CHAPTER 20.

A STAKEHOLDER JOURNEY THROUGH THE BUSINESS ECOSYSTEM OF THE ESPORTS INDUSTRY

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ABSTRACT

The global phenomenon of esports has experienced exponential growth in recent years, gaining interest from the media, sports and technology industries. Being born digital, global and agile, competitive gaming appeals to a young and emerging audience, and therefore the management of businesses within the esports industry requires a unique strategy. Therefore, it is essential to understand the different stakeholders in the industry as well as the interconnection in the business ecosystem of the esports industry. These insights culminate in a business model network of esports.

Keywords: Esports, competitive gaming, strategic management, ecosystem, business model

Introduction

The world of esports or competitive gaming has grown exponentially in recent years (Taylor, 2012; Woodcock, &

Johnson 2018). There are many similarities with traditional sports and media businesses, but there are many differences, too, in the esports industry. With the absence of a standardized governance structure, esports is predominantly self-organizing and mostly business-driven. Primarily due to the young audience, the global approach, and the digitized environment, the esports industry does not follow traditional business rules, but it becomes evident, that esports is business (Scholz, 2019). The esports ecosystem is, therefore, different from the existing business understanding. Primarily due to its time evolving on its own, the esports ecosystem has created unique business models that only partly follow the market logic established in traditional industries. Furthermore, every other sector may have an interest in investing in esports, leading to a situation where not only entrepreneurs are keen to participate, but also traditional media companies, sports organizations, or any other brand that may be interested in reaching a young audience. Consequently, there is an observable clash of business models, leading to a high degree of dynamism.

An interesting development can be observed in recent years. The esports industry is categorized as being entirely digital, global, and agile; consequently, esports organizations seem like the "dream" organizations that is currently popular in modern management literature. They are capable of combining the challenge of digitization, globalization, and agility; many traditional organizations seek to become more digital, more global, and more agile. Interestingly, the central struggle of the esports industry is the lack of structures, regulation, and governance. So, there is an interesting paradox to observe. Everybody is moving toward becoming more digital, more global, and more agile, while the esports industry is moving toward becoming more analog, more regional, and with greater institutionalization. It becomes evident that there is potentially too much digitization, too much globalization, and too much

agility. Surprisingly, we can observe a similar trend in other organizations, for example, Tesla, which recently stated that it has too much automation based on an extreme digitizing strategy: the product may be highly globally oriented, but, at the same time, the organization struggles to get the product sold globally, and the agility of Tesla is harming the production processes (Allen, 2018). Tesla and the esports industry highlight that a certain degree of face-to-face interaction (analog), local embedment (regional), and structures (institutionalization) will be necessary to deal with digitization, globalization, and agility. The esports industry could act as a compelling case for efficiently balancing both worlds, especially as the esports industry is moving in the opposite direction to most other industries. Therefore, it will be interesting to describe the esports phenomenon in detail: it will be analyzed in depth based on various theoretical frameworks rooted in strategic management theory. Especially as the esports industry is rarely researched from a business perspective, it is necessary to categorize the historical development, the multiple actors and stakeholders involved, the governing principles of the industry, the underlying strategy with a focus on the business model, and a potential look into the future.

Although the esports industry is currently hyped and some industry reports state that the revenue will explode in the coming years — for example, Berenberg noted that the revenue would rise to $20 billion in 2025 (Rosa, 2018) — the underlying industry has evolved slowly over time. As stated in the previous chapter, many actors are involved for decades. Some of the biggest names have their roots in the early 2000s. Furthermore, it is becoming evident that esports is a complex and highly interwoven system. Many of the actors depend on each other: without an esports title, no tournaments; without tournaments, no teams; and with- out teams, no audience that can cheer—or, in business terms, be monetized. The interconnection is relevant

for an analysis of the eSports industry, as the focus is mainly on the stakeholders involved in esports. Stakeholders can be defined as "groups without whose support the organization would cease to exist" (Freeman, & Reed 1983, p. 89).

