



Esports: Revolutionizing the Super Bowl

By Matt Reichenbach

It's time to make the game winning play. The air in the stadium slows to a halt—it's a tense atmosphere. The players' eyes scan the field as their knuckles tense up in anticipation and sweat gathers on their foreheads. Millions of fans watch in intense apprehension. Millions of dollars are on the line. Suddenly, in a matter of seconds, the team fight is won, the winners siege the enemy nexus on Summoner's Rift and the 2017 League of Legends World Championship crowns a team of 5 winners.

Competitive video gaming, commonly known as esports, has taken center stage in recent years as being the future of competitive sporting events on both local and global scales, even being referred to as the new Super Bowl. Market revenue for esports has surpassed expectation and brand spending for high level competitions have skyrocketed. This, in tandem with an already staggering number of players, presents esports with being an industry that companies should pay attention to in the next few years.

This report argues that esports is viable as an industry for companies to invest in. The esports industry provides an avenue for immense return on investment and greater brand recognition as audiences grow and the allure of esport championships swell to necessitate massive sporting arenas and an overhaul of the professional sporting experience.

Blame it on the Lag

Esports is a large umbrella term to define any multiplayer game that can be played online competitively for spectators. In most cases, these games can be categorized as a MOBA, a massive online battle arena. However, three stand out as being the defining games of the industry: Dota 2, League of Legends and Overwatch. Even though these games are quite young, with League of Legends being the oldest at 9 years old, the games have managed to attract millions of players and make billions off of in-game **micro-transactions**. In fact, just in 2016, Dota 2 and League of Legends made a combined total of \$1.96 billion in revenue—a testament to their dedicated following (Overweg, 2017). However, despite the financial success and massive following, these games have a hard time navigating the professional sporting industry due to large conglomerates like FIFA and the NFL who control streaming broadcasts and access to large stadium venues. This, in addition to the fact that Dota 2 and League of Legends



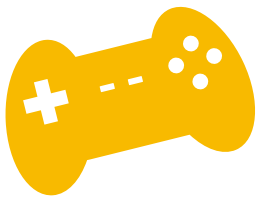
OVERWATCH

Micro-transactions: business model where consumers can purchase virtual goods via micropayment

are free to play, developers Valve and Riot Games lack the financial capital necessary to combat the large conglomerates as most internal revenue is spent on further game development to maintain player interest.

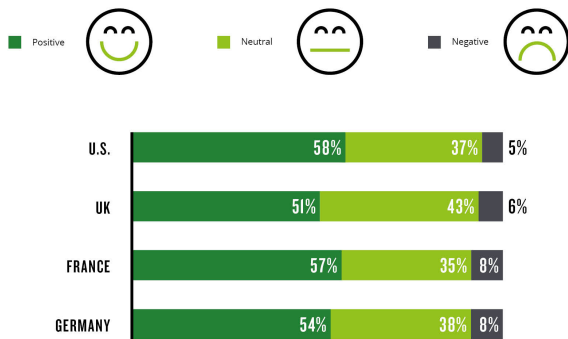
This begs the question:

Even though esports has become widely popular, why aren't more companies beginning to invest?



For most companies, the number one barrier is a lack of understanding with the second being the challenge in targeting esports' demographic. In the history of competitive sports, esports seems widely uncharacteristic. Rather than it being a test of strength and physical endurance, professional gamers rely on problem solving skills, tactical strategy and the ability to complete a set of goals as a team. These discrepancies make it harder for companies to acknowledge the validity of esports being equated with other leagues like the NFL and FIFA—companies fail to see the future scale of esports.

ATTITUDES TOWARDS BRAND INVOLVEMENT IN ESPORTS



Source: The Esports Playbook 2017

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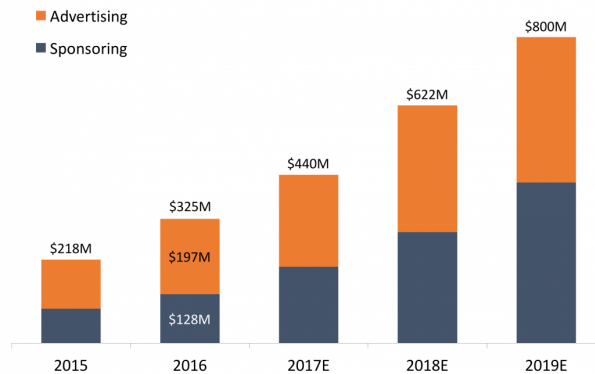
Additionally, the demographic of esports proves challenging to target from advertisements and sponsorships if companies do seek to invest. With players being young, mostly male, tech savvy yet disinterested in traditional advertising methods, the demographic proves difficult to reach. However, despite the largely absent nature of companies from esports, fans have positive attitudes regarding brand involvement with over 50% of fans in the United States, United Kingdom, France and Germany supporting brand integration (Figure

