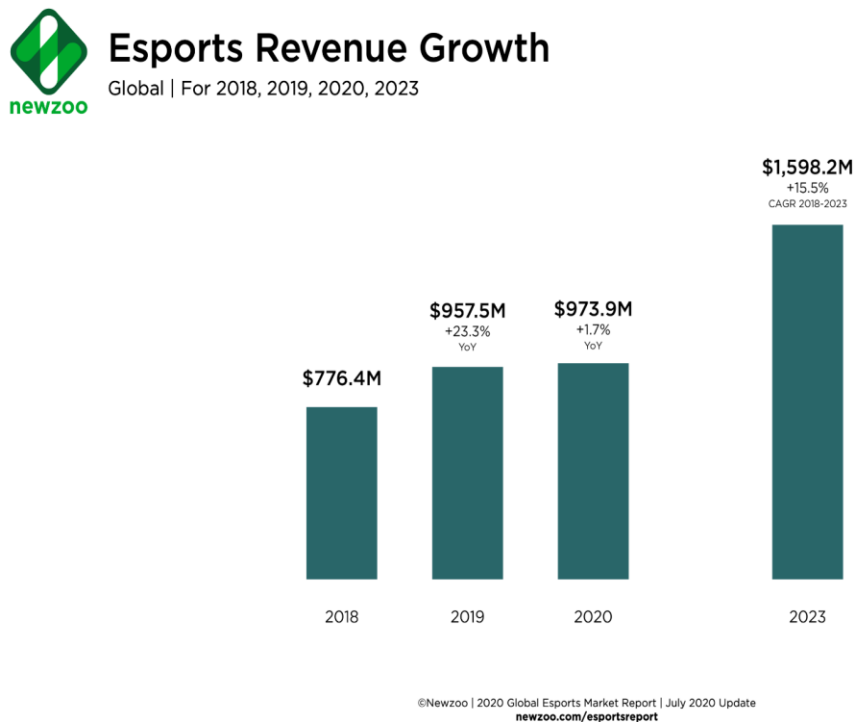


Module 3. Esports business model: a powerful market

The esports market was valued at USD 776.4 million in 2018, and is expected to reach USD 1,598.2 million by 2023!

Figure 1: The value of the esports market



From Newzoo Adjusts 2020 Esports Forecast Slightly: The Coronavirus' Short-Term Impact on the Esports Market, in Newzoo, 2020, retrieved on April 6, 2022, from <https://newzoo.com/insights/articles/newzoo-coronavirus-impact-on-the-esports-market-business-revenues/>

The growth of the business of esports in the following years can only be possible if all actors continue to build popularity and awareness, and therefore, draw in more new actors. It is mainly through visibility of significant video games and esports events that the market will be able to attract more revenues, especially via sponsors and media.

In this module, we will see how the global market of esports works mainly through the business models of its publishers and teams, the two main actors of esports, also the two who are, by far, making the biggest revenue.

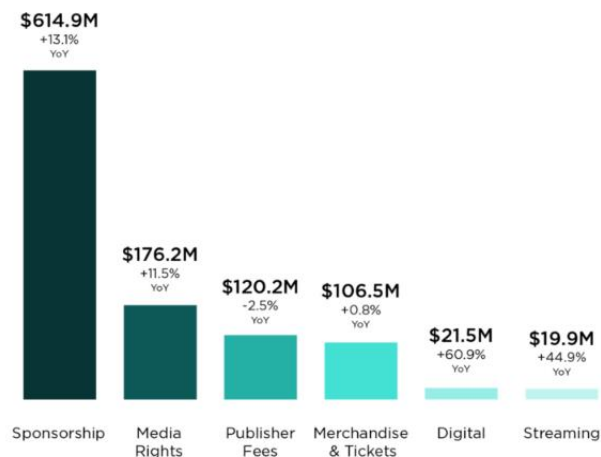


Figure 2: Esports revenue streams



2020 Esports Revenue Streams | Global

Including Year-on-Year Growth



\$1.1Bn

2020 TOTAL ESPORTS REVENUES
+10.6% YOY

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 | 2020 Global Esports Market Report | April 2020 Update

From Newzoo Adjusts 2020 Esports Forecast Slightly: The Coronavirus' Short-Term Impact on the Esports Market, in Newzoo, 2020, retrieved on April 6, 2022, from <https://newzoo.com/insights/articles/newzoo-coronavirus-impact-on-the-esports-market-business-revenues/>

The esports market has been affected by the COVID-19 outbreak since numerous offline events have been postponed or cancelled during all of 2020 (and 2021):

- Sponsorship deals remain the main source of revenue (in-game items are not mentioned in this report as a specific source of revenue) even if it has been impacted by COVID-19.
- Newzoo revised their 2020 forecast for merchandise and ticket sales, which went downward from \$121.7 million to \$106.5 million.
- Publishers tried to transition to online-only tournaments, and the global quarantine has led to higher viewership! The forecast for team streaming revenues increased from \$18.2 million to \$19.9 million in 2020, and is expected to go from \$31.6 million to \$34.4 million in 2023.
- As time goes by, publishers' fees are increasing, due to more and more demand coming from tournament organizers (the esports business is attractive).

I. The Publishers



The publishers are the ones who finance the design, development, marketing, and distribution of the esports-oriented video games. They take a major risk at first, spending a lot of money through equity, investors/business angels and devote years to create a video game without any guarantee that it will be a success.

Once the game and its esports events are running smoothly, the publishers need more and more money to finance the obligations of maintaining constant promotional activities, updating the game through “patches” or “DLC” (downloadable content), and building new events to animate the game community and its appeal.

Publishers finance their esports activities by multiple sources of income:

- game related revenue like video game sales (when charged), cosmetic or other items sales, battle passes (bundle paid by a player to access to content while they are playing ranked games),
- esports (or global) sponsorship revenues,
- advertisements, in particular on platforms like Twitch or YouTube,
- other media rights,
- money from investors, fundraising for instance, and
- merchandising, ticketing.