Esports Ecosystem

The esports industry with its various stakeholders can be seen as an interwoven network, where stakeholders need each other to work and to succeed. Although esports organizations challenge existing business models, they are part of the value creation. The esports industry is driven by innovations and technologies, but also by the interconnection of creative people trying to exploit technologies to the fullest. This unique setting, aligned with the start-up mentality and an understanding of interconnectedness, led to a distinct network of stakeholders. Although the esports industry is continuously evolving, the knowledge of being a network eventually to monetize the audience is still a driving force of every business model in the esports industry, as depicted in the following figure. This increased interconnection underlines the importance of a business model network in which the business models of every stakeholder interact with the other business models, leading to an increase in profitability throughout the system. The business model network thereby goes beyond the understanding of value creation based by the five forces defined by Porter (1985). The business model network focuses on value integration with an emphasis on cooperation rather than a threat. There are threats of new entries, buyer power, and supplier power, a risk of substitution, and competitive rivalry, but there is also a need for cooperation to utilize synergies.

Moreover, contrary to the five forces, there is also a certain synergy that allows strategic management, connecting the business models. Focusing on value integration, every single business model is linked with other business models in the

network, creating one combined business model network. This interconnection requires efficient use of dynamic capabilities (Teece, 2018). Therefore, every stakeholder will need to share some resources and potentially some sources of profit with other stakeholders to create a sustainable and thriving business model network in which they also have a thriving business model.
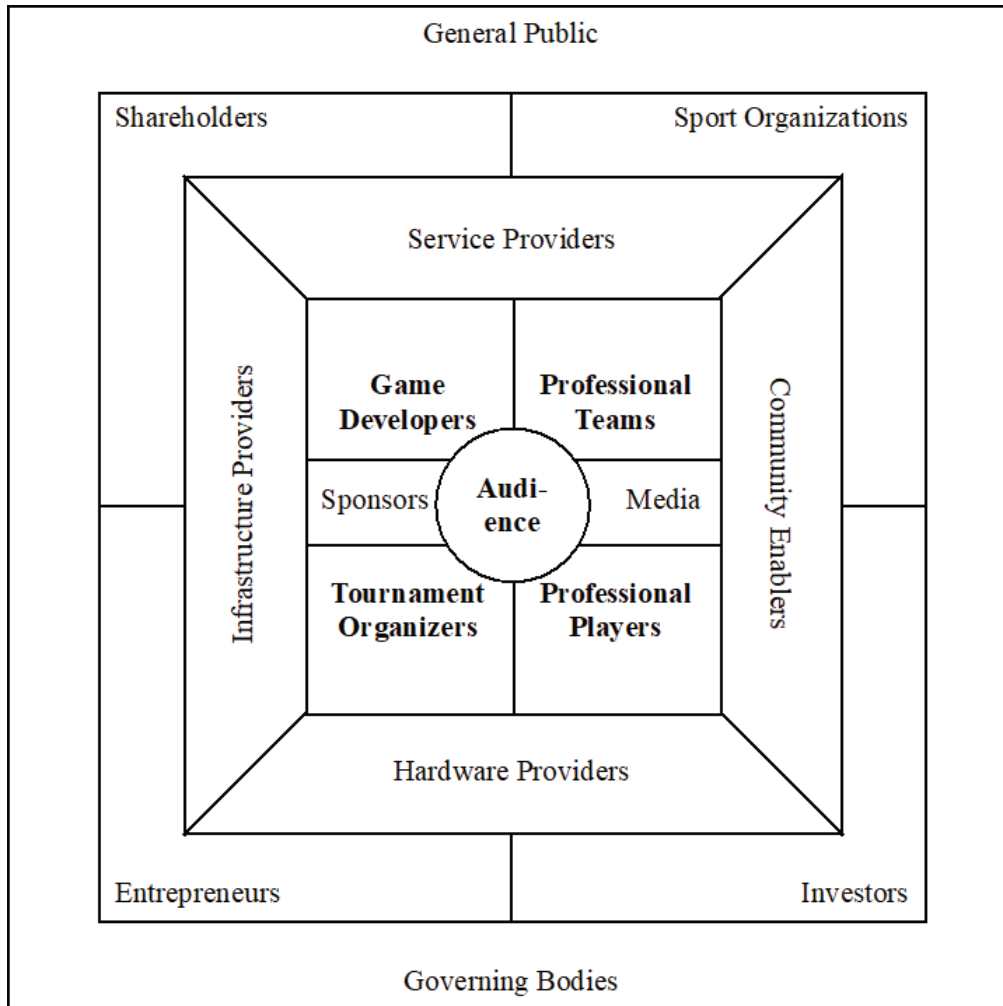

