Course Correcting the Runaway Valuation of Esports

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GAME DEVELOPERS CONFERENCE
MARCH 18–22, 2019 | #GDC19

mastercard
acer
GATE A
STAFF

Splyce and Toronto Defiant Parent Confirms Layoffs Following Ownership Change

Esports Company Cloud9 Raises $50 Million In Series B Funding

OpTic parent company Infinite Esports layoff a host of staff including president Chris Chaney

ESL to Layoff Twenty Staff Members, Citing "Adjustment" of Its "Internal Organization"

What the hell happened at Activision Blizzard?

12 months of record-setting financial performance + 800 people laid off = one terrible week

Team Envy receives $20 million investment

Overwatch League Season Opens With More Hours Watched, Lower Average Viewership on Twitch

Riot's English language broadcast team will not be in Korea for most of Worlds

Money = Growth = Profit?

Growth of esports 2000 - 2010 = more money

but…

Few additional revenue streams since

More Investment != More Revenue

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What is the value of esports?
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Viewers

Value
Entertainment
Education

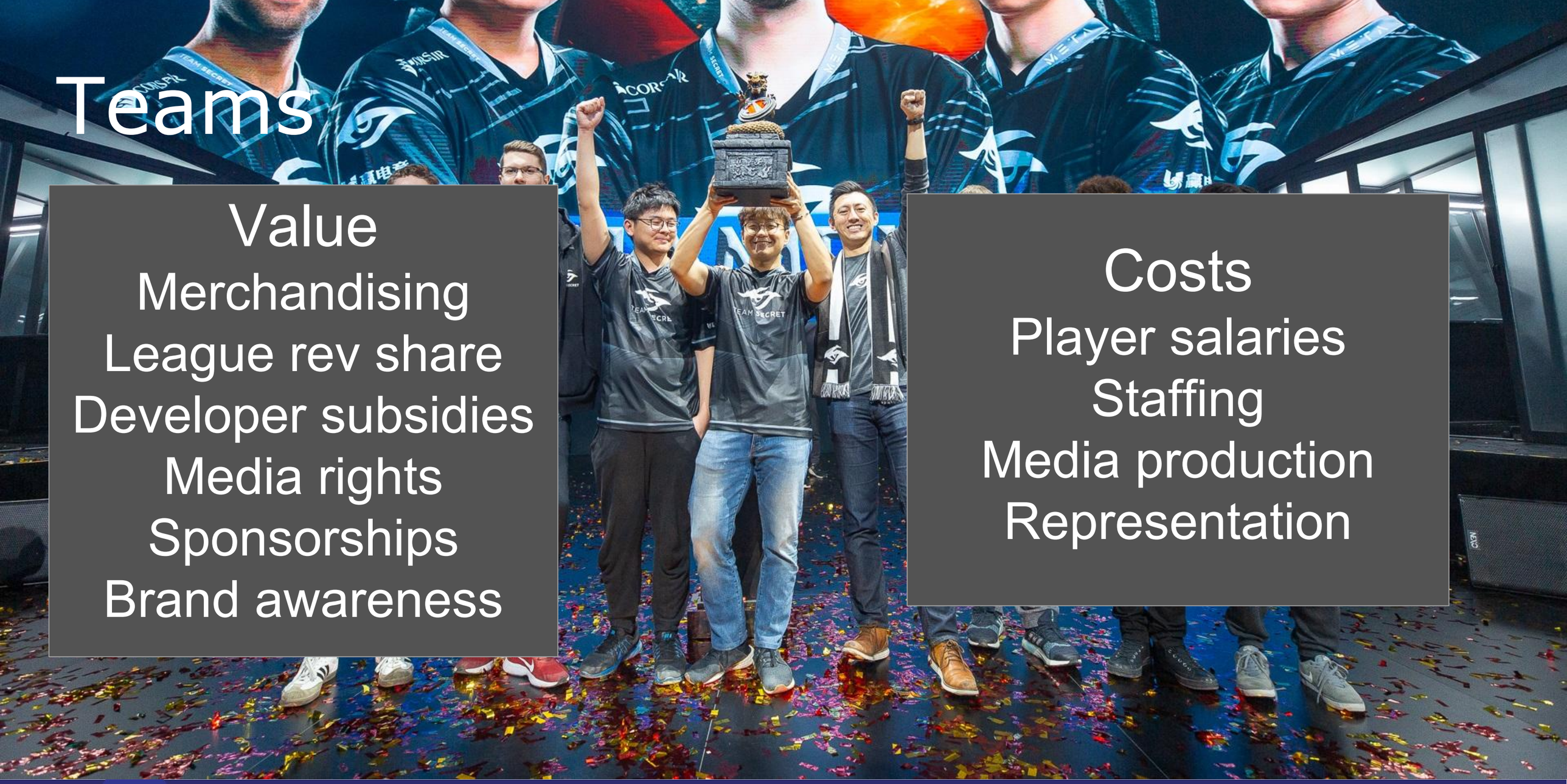
Costs
None!