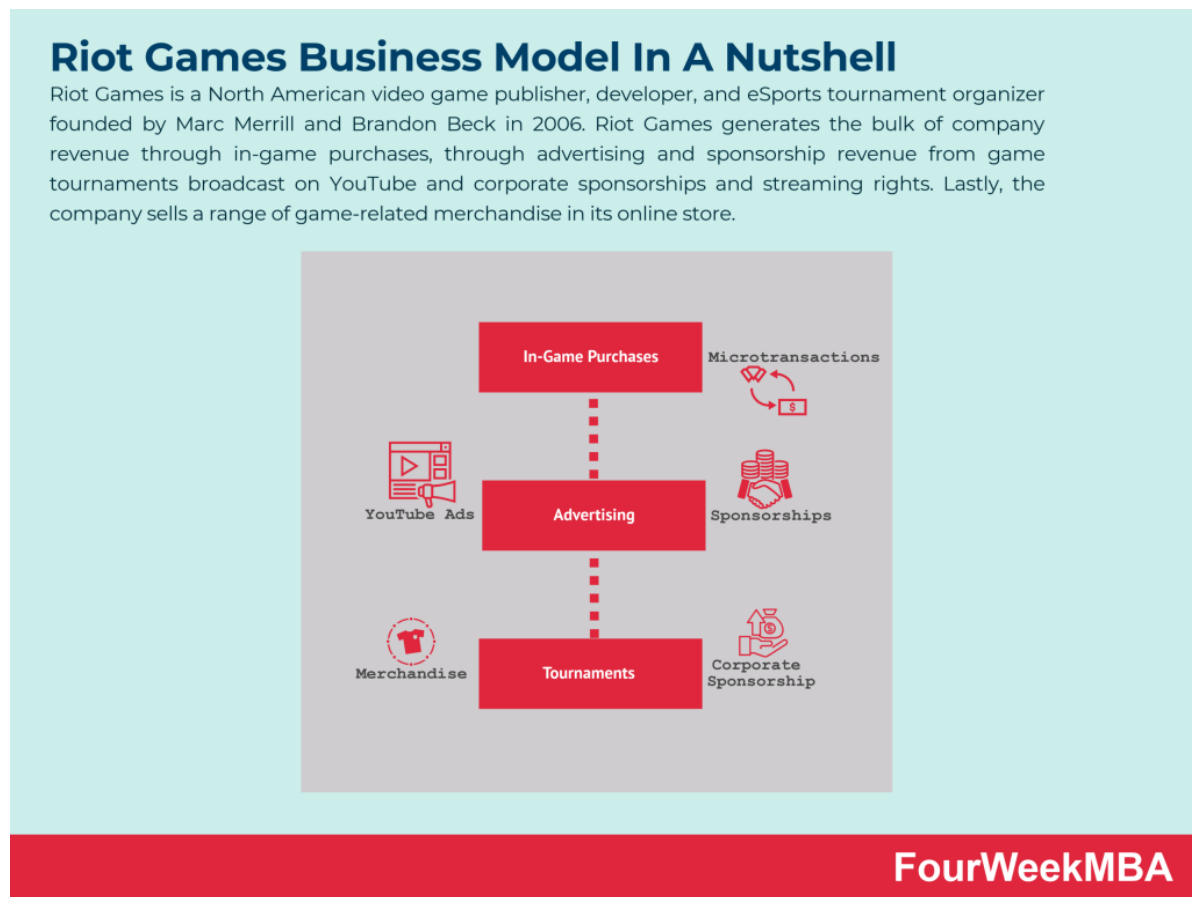
However, this does not mean that esports is profitable!

The information about the profitability of esports is highly confidential, and it is very difficult to measure exactly how much revenue a publisher can make from their esports activities.

Riot Games business model confirmed:



Figure 3: Riot Games business model



From How Does Riot Games Make Money? The Riot Games Business Model In A Nutshell, in FourWeekMBA, 2021, retrieved on April 6, 2022, from <https://fourweekmba.com/riot-games-business-model/>

1. Game and in-game items sales

Some publishers have decided to charge players to play their games. This business model has been criticized a lot by the esports community. If we want to promote access to esports, this access has to be easy and for everyone, “from zero to hero”. More generally, in 2022, less and fewer gamers are willing to pay to play video games, especially for online multiplayer video games because there is a lot of competition considering the available number of games.

Yet, players still want the content to be constantly fresh, updated from time to time, and they are always waiting for new characters, new weapons, new maps, new events.

Ubisoft’s “Tom Clancy - Rainbow Six: Siege” was launched in 2015, and is currently charged around €35. When a video game is charged, it is actually tricky to switch and decide to make it free. Part of the community of players is requesting for the game to be



given for free, but a bigger part is afraid that a free access would bring more toxicity and cheaters.

In order to balance that issue, publishers who charge for the access are organizing specific events to promote the game by offering “free weekends”. It is a good way to convince new players to buy the game.

If we compare different business models, we can see that, in fact, the better option (and the most successful) is to provide a free-to-play access including a lot of paid cosmetics and items (like Fortnite, LOL, Valorant, etc.).

Most of the revenue source to finance esports activities of the publishers come from the sales of in-game items, including esports-specific items sales: microtransactions (or “MTX”).

With the success of the microtransactions, among which we can find “bundles”, “battle pass” and time-limited items, the publishers started to create more and more in-game items and products dedicated to esports and standalone events.

Figure 4: Road to SI 2020



[Untitled image of Road to SI 2020 theme]. (2020). Retrieved on April 6, 2022, from <https://www.google.com.ar/url?sa=i&url=https%3A%2F%2Fwww.heaven32.com%2Fvideojuegos%2Fel-primer-pase-de-batalla-completo-de-rainbow-six-siege-esta-en-vivo-junto-con-un-nuevo-mapa-en-el-evento-limitado-road-to-si%2F&psig=A0vVaw0-4q-Mfhz6MOyMKLtqCJpV&ust=1649351157326000&source=images&cd=vfe&ved=0CAoQjR>



Ubisoft's most important competition on Rainbow Six: Siege is the "Six Invitational" ("SI") which takes place in Montreal, Quebec every year. The SI is a one-week competitive event with the world's top 16 professional teams fighting for the champion title.

Ubisoft has launched the "Road to SI", a specific event prelude to the Six Invitational, made to provide to the viewers over a month of specific content and items (new theme, new map, cosmetics and battle pass). Players can progress to the ranks by playing Rainbow Six: Siege and completing challenges to earn Battle Points and get some in-game items as rewards. Once the event is over, players can keep their exclusive rewards that will never be available again.

"Road to SI" and its content provide to Ubisoft an additional source of revenue split between the costs of the organization of esports events and the distribution to the participating teams through the prize pool.

2. Partnerships and Sponsorships

Partnerships and sponsorship revenues are almost as important as in-game items revenues in terms of volume. Like in traditional sports, publishers will not even be able to organize major esports events without this source of revenue, especially offline which are expensive (from 3 to 15 million euros and more).

Publishers can contact partners and sponsors for the promotion of the video game in general, but nowadays, they are financing more specific segments of esports events (a final event for instance) or an entire esports league. By selling a circuit of events, the publishers can ensure the operations of its events for the entire year or even for 2 to 3 years (the average duration of a sponsorship deal is 2 to 3 years).

Most of the sponsors were, at first, "endemic" sponsors meaning brands that are already connected to gaming or esports activities: they sell peripherals, computers, monitors, or any hardware used by gamers.

Figure 5: Intel Corporation



Intel Corporation. (Producer). [Logo].
<https://www.intel.la/content/www/xl/es/homepage.html>

Intel is with no doubt one of the biggest sponsor or partner, due to the amount of money it committed to advertising and the number of events it has participated in. “They started by providing free hardware for LAN (local area network) tournaments twenty years ago.

