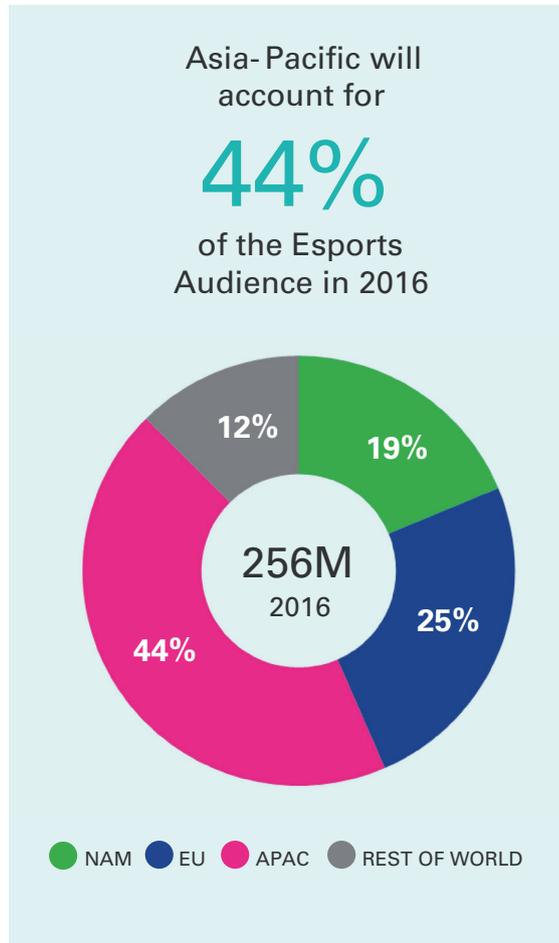
### Growing pains

The general growing pains eSports is facing – a lack of coherent structure, eye-opening

headlines about match-fixing and drug scandals, the lingering perception it's a nerdy activity and accusations that it goes against efforts to promote physical activity amongst youngsters - are all likely to be factored at some level into a brand's decision-making process when it comes to partnering an event, team or platform. King, who in his own words is "on a mission to promote eSports", offers this: "It's completely gender neutral so there are no barriers, but it is the role of the industry to make parents more aware of the benefits of playing eSports, including life and cyber skills."

The broader question of where eSports sits in a broad marketing gameplan also remains unanswered for many brands – in

## The Audience

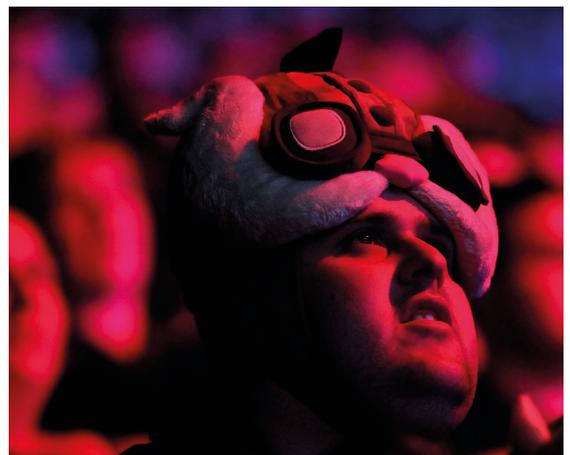


Source: Newzoo 2016 Global Esports Market Report

short, should it be regarded as a sport and are the participants actually athletes? Le Bihan argues that the increasing coverage of eSports on television provides a more familiar and comfortable environment for those brands still unsure of the intricacies of platforms such as Twitch, just as the trend for live stadium events at the top level presents brands with more traditional and tangible branding opportunities. He concedes, though, that the type of viewer is likely to differ depending on the medium. "Last year the League of Legends World Championship had a TV version of the broadcast, where you had a shoutcaster explaining very basic things," he points out, "and on Twitch, you had a more in-depth approach. On traditional TV, you'll tend to

