

Principles by IUCG:

*Forecasting the Future of the
Esports Industry*

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INDUSTRY OVERVIEW

What is the Sports Industry?

Diversified and extremely profitable, the sports industry is one of the most influential entertainment platforms amongst all industries. Many of the most popular sports leagues, including Major League Baseball (MLB) and the National Hockey League (NHL), have been around for more than a century; 149 and 101 years respectively. On the other hand, other sports within the industry are much younger. For example, Major League Soccer (MLS) and Esports only established themselves 25 and 18 years ago respectively. Nearly all sports have one thing in common: they are played within the real world. The emergence of a new dimension, the technological world of Esports, offers a new platform for gameplay within the sports industry. ^{1,2}

What is the Esports Industry?

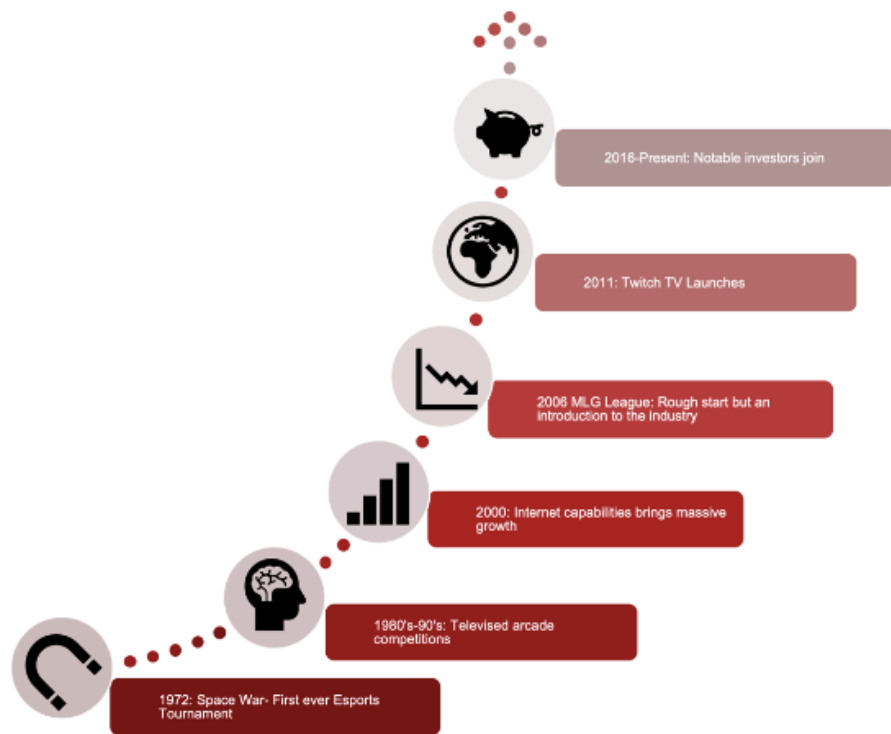
The Esports industry can be traced all the way back to 1972 when 24 Stanford students got together for the first organized playing of the then popular game Space War. This was the first ever recorded Esports tournament with the winner taking home a year subscription to Rolling Stone magazine. In the 1980's-90's, televised arcade competitions began to grow in popularity as competitors competed against each other in a variety of new games. One major turning point in the Esports industry occurred in the early 2000's with the ushering in of more advanced internet capabilities.

Up until this point, to compete with other gamers in a multiplayer session you had to be in a centralized location. This type of gathering was known as a "LAN party", but quickly died out when more advanced internet capabilities became available. Players could now connect with millions of other gamers via an advanced online network. Various new tournaments and organized leagues were born as a result of this global connectivity.

In 2006 the MLG (major league of gaming) was introduced to the American market. Despite overseas success in Asia, the MLG in the United States had initial difficulty gaining traction, as the Esports industry was struggling to find its identity. Mainstream media and the public did not yet recognize Esports as a legitimate force yet. Nevertheless, the installation of MLG was pivotal in breaking into the North American market. In 2011 Twitch.tv launched, changing the Esports industry as we

know it forever. Twitch created a centralized content platform for live streaming. The creation of Twitch and other streaming platforms has greatly contributed to the accessibility of content viewing as virtually anyone with internet connection now has access to viewership.