Intel was the first to create and invest in esports tournaments with its name: The Intel Extreme Masters has been running since 2006” (Esports Results, 2021) (organized by ESL) featuring the world’s best gamers in Counter-Strike: Global Offensive, StarCraft® II and other esport titles.

“Intel was also one of the first to offer university students esports scholarships, which was seen as a major contribution by the gamers over the years” (Esports Results, 2021).

Intel provided major funding for multiple tournaments, worldwide and for years. “In 2018, they signed a three-year contract with ESL for \$100 million!! They also agreed to provide upgraded computer and networking hardware to live stadium events in 2021” (Esports Results, 2021).

In 2019, Riot has announced a partnership “with Louis Vuitton for the League of Legends’ World Championship in Paris, France. The French luxury designer brand created a unique case for the League of Legends World Championship trophy” (Li, 2019).

Figure 6: Road to SI 2020



[Untitled image of Road to SI 2020 theme]. (2019). Retrieved on April 6, 2022, from <https://www.google.com/url?sa=i&url=https%3A%2F%2Fwww.revistagq.com%2Fla->



the revenue with the teams (franchise model like NBA or NFL). It is also a big message sent to the community and outside the community, showing that esports events are interesting non-endemic brands (brands not specialized in video games or esports) and even prestigious brands.

Figure 8: Red Bull Gaming



Red Bull Gaming (Producer). (2022). [Logo]. <https://www.redbull.com/int-en/tags/esports>

Energy drink brand Red Bull is a massive sponsor in esports, investing in esports teams, and official and grassroots tournaments. They are basically everywhere. They claim on their website that “Red Bull opportunities are endless, ranging from visibility to 1-to-1 contact, from communication activities to content building before, during and after the event” (Red Bull, n.d.)

Though, some brands and in particular energy drinks and “junk food” such as Burger King raise the question of protecting the health and well-being of the gamers, in particular minors (see module 4).

Every year, dozens of new brands are joining esports, committing to its future.

Figure 9: Mastercard's Thank the Fans



[Untitled image of Mastercard's Thank the Fans]. (2020). Retrieved on April 6, 2022, from <https://www.mastercard.com/news/press/2020/october/mastercard-to-thank-the-fans-during-league-of-legends-esports-10th-anniversary-celebration/>

In 2020, Mastercard said:

it will “Thank the Fans” of League of Legends Esports to celebrate the 10th anniversary of Worlds.

Coinciding with the World Championship in Shanghai, where the annually anticipated Opening Ceremony presented by Mastercard will precede the competition, and in addition to a broadcast spot debuting in English and Mandarin, Mastercard will debut a series of Digital Priceless Experiences featuring pro players, streamers and on-air talent, a special capsule collection created in partnership with Riot Games and CLOAK, and the limited release of in-game digital goods known as Riot Points (RP). The campaign is themed to the anniversary, celebrating the esports and showing appreciation for the global fans’ contribution to its success. (Newsroom, 2020, para. 1)

Nowadays, Mastercard and VISA are two big sponsors in esports and have recruited dedicated employees to commit more and more to the future of esports.

But some partners and sponsors are criticized because of the message sent to the players and the image they give of the video game industry.

It is the case for gambling companies who have been funding esports activities for years, but are now conveying a dark image because of the opacity of their activities and the risk of playing with money (addiction and match fixing), especially for the players who are minors.

Figure 10: Betway esports



Betway esports (Producer). (2022). [Logo]. <https://www.betway.lat/casa-esports>

Since 2016, “Betway quickly became one of the most supportive sponsors of esports in Europe” (Esports Results, 2021). They first did partnerships with ESL on CS:GO tournaments and then started to contact esports teams to sponsor the professional players for millions of euros.

“Betway created a new brand, **Betway esports**, that features interviews and player profiles on its YouTube page. They also added an entire esport betting category to their main betting website” (Esports Results, 2021).

Most of the publishers are still not opening the doors to gambling companies for the reasons mentioned above, but considering the money at stake and the democratization of such companies, we can expect to see more and more of these brands joining esports events (and maybe more guidelines and regulation).

For a few years, a new wave of brands has also arrived: cryptocurrency platforms or tools.

Figure 11: Bitstamp Gaming



Bitstamp Gaming. (Producer). (2022). [Logo]. <https://www.bitstamp.net/gaming/>

We can see more and more cryptocurrency brands joining esports in the last couple of years. Despite the opacity of these activities (especially when the company is not officially registered), crypto-brands are bringing a lot of money on the table of esports and the vision that esports and crypto are two new worlds that look alike as for ambition and power of attractiveness.

3. Advertisement and media rights

Advertisements and media rights sales are the most fast-growing source of revenue for the publishers. Compared to traditional sports, the publishers have the monopoly of the media rights on the events of their games because of the intellectual property they own. So, they have a huge interest in developing the sales of their rights.

Therefore, they have to make an important effort to give their events visibility on the internet, but also on television.

In 2020 alone, there was a 70% increase in the number of esports viewers in the US. The audience is projected to grow at 7.7% annually to pass the half-billion mark in 2022 and reach 577.2 million in 2024 (Financial News Media, 2021).

Esports is now rivalling viewership numbers for traditional spectator sports.

According to Newzoo's market research, Twitch gamers watched during the month of April 2020:

- 157 million hours of League of Legends;
- 111 million hours of Call of Duty;

- 70 million hours of Counter Strike: GO;
- 49.8 million hours of Dota 2;
- 32 million hours of FIFA 21; and
- 24.2 million hours of Tom Clancy's Rainbow Six: Siege. (Gamegnome, 2021)

Figure 12: League of Legends Worlds 2020 in China - no public audience (COVID-19)

