



Nhi Mai Ho

CAPITALIZING ON THE FUTURE
GROWTH OF THE ESPORT
INDUSTRY

Tencent Ltd Case Study

International Business

2021

VAASAN AMMATTIKORKEAKOULU
UNIVERSITY OF APPLIED SCIENCES
International Business

ABSTRACT

Author	Nhi Mai Ho
Title	Capitalizing on The Future Growth of the eSports Industry: Tencent Ltd Case Study
Year	2021
Language	English
Pages	62
Name of Supervisor	Thomas Sabel

This thesis aims to analyse electronic sports or eSports - one of the world's fastest growing phenomenal in terms of public recognition and capital gain. An overview of eSports is provided in the first and second chapters with details regarding its historical development and formation. Several questions about the establishment of electronic sports, its association to traditional sports and gaming are addressed in this part.

From the third chapter onwards, the thesis concentrates on analysing eSports as a young industry. By going through eSports development, economics impacts, investments, and its ecosystem; evidences supporting eSports maturity as an industry are presented. At the end of chapter five, eSports status as a nascent industry is established, along with footing data that points towards an explosive multi billionaire industry in upcoming years.

In chapter sixth, a theoretical framework is presented. In this part, eSports is evaluated from economics perspective rather than financial figures and popularity. The definition of a nascent industry is provided, comes along with analytical measurement in terms of revenue, demand, investment diversification. Then, the compound annual growth (CAGR) is calculated, which the result supports the conclusion of eSports maturity given in the previous chapters. In the second part of this chapter, the Strategy Diamond framework written by Donald Hambrick and

James Fredrickson is stated, outlining six elements: Arenas, Vehicles, Differentiation, Staging, and Economic Logic.

The last chapter deals with the case of Tencent Ltd – one of the leading companies in electronic sports. By applying the diamond strategy framework, this chapter analyses how Tencent Ltd has successfully capitalize the eSports industry. First, the company financial statements are presented. Then, calculation to predict Tencent Ltd annual growth is given. Second, its financial key highlights are also described to provide better understanding on its growth. After that, the diamond strategy is used as a unified model to evaluate steps taken by Tencent Ltd in each stage of developing competitive gaming and eSports.

The final chapter summarizes the main ideas throughout the thesis. The most profound evaluation in this thesis is the case of Tencent Ltd. With the hope to encourage others to follow the footsteps of Tencent, the last chapter serves as an example of how firms can take advantage of business models and strategy frameworks as the five-diamond strategy to capitalize a nascent industry with fast growing pace like eSports.

Table of Contents

1	Introduction.....	6
2	eSports Overview.....	6
2.1	What is eSports?	7
2.2	The Evolution.....	8
2.2.1	Formation stage.....	8
2.2.2	Development stage.....	10
2.2.3	Sublimation period.....	11
3	eSports as a nascent industry	13
3.1	Development.....	13
3.2	Economic impacts.....	14
3.2.1	Growth	14
3.2.2	Revenue.....	16
3.3	Investment.....	17
3.3.1	Investments Ecosystem.....	19
3.3.2	Rise of eSports investment.....	21
4	eSports influence.....	23
4.1	eSports and Tourism	23
4.2	eSports and Technology advancement.....	24
4.3	eSports and contribution to economic growth	25
4.4	Trend.....	26
5	Esports ecosystem.....	27
5.1	Brands	29
5.2	Broadcast & Media	31
5.3	Franchise and Teams.....	32
6	Theoretical Framework.....	33
6.1	Electronic sports as a growth industry	35
6.2	The Strategy Diamond	37
7	Case Study: Tencent Holdings Ltd	39
7.1	Tencent Holdings Ltd Financial Summary.	40
7.1.1	Tencent Ltd financial key highlights in 2019 – third quarter of 2020.	43
7.1.2	Tencent Ltd financial key highlights regarding competitive gaming and eSports in 2019	44
7.2	Analyze Tencent Ltd ‘s Strategy Model.	45
7.2.1	Arenas	46
7.2.2	Vehicles.....	48

7.2.3	Differentiation.....	50
7.2.4	Staging	53
7.2.5	Economic Logic	54
8	CONCLUSION.....	56
9	REFERENCES	58

LIST OF FIGURES AND TABLES

Table 1.	The evolution of eSports by years.....	9
Table 2.	Tencent condensed consolidated statements of comprehensive income 2015 - 2019	41
Table 3.	Tencent condensed consolidated statements of financial position 2015 – 2019.....	41
Table 4	Tencent Year over year growth rate of comprehensive income 2015 – 2019.	42
Figure 1.	League of Legends World Championship 2016.....	10
Figure 2.	2020 Global eSports Market Report by Newzoo.....	16
Figure 3.	Number of investments in eSports from 2014 – 2018.....	18
Figure 4.	eSports Investments by investor type in 2018	19
Figure 5.	U.S. eSports market size, by revenue source, 2016-2027	22
Figure 6.	eSports Ecosystem, Nielsen Sports.....	28
Figure 7.	Esports ecosystem and landscape, Nicholas Besombes, 2019	29
Figure 8.	Diamond Strategy by Hambrick and Fredrickson	37
Graph 1.	Tencent revenue and comprehensive income forecast.....	43

1 Introduction

As an indispensable product of the 4.0 technology revolution, eSports or e-sports has become a culture that is increasingly spreading and deepening into the masses. With increasing demand from the market, game publishers have released many esports titles of different genres that are attracting hundreds of millions of players around the world. The popularity of esports keeps companies willing to pour money into the industry, and players have more and better titles. And when these games are popular, the money goes back to the pockets of the merchants.

In the first part of the thesis, the development of eSports is described through three different phases. From the very beginning until it was recognized as a potentially profitable industry. The definition of eSports is also clearly stated as an intellectual sport. It has also been compared to commonly seen motor sports and considered for inclusion in the Olympics.

In the next section, economic factors are included to assess the development of this nascent industry. Based on metrics including the number of viewers, the annual return and the total investment invested, the rapid spread of eSports can be seen. More than that, it has implications for other areas such as tourism, world trends and high-tech development.

The eSports industry - like all industries - has certain frameworks and structures. This is described by the ecosystem concept, in order to better clarify how eSports in general function. From an economic point of view, the article outlines the influence of investors as well as how eSports has created a global trend, thereby promoting marketing activities and dominating social networking sites.

In the final section, the diamond strategy, which consists of five different elements, is used to analyse the success of Tencent Holdings Ltd. Their financial summary as well as strategy model will also be mentioned to clarify how they manage to be one of the most successful company in the eSports industry.

