

**Analysis of the global eSports market: value chain, business models and developments****Prof. Dr. Gerd Nufer & Nicolas Gröber**

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**ABSTRACT**

*This paper aims to provide support in understanding the current difficulties in the eSports industry. It outlines the various players active in the eSports ecosystem and how they benefit from the success of eSports: Sponsors present themselves to an attractive target group, publishers promote more intensive use of their video game and broadcasting platforms receive professionally organized content for distribution to a growing audience. Only teams and organizers have so far concentrated solely on generating revenue through the practice or organization of eSports competitions. Driven by profitability weaknesses, however, they are trying to reduce their dependence on sponsorship and tap into new sources of income. Team organizations in particular tend to see opportunities for this outside of the original eSports business and are therefore increasingly developing into marketing and entertainment companies.*

**Keywords: eSports, sports sponsoring, sports marketing, sports management, corporate management, business model, SCP paradigm, value chain**

**1. Introduction**

The FaZe Clan organization, which unites several eSports teams, announced in October 2021 that it would go public via a SPAC merger. The expectation was that the IPO would raise FaZe Clan to a valuation of USD 1 billion, making it the most valuable eSports company in the world. However, in May 2022, Forbes magazine awarded the company only a fraction of this valuation and referred to a whole series of statements by executives and experts in the industry that the eSports business model has significant profitability weaknesses (Knight, 2022). Following the IPO in July 2022, nine months after the announcement and at a valuation of USD 725 million, CEO Lee Trink stated that FaZe Clan would only earn a small proportion of its revenue from eSports in the long term. In its third quarterly report in 2022, the company stated that it has been operating at a loss since its foundation and expects to continue to make losses shortly (FaZe Holdings Inc., 2022).

We start with a general definition of the term eSports. This serves as the basis for deriving the relevant definition of the eSports market and its players. The structure-conduct-performance (SCP) paradigm is presented as the theoretical basis of the paper. Due to the dynamic structures, the classification of relevant players is primarily based on current market studies that take into account possible shifts within the ecosystem. Depending on the focus of the study, only companies or other actors, such as individuals or groups of people, are included. There are also differences in the decision as to which stakeholders are ultimately included in the ecosystem. For this paper, all stakeholders who benefit from the practice of eSports are relevant. Reference is made to the interfaces with the gaming market at the relevant points. The same studies can be used for the analysis of revenue sources in the eSports market. However, since the paper also deals with the profitability of the eSports business model, the challenge arises that almost all of the leading global eSports companies according to the Forbes ranking are not publicly listed

and the paper therefore cannot refer to current, public financial reporting of individual companies. As an alternative, surveys by magazines and management consultancies are used to derive current profitability weaknesses, and the theses are validated with the help of the financial reporting of smaller, but publicly listed, eSports companies.

**2. Definitions**

The term eSports has a largely standardized basis in the academic literature due to the ongoing research into electronic sports. According to Wagner (2006), the term was first used at the end of the 1990s when a media report comparing traditional sports with eSports was published on the occasion of the founding of the Online Gamers Association.

One of the first scientific definitions of eSports was provided by Müller-Lietzkow (2006). He describes eSports as the competitive playing of computer or video games in single or multiplayer mode. In this context, single or multiplayer mode means that eSports athletes can compete against each other both individually and in organized teams. The competitive nature of the game requires an underlying set of rules that allows athletes to be compared with each other in terms of their respective performance in achieving the game objectives (Görlich & Breuer, 2020). A more up-to-date definition that brings together some of the elements mentioned and should therefore serve as the basis for this paper is that of the German eSports Federation: eSports is the direct competition between human players using suitable video and computer games on various devices and digital platforms under defined rules (ESBD-eSport-Bund Deutschland, 2018).

This is the basis for ESBD's distinction between gaming (the recreational use of video games, with and without multiplayer functions), competitive gaming (recreational and recreational multiplayer competition), and eSports (the sporting use of video games) (ESBD-eSport-Bund Deutschland, 2023).



Contrary to the approximately uniform basis for the definition of the eSports term described above, it is not always clear when we are talking about an eSports company or eSports market. Consider the publisher: eSports without a video game is hardly possible. However, it is questionable whether they should therefore be regarded as eSports companies. After all, the publishers' business includes distribution to all kinds of consumers (Zegarra, 2020). Only a fraction of these are probably intended for sporting use. If sales revenue is attributed to the eSports market, the distinction from gaming becomes blurred. It therefore makes sense to follow the delineation of activities as closely as possible, according to which publishers with their intended average customers tend to fall into the areas of gaming or competitive gaming. Therefore, in the following, the term eSports companies refers to companies that fundamentally occupy a position in the eSports ecosystem and are also geared towards generating revenue through the practice or organization of eSports (Nufer & Gröber, 2023).

