

Let the Game Begin: How Esports is Shaping the Future of Live Entertainment

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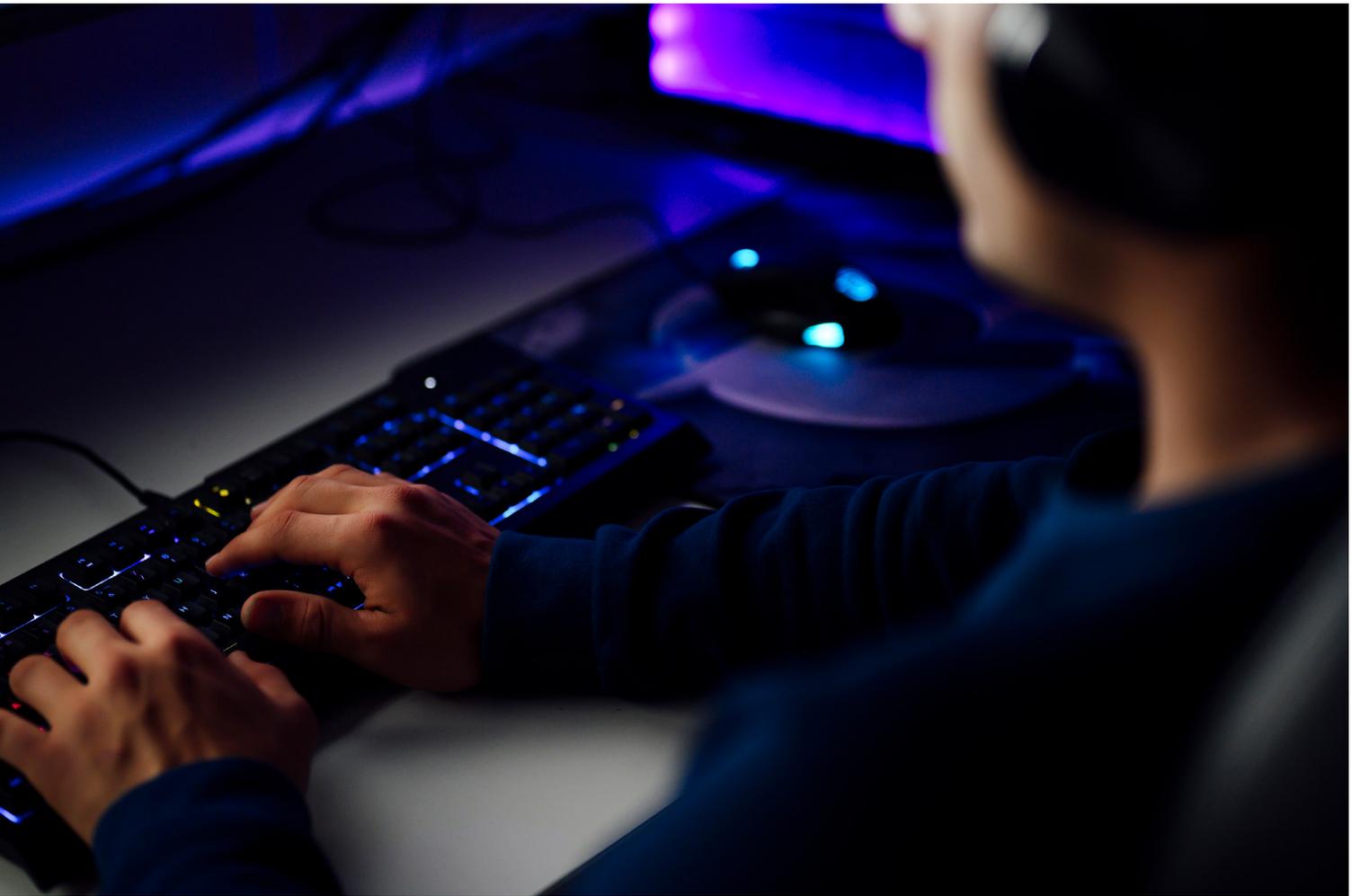
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Foreword

Our last two reports highlighted the rapidly expanding prevalence of gaming in people's lives (especially in the Middle East), and the unprecedented opportunities this opens for the industry overall.

Professional competitions are a natural extension of every game. Video games are no exception with the first esports tournaments dating back to the early 1990s. From there, it was only a matter of time for them to move from arcades to arenas, and the stakes to grow from bragging rights to millions in prize money. This report explains what esports is, where it differs from traditional sports, and how to best leverage its potential both globally and in the Middle East.

This report addresses key questions, painting the picture of a vibrant new sector bursting with opportunity:

- What is esports and how similar is it to traditional sports?
- How big is the esports market, and what is its growth potential?
- How can stakeholders in esports and other sectors shape the future of esports?
- What challenges does esports need to overcome to reach a significant scale?
- Why is the Middle East well positioned to lead the next wave in esports?

Key insights

Esports is like traditional sports, but with several important differentiators

- Game environment: Competition is built around video rather than physical games.
- Ecosystem structure: Esports has a dedicated ecosystem that includes 2 stakeholders not present in physical sports – game publishers and licensing partners.
- Competition format: While inspired by sports, each video game has a unique composition of events with its own tournament structure and rules.

Esports has a long path to reach the popularity of sports, but is growing very fast

- Even the largest esports events are 50x times smaller than the FIFA World Cup, the world's largest sporting event.
- However, while sports viewership is stagnant, esports is snowballing, with multiple milestones achieved over the last decade:
 - » Top esports events exceed 100 million hours watched, while the time required to exceed this threshold is decreasing.
 - » Top esports events sell tens of thousands of tickets for live attendance in days or even hours.
 - » Esports events are growing both in number (>300 tournaments with prizes \$100,000 or more) and prestige (average prize level doubled from 2018 to 2021 – e.g., The International's \$40 million prize pool in 2021 approached Wimbledon's \$50 million).
- Esports growth will likely continue as much potential remains untapped: esports audience is ~500 million, just 15% of total gamer population (3 billion). This potential may be captured by both existing or new video games with mobile game-based esports being an important trend to follow.

All stakeholders see esports' potential and are actively working to professionalize the industry

- Esports clubs are starting to professionalize and grow scale: e.g., Team Liquid covers >15 esports games and has created a diversified business model with >25 million fans.
- National governments are adopting esports-related legislation: e.g., France has recognized esports as a professional sport as well as esports competitors as athletes.
- Multinational bodies are experimenting with esports: e.g., Asian Games 2022 will have 8 esports disciplines.
- Esports federations are creating dedicated programs to find and nurture talent and make esports a sustainable career: e.g., Japan's JeSU offers minimum annual salaries in esports leagues, while some Chinese regions support esports players to acquire real estate and pursue higher education.
- Brands are leveraging esports as a marketing channel: e.g., HP, Intel, Mercedes-Benz, Nike and Louis Vuitton are promoting their products through esports.

Stakeholders act mostly on a stand-alone basis now, but they will need to collaborate to significantly scale esports

- The business model is not yet sustainable: Esports needs to unlock the potential of media rights to transition from being a “marketing cost” for video games to a stand-alone industry.
- Game publishers are cautious: Esports is not a risk-free endeavor as it can impact the perceptions or reputations of the underlying video games (publishers' main business), but collaboration might be a path to optimize costs and grow the esports scene at the same time.
- Regulations are nascent: stakeholders need to adopt basic practices like in traditional sports (e.g., event calendar), while governments need to consider recognizing esports as an industry and career to make it more organized and predictable, especially for clubs and fans.

Middle East is establishing itself as an emerging leader in esports

- The Middle East offers significant potential for the gaming industry, with a **large population of gamers** and a track record of recent **investment**, which is promising for global esports ecosystem.
- Saudi Arabia created the largest independent esports event (Gamers8) with 12 esports competitions in 2023 and an unprecedented \$45 million in prizes over 8 weeks, while implementing programs to support esports clubs and athletes.
- United Arab Emirates (UAE) is also very active in the field, establishing gaming hubs (e.g., Abu Dhabi Gaming is a home for Nigma Galaxy esports club), hosting top global events (such as BLAST Premier World Final for CS:GO in Abu Dhabi in 2022 and 2023, and the PUBG Global Championship 2022 in Dubai), and creating strong local events (e.g., Dubai Esports Festival, Games for Change summit in Abu Dhabi, and an anime and gaming festival in Al Ain).