## eSports

How we got to here, and what comes next

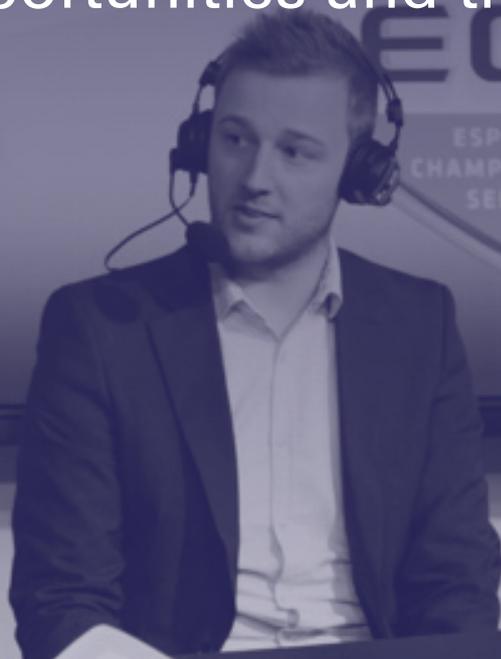


see a more basic and accessible version of the broadcast."

Le Bihan anticipates greater TV coverage and predicts more non-endemic brands will enter the market in the coming years, driven not only by the potential access to an otherwise hard-to-reach demographic but also the opportunity to play a role in the kind of technology-driven, personalised relationships professional gamers currently enjoy with fans and viewers. "That's what makes eSports unique," he says. "For the fanbase to reach the superstar players, via social media or other platforms, to see them live at events, is something very cool and interesting for eSports – and offers a great opportunity." 🎮

# THE FUTURE

The opportunities and the obstacles



RE

es ahead



# THE FUTURE

*Sport business commentator Matt Cutler, former Editor of SportBusiness International, maps out the commercial opportunities and obstacles confronting the rapidly-evolving eSports space, and which leaders in the pack you need to be keeping an eye on.*

**G**azing into a crystal ball to predict the future for the eSports sector isn't an easy task. After all, who would've predicted a year ago that every major broadcaster would be planning on giving this digitally-native phenomenon extensive - even primetime - coverage on their TV networks?

Or, for that matter, identified the prospect of sports teams such as German soccer's Schalke 04 - best known for playing in the country's top-tier Bundesliga - entering the elite eSports space with a team in the League of Legends Championship Series, competing in a multiplayer online battle game more suited to the world of Super Mario than the world of Mario Götze.

To date, many of the activities and business strategies taken in the eSports space - including the two mentioned - may be perplexing for those used to the tried and tested ways of commercialising sport. However, by understanding the rationale of these early-movers, the haze surrounding future direction of the rapidly-growing eSports space suddenly starts to clear.

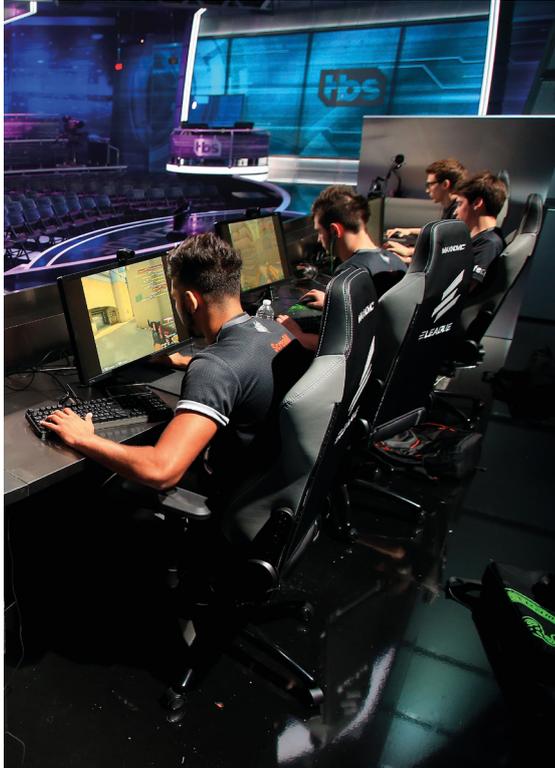
eSports has developed its extensive fanbase through live and on-demand streaming on platforms such as Twitch, YouTube and Azubu - very different to how 'traditional' sports have grown - nevertheless, the accepted methods of commercialising sport all translate into the eSports space, and all have huge potential for growth.