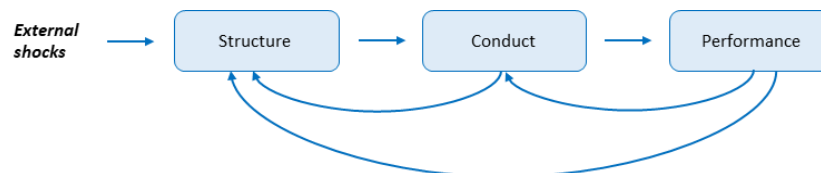
### 3. SCP paradigm

The development of the structure-conduct-performance paradigm goes back to Mason (1939) and Bain (1956), who

created a model to support economic policy decisions with a market structure-based view of corporate behavior and profitability. The application of the SCP paradigm to the strategic management of companies was provided by Porter (1980). The concept is therefore to be understood as the basis of the Five Forces Model developed later.

The original SCP paradigm is based on the relationship between market structure, market conduct, and market performance. The connection is based on the theory that in sectors with higher concentration, i.e. few or one dominant supplier, agreements are facilitated. In conjunction with rising barriers to entry, this results in greater market power of the established companies in the market, which is reflected in a higher price-cost spread in the industry. The SCP paradigm therefore explains a positive correlation between market concentration and profitability (Weiss, 1979). Companies therefore have an incentive to raise the barriers to entry for new market participants to increase their profitability.

In the 1980s, McKinsey & Company (2008) added a dynamic component to the static model (see Figure 1).



**Figure 1: The dynamic SCP paradigm**

(Adapted from: McKinsey & Company, 2008)

The dynamic model goes beyond the unidirectional relationship and states that market behavior (conduct) and results (performance) do not necessarily represent an adaptation to a given market structure (structure). The development can also happen in reverse: Market participants change their behavior in response to their entrepreneurial performance. The changed market behavior in turn changes the structure of the market. It is also possible that the market result has a direct influence on the market structure. McKinsey & Company (2008) also integrates external shocks that influence the market structure. The dynamic SCP paradigm therefore also allows forecasts of how companies will adapt to external influences. An industry is therefore lucrative if established market participants can achieve high price-cost margins due to market behavior adapted to the market outcome external shocks and high entry barriers.

McWilliams & Smart (1993) summarize the criticism of the SCP paradigm that has developed over the years based on three aspects: The level of analysis, the static analysis, and the commitment to barriers to entry. The level of analysis of the SCP paradigm is limited to the assumption that companies in an industry are homogeneous. Strategic management theory generally assumes heterogeneous companies. The model therefore does not lead to useful forecasts of individual company performance. The static analysis assumed in the original form of the SCP paradigm contradicts most corporate environments. A dynamic component must therefore be added to the original model to predict the

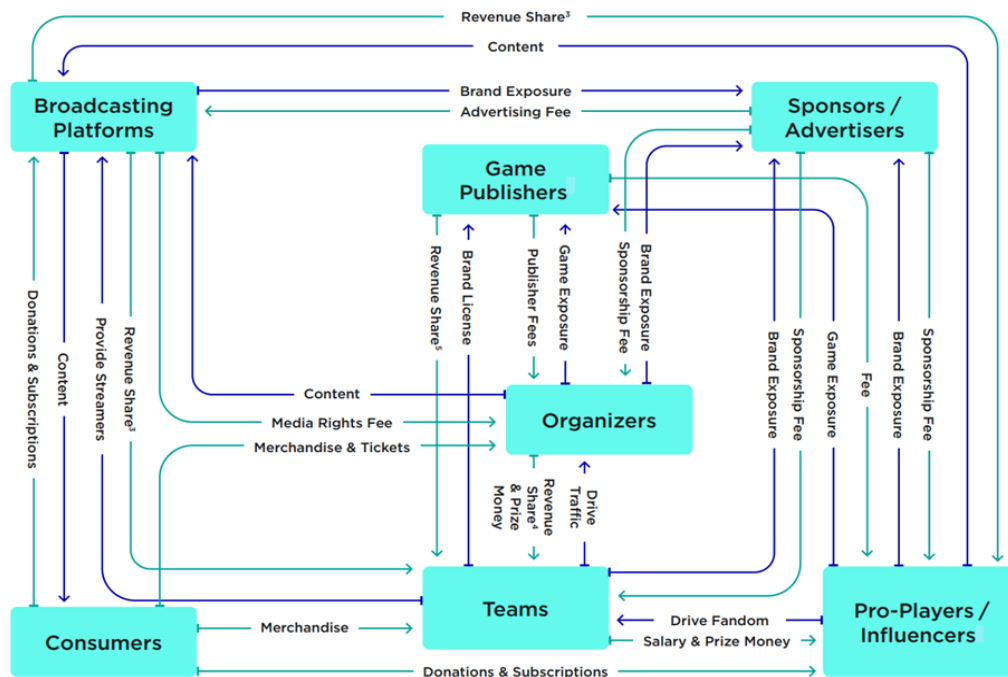
ability of companies to maintain a competitive advantage. The focus of the SCP paradigm on the inclusion of entry barriers does not take into account the free rider problem. If only one company in an industry makes investments to raise barriers to entry, all other suppliers also benefit from the increase in market concentration, but without having borne the costs. As a result, no company would have an incentive to raise the barriers to entry.

