

STRATEGIC MANAGEMENT IN THE DIGITAL ECONOMY

Business Model Innovation for the “next normal”

Project Work

Streaming platforms in eSports: the Next normal of a high-tech industry

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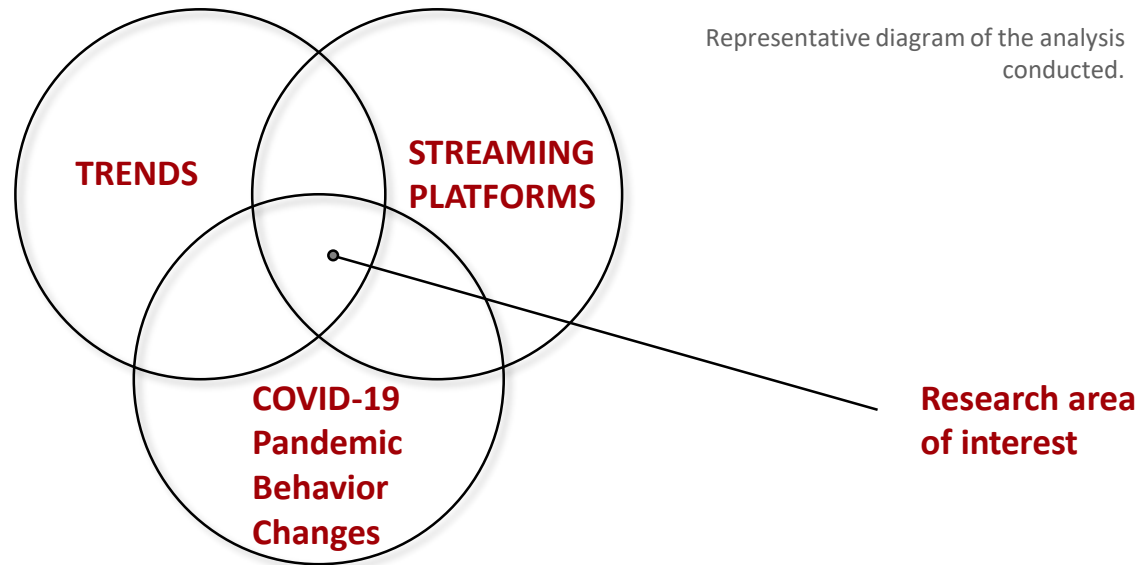
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- **Digital technology** has had a profound impact on the way young people play and consume eSports as part of their leisure activities.
- Reviewing the current literature, there is **a significant gap in the body of knowledge related to the overall eSports market**, particularly regarding the impact of the COVID-19 pandemic on **trends related to streaming platforms**.
- Before covid, **streaming platforms** were **not** an integral part of the ecosystem, being considered third-party partnerships. Following this **strong digitization** of events, it became impossible not to involve them as one of the actors responsible for the growth of the industry itself.
- In this regard, the popularity of eSports has been largely driven by encouraging the active participation of the **mass of spectators**. In fact, this element was included in our analysis as impossible to exclude.



- Consequently, the aim of this project work is not only to provide an **updated overview** of the global eSports industry, including a description of the main players in the value chain, but more importantly to analyze how the **innovations introduced by streaming platforms** have changed the behavior of the eSports entertainment industry in the post-pandemic era.



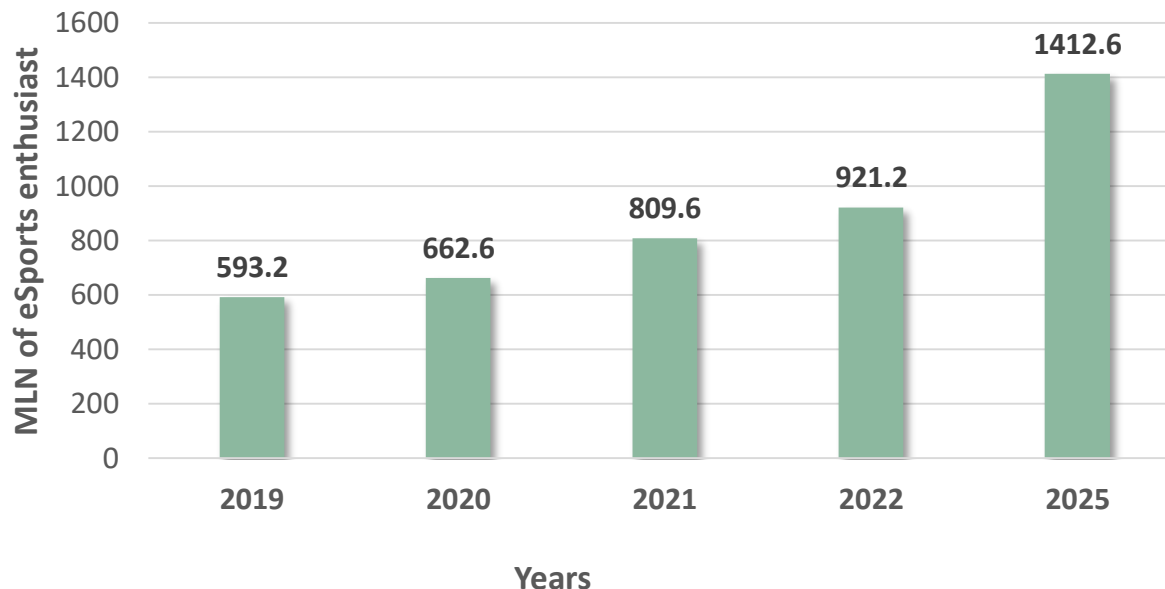
- The project work aims to study whether and in what ways the **digitization** of the eSport sector following the pandemic period has affected the current **leading role of streaming platforms** in this sector.
- Using academic articles and reports, a macro-analysis of the topic was conducted, **highlighting the increase in the use of streaming platforms** during the pandemic and the trends that triggered a change and evolution of the industry as a result of it.
- To support the macroanalysis, four case studies were selected. Initially, a **competition organizer, ESL**, analyzed to show how and in what ways the world of physical event organizing, heavily impacted by the covid, responded by proposing solutions to be able to survive the crisis period.
- Next, we analyzed the distribution channel of streaming platforms, selecting three case studies, **Twitch, Facebook Gaming and Youtube Gaming**. The choice of the latter was made by virtue of their popularity in the European context, the reference of the project work.