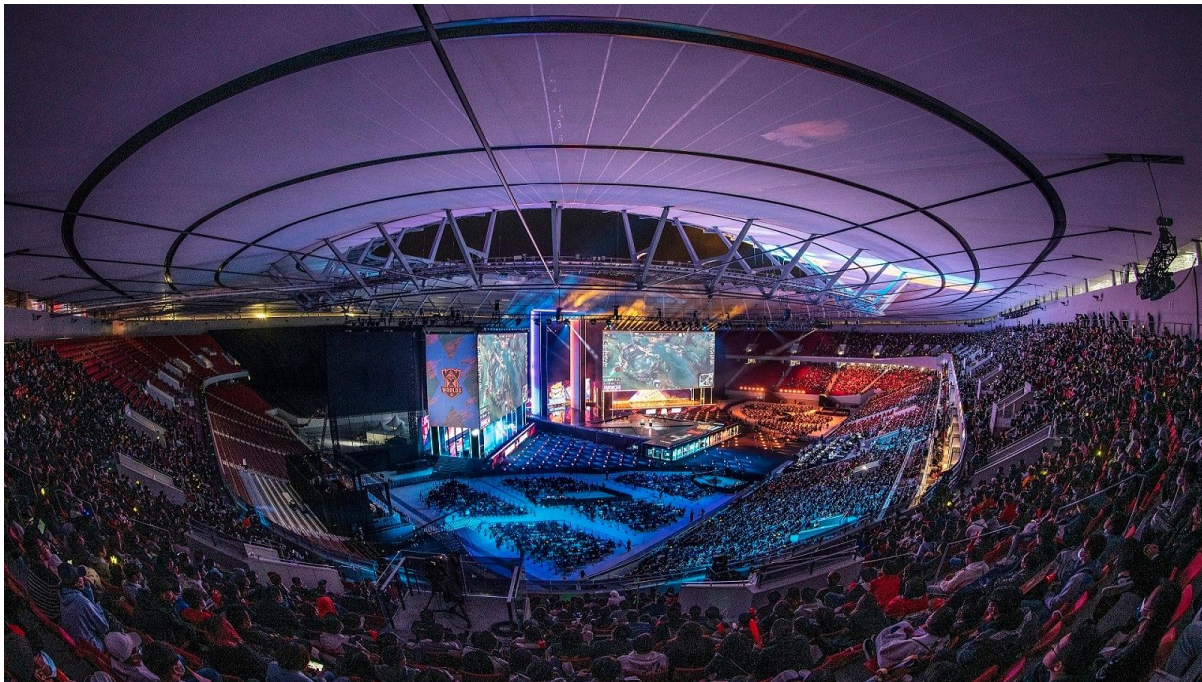


From 'League of Legends' World Championship moves from China to Europe due to COVID-19, by K. Holt, in *Engadget*, 2021, retrieved on April 6, 2022, from <https://www.engadget.com/league-of-legends-world-championship-china-europe-riot-games-144340998.html>

In order to give the best visibility possible and impress the public, the publishers are creating real live shows for their tournaments in stadiums or big venues (usually hosting concerts of sports matches), including music/artistic shows, 3D animations and show matches.

In 2020, League of Legends world championship drew 45 million online viewers. That is about the size of the television audience for the six games combined of the NBA finals.

Figure 13: League of Legends Worlds 2021 - Iceland (audience is back)



[Untitled image of League of Legends Worlds 2021]. (n. d.). Retrieved on April 12, 2022, from https://wreg.com/wp-content/uploads/sites/18/2021/05/NexstarThumbnail_051721_WorldsArena__1680x945.jpg?resize=1280,720

The 2021 League of Legends World Championship Final, which took place live in Reykjavik, Iceland, was watched by a record **73.86 million** peak concurrent viewers.

Regarding the internet, having a Twitch or YouTube channel is key for the publishers because it is a window to the world that they can sell to sponsors. They can negotiate the positioning of the sponsor's logo on the streaming overlays (logo after each round, between matches, etc.) or the exclusivity of such activations. They can also negotiate some advertisements during breaks that can generate additional revenues.

Publishers can also sell to the platform itself rights for the exclusivity of the broadcast of a competition.

Figure 14: Overwatch League on YouTube



[Untitled image of the Overwatch League on YouTube]. (2020). Retrieved on April 6, 2022, from https://www.google.com.ar/url?sa=i&url=https%3A%2F%2Fgamerstyle.com.mx%2F2020%2F01%2F24%2F1a-overwatch-league-ahora-por-youtube%2F&psig=A0vVaw0C0818bJlfbUicVAzDS-vE&ust=1649353719465000&source=images&cd=vfe&ved=0CAoQjRxqFwoTCLDrhcf_YCFQAAAAAdAAAAABAD

For example, between 2017 and 2019, Twitch bought the broadcast diffusion of the Overwatch League for \$90m. In 2019, YouTube Live bought it for \$160m (which also included the broadcast right for the Call of Duty League).

This announcement was massively shared within the community, bringing some excitement as well as frustration because, in application of this new deal, Blizzard started to forbid streams of Overwatch tournaments (even the smallest ones) through any other platform than YouTube Live.

The publishers can also decide to create new ways of experiencing live events directly from home. Some of them propose to the viewers an exclusive experience with a Viewing pass or a “Viewer pass”.

Figure 15: Viewing pass on CS:GO for the PGL Major in 2021



[Untitled image of the Viewing pass on CS:GO for the PGL Major in 2021]. (2020). Retrieved on April 6, 2022, from https://www.google.com.ar/url?sa=i&url=https%3A%2F%2Fwww.esportsbets.com%2Fbonus%2Fpgl-major-stockholm-bonus%2F&psig=AOvVaw1SzBb5Jz7X9_0muHMkLOBf&ust=1649354016292000&source=images&cd=vfe&ved=0CAoQjRxqFwoTC0jV4dSAgPcCFQAAAAAdAAAAABAI

Viewing pass is a new way to watch esports on web platforms. The viewing pass can include features that allow the viewer to access exclusive points of views. Imagine you are watching a football game on TV and you can decide to push a button on your remote control and watch the game from the perspective of your favourite player, like if he was wearing a GoPro camera on his head.

This is the idea behind the viewing pass on video games: you can decide to see the game through the eyes of a player, or you can even sometimes access different cameras in the game to see other perspectives of the game.

The viewing pass or “viewers pass” also includes other exclusive gifts such as in-game items, medals and stickers or other challenges associated with rewards.

The viewing pass has been implemented by ESL for Counter-Strike GO and Riot for League of Legends. We do not know exactly how much revenue it is generating, considering that the viewing pass usually costs between €10 and €20 per month for a viewer.

What about TV rights?



Riot Games and Activision Blizzard are making big investments to negotiate TV rights deals.

You can find esports events broadcasted on TV from time to time, but it is still quite rare and often reserved to esports dedicated TV channels.

Figure 16: Microsoft and Activision Blizzard



From *How the Xbox - Activision Blizzard Deal Compares to Other Recent Buyouts*, by C. Swan, in *GameRant*, 2022, retrieved on April 6, 2022, from <https://gamerant.com/xbox-activision-blizzard-acquisition-comparison-gaming-industry-buyouts/>

Earlier this year, Microsoft invested \$69 billion in the acquisition of Activision Blizzard! It will raise the stakes, especially regarding television access, as esports content is a clear growth engine for gaming.

We have to remember that the gamer is used to watching esports on the computer or smartphone and not necessarily on a TV. It will be a big challenge for the publishers to negotiate more and more TV deals that could bring a larger public (the hardcore gamers are not necessarily viewers and vice versa).