2 eSports Overview

Esports is a popular term and you often see this term in most newspapers and television. Rivals from different leagues or teams go head-to-head in the same game popular with home gamers: Fortnite, League of Legends, Counter-Strike, Call of Duty, Overwatch and Madden NFL, to name a few some typical games.

These gamers are watched and watched by millions of fans around the world who attend live events or tune in on TV or online. Streaming services like Twitch allow viewers to watch their favourite gamers play in real time, and this is often where popular gamers build their fandoms. However, not many people really understand this new concept.

2.1 What is eSports?

ESports is an acronym for the full English phrase Electronic Sport. To put it more clearly, esports is about a competition between players through a video game. In the match, players will compete against each other to find the winner. These games will usually be operated mainly through electronic devices (PC, phone, ...), players will operate on these devices such as mouse control, keyboard control, controller.

The environment of the competition will be a virtual space (each game will have different animation). The types of games commonly used in esports competitions are usually role-playing games, fighting, high strategic thinking. At the beginning of the game, both sides are the same, no one more than anything, to ensure fairness when the match takes place.

Popular eSports game genres such as LOL, Dota2, CSGO, Fifa Online 4, etc. The form of competition depends on each game as well as the rules of the game, usually players will compete in the form of solo (single match), Dou type (team battle), or Squad (group match 4 - 5 people). Every match that takes place is the referee supervising the match, this will help the match without cheating. The players who are honored to participate in the rounds of the esports tournaments are often the players with high experience, very professional and knowledgeable about the game.

In fact, the world of competitive video game is a rapidly growing international phenomenon with millions of fans and billions of dollars to buy. Streaming services

and live events have turned casual gamers into serious stars who can sometimes earn seven-figure earnings and great brand endorsements.

As hard as can be imagined for the followers of traditional sports leagues like the NFL or the NBA; Esports, at the very top level, works in a similar way. In fact, this April, the NBA held a draft for the launch of the new eSports tournament that focuses on the basketball-themed NBA 2K game franchise. In the draft, 102 professional eSports players were selected, with all the generosity and circumstances normally reserved for players on the pitch. Esports competitions started to grow in the 2000s and really exploded from 2010 onwards with world class competitions and prizes worth millions of dollars.

2.2 The Evolution

Any sport that wants to develop and is known to many people must go through a challenging period, in order to reap the results. In order to accurately evaluate the development of the current esports scene, the next analysis segment will be divided into 3 main phases.

2.2.1 Formation stage

According to some documents found, the first esports tournaments were Space War. The event was held in October 1972 at a prestigious American university. Players participating in this tournament are mainly students studying at this university, the reward for this esports tournament is free reading of Rolling Stone magazine for 1 year.

By 1980, a game competition took place called the Space Invaders Championship, which received the attention of nearly 10 thousand people in the US watching. And since then, every time game tournaments take place, everyone has always paid attention. In 1981, which means a year after the trend of gaming was welcomed by the people, Twing Galaxies was officially formed to bridge the propaganda of electronic tournaments. It also publishes the victories of each match through Guinness publications.

It was not until 1983 that professional competitive teams were formed, and from then on more and more game tournaments were held, a series of teams were formed. The concept of Pro Player (ie professional gamer) also appeared from there. The competition games that are set by the gamers will be praised by the press. Just like that the speed of spread will be accelerated and people will gradually be receptive to the game events that took place. Games that are good, attractive and have many players will gradually grow with each day.

Year	Event
1972	The first esports tournament, the Space War, was held in America. Players are students of 1 University. The reward at that time was not very big. More than 10.000 participants.
1980	Another tournament on a larger scale was called the Space Invaders Championship. Attracted 10 thousand Americans. Since then, the Esports tournaments have always received a lot of attention from everyone.
1981	The Twin Galaxies was established to promote and support electronic tournaments.
1983	Many competing teams were formed. The Pro Player was praised and praised by the press. Therefore, the development of the games is also day by day.

Table 1. The evolution of eSports by years

2.2.2 Development stage

Esports officially flourished from 1990 on. Since the Internet was widely available, technology developed continuously, esports has since gone on, becoming more widely available to many players. At that time, esports received a special admiration from many people. Therefore, it was only in a short time that Esports developed rapidly. Many major tournaments were formed, attracting a large number of participants, interested and large investors. Since then, online entertainment channels have also developed. Many people through the internet have livestreamed to promote and develop themselves.

Not to mention the prize value of the Esports tournaments also gradually improved each year and each season. The larger the esports tournaments, the higher the reward for the winner will be. The number of professional teams participating in the tournament has also increased in quantity and quality. Because of that, the tournaments have never ceased to cool down with both professional gamers and fans. During the same period, esports grew markedly in terms of the number of tournaments, the prize money in each tournament and the number of followers due to the explosion of live streaming media.



Figure 1. League of Legends World Championship 2016

2.2.3 Sublimation period

Since the MOBA game series (short for Multiplayer Online Battle Arena) officially launched to gamers worldwide, it is also the time to mark the extremely strong development of Esport in general. Typically, 2 types of game Dota 2 and League of Legends. And since then, the online game market has appeared in many genres of MOBA games - mainly mimicking the success of these two famous games. The major tournaments are continuously held, the quality of the tournament is also carefully invested, every match is broadcast live, and from there a lot of spectators can follow the progress of the matches.

Even when the official livestream channels are known to many people, esports games are more interested in audiences. If you regularly walk around online livestream sites such as Twitch, Youtube, Nonolive, ... then you will definitely see a lot of people who live online e-sports games. Besides, professional gamers also take advantage of online entertainment channels like this to build an empire for themselves. They can rely on livestream platforms to have a huge income, creating a reputation for themselves.

The number of esports tournaments is continuously increasing and more organized, from small tournaments to world class tournaments. The quality of the tournaments later, the better it will be compared to the beginning and the reward value is also much higher. The year 2016 - 2019 is considered a milestone marking the explosive development of the e-sports industry in general with a series of large and small esports tournaments held continuously, the competitions are also very diverse. Even in the last SeaGame 30, several electronic sports have been included in the competition category.

2018 is seen as a real stepping-stone for eSports to consolidate its potential to become the next billion-dollar industry. Jack Etienne, owner of the North American

esports team Cloud9, the most valuable team in the world, said that: "2018 really broke past barriers and achieved unprecedented results in eSports history". The global eSports market in the past year has never been so exciting. With Team Cloud9, which has become the most valuable team in the world by raising \$ 50 million in Series B funding, Forbes values the team at \$ 310 million. In addition to Cloud9, it is estimated that there are nine eSports teams globally worth at least \$ 100 million. The eSports tournament was originally organized solely to promote new game products sponsored by publishers, however, in the past few years it has truly become a popular sport.