- The pandemic has affected the global economy widely, negatively affecting most sectors. Beyond the health concerns and associated organizational challenges, the spread of COVID-19 in Europe **has profoundly affected the eSports industry** in terms of how business is conducted and how success factors in.
- Such pandemic effects make COVID-19 **a prime example of an exogenous shock** that can affect a business sector. These effects have furthered the trend of **digitalization** of physical events by bringing them online.
- Although the eSports industry was a fairly cutting-edge industry this trend had a large effect on the industry's economy.



- Live-streaming game audiences, according to Newzoo, has had a glaring growth following the pandemic period. It is also expected to grow by **+13.8** percent year-on-year to reach **921.2 million globally in 2022**. The audience will exceed **1 billion by 2023** and increase at a CAGR of **+16.3%** from 2020 to reach **1.4 billion in 2025**. The lingering effects of the COVID-19 pandemic in 2021 caused the audience to grow beyond our initial expectations.

Games Live Streaming Audience Growth CAGR: +16.4%



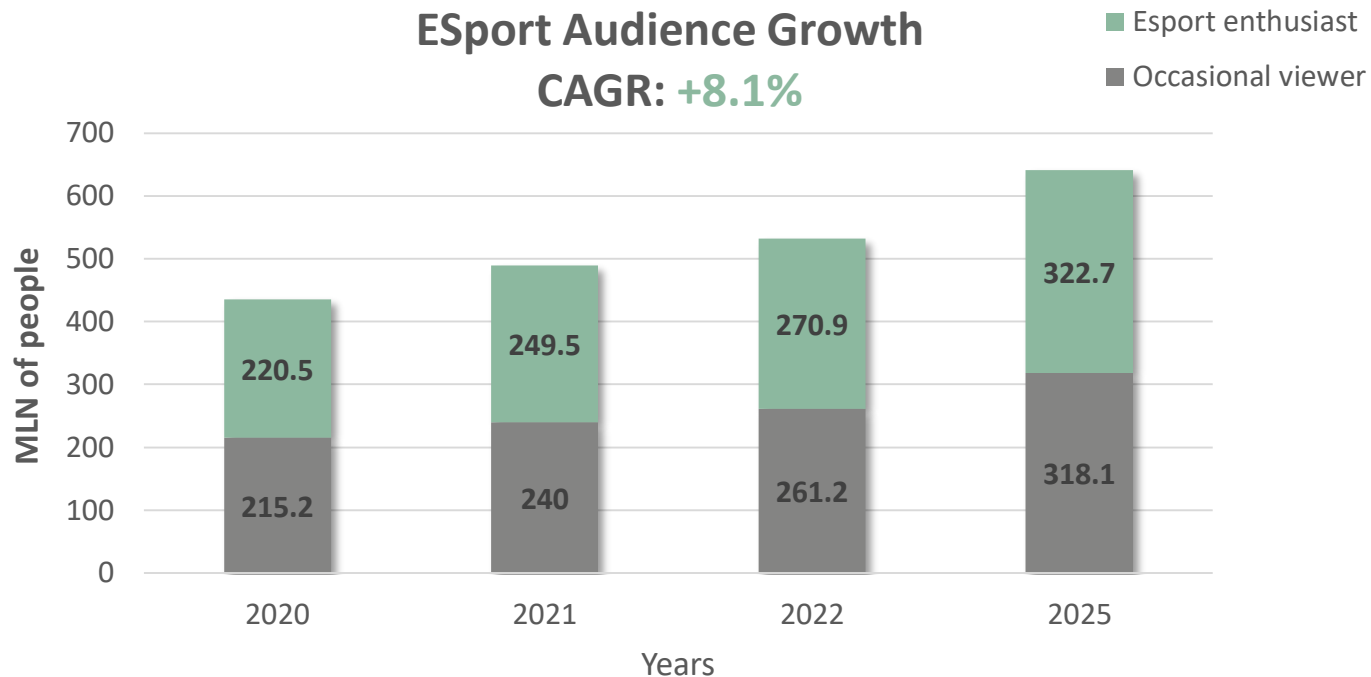
- The benefit of eSports is that competitions can be sustained by converting leagues and tournaments online, which has not happened for **traditional sports or traditional segments** of the entertainment market.
- Making a focus on this **trend**, eSports have become a global spectator activity, with a stakeholder ecosystem that is approaching a level of professionalization comparable **to traditional sports**.
- In addition, sponsors and spectators had to keep their finances intact. Therefore, despite growing interest in the industry, **budget reductions were made**, partly at the expense of eSports, whose revenues account for a high share of sponsor revenues.



- Regarding the growth in the **number of spectators interested in the eSport sector**, the COVID-19 pandemic **had a considerable impact**. In fact, there was explosive growth during the 2020s, mainly due to restrictions, curfews, and thus to forcing people to stay at home.
- This growth has been aided by the growing popularity of eSports **streaming platforms**, including Twitch, defined as a form of media that integrates audience, community, interaction, and passivity, bridging the gap between online games and traditional video media, such as TV.