Esports: in introduction

Esports gets inspiration from traditional sports in many respects, but differs in 3 important ways:

- Game environment
- Ecosystem structure
- Competition format

Game environment

Firstly, competition is built around video rather than physical games. While this may sound easy or even trivial, the intensity of an esports tournament can match that of a football final. Esports athletes experience significant stress and increase in their heart rate¹, while demonstrating extraordinary skills (unique in each genre), such as speed in their reactions (<200ms) or actions-per-minute (400-600 APM).

Even today, the likelihood of success in competitive esports is scarce for casual gamers. As with traditional sports, participating at a professional level demands full commitment and dedication from players, who spend 70-80 hours per week training to be the best in their game. Teams/players often live together to optimize their training schedule, sharpen team strategy, tactics, and communications, and develop their individual skills by playing daily against other great players. Complex systems emerge around players to ensure they are ready for important matches. Training schedules include developing new tactics, perfecting current ones, and sparring with other teams and players to evaluate skills and identify gaps. Although they play video games, esports athletes find that physical and mental health are critical for success, so many teams embed nutrition, physical training, and psychological support in their daily routines.

1. Source: [National Library of Medicine](#)

2. Required for games based on existing IP; otherwise all IP rights are owned by the game developer / publisher

3. Currently Lord of The Rings rights are owned by Embracer Group

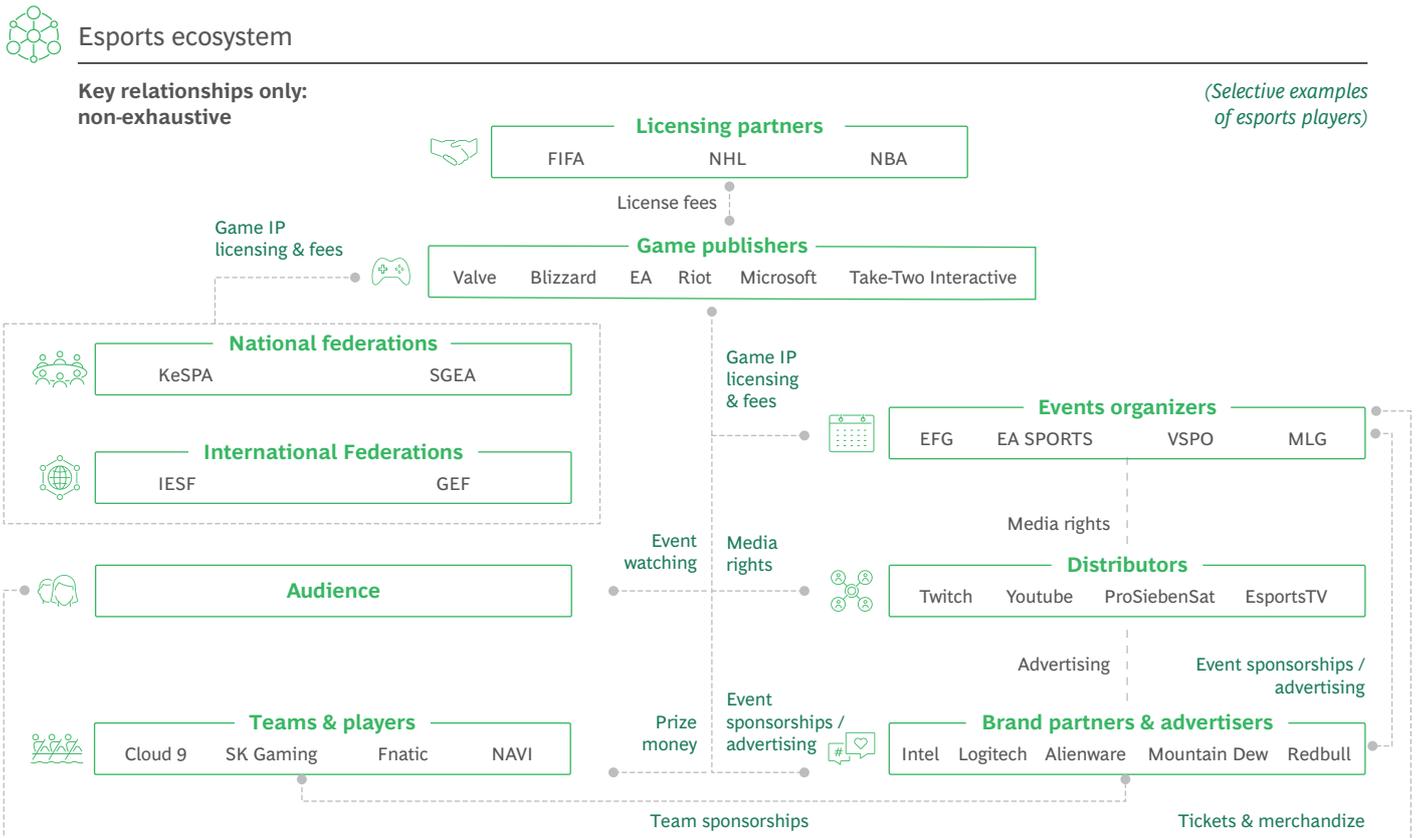
4. EFG is the entity launched as a result of the merger of 2 major esports events organizers: ESL and FACEIT

Ecosystem structure

Secondly, esports is embedded in a dedicated ecosystem ([Exhibit 1](#)) that includes 2 stakeholders not present in physical sports – game publishers and licensing partners:

- **Game publishers** own the core game IP that is licensed for use in professional competitive games (i.e., events in which prize money is awarded).
- **Licensing partners** provide game publishers with the rights to their proprietary IP to produce a game². Examples include FIFA licensing Electronic Arts to make the FIFA game, or Middle-earth Enterprises licensing Lord of The Rings and The Hobbit to Vivendi³, then EA, and then to Warner Bros. Interactive.
- **Event organizers** are the facilitators at the center of the ecosystem, arranging the leagues or tournaments, assembling the teams/players, prize money, sponsorships, licenses, and so on. They are then responsible for marketing and managing the event. Event organizers may be esports event specialists (e.g., EFG⁴), game publishers (e.g., Capcom Pro Tour / Street Fighter championship, or Major League Gaming owned by Activision-Blizzard / Overwatch and Call of Duty), private or public organizations.
- **Distributors** include the streamers and broadcasters that bring the competition to a global audience.
- **Esports clubs** bring together professional teams and players (athletes) to compete at major competitions, and nurture semi-pro talent. Today the leading clubs consist of multiple rosters that cover different video games.
- **Sponsors and brand partners** currently provide the lion's share of funding to the ecosystem, attracted by the young audiences and active communities.
- **The audience** is typically comprised of gamers who are fans of specific competition titles, teams, or players.

Exhibit 1 - Esports ecosystem requires cooperation between many diverse stakeholders



Source: Newzoo, Expert Interviews, BCG analysis

Competition format

At a high level, esports competitions are similar to sports, with qualifying matches, playoffs and finals. They are also hosted in stadiums with live broadcasting through (mostly) digital media such as Twitch or YouTube. However, the differences between game genres and complexity of ecosystem influence esports operations significantly.

- **Teams / players:** Each competitive video game (title) has its own approach. For instance, most First Person Shooter (FPS) competitions are built around 2 teams of 5 players each, while Battle Royale (BR) games might have 100 individual players, or 50 teams of 2 players each.
- **Tournament structure:** With notable exceptions like Battle Royale, most esports follow a typical sports model and progress through group stages; however, their

format can vary significantly. Depending on the title, a tournament can be structured as follows:

- » Round Robin where every team plays against every other (e.g., Dota 2).
- » Swiss Round in which winners play with winners and losers with losers after the 1st stage (e.g., StarCraft II).
- » Single/Double Elimination where losers are eliminated after one or two losses respectively (e.g., CS:GO, Rocket League, Hearthstone).
- » Battle Royale has a unique format at each tournament stage level, with all teams playing with each other multiple times in a row (the players/teams with the most points advance).

- **Rules:** Each game is truly unique. For instance, both CS:GO and Valorant are FPS, but they may have a different number of rounds played per match (mostly best of 3 (Bo3), but some events may have Bo5 in grand final) or number of wins required per round (15 in CS:GO vs. 13 in Valorant). In addition, there are many game-specific rules (e.g., CS:GO is cautious about some game mechanics, like one-way smokes, while Dota 2 prevents any kinds of automated scripts).
- **Competition organization:** Some games (e.g., CS:GO, Rocket League) are organized in an open structure, similar to tennis in traditional sports. Valve is one great example to follow, as it recently announced changes in its CS:GO esports ecosystem which will be effective in 2024⁵. The game developer introduced new requirements to ensure all events secure teams based on their performance as per Valve’s ranking system or open qualifier events. In an open structure, competitions have Challengers/Qualifiers that resemble regional

competitions where competitors earn points. Teams that are successful in Challengers/Qualifiers then go to Masters/Majors to compete with the established teams. The pinnacle is Championship/Anchor events – prestigious competitions between the best teams only. Other games (e.g., League of Legends, Overwatch) are organized in closed leagues, analogous to major American sports leagues like the NFL or NBA. Teams (franchises) are selected and secured for multiple years. Those teams then compete through the season in multiple events (though not single matches as with the NFL/NBA), and the best teams then qualify for the final event to determine the League winner.

