

# Economic Sources behind the Esports Industry

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## ABSTRACT

In recent years, with the development of computers, internet, media and live streaming. The industry of eSports had merged. This article will discuss the reasons for this and analyse eSports from an economic point of view, looking at different time periods or different sources of economic activity such as sponsorship. Using data from the internet, it will be combined and summarised to find the logical relationships between the different figures. In previous decades, the main sources of income for eSports were private investment and subsidies from game organisers. However, in 21st century, after building up over the previous decades, audience numbers, industry interest, and fans purchasing power all rose to a certain level, thus attracting many big name or private sponsors for sponsorship and, due to the growth of media, media rights fees also increased rapidly. The main source of income for the eSports industry then becomes sponsorship fees and media rights fees. Therefore, under these factors, e-sports successfully developed into one of the most important industries in the current industry.

**Keywords:** Esports, Sponsorship fees, media fees, purchasing power of fans, number of viewers.

## 1. INTRODUCTION

Nowadays, along with the development of technology and media, new industries are increasingly coming into the limelight. One of the most representative and successful industries is eSports. In this article, the authors will analyse the economic sources behind the eSports industry at different times. The authors will discuss the revenue side of esports over the last few decades, as well as revenue side analysis. E-sports is the transformation of online gaming into a spectator sport. The history of eSports dates back to 1952, when computer scientist Alexander Shafto Douglas developed "Tic-Tac-Toe" or "Triple Win"[8]. It was the first competitive computer game, except that it could only be played against a computer. But then in 1958, Tennis for Two came along[8], enabling player-versus-player competition, and this is known to many as the birth of eSports[4]. E-sports then went through the arcade era and, thanks to innovations in computer information technology, began to shift to digital computer games from the late 1990s. Today, eSports is an industry worth over \$1 billion and with a global audience of 474 million. According to Newzoo, the future of eSports is expected to grow to more than \$1.64 billion in 2024[1]. By 2024, they believe that the global live gaming audience will reach 830.3 million[1]. Although the eSports industry is

already huge in numerical terms, there are still many vacancies, especially in terms of jobs. In countries and leagues where eSports is well established, top teams and players are staffed with masseurs, nutritionists and analysts of all kinds, similar to traditional sports. To return to the topic, eSports grew at a rapid pace from its humble beginnings as a new, blanket industry to the present, and the economic, capital sources and growth it has relied on in each period would be a good example for other new and languishing traditional industries.

## 2. THE HISTORY OF E-SPORTS

### 2.1.E-sports in the last century

eSport could not even be considered as an industry before the year 2000. However, eSports leagues already existed at the time. Like the first video game tournament held in 1980, 10,000 players took part in the game Space Invaders[8]. But such similar tournaments were basically all funded by the teams that created the games, so the returns were often negative as well. The organisers only wanted to give their game some publicity. But the Space Invaders competition did serve its purpose, as the game's competition was unprecedented, generating a lot of media attention and making Space Invaders become a household name. Over the next few years, numerous companies, especially Twin Galaxies[8], began to

promote the game in various prestigious newspapers, make more and more people aware of video games. Amongst those attracted were some of the wealthy who later became the first sponsors and investors. Meanwhile, in the 1990s, the development of the internet brought competitive online gaming to the forefront of gaming history, and as the internet grew, it became increasingly mainstream. In 1997, the red annihilation contest for Earthquake Games was awarded to a Ferrari [16]. The Ferrari was sponsored by a private owner. However, in 1998 StarCraft [8] was launched, which started the era of different kinds of games, and from then on, more and more different people started to watch and follow strategy games. And different games began to attract a mushrooming number of attention from different people. In general, the various developments and promotions that preceded the 21st century laid the foundations for the attention and sponsorship that would later grow on a much larger scale.

## 2.2.E-sports in the first decade of the 21st century

The turn of the century saw the first era of rapid growth for eSports in this era. Firstly, the first World eSports Games (WCG)[8] was held in Seoul, Korea in 2000 due to the rapid growth of gaming in Korea. Then came the MLG[9] in 2002 and the first 'Electronic Sports World Cup' (ESWC) in Poitiers, France, in 2003 [8]. All of these mean that eSports can truly be described as an industry[12], with a formal organisation that organises regular events. The fact that these tournaments have a regular and stable prize fund which made it possible for more people to choose to become professional e-sports players. In 2006, FUN Technologies held the Global Web Games Championship with a prize pool of \$1 million[13]. At the time, e-sports tournaments of this size were no longer a minority. However, sponsorship fees, which are expected to become a major source of revenue for eSports in the future, also experience a breakthrough. In 2005, the "Cyberathlete Professional League (CPL) World Tour became the first multi-million

dollar sponsorship event[8]. From this time onwards, the revenue from running a race was no longer negative. The costs were slowly being offset by other sources of finance, from being borne entirely by the organisers. In 2006, Halo 2 on US television became the first televised eSports event [17]. It was not a coincidence that this was the first time that a gaming organisation saw a business opportunity in this area. When the Korea Esports Association (KeSPA) was founded in 2000[8], it focused on the possibility of marketing esports on television. Since then, the "income" from broadcasting rights has grown as the popularity of the sport has increased. In short, in the years from the start of the 2000s, eSports had become more professional and gradually expanded its revenue streams in various ways. This laid the foundations for further development.

