



USER FRIENDLY

Welcome to the big leagues: The rise of eSports

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Hanish Patel: From team-based battles on first-person arena combat, eSports are drawing large audiences of fans with a passion for competitive video gaming both as participants and observers for platforms such as Twitch. Now big companies across media and entertainment industries are getting involved, vying for access to an audience that's moving beyond the reach of traditional media. The rapidly maturing eSports industry is already bigger than many realize, drawing in millions of users and thousands of more viewers. The overall number of eSports viewers and hours are enormous and growing. To further discuss this topic, I'm here with

Doug Van Dyke, Media & Entertainment leader, and Domenic Vermillion, Advisory consultant, both with Deloitte and both hardcore gamers. Doug, Domenic—welcome to the show.

Doug Van Dyke: Thanks, Hanish. Glad to be here.

Domenic Vermillion: Thanks for having me.

Hanish Patel: Let's start by giving our listeners a brief background on eSports. Can you discuss the evolution and how we got here today, and, Doug, I'd love to get started off with you on that one.

Doug Van Dyke: Sure, no problem. You know, I mean, if you think about it, right, this dates back to the '80s, right, with the arcades. So many individuals used to go to the arcades back in those '80s. I myself didn't do a lot of that. I didn't really get into it until we got some of the consoles as those [of you may] remember Atari 2600, the Atari 5200, right? And then you kind of fast-forward into the '90s—you had LAN parties. And then it was really in the 2000s you got to the multiplayer online. That's when I ultimately joined—that multiplayer online. I played a game called *Ultima*, and I did that for a number of years. Then from there it's just been expanding over and over, and this—

we'll talk, I think, probably more about this, right? By 2020, the whole eSports market is expected to be a \$1.5 billion in revenue, not only from sponsorships and advertising but with an estimated global audience of just over 600 million fans. And if you think about that... from the '80s until now, it's just morphed over time. So it's just really interesting and—so, Domenic, I don't know if you have anything to add to that but—it's been phenomenal to see.

Domenic Vermillion: No, just adding to your point, Doug, I think, pre-Internet days, we saw the progenitor of eSports. In 1980, Atari had a *Space Invaders* tournament where over 10,000 individuals participated. And then during the 1990s, Nintendo had contests, such as the Nintendo World Championships, which essentially was a tour that went around the United States that ended at Universal Studios in Los Angeles, where players would compete to beat each other's high score on a custom-made Nintendo cartridge that had one level from *R.C. Pro-Am* (which was a racing game), a level from *Super Mario [Bros.]*, and a level from *Zelda*, and your score would be a combination of those three.

Doug Van Dyke: Yes. Domenic, actually, that was all live, right? Because they didn't really have the Twitches of the world streaming stuff, right, back then? But it was still, as you say, it was an eSport concept.

Domenic Vermillion: Correct. Yes, prior to online multiplayer, the only other way to find out who is the top dog was if they just put a bunch of people in the room and had them work on the same thing at the same time and essentially whoever would finish first or have the highest score would be crowned a champ.

Hanish Patel: That's a brilliant kind of history lesson for those who were not around gaming, and I was hoping I would be able to give one of you guys extra points for mentioning a Commodore 64, but neither of you did! But, I think, that was on my computer growing up, and my

first kind of foray into gaming. But, never mind, enough about me!

Doug Van Dyke: Come on, Hanish! I did have *Pong*, come on!

Hanish Patel: That's true, that's true! I was just really hoping for the C64 to make it, but there you go. I gave it another plug there. But you talked about these pretty seismic shifts, in terms of where it started in arcade gaming and where it is today and the amount of sponsorships and titles we got. I mean, there are some big shifts in gaming that we have seen. What I would love to know is just where technologies—you talked about the Internet, but—where technologies really shaped those shifts in gaming over the years?

Doug Van Dyke: Maybe, Domenic, I'll just jump in here first, and [I] wouldn't mind your comments on this, but I think there [are] a number of things. Everything from the movement—and I'll start where we are today—with the handheld devices and kind of the mobile and social gaming, but then you also look to just the high-speed Internet. I mean, you could just do so much more with gaming. I mean, when I was doing online gaming, I mean, I probably can't even tell you what the broadband was—it was dial-up, right? And so the type of content, the type of graphics that you could push over the speed of Internet back when I was playing to today, it's just been a phenomenal shift in overall technology. That's really driving this kind of deep, immersive, shared gaming experience across all the different genres and demographics.