Therefore, while esports has many similarities with physical sports, it has a more complicated ecosystem. This drives innovation in many directions to cater to all ecosystem participants (especially game publishers, athletes, and audiences).



5. Source: Esports Insider “Valve set to overhaul Counter-Strike esports ecosystem with major tournament rules changes”

Esports market and its potential

Not surprisingly, given the ecosystem complexity and relative youth of the industry, esports is quite fragmented compared to the mature traditional sports markets. This section will provide an overview of the esports market based on key metrics (audience numbers, prize levels, ticket sales) and explore the feasibility of scaling further.

Esports market overview

Esports is still far from achieving the popularity of major traditional sports, but it is moving quickly in this direction. Even leading esports events like League of Legends attract just a fraction of the viewership achieved by their sports equivalents like the FIFA World Cup (76 million viewers by media estimation vs. 3,500 million, and 0.2 billion hours

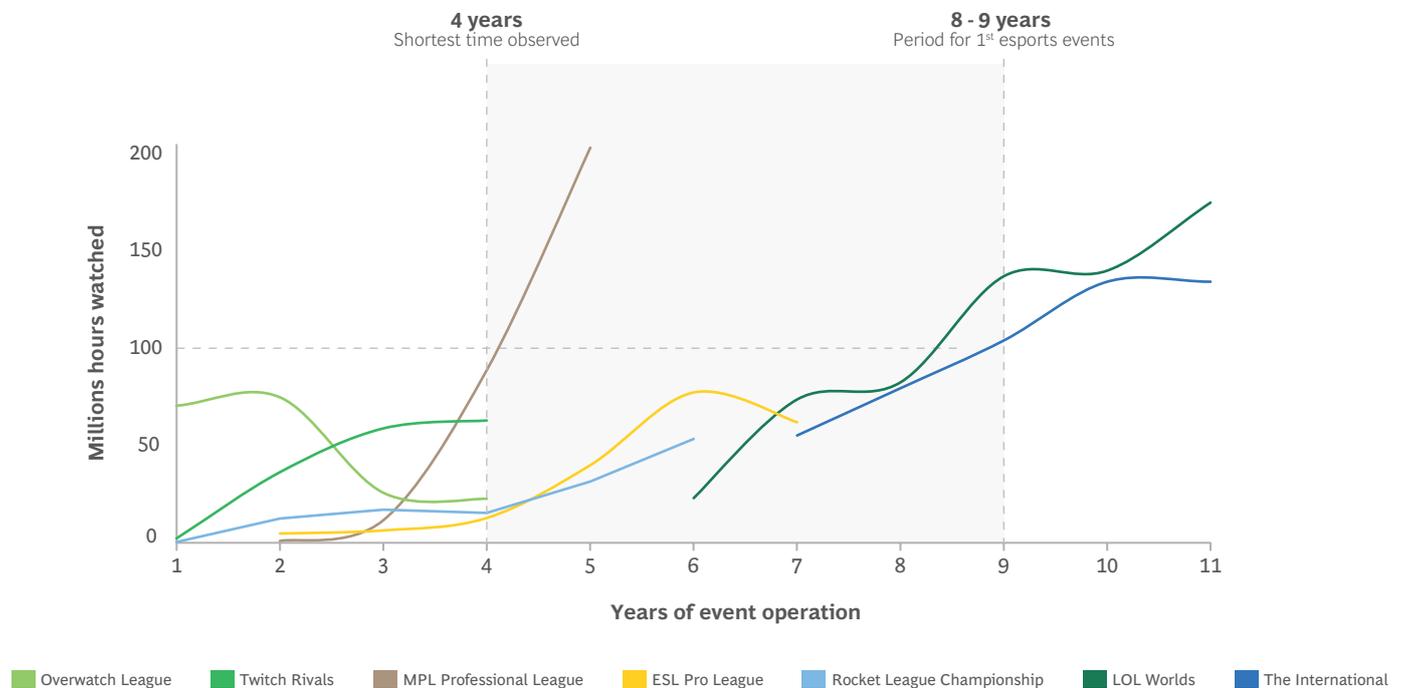
watched vs. 35 billion). However, esports has hit multiple milestones over the past 30 years, with especially strong growth in the last 8-10. For instance, several esports tournaments have exceeded the 100 million hours watched threshold. Moreover, where it took 8-9 years for the first comers like League of Legends Worlds and The International for Dota 2 to reach that number, ML:BB achieved it in just 4 years (Exhibit 2). Overall, esports viewership keeps growing, while that of leading sports is stagnating or even decreasing.

- **Sports:** Almost no growth, with CAGR 2014-2021: NFL 0%, MLB (-2%), NBA (-3%), UEFA (-11%)
- **Esports:** 10% year over year growth 2021 vs 2022: e.g., League of Legends +9%, Arena of Valor +30%, Dota 2 +7%

Exhibit 2 - The time to reach 100m hours watched is getting shorter

Illustrative: 100M hours watched threshold is a proxy for a wide adoption for the event

For League of Legend Worlds, The International (Dota 2) statistics are not available for the first 5-6 years



Source: Esportscharts

Fans are attracted by the level of skill and competition they see at esports tournaments. For example, IEM Cologne attracts 15-20 thousand people to watch leading teams competing for a \$1 million prize pool live in a stadium, comparable to many physical sports events. Nevertheless, the audience is younger than for major sports leagues, tech-savvy, and relatively wealthy (Exhibit 3). These characteristics make esports a promising marketing channel for many brands.

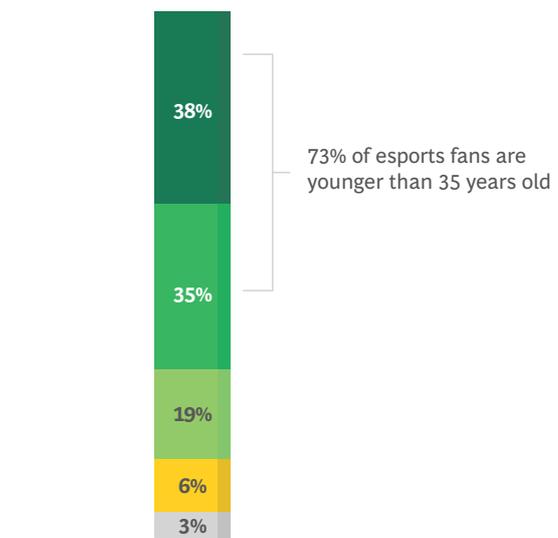
The audience is also passionate and loyal in its demand for specific games. In 2013, tickets to the League of Legends world championship final in Los Angeles sold out the 17,000-seat venue in less than an hour⁶. In 2016, The International Dota 2 Championship sold out the 40,000-seat World Cup Stadium in Seoul and drew an online audience of 27 million. Games have now become coveted social events. For example, rapper Travis Scott opened his Astronomical Tour on Fortnite in April to an audience of ~28 million gamers.

This demand continues to drive esports market growth. There are now 300 tournaments with prize pools exceeding \$100,000. Approximately 30,000 professional esports athletes competed in 2022, compared to 14,000 in 2015. Moreover, the median tournament prize pool has significantly increased: from \$270,000 to \$600,000 between 2018 and 2021 for professional events.

Leading esports have reached a significant scale across multiple game genres: Multiplayer Online Battle Arena (MOBA) (e.g., League of Legends, Dota 2), First Point Shooters (e.g., CS:GO), Battle Royale (e.g., PUBG, Fortnite), and Collectible Card Game (e.g., Hearthstone). Leading tournaments offer \$1 million plus prize pools, with the International's \$40 million 2021 prize pool approaching that of Wimbledon (\$50 million).