The esports industry is so valuable because it attracts hundreds of millions of followers worldwide. Tournaments and other events can garner a crowd following on par with most traditional professional sports. For example, the League of Legends World Championship in November 2018, has set a record with 200 million people watching simultaneously for the final. While the Superbowl match last year saw just over 103 million viewers. According to a report from Newzoo, a market analysis firm, 380 million people globally will watch eSports this year, including 165 million eSports enthusiasts (a term used to describe viewers. often, as opposed to occasional viewers). Many ardent fans come from North America, China and Korea. These numbers have partly made many corporations and billionaires around the world pay attention and actively sponsor. It was no longer a playground for game publishers alone.

Some names to mention are sponsoring eSports tournaments and teams such as Mastercard, billionaire Mark Cuban, or even basketball legend Michael Jordan also has a stake in a European team. As a result, it becomes a lucrative market, not only for gamers, but also for brands and video game makers. ESports gamers, like traditional athletes, can reap huge sums of money: tournaments can offer millions of dollars in prize money and are often split evenly among the players on the winning team.

3 eSports as a nascent industry

3.1 Development

From a small game match in 1972 to a billion-dollar business, eSports have certainly gone through an astounding development. Started out as a friendly match made for gamers in the 70s, electronic sports have grown from being an underground hobby to become a part of sports family. Despite the controversial debate around its legitimation as an actual ‘sport’, eSports are now in limelight with a massive fanbase. Contrast to public believe, not all of eSports fans are gamers or young people. Suffice to say, eSports nowadays attract all type of supporters. According to a recent study, only 38% of eSports fans are under 24 as most of them are in the age of 25 to 34, and 28% are above 35. Traditionally, male is the dominant sex when it comes to sports, either participators or professional athletes. In the past decade, the male to female ratio among sports participations has been unchanged, however, in eSports, the number of female players is on the rise. In the same report, 29% of eSports fans are female, roughly 10% higher compares to the result in a research conducted in 2015.

Along with the development in content, eSports are also flourishing thanks to specialized channels. With the advancement of technology, most people can easily gain access to all kind of games. It can either be computer, mobile phone or game console, eSports fans can participate in their favorite modern sports at anytime, anywhere. In additional, the booming in streaming devices has helped audiences to follow eSports tournaments within a single click. It is common to see an eSports match being on ‘trending’ in a streaming platform like YouTube or Twitch. It is equally easy for “streamers” and professional players to earn millions of dollars each year thanks to generous fans and sponsors all over the world. The more popular eSports become, the more mainstream it gets. There are now specialized TV channels for electronic sports fans and professional players.

Moreover, the development of electronic sports can be seen in terms of recognition from authorities. The birth of Global Esports Federation has marked a very important milestone in the development of eSports. Global Esports Federation is

born with one sole purpose that is to promote “credibility, legitimacy and prestige for esports”, and has succeeded in establishing a strong foundation for eSports to reach out to millions of fans across the globe. The organization is a concrete proof for the professionalism in electronic sports as it has established standards, regulations, and guidelines for many big tournaments. Thanks to Global eSports Federation, eSports are recognized as a part of sports in 71 countries. Hence, eSports professional athletes can now have similar treatment to their counterparts compete in traditional sports. For example, in the United States, eSports athletes are recognized as professional sport athletes and are rewarded with monetary prize and other beneficial. Recently, eSports are welcomed as a presentative sport at Asian Games 2018. The representative of Olympic Games is also giving hint about a better future for eSports where they are played simultaneously with other traditional sports at this major event.

Recognition, especially from official institutions and governments are crucial for eSports to achieve today success. Earlier this year, eSports fans all over the world celebrated when four more nations joined the International eSports Foundation. Ukraine, Turkey, Kazakhstan, and Colombia are among the latest members of this foundation. According to the local authorities, they are ready to commit in promoting eSports. They also express interest in being host for upcoming eSports tournaments. Given the context, researchers can express such enthusiastic towards eSports as a sign of maturity. eSports are now recognized by both developed and developing countries, marking a new era for the development of eSports.

3.2 Economic impacts

3.2.1 Growth

eSports growth is demonstrated clearly in the raise of viewership. Viewership is a very important indicator for a recreation and entertainment activities due to its tie-knit relationship with public recognition. There are two terms define how popular

a stream-able entertainment, with the first being occasional viewers and the second being dedicated viewers. Occasional viewers are those who watch the show by chance, them watching the event are entirely circumstantial. Dedicated viewers, on the other hand, are those who seek out the event intentionally. They are often fans or enthusiasts that contribute largely to viewership. The raise in the first can be seen as a sign of rise in popularity while the second is a more concrete way to measure the development as a whole.

In 2018, eSports have around 173 million dedicated viewers and 395 million occasional viewers. These number raised roughly 12% in the next year, reaching 198 million and 443 million, respectively. The growth ratio is kept at a steady level in the upcoming year and is expected to be 10.4% percent higher in 2023. If this scenario comes true, eSports will have around 1 billion audiences globally, in terms of both occasional and enthusiast viewers. By achieving outstanding numbers in both measurements, one can be more assured about the growth in the future of eSports. Another aspect can be served as proof for the advancement of eSports is the raise in prize pool. Global eSports research predicts that the rise in prize pool will be 25% higher in 2025. The higher prize pool is largely thanks to the drastically grow in viewership among developing countries.

In the past decade, eSports have gained fame and popularity in many developed countries like the United States, China, United Kingdom and in Nordic countries. The success of eSports is predominated by the success of game consoles devices. As some of the first electronic sports are cultivated from PC games, the Western gamers are surely in advance in terms of early accessing. However, technology has created a new trend in the gaming community. As mobile devices are getting smarter, they become a fruitful land for game developers. Take a closer look at Appstore and Google Play – the two giants and rivals in the mobile markets. With the first having almost 1 million gaming apps, and the later having around 600,000; both are far ahead of Steam (30,000 applications) – a famous game distribution platform for gamers in PC.

Such a change has brought a fresh wind for eSports developers. Within the past few years, electronic sports have attracted many new fans in emerging markets,

especially those from South East Asia and South America. The difference in culture with strong concentration on social networks and online interactions, the boom of smartphone era has led to 27% annually growth in terms of eSports among South East Asia countries. Some of the most notable names are Vietnam, Singapore, and Thailand. Beside China, these countries have the most interactive fanbase and gamers across all eSports games. The gaming community here has grown drastically and now attracted lots of attention from international investors. It is not rare to see professional players in these countries being sponsored by endemic brands like Coca-Cola or Mountain Dew.