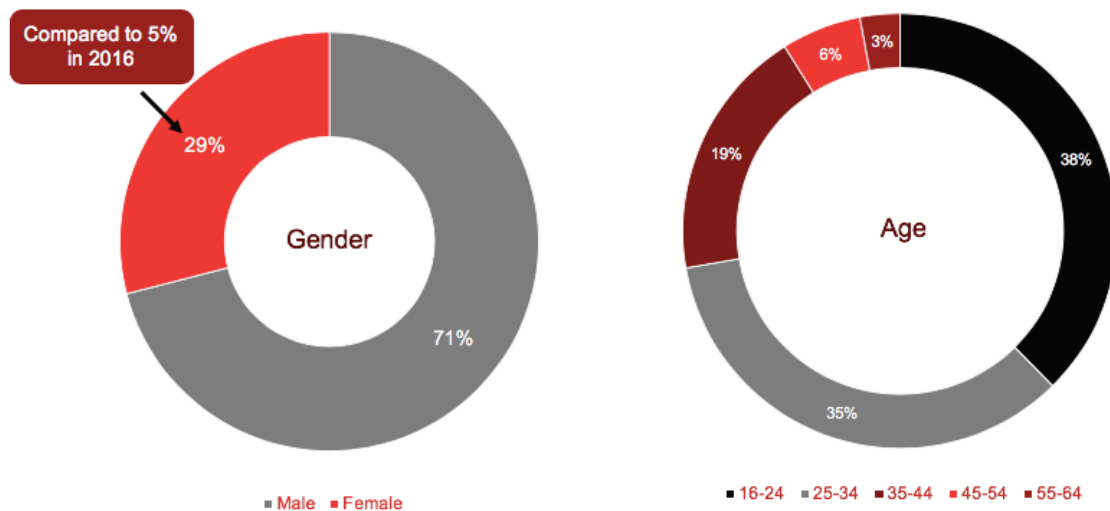
From 2016 to the present, notable investors began to join the industry such as the Kraft Group, Philadelphia 76er's among others, which has been an integral part in reassuring the legitimacy of the industry. While Esports is fairly new in terms of the sports realm itself, it's rapid growth and immense global support suggests that it is certainly here to stay for many years to come.⁹



Market Composition

The Esports Demographic for players can be seen through the gender and age breakdown. Although the Esports industry is still a male dominated area, with 71% of players being male and only 29% being female, the industry continues to make strides towards gender inclusion. Since 2016, female gamers have grown by 24%. This increase is due to the industries changes in marketing towards women and programs like women's only tournaments.¹⁴

For the age breakdown, 38% of players are within the 16-24 year-old age bracket, while each subsequent age bracket decreases in percentage. This is partially due to the fact that the industry is fairly young and has only recently been seen as a viable career opportunity. Focusing in on this younger demographic of viewers, research from Toptal showed that 22% of all male millennials watch Esports making it just as popular as baseball and hockey.¹⁴

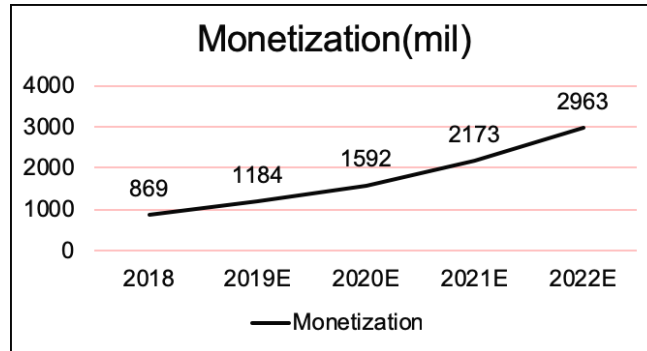


When analyzing the industry, it is important to segment viewership within the market by enthusiasts and occasional viewers. Enthusiasts are categorized as people who view Esports content more than once a month, while occasional viewers watch Esports content less than once a month. The current split in 2018 of enthusiasts to occasional viewers is 43%/57% respectively. By 2021 that split is expected to shift to 45%/55% as 85 million more enthusiasts are expected to join the market. This would bring the total market share to 557 million viewers. In addition to their youth, Esports viewers are also high salary working professionals.¹¹