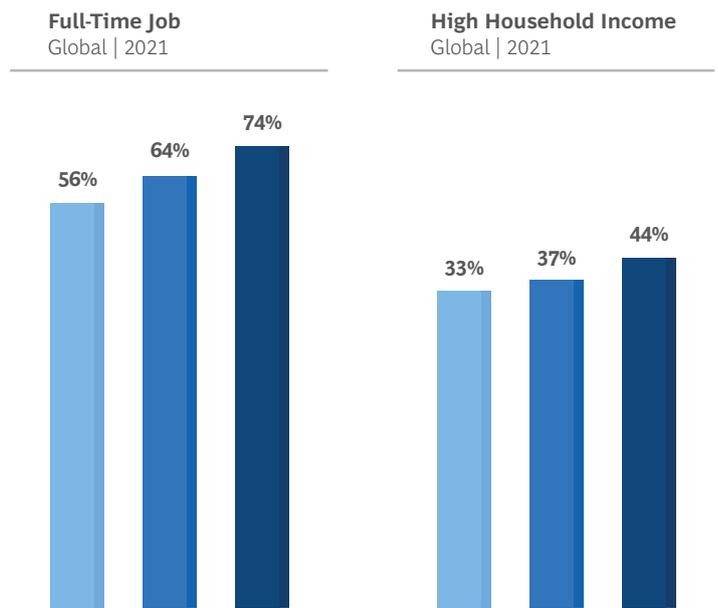
Exhibit 3 - Esports audience is young and relatively wealthy

Age distribution



Age: 16-24 25-34 35-44 45-54 55-64

Personal wealth demographics¹



Online Population Occasional Viewers Esports Enthusiasts

¹ Esports Enthusiasts (watch esports content at least 2 times a month) and Occasional Viewers (watch esports content once a month or less)
Source: Newzoo Global Esports & Live Streaming Market Report 2022

6. There are many similar examples, including a similarly sized venue in Berlin selling out in just three minutes (2013), all 10,000 tickets to the Dota International tournament in Seattle selling out in an hour (2014), then again in just 10 minutes (2015).

Pathway to scale

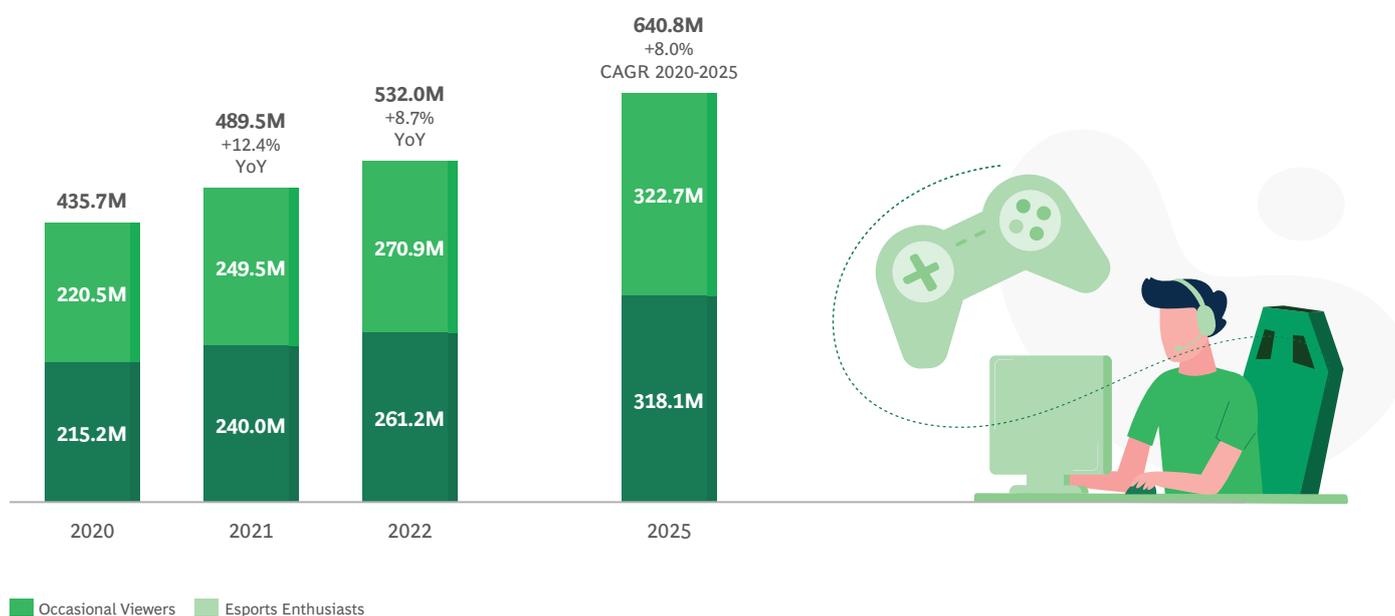
While the esports audience is still smaller than for leading traditional sports such as football, it has a unique advantage – high growth potential. Today, only ~15% of the gaming audience also follows esports. But as more games create a strong foundation, that number is likely to grow.

Newzoo estimates that there are approximately 3 billion gamers in the world today, with ~500 million esports fans, indicating a current untapped potential of 2.5 billion people⁷. This provides more than conducive grounds to build the needed momentum for gamer audience growth over the next years. (Exhibit 4).

Exhibit 4 - Esports audience growth

Global | For 2020, 2021, 2022 and 2024

Due to rounding, esports enthusiasts and occasional viewers do not add up to the total audience in 2022.



Source: Newzoo | April 2022 Global Esports & Live Streaming Market Report

One of the reasons for esports' great potential is that this growth has been driven by just a handful of titles. In 2022, five games accounted for 70% of total esports hours watched: League of Legends (23%), CS:GO (14%), ML:BB (13%), Dota 2 (12%) and Valorant (10%)⁸. However, esports has much broader potential, and multiple new games are

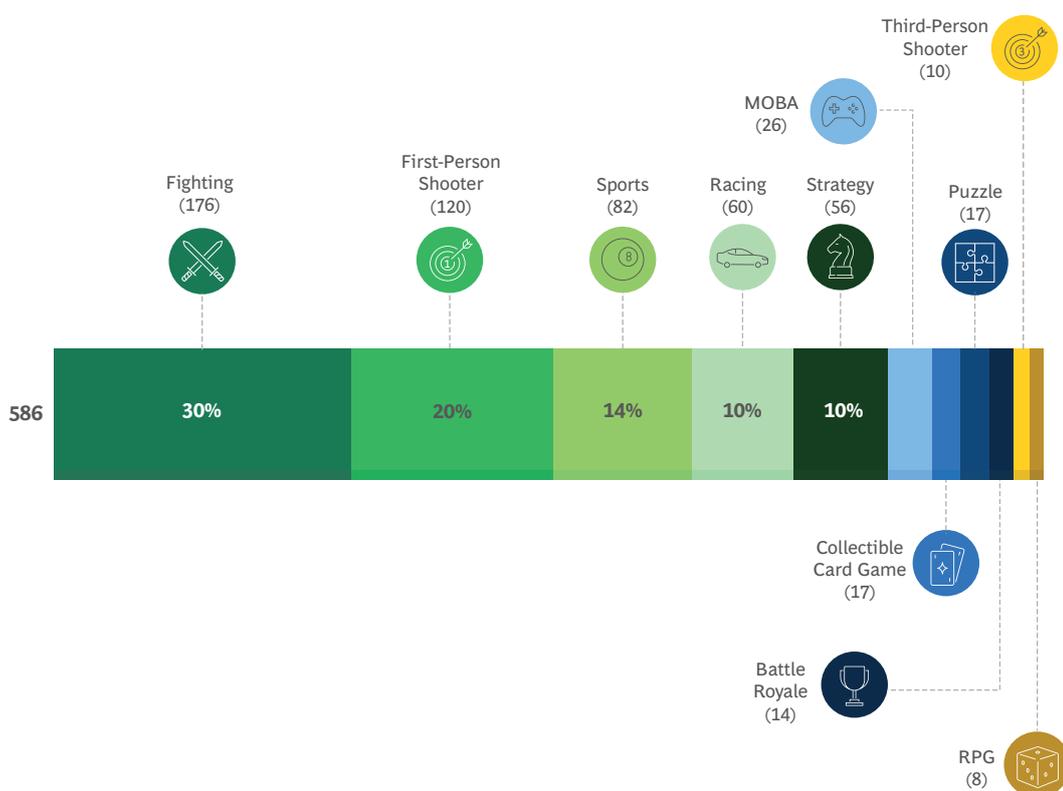
starting to emerge (especially in mobile gaming). Over the past 30 years, there have been 586 games across 12 genres with esports competitions, mostly in the Fighting and First Point Shooter genres, following the development of arcade and PC games (Exhibit 5).