This paper follows the principles of the dynamic SCP paradigm described above. The following section is dedicated to the structure and shows which players are active in the eSports market, what (power) position they occupy in the ecosystem, and how value is created in the process. After that, we analyze the market outcome, what behavior eSports companies are already exhibiting to improve their bottom line, and what adapted behavior is recommended to improve the profitability of the eSports industry.

### 4. The eSports value chain

As a basis for the discussion on the economic success of eSports, this section will show how this can occur in the first place. To this end, the structure of the eSports market will be illustrated based on the players involved and the associated cash flows.

Based on the illustration by Newzoo (2022), Figure 2 shows an excerpt from the eSports value chain and is intended to form the basis for the following explanations.



**Figure 2: The eSports value chain**

(Source: Newzoo, 2022)

## 4.1. Teams

As in traditional sports, eSports athletes organize themselves into teams. They form the core of eSports, play video games within organized competitions, and use their athletic performance to generate the eSports content that is broadcast and monetized on broadcasting platforms. A significant difference from traditional sports is that in eSports, team organizations not only provide a team for one sport but also serve several video games within the same team organization. For this purpose, a large number of athletes are recruited, who in turn are grouped into several teams. Leading team organizations thus provide teams for around five to twelve games. An exception to this is single-game organizations, which only serve a single game (Deloitte & The Esports Observer, 2019). The organizations support their players by providing hardware and software, networking, producing broadcasts or other recordings, and brand development. As in traditional sports, team organizations hire managers and coaches to support their eSports athletes as a team, but also individually (Johnson & Woodcock, 2021).

When it comes to generating revenue for team organizations, a differentiated view is necessary: The company as a whole generates revenue through sponsorship and the sale of merchandising. They also receive a share of the proceeds from the sale of digital goods in the game from the publishers. At the team level, prize money can be generated through participation in competitions. The organizers of these competitions also pass on part of their income to the team organizations. However, players can also work as video producers outside of the team, i.e. outside of eSports. For this, they receive a share of the revenue from the broadcasting platform and, if applicable, direct contributions from their viewers, such as donations and

subscription fees. The team organization may participate in these live-streaming revenues of the player.

## 4.2. Organizers

In the case of organizers, a distinction is made between (third-party) organizers that are independent of the game publishers, such as ESL Gaming or Dreamhack, and organizers that are also publishers that organize tournaments for their games, such as EA, Capcom, Ubisoft or Riot Games (Newzoo, 2022). The developments of these two ways of establishing a tournament are examined in more detail later on. In the following, however, publishers are considered separately from (third-party) organizers.

Organizers provide the organized framework for eSports through events, tournaments, and leagues. They are the link between the teams of the team organizations, broadcasting platforms, publishers, and sponsors. Organizers vary greatly in terms of company size, as their intermediary position goes hand in hand with almost infinite scalability. The term therefore encompasses small players that form high school leagues to large companies that organize international events (Deloitte & The Esports Observer, 2019). As in traditional sports, eSports tournaments have different prize money, sponsors, and organizers depending on the game. Therefore, most tournaments are limited to competition in a single game, although multiple tournaments in different games can be organized by the same organizer (Johnson & Woodcock, 2021).

Organizers generate revenue by selling media rights to broadcasting platforms that want to distribute the respective event on their platform to consumers. They can also approach consumers directly and offer tickets for admission to physical events. Despite the virtual competition, fans' willingness to pay





should not be underestimated; tickets for a tournament or final can be in the four-digit range (Falk & Puppe, 2020). Merchandising can also be provided by an organizer, a league, or a specific tournament. Organizers also receive income through sponsorship. They may also receive payments from the publishers of the games played in the respective competitions. However, these are considered separately from conventional sponsorship and are referred to as publisher fees (Newzoo, 2022). Since promoters and team organizations have a business model geared towards generating revenue through the practice or organization of eSports, they fall into the category of eSports companies according to the presented definition.

#### **4.3. Sponsors/advertisers**

Sponsors and advertisers play a central role in the eSports ecosystem. They have a relationship with almost all players. In eSports, a distinction is often made between endemic and non-endemic sponsors. Endemic sponsors are sponsors who are already part of the eSports or gaming ecosystem through their product or service, such as hardware producers or broadcasting platforms. Non-endemic sponsors, on the other hand, would be outside the ecosystem without the sponsorship relationship, such as beverage manufacturers or fast food chains (Schwind, 2020). Sponsors of the teams at ESL One 2019, for example, were typically from the technology, beverage, furniture, sports betting, and retail sectors. The sponsors of the league as a whole were half endemic and half non-endemic (Schwind, 2020).

An increasing number of non-endemic sponsors may be an indicator that eSports and gaming are moving further into the center of society. While endemic companies, due to their business model, only address gaming or eSports fans anyway, non-endemic sponsors have to deal with the risk of projecting negative associations of the general public with video games, such as the promotion of aggressiveness, onto their brand by entering the ecosystem (Freitas & Contreras-Espinosa, 2022).