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**“TV rights, advertising, sponsorship, ticketing, hospitality, merchandise... they're all there, and actually there are far fewer barriers to entry, as you could host a tournament tomorrow and almost guarantee global reach by broadcasting online.”**

“TV rights, advertising, sponsorship, ticketing, hospitality, merchandise... they're all there, and actually there are far fewer barriers to entry, as you could host a tournament tomorrow and almost guarantee global reach by broadcasting online,” says Malph Minns, Managing Director at Strive Sponsorship, an agency that has an increasing presence in the eSports space. Minns is the former Head of Partnerships at cycling's Team Sky, where he helped attract non-cycling brands to the sport by helping them understand the opportunity, something he is looking to replicate in eSports.

That TV can be a revenue stream for eSports presents something of a paradox: the eSports fanbase has grown online and without any need for TV to satisfy its demands for content. However, eSports rights-holders recognise that being shown on TV can give them



mainstream credibility, and early movers like Sky and ITV in the UK - which joined forces to launch 24-hour-a-day GINX eSports TV - and Turner in the United States, which launched its own CS:GO league, ELEAGUE, in the spring, see an appetite for fans who want to watch in a less traditional manner, for eSports at least. Expect more broadcasters to follow their lead.

Turner's approach is of particular interest to Andrew Nixon, partner in the sport group at Sheridans, the leading law firm in eSports that has represented numerous stakeholders in the sector, including leagues and teams.

"For a broadcaster to show most major sports events, it would, generally, have to go through a tender process and then pay a significant fee for a broadcast licence. The interesting aspect of e-sports is that it's digitally-native, and broadcasters can create their own content and events - as

Turner has done with the ELEAGUE, in partnership with WME | IMG," he says. "Traditional broadcasters - or at least what we consider to be traditional broadcasters - now view eSports as an area they need to be involved in, and some have taken the view that they don't need to go to a rights-holder when they have the platform and financial muscle to do it themselves." The sponsorship opportunity for events, teams and players to date has almost entirely been taken by endemic (gaming) brands - i.e. those offering products such as gaming hardware and software. The opportunity going forward, however, is when non-endemic (non-gaming) brands start sponsoring in droves.

However, it could be a while off: though there are a number of non-endemic brands involved in eSports now - including Coca-Cola and Red Bull, who have been dipping their toes in the water for a number of years - large numbers are waiting tentatively on the shore, until eSports rights-holders can guarantee their investment will deliver on the things the sports industry is still only really paying lip service to: huge and engaged audiences that are different from 'established' global sports such as football and basketball.

"Brands need to take time to do their due diligence on the scene, understand who the audience is, how it varies by region and game title, and how participants might differ from fans before identifying where they can play a credible and value-adding role," says Minns.

"There's a considerable amount of content being streamed, and that's great for current and potential sponsors because of the demographic profile of these fans and consumers," adds Nixon. "But it may take longer for the major non-endemics to become



involved as they will want comfort that the industry is robust and well-governed.” The sale of tickets to major events also presents room for growth as more competitions are hosted around the world; the huge appetite for watching live events in person is well-documented with large arenas selling out in minutes and sometimes seconds, most recently with the Call of Duty XP 2016 event at The Forum in Los Angeles in September.

This appetite has already captured the attention of venue owners - such as the Sacramento Kings, which is building a venue for eSports, and established venues such as cinemas, that see an opportunity to fill seats around movies - while cities big and small across the world will now start to look to attract, and bid for, the finals of major events to reap the associated tourism and global marketing benefits.

## Sport for the digital generation

Outside of the ‘traditional’ commercialisation models, eSports also

offer additional revenue streams that established sports aren’t able to capitalise on, according to Vas Roberts, VP of Sales at FACEIT, the platform for competitive online multiplayer games that currently boasts five million members. FACEIT is also behind elite competition ECS (ESports Championship Series), for CS:GO, whose season-ending finals took place at London’s SSE Arena in Wembley in June this year.