7. Esports Audience Will Pass Half a Billion in 2022 | Esports Market Analysis (newzoo.com)

8. Source: Esportcharts "Most Watched Esports Games of 2022"

Exhibit 5 - 586 esports titles across 12 genres existed over last 30 years

Games with non-zero all time prize pools¹ by genres



So What?

"Fighting and First-Person Shooters emerged as pivotal genres in the 1990s. In response, many gaming titles incorporated esports events to captivate and engage their audience."

"MOBA and Battle Royale, while newer genres, have quickly risen in popularity. Several of their titles have effectively parlayed this success into a significant esports presence."

¹Sum of all prize pools from esports tournaments since game was launched
Source: Esportsearnings, Esportscharts, BCG analysis

Of these, 42 titles have active esports competition today, including 27 with promising potential in the next several years. They can be classified into four key groups:

- 1. Established leaders** are 5 games that drive esports today (League of Legends, CS:GO, ML:BB, Dota 2 and Valorant). They will likely continue being the key esports disciplines for the next several years.
- 2. Challengers** are slightly behind leaders, but have strong potential and fan base (Fortnite, PUBG, Rocket League, Apex Legends and Overwatch 2). These are typically driven by general game popularity – e.g., Fortnite and Apex Legends rank among the top live streams overall, including casual streams of popular streamers and esports athletes playing in their free time.
- 3. Strong supporting games** have core audiences in the gaming community (e.g., StarCraft 2, FIFA, Hearthstone,

Super Smash Bros, Smite, Magic: The Gathering). StarCraft 2 is a good example with a community reaching back to the 1990s.

- 4. Mobile games** will be key drivers of future esports growth. In 2020, only two ranked in top 10 esports games by hours watched (ML:BB and PUBG Mobile), rapidly growing to 4 in 2022 (ML:BB, PUBG Mobile, Free Fire and Arena of Valor).

While list of top games seems unlikely to change in the foreseeable future, there is significant untapped potential for mobile games in esports:

- **Coverage:** Mobile esports is popular in China and Southeast Asia, but not yet in other regions (primarily due to many free-to-play games existing on PC/Console). This is starting to change with large game publishers entering the space (e.g., League of Legends was adopted to mobile).

- **Investment:** Some game publishers start to invest in mobile esports: Clash of Clans and Free Fire have tournaments with >\$1 million prize pools despite viewership still lagging comparable PC titles. Other publishers may well follow.
- **Innovation:** Mobile can create new genres promising for esports. For example, the new genre of “auto battler” was created in 2020, with leading IP quickly building on the trend – Activision-Blizzard has developed arguably the most popular game so far (Battlegrounds mode within Hearthstone game⁸) which could grow into a solid esports discipline.

Video games are more complex than traditional sports. Only a few genres, sport simulators or racing, do not

require special knowledge. For example, League of Legends and Dota 2 (both MOBA games) have >140 and >120 playable characters respectively, each with its own special abilities, statistics and upgrades. Hearthstone (CCG) has >1000 cards to create card decks from. Esports events for such games attract mostly active players, as real gaming experience is required to understand what is going on in an esports match.

Thus, while 42 games have growth potential, it is likely that esports scaling will also require other games to emerge. Existing games will account for some audience growth in the future. However, their potential is limited by popular relevance, accessibility to a wide audience of multiple skill levels, and ethical concerns (e.g., the level of aggression in First Point Shooters).



9. Other leading game publishers also followed the trend: Riot introduced Teamfight Tactics, while Valve created Dota Underlords

Esports stakeholders and value drivers

Esports growing scale is attracting attention from all stakeholders in the esports ecosystem. Each has a distinct role in shaping esports' future:

- **Esports clubs** are starting to professionalize and grow in scale.
- **National governments** are adopting esports-related legislation.
- **Multi-national bodies** like the IOC are experimenting with adding esports to their agendas.
- **Esports federations** are creating dedicated programs to find and nurture talent and make esports a sustainable career.
- **Brands** are pursuing esports as a channel to promote their products.

Esports clubs

Its rising popularity is spurring esports to become more professionalized, closer to what we see in traditional sports. Game publishers are creating esports leagues that closely parallel their professional sports counterparts.

- **Scale: ~40 esports clubs can now boast top-tier teams in 2+ games.** Most esports clubs started with a focus on one game, but key franchises are extending their capabilities. For example, G2 was established in the end of 2014 to compete in League of Legends, but currently covers 7 games, including League of Legends, CS:GO, Valorant, Rainbow Six Siege, Fortnite, Apex Legends and Rocket League. Team Liquid has even larger coverage with ~15 games.
- **Popularity: ~15 esports clubs have >10 million followers.** As in sports, strong performance in competitions draws a loyal fan base, and significant attention both to specific players as celebrities and a club's brand. FaZe Clan has had tremendous success in the esports arena, attracting ~70 million followers on social media. TSM, Team Liquid, 100Thieves and Luminosity Gaming boast >25 million followers each. Most followers come via Twitch, which has a direct

connection with gaming as fans watch esports players' streams. But esports clubs often have strong presence on other platforms – e.g., FaZe Clan has 11.5 million followers in Instagram, while LOUD has >12 million followers on YouTube.

- **Value: At the end of 2022, the top 10 clubs' collective value exceeded \$3 billion.** Investors also supported esports clubs, anticipating overall segment growth. Multiple teams have raised hundreds of millions of dollars in funds. At the end of 2022 TSM was valued at \$540 million, and Team Liquid at \$440 million, implying 10-15x revenue valuations. While this is still less than the leading sports franchises like the Dallas Cowboys (valued at >\$7 billion), it nevertheless indicates strong progress for the young esports industry.
- **Business model: Esports clubs are actively diversifying their business models.** With the recent inflation, interest rate-induced economic downturn, and shift in investor priorities, esports clubs are trying to establish more sustainable business models. FaZe Clan offers a cautionary tale. This very successful club (its CS:GO team has won most major tournaments in 2022) completed an IPO valued at \$725 million in 2022. But then high operating expenses and losses created financial difficulty, leading to a 20x drop in the value in Q1 2023. Such economic pressures have led esports clubs to actively diversify their activities. Previously focused on esports competitions (with main revenues being from sponsors – prize money is often distributed directly to players), clubs today are transforming into media / entertainment companies. Some attract popular streamers (e.g., G2 has >10 content creators, including former leaders in various games such as Hearthstone; FaZe Clan had Snoop Dogg in Board of Directors and as a streamer) or transform their esports athletes into streamers (e.g., Tier One). Top clubs also monetize through branded in-game items, often launched before major tournaments. In addition, many clubs like G2 and Team Liquid have developed their own mobile applications, giving fans access to unique content, merchandise, events, and even NFTs, that drive additional monetization. There is still room for further innovation, e.g., creating a strong brand in specific products/ services as top global streamers such as MrBeast do.

National governments

Government support is crucial for such a young industry as esports, recognizing that traditional sports have benefited from government investments in infrastructure, subsidies, and tax benefits. While esports could reach traditional sports' level in the future, it will require government nurturing.

Some countries are starting to acknowledge esports as an industry, which is a critical first step. In France, for example, esports is an official sport, with its players recognized as athletes under the country's new Digital Republic Bill. Denmark has integrated esports into the curriculum in 70 schools across age ranges throughout the country. China recognizes esports professionals (players and organizers) as official occupations, although it has started to regulate gaming hours for children which may impact esports' growth and athlete development.



Multinational bodies

Olympic committees are also exploring esports to boost the popularity of the Olympic games. The International Esports Federation (IeSF) has submitted a request for the International Olympic Committee (IOC) to recognize it as an official sport. IOC has responded by providing IeSF with the necessary steps for such recognition, acknowledging that, someday, esports may feature in the Olympic Games. In 2021, the Olympic Council of Asia announced which titles would be added to the 2022 Asian Games (to be hosted in September 2023) as medaled events: League of Legends (MOBA); Dota 2 (MOBA); Hearthstone (Card); Street Fighter V (Fighting); Arena of Valor (MOBA); Dream of the Three Kingdoms 2 (MOBA); FIFA (Sports); and PUBG Mobile (BR).

It is interesting to look more closely at how these titles were selected. Of the eight, four are MOBA (multiplayer online battle arena), primarily due to this genre’s popularity within the esports community. We also see titles included that specifically appeal to a regional audience. For example, Dream of the Three Kingdoms is

popular with the Chinese audience (and less known outside of China), while FIFA has a strong presence in the Middle East and parts of Europe. The absence of a shooter title is also notable – in particular, Valve’s CS:GO, a quintessential esports title and one of the few that offers fairly unrestrictive licensing requirements for event organizers. In general, the selection of titles comes down to the popularity of the games, but also the restrictions publishers may place on their titles being used for such competitions and possible social sensitivities.