Growth of eSports audience (2/4)

- As for **future forecasts**, on the other hand, in 2022, the global eSports audience will increase by **8.7%** from the previous year to **532 million**.
- The group of eSports fans will account for just over **261 million**, while casual viewers will account for the remaining 271 million. The number of eSports fans will rise to **318 million** with a CAGR of **+8.1%** between 2020 and 2025, when the total will exceed **640 million**.

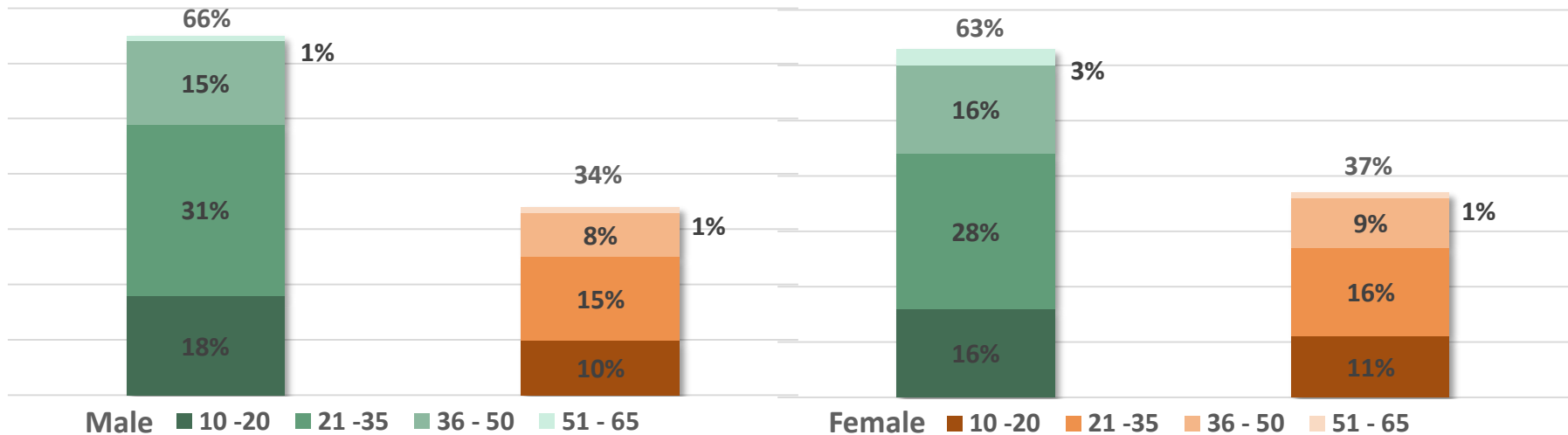


Growth of eSports audience (3/4)

- On a **global scale**, an interesting point concerns eSports viewers is the gender and age diversity of eSports fans.
- While eSports enthusiasts are mostly young and male, the percentage of women interested in eSports has grown over the years. In 2021, women accounted for **34% of eSports enthusiasts**. **24% of female** eSports enthusiasts are between the ages of 21 and 65, while the remaining **10% are between the ages of 10 and 20**.

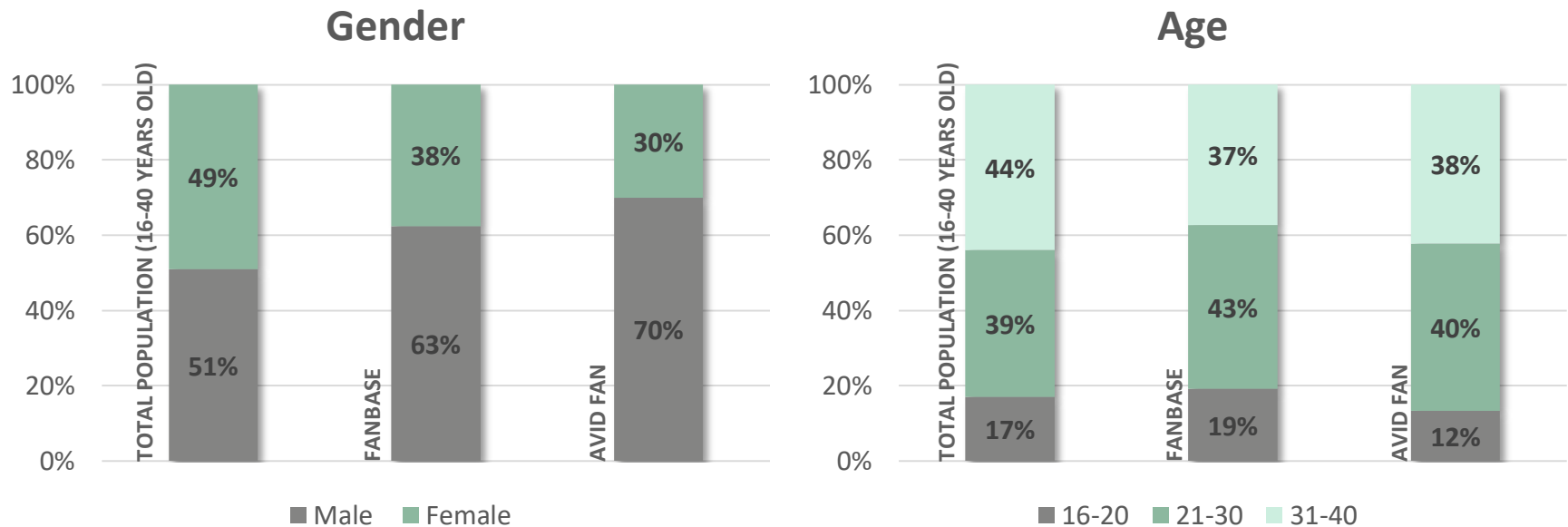
Age/Gender eSports enthusiasts

Age/Gender occasional viewers



Growth of eSports audience (4/4)