3.2.2 Revenue

eSports Growth	Revenue Total	Revenues in millions	Change in percentage
2018	\$776.4		
2019	\$950.6		22.4%
2020	\$1100.1		15.7%
2023	\$1556.7		14.9%

Figure 2. 2020 Global eSports Market Report by Newzoo

In the latest report made by Newzoo market research, the revenue of eSports – without adding broadcasting profits, had surpassed \$1 billion. Figure 2 provides information regarding the total revenue of eSports from 2018-2020 and the expectation from Newzoo based on existing data for 2023. Newzoo is not the only one who is optimistic about the future growth of eSports. In a business report done by Business Insider Intelligence, five big players in market research segment shared their positive thoughts about the future of eSports. PwC, Business Insider Intelligence and Newzoo predicted a similar scenario where the global revenue of eSports reaches \$1.5 billion in 2022. On the hand, Super Data forecasted a slower growth rate for eSports while Goldman Sachs foresee a bright future where the

revenue touched \$ billion in 2022. The accuracy of these predictions is up to debate; however, no one can deny that eSports will likely thrive in the next couple of years.

Breaking down the rapidly maturity of eSports, 74.8% are from sponsorships and media rights. Consumer purchases (tickets, merchandises) also play an important part in the growth of eSports with \$121.7 million while publisher investments add another \$116.3 million. Digital and streaming, in total, contribute \$39.7 million. Despite the modest share in percentage, digital and streaming are among the fastest growing revenue as the amount in 2019 has already tripled itself over one year. Hence, an estimation of \$21.7 million in 2023 compared to just \$7.1 in 2020 is feasible. The raise in revenue is also demonstrated in the total number of tournaments and events. As these events attract millions of viewers, the total sales of merchandise and tickets has up from \$54.7 in 2018 to \$56.3 million in 2019 (Venture Beat, 2020).

3.3 Investment

As electronic sports continue to expand quickly, so does the enthusiasm in being a part of the community. In recent years, the number of investments made towards eSports industry has raised significantly. Deloitte, in their report in 2018, announces that there is \$4.5 billion invested into this industry in 2018 alone, marking a milestone for the electronic sports. Figure 3 presents the number of investments in eSports in the period of 2014 and 2018. From just 4 investments in 2014, eSports have successfully attracted a large number of investors with the total of 68 investments in 2018 as a concrete proof for its success.

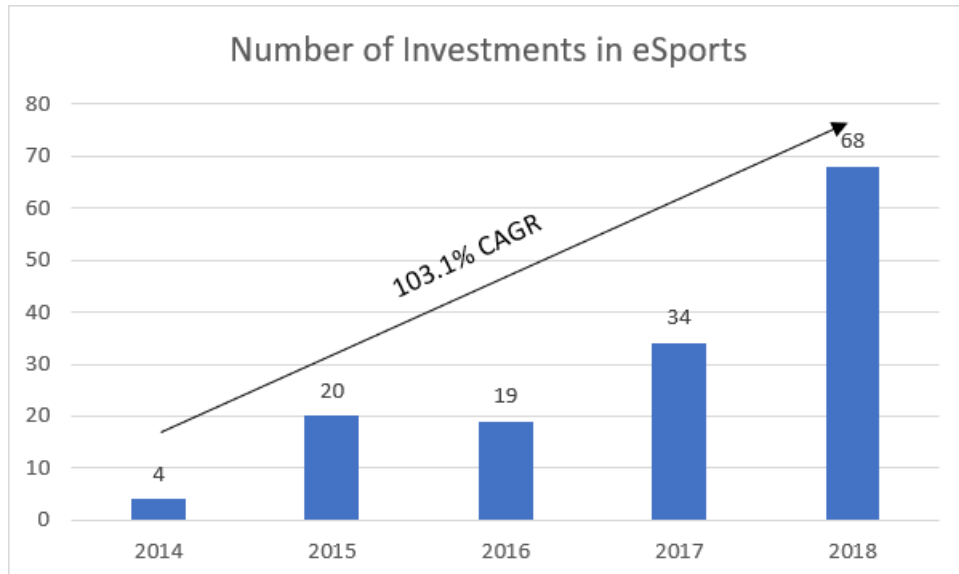


Figure 3. Number of investments in eSports from 2014 – 2018

By the end of 2019, a total number of \$1.95 billion is reported by the eSports observer. Despite lower than the previous year, there are non-disclosed amounts that might take up a high percentage in the total number of invested amounts for eSports.

Breaking this down even further, figure 4 presents the investor type in 2018. The dominant of venture capital is a clear sign for the rise of eSports. Note that the number of investments belong to this group in 2018 (49) is twice the amount in 2017 (24). They are mostly tech giants who shows interest in marketing & advertising and developing side sign of the industry. Among the remaining three categories, family office stands out with 17% of investments are in this type. Bearing similarities to venture capital, new-born industry attracts investors who act on behalf of their family offices with higher endurance to risky trading practices. The total investments in 2019 is 15 – double the amount in 2018 (7).

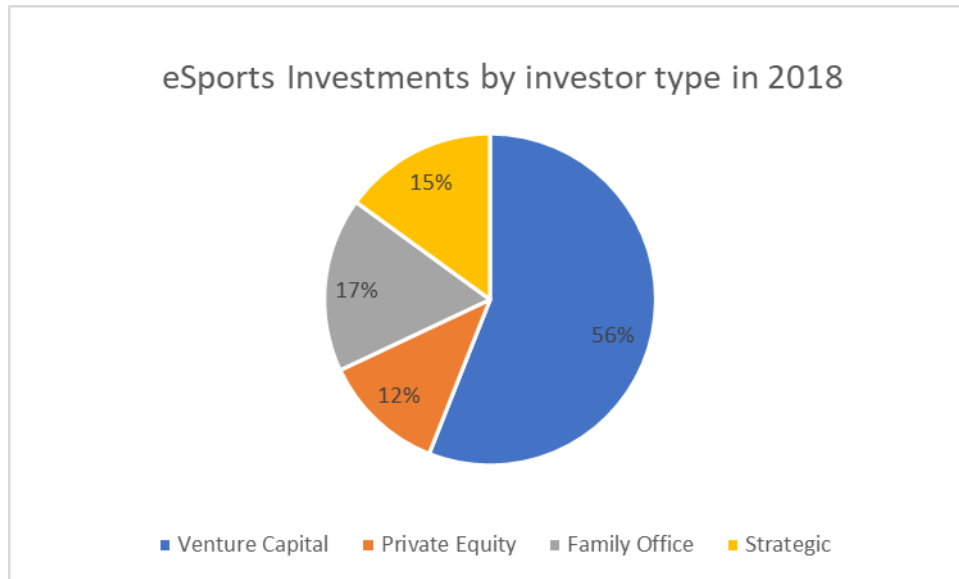


Figure 4. *eSports Investments by investor type in 2018*

Private equity and strategic investors are the last remain in the group with 15% and 13% in share, respectively. Despite having relatively low percentage, the previous has experienced a sharp rise since 2014. From none to 11 investments in 4 years period is an astounding achievement. Unlike other type of investments, private equity investment takes time to mature. Hence, the rise in this type of investment is a great sign for the maturity of eSports as an industry. Strategic companies have been steadily invested in eSports in the past years and reach 13 investments in the year of 2018. In conclusion, there are clear sign of growth within investments in eSports with strong concentration on game development and upgrading media platforms & advertising.