It is worth highlighting that as esports is still at the early stage of development, national games seem to be a bit premature for the industry. Over 60% of the top 8 esports teams are multi-national, while national events in esports are not yet common (e.g., compared to football, where national competitions are the most anticipated events). These factors incentivize players to focus on the success of their esports clubs, leaving limited bandwidth for national games. While IeSF hosts the World Esports Championship, so far its viewership is 30-35x lower than for leading team-based esports competitions (Exhibit 6).

Exhibit 6 - Attracting the best talent to the event is key to gain viewership

Competitions between esports teams / players

100+ events

DOTA Pro Circuit	BLAST Premier
ESL Mobile Open League	PGL Majors
MPL	DreamHack
League of Legends Championship Series	PUBG Global Championship
ESL Proleague	ESL One

Competitions between nations

~5 events

IESF
Global Esports Games
PUBG Nationals Cup
WCG
Hangzhou 2022 Asian Games

So What?

- "The majority of successful esports teams boast an international composition."
- "Top esports games emphasize esports teams and maintain bustling esports schedules, leaving little room for national events."
- "Events orchestrated by game publishers have so far proven to be more prestigious and financially rewarding for esports talent."



¹TOP competitions are single game and between teams or individual players
Source: Esportsearnings, Esportscharts, BCG analysis

Esports federations

Esports federations are building on government interest and starting to develop programs that nurture talent and help athletes pursue careers in the field. Japan’s JeSU now offers financial guarantees for players, with minimum annual salaries in esports leagues. Some Chinese regions provide support to esports players to acquire real estate and pursue higher education. KeSPA in South Korea introduced multiple supporting levers for esports athletes years ago (from event organization to post-career support and compensation) and is extending them further. For example, it now offers legal advice to teams/players on visas, taxes, etc. Private entities are also following the trend, including universities in the USA and Europe now awarding scholarships to esports players.

A supporting ecosystem is emerging, with further growth expected as popularity and the willingness to spend on

esports continue to rise. Many of the elements of professional sports are making their way into esports. Already, we have managers, coaches, training centers, nutrition specialists, sports psychologists, and other experts working with professional esports athletes. Online competitive gaming platforms provide an opportunity for young talent to begin honing their skills and make a name for themselves. This was critical early in the COVID pandemic as events went completely virtual, proving esports could continue in a largely online format.

Brands

Brands have started leveraging esports as a key marketing channel to reach their target audience and build brand awareness and loyalty. Today 45% of sponsorships already come from companies outside the gaming industry (Exhibit 7).

Exhibit 7 - Sponsorship extends well beyond the gaming industry

Link to gaming	Group of sponsors	Key sponsors (selected examples)	% of all sponsorship ¹
Brands with strong connection to video games	Computers	Alienware AMD Corsair Hyper Logitech Legion Logitech G CyberPowerPC NVIDIA HP OMEN RAZER ScufGaming Zowie Steelseries Intel	28%
	Gaming-related furniture	DXRacer HermanMiller Need for Seat Meta Threads Secret Lab Vertagear	14%
	Video/Streaming	Twitch Huya.com TikTok Crunchyroll	7%
	Audio	BOSE EPOS JBL	6%
	Total		55%
Other B2C/B2B brands	Drinks	RedBull Monster Gfuel	8%
	Telecom	AT&T Motorola T-Mobile Verizon Xfinity	7%
	Cars	BMW Honda Mercedes Benz NISSAN	6%
	Wear	Adidas Nike Puma	5%
	Smartphones	Oppos Samsung	4%
	Others	Tumi Razer CISCO SAP AIMLAB CSMONEY FTX Coinbase Mastercard Jack Links Betway GEICO	15%
	Total		45%

¹ Based on number of sponsored teams, events, publishers

² Based on top Esports events and Esports clubs analysis in 2021-2022

Source: Public data research, BCG analysis

Sponsorship can take multiple forms, for example:

- High profile brands like HP, Intel, Gillette, and Mercedes-Benz have been involved in esports for years through partnership and sponsorship deals. HP sponsored the Overwatch League franchise in the US, while Intel has extended its long-term ESL partnership with a three-year, \$100 million deal.
- Brands such as Nike and Louis Vuitton are continually innovating their in-game advertising models, and now offer paid virtual apparel for avatars.
- Several brands have also started to invest in esports directly, including:
 - » Organizing esports academies (Gucci)
 - » Sponsoring esports teams and leveraging them through merchandize and even team names (Honda and Team Liquid in League of Legends) – today esports clubs often have several sponsors.
 - » Creating esports-driven content (Burberry and Gen.G).
- Some businesses sponsor esports activations, events, or conventions:
 - » South Korea's SK Telecom partnered with Niantic, Pokémon Go's developer company, to rebrand 4,000 of its stores through Pokémon and deploy AR Reality.

- » Verizon hosted an esports tournament in Dallas in 2015.
- » Japanese operator NTT Docomo sponsored the top esports event EVO Japan in 2019, showcasing its new partnership with a major gaming company and 5G plans.
- » Telkomsel and Garena jointly hosted the Indonesia Games Championship 2020 esports tournament.

Media companies are leveraging the esports trend to enrich their content and differentiate from the competition, especially in the digital space:

- Time Warner / Telefonica owns Movistar esports, which aims to become the largest provider of Spanish-speaking esports content.
- Netflix experimented with Formula 1 racing through its "Drive to survive" series, which generated a significant boost for F1 in the US and around the globe. While there has not yet been a similar initiative in esports (though some media projects exist on YouTube), certain games' strong fan base makes it possible to envision a comparable effect with a high-quality production.
- Gaming consoles, Smart TV manufacturers, and companies that provide set boxes (like Amazon or Apple) can also experiment with offering esports event content to potentially interested customers.

Main challenges for esports

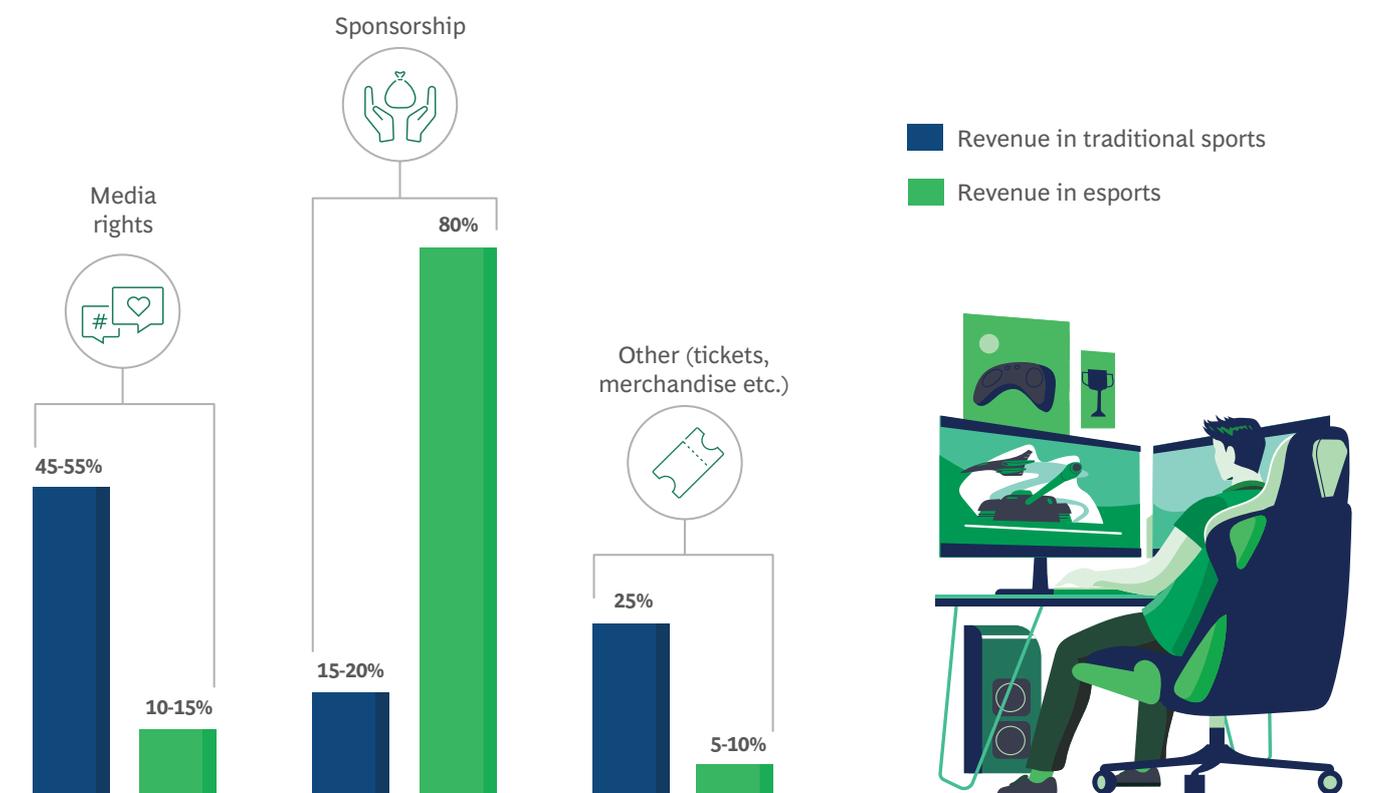
Clearly, this is an exciting time in the world of esports. The industry is enjoying rapid growth, innovation, investment, and popularity. But several challenges will need to be resolved if it is to deliver on its promise, primarily related to:

- **Business model:** Explore paths to increase media rights monetization.
- **Collaboration:** Find a way to grow the esports as an industry without significant risks to game publishers' video games business.
- **Regulation:** Secure fundamental rights and alignment between ecosystem stakeholders.
- **Government support:** Recognize esports as an industry and as a career.

Business model

The esports industry's top challenge is to figure out its business model. The analogous sports franchise business model is built on creating content for a wide audience and monetizing it through media rights. However, esports' relatively limited viewership makes such monetization challenging. Most tournament prizes are distributed among players directly (not to the esports clubs that hire them) to sustain their careers. This leads other stakeholders, mainly esports event organizers and esports clubs, to rely on sponsors (Exhibit 8). A more sustainable business model will be critical to realizing the full promise of esports – one that provides financial stability to clubs and players, expands audience reach, and allows organizers to invest in the production and marketing of top-quality events.

Exhibit 8 - Currently esports industry relies on sponsors rather than media rights



Source: Public data research on top sport and esports events in 2020-2022, expert interviews, BCG analysis

While multiple media players are already experimenting in this space, the trend is in its early days. YouTube is very active in acquiring exclusive rights for esports, part of its strategy to close the gap vs. Twitch in the streaming market. While many deals are not public, it is estimated that YouTube has entered into multi-year deals and paid ~\$160 million for esports from Activision-Blizzard (covering Overwatch, Call of Duty, and Hearthstone), and \$113 million to Riot for League of Legends. Some AVOD/SVOD players are experimenting with esports as content to differentiate themselves from competitors. For example, the Spanish platform Movistar offers dedicated esports content and has invested in an esports club. Some regional platforms, especially those focused on sports, are experimenting with sports simulators like FIFA. TV is also getting involved. While South Korea introduced the first TV streams in the 1990s (focusing on the StarCraft franchise), today some cable TV players are doing so as well, including ESPN (League of Legends, Dota 2 tournaments) and BBC (mostly League of Legends).

Collaboration

Finding a sustainable business model is further complicated by the esports ecosystem. Besides being more complex, a fundamental difference compared to traditional sports is that no one owns basketball or football, whereas there are publishers who own games like Call of Duty or League of Legends. Game publishers are an additional, powerful stakeholder at the negotiating table – they are the gatekeepers determining whether a title can be used for esports or not. Other stakeholders have a limited say in publishers' plans for a game's evolution (e.g., update, discontinue, or launch a new version of a game).

Publishers' shift from a traditional business model of one-time sales towards ongoing monetization via in-game items and subscriptions significantly extends games' shelf life, making them businesses in themselves with constant development. For example, World of Warcraft has been around for 18 years, through 8 major expansions. This means that a game has its own community and brand, which may be damaged by misaligned PR or activities. If an esports tournament is poorly organized or attracts unwanted publicity, it can have a negative impact on the community, game, and its financial performance.

This game-specific context slows down further development of esports, limiting both supply and demand:

- **Supply:** Esports is not generating money so far, while game sales are lucrative. Game publishers are likely to keep being careful about esports participation, treating it more like a marketing expense than a stand-alone business with its own potential.

- **Demand:** As each game is owned by another company, it carries risks for third parties who want to develop esports. It is possible to create and nurture a football league without any dependency on a third party, but impossible with a video game. This risk profile means that most of the investment into esports will come from either game publishers or governments.

Some game publishers have separated esports into stand-alone businesses, organizing esports leagues around their games. While some games are easy enough to attract general video game fans (e.g., CS:GO or Rocket League), it may take a long time for more complex games to become operationally and financially sustainable. A good example is leagues for MOBA or some FPS games with complex mechanics like Valorant and Overwatch 2 (many distinct heroes with their own special abilities / skills – >15 in Valorant and >35 in Overwatch 2), which limits the potential to game fans only. Each league is focused on one game only, so does not capture the broader gaming audience, which is critical at this early stage. We are already seeing the first signs of difficulty. Activision-Blizzard had to allow franchises in its Overwatch leagues to postpone paying fees, equalling up to \$25 million per franchise. Arguably, this led to a somewhat safer approach from Riot, where teams for its new Valorant esports league were selected through an interview and financial review process, but with no franchise fee required.

This status quo will likely drive a change of approach in the market, like focusing on more open leagues (e.g., Valve licenses CS:GO rights to third parties and has 3 successful leagues – ESL, BLAST, and PGL), growing popularity through international events (e.g., Olympic games), or even becoming a part of larger events such as Gamers8 in Saudi Arabia. Potential partnerships to grow not only events for a publisher's own game(s) but esports as a whole, might also take place in the future, especially if the pace of growth slows down.

Regulation

The secondary importance of esports relative to games also leads to a lack of unified rules supporting esports athletes, further slowing industry development. The esports ecosystem requires at least some level of alignment to keep the industry moving forward. For instance, sports leagues typically have clear competition rules, event schedules, athlete contract models, processes for trades between the teams, and other elements that address potential conflicts and provide an opportunity for cross-league coordination (e.g., allowing players to participate in national events or change leagues between seasons). A similar infrastructure could benefit esports as well, with some specific cases requiring additional alignment. Sometimes top players can change video games, which is rare in sports. It is especially

relevant within the same genre, like when the strong CS:GO player “KennyS” joined Valorant. This could use additional clarification and alignment between game publishers / third-party event organizers and their leagues. Another area that requires unification is the overall health and wellbeing of esports athletes, whose career requires them spending long hours sitting in front of their PCs or mobile devices.

In traditional sports, rule changes are approved and facilitated by some form of governing committee. An equivalent body does not yet exist in esports, but may have a role in shaping the format of competitions (e.g., how many rounds of a game to play, points awarded, etc.). Clearly, not everything should be unified or regulated. Game publishers often know their games and communities much better than anyone else, so they are the best stakeholders to oversee the evolution of a specific game (e.g., the balance of power between different game characters, new game mechanics, etc.).

Some degree of unified or aligned regulation is especially critical at this early stage to persuade people that esports can offer a viable career. Fortnite had a prize pool of \$30 million for its top event several years ago, but subsequently reduced it to only \$2 million today. Activision-Blizzard created an esports scene for its MOBA called Heroes of the Storm by establishing the Heroes of the Storm Global Championship in 2016. But then they shut it down in 2018, which forced athletes to quickly change games if they wanted to stay in esports. Such volatility impacts esports athletes’ ability to plan a career.

Government support

Countries have been slow in supporting esports – perhaps understandably, given the context. But this hesitancy translates into a lack of support for esports athletes, which undermines the overall perception and

likelihood of someone choosing it as a career. National recognition as an athlete comes with certain obligations and benefits, which cost money that governments may not always be willing to spend. For example, Spain is, in many ways, the esports hub of Europe because of its popularity there. But the country has not recognized esports as an actual sport. Instead, it includes esports under audiovisual industry development, with a current view that no separate legislation is required. This decision makes it challenging for some people to see esports as a sustainable career. Firstly, it makes esports inherently less stable: a professional esports athlete cannot rely on any game as it can be easily canceled, or have its support withdrawn – not just by the publisher but by the government. Secondly, because esports athletes are not yet recognized by the state (so not technically employed), they do not receive medical insurance or other benefits, compounding the financial insecurity.