One reason for sponsors to enter the eSports ecosystem can be access to an attractive target group. In 2021, among the so-called eSports enthusiasts, i.e. people who watch eSports content more than once a month, 74% were in full-time employment. Among the online population as a whole, this figure was only 56%. Furthermore, 44% of them fell into the category of people with a high household income. eSports sponsorship could be particularly interesting for companies that want to appeal not only to the wealthy but also to a young target group: 74% of eSports enthusiasts were between 10 and 35 years old in 2021 (Newzoo, 2022).

#### **4.4. Game publishers**

Game developers and publishers are often treated synonymously, which is why a distinction between the respective activities should be made at this point. The game developer develops the actual content of the video game. The development teams are responsible for the programming that consumers perceive when they experience the game's story, mechanics, and visual sequences. However, to distribute the game, suitable marketing measures and the development of sales channels such

as retail and e-commerce are required in addition to the software itself. In addition, modern multiplayer games require the servers to be maintained afterward. The game publisher is responsible for these activities, as the game developer itself does not always have the necessary resources. However, this does not necessarily mean that the publisher only becomes active once the game has already been developed. This is because the publisher has the necessary expertise to ensure that a marketable product is created at the end of the development process. Due to the overlap of activities and competencies, publishers are often the parent companies that maintain several development studios. Due to the resources required for the business model, there is a concentration in the gaming market with a few well-known publishers such as Activision Blizzard, Ubisoft, and Electronic Arts (Zegarra, 2020).

In addition to the size of the company, publishers also play an important role in the eSports ecosystem. They have sole control over which games can be played. In contrast to traditional sports, publishers are a steering body in the eSports infrastructure (Deloitte & The Esports Observer, 2019). For eSports titles in particular, this control goes beyond simply deciding which game is published and which is not. In contrast to conventional video games, esports titles require continuous updates from publishers or game developers to fix technical bugs. In addition, updates are part of the gaming experience itself, as they determine the feasibility of new or existing game mechanics, the effects of which keep the game interesting for both players and viewers (Johnson & Woodcock, 2021). However, a blanket statement that the balance of power in the eSports ecosystem is concentrated solely on publishers would fall short of the mark. As for-profit companies, they have an interest in ensuring that changes to the rules of the game are accepted by consumers. Otherwise, negative influences on the publisher's earnings are to be expected (Breuer & Daumann, 2020).

The aforementioned publisher fees are considered separately from conventional sponsorship, as the promotion of video games played in competitions is of particular importance to the publisher. A lively competitive scene means that players also develop a demand for their gaming skills in their private, non-sporting use. This promotes a narrowed focus, i.e. users prefer a few games with a long playing time to many games with a short playing time. In addition, the buyer base has a high proportion of young players with limited financial resources. As a result, this means that the low income is distributed across a few, intensively used games (Fadl, 2020).

Apart from concentrated spending by players, eSports athletes, and tournaments also have a positive media effect on publishers. Popular players develop a reach that allows them to influence the opinions of their fans about a video game. This turns them into influencers for the eSports title and can promote its success (Anderie & Görlich, 2020).

#### **4.5. Broadcasting platforms**

In the esports ecosystem, broadcasting platforms are the interface between the producers of esports content and their



consumers. ESports content is produced by event organizers who offer media rights to their organized competitions. In contrast to traditional sports, esports content is generally made available to consumers free of charge (Citi GPS, 2019). Broadcasting platforms generate revenue by monetizing the eSports events they broadcast.

Outside of eSports, broadcasting platforms operate as live streaming platforms that transmit content generated by players directly to consumers. These players may be athletes on an eSports team who work as video producers outside of organized competitions. In this case, the live-streaming platforms generate additional income, in addition to advertising revenue, by collecting a share of the subscription fees that viewers voluntarily pay to streamers (Citi GPS, 2019).

#### 4.6. Other players

In addition to the players in the narrow eSports ecosystem described above, some companies do not play a role in the value chain but are dependent on the existence of eSports due to their business model. These include marketing agencies that specialize in advising companies that are potentially interested in becoming eSports sponsors. These agencies offer expertise on the specifics of eSports and provide access to an attractive target group. This allows non-eSports companies to use eSports-specific channels such as streaming cooperations in addition to traditional advertising channels such as branding on team clothing (Deloitte & The Esports Observer). Knowledge of how to engage with the fan base is valuable. The choice of a medium such as print or television can be proven and established in the masses but at the same time ignored by eSports fans (Mariot & Nufer, 2020). In addition, some companies optimize the interface between streamers and viewers by developing software tools that support streamers in the production of video content. Others are optimizing the connectivity between viewers,

such as the gaming chat application Discord (Deloitte & The Esports Observer).