3.3.1 Investments Ecosystem

According to Deloitte, there are five primary categories that investors can entrust their capital investment in eSports; they are team organization, developers, event coordinators, media platform & advertising, and consumer products.

Similar to traditional sports, eSports revolve around teams and professional players. Hence, choosing to invest in teams and organizations is a smart way to promote brand name and build up reputation. As most eSports teams are backed up by strong

organizations, investing in them guarantees profitable paybacks. If investors are interested in this category, they might want to consider spending their money on talent development, facilities, team management, expansion, or merchandising retails as they are the most effective ways to boost the talent teams.

Developers are the good second choice for investors to pick from. As they are the main feature distinct eSports from traditional sports, developers are those who make and develop the core contents of eSports. Unlike managers in contemporary sports, developers are the bones of any games and game contents. Organizations need to keep pouring capital on nourishing them to maintain the ecosystem of the games. For multi-player genre, developers are extremely important – they are the one who supports both professional players and individual participation in the games. They need to keep on evolving the game environment, handling bugs, updating contents ...etc. Hence, they are the one who has the most influence on game “meta” and consequently, affecting the performance of eSports teams on tournaments.

By holding an important role in the eSports ecosystem, investors who want to invest in eSports can choose this category to guarantee the long-term development and the sustainability of the whole eSports system. According to latest statistics, 41% of total investments is for developing games, 24% is for software developer and 35% for analytical purposes. Based on the snapshot of investments over time in the developer’s categories, the amount of capital poured into this sector has raised significantly, from \$12 million in 2014 to \$758 million in 2018. However, there are down sides of being a nascent industry, that is most investors are targeting big names in the play field. Others, who have not made a name for themselves are neglected.

As eSports tournaments are booming worldwide, the role of third-party event coordinators is becoming vital. The great thing about is eSports is that it provides unlimited freedom for fans and professional players. For the later, they get many options, not only from playing in big tournaments but also by streaming on different platforms. Hence, the mentioned third-party and flexible arrange different type of social events to meet the infinite demands from customers. Hence, the amount invested in this category has also raised from \$138 in 2014 to \$208 in 2018. One

slight concern for investors is that the demand is differ based on the location, especially by countries. In the same report public by Deloitte, Russia and United States are the number one and two places with most demands for third-party coordinators.

Advertising remains one of the most important keys in any products promotion process. To transform a young industry into a viral phenomenon, lots of money has been invested into implementing media platform and advertising. In 2018, there are \$689 million invested into this category, making it the most popular choice among investors. The number is five time higher than the previous year and twenty time higher than 2014. While investing the subcategory, most of the investments are to promote networking & social media. The reason for this dominant lie in the target of eSports – millennial players and fans whose age are between 16-35. One fifth of the total investments is for streaming services such as Twitch – as these are becoming extremely popular and could replace mainstream media channels.

Last, the consumer products segment – a hot spot for private equity and strategic investors who enjoy putting their capital in promoting consumer products. Similar to traditional sports, eSports team sell their branded apparels, toys, equipment, and merchandise in general. One special thing about eSports is that there is “in-game” merchandise, which can be seen as a gold mine for game developers. Games are like fantasy lands where everyone dreams come true. Players can freely choose whatever characters, looks, and gears that they like. And of-course, they can freely modify their in-game characters in their own will. With such mind set, game publishers give out thousands of different in-game merchandises, from clothes to weapons as customers. Hence, the consumer products segment become a sure win for any investor looking for a diversify their investment portfolio.

3.3.2 Rise of eSports investment

The latest statistics provided by Statista shows a strong growth in the global electronic sports market revenue. Starting from 2018, the revenue generated from eSports have expanded quickly. From \$776.4 in 2018, the market value of eSports

has surpassed \$950.3 million and is expected to reach over \$1.5 billion in the next three years. Breaking this down further, the revenue source insights given by Grand View Research lists five main sources: sponsorship, media rights, advertising, publisher fees, and merchandise & tickets. Among them, sponsorship is the dominant source with 39.9%, followed by media rights with 25.5%. The other three categories share similar percentage of roughly 10% each.

Diving into the regional insights, the United State is leading by capturing more than 39% of total revenue in 2019. FIGURE provides the detail for revenue sources within the US from 2016 and the expectation for the upcoming years.

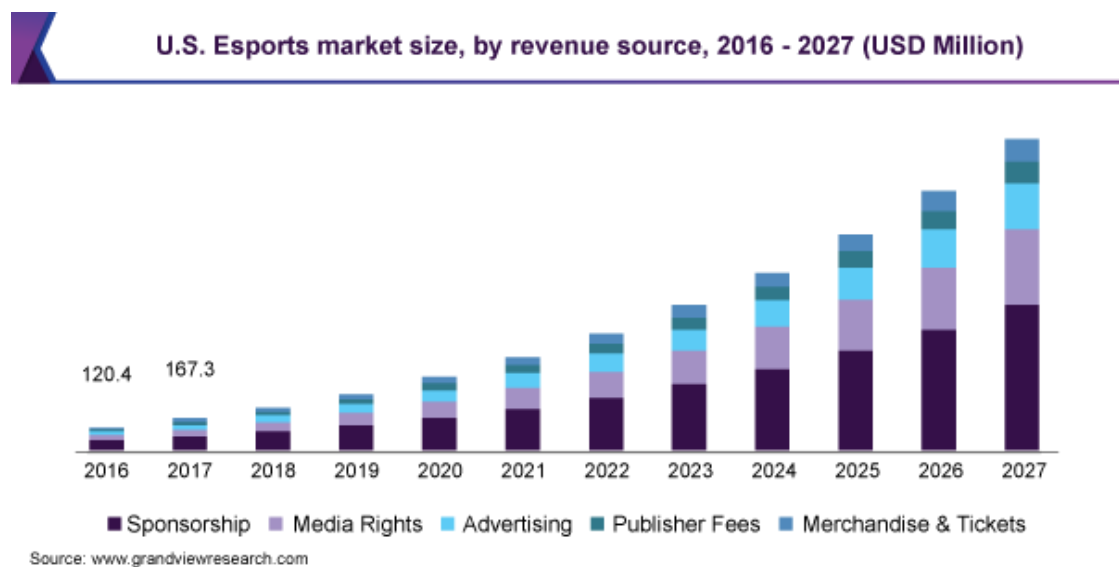


Figure 5. U.S. eSports market size, by revenue source, 2016-2027

The right-skewed of FIGURE shows great potential for eSports growth in the US in the next few years. According to given statistics, the US market will increase in both size and revenue. Experts predict that with the expand in recognition among millennials, eSports are gradually become more than just a gaming culture. Many youngsters are considering pursuing a professional career, and that, is a great sign to capitalize the immense demand.