“This is the sport for the digital generation. There’s huge potential for eSports to succeed on TV - just look at what Turner is doing, and the fact the ECS season one finals were broadcast on TV in over 35 countries. Ultimately though the majority will, as far as I can see, tune in to action through digital channels,” says Roberts. “Traditional sports would cut their right arm off for that because even for those that do have a ‘large’ digital viewership, it pales into insignificance when compared to e-sports.”

“There are elements of e-sports, particularly in the digital space, that traditional sports would love to have,

*Dana White, President of the UFC, which has succeeded in building story-telling content alongside live broadcasts*



particularly when you consider some of the monetisation streams,” adds Minns. “Traditional entities in sport are still largely making their money through the sale of TV rights and sponsorship - monetising content through digital, as eSports does, is something they’re still trying to get their heads around.”

However, packaging and selling exclusive broadcast rights to media platforms - the commercial strategy that underpins large numbers of ‘established’ sports - is some way off, and may have to wait for the market to consolidate before it occurs, says Nixon.

“Huge amounts of content is being created and streamed, and being accessed by hundreds of millions of people, but at the moment the ‘over-supply’ means it’s difficult to envisage generating ‘traditional sport- style’ revenue from exclusive broadcast licensing,” he adds. “Sure, you can generate advertising revenue through the streams, but the model of exclusivity – the model that underpins traditional sport – is not a model that sits comfortably

within eSports at the moment. There is, nevertheless, a good chance that will change in the future.”

### **Fragmentation and governance challenges**

As has been mentioned, the current eSports landscape is one characterised by over-supply - different games, competed at different events, with different teams all growing outside a framework of over-arching governing bodies and an established annual calendar of events.

This over-supply, experts say, is the biggest inhibitor of external investment into the sector at present.

“Ultimately, the \$6 billion question when it comes to eSports isn’t how lucrative it can be, it’s how lucrative it will be,” says Minns. “But without a consistent and uncluttered calendar of events, it’s difficult for broadcasters and sponsors to build a year-long cohesive narrative.

“Key going forward will be having a large

engaged audience over the year, with storytelling content alongside live broadcasts - something a rights-holder like the UFC does so well.

“On the sponsorship side, non-endemic brands are still largely absent - meaning there is huge room for growth - but brands that sponsor sport are used to being able to tell their story over the year or over a season, or at least with an event that returns with regularity.”

“Many people, until very recently, likened eSports to the Wild West - young players earning a lot of money in a world that didn't have a huge amount of structure,” says Roberts who, with FACEIT and the ECS, is one of the many people working to create events that fit within an annual e-sports calendar that helps consolidate the sector.

A lack of framework has also contributed to governance issues, which have received a large amount of fanfare around match-

fixing, doping, player exploitation and skin gambling - the latter involving virtual goods being used as currency to bet around CS:GO.

Observers of the sector believe it will take at least another 12 months to identify exactly what the right regulatory framework will look like. However, leagues like the ECS - and Riot Games, publisher of League of Legends and organisers of the game's Championship Series - have developed sophisticated regulatory frameworks that aim to challenge and police all forms of cheating including, but not limited to, match manipulation and doping. This is major step in the right direction.

“For eSports to realise its potential commercially – and the potential is vast - it needs to tackle certain core regulatory issues that, in my opinion, centre on the integrity of industry,” says Nixon. “By 2017 every major bookmaker will be offering markets on eSports events, at a number of levels. It's a similar issue facing traditional sports: at the



*West Ham United and Manchester City have signed eSports players to represent them in EA Sports' Fifa game competitions*

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**“Many people, until very recently, likened eSports to the Wild West - young players earning a lot of money in a world that didn’t have a huge amount of structure.”**

top level you have very well-paid players, but the semi-professional level - where players are less-well paid but markets are still being offered - is ripe for manipulation.”

Expertise - or more specifically a lack of required expertise - by those working in the sport and looking to take it mainstream is also a huge challenge facing the growth of eSports, though this is something being tackled rapidly as more people understand and specialise in the eSports sector and its intricacies.

“Because eSports is an immature market, there’s some large knowledge gaps for rights-holders,” says Minns. “But there’s a huge appetite to learn, and it’s very welcoming to ‘outsiders’ who have experience from other sports. It also works both ways, and non-endemic brands need to learn about the space and identify where they can offer valuable and credible benefits to the fan experience - as Coke and Red Bull have done.”