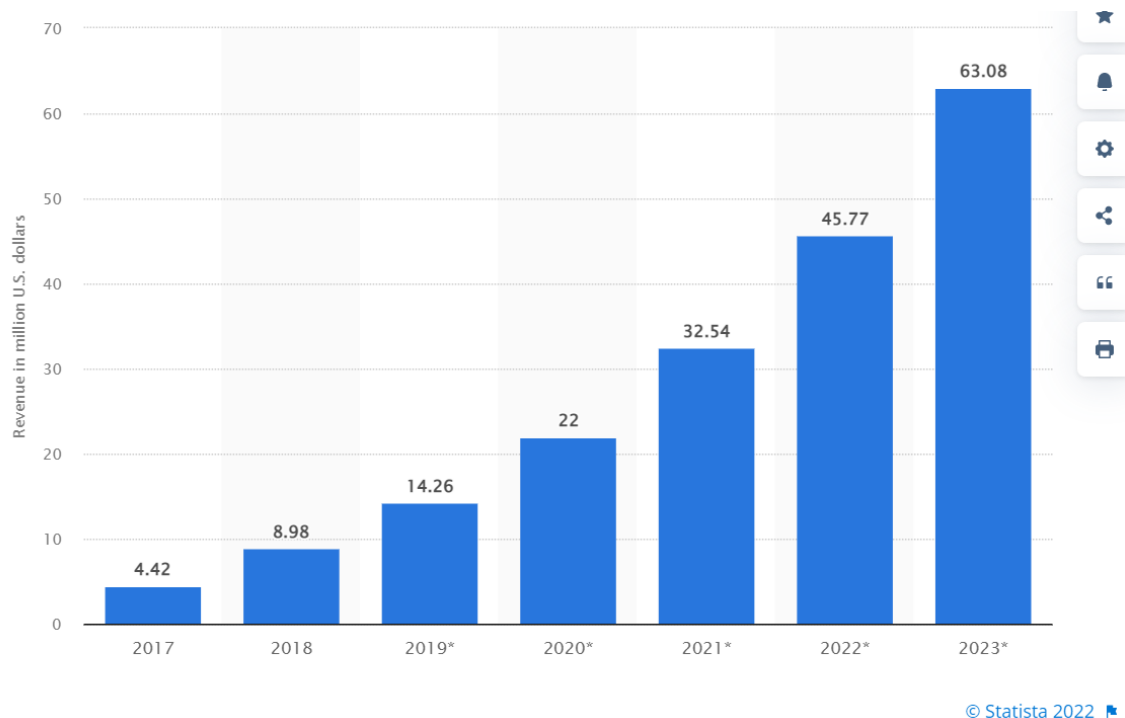
But for most FPS-like games, it is still very difficult to sell media rights to television because of the weapon and blood aspects of the game! TV broadcasting of such FPS can only be possible on late night slots or on very specific channels (esports TV channels) which strongly reduce the opportunities and so the interest and the amounts behind the media rights.

4. Ticketing & Merchandising

The esports market has boomed in recent years with more and more viewers tuning in to watch their favourite games being played by some of the best gamers

in the world. The biggest tournaments are often played from stadiums full of fans. According to a 2019 report, revenue from ticket sales, concessions, and merchandise in the esports market is expected to increase from 4.42 million U.S. dollars in 2017 to over 63 million U.S. dollars in 2023. (Statista, 2022)

Figure 17: esports revenue



From eSports revenue through ticket sales, concessions, and merchandise worldwide from 2017 to 2023, in *Statista*, 2022, retrieved on April 6, 2022, from <https://www.statista.com/statistics/1129579/esports-revenue-tickets-merchandise/#:~:text=According%20to%20a%202019%20report,million%20U.S.%20dollars%20in%202023.>

Ticketing is a significant part when it comes to offline events, as it will partially cover the costs of the venue rental and stage construction. The publishers are trying to make the ticketing more and more important with, like in sports, different categories of seats or accesses.

They also propose some package that could include not only the entry but also the access to discounts for the merch, exclusive products, or a “meet-and-greet” with the professional players of talents.

In some cases, they can also decide to create a specific “esports tour” ticket including travel and accommodation, in partnership with local agencies.

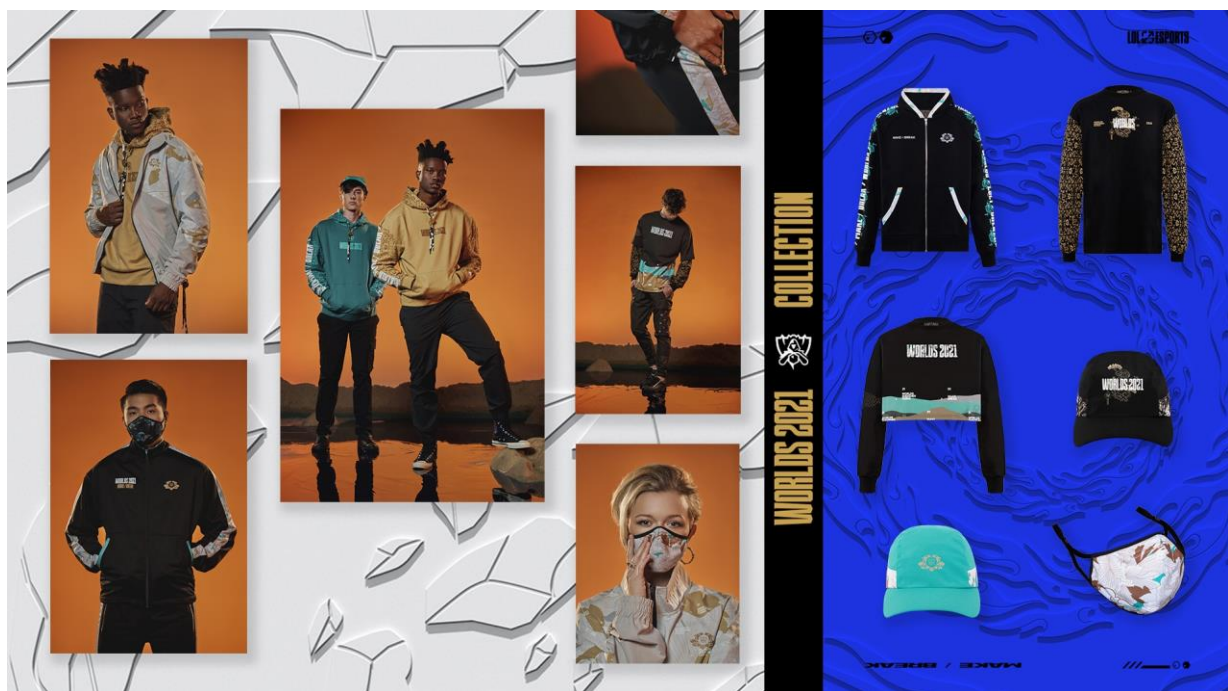


For the ticketing, esports publishers are inspired a lot by traditional sports.

Regarding the merchandising, it is growing more and more important over the years as the publishers are building a strong storytelling and “lore” around their game. It is crucial to have a strong identity and make the characters or the game environment attractive and original to be able to replicate its specificities through merchandising.