Domenic Vermillion: To add to Doug's point, I'm going to second the Internet only because certain features like split screen co-op have been largely retired by a lot of games today in favor of online play. Back in the day where two people would sit shoulder to shoulder and one would play as Mario and then the next level, the other one would play as Luigi—that's largely fallen by the wayside in favor of having five of your friends in a team-speak and joining a server with five



other people from some other part on the planet to play against each other. And that does a much better job of ushering in the top-tier talent to play against each other as opposed to being the best person at your arcade.

Hanish Patel: And so both of you kind of talked about that little bit more of an immersive experience and for a number of years—and we've seen it, saw a lot of it and E3 [Electronic Entertainment Expo], you know, and places like CES [Consumer Electronics Show] as well—that the VR is going to be at the next step of real immersive play evolution in gaming. We're seeing that with certain titles, but are we seeing that come through in eSports as well, or does that still have some way to go?

Domenic Vermillion: In my own opinion, I think it certainly has a long way to go. I'm a big believer that gamers are still going to want a controller, they're going to want a mouse and a keyboard. If you really do want to get off the couch and pretend like you're throwing a football, I truly believe that you are going to want to go outside and just throw a football. So, Wii Sports or any of the yoga-related things, while it's pretty amazing how far technology has come, I still think it hasn't quite turned that corner yet. But that's only because of the level of dexterity required to play a game like Counter-Strike or Overwatch. And I'm happy to be wrong on that, but it's just not something I've seen yet.

Doug Van Dyke: Just to play off from that, when I was at E3, there's clearly a lot of companies that are still trying to build the space out, and there [were] a number of booths just trying to demonstrate the different technologies, whether it's VR or AR. And I think it just comes down to, as Domenic just said, I think it is a little long ways off yet because if you think about it, you got to wear something. You got—there is additional hardware. So, I'm not sure any company's got the right mix-and-fix yet in order for that to be mainstream. So, I think it's something that people really like and it seems really cool,

but just doesn't have that full mainstream impact yet.

Hanish Patel: That's fair. I mean, it certainly sounds like it's a trend waiting to happen or, at least, as you put it, to hit that mainstream, in terms of the way that people are really kind of doing immersive gaming. That takes me to a lot of the kind of trends that we're seeing, and something specific that we saw come out in the most recent Deloitte's *Digital media trends survey*, are directly tied to what we're seeing in eSports. So, Doug, can you share some of those trends?

Doug Van Dyke: Sure, absolutely, and definitely. I'll share a couple of things—and Domenic definitely jump in here—but as we see it, many businesses in the media and entertainment space are looking at and seeing how they can capitalize on this. And in our view, eSports is really offering a way to reach this new demographic that's been really beyond many companies' grasp because, as you think about it, the demographic right now is: 70 percent are male, ages 13 to 40, two-thirds watch live eSports. I mean, that's just phenomenal, and 37 percent have actually attended a live eSports event. I, myself—and I'm just on the high end of that age group there—I, myself, have actually gone to a live eSports event, and I see it happening. I see the shift happening. And within our survey, it actually even suggests an opportunity for exponential growth. Nearly half of Gen X respondents say they actually play video games at least once a week—almost as much as millennials and even Gen Z respondents—and so there's just this whole demographic that they're going to be able to tap into. And looking at just the overall viewer habits, [they] are shifting completely. Back in 2017, pay TV subscriptions fell by 3.6 million as cord-cutting viewers continued to shift to streaming and social platforms. It's this whole streaming of—whether it's Twitch, watching these eSport events or the social platforms—all the mobile gaming—and so, it's just all of this kind of combined together is where really a lot of our media trend data is showing us.

“There's been a phenomenal shift in technology, and that's really driving this kind of deep, immersive, shared gaming experience across all genres and demographics.”

Hanish Patel: Definitely. Say, anyone [who's] been to E3 will have seen this. But for those non-gamers out there, Domenic, what's the appeal for eSports' players and spectators?