Figure 1

1). Players want their favorite brands to mesh with an industry near and dear to their hearts. In the same way that Adidas goes hand in hand with FIFA, players, fans and developers want the same for esports.

Further, the numbers behind the esports industry do well to provoke company involvement in the industry. According to a research report at BI Intelligence, Goldman Sachs valued esports at \$500 million in 2016 and expects the market will compound annually at 22% over the next three years into a \$1 billion-dollar industry (Intelligence, 2017). Specifically, at BI Intelligence, research suggests that by 2019, brand spending will equal around \$800 million (Figure 2).

Brand Spending On Esports Global, Millions (\$)



*Excludes media broadcasting rights.
Source: Newzoo, BI Estimates 2016

BI INTELLIGENCE

Figure 2

Many reports, just like the one at BI Intelligence, suggest that the economic potential that esports has in the coming years is staggering. Activision Blizzard, responsible for the development of Overwatch, saw an increase in price in 2016 by 47.7% and shows no signs of stopping as the popularity of Overwatch grows and new content is pushed to players via free patches (Dallman, 2017).

Just in North American markets, esports has brought in revenues of \$257 million just in 2017 and is predicted to double by 2020. Approximately 55 million esports enthusiasts in North America produced twice as much revenue than any other region in the world, approximately \$10.36 per fan per year (Warman, 2017).

However, the revenue potential is not isolated in only North American markets. With the addition of China, both markets generated \$362 million in 2017 of global esports revenues (Figure 3).

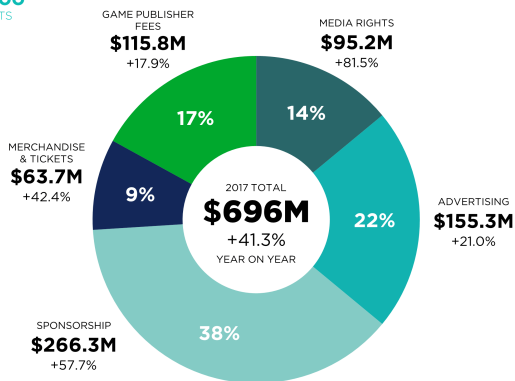


Figure 3



2017 ESPORTS REVENUE STREAMS | GLOBAL

INCLUDING YEAR-ON-YEAR GROWTH | FEATURING ELEAGUE MEDIA RIGHTS | Q1 2017



Newzoo's esports revenue figures always exclude revenues from betting, fantasy leagues, and similar cash-payout concepts, as well as revenues generated within games.
©Newzoo | 2017 Global Esports Market Report