To meet with customer's need, public and private organizations have invested in expanding eSports landscape. Investors in different segments are sharing their interest in eSports by pouring their capitals in promoting and developing a strong ecosystem. Such rise in investment has fueled the growth of eSports in the period

of 2016-2020. As experts in the field predicts more upcoming investments being made in the next few years, eSports fans can believe in the sustainable growth of their favorite recreation activities. On analyzing the raise in revenue, researchers believe that it is the free to player model of electronic sports that attracts participants. However, by implementing microtransactions in the content of each game, consumers are more comfortable on spending their money, hence, leads to the overall rise in total revenue.

4 eSports influence

4.1 eSports and Tourism

Sport events, especially international tournaments are well known for being the tourist magnets. Recreation and entertainment events have long played an important role in magnifying local business and boosting the regional economic. Historically, sport events – especially the international tournaments like the World Cup are unique chances for the tourism industry to draw in millions of new travelers. In 2018, the FIFA World Cup host cities are reported to attract 5 million tourists, in which 2.9 are from foreign countries (Tyrin, 2018). The Australian Open in 2020 has added \$387.7 million into Australian economy, which is 12 percent higher than the previous year with over 800000 attendances.

Offering relatively positive impact, eSports events are seen as a tourism generator (Tomasi, 2019). In 2018, over 20000 fans had travelled great distance to attend the League of Legends Championship in Paris. One year after, the same event filled over 44000 seats in the Bird's Nest stadium (Ashton, 2019) and this is only the third biggest eSports event in China that year. The number of viewers is astoundingly high and is predicted to get higher in the upcoming years. One certain thing is that

such number is sweet pot for tourism industry. Each year, there are roughly 20 big tournaments organized by electronic sports organization. As the numbers are growing drastically, local authorities start to realize the importance of eSports on tourism and consumer spending. One example is China government, who is reported to have spent more than \$700 million in supporting eSports venues and players.

With the push from the governments, non-endemic brands in tourism see their chances in expanding investment territories, hence, treat investing in eSports as a lure for new customers. Rosen (2017) reported the latest investment considered by Disney to be a new eSports venue built at Walt Disney in Florida, United States. The Vice President of Disney believed that this new venue would be very in demand in the future, combining with the potential for virtual reality activities. In 2018, the city of Arlington announced the building of which is now the largest eSports stadium in the world. With the estimation cost of \$10 million, the eSports Stadium Arlington is expected to be 100,000 square large and have the capacity of holding 2500 spectators.

4.2 eSports and Technology advancement

In additional to benefiting the local tourism revenue, eSports has fueled the local economy by pushing for technology advancement in multiple business sectors. By targeting online audiences, streaming and IoT business are quick to adapt new models. For example, they need to implement real-time networking techniques, cloud databases, and massive amount of data for analytical purposes. In short, electronic sports have contributed a lot in the advancement of big data, machine learning and data mining. As for fans, they demand new interaction methods with their favorite players leading to the booming of streaming applications and websites, which also leads to the needs for new payment methods where fans can directly donate to their streamers.

From professional players perspective, they demand cut-edge technology applied in their devices. That is where hardware manufacturers jump in, they are a big part

of endemic brands who provide sponsoring for players to promote for their gaming devices on social media. Speaking of social media, due the special needs for interacting with players and streamers, more social media channels specialized in eSports are created. Moreover, with eSports tournaments become the new norm on mainstream media, the requirements for virtual reality and augmented reality become trending topics in recent years. Researchers in the field of economics often use the term “knowledge spillover” to describe the technology advancement in one field benefiting other fields, the push from eSports is certainly the fundamental step toward the “spillover”.

4.3 eSports and contribution to economic growth

GDP – Gross Domestic Product, is a method to measure the monetary value created by the creation of products or services within a nation. Taking this as a calculation for the level of succeed, the gaming industry in general has certainly played a big part in the economic growth for many nations. In 2018, the gaming industry has created more than 1.8 million jobs across the United States with \$261.4 billion value-added to total GDP. Among them, \$74 billion are for labor income and in total of more than \$50 billion as taxes. For many other nations in the west, the contribution of gaming industry is noticeable. For example, in Greece, 1.16% of total GDP are from gaming activities. Italy came second with 1.02% and Portugal has 0.89% of their GDP are from leisure and recreation business in 2019.

As the relationship between gaming and eSports are interchangeable, the revenue drawn from gaming and particularly from eSports are expected to rise in the upcoming years. In 2019, electronic sports have generated more than \$1 billion and is expected to reach \$1.8 billion in 2022. In 2017, the Canada gaming industry are thrilled to announce that they have contributed \$3.7 billion to its country GDP. Among those, more than \$11 million are from eSports activities, which is roughly 0.3% (Thomson, 2019). For a nascent industry, the number is very promising as eSports are predicted to grow exponentially in the next couple of years.

4.4 Trend

The booming of mobile apps has shifted eSports development in a new direction. First, along with the advancement of iOS and android, gamers and game developers are switching from traditional platforms to mobile services. Contrast to traditional gaming consoles, smartphone is widely used by both female and male users. Capitalizing this new trend towards mobile services allow eSports to expand its horizon, both in terms of recognition and of fan bases. Second, applying a positive shift in market segment is also beneficial for developers and managers. The Asia market, especially China, Korea and Japan have long been the prime target markets for game publishers. With the shift in trending towards mobile platform, eSports are now rapidly approaching targeted markets and emerging markets like South East Asia, and South Asia as well.