Domenic Vermillion: So, in my opinion, I think the appeal is to see people who are proficient and competitive at something that can be played at a high level. So, if I turn on ESPN, I may not be a big enthusiast of Scrabble, but I'd love to watch the greatest kids in the country play it against each other. I think generally if you are predisposed to enjoying video games you will like it a little bit more. But having said that, I think people who are just competitive in nature will have an appreciation to see something different played at a very high level. There is also the partnership of some celebrities with well-known streamers that can attract audiences from across the aisle, so to speak. If you're not into *Fortnite*, if you're not into Twitch, you might like hip-hop, and you might like Drake. So the fact that he decides to play with one of the leading streamers would be of interest to some individuals. But I also think audiences are drawn to more interactive and immersive narrative experiences, which I think is changing the landscape in a way that people are going to Twitch and YouTube more often and paying for cable less.

Doug Van Dyke: Just to take off from that, I think a couple of different things in the non-gamer—I mean, there is a whole aspect of just social, right? It's the interaction and social interaction that whether or not it's on a social app or whether or not it's an e-game, eSports type of environment, that's creating even this environment for what I would call the noncore gamers. But then you are also seeing a lot of, like Domenic said, the celebrities. But it's also these national sports teams that are now investing in these eSports, and it's drawing in those folks that weren't gamers but now have seen that it's their favorite team investing in an eSport. They're curious, and it's drawing them in as well.

Hanish Patel: Certainly for the uninitiated, you can see the appeal from a player perspective, but certainly it will definitely surprise a lot of people around just the spectator aspect that the both of you touched upon. I think it will be really useful for our audience—I think it's going to surprise them with some of these numbers—but how many people are we talking about where we really talk about viewers and the kind of channels that people are watching? I mean, how big is this thing?

Doug Van Dyke: It's interesting because, again, all of us have probably been to a live sports event whether it's baseball or basketball, and these stadiums can hold 40,000–50,000 individuals. And so it's interesting Valve's 2017 International Dota 2 Championship had 15,000 people in the arena, and so you go, "Wow, that's impressive." But guess what? There [were] 5 million viewers watching remotely. I mean, that's just phenomenal! I mean, when you think about it—and you could take this in a number of different degrees—whether or not it's the how are you capitalizing on that from an advertiser perspective or just engaging with those viewers. Take another one, *Fortnite Battle Royale* counts 40 million users logging in to play each month. It's the most viewed title on Twitch with an average of over 140,000 viewers at any given time. Domenic, I'm sure you have some other numbers and other experiences as well.

Domenic Vermillion: I have one anecdote I'd like to share that I think sums it up fairly well. Back in the day, *Counter-Strike*, which I would say for the purpose of this conversation is probably the single most popular game played competitively rivaled probably by *League of Legends*. Games like that were played in LAN centers and shopping malls, and I'll never forget, only a couple of years ago, I was in my best friend's living room and we were watching Spike TV, and there was an advertisement for a *Counter-Strike: Global Offensive* tournament that was going to be held at the Barclays Center where the Brooklyn Nets play, and I almost dropped my cornflakes because I couldn't believe

how the game and the popularity of eSports as a whole had just turned that corner. I mean, frankly when we were younger, this was not considered cool. So, the metrics have changed, and I think the numbers support that more people are just simply interested in it, and it's done a good job of becoming a lot more popular. Whereas 25 [years] is hardly old, less than 10 years ago it was its own little cabal, I would argue.

Doug Van Dyke: All right. Actually, I think I saw some data on this, scheduled in 2018—I know we are halfway through it—I want to say that there [are] probably at least 30 or more major eSports tournaments that are being scheduled and being planned all across the world, which is, again, when you think about the number from back when this all started back in the '80s and '90s, and now we're talking about these 30 major eSports. That's just that's amazing.

Hanish Patel: I mean, that really is huge and just when you—just exactly where you are going there, Doug—with regard to—just the number of tournaments. I think it was just about three years ago the total prize pool for eSports tournaments was around \$37 million, and last year, I remember seeing it at \$113 million. And just recently, I saw that *Fortnite* announced their 2019 World Cup and have allocated a \$100 million prize pool for their eSports tournament alone. So with the viewership, there is certainly a lot of money. With that level of growth and popularity, let's get a better understanding of what that means to the market and what it looks like now with those sort of numbers that have been bandied around in terms of dollars that are available. Can you guys talk a little bit more around what that means for the businesses that are in the industry, and what are they going to do to compete with that?

