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Esports Media Rights

It’s Time to Play for the Win

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The value of esports media rights trails far behind that of traditional sports. What are the reasons behind this and what innovations could give esports rights holders a big boost forward?

Last October, the annual world championship for Dota 2, a multiplayer online video game, made esports history with an unprecedented offering of USD$40 million in pooled prize money. Esports fans from around the world tuned in to watch gamers in Bucharest, Romania, battle it out for 10 days on Twitch, the livestreaming platform with 140 million monthly active users.

You don't have to be a sports fan or a gamer to be aware of how massively popular esports and gaming (both professional and amateur) have become over the past two years. Perhaps driven in part by the pandemic, today, esports is estimated to be a USD$1.1 billion industry with a combined 495 million viewers of global events and network live broadcasts.

Given that kind of audience and revenue growth, one would expect that esports media rights would be a hot commodity. Yet they are significantly undervalued when compared to the rights values obtained for packages for traditional sports leagues like the NBA, MLB, NCAA, and others, both foreign and domestic.

How can esports tap into its enormous potential and boost its value?

A Different Set of Rules

Part of the value question can be answered by comparing and contrasting esports with traditional sports, though esports, in its nascency, also faces unique challenges.

— **Owning IP vs. franchise rights:** Game developers and publishers own the underlying IP to games. They control not only how games and titles are distributed, but also the development of the competitive framework of each game. In contrast, traditional sports control scheduling, location and conduct of games and tournaments by operating within leagues of franchised teams. The leagues and the team owners have learned how to create brands and manage scheduled seasons astutely to maximize the values of their rights despite the fact that the teams themselves do not own the game play, which is in fact the underlying IP.

— **Fragmented audience:** Traditional sports has a series of discrete games. In contrast, esports encompasses thousands of game titles. Each appeals to distinct audiences that have their own title-centric cultures and affinities. Thus, although there is a large aggregate viewership, audience fragmentation prevents publishers from serving up a large enough audience to justify getting substantial media rights.

— **Entrenched online viewers:** Historically, esports have been distributed through digital platforms such as YouTube or Twitch, which provide effortless access to content online. In comparison, traditional network and cable broadcasters have found it challenging to pull the core gaming viewer away from online and onto traditional platforms — inherently reducing the value broadcasters place on esports rights.

— **Limited geographical loyalty:** Traditional sports teams have strong ties to a particular state and/or city which fosters loyalty and increases the value of media rights by creating a robust market for regional and targeted advertising. In contrast, Esports "teams" (gamers who compete as a unit in tournaments) are typically not associated with a specific geographic location.

— **Sometimes arcane rules:** Traditional sports have relatively straightforward rules and gameplay, as well as broad TV and internet distribution, which appeals to a wide range of fans, from die-hards to casual followers. Esports, on the other hand, typically require a deep understanding of a title's gameplay and strategy for viewers to enjoy.

— **Complexity conundrum:** Challenges exist for presenting an esports competition effectively for large, sometimes casual audiences. The greater the learning curve for a game that might attract devoted followers, the greater the barrier is to attracting casual fans.

A Game Plan for Boosting Value

While the market dynamics that give rise to the disparity in value between media rights for esports and those for traditional sports are challenging, they are not insurmountable. Here are five strategies to create value.

— **Consolidate organizations and titles:** Consolidating esports organizations and fostering collaboration between game publishers and esports organizations could help grow audiences to a critical mass and create a compelling media package for broadcasters and media partners.

— **Adopt revenue sharing:** Recognizing that esports is still an emerging industry in terms of media rights, esports stakeholders should drop minimum guarantees (or significantly lower them) and explore revenue sharing. Stakeholders could also consider other back-end revenue models until esports has established a predictable revenue expectation and justify payment of minimum guarantees.

— **Stage an esports "Olympics":** Notwithstanding international championships like the Dota 2 event, creating a super event such as a worldwide competition for gamers in specific games at specific times could generate major buzz. Call it an Olympics of gaming.

— **Tailor-made rights packages:** Broadcast, cable and OTT channels should get specific, customized packages that fit their medium. As media companies vertically integrate, bundled rights packages for multiple platforms would have more value than the sum of each part because the bundles could help drive increased viewership.

— **Improve production values:** Collaborate with broadcasters to improve production quality and interactivity of competitive events to better the viewer experience and drive viewership.

All of the strategies could benefit from leveraging esports team influencers and targeted social media networks to attract audiences and to create monetizable content opportunities that target aficionado audiences and casual fans alike. The combination would help introduce esports to a broader audience and, in the long term, create events and competitions to aggregate audiences worldwide.

A Playbook for Success

In some ways, the fragmentation in the esports ecosystem today is not unlike issues once faced by two major traditional sports organizations: La Liga (Spain's top soccer competition) and NASCAR, the legendary U.S. stock car racing circuit.

La Liga: Despite a devoted following well beyond its borders, Spain's premier league once left media rights up to the individual clubs. That changed in 2015 with a Spanish royal decree to increase financial remuneration across all clubs (and among those in La Liga 2, one tier lower professionally) and consolidate the audiovisual rights for collective sale. The rights were split into seven categories and sold to a variety of traditional media players.

The decree proved prescient: In the first season immediately following consolidation (2016-17), the value of media rights jumped by 30 percent, far surpassing the 11 percent CAGR of the previous five seasons. Over the next three seasons, rights value rose by 6 percent CAGR.

NASCAR: Despite a 90 percent boom in fan attendance in the 1990s, by the end of the decade, rights value stood at a relatively low $100 million for the circuit's 36-week season. A combination of uncoordinated, stand-alone negotiating diluted its potential value.

What a difference a year makes: For the period starting in 2001-2006, NASCAR participants combined to conduct the first consolidated media rights sale — and the reported value shot up by 300 percent*. According to public reports, the consolidated package received bids from nearly every major U.S. TV network. Rights were ultimately purchased by Fox, NBC and TBS at USD$400 million per year, for a total of USD$2.4 billion over six years.

Crossing the Finish Line

The esports ecosystem may be more complex than La Liga's and NASCAR's, with participants who do not share a common goal of simply increasing the pie of media rights. However, the two success stories share one common market dynamic: multiple interest groups finding a workable solution that ultimately provided handsome media rights contracts to reward all parties.

According to one estimate, the media rights value of esports were expected to grow from USD$100 million in 2020 to close to USD$400 million in 2021. Who knows how far that figure will climb as we spend more time both watching and engaging with our screens? One thing is clear: there is a wealth of opportunity to be unlocked.

NOTE: This article is adapted from a whitepaper prepared by FTI Consulting in partnership with SheppardMullin; contributors include Sid Fohrman, Dan Schnapp, Ethan Aronson, Sam Cohen and Han Kim.

Sources: CNN Money, Sports Business Daily, Bleacher Report, NY Times, Tampa Bay Times.

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