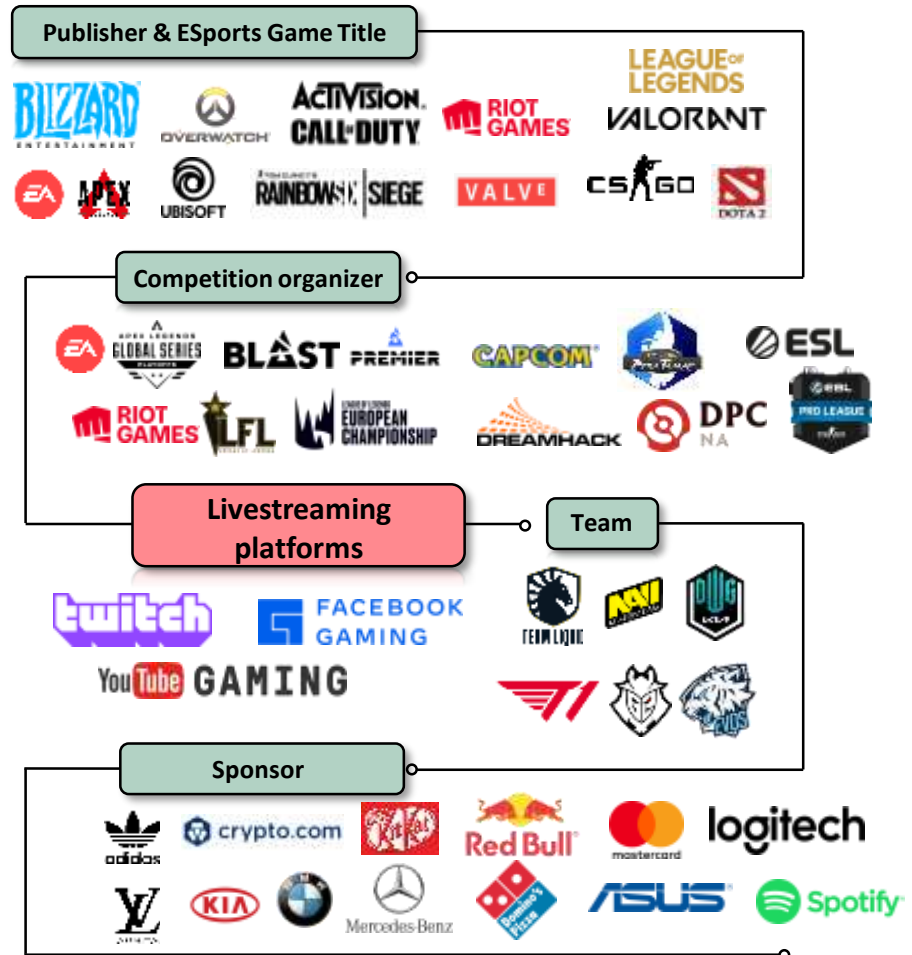
- Looking at the **Italian perspective** instead, at the gender level there is a near parity in the data, while at the age level the data show a higher prevalence among **31–40-year-olds reaching 44%**.
- So, we can see that not only teenagers follow eSports but the majority, among the Italians interviewed, are people over 30.



ESport ecosystem: Introduction

- Our hypothesis is reinforced by Newzoo's conception of the ecosystem.
- The key thing is that the data analysis company also includes within the ecosystem **the streaming platforms.**

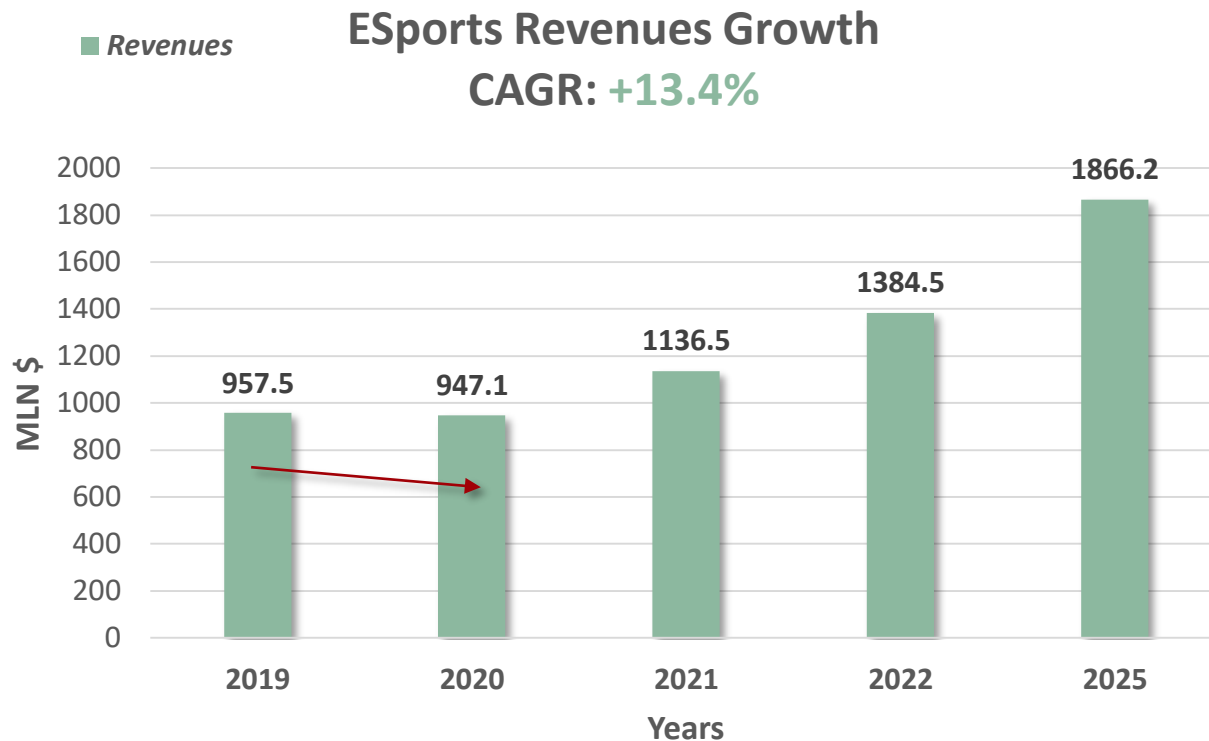
Scheme of a typical ecosystem.