“We’ve seen sponsors come in - attracted by the critical mass and the demographic - and just do a logo-slap on an event or team,” adds Roberts. “Simply throwing money at eSports and expecting it’ll deliver the slice of the audience won’t work, and is actually detrimental to the sector. The eSports audience is intelligent and will quite likely see through that. Sponsors

need to have an authentic and well-thought-out approach.”

### The ones to watch

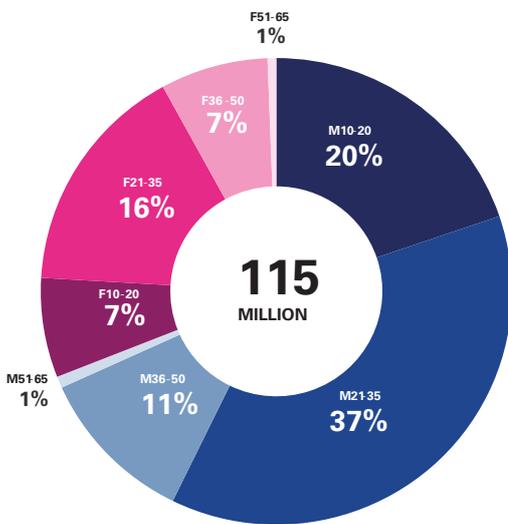
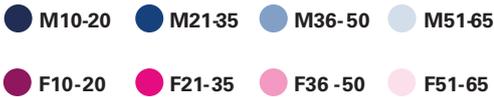
Keep an eye on the movements of established social media platforms. In June, Facebook partnered with games publisher Activision Blizzard, the studio behind World of Warcraft and Call of Duty, to offer a rival streaming platform to the likes of Twitch and YouTube. Twitter, too, has just added eSports to its ever-broadening array of live-streamed sporting events; expect every major social media and messaging platform - from Snapchat to WhatsApp - to follow suit and find a way for their platforms to be a place where eSports content is consumed in large numbers.

The volume in which existing sports franchises enter the eSports space in the next 12 months will also be fascinating to watch, primarily because of the numerous ways they can approach the market. To date, there have been two vastly different approaches: either as a marketing ploy or as an addition to their sporting departments.

In the former approach, one taken for example by Manchester City and West Ham United, players of the EA Sports Fifa game franchise have been signed to represent the club at tournaments and other events to market the club to a non-core football-supporting audience. On the latter, however, teams such as Schalke have acquired eSports teams to sit alongside their established sports sides. These can be commercialised in their own right, and run in the hope their audiences cross-pollinate. “It’s a pretty shrewd move for a sports team to have gone in this direction, either as a simple marketing exercise or immersing more deeply in the space by setting up or acquiring an eSports franchise. Sports