Players

Value
Money
Travel
Sponsorships
Fame
Competition

Costs
Time
Equipment
Microtransactions
Representation

Teams



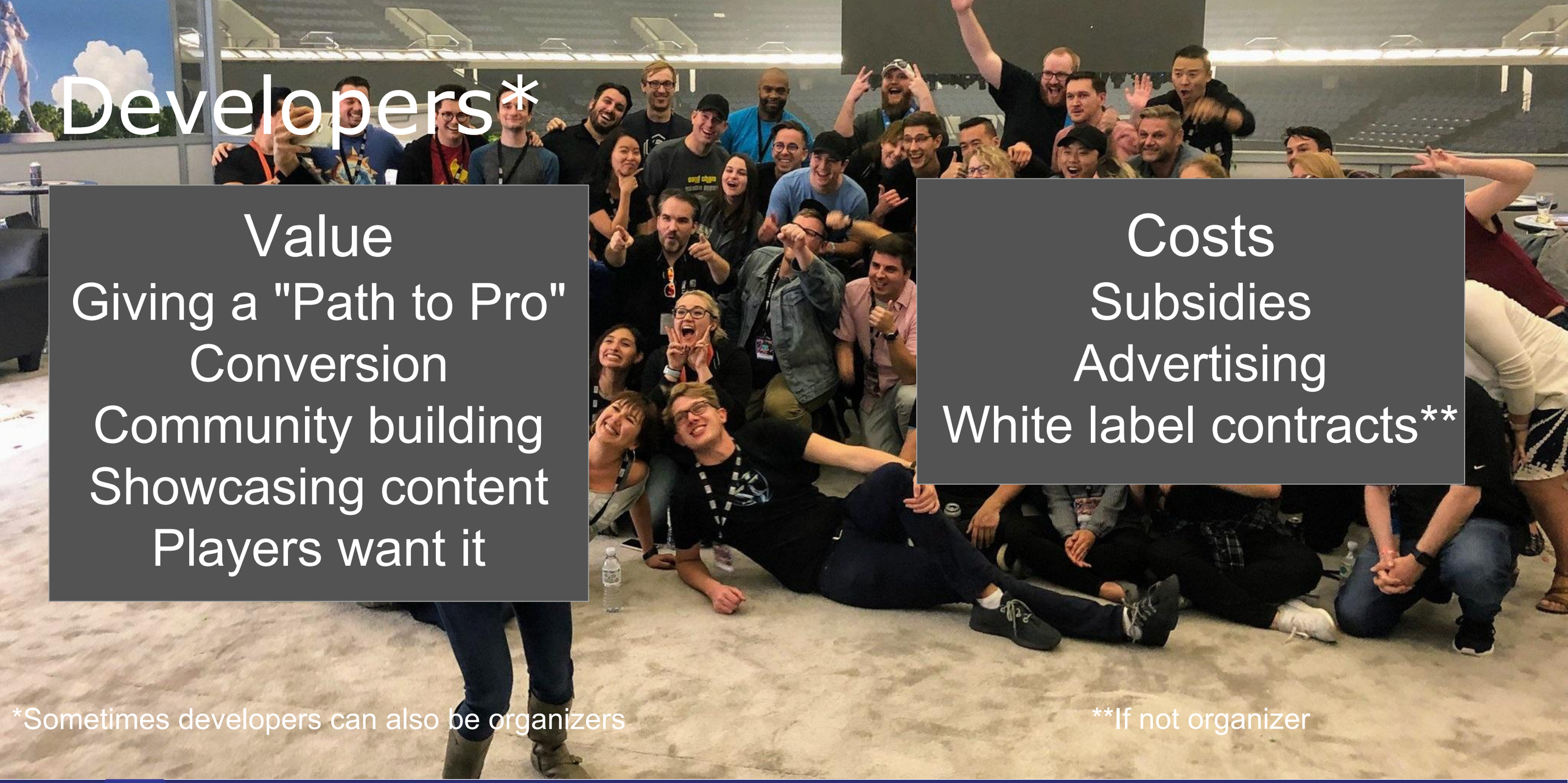
Value

Merchandising
League rev share
Developer subsidies
Media rights
Sponsorships
Brand awareness

Costs

Player salaries
Staffing
Media production
Representation

Developers*



Value

Giving a "Path to Pro"

Conversion

Community building

Showcasing content

Players want it

Costs

Subsidies

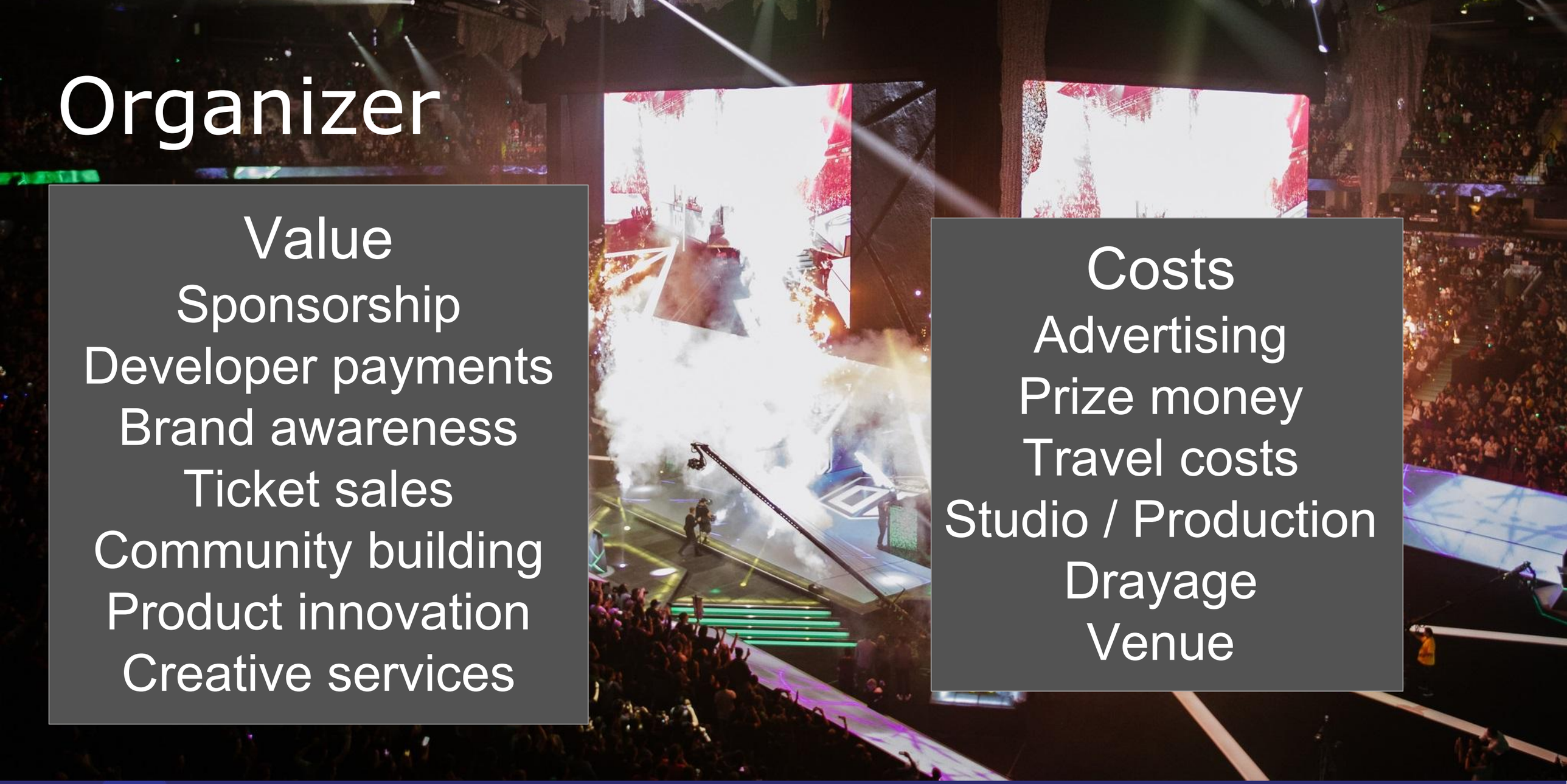
Advertising

White label contracts**

*Sometimes developers can also be organizers

**If not organizer

Organizer



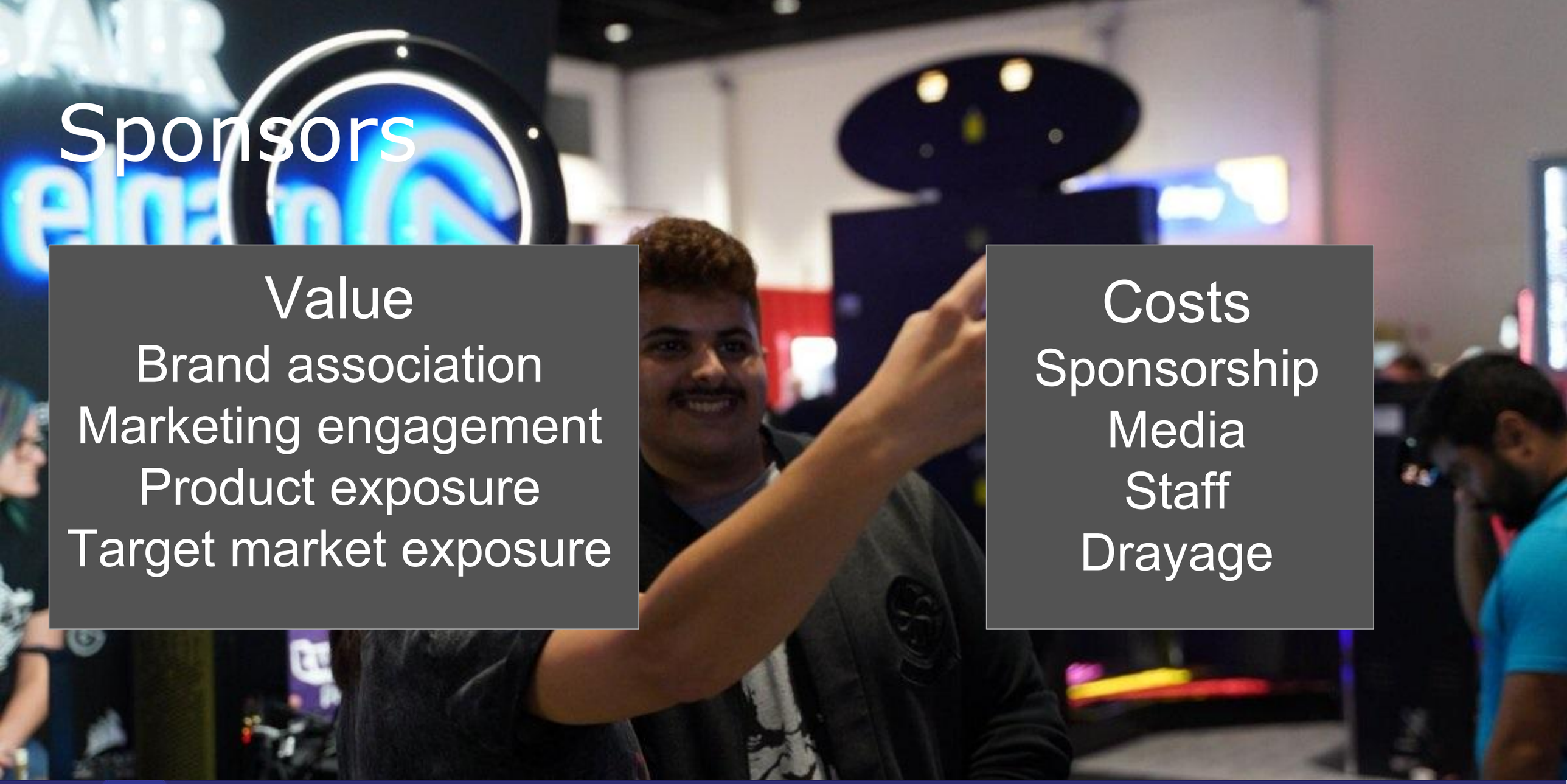
Value

Sponsorship
Developer payments
Brand awareness
Ticket sales
Community building
Product innovation
Creative services

Costs

Advertising
Prize money
Travel costs
Studio / Production
Drayage
Venue

Sponsors



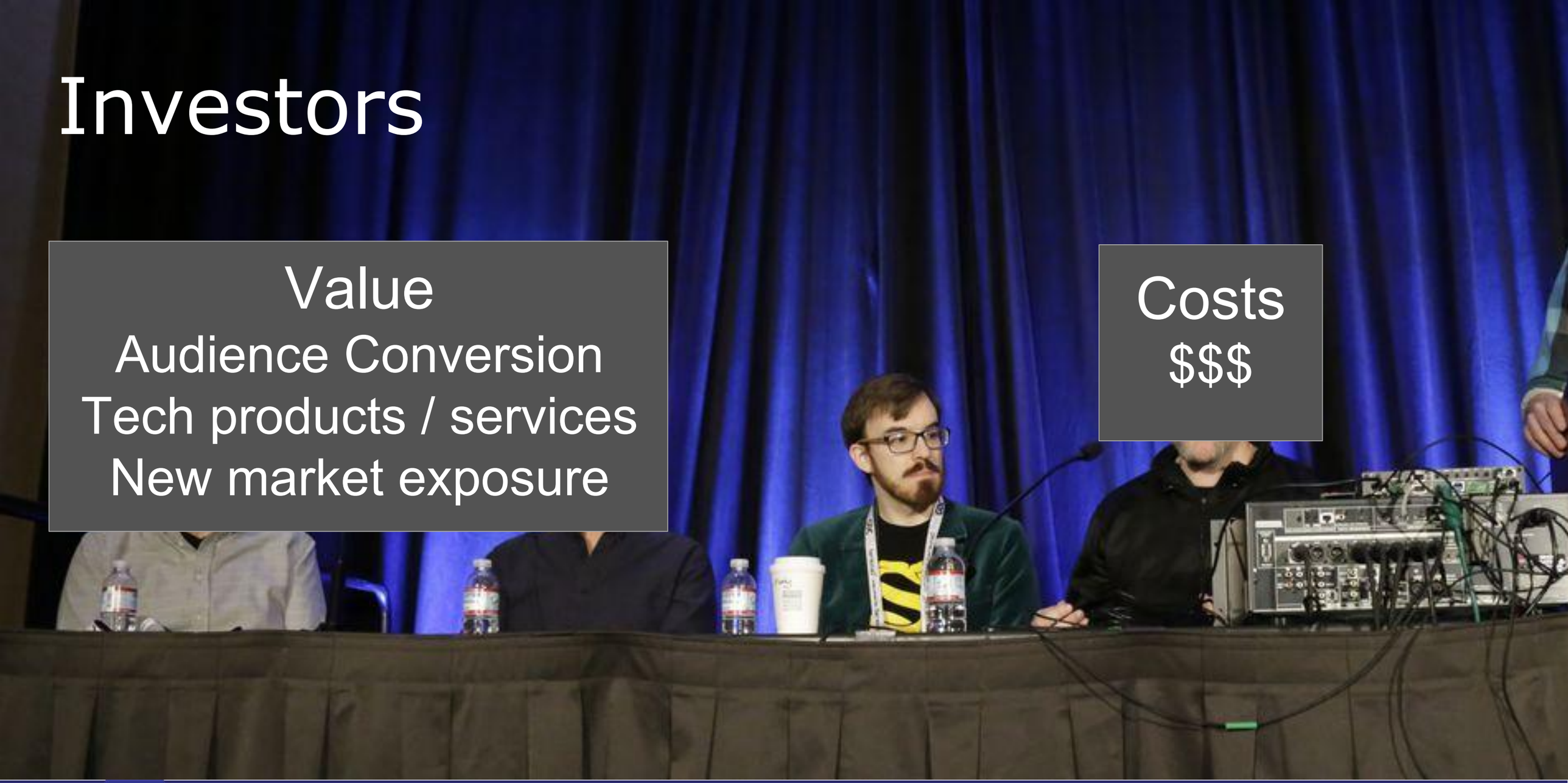
Value

Brand association
Marketing engagement
Product exposure
Target market exposure

Costs

Sponsorship
Media
Staff
Drayage

Investors



Value
Audience Conversion
Tech products / services
New market exposure

Costs
$$$

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How did esports get here?
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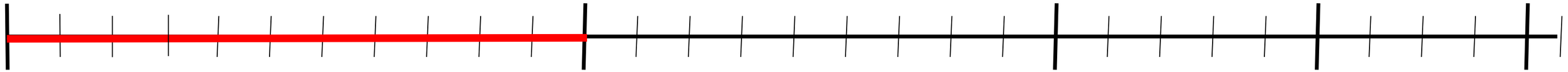
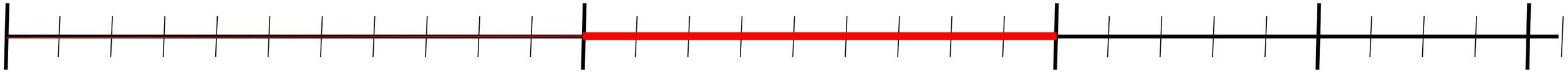
PC Cafe & LAN era - 1990s - 2000



- Get friends together and play
- Infrequent local events
  - Annual / Bi-annual events
- Developer hosted events to support titles
  - Few (or no) 3rd party organizers
- Limited sponsorships
- Small prizes
- Very little audience

- Developer value
- Player value
- Small team value
- Small sponsor value

CPL era - 2001 - 2009

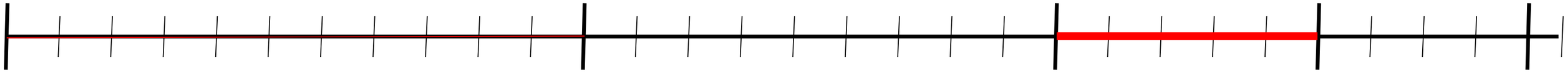


- Structured seasonal tournaments
- Stable 3rd party organizers
- Few professional teams
- Teams supporting travel to events
  - Small player salaries
  - Some top players are full time
- Small viewership and audience
- Growing prize pools

  Regular sponsorships

- Developer value
- Player value
- Team value
- Sponsor value
- Viewer value
- Small organizer value

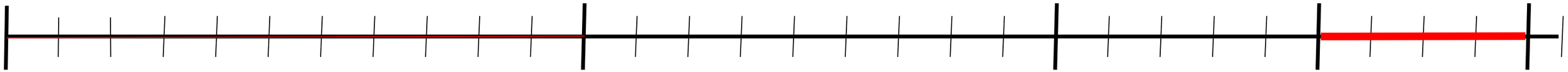
Live Streaming era - 2010 - 2015



- Regular online tournaments
- Competitive 3rd party ecosystem
- Developers supporting esports in earnest
- Esports as a stable industry
  - Many full time employees
- Huge viewership
- Stable ecosystem
- Large player salaries
- Enormous prize pools
- Stadium-sized audiences
- Competitive sponsorships

- Developer value
- Player value
- Team value
- Sponsor value
- Viewer value
- Organizer value
- Small investor value

Franchise era - 2016 - Present



- Angels, VCs, sports franchises investing
- Multiple franchised leagues
- Revenue sharing
- Developer subsidies
- Media rights
- Huge viewership
- Insanely high salaries
- Enormous prize pools
- Stadium-sized audiences
- Regularly sold out arenas
- Competitive sponsorships

- Developer value
- Player value
- Team value
- Sponsor value
- Viewer value
- Organizer value
- Small investor value

There is value, but how much?

Organizers

Early Adopters

WCG
World Cyber Games

ESWC
Electronic Sports World Cup

World Series of Video Games 2006 WSVG intel

CPL

Second Wave

MLG™
Major League Gaming

IGN
IPL

ESL

DREAMHACK

Current Orgs

NGE

FACEIT

STL

ESP Gaming

PGL™

MARSTV

RFRSH

Organizers

- Early trailblazers gone due to either financial instability or mismanagement
- 2010s brought healthy open competition
- Reached good equilibrium point at present, but bordering on oversaturation
- A few in the black, but largely organizations operating in red or at parity

Teams

Early Adopters

Second Wave

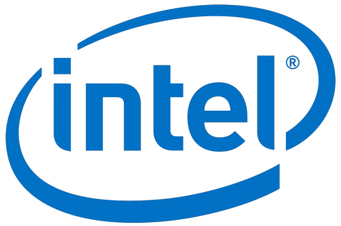
Current Orgs

Teams

- Old organizations disband with increasing frequency
- New organizations popping up and either depend on VCs or focus on smaller titles
- Most teams operate in the red, with few managing to make any significant profits
- Most team revenue is in low $1Ms or below, some are in $10Ms

Sponsors

Early Adopters



Second Wave

Current Orgs

Sponsors

- About 20 endemic sponsors support 90% of the scene endemic sponsorship revenue
- Most endemic sponsors have esports sponsorship budgets below $10M annually
- Few non-endemics are entering the scene (though this is growing with franchising and stability)
- Team sponsorship contracts range from $50K - $2.0M per year
- League sponsorships range from about $100K - $3M per year (varies wildly)

Developers

Early Adopters

BANDAI NAMCO

EPIC GAMES

VALVE

BLIZZARD ENTERTAINMENT

id

CAPCOM

Second Wave

Nintendo

UBISOFT

ACTIVISION

BUNGIE

EA

Current Orgs

Bluehole

RIOT GAMES

PSYONIX

Wizards OF THE COAST

HI-REZ STUDIOS

Developers

- Loss leader for nearly all developers
- Riot Games - Downsizing costs and operations
- Valve - Outsources all tournament operations to 3rd parties
- Blizzard - Cancelling and downsizing competitive scenes despite huge viewership

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What is preventing proper ROI?
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Next Steps

Player salaries at unsustainable levels
Need to be at levels sustainable according to team revenue, not investments

Not enough non-endemic sponsorships
Need to bring in more non-endemics and demonstrate value

Sponsorship ROI uncertain
Need transparent, unified standards for viewership tracking

Too few team revenue streams
Need innovation for how else to monetize team brands

Organizations focusing on "bigger" and not smarter
Need to realize older models for events are not always correct, most profitable, or scalable

Takeaways

Have realistic expectations
Start your scale from the bottom
Understand the mechanics for revenue
Collaborate with others in the space

Questions?