## 3. SOURCES OF INCOME IN RECENT YEARS

After decades of paving the way, the eSports industry was like a warehouse full of oil barrels. In 2011, however, the launch of Twitch[17] managed to ignite the barrel of "viewers", and the explosion that followed was unstoppable. Twitch was the first platform to be established for live gaming, and it managed to multiply its audience several times over.

Once upon a time, when Major League Baseball first launched in the early 2000s, its pennant races attracted a few dozen fans. And by 2016, the legendary championship league sold out 15,000 seats at the Staples Center in Los Angeles in a single hour[19]. Yet this phenomenon had no long been a rarity at the time, and was the case for almost every famous esports league. Thus, it became a guaranteed source of revenue for tickets, and even one of the important economic sources. In 2017 and 2019, it reached revenues of 0.63 billion and 103 million respectively[15]. Meanwhile, according to Newzoo, the number of eSports viewers has increased significantly from 2016 - both occasional viewers and enthusiasts[9].

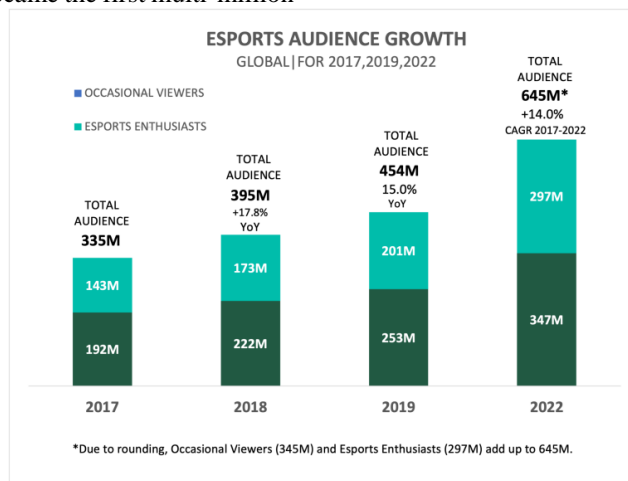
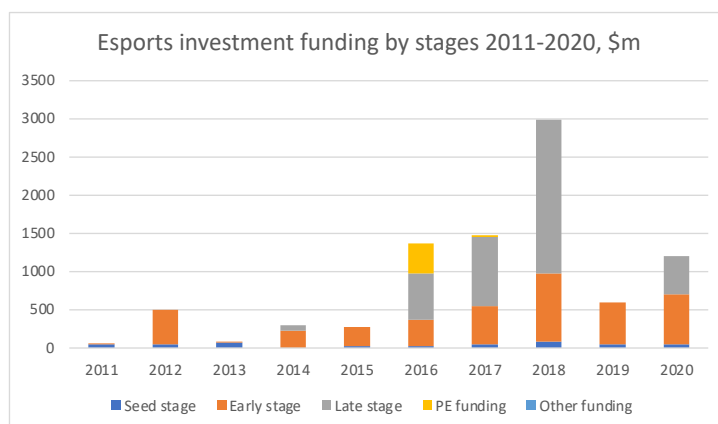


Figure 1 E-sports audience growth

According to data from Newzoo, an e-sports market researcher, the total global e-sports audience will reach approximately 335 million in 2017. Of these, 143 million will be 'esports enthusiasts' and 192 million will be 'casual viewers'[5][10]. This compares to 12.3% year-on-year growth from 2018 to 2019 in Newzoo's old definition[1]. In Newzoo's adjusted figures for 2019, there are 197 million esports enthusiasts and 200.8 million occasional viewers, for a total audience of 397.8 million in real terms[1]. Year-on-year growth continues in 2022, with 297 million esports enthusiasts and 347 million occasional viewers in real terms, for a total esports audience of 435.9 million. By 2024, Newzoo predicts that eSports fans will grow at a compound annual growth rate (CAGR) of around 7.7% from 2019-2024[1]. They expect occasional viewership to grow to 291.6 million. And there will be 285.7 million eSports enthusiasts, bringing the total audience to 577.2 million[1,18]. At the same time, awareness of eSports has risen dramatically[2]: in 2015, only around 800,000 people had heard of the industry, but by 2016, over 1 billion people were aware of it. And this number is still increasing by hundreds of thousands every year, reaching 1.28 billion in 2017. 1.43 billion in 2018 and 1.8 billion in 2019[1]. The most direct benefit this leads to is the fan

