

The Growth of “E-Sports” and its Effects in Modern Economy

AP Seminar - Team Multimedia Presentation

Individual Research Report

”Is e-sports a beneficial product for sponsorship and ownership?”

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Less than twenty years ago, most individuals would be perplexed at the mere concept of the interests and markets that dominate today; despite this, the invention of the internet has rapidly formed the cyberethnographic landscape in which we see in the modern era. With this invention also came the formation of harmonious groups which could discuss such technological topics as competitive gaming and digital group combat. Such a system of customs and similarity of interest has molded our views of digital entertainment, global connection, and most importantly commerce. This has currently manifested itself into the e-sports industry, a competitive video gaming scene which at its peak has garnered a net worth of one billion US dollars and tens of millions of simultaneous viewers. For a large majority of digital tycoons, questions begin on whether or not e-sports is a prevalent and beneficial product for sponsorship and ownership. Based upon comparisons to similar major industries, the profitability of the current e-sports scene, and the benefits of the technological world as an entirety, e-sports points to becoming an incredibly lucrative business for global economic benefit.

Before e-sports is examined economically in its own right, it is at least beneficial to decide whether or not such a new industry is comparable to present competitive industries. Because of the organization of e-sports events, as well as the general rule set and the training required for such a business, traditional sports seem the most logical option for comparison; economically, this seems to hold as well, as many theories of macroeconomics applicable to traditional sports and the public image of such a market is also applicable in the digital sports scene. Such a connection was recently identified by *Technische Universität Ilmenau* Bachelor of Science Jan Henrik Nießen, who outlines the general sports economic theories applicable to e-sports, relevant to the customer groups involved such as audience. Within the article, he introduces the principal for ordinary goods markets of “homo economicus”, which states that “[persuasive] effects between customer groups are the decisive factor” for maximized profits (Nießen 3). He then continues and defines the broader application of such a theorem to platform markets, stating that such customer groups can include audience as well

as advertisers, the teams themselves, and the game publisher of the e-sport which is being contended (Nießen 4-8). Such a theorem can be viewed as useful for a maximization of profit; as figure 1 within the thesis shows, the sphere of influence within the gaming community for a specific e-sport is controlled by the advertisers of both the sport team and the game, the game publishers themselves, and the teams themselves. Should a specific game have a mass following through developer advertising, it is then reasonable to assume that such a game's outreach can be increased via a competitive scene around the game. One practice Nießen also outlines as a strategy of investors to maximize interest is that of vertical integration, a method of organizing separate companies under one organization to fulfill an end product. An example of this in the e-sports scene would be a game developer advertising their game in a competitive way, licensing their game to a tournament organization in exchange for media control and rights, then broadcasting the game, garnering the developer more profits than they would have off of the original product (Nießen 11; BER). While this last method is controversial, it shows how important the ever-growing e-sports scene is economically – by maximizing the excitement around a particular product, a larger audience is drawn towards the developer, creating more interest for the product and the competition, which in this stage would become a form of advertising.

Due to the fact that advertising is such a prevalent part of interest in e-sports, it is then vital to notice the monetary effects from such a large crowd that the e-sports market presents. Kengo Miyakoshi of the *University of Southern California's Economics Review* journal identified a multitude of sources wherein an e-sports team may be able to earn massive amounts of wealth. Similar to team-based sports, teams within e-sports leagues are able to earn sponsorship deals and prize money from competitions. One of the largest examples of sponsorship opportunities is with the legacy e-sports team Cloud9, which “the energy drink brand Red Bull and the smartphone company HTC [having] jersey sponsorships” (Miyakoshi)’. Such a deal can bring in major amounts of revenue for both the organizations partnering with teammates, as well as the teams themselves. The prize money of such

organizations is an additional promising benefit, as games such as Valve's *Defense of the Ancients 2* and Epic Games's *Fortnite* have previously given prize money in 2017 as high as \$112 million and \$100 million combined, respectively (BER). Such large sums of money means that a starter player in some championships may earn as much as \$320,000, as well as traditional job benefits such as 401K and health insurance (Miyakoshi).

While a major source of income for the organizations, this is not a steady income for all – rather, the team players rely on monetizing their practice sessions for stable income in the sale of content creation and merchandise. The aforementioned *League of Legends* World Championships is traditionally streamed on internet platforms such as Twitch and G4TV, and viewers of the game previously “spent a total of 10.65 million hours watching the game in just a span of 8 days” during its World Championship (Miyakoshi). Because of the large fanbase on websites such as Twitch and Youtube, players will also upload and broadcast their play sessions for fans, earning roughly \$2.50 per month per individual subscribed to their channel, or approximately \$30,000 per annum per 1,000 subscribers added to their existing salary and prize money (BER). Merchandising is also partially effected by such a large fanbase, as team players can advertise both team and individual products; such products may include team jerseys and banners, personal figurines, stickers, in-video-game character personalizers, and gaming equipment such as computer keyboards and controllers (BER). Such merchandise is often sold in the figure of Veblen's Economics, a sale tactic stating that a good's demand increases as price increases due to the item being a status symbol amongst different groups (Miyakoshi). Such a loyal audience and a group of opportunities for both individual players and the team as a whole is a major incentive going forward for investors into these companies and the growth of the companies in general.

In conclusion, the growth of the competitive gaming scene is one which is in not only high demand, but also in massively growing supply. The industry of entertainment in which it was founded is not only able to grow due to a large consumer interest and advertising system, but also enables the evolution of practical markets such as the technological space

and the internet broadcasting market. As our world becomes more and more digital, we can only hope that such common hobbies such as television or games can blossom such major economic opportunities that drive our world forward.

Works Cited

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