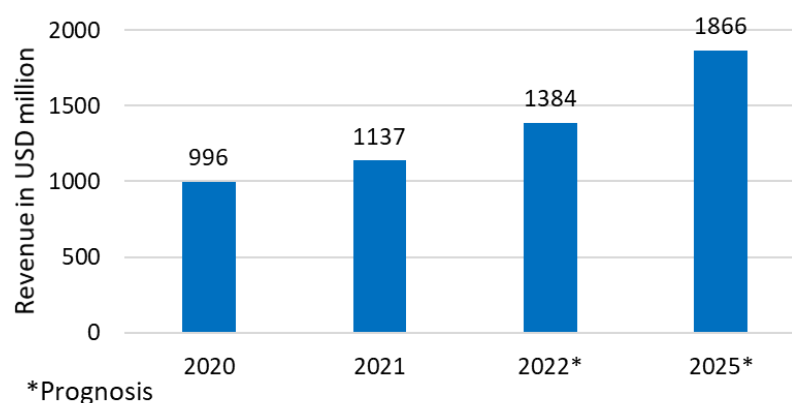
Companies that come from more traditional business models can also be related to eSports. Hardware manufacturers such as Astro or Corsair, which specialize in high-performance products, benefit from the competitive gaming scene promoted by eSports, as consumers develop higher expectations and opt for high-priced products. In addition, eSports fans can be incentivized when popular athletes or teams use a particular product (Deloitte & The Esports Observer).

#### 5. Development of eSports sales

The previous section has shown which players can benefit from eSports and how the following sections will focus on the market behavior and outcome of the eSports industry. To this end, the market result will first be analyzed and the resulting challenges identified. Subsequently, solution approaches for the industry are developed, which show which adapted behavior of eSports companies is recommended as a reaction to the market result.

Interest in eSports is growing: While global viewership was 435.7 million in 2020, 532 million people are already watching eSports content in 2022. Around half of these are eSports enthusiasts who tune in more than once a month. Within the next three years, by 2025, the audience is expected to rise to 640.8 million. In addition to the rise of new eSports titles such as "Valorant" and "Mobile Legends: Bang", the COVID-19 pandemic also helped to attract new viewers in 2021. Currently and in the future, the positive development is being driven by growth markets such as Southeast Asia, Latin America, the Middle East, and Africa (Newzoo, 2022).

The growing interest in eSports is reflected in revenues. Figure 3 shows the forecast global revenue development from 2020 to 2025.



**Figure 3: Forecasted revenue development in the global eSports market from 2020 to 2025**

(Adapted from: Newzoo, 2022)

By 2020, the eSports market was still trading at just under USD 1 billion in revenue. Revenues are expected to reach USD 1.38 billion in 2022. Over the next three years, revenue is expected to increase by 35% and reach USD 1.87 billion in 2025.

Despite the many positive market estimates, a guaranteed continuation of the steep growth rates, completely

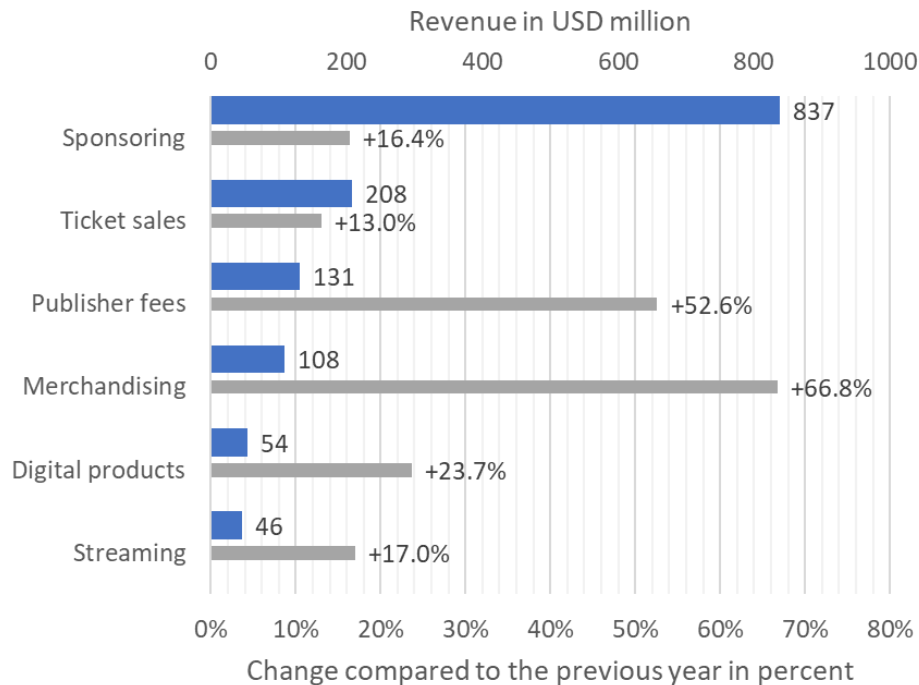
independent of external influences, seems rather unlikely, as the eSports market has already been negatively impacted by the 2008 financial crisis and the 2020 pandemic and the resulting decline in sponsor spending (Breuer & Görlich, 2020).



## 6. Origin of revenue and opportunities for diversification

While interest and revenue are increasing, the origin of revenue poses challenges for eSports companies. The surveys by

Newzoo (2022) on the forecast composition of eSports revenues in 2022 provide insights into the current diversification of revenues in eSports (see Figure 4).