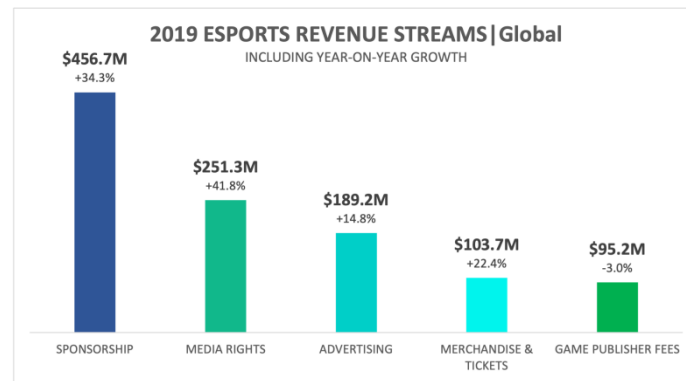
economy. And it just so happens that eSports fans have buying power. In a survey conducted by global marketing company Mindshare, it was found that 43% of eSports fans have an annual household income of \$75,000 or more, and nearly a third (31%) earn \$90,000 or more[8]. The large audience, the wide awareness and the purchasing power of most of them, fills all the hesitations and doubts in the minds of sponsors and advertisers. No company is going to turn down an investment that has the market, the recognition and the purchasing power of its fans. Not surprisingly, the shift from pulling in small companies to the big sponsors came in automatically. As Riot Games eSports director Whalen Rozelle says, "At first we had to explain what eSports was, now we have sponsors and brands coming to us directly. People also see companies becoming more discerning and trying to align themselves directly with professional teams." In 2018, eSports received a staggering \$4.5 billion in investment[11]. 76 deals were struck with non-popular brands in the first quarter of 2019 alone, including well-known companies such as Coca-Cola, Nike, etc [6,13]. In the year 2020, global heavyweights including BMW, Marvel Entertainment, IBM and others entered the eSports space[3].



**Figure 2** Esports investment funding by stages during 2011-2020

As shown in the figure 2, in the period 2011-20, the eSports industry raised a total of \$8 billion [9]. These are the big international brands that have their eyes on the buying power of the eSports audience. So in the future, this investment is likely to increase gradually. Not only these big brands but also many private individuals have made investments earlier in the year. NBA Hall of Famer

Shaquille O'Neal, for example, was one of the first traditional eSports athletes to get involved in eSports, investing in NRG Esports in early 2016 [14, 19]. And these sponsorships and investments have undoubtedly become the most significant source of economic revenue for the industry. This table (figure3) shows the various aspects of eSports revenue in 2019.



**Figure 3** The Esports revenue streams in 2019

Media Rights, shown as a second source of income, was mentioned in a previous article. Only then there was little revenue. But now, the Media Rights sector is one of the considerable revenue generators [9], expected to grow at the highest CAGR of more than 25.5% over the forecast period [11]. And according to a survey by CB Insights, eSports and gaming streaming startups have raised \$714 million through more than 100 deals since

the beginning of 2011[9]. And this figure is also based on incomplete statistics. And, Riot has established a franchise model. This business model simply means that you pay for a spot in a tournament. And there will be 10 spots available, each of which will be purchased for a whopping \$10 million. Here's a graphical representation of the price of these ten spots (figure 4).

<b>Riot NA LCS</b>
Teams: 10
Franchise fee: \$10 million
Geography: North America
<b>Revenue Share:</b>
Teams: 32.5%
Players: 35%
Riot: 32.5%
Other fees: TBD
April Game viewership (from NewZoo): 23m hours

**Figure 4** Riot corporation's North American division revenue share

As shown in the figure 4, there are 10 teams in North America, and each team will pay a Franchise fee of 10 million. Meanwhile, the revenue split for each Team was 32.5 percent for Team, 35 percent for Players, and 32.5 percent for Riot. This is how, through various new business models and the development of networks and media, this revenue has become the fastest growing revenue stream in recent years. It reached US\$340 million in 2020, up from US\$95 million in 2019 [9]. And it is thanks to exclusive content deals in traditional sports that will drive this growth. So these are the reasons for the analysis and presentation of several of the main economic sources of eSports in recent years.

#### 4. CONCLUSION

Through a series of investigations and analyses, the question of "the economic sources and reasons behind the eSports industry at different times" can be concluded.

In the early days of the industry, it was mainly based on private sponsorship and, to a lesser extent, ticket fees. More often than not, it was the organisers who had to make up for their losses in order to promote their events. But because of this approach, a base of users, audiences and popularity was built up. Later on, when there was a period of professional organisation, more and more types of income first appeared, such as media rights, which opened up business opportunities. Finally, thanks to the development of technology, the increasing popularity of computers, the rise of live streaming, media and other industries, the development of e-sports seized the opportunity and managed to start with a surge in audience numbers, opening the door step by step to sponsorship, investment, media rights, ticket fees and other economic sources, thus leaping to become one of the success stories of the emerging industry. There is also a lot of data that is not fully accounted for, coupled with

analysis that does not take into account industry specificities. Another reason for the success of eSports, for example, is that they are inherently fun and attractive. If these issues are to be improved in the future, a more extensive survey and a more multifaceted approach to explaining a cause or phenomenon can be used. In the future, as we continue our research, we can try to translate the attractiveness of eSports to other industries in some way. All that can be done at the moment is to hope that the eSports industry will get better and better.

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