MEDIA RIGHTS: TURNER LICENSES ELEAGUE CONTENT ACROSS THE GLOBE

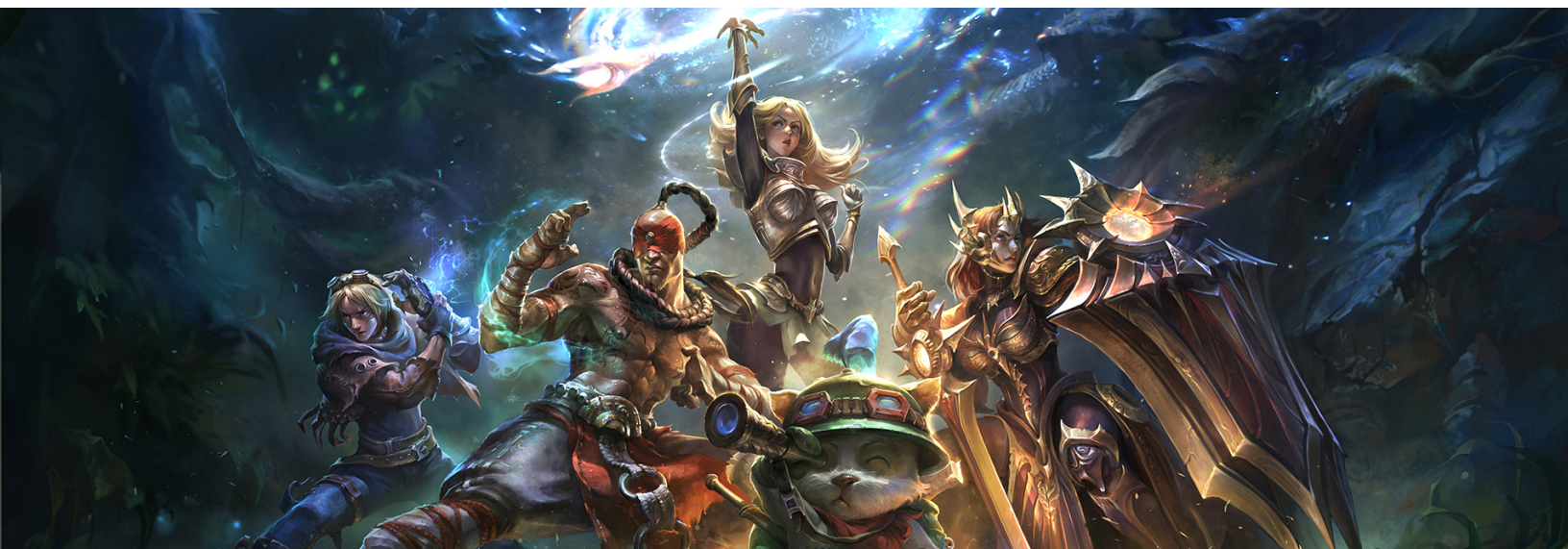


REGION/COUNTRY	BROADCASTER
SE ASIA	ASTRO
SE ASIA	TURNER
LATIN AMERICA	EL SPORTIVO
PAN NORDIC	TV3 / VIASAT
CHINA	HUSHAO
RUSSIA	STARLADDER
NEW ZEALAND	TVNZ
ISRAEL	ZOOM TV
CZECH REPUBLIC	O2
UK	GINX
BALKANS	SPORTSKLUB
POLAND	MTG
MENA	OSN
FRANCE	GROUP AB
FRANCE	O'GAMING
AFRICA	SUPERSPORT
HUNGARY	TV2
TURKEY	SARAM MEDIA
GERMANY	FREAKS4U GAMING
ROMANIA	PROTV/SPORT RP

Opportunities to make return on investment are as varied as they are plenty. Because of this diversity in revenue streams, many different companies have the opportunity to take advantage of esports' growth (Figure 4). It's also worth noting the importance of media rights for streaming.

Because esports is a virtual experience, companies can take advantage of streaming channels to monopolize areas of the industry.

Figure 4



Building the Right Team Composition

For a company hoping to invest in esports, it might seem difficult to breach the immensely segmented industry. While the numbers communicate that revenues will double, audiences will spike, and brand spending will increase, it can prove challenging to harness the knowledge necessary to be profitable. However, the answer lies in how these games operate. Without streaming services, micro-transactions, player engagement and access to venues that encourage competitive scale, online games would not succeed. This is where companies have the opportunity to invest. These opportunities can be segmented based on what aspect of the industry they target. Steps have already been taken to generate revenue but there are areas that see great potential (Figure 5):