Doug Van Dyke: Maybe, Domenic, I'll start with one and then let you kind of jump in here. It was interesting. I'll first just make mention of E3 again, when I was there. It was the biggest—I believe

Facebook had been there before—but not as much of a biggest footprint as they did this go-round, they had a really big site and made a big presence at E3, and I think a lot of it has to do with, whether or not it's the casual gaming but also the eSports. I mean, Facebook purchased exclusive rights to live stream tournaments—Valve's *Counter-Strike: Global Offensive PRO League*, and Amazon's Twitch acquired exclusive rights to stream Blizzard's Overwatch League games. So, these are the opportunities for companies like those that are trying to capitalize on and get into the market.

Domenic Vermillion: Yes, I'd also like to add that just in 2018 alone, publishers are launching three new North American franchise leagues: the NBA 2K League for basketball enthusiasts, the North American League of Legends Championship Series, and, as Doug pointed out, the Overwatch League, which has an exclusive partnership with Twitch. And again, I don't want to beat a dead horse here, but just as I was amazed to see *Counter-Strike* being advertised on cable television, once Facebook started to air ads for tournaments of the same kind and nature, I thought that was an interesting partnership between those two. So I know that Facebook has had a presence at E3 prior, but to your point, Doug, they've really upped their game and are bolstering their presence in that sphere.

Doug Van Dyke: The other thing that's kind of unique, and again I'm sure for those [who] are familiar with eSports, some are trying to analogize two traditional sports. But again, unlike pro sports, eSports is organizing leagues with independently owned teams, but a single publisher controls each eSports game. So, there [are] going to be a lot of new things and nuances that are going to be coming out of eSports. The number of companies that are going to have to be grappling with that are different than the traditional sports. It will be interesting to see how that all plays out over the next year, or two or three years.

Hanish Patel: Doug, just to springboard off that... I mean, like professional sports, we're certainly seeing eSports also experience franchises—including three new leagues launched this year, as well as sponsorships. For example, there's an Overwatch League team that's partnered with Lion's Gate for a film sponsorship crossover. So certainly these tie-ups are happening with franchises, happening with sponsorships—just like you see in traditional sports. How do you think that has really changed eSports and, effectively, what's in store for the future?

Doug Van Dyke: Yes. What I would say, Hanish, as you think about the franchise model, it's allowing others to invest into this new marketplace, and you are starting to see everyone—from those that are previous owners of just traditional sports but even venture capital money. I mean, everybody wants to get into this because they see the huge upside, and I think it was the New England Patriots owner, Robert Kraft, who paid \$20 million to secure a team spot in the new Overwatch League. Or think about how Big Ten Network and Riot Games recently extended their partnership with a new two-year contract. So, I think this is really creating this phenomenon around these different franchises and what this ultimately will look like. Then one last one, I will say, is the New York Yankees have partnered with Vision Esports. So, this is just creating this entire shift around the franchises in the eSports. And, Domenic, if you have any other view on this, it would be great.

Domenic Vermillion: Just to support your point, I would say what this does for eSports is help legitimize it. I mean, individuals may not be familiar with the Boston Uprising as an Overwatch [League] team, but they would certainly respect, I would surmise, Robert Kraft and the New England Patriots organization and whatever business decisions they feel were good ones as far as investing in that space is concerned. And the same goes for the New York Yankees. I mean, we're speaking in the realm of baseball. If we believe it would apply to eSports,

then they've been known for making great trades and signing great contracts for good players. I see no real reason why it would be different with purchasing an eSports team.

Doug Van Dyke: Just to play off from that one, I was at this conference and I was listening to this gentleman talk about managing a team, and to your point of everything from, "What is this going to be about?" Agencies, or you're going to have players have agents, and then when you acquire these players to be on teams, it's about traveling around and taking care of these players. I mean, it's just an interesting phenomenon as you look at it. It's taken it from the franchise down to even the players, and what you need to do about training and housing, and there is just this whole other facet of interaction with the teams itself. It's quite interesting.

Hanish Patel: Wow! I mean that really is fascinating the way that it's going in terms of just some of the parallelism to professional sports and eSports. One of the things I want to think about is—and for us to discuss is—we talked a lot about where the history of eSports has been, how big it really is—not just from a tournament perspective, the dollars behind it, the franchises sports, but the spectator side of it and the viewing experience that it also brings. But when we look at some of the opportunities and challenges with eSports, what might we expect to see in the future? And let's start off with some of those opportunities.