Figure 1: The Business Model Network of Esports

Most of the stakeholders evolved from within, and many early esports organizations emerged from people solely interested in playing games competitively. This first generation of eSports organizations had the chance to evolve without much interference from other organizations that may have an interest

in doing business in esports. This unique situation in an industry can be ascribed to the fact that eSports is difficult to measure in traditional business terms. Especially in the early 2000s, many organizations were struggling to find investors or sponsors, primarily because they were not able to show reliable numbers to prove their success (Cocke, 2018). Consequently, only a certain type of organization got involved in esports in the beginning, allowing this 'inner circle' of enthusiasts to evolve on their own and create distinct characteristics. Moreover, there was enough time to create a certain cultural understanding; it may even be the case that the esports industry is in a lock-in in terms of these cultural similarities, which may be difficult for outsiders to grasp, especially as they evolved globally and are shared by many stake- holders. Therefore, to understand the esports industry in its current evolution, Scholz and Stein (2017) distinguished the esports actors according to six fundamental characteristics.

- The people involved with esports are highly focused on goal setting
- The market's orientation is truly glocal
- Esports are oriented toward change
- Resources are allocated in a bottom-up fashion
- Participants are over-energetic, over-enthusiastic, and over-dynamic
- Digitization is integral to esports

The esports environment is highly complex and highly diverse. Many stakeholders are involved and are trying to foster growth for themselves, as well as for the esports industry in its entirety. Even though the surface may seem quite diverse, the invisible level shines through, and certain governing principles can be discovered. The assumption that there is a visible level consisting of symbols, rituals, and people, as well as the

assumption that there is an invisible level consisting of values, beliefs, and basic presumptions, is a prevailing theory concerning organizational culture. Schein's (1985) iceberg model highlights the importance of digging deeper into the culture of an organization. The basic underlying assumptions are difficult to decipher; however, they will influence the observable behavior and, even though they are unconscious, they are often taken for granted by the people involved in this organization. This understanding of culture can be translated to the esports industry, which has a distinct organizational culture. However, as it is a volatile industry, there are also shifts in these governing principles, as well as stakeholders revolting against these principles. Still, many behaviors of many stakeholders can be described by the following principles:

- Easy to learn, hard to master

- Shifting metagame

- Welcome to the Wild West

- Born digital, born global, born agile

Conclusion

The esports industry is a highly complex environment that is continually evolving. Based on this innovativeness, there are ground- breaking changes that disrupt the industry every five years or so. Furthermore, many external stakeholders invest in esports, creating a potential bubble, due to an overheated market. Such a development may result in a correction or a crisis, but it highlights the importance of creating a business model to monetize the audience. Besides the risk of not having a solid business model, esports organizations need to govern the risk concerning future developments related to franchising, new markets, new games, and an ongoing fragmentation of the esports industry. The esports industry will, despite any events, grow, though the composition of stakeholders may change.

However, the current bubble discussion highlights the importance for any organization to do their homework and create a strategy that tackles the challenge to design a sustainable business model.

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