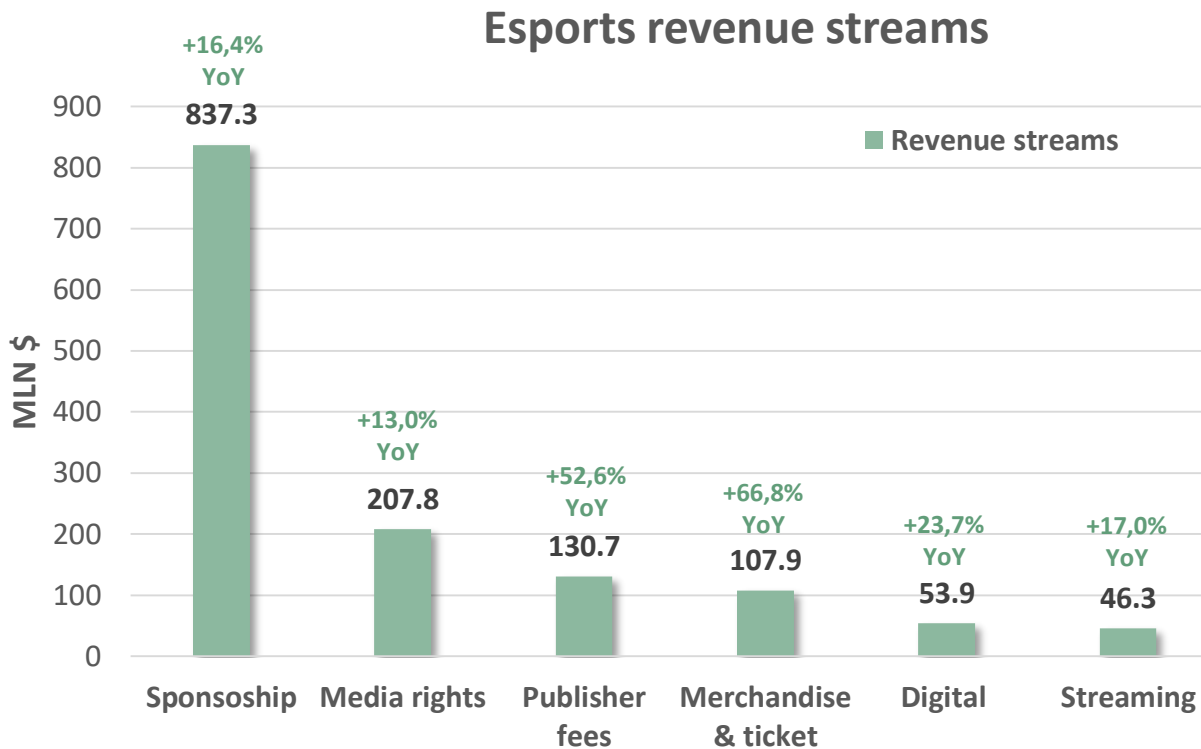
- ESports **are revolutionizing the way consumers watch**, follow and use video games.
- Esports competitions provide an outlet for millions of fans and a meaningful way to connect with others.
- As the esports audience continues to grow and companies continue to experiment with new sources of revenue, **the economic size of the industry will match its already considerable popularity**.
- Next, we will go on to describe the **composition of direct revenues** as well as the indirect economy generated by the esports sector.