# GLOBAL ESPORTS AUDIENCE DEMOGRAPHICS

AGE/GENDER OF ESPORTS ENTHUSIASTS | 2015 | GLOBAL



## ENDEMIC BRANDS



## NON-ENDEMIC BRANDS



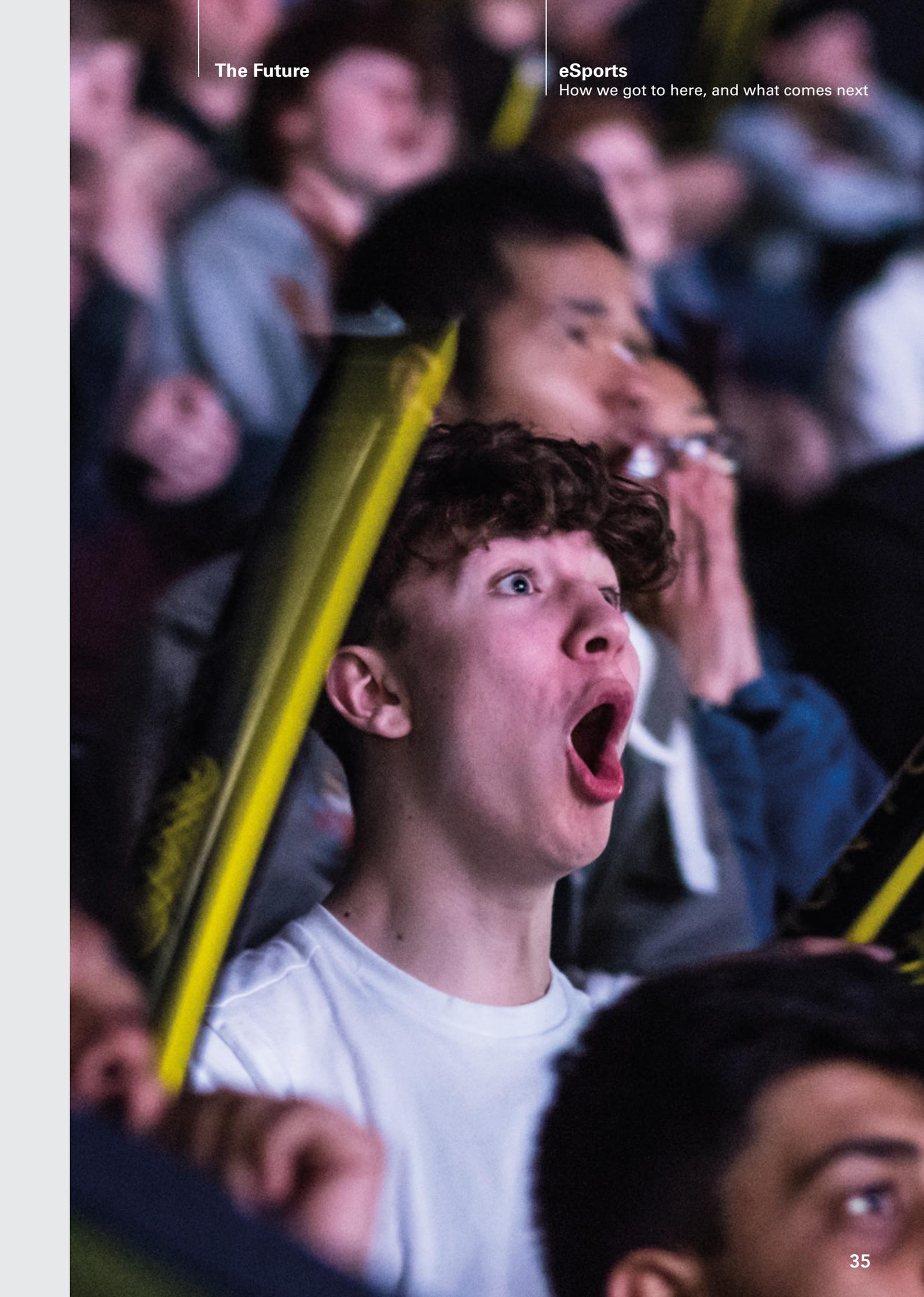
Source: Newzoo 2016 Global Esports Market Report

brands increasingly consider themselves as entertainment and content businesses as well as elite sports teams," says Nixon. "To extend their digital footprints is commercially smart and it makes sense for them to partner up with organisations or sectors that have already mastered the world of digital - eSports is therefore the perfect fit."

"Fifa isn't a huge eSports title, but I could see a future where every major sports team in the world has a professional player or team playing the game," adds Roberts. "Everyone knows what football is, and even if they don't know the Fifa game it's not hard to understand. So if someone gets Fifa right - and there's a structure behind it - I can see that whole space exploding." Finally, the movements of publishers - the creators of the games - should be tracked

closely. The publishers are in a unique position and hold all the cards, boasting the ultimate say when it comes to what IP is used in broadcast rights deals, and even which event organisers can use their games. Some publishers, like Riot, take more of a controlling approach, while others - such as Valve, behind CS:GO - are hands-off, recognising the positive impact the global exposure of the game and its content can have in encouraging new players and, ultimately, selling the game.

"eSports is becoming so successful that developers will, and may have already, been told by publishers to develop eSports-capable games - team multiplayer games that can be marketed as eSports titles," says Nixon. "Why? Because of the huge amount of revenue they have the potential to bring in." 🎮



**The Future**

**eSports**

How we got to here, and what comes next



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