Most of the publishers have online merch websites where you can find mostly t-shirts, hoodies and collectibles. The range of products is updated, sometimes every month. They also can decide to create a specific edition related to a defined event. For instance, Riot Games is creating for the League of Legends World Championship-specific products every year.

Figure 18: League of Legends Worlds apparel edition 2021



[Untitled image of League of Legends Worlds apparel edition 2021]. (2021). Retrieved on April 6, 2022, from <https://www.google.com.ar/url?sa=i&url=https%3A%2F%2Fwww.oneesports.gg%2Fleague-of-legends%2Fworlds-merch-2021-proceeds-charity%2F&psig=A0vVaw3CLsCBe3-aK6sylvjdjscWw&ust=1649355365708000&source=images&cd=vfe&ved=0CAoQjRxqFwoTCJj8ltiFgPcCFQAAAAAdAAAAABAD>

The merchandising is very costly as it requires designers, manufacturers and logistic partners as well as a lot of communication. The publishers have to fully commit to merch in the following years, considering that this is also a showcase to promote the game outside the game and its events.

5. Publisher fee and entry fee

What is the publisher fee?

The publisher fee only applies when a publisher is licensing to a third-party organizer the right to operate tournaments on its game. It is basically a fee collected by the publisher, owner of the game's intellectual property rights. The publisher is making an agreement with a tournament organizer to authorize the competition.

Compared to traditional sports, the video game is owned by the publisher, whereas everyone can organize a football tournament without authorization (except for certain limits imposed by official federations).

In most of the cases, the publisher will not charge any fee to organizers, especially at the beginning of the relationship and the creation of a circuit of tournaments such as "grassroots". It has to be a win-win situation where the organizer is developing and promoting the game through esports activities and is allowed to make some profit out of it. The publisher will charge a fee when the circuit has been developed and is starting to generate revenues.

The fee can be then a percentage based on the gross or net revenue, or based on the time the game is played. The publisher can take 5 to 10% percent of the gross or decide to apply a fixed fee.

This is mostly the case for ESL on Counter-Strike Global Offensive, where the publisher (Valve) is not really involved in the circuit of tournaments, but has authorized ESL to create and run such tournaments for years. For Valve, the situation is comfortable as they do not have to take care of esports at all, they barely have a look at what is happening on the scene, jumping in conversation only when it comes to protecting their reputation and image. Valve is often criticized by the community for its lack of commitment to the esports scene of its owned game.

What about an entry fee to participate in tournaments?

Some esports circuits are running through the system of "franchise" like in traditional sports.

It is the case for League of Legends (Riot Games) or Overwatch League (Blizzard). Of course, this was not the case at the start of the game, and the publishers had to wait for the esports activities to grow before implementing the franchise. The franchise system can only be possible with a stable esports scene and a strong popularity and potential.

For instance, Blizzard launched in 2016 the Overwatch League, regrouping 20 city-based professional teams who have been selected and have paid a ticket to participate. Like in traditional sports, their participation is locked and there is no relegation or promotion (closed league). The franchise format was described as scandalous when the community heard that the entry fee was around 20 million dollars in 2016-2017 (estimated to 35-60 million dollars in 2018-2019). The counterpart of the ticket is, like in sports, a revenue share on sponsorship deals and streaming and media rights.

Figure 19: Blizzard Arena – 2017



From Behind the Scenes at Blizzard Arena: Inside the Home of Overwatch League, the Hottest Property in Esports, by J Dachman, in *Sports Video Group News*, 2018, retrieved on April 6, 2022, from <https://www.sportsvideo.org/2018/03/07/behind-the-scenes-at-blizzard-arena-inside-the-home-of-overwatch-league-the-hottest-property-in-esports/>

Blizzard also invested in a dedicated esports arena to broadcast the matches. With high-quality standards of production, a stadium of 550 seats and 3 record studios. The access cost was 20 to 30 dollars for a regular match and 160 dollars for the Grand Final.

The future of the Blizzard Arena is very uncertain. Rumours are saying that the arena will close by 2023, because of the endured costs and following the COVID-19 situation. The Overwatch League franchised teams will probably rent their own arenas and theatres for their matches. "The Los Angeles Valiant" already has the Microsoft Theatre at LA Live in downtown Los Angeles.

6. Publishers' costs

The source of revenue has to be balanced with the costs the publishers have to bear to support their esports activities. Costs are confidential information, so it is very difficult to know exactly how much a publisher can invest in esports (Ashton, 2018).

The costs are counted by tens of millions and can be split as follows:

- employees working in esports, dedicated or not (league operations, social media, assets creation, esports event manager, etc.),
- game development, called the “dev team” dedicated to raise the game and its content,
- the promotional activities,
- the tournament operations,
- the merchandising, and
- the broadcast production (including tech and talents), etc.

As an illustration, we will see below a concrete example of revenues and expenses related to the organization of an official tournament.

On the tournament operator’s side, their revenues and costs are the following:

- If “white label”, meaning the publisher is ordering services to organize the tournament, and the tournament is under the name of the publisher. Here, the budget for the services operated by the tournament operator is fully paid by the publisher.
- If “licence”, meaning the publisher is granting an authorization for the tournament company to organize tournaments, the tournament organizer has to bear all costs (including the publisher fee if any) such are league operations, administration of the tournament, player management, broadcast production, promotion, and assets, etc.
- if “co-production” (rare), the publisher and the tournament organizer will share all revenues (especially sponsors, media rights, merchandising and ticketing) and split the costs.

II. The professional esports teams



Teams and organizations have multiple ways to get funds: sponsorship, advertisements, cash prizes, etc. One of the best ways for a company to raise a lot of money quickly is through fundraising.

1. Fundraising

It can be difficult for a team to earn money only thanks to the results of their teams (prize pool) or the distribution of sponsoring and media revenues (in a franchise system).

Fundraising is one of the possibilities to develop the team, and the amount of money raised by a team can be counted in millions.

In 2020, faZe Clan, one of the biggest esports entities, raised 40 million and the years after, 100 thieves, another big esports company raised 60 million. Of course, this fund is for the entire group and not only for a team. However, it will help a company to create new ways to earn money (merchandising, content creation, etc.) to make the company more profitable.

Figure 20: VSPN (Versus Programming Network)



VSPN (Versus Programming Network), From <https://esportz.in/100m-series-b-funding-round-lead-by-tencent-holdings-into-vspn>

One of the biggest fundraising in esports was made by VSPN (Versus Programming Network), an esports provider in Asia in 2020 when they raised 100 million thanks to Tencent.

Especially in leagues made with a franchise format, funds are crucial and fundraising can help to pay the entry ticket to the league.

2. Sponsors and partners

Like the publishers, teams can find sponsors to provide money. It is a must for all professional organizations since sponsorship revenues are covering most of the expenses.

To fund all the costs, a team has multiple choices. Just like in traditional sport, the teams need to find sponsors to finance their activity.