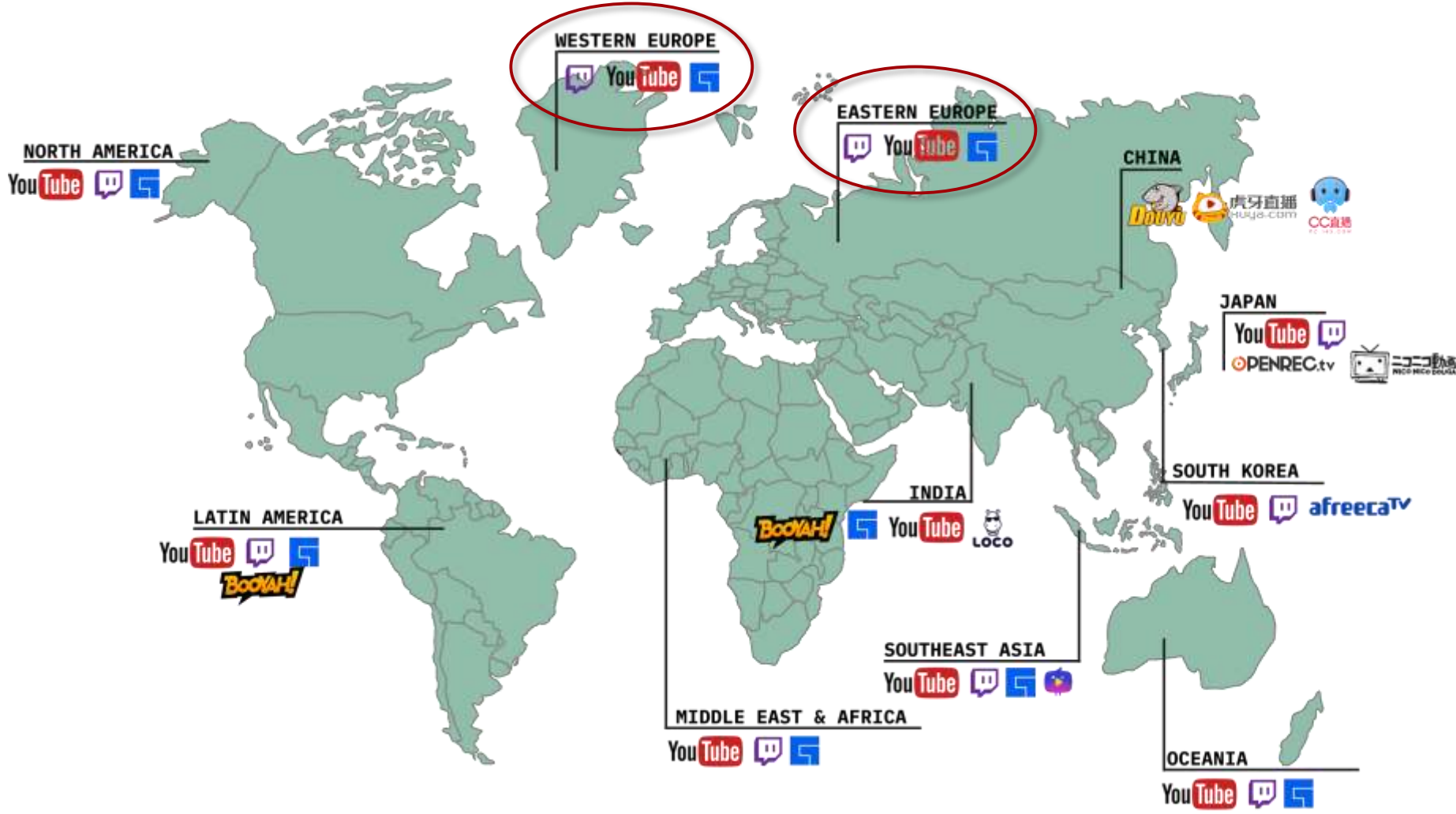


- From the graph, we can see that the eSports industry **contracted slightly in 2020 during the global pandemic**. In 2021, Newzoo reported global esports revenues of just over **\$1.1 billion** and finally forecasts global revenues of about **\$1.9 billion in 2025**.



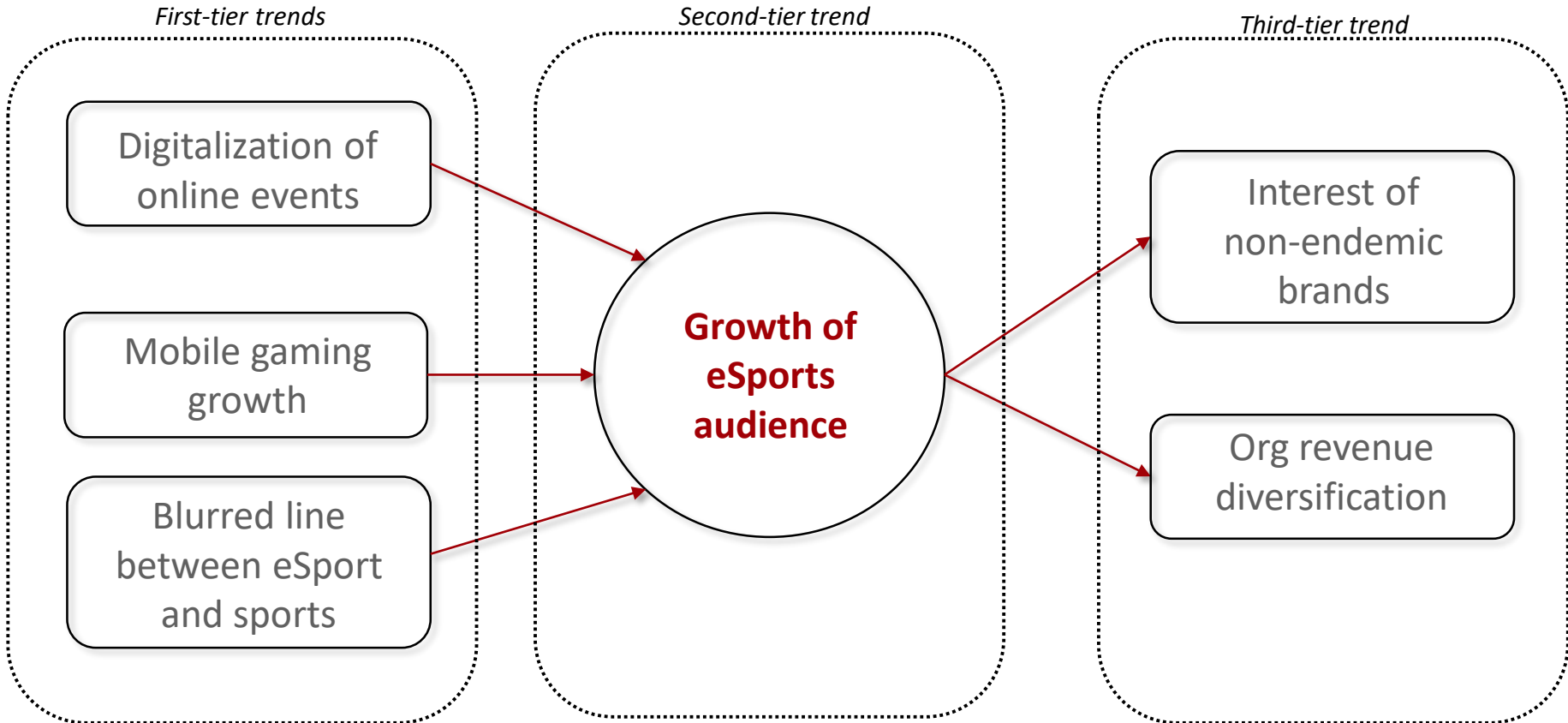
- Sponsorship revenues have been the foundation on which the esports market has been built, so it is not surprising that they continue to be the largest revenue stream, generating **\$837.3 million in 2022**, or nearly **60%** of the entire market.