Of Esports enthusiasts, 43% have an average household income greater than \$75K and 31% have an average household income greater than \$90K. The high purchasing power of the Esports audience coupled with their ability to engage with technology has many major brands drawn to this industry.⁸

Revenue Breakdown

In 2018, the Esports industry had revenues totaling 869 million dollars, with 33% year over year growth. Immense revenue growth is expected in the next few years and by 2022 revenues are projected to be 2.9 billion dollars. The overall Esports industry can be broken down into five distinct revenue streams.¹¹



1. **Sponsors:** Currently, sponsors make up the largest portion of revenue, accounting for 40%. In 2017 there were over 600 sponsors, both endemic and non-endemic, who support both tournaments and individual Esports athletes. This facet of revenue has seen 53% year-over-year growth in 2018 and is expected to continue its bullish trend due to increased visibility for sponsors in this space. ¹¹
2. **Advertising:** Making up 19% of industry revenue, ads are the second largest revenue stream in Esports. Advertisers are drawn to the immense volume and consumption time of digital content. While the year-over-year growth at 24% is slower than some other revenue streams, advertising is expected to keep growing as overall content consumption continues to rise. ¹¹
3. **Media Rights:** At 18% of the Esports industry's revenue, media rights are expected to become the most dominant force of all five revenue streams by 2022. Exclusive media deals and content licenses are expected to drive immense growth in this area. Currently, this is the fastest growing segment at 72% year-on-year growth and is projected to capture 40% of the Esports revenue by 2022. ¹¹
4. **Game Publisher Fees:** Compared to the other three aforementioned revenue streams, this stream has much lower revenue makeup at 13% and significantly less growth at 11% year-on year. ¹¹
5. **Tickets and Merchandise:** This combination accounts for 11% of total revenue with growth of 16% year over year. Similar, to game publisher fees, this area is experiencing slower overall growth, but is still an important stream in the industry. This category will continue to see growth as popularity in global tournaments grows. In 2016, the Staples Center in Los Angeles sold out in an hour for the League of Legends Worlds. ¹¹

Growth Trends and Advancements

Viewership

As mentioned prior, audiences within Esports can be distinguished as enthusiast viewers and occasional viewers. Globally, enthusiast viewership has grown from 143 million viewers to 165 million viewers from 2017 to 2018 (15.28% growth). Occasional viewership has grown from 192 million to 215 million viewers 2017 to 2018 (11.98% growth). This surge in viewership will advance from present day to 2021 in which there is a projected 51.51% growth in enthusiast viewership and a 42.79% rise in occasional viewership. Viewership growth has notably made in impact on the sports industry. In present day United States, 70 million people will watch an Esports final which is larger than the finals viewings of the MLB, NHL, and the National Basketball Association (NBA).⁴

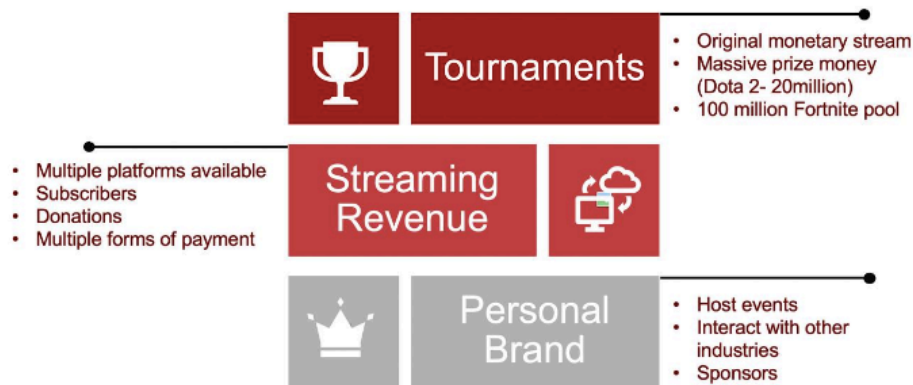
1. Viewership growth has not increased because of a hike in game supply, but rather the increased availabilities of streaming venues. Several industry leaders have acknowledged the potential of Esports and have taken several initiatives to get involved. By increasing the availability to stream Esports across multiple platforms and websites, individuals are much more inclined and likely to watch Esports.³