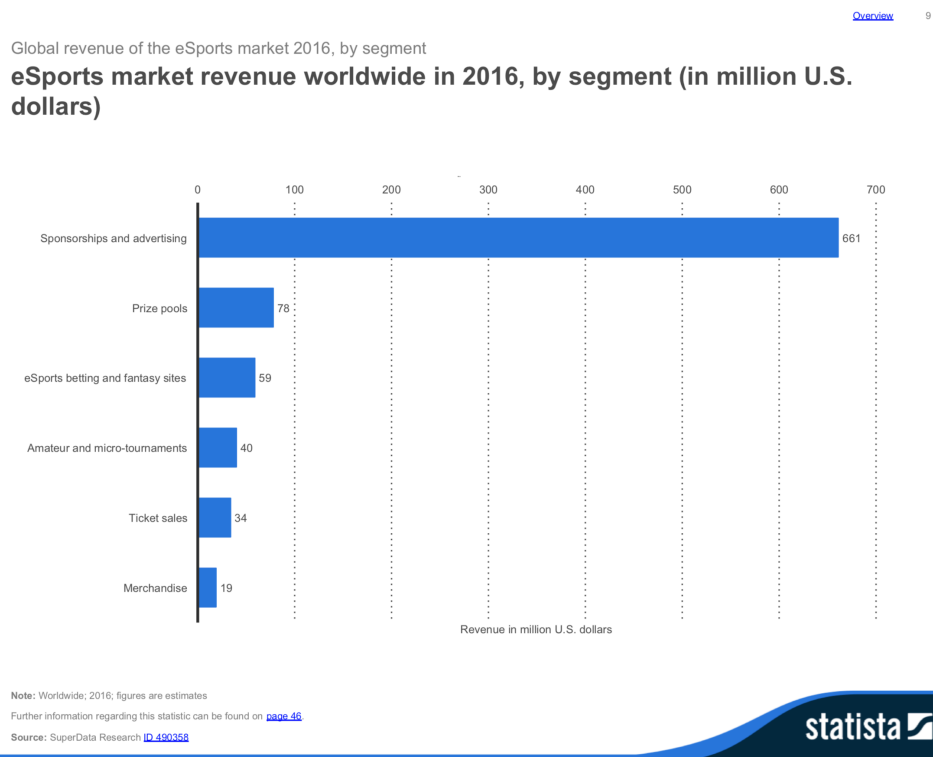


Figure 5



Streaming services: Internet based companies have the opportunity to develop faster, cleaner and cross-platform based streaming services. In 2014, Amazon followed suit when it bought Twitch, the largest streaming service of more than 55 million users for \$970 million (Intelligence, 2017). The most lucrative opportunities for streaming exist in game specific areas. If a company wanted to reach out to Riot Games and create a League of Legends specific service that

works in-game, it would be easier for players to engage with streaming without having to leave League of Legend's **game client**.

Game client: a network that connects an individual player to the main game sever



Micro-transactions: Opportunities for company branding exists in in-game transactions. Already, companies like Sony and Microsoft have teamed up with game developers to release hero skins, icons and other cosmetic items to games like Overwatch and League of Legends in order to boost brand recognition while receiving a percent of profit from developers. Additionally, micro-transactions could serve as entry ways into giveaways brought upon by company partnerships like a trip to tour the headquarters of a game developer, a chance to meet and play with a pro esports player, or even a simple monetary prize.



Player engagement: There are countless numbers of players who have the drive and talent to excel at esports but simply lack the avenue to do so. Companies in already established leagues like the NBA, NFL, MLB and FIFA have the chance to create their own esports teams and maximize revenue potential. Established franchises would offer experience and resources in return for newfound passion and the expectation of a massive return on investment from esports teams. In fact, Robert Kraft, owner of the New England Patriots, just bought a team to compete in the Overwatch league for \$20 million.

"Under the LCS franchise system, everyone will benefit -- players, analysts, coaches, teams, shoutcasters and fans. It feels like the business side of our sport is catching up with the passion." - Steve Arhancet, co-CEO, Team Liquid (League Championship Series team)



Venue access: The need for esports specific venues is high. Big corporations have the chance to establish stadiums and venues that cater directly to the needs of esports competitions. These needs vary from high-speed, durable internet, massive televisions to allow for adequate viewing and the baseline requirement to seat millions. However, there are additional opportunities for brand integration. Clothing companies can take advantage of team specific merchandise, food and drink companies can begin to branch into esports arenas and partnerships can be made to restrict event coverage to specific channels like ESPN or NBC Sports encouraging competition in regard to streaming access rights.





GG

Esports is redefining the professional competitive sporting industry and shows no signs of stopping. With League of Legends, the first mainstream game released in 2009, not even ten years old, the popularity and scale of these games is unparalleled to anything the industry has seen before. Because of the largely revolutionary nature of the esports industry, companies have been hesitant to jump on the bandwagon simply because they are unfamiliar with how esports works. Esports is not something companies should be hesitant about investing in. Companies should know its potential, its reach and its ability to change how the world sees competitive sports. Now, companies have the tools necessary to make smart, tactical decisions, outsmart the competition and storm the nexus to secure a well-deserved victory.

GG: "good game", commonly used in in-game chat communities



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