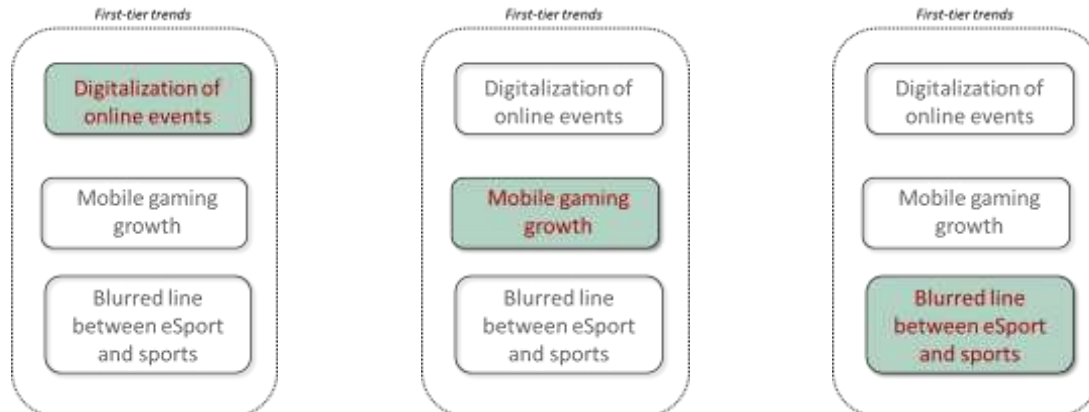
- We considered the trends found by analyzing the state of the art of the industry and correlated them with the **growth of eSport audience** through the distribution channel of **streaming platforms**.
- We define **these trends as those trends that elicited consequences** for the industry **during the pandemic** through the use of streaming platforms. We name this group of trends as "first-tier trends".
- From these comes the top trend, which is the **growth of eSport audience** triggered by the restrictions **caused by the pandemic crisis**. We define this major trend as the "**second-tier trend**".
- Finally, this subsequently caused an increase in **interest from brands not endemic to the industry** and led eSport organizations to implement **revenue diversification**. We name this group of trends as "**third-tier trends**".

- The idea described in the previous slide is shown below in the form of a graph.



Streaming platform trends: first-tier trends

- The trend of **digitization of events** is directly related to streaming platforms due to the fact that with the shift, following the advent of covid, **eSports events have gone from physical to online.**
- At the same time, there was the advent of the **mobile gaming trend.** As mentioned earlier in the analysis conducted when we visualized the state of the art of the industry, this has grown rapidly over the past decade or so to become the largest gaming segment by revenue and players.
- Another phenomenon behind the global growth of eSport audience through streaming platforms has **been the approach of some realities in the sports arena** to this type of content distribution channel.

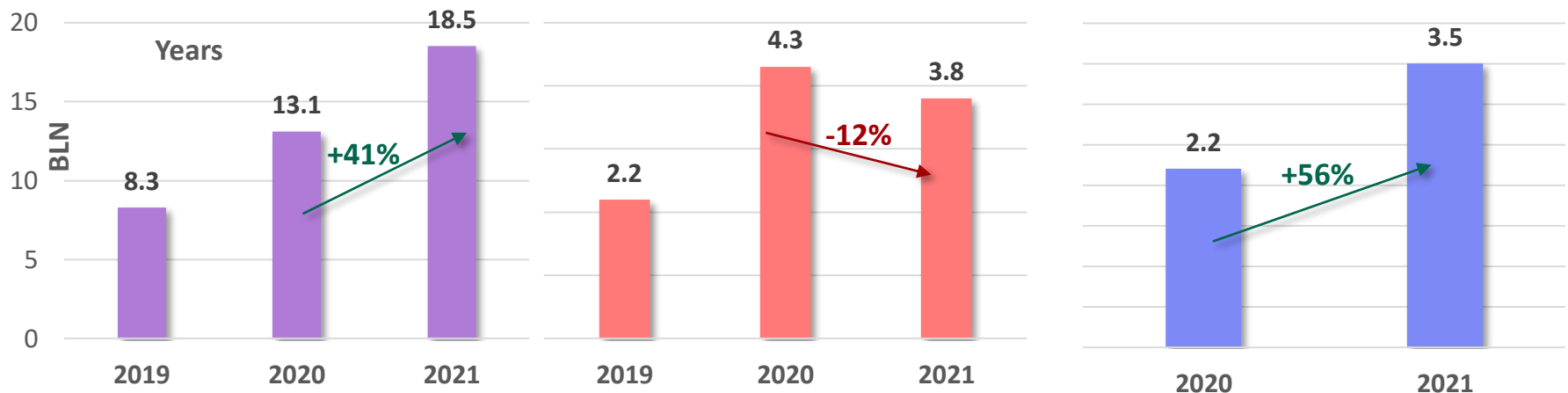


Source: Own elaboration based on previous papers.