Amazon	Facebook	Google	Yahoo	Microsoft
Launched eSports championship via Twitch	Broadcasting Activision Blizzard provided live game viewings via Facebook	Launched gaming oriented service: Youtube Gaming	Working on new streaming, new tournaments, sponsorships through ESL (Electronic Sports League)	Xbox 1 offers a new eSports platform named Arena

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Streamers vs. Tournament Players

The emergence of different monetization methods has segmented players into two categories: streamers and tournament players. However, what is unique to the Esports industry is that these two categories are not mutually exclusive. An athlete could be both a streamer and tournament player. The most successful and influential Esports athletes in the world today participate in tournaments and run their own channel on streaming platforms.



In tournament play, athletes have a chance to earn prize money that can reach millions of dollars. This area has seen immense growth in terms of prize pools, which is expected to continue into the future as interest in competitive tournaments increases. For a while, tournaments were the only way for Esports athletes to make money. While prize pools have surpassed the million mark (i.e. Dota 2 International Tournament had a prize pool of \$23 million USD), this is a new development. Small prize pools dominated in the past as interest was minimal. Unless an athlete was at the very top of the industry, it was difficult for individuals to make a career out of gaming.¹⁰

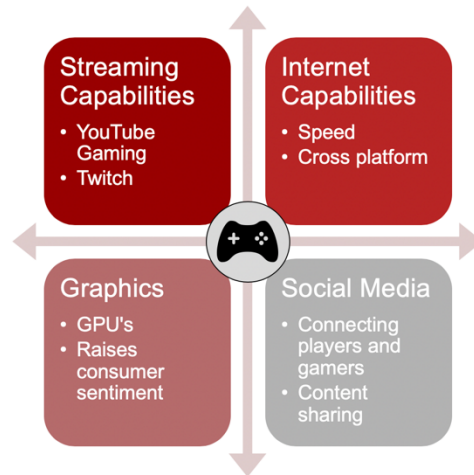
The birth and explosive growth of streaming platforms has created a new way for gamers to monetize their craft. Streamers make money through a variety of different outlets including cuts from subscribers, donations, and *cheers* (virtual congratulations). This new form of content viewing has been extremely successful for Esports athletes. Tyler 'Ninja' Blevins has earned in excess of \$500,000 USD a month through his popular Twitch channel. Outside of these more traditional forms of earning money, Esports athletes can also leverage their personal brand in scoring massive sponsorship deals. The resulting culmination of tournaments, streaming platforms and sponsorships has led to the birth of global Esports mega-stars. These stars have been born either out of their participation in various tournaments or their presence in the streaming space.

Technological Advancements

Technological advancements are major factors in the growth of Esports. Increased technology allows for better internet capabilities, which have affected game downloads, online playing, and competitions. Gamers have begun to opt out of physical disk, instead moving towards downloading their games with these faster internet capabilities. Similarly, online playing has grown with the addition of

multiplayer modes that have allowed gamers to play with friends and others with minimal glitches and lags. Online playing has also spurred competition, and big tournaments that are only available due to the enhanced internet power because it allows multiple gamers to be able to play in one area without disruptions in the game flow.¹⁷

Advancements in graphics have played a major role in growth as well. GPU's (graphic processing units) are responsible for the visuals and smooth gameplay gamers experience. A rapid advancement of these GPU's over the years has raised consumer sentiment and attractiveness of many videogames. Social media has also played a major role in connecting the world of Esports on centralized platforms. Social media enables content sharing, promotions, discussion, and global connectivity. Lastly, streaming capabilities on platforms such as Twitch.tv and YouTube Gaming contributed greatly to growth. Before their arrival, content could not be viewed live. Most content was recorded through an HD-PVR (high definition personal video recorder) and then posted online. Now streamers have the opportunity to show their skills in a real-time, live forum, while also being able to interact with their audience.