Doug Van Dyke: You know, what I would say is when businesses look at this, I mean, it's just the reach, the overall reach. The global audience, where is the advertising, all of the branding. It's developing new entertainment venues, the hospitality, overall franchise. I mean, it's just somewhat endless and to be able to really just capitalize on this whole shift in media and sport, really shaped by not only the social in entertainment but the live streaming and high intensity. I mean, if you think about it, my kids are younger, just coming into their teenage years. All of their content is on their mobile device,

whether or not it's watching somebody play eSports or whether or not it's watching a YouTube video or some other user-created content. I mean, that's where you are going to have to capitalize on it, and that's where I see a lot of opportunity to be had. Domenic, I don't know if you have anything to add...

Domenic Vermillion: I can only contribute to the challenges aspect, because I think when I talk about eSports among people, oftentimes they'll stop me and ask me, "Well, what is the sport?" And when I begin to sort of describe what it is they'll, without batting an eyelash, say, "Well, that's not the sport." So, it kind of becomes the whole, "Every sport is a game, but is every game a sport?" and it's an interesting debate—certainly not without controversy—and you've heard people say this about golf as well. I think that's the biggest challenge for eSports is that recognition that it is in the same conversation as, say, soccer or tennis, and to its credit, eSports will be considered a medal event at the 2022 [Olympic] Games, and it's also been a demonstration sport at the 2018 Olympics, but the International Olympic Committee has voiced some opinions that essentially said they are not going to support things that depict violence. But it's moving toward the zenith that it could reach if it keeps up with that pace.

Hanish Patel: From what you've just highlighted there, Domenic—I think, it's only a matter of time, right? If they choose the right event that is not offensive to everybody, then it's only a matter of time to look at if it qualifies as an official event, and then in some ways starting to give power to some of the other sports.

Doug Van Dyke: Agreed. And I think that's actually to FIFA's credit or some of the sports titles where they shine is that, when they actually have the NBA commissioner—I believe his name is Adam Silver (I'm still used to saying David Stern)—when they're drafting players like they draft actual basketball players or the tournaments that are held for FIFA are for prize money that is more than some athletes' contracts, the sports games have done a good job of being accepted globally for that reason. It's still a sport, just a digital version of it, whereas playing *Cops and Robbers* might be a little bit more tough to sell as a sport, but my guess is as good as anyone's on that. It's hard to predict the future.

Hanish Patel: So, just springboarding off some of those opportunities that you both talked about... Where does that stand in terms of those within the ecosystem, be that the publishers, be that those that are owning the leagues, or frankly some of the titles that are putting up pretty substantial money for that. I mean, where does that stand in terms of what players in the ecosystem need to be thinking about going forward?

Domenic Vermillion: Hanish, I think I referred to it before: You've got this whole global audience and the reach to this global audience, and I think there is a lot of value that companies are looking at. So, in this whole eSports landscape—companies not only in the media and entertainment space but it's the professional sports space, it's the investor world, and it's really trying to look to unlocking all this advertising potential, developing new entertainment and hospitality offerings. It's really empowering

the overall franchise model and creating enhanced value, growing that modern media environment. You've got broadcast rights, you've got promoting subscription services for physical and virtual goods, game streaming, access to teams, VIP hospitality. I mean, there's just a whole number and whole host of opportunities that are going to just start morphing as companies see the number of users streaming. And access to that, I think, is just a huge opportunity that they're going to be capitalizing on.

Hanish Patel: This is great stuff. I really want to thank you, Doug and Domenic, for joining me today. What we probably should have done is swap these headsets, put on some gaming headsets, had a game on in the background, and had our podcast off the back of that. That would have been the true way for us to do this one! But I really do want to thank both of you for joining, and certainly for more analysis on eSports, look out for Deloitte's upcoming white paper, which is on "eSports graduates to the big leagues." Till then it sounds like there's a lot in store for the future of eSports. And for those who have not experienced it directly, from the sheer popularity, you are probably not far away from someone either participating or spectating on eSports, or at least from someone doing the latest emote dance, that's for sure! As the "game over" music sees us out, thanks for tuning in to this week's episode of User Friendly on eSports. See you next time.

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