Streaming platforms: second-tier trend

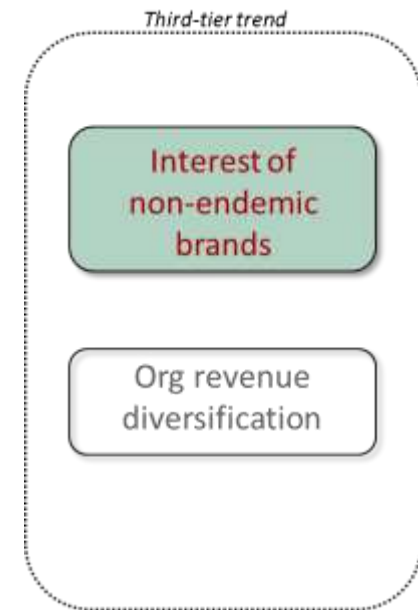
- Since we do not have the **Hours Watched** data of eSport fans related to individual **Twitch, YouTube Gaming, and Facebook Gaming** platforms from our main source, Newzoo (because the free version cannot be accessed) to show the trend of overall eSport user growth, we have chosen to show the trend using Stream Hatchet data.

Hours watched across all channels



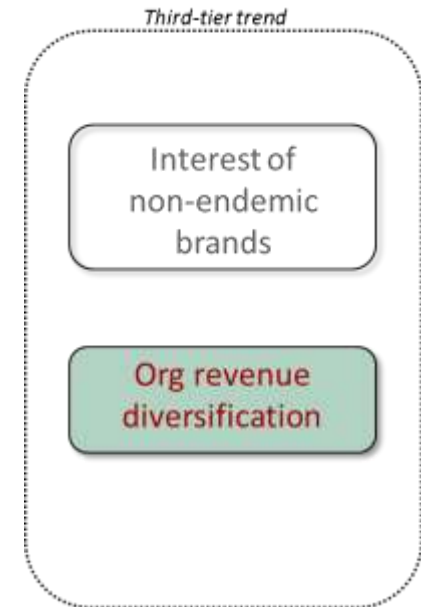
Streaming platforms: third-tier trends (1/2)

- The consequences that have been identified of this trend of increasing eSports audience are mainly two.
- As highlighted in the external analysis, nonendemic partners are increasingly entering the ecosystem and looking for ways **to connect with the esports audience** and contribute to the development of the industry and the realization of growth potential at the same time.
- This opportunity to build relationships with open-minded audiences makes esports a prime channel for activating sponsorship and publicity and represents a **new normal** for the industry.



Source: Own elaboration based on previous papers.

- ESports organizations have relied heavily on partnerships with brands to grow, so much so that sponsorship revenues will account for 63 percent of global eSports revenues in 2021. These sponsorships have expanded the reach of sports however relying on a single revenue stream is risky, in fact, if this revenue stream were to run short, the current market would suffer.
- More direct forms of fan monetization are helping sports to diversify their revenue streams. Direct-to-fan business models, such as **merchandising** (physical or digital) and **loyalty programs**, and **educational programs** are enabling organizations to diversify revenue.



Business model canvas (1/3)



- The previous slide assumed a business model canvas involving all three case studies analyzed.
- We wanted to focus attention on two aspects in particular, namely, two **strategies used by platforms** in the post covid era to fuel the entry of new viewers into the industry.
- The strategies are **co-streaming** and **interactive streaming**.
- **Co-streaming** is a proven tool that allows publishers and organizers to **exponentially increase their total audience**.

- What has been called “**interactive streaming**” is a phenomenon that has been gaining momentum in recent years.
- The program featured **contestants controlled by artificial intelligence**. Viewers from more than 70 countries could help these virtual contestants solve puzzles and help them progress.



- A very **interesting aspect**, in our view, concerns the influence of the various trends of platforms entering the industry ecosystem and the resulting trends of interest from **sponsors and diversification through streaming platforms by eSport organizations**.
- This to us represents the industry's **new normal** for the fact that there is currently increasing growth due especially to these factors.
- What we see as the **next normal** is precisely the **entry of these platforms** into the ecosystem due to the fact that in the next few years we hypothesize that **new trends** such as the **metaverse or NFTs** will emerge in this context and therefore the transformation will be continuous.

- When the industry of eSport was faced with the crisis and what it generated it had an effect not only in terms of numbers but more importantly in **terms of trends** providing benefits both socially and economically.
- With reference to the Italian social impact, according to the latest Report on ESports in Italy, published by IIDEA in collaboration with Nielsen, the vast majority of Italian gamers who engage in video game competitions believe that eSports helps them **learn new languages** (especially English), **instills a spirit of healthy competition** help create **social interactions and teamwork**, **support the development of mental and problem-solving skills**, **foster the creation of an open and inclusive environment** without any restrictions based on age, ability, race, gender and sexual orientation, boost players' self-confidence and competitive spirit, and enrich their work teamwork and their communication skills.

- With reference to economic impact, eSports **generates opportunities** not only for **game publishers, companies and organizations** that provide eSports services and streaming platforms, but also for the tourism industry (e.g., hotels, restaurants, bars) that can benefit from the induced revenue created by **visitors to live eSports events in Italy**.
- ESports competitions can attract a significant **volume of spectators** from other regions and countries who might visit that destination just because of their interest in eSports.
- As a result, it **provides the destination with a strong opportunity for visibility** to new demographics.
- So, this study is relevant to marketers, media and advertising practitioners, as it may reflect a shift in media consumption by consumers, **who seek a combination of entertainment, opportunities for community participation and social interaction**.

- First, we believe that collaboration between **government, the eSports industry, and streaming** is critical.
- Therefore, it would like to see some form of regular dialogue established between the eSports industry and the government in order to foster the growth of the relevant industry.
- Compared to other European countries, **Italy's eSports industry is still in an emerging stage**, and there is still much to be done to capture the full potential of this innovative sector.
- A famous case is the **LAN Gate case**.
- Although there has not yet been total clarity on the issue, this case highlights **how in Italy the eSport sector but also streaming does not have clear regulations at its base**.