**Figure 4: Forecast composition of global eSports revenue in 2022**

(Adapted from: Newzoo, 2022)

It can be seen that around 60% of eSports revenue is expected to come from sponsorship alone. Revenues from publisher fees and merchandising & tickets are expected to account for only 17% of total revenues but will record the highest growth rates, with increases of 52.6% and 66.8% respectively compared to the previous year.

There are obstacles for team organizations to reduce their dependence on sponsorship. Most of the prize money goes to the athletes. If athletes are also active as streamers, most of the advertising revenue goes to them. Sponsorship is therefore the only attractive original eSports business. The major teams are making efforts to tap into new sources of income: The team organizations FaZe Clan and NRG are increasingly creating their content, 100 Thieves is establishing itself as a lifestyle company, TSM, and Gen.G are distributing training apps and ReKTGlobal and LOUD are acting as marketing agencies (Knight, 2022).

The example of FaZe Clan mentioned at the beginning is emblematic of the industry's development. By the end of September 2022, the company had generated revenue of USD 48.6 million within nine months, but only around 15% of this is attributable to income from tournament participation, prize money, and player transfers. Sponsorship income accounts for by far the largest share of revenue at around 58%. In the future, the company would like to expand more in the area of its content such as music and podcasts. FaZe Clan also sees opportunities in subscription services, gambling, live events, fan clubs, and new

opportunities such as virtual restaurant concepts and the metaverse (FaZe Holdings Inc., 2022).

In contrast to the teams, the original activity of the organizers already includes the production of their content. However, the opportunities to increase the resulting income from the sale of media rights are limited. Twitch and YouTube Gaming dominate by far among the broadcasting platforms for eSports consumption in Europe. Twitch in particular has a high level of usage intensity (Deloitte, 2022). Due to the power position of the two platforms, the fees for media rights are not rising in line with the audience figures (Knight, 2022). One reason for the lack of competition between the esports broadcasting platforms could be that live streaming is the more attractive segment from their perspective. In the live streaming business model, the broadcasting platform not only earns additional income from the streamers' subscriptions but also eliminates the costs for media rights that are charged for broadcasting eSports content (Citi GPS, 2019).

From the perspective of the SCP paradigm, the state of the revenue situation in the eSports industry can provide evidence of an unattractive starting point for team organizations and event organizers about their position in the value chain. The unfavorable distribution of power is reflected in the result of this market structure in the form of income dependency on sponsors. As a result, the outcome causes team organizations to change their behavior and move away from the original eSports business.





If esports companies want to make their business model more resistant to influences that lie outside of their esports success, new monetization strategies must be developed. The central element of these strategies should be the fan community, which is showing impressive growth but has hardly been monetized to date, and if so, then only indirectly.

Team organizations have a variety of starting points for new monetization strategies. As already mentioned, a differentiated approach is necessary here. This means that the possibilities can start at the level of the organization as a whole, its teams, or the individual athletes. In their role, athletes carry the game's know-how, which is not only of interest to fans as a competitive performance but also directly. This is because the narrowed focus in eSports means that viewers strive to improve their performance in a small number of intensively used games. This allows athletes who demonstrate coveted game performances to monetize their know-how and distribute it to a target group that is willing to learn. TSM and Gen.G, who are already doing this with their training apps, are rewarded with a new source of revenue for tournament victories in addition to sponsorship and prize money. At the level of the team organization as a whole, business expertise is bundled that is of interest to non-endemic companies seeking entry into the eSports ecosystem to gain access to an attractive target group. This is because entry is by no means self-explanatory, as eSports differs significantly from conventional sports when it comes to choosing suitable communication tools (Mariot & Nufer, 2020). While existing marketing agencies already offer such a service, team organizations differentiate themselves by being able to offer not only the know-how but also the associated tool. They know the conditions that currently characterize authentic interactions between athletes and fans, can provide the necessary access to suitable athletes, and thus support effective communication by non-endemic companies.

## 7. The special role of game publishers

Game publishers influence the earnings potential of team organizations through their role as steering bodies in the eSports infrastructure. While organizers can switch to new titles relatively flexibly in the event of declining audience figures, teams are dependent on publishers maintaining the success of their games for at least some time. After all, it is not enough for teams to perform well in an eSports title. The title itself must be popular with viewers to attract the interest of sponsors.

Although event organizers are not dependent on individual publishers, they are competing for market share. Since 2021, the list of companies with the most organized tournaments has been led by Riot Games, the publisher of the title "League of Legends", the most-played computer game in the world (Riot Games, 2023). In previous years, it was either ESL Gaming, a third-party organizer, or Blizzard Entertainment, also a publisher (Esports Charts, 2023). In a market with esports titles that are increasingly characterized by low barriers to entry, such as providing the games for free, consumers can easily switch between titles. Publishers therefore have an incentive to promote eSports and the narrowed focus it fosters. At the same time, they

have the necessary resources to cover several links in the eSports value chain and thus tap into new sources of revenue (Fadl, 2020).