Figure 21: Marvel



Marvel. (Producer). (2022). [Logo]. <https://www.marvel.com/>

Marvel (owned by Disney) teamed up in 2019 with the esports professional team "Team Liquid" as a strategic partner. This exclusive partnership included Marvel jerseys, morphing the players into Avengers.

Figure 22: Logo of the U.S. Air Force



[Untitled image of logo of the U.S. Air Force]. (n. d.). Retrieved on April 12, 2022, from https://www.newtacoma.com/fh_live/15500/15569/images/obituaries/6815570_fbs.jpg

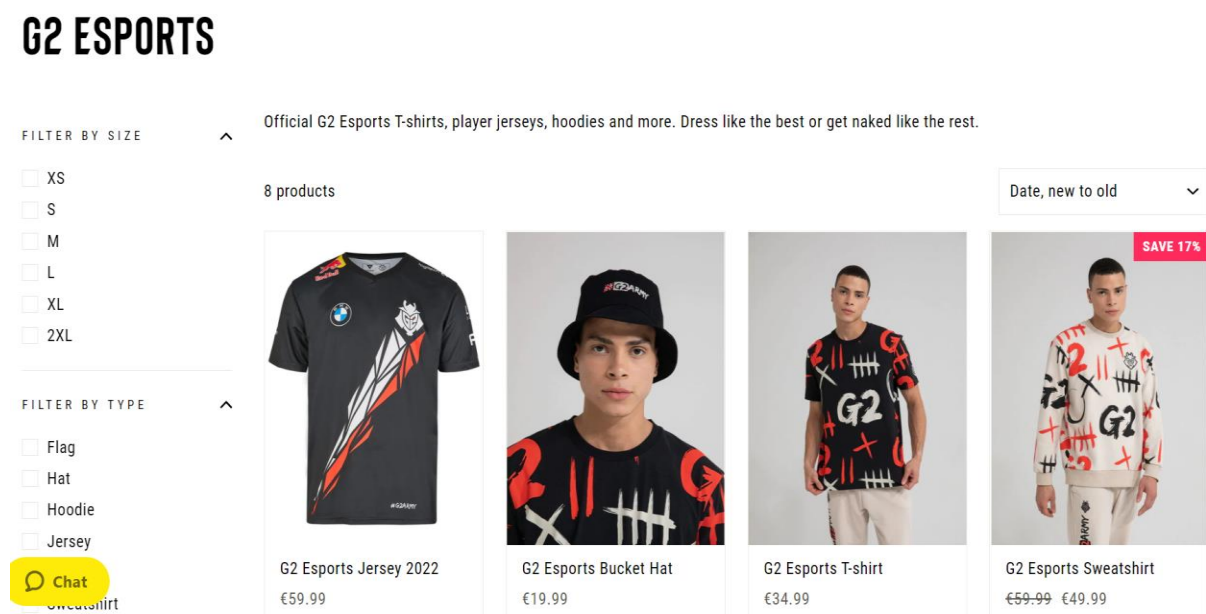
More controversial, in 2018, “the U.S. Air Force invested in esports by sponsoring the American esports professional team Cloud9 representing the players on the video game Counter-Strike Global Offensive. The players had to wear the logo of the U.S. Air Force” (Nicholson, 2021) on their jersey and participate in the creation of content for fans. Major Ross McKnight, chief of the national events branch at the Air Force, stated that the partnership would help Cloud9 fans realize “some of the ways in which they can make a difference in the U.S. Air Force.” This deal has been criticized because of targeting kids to convince them to join the army.

A team can get €500,000 a year thanks to sponsorship (according to the League of Legends player Richard Well). However, it is also important to notice that most Esports organizations are “multi-gaming”. That is to say, the team has several rosters on different games. Most of the time, the funding obtained by sponsorship is not only for one game, but for all games. So, the previous figures do not necessarily represent what the League of Legends team gets from sponsorship, as they will only get a part of it.

3. Advertisements, content and merchandising

Some teams develop merchandising just like clubs in sports, but this solution is not so common in the esports industry yet (compared to the total number of teams).

Figure 23: G2 Esports merch website



G2 Esports merch website. [online image]. Retrieved on April 6, 2022, from <https://shop.eslgaming.com/collections/g2esports> screenshot by author.

Teams are trying to develop exclusive partnerships with celebrities or famous designers. Creating content to promote the brand and products is major in terms of revenues and popularity. For instance, in March 2022, FaZe Clan signed the hip-hop star Snoop Dogg,

who joined the board of directors and will work on creating crazy content, influencer programs for gamers and unique merchandising.

Figure 24: Snoop Dogg and Faze Clan



[Untitled image of Snoop Dogg and Faze Clan]. (n.d.). Retrieved on April 4, 2022, from https://www.google.com.ar/url?sa=i&url=http%3A%2F%2Fwww.sohu.com%2Fa%2F528071705_258858&psig=A0vVaw0ZLhzd-lYn4XjtQ-4Qo_Oz&ust=1649356231538000&source=images&cd=vfe&ved=OCAoQjRxqFwoTCLCJm_WIgPcCFQAAAAAdAAAAABAD

Regarding streaming revenues, most esports organizations have their own stream channel through YouTube or Twitch platforms. If it is not a way to earn a lot of money (according to a twitch leak in 2021, less than 2000 Twitch channels earn more than €1500 per month worldwide), streaming is used to promote the brand of the team.

The costs borne by a professional team are in particular the following:

- Players' salaries: if we consider multiple games, the amount can be huge. For instance, publishers are now trying to avoid creating 6 versus 6 players like Overwatch did, in order to maintain a better stability of the roster and fewer costs.
- The staff around the players: managers, coaches, analysts, mental coaches, a cook.
- Promotion and communication, creation of content to promote the brand, especially on social media and regularly. For instance, the organization of "media days" dedicated to shoot pictures and take videos of the players.

- Merchandising: design, manufacturing, website and logistics.
- Organization of “boot camps” i.e. training sessions for the players in a “gaming house” and in intense conditions. It can cost a lot of money depending on the duration and volume of boot camps (travel & accommodation, rental of the gaming house, food, etc.)
- Equipment for the players, hardware and apparel (often covered by sponsors).
- Administrative costs: contracts, visa, covid protocol, lawyers, taxes, etc.

III. Fictional example: Global competition costs and revenues

The better way to understand how esports business work would be to take an example of the organization of a global competition. Let us take a fictional example of a publisher organizing a world cup on its most popular game, let us call it “Best Game”, regrouping a dozen of professional teams among which the team “Best Team”. Best Game will take the services of an expert Tournament Operator they are used to working with, let us call it “Best Op”.

1. Best Game costs and revenues

The following are completely fictional and based on the assumption of an international offline event, with audience, during a week.