Collegiate Esports

Collegiate Esports has seen large growth in the Esports industry with the National Association of Collegiate Esports leading many programs at over 80 different colleges. Some colleges include Georgia State University, Illinois College, Miami University, and Wichita State University. They currently have over 1,500 student-athletes, providing \$9 million in scholarships and aid, and securing over 90% of collegiate Esports programs in the U.S. With analysts predicting that more colleges will be adding Esports programs on campuses, the NACE will be able to grow significantly more by partnering with each program.

With significant scholarships, collegiate Esports programs are attracting many students. The National Association of Collegiate Esports (NACE) plans to develop tools and advancements for collegiate Esports by providing several paths into competitive gaming for the student-athletes, as well as offering huge learning opportunities in the collegiate varsity space. The next area for collegiate Esports growth is through the involvement with NCAA. This would help legitimize the

industry and bring Esports into the sports category. However, this brings into question the role of NCAA regulation in regard to Esports. There are unanswered questions surrounding how college Esports athletes will get paid if other college athletes are denied payment under NCAA rules. These obstacles will pose as disruptions to the partnership, but the NCAA is creating rules and regulations in order to continue the collegiate Esports growth.^{12 16}

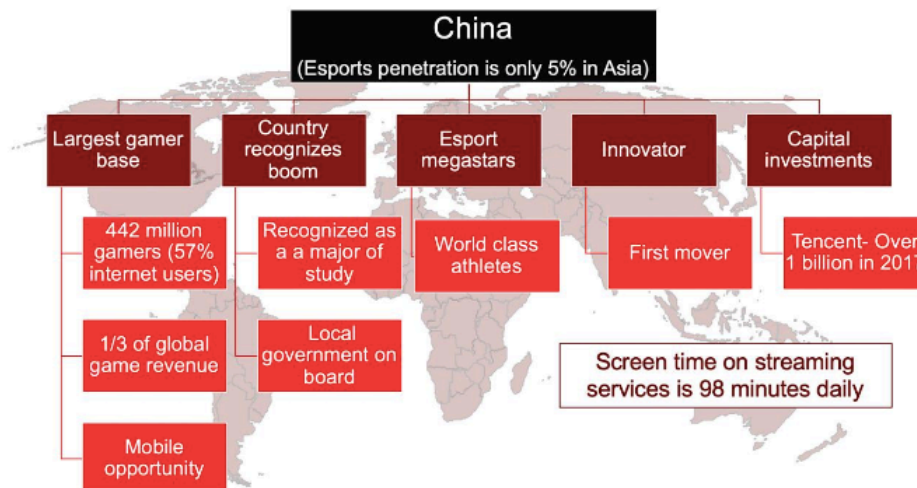
Future Outlook

Global Areas of Focus

Esports impact our world on a global scale. The majority of growth can be refined to three regions: North America, Europe, and Asia. Collectively, these three countries account for 97% of the Esports market. Asia is the largest of those three markets, accounting for nearly half of the global Esports audience. While these regions represent most of the current market, areas such as Latin America, the Middle East and Africa have made great strides to gain a larger share in the market. The growth in these regions is being accelerated by urbanization and the rapid implementation of IT infrastructure.¹¹

China

When drilling down deeper into the global markets, China stands out as one area of focus. China’s Esports market is built upon the largest gamer audience in the world (442 million gamers) which explains why they are responsible for 1/3 of the global game revenue.¹⁰ Factors contributing to China’s growth can be explained by the following points and graphic:



- a. **China recognizes the Esports boom and consumers welcome it.** Esports as an industry is now recognized in many places as a major of study and local governments have been cooperative in bringing more tournament play to their areas. Unlike in Japan, there are no current legislative caps on prize money for athletes. As a result of support, many Esports *megastars* originate from China.
- b. **China is an industry innovator.** Hangzhou is creating an Esports town and just opened the doors to a \$280 million USD complex that covers the same area as 68 football fields. By 2022, another \$2.2 billion USD is expected to be invested in new infrastructure, including Esports parks, hotels, and sports academies.¹⁸
- c. **The Chinese Esports market is seeing large inflows of capital investment.** Chinese gaming giant Tencent just invested over 1 billion dollars in 2017 towards their streaming platforms Huya and Douyu. China recognizes their standing as the world's leader in the Esports industry and will continue to build a global blueprint for other countries to follow for years to come.⁸

Developing Markets

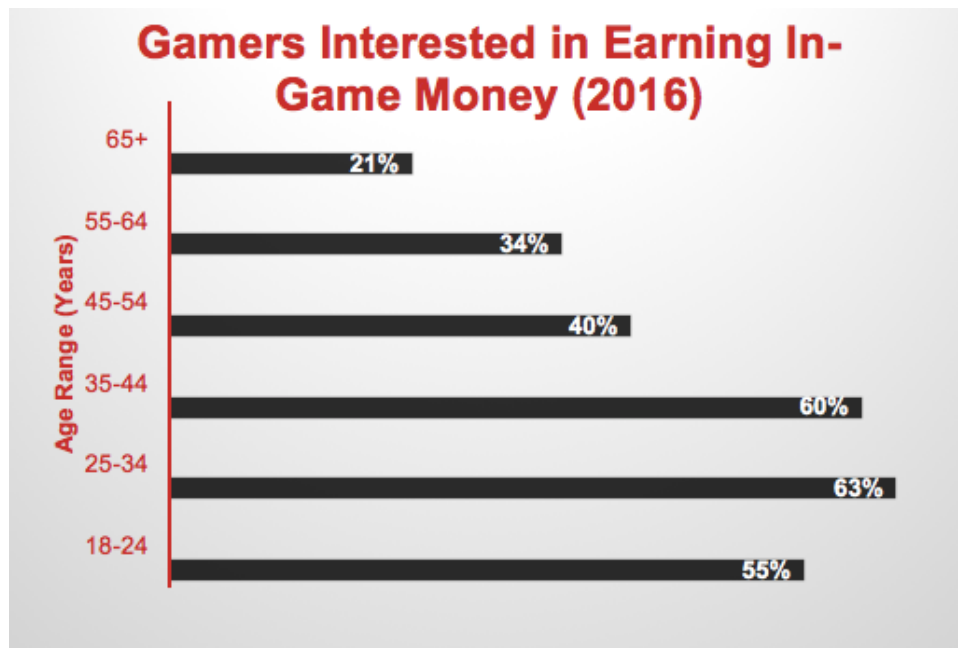


Continuing global growth in untapped areas is integral to the continuing expansion of Esports. Areas such as Latin America, the Middle East and Africa, which make up only three percent of the market, are in prime position to experience explosive growth. Continuing technological advances will contribute to much of the growth as internet capabilities and smartphone penetration in these regions grow. More capital investments also must be directed towards these regions at both the national and

local level to support an Esports initiatives such as tournaments and awareness. Finally, a continuance of lowering the cost of entry to the Esports industry is crucial to long term expansion in these areas. One of the biggest drawdowns about the Esports industry is the high upfront costs to participate. Lowering the cost of games themselves and actual gaming platforms are key to rapid expansion in underdeveloped areas that have lower average household incomes.¹¹

Gambling

There are two types of gambling in the Esports industry: participant gambling and spectator gambling. Those who engage in participant gambling bet on the outcomes of their own games. On the other hand, those who engage in spectator gambling bet on the outcomes of the results and performances of other players. The emergence of international online gambling has posed a challenge to the industry as there are many questions and complicated logistics surrounding taxes and rule creation. However, there has been extreme interest across players and spectators in pursuing Esports gambling. In a 2016 Consumer Tech and Media Research Study conducted by Activate, the following was reported about 4,000 gamers:



Although there is a difference in interest levels amongst different age groups, this is due to demographic differences. Those the younger age brackets grew up with Esports and are therefore more likely to use it in the future than older individuals. In the same survey, it was reported that 66% of participants were interested in placing bets as spectators. The interest in gambling within the Esports industry in both spectator and participant engagement is there, the question now is how can a venue be provided? ⁴

In the future, there will be increased gambling venues. The implementation of fantasy Esports, increased online gambling platforms, increase gambling at national and world tournaments, and the introduction of physical gambling sites across the world are all possibilities. Although the future is variable and unknown, it can be concluded that an increase in gambling venues would bring both pros and cons. Gambling within Esports offers the chance at new audiences who are love the thrill of gambling, further industry engagement, and a further avenue for entertainment within Esports. Gambling in Esports offers the risk of legal challenges as international gambling taxation across the internet forces countries to come to terms with a fair splitting of taxes. Moving forward, Esports will see a vast implementation of gambling venues which will undoubtedly increase industry engagement and success.

Increased Investments

As the Esports industry continues to position itself for future success, the market should see increased investment into Esports franchises as well as the Esports industry as a whole. Currently, the three largest investors are current major sports team owners, celebrities, and corporate backers like Comcast and UMH Holdings. With speculative industry overlap, there has also been investments made by some NBA teams in League of Legend Esports teams. In 2017, Jennifer Lopez invested \$15 million into a team, while in 2016 Alisher Usmanov, through his company UMH Holdings, invested \$100 million into a Virtus.pro, a DOTA 2 team.

With an increase in investments, individual teams will feel more support as communities surrounding players develop. With this will come improved infrastructure for players with more consoles and tools to enhance their performance. The capital from investments will also aid in expanding the industry as a whole as tournaments will be able to increase their prize pools and their technology. With publicly known investors backing teams, the Esports industry will receive much-needed publicity through the media that will increase exposure to target markets. Although the industry is still fairly young, and many investors may not fully understand the Esports space, significant growth in the industry and in investments bodes well for the future of Esports.^{13 15}

Implications of Esports

Health Consequences

Success in Esports comes with many health consequences. Professional and amateur gamers must dedicate hours of their day to enhance and maintain their skills. Global concerns surrounding the health of players have impacted the positive outlook on the growth of the sport. One major concern is a lack of exercise. Esports requires players to sacrifice exercise in order to remain stationary and dedicated to gameplay. Hours stationed at a monitor prevents players from seeking out the proper nutrition, and the use of dangerous energy drinks are substituted for sleep. In some extreme cases, players resort to Adderall as well as other performance enhancing drugs in order to maintain a high level of game play. Success in Esports comes with many health risks, which has turned many individuals away from high success.⁵



Initiatives for Addressing Concerns

Health consequences are a risk factor in Esports; however, there are several initiatives that have been implemented to combat these issues. For example, In Northern Liberties, outside of Philadelphia, Pennsylvania, the N3rd Street Gamers (NSG) Summer Camp is being offered to provide nutrition education, Esports training, and physical exercise to players. Initiatives work to instill best practices in young gamers, so they can lead a healthy lifestyle while succeeding in Esports. On an international scale, the Electronic Sports League has partnered with the World Anti-Doping Agency to create an anti-doping policy to establish a safe and fair playing ground for all its players. Esports will dominate the Sports Industry. It is a necessity that the health consequences of Esports is addressed and properly taken care of. The future success of Esports is tremendous, hopefully the health of the players can be adequately considered too.^{6,7}

Conclusion

The Future of Esports

The fate of Esports within the sports industry is uncertain. However, one thing is known: Esports will continue to see substantial growth in the short and medium term. In order for Esports to take off and compete with the more mature sports leagues in the industry, a few things be seen. First, gambling venues will need to increase to meet subsequent viewer demand. With this will come a variety of cliental as well as more incentives for Esports engagement. Next, the global growth of the Esports will allow the market to increase in already popular countries, as well as in developing countries. Finally, Esports will see an increase in investments as the potential for growth becomes clearer to investors. Given these three predictions for growth, Esports is positioned to be a top competitor within the sports industry.

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