From the perspective of the SCP paradigm, the expansive market behavior of publishers can provide evidence of what they see as an attractive distribution of power in the eSports value chain. It can therefore be observed that they are investing more and more entrepreneurial commitment in the eSports market. At the same time, the expanded activities are raising the barriers to entry in the eSports market, as third-party organizers are now competing with publishers who, in addition to their event activities, derive additional value from the attention to the game and the narrowed focus this promotes. In terms of the gaming market, there is a similar effect: new entrants have to compete with established publishers who already have extensive eSports exposure for their games.

New approaches by team organizations and organizers to gain independence from publishers in the future could be NFTs and the metaverse. The development of virtual reality with close networking between users offers eSports companies the opportunity to generate their valuable items as NFTs. These generate revenue for each trade on the secondary market (Knight, 2022). A whole range of products is conceivable here, such as virtual goods that can be used in a specific video game or access rights to exclusive discussion rooms, events, or video content (BeInCrypto, 2022). Additional images and videos alongside live coverage are particularly popular with very interested eSports fans (Mariot & Nufer, 2020).

When esports companies strive for new sources of revenue outside of the original esports business, they also promote independence from the game publishers.

With their business model, organizers are already independent of the eSports titles played in leagues and tournaments. As the owners of the interface to the fans, they can differentiate themselves from the publishers by creating their brand value, which is transferred from title to title. In addition to the skills that are familiar to traditional sports, such as selecting a suitable venue, designing the event program, and inspiring moderation, there is also eSports-specific expertise here. Detailed commentary is more important in eSports than in traditional sports. For new viewers without prior knowledge, the complex gameplay is incomprehensible. Fans with a longer history of consumption also appreciate professional moderation, as previous knowledge of a specific game is not necessarily transferable to other eSports titles (Grotz & Breuer, 2020). In addition, broadcasters can steer their audience towards up-and-coming or undiscovered games, promote the development of major eSports titles, and thus help shape the dynamics of the eSports market. They know what content is popular with viewers and what framework conditions a successful eSports title must fulfill. The opportunity for a continuous and, above all, cross-game exchange with the fan community forms the knowledge advantage and thus the brand value of an organizer. Regardless of whether the exchange takes place via NFTs or established

channels. As a result, event organizers may not have the high resources of publishers at their disposal, but the business model promotes a focus on the needs of the audience. Publishers are representatives of their title who primarily want to increase the value of their video game customers through eSports. Organizers are service providers for viewers, not an extension of an eSports title. If they present themselves as such, the explicit presentation of differentiating features compared to competitions organized by publishers is obsolete. Take the ESL, for example, whose name alone can give a new eSports title a seal of quality.

## 8. Profitability of the business model and potential for increasing efficiency

The aforementioned measures to develop new sources of income are not only an opportunity but also an obligation. This is because the existing business model of esports companies has hardly been profitable to date. Only 33% of European team organizations expect their business to be profitable in 2022, while only 28% of event organizers expect the year to end profitably. Personnel costs are by far the biggest cost driver for

both business models (Deloitte, 2022). Prices for athletes are rising; for example, a player for the up-and-coming eSports title "Valorant" is expected to earn up to USD 30,000 per month (Knight, 2022). Each new hire comes with the risk that the desired tournament performance will not materialize or the game will become irrelevant and individual teams and their coaches will never make a positive contribution margin. If an organization now provides teams for several different games, this increases diversification in terms of titles but initially generates new personnel costs, which in turn burden profitability.

An analysis of the revenue and EBIT of publicly listed eSports companies is shown in Table 1. The selection of companies and classification into sectors is based on Fitch's (2022) classification and therefore does not necessarily correspond to the presented definition of an eSports company. Gambling companies with no connection to the business of team organizations or event organizers were not included. The financial data was standardized by FactSet (2023) and converted to EUR.

Company	Sector	Reporting date	Revenue in USD million (LTM)	EBIT in USD million (LTM)
Enthusiast Gaming Holdings Inc (EGLX-CA)	Events, teams, media	Dec. 22	148.25	-34.92
FaZe Holdings Inc. (FACE)	Teams	Dec. 22	66.62	-45.29
ESE Entertainment Inc (ENTEF)	Infrastructure, teams	Jan. 23	47.25	-12.29
Esports Entertainment Group Inc (GMBL)	Gambling, tournament operation	Dec. 22	41.32	-32.03
GameSquare Holdings, Inc. (GAME-CA)	Agency, teams	Nov. 22	38.02	-23.13
Fragbite Group AB (FRAG-SE)	Media	Mar. 23	23.55	-7.84
Super League Gaming, Inc. (SLGG)	Tournament operation	Dec. 22	18.72	-29.56
Astralis A/S (ASTRLS-DK)	Teams	Dec. 22	11.77	-1.43
OverActive Media Corp (OAM-CA)	Events, teams	Dec. 22	10.35	-11.69
Gfinity PLC (GFIN-GB)	Media, tournament operation	Dec. 22	7.16	-5.35
Guild Esports PLC (GILD-GB)	Teams	Sept. 22	5.25	-10.12
Allied Gaming & Entertainment Inc. (AGAE)	Tournament operation, venues	Mar. 23	4.94	-10.04
Simplicity Esports and Gaming Company. (WINR)	Infrastructure, teams, venues	Feb. 23	1.52	-3.01
React Gaming Group Inc (RGG-CA)	Gambling, teams, tournament operation	Sept. 22	1.45	-7.10
TGS Esports Inc (SRH-DE)	Venues	Mar. 22	0.51	-1.95
X1 Entertainment Group Inc (XONE-CA)	Teams	Feb. 23	0.36	-3.12
Tiidal Gaming Group Corp. (TIDL-CA)	Gambling, teams	Jan. 23	0.22	-3.36
Leet Technology Inc. (LTES)	Tournament operation	Sept. 22	0.13	-2.92
Semper Fortis Esports PLC (SEMP-GB)	Teams	Jan. 22	0.04	-1.43
-Mogul Games Group Ltd (MGG-AU)	Tournament operation	Dec. 22	0.00	-1.79