According to latest data provided by telecommunications networks, China – India – Indonesia, and Japan are among top ten countries with the highest smartphone users and smartphone penetrations. Accessing to these countries have been a huge challenge for both sports, and eSports managers in the past due to cultural divergence and preferences. However, the popularity of smartphones now allows users to get access to variety of gaming genres, including eSports. The reason for the quick adaption of eSports on smartphone is largely thanks to the device mobility and convenience. A smartphone is a multi-purpose device that is handy and can be carried everywhere. Without the barriers of owning huge consoles machines, users of all ages can now easily entry multiple eSports games with a sole requirement of having stable internet connection.

Clarke (2020) believed that the future of eSports will head towards virtual reality. The succeed of Pokémon Go has brought a fresh wind to both game developers and consumers. For a long time, due to the limitation of existing technology, virtual reality has been a no go for quite a while. However, technology has improved so much it is now possible to enjoy games through VR. The expectation of applying VR/AR in gaming is feasible. Recently, Riot Entertainment – the producer of League of Legends had used AR/VR in the championship series in 2019. By showing the VR image of the elder dragon to roughly 50,000 audiences in the

stadium, eSports fans can be assured that the possibility of joining their favorite fantasy worlds in real life is plausible.

In recent years, “streaming” has become a well-known phenomenon in gaming community. With the popularity of traditional broadcasting services are on decline, millennials are searching for the next “YouTube” exclusively for gamers. Hence, the establishment of Twitch, Discord, and YouTube Game are booming in response to consumer needs. Some notable differences among these new platforms and the traditional ones are the flexibility in usage, the specific contents and the live interaction between fans and streamers. First, streaming can be done anywhere at any time. The only requirement for streamers to stream their contents are to have a stable internet connection and a camera. On the other hand, viewers only need a smart device with internet to follow and watch their favorite live games.

Second, the mentioned streaming platforms offer wide range of contents depend on viewer's needs, and yet, they are niche enough to get viewers feel the sense of a community. As for that, most of streaming platforms target gamers exclusively but the contents can be varied from gaming to live actions. Third, streamers and fans can easily interact with each other throughout streaming platforms. From fans point of views, they can talk, chat, request their idols/ streamers to do things that cannot be done with traditional broadcasting services. From streamers standpoint, they love the new services because they can easily attract viewers, they can receive donate straight from their fans, and they can have a better communicate with them.

5 Esports ecosystem

ESPORTS ECOSYSTEM



Figure 6. eSports Ecosystem, Nielsen Sports

Each and every industry has its own framework and structure. Similarly, eSports – as an industry, has its own format and setting. Figure 6 illustrates the ecosystem of eSports by presenting five main components, namely teams, leagues, organizers, broadcaster, and the game itself. It also demonstrates the relationship among players, operators, and viewers, which will be reviewed in more details in the upcoming parts. In the world of electronic sports, the game itself can be considered as a type of product, is delivered to consumers (players and viewers) by organizers using broadcaster and platforms (transmission methods).

Despite the nonstop argument about the legitimate of electronic sports, scholars have longed point out the correspondence between eSports and contemporary sports. As sport economists often regard this particular recreational activity as a commodity (Vamplew, 2019), sport is categorized based on its associated value as a player product, spectator product and associated product. With the intention of evaluating the economic value of eSports, this thesis concentrates on defining and evaluating economical aspects of eSports. Hence, by following similar manner, eSports can be classified into the same three categories.

know that with a right deal, they can reach millions of customers in a moment. By signing up sponsoring deals with professional teams or athletes being a mean to present their services or products, endemic brands – those whose products are closely related to the games, hope to gain commercial success from sporting events. In eSports, endemic brands are still the majority sponsors for leagues and tournaments. According to Newzoo market research in 2017, 88 percent of deals and more than 60 percent of advertising contracts are from endemic brands. Lindberg (2018), on analyzing most active brands in the field, pointed out the importance of consumer electronics and IT software/hardware giants. Some major brands in eSports fields are well-known manufacturers such as Nvidia, Intel, Dell, HP and telecommunication companies like AT&T, SK Telecom, and Vodafone.

However, with the advancement of technology, eSports – the merge of tech with traditional sports, are attracting millions of young viewers. Non-endemic brands, in order to keep up with the swift change in preferences of young generations, are investing more and more into eSports. Beside the purpose of diversifying their investment portfolios, these brands are seriously considered eSports as a new and critical marketing strategies to reach millennials customers. They can be from a wide range of background, from financial and banking like Deloitte and American Express to car manufacturers like Mercedes-Benz and Audi. By broadening its sponsorship horizons, electronic sports are seemingly drawing much more attention from attendances and viewers worldwide.

Matt (2018) explained the lack of diversification among sponsors brands in the past was due the inferior brand recognition to public viewers. In 2014, a survey was made by Sportcal showed that only 45% of respondents ever heard of eSports. However, the number has reached 54.5% and 65.7% according to the latest report published by Newzoo. The rise in consumer awareness is a good sign for non-endemic brands to jump in the now- one of the most promising market. And indeed, with the jump in global awareness, eSports are covered more by mainstream media and channels. As more media broadcasters are buying up eSports tournaments licenses, non-endemic brands are certainly view this as a good chance to promote their products to a wide range of new customers.

5.2 Broadcast & Media

Experts and researchers believe that each year, eSports will gain more than 100 million new viewers all around the world. Such exponential growth of eSports is largely thanks to the effort of developers and publishers. However, another media and broadcasters also play a significant part in the explosive gain in public awareness. By increasing coverage eSports news and updated, it is much easier for mainstream users of all ages and genders to know more about this new phenomenon. eSports are no doubt gaining a lot from this huge attention; however, media companies are also benefit from this win-win situation. Newspapers and television are, in the past, were known as the main media channels for adults and older generations. Nowadays, to win the heart of the young generation, these channels are updating their contents with the intention of pulling young viewers towards them. In the latest event, GINX eSports TV - a global TV channel was launched in 2008 and are now available in 50 countries with 10 different languages.

The first 24/7 eSports channel is definitely good news to all eSports fans. However, streaming platforms are still the domination when it comes to broadcasting eSports. Some of the most notable names are Twitch, YouTube, Steam TV, Douyo and Facebook. Half of these channels are familiar to young people, especially gamers. With gaming industry becoming one of the most profitable in the entertainment catalogue, electronic sports - by having a close tie to gaming, are certainly booming. Hence, the number of gamers who need to follow closely their favorite tournaments is on the rise. Just like traditional sports, eSports can be participated in two different ways, as a player or as a viewer. For most normal people, the latter is in favor. For such reason, live broadcasting eSports is now a golden mine for many broadcast companies. The success of Twitch is a prime example, in 2014, Amazon showed willingness to purchase Twitch with \$1 billion, an astounding price for a one-year company with initial investment of \$4 million.