To drive esports forward, governments can consider adopting measures including: holistic regulations for esports; incentives for players to select esports as a career; a clear development path from amateur to professional levels; transition after a person’s esports career ends (both direct involvement as a team owner or a coach, and in adjacent sectors such as game development); and guarantees for players during and especially after the end of their careers (typically in their late 20s – early 30s). Governments and their federations can also organize and sponsor esports clubs and events at multiple levels, from in schools through to major global championships, and invest in dedicated or cross-functional infrastructure like venues.

Case study: The Middle East

The Middle East offers strong potential for the gaming industry with **many gamers in the population** and a track record of recent **investment**. It is also very promising for esports.

Gamers8 is hosted by the Saudi Esports Federation (SEF), with Savvy Games Group as the lead sponsor and EFG as the event operator. The first Gamers8 was launched in July-August 2022 as the largest independent esports event globally, both in terms of elite-level game coverage (6 tournaments in Rocket League, Dota 2, Rainbow 6, Fortnite, and PUBG Mobile over 8 weeks) and prize pool (\$15 million). Gamers8 attracted top competitors from around the world, including winners of prestigious events like The International and ESL One. In Dota 2, Gamers8 became the #1 event outside of the Dota 2 Pro Circuit based on hours watched (7.5 million), one of the top 5 events in 2022. A new joint event in direct partnership with KRAFTON (PUBG Mobile World Invitational) garnered 2.5 million hours watched, equal to two events of the same level hosted last year (East and West) combined. As part of Gamers8, SEF also hosted a gaming and esports summit called Next World Forum that attracted leading industry stakeholders from around the globe. It facilitated the exchange of ideas and gave birth to multiple partnerships, especially between esports federations.

It seems to be only the start for Gamers8, as the event returned on an even larger scale in 2023. Top global teams compete for \$45 million in prizes across >10 esports titles (same as in 2022, plus CS:GO, PUBG PC version, FIFA, Tekken 7, Street Fighter, and ESL R1). In addition to the IP-based events, Gamers8 2023 will introduce new elements like a ranking of the best clubs across different games.

The Kingdom of Saudi Arabia (KSA) also supports its local esports clubs. Gamers8 gave them a chance to be a part of the event and compete with the best teams in the world, subject to qualifying for the limited number of seats allocated to local teams. Several, like Team Falcon, seized the opportunity to show their skill and returned some strong results.

KSA is not the only country in the region pursuing esports. UAE is also active in the field, with multiple efforts to boost the sector. Abu Dhabi hosted the prestigious BLAST Premier World Final in CS:GO in 2022 (and plans to host it in 2023 as well), gathering the best

CS:GO teams and players throughout the year to compete for the title and \$1 million prize pool. Abu Dhabi's gaming hub aims to support not only gaming companies but esports also. It is currently home to multiple esports-focused businesses, including:

- Nigma Galaxy, a successful esports club with more than 5 teams, including globally strong ones in PUBG Mobile, Dota 2, and Free Fire.
- An esports and gaming agency that has hosted more than 100 esports events in GCC, supporting them with content creation, marketing campaigns, and talent management.
- YAS HEAT, an esports club and academy that focuses on competing and training athletes in games related to motor racing.

In 2022, Abu Dhabi hosted a 2-day Games for Change summit. This event gathered global gaming and esports leaders to discuss gaming's potential impact beyond entertainment, from cancer treatment to cultural education, and secure critical partnerships to advance these projects. Al Ain hosted a 3-day anime and gaming festival that included multiple esports competitions in CS:GO, Valorant, FIFA 23, and Super Smash Bros Ultimate. And Dubai hosted a 2-week Dubai Esports Festival (DEF) that included:

- PUBG Global Championship, the final and most prestigious PUBG (PC version) event globally with the best teams and players competing for \$3.3 million in prizes.
- GameExpo with multiple gaming zones, content areas for fans to meet favorite esports athletes, streamers, and industry leaders, an indie games expo and trials, a cosplay competition and many other fun activities.
- Minecraft esports tournament for 8–11-year-old students from Dubai schools.
- A summit that gathered global leaders in esports to discuss global trends and esports, and UAE's ambitions in the sector.

Middle East Expert perspective: Interview



Turki Alfawzan

Chief Executive Officer at Saudi Esports Federation

1. As an esports federation, part of SEF's mission is to support and nurture the esports community. What do you feel the community needs today? What are the biggest challenges, and how do you address these challenges as SEF?

Esports has so much potential, both globally and in Saudi Arabia. Globally gaming is worth around \$170 billion at present, with gaming consumption in Saudi Arabia expected to hit \$6.8 billion by 2030. However, the industry is still young, which creates several challenges for the community, and we see our role as providing the support needed to overcome some of these challenges.

It starts with young passionate gamers. They need places where they not just play, but also develop their skills and test them against other players to grow as esports athletes. We as a federation aim to create such places: game cafes might feel like concepts from the early

2000s, but they are still important in gathering people for whom games are more than just entertainment. And there are of course grassroots events that we organize with schools and universities to provide a platform for young talent.

At present, the best players have an opportunity to choose esports as a career. Our aim, however, is to create a full esports ecosystem that enables many different career pathways in gaming and esports. We are working on multiple initiatives right now to make esports a viable career option. These include official legal recognition of both esports athletes and esports clubs, establishing training facilities for esports clubs to organize more professional training, and coaching esports clubs to navigate within the expanding ecosystem.

And then comes the stage when athletes reach professional status, and are ready to compete at regional and global levels. While they can travel abroad to be a

part of the best tournaments in the world, we believe that it is crucial to also create recognized platforms in our own country. Thus, our federation has been working hard on creating the Saudi eLeague, Games Without Borders, the largest charitable esports event worldwide, and of course, the incredible Gamers8, the biggest gaming and esports festival worldwide. These are platforms for the best global and Saudi esports athletes to showcase their skills and compete on the highest level, and create an amazing experience for global and local esports fans alike. With around 23.5 million gaming enthusiasts in Saudi Arabia, roughly 70% of the population, and 48% of them women, the demand for gaming and esports is enormous. It is our responsibility, and one that we relish, to cater for that unbridled potential.

2. We see that the 2023 edition of Gamers8: The Land of Heroes just came to an end. What makes Gamers8 special in terms of its positioning?

Gamers8 is the biggest gaming and esports festival worldwide, and has earned legitimacy from the global gaming community – that’s what makes its positioning so special. Last year’s inaugural edition was exceptionally well received – more so than we hoped possible – and once again this summer, the world’s best esports teams and players descended on Riyadh for a series of elite tournaments. Gamers8: The Land of Heroes had a total prize pool of \$45 million, triple that of Gamers8 last year. The elite tournaments taking place at Gamers8 this year were: Fortnite, Tekken 7 Nations Cup, PUBG Mobile World Invitational, Tom Clancy’s Rainbow Six® Siege, Dota 2, ESL R1, StarCraft II, Counter-Strike: Global Offensive (CS:GO), PUBG Global Series 2, FIFAE

Club World Cup, FIFAE Nations Cup, FIFAE World Cup, Street Fighter 6, and Rocket League. The festival was complemented on ground at Boulevard Riyadh City by live music concerts from global, regional, and local stars, and more than 1,000 activities and attractions.

The inaugural Gamers8 festival in 2022 attracted 1.4 million visits, including both the esports tournaments and the festival activities on the Boulevard. We are also connecting Riyadh to the world in terms of esports fans watching the tournaments on online platforms: with more than 63 million hours watched, the Gamers8 2023 edition quadrupled the numbers from last year.

Overall, our aim with Gamers8 is to provide an exceptional player and fan experience by utilizing the latest innovations and technologies to make people truly go ‘wow’. But it’s not just about glitz and glamour – there is very much a gaming-centric approach. Last year it was about hosting several top competitions during one season, and this year we took things a step further by introducing a cross-game ranking. We are not only celebrating the athletes and team within one discipline, but also the best esports clubs across all disciplines of the tournament.

Final Remarks

Its rapidly increasing popularity, youthful fanbase, and tremendous untapped growth potential make esports an exciting segment that will help shape the future of live entertainment. It offers a range of opportunities for established industry players and other companies wanting to leverage the buzz and reach esports' coveted audiences. While some fundamental challenges will need to be resolved, esports has the potential to scale

significantly and become a major global form of live entertainment. And Middle East is establishing itself as an emerging leader with a strong focus, investment and commitment to the sector. Its young population of gaming enthusiasts and the government's willingness to invest in events, support, and infrastructure are positioning the region as the esports market of tomorrow.



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