Forecasted costs:

- Selecting and booking the venue and ensuring security measures: €350,000
- Creation and installation of the stage and player experience on stage: €250,000
- Venue decoration: €50,000
- Players and staff accommodation and transportation (hotels, transportation for the whole duration of the event): €80,000
- Catering (food & beverages for all players and staff): €80,000
- Covid protocol including daily tests, and safety measures in the arena: €50,000
- Visa assistance for the players and staff: €20,000
- Administration of the competition (admins) operating by Best Op: €80,000
- Merchandising, creating time-limited apparel: €40,000

- Promotion, advertisement, creation of the assets (including sponsor's logo) and social media: €150,000
- Broadcast production team (staff, cameras, screens, broadcast in several languages, etc.) and talents (managed by Best OP): €450,000
- Software & API used for the tournament (score displayed on screens, lights) : €50,000
- Content production, media day with the teams to take photos and shoot videos: €25,000
- Publisher staff on-site: €50,000
- Prize pool: €350,000
- Design and creation of the trophy: €30,000
- Dev team to create specific in-game content: €50,000
- Human resources to welcome audience and ensure security on-site: €50,000

Total: €2,205,000.

Revenues:

- Sponsors: €400,000
- Revenue from in-game items sales (esports): €800,000
- Merchandising €10,000 and ticketing (4000 seats €20): €80,000.

Total: €1,280,000

Balance: - €925,000

In this example, we see that the organization of a global competition is an investment for the publisher. It is fictional, but not far from the reality of most of the publishers, who are actually not profitable when it comes to esports events!

2. Best Team costs and revenues

About the potential costs:

- Bootcamp to prepare the global event: €40,000
- Promotion of their participation: €25,000

- Apparel and other branded material: €10,000
- Players and staff salaries based on a 6-month contract: €350,000

They will spend money, around €425,000 in our example for one offline event and without any guarantee that they can win part of the prize pool! Teams are also investing a lot, working in the long term to increase the visibility of the brand, performance of the rosters and in conclusion attractiveness of the house for future investors and sponsors.

In real life example: professional team joining the European League of Legends franchise

Figure 25: Richard “Rich” Well



[Untitled image of Richard Well]. (n. d.). Retrieved on April 12, 2022, from https://static1.millennium.org/articles/0/34/54/80/@/1151343-rich-h2k-article_image_d-2.jpg

Richard “Rich” Well, who founded H2K, a former LEC (the European Championship on League of Legends) gave an insight of the economy of an LEC team in 2019. Please note that all the following figures and calculations are based on his experience as a CEO of H2K and his assumptions. However, it gave a good understanding of the Riot esports ecosystem as a team.

- **The cost of a team**

First, one of the main costs of a team is its roster. To compete in LEC, the requirement is to have 10 players: 5 starting rosters and 5 substitutes. According to Rich, the salary of a player can go from **€60,000 a year** for a rookie who plays in an academic league (and is considered as a substitute for the LEC) to **€250,000 a year** for a starting LEC player. However, depending on the team reputation and the player’s fame, these salaries can be lower or higher.

That is to say, a team pays around **€1,670,000 a year** just for its players without the tax an employer has to pay. For H2C, the tax was around **€200,000 per year** for ten players.

Then, a team is not only players, but also a staff. If there is always a coach in a professional team, the staff's costs can increase if a team decides to hire more people, such as:

- Analysts: people who review team's matches to point out the mistakes or opponents' matches and identify weaknesses to exploit;
- Psychologists to help players in mental management;
- Chef/nutritionist in order to provide healthy meals to players.

Of course, the salary of these people depends on their reputation, skills, etc. If we keep the example of H2K, the staff's cost was around **€300,000** per year, with more than a third only dedicated to the salary of the LEC coach.

Finally, esports matches are not played in a stadium and a team does not have its own (for instance, the Camp Nou for FC Barcelona). LEC matches are played in the LEC studios, Riot's facility based in Berlin, Germany. As a consequence, most of the LEC teams rent a gaming house next to it. It is difficult to describe a classic" gaming house, as the equipment and services provided by the structure can vary a lot from one team to another. However, regardless of the design of a Gaming House, the main goal will be to offer all the necessary things for a player to focus on his or her performance. Basically, the Gaming House will be the place where teams will spend most of their time. In 2019, the average cost of H2K Gaming House was **€5000 per month**.

Additional costs can be considered, such as food or legal obligation.

To conclude, the final estimation of the cost of an LEC team is around **€2,300,000 a year**. If this figure is only an estimation based on the experience of one team, it gives a good picture of the costs of an LEC team.

- **The financing of a team in LEC**

Besides funding with partnerships, there is a deal between Riot Games and LEC's teams to share the revenue from the league. This system of franchise is called "LRP".

The "LRP" system is simple: all LEC teams and Riot share part of their revenue in a common pot:

- Riot:
 - 100% of League Media Distribution & Sponsorships

- 50% of League Domestic Digital Goods Profits (products and services that are completely delivered using information technology: in-game items, in-game rewards, etc.)
- Teams:
 - 50% of League Domestic Digital Goods Profits
 - 50% of LOL-related revenues

Then the communal fund is redistributed between the publisher, teams and players like:

- Riot: 32.5%
- Players: 35%
- teams: 32.5%

Once again, it is difficult to know how much the “LRP” system represents for a team. In 2019, when LRP was launched, Riot Games guaranteed that at least, the communal pot will have €5,000,000 and that, at the end, teams will receive around **€330,300** at least according to the sharing percentage shown before.

The last source of revenues is Prize Money if a team wins a competition. On League of Legends, an LEC team can win Prize Money at each split (2 per year) and during the worlds if they qualify. A team that wins the split earns **€80,000**, but only a part of it will go to the organization (around 20%). If a team reaches the Top 8 of the World, it will earn between 4% (if they finish 5th to 8th) to 37.5% (if they win) of the total prize pool from the worlds.

If we get back again to the example of H2K, the cost of the team was **€2,300,000 a year**.

And according to Rich, the revenue for the teams thanks to LRP and merchandising (so without sponsorship) was around **€762,000**.

If the team did not qualify for the worlds, they would lose **€1,500,000** per year!

Now let us imagine that H2K won the Worlds in 2019, the prize pool was **€2,230,000**. They will earn **€836,500** (37.5% of the prize pool) which means that they would still lose money at the end.

So currently, neither the publishers or the esports organizations are making money profit. Finally, some sources of revenues were not considered by Rich as it is very specific to some team, such as fundraising or advertisements.

However, it is still important to remember that costs depend on multiple factors and so the loss can be lower. In addition, esports is growing year after year and in particular Riot



is gaining more money from sponsorship deals each year (and so more revenue from the LRP for organizations).

Esports is an industry of passionate people, who, like in sports, are living their dreams every day, with no limitation, and who believe that the market will be profitable in a few years. More and more actors understood that there might be a potential to become profitable at some point and are already there to invest, as pioneers, to boost its growth and make their dreams come true.



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