5.3 Franchise and Teams

Big leagues are attractive to big teams just like in any other sports, and eSports is not an exception. With a ranking system similar to traditional sports such as football or basketballs, there are different type of tournaments for different type of teams. There are pro-tournaments where teams with strongest roster compete against each other. There are also amateur leagues for non-professional players. Even in pro-leagues, teams are divided into at least two categories where teams with low standing points are demoted to lower ranking leagues after the season is completed. Even more, with the raise in popularity among young players, there are tournaments, both privately and publicly funded, are held exclusively for students. They are often called as the academy leagues, where young and underage players are trained and scouted by professional teams later. Players transfer among teams are commonly seen between each season, there are also procedures and standards for each transferring as there are ethical and legal boundaries for every team to follow.

Each league and tournament are designed uniquely, depends on the characteristic of the games, and is reviewed frequently to keep up the competitive standard as well as to meet the demand from fans. By having a very competitive mode of competition, it is not rare to see million dollars eSports teams. Among them, Team Liquid is leading with more than \$35 million in prize money, \$2 million higher than OG. Evil Geniuses comes third with \$24 million after 848 tournaments. Those numbers are just for prize moneys, the total amount of value those teams get from sponsoring and advertisements are even higher. Each year, there are more than 50 eSports tournaments worldwide with the highest pool prize of \$219 million. As this number is growing every year, it is feasible for fans and viewers to get more tournaments in the future.

In recent years, franchising has been the number one heated debate among eSports supporters. Franchise is often known as an authorization action granted by organizations or government to companies or individuals to carry out a part current business. Franchising in traditional sports has a long traditional and well-known for its advantages. By implementing this structure, eSports managers have succeeded

in attracting new investors thanks to added value this model offers. To be specific, franchising is a next step in advancing the current structure of eSports, making it more alluring and understandable from investors point of view. According to experts in the field, the new framework adds stability and commitment for teams and teams' managers (Robert, 2019).

For such benefits, most eSports organization have now offered franchising. Some examples are League of Legends by Riot Games, Overwatch and Call of Duty, both belong to Blizzard. One explanation for the warm welcome from eSports players is that it is not only the game developers that gains from franchising, but players are also profiting from this framework. The first rule of franchising is that all new owners need to guarantee minimum salary and social beneficial for players - the same standard that is applied in traditional sports. Hence, franchising is a promising platform for young and amateurs' players, those who are on training and not yet find a place in a reputative team. Secondly, by guaranteeing the minimum beneficial package for all players, eSports will certainly attract more talented participants in the future.

6 Theoretical Framework

Nascent industry – or infant industry is an economic term used to describe a young industry that is in the early stages of development. Electronic sports fit into the description of a nascent industry base on its recent establishment. However, recent data in the field is showing signs of maturity and stability in multiple aspects. To analyze this matter, certain tools of valuation are used to evaluate eSports current stage of development. First, the definition of growth industry and the characteristics responsible for catalyzing such definition are provided. Second, the compound annual growth – a key indicator used by analysts in estimating growth of investments is presented. And third, a framework to measure the performance of corporations within an industry is exhibited.

A growth industry is defined as an industry where earnings and revenue are higher than the overall market. The industry is usually pioneer in their line of work, hence, growing sharply from capitalizing the rise in demand for new products or services

(Investopedia). They usually belong to the technology sector where innovation can lead to innovative products. Hence, one of the main characteristics of growing industry is the advent of new technological advancements, those that allow companies within the industry strike for innovation resulting in new products or services. One prime example is the smartphone industry. During the past decade, the smartphone industry has experienced an explosive growth in both demand and supply thanks to the advancement in technology.

Investors, while looking to diversify their investment portfolios, are largely attracted by the growth industries. As technology never stands still, investing in the development of any tech-like industries need constant investments. For such reasons, growth industries tend to attract high risk investors, those who are willingly to accept high risks with an expectation of equally large returns. Tesla is an astounding example of how a company and how an industry can benefit from technology advancement. And as the leader in the line of work, investors are flocking to Tesla as they see great opportunities in pouring their capitals in exchange for high returns in the future.

The third reason that drives to the thriving of an industry lies in the preferences of consumers. The fundamental principles of economic is to analyze the relationship between demand, supply and the allocation of goods or services. As consumers lifestyle are changing, it is crucial for industries to catch up with the latest trend. Whoever manages to seize the new movements will gain advantages in becoming the pioneers. Thus, another point in determining a growth industry is to look for growing sale figures and the steadily in maintaining such prosperity.

Researchers and analysts often use compound annual growth (CAGR) to measure the present and future potential value of investing in certain industry. CAGR is suitable to estimate the annual rate of return in a specific time period. The formula for CAGR is defined as follow:

$$CAGR (t_0, t_n) = \left(\frac{V(t_n)}{V(t_0)} \right)^{\frac{1}{t_n - t_0}} - 1$$

where $V(t_0)$ is the initial time and $V(t_n)$ is the ending time.

6.1 Electronic sports as a growth industry

While analyzing eSports using the same theoretical reasonings, one can certainly see that eSports have fulfilled all standard requirements to be considered as a growth industry. All around the globe, eSports revenue has reached more than \$1 billion in 2020, accounted for an annual growth rate of 15.7% from \$950.6 million in the previous year. Flamholtz & Randle (2007), believe that an annual growth rate of 15% to 25% indicates an industry with rapid growth. Such growth rate is acquired thanks to the technology advancement in the field of contemporary sports. Electronic sports – in some manner, is the combination of traditional sports and technology. The birth of virtual reality (VR), augmented reality (AR) have led to new ways of experiencing sports. By applying the same reasonings, eSports bear similarities to the growth industries by obtaining high revenue rate thanks to the betterment of high tech.

According to the recent market research done by Deloitte, eSports are experiencing 837% YoY growth rate in 2018 in terms of investments poured into the industry. The surge in number of investments and risky investors flocking to eSports is another sign of eSports maturity. Driven by the rise in sales and number of consumers, eSports organizations are hyped by both fans and mainstream media. Investors, especially those who are looking for risky stocks in exchange for higher returns, choose eSports in response to the extensive publicity. In 2018, more than 72% of total investments are from venture capital investors, matching the description of a growth industry.

The flock in investments coming to eSports are based on concrete evidence that is the steady rise in multiple figures. For recreation activities, the most important element is viewership. Here, in eSports, the viewership has been increasing quickly. From 134 million in 2012, the number of audiences has surpassed 395 million in 2018 and is predicted to reach over 600 million 2023. Both frequent viewers and occasional viewers are expected to rise, proportional to the increase in eSports

reputation. The number of viewers is a positive