**Table 1: Revenue and EBIT of publicly listed eSports companies**

(Adapted from: Fitch, 2022; FactSet, 2023)

Profitability weaknesses are evident across various sectors. It seems contradictory that Forbes magazine in May 2022 attributed an average value of USD 353 million to the ten most valuable team organizations, an increase of 46% compared to the previous classification in 2020 (Knight, 2022). However, the increase in company valuations of many team organizations is due to the potential of their other business areas rather than the original eSports business, which is not yet profitable and relies too heavily on sponsorship (Sports Tech World Series, 2022).

Team organizations must come to terms with the idea that focusing solely on winning tournaments cannot be a profitable and independent business model. Limiting themselves

to activities directly related to the practice of eSports would in any case only result in the non-use of resources that are already available in the companies and could be used to build revenue streams, which would then remain with the organizations and not be transferred to the players.

Organizers must use the growing interest in eSports to increase the customer value of viewers. Access to eSports content on the most popular platforms is currently free and the growth of media rights fees is limited. However, maintaining the bargaining power of Twitch and YouTube Gaming seems unlikely in the long term. ESports fans are prepared to spend part of their monthly expenditure on paid content. As consumption





increases, not only does the absolute eSports expenditure increase significantly overall, but the proportion spent on paid content also rises (Deloitte, 2022). This shows that the fan community values the eSports content itself and that the focus is not shifting to the lifestyle products surrounding eSports. Therefore, organizers do not need to focus their efforts to improve profitability solely on developing new revenue streams, as appears to be the case with team organizations. If operational efficiencies ensure that more content can be produced at a consistently professional level at little additional cost, this can also be a viable measure.

## 9. Conclusions and developments

In analyzing the market behavior of the players, this paper identified a dynamic understanding of roles, which is why the eSports value chain is subject to constant change. In addition, the boundaries to the larger gaming ecosystem are increasingly fading. The SCP paradigm can explain the different behavior of market participants:

When looking at publishers, the balance of power in the eSports value chain is in their favor: they decide how much they want to invest in building a competitive title to give themselves the chance of additional popularity. As supporters of the leagues and tournaments, they then decide how much this popularity is worth to them. Publishers benefit both from the additional attention for the game and from the narrowed focus it promotes. As a result, they have an incentive to intensify the favorable concentration of market structures and expand their eSports involvement. They also have the necessary resources to combine more and more roles. By increasingly acting as organizers, established publishers are effectively raising the barriers to entry for both new third-party organizers in the eSports market and new publishers in the gaming market.

When looking at team organizations and event organizers, the development of the eSports value chain is a disadvantage: teams are dependent on the eSports title in which they have developed gaming expertise remaining relevant to the

audience through continuous improvements on the part of publishers. Organizers are dependent on competition performances remaining attractive to viewers and popular broadcasting platforms. Both are dependent on external influences not reducing sponsors' willingness to pay. As a result, this market structure plays against them: despite increasing viewer interest and positive revenue development, team organizations and event organizers are dependent on sponsorship and lack profitability. As a result, they are no longer concentrating on generating revenue from eSports alone, but rather on the links between teams, athletes, competitions, and fans. For the future, team organizations are recommended to develop new sources of revenue and expand existing measures outside of the mere practice of eSports. This will allow them to use resources that are already available in the companies, such as the athletes' gaming know-how and the organization's business expertise. Organizers have opportunities to differentiate themselves from publishers by building brand value. To do this, they must demonstrate eSports-specific expertise and utilize the audience orientation promoted by their business model. Broadcasters also benefit from a diversification of revenue sources, but can also exploit potential in their core business through the growing interest in eSports.

The development of the industry remains exciting because despite increasing interest and growing sales figures, the question can be asked: If team organizations are increasingly becoming agencies that bring together prominent athletes or streamers with their fans and third-party organizers are losing out to publishers in the major leagues and tournaments, is there still a place for pure eSports companies? The result of the industry's current measures to diversify revenue sources will therefore not only determine how successful the eSports market can be in the future but also what the underlying market structure will look like, which business models can prevail, and what influence the developments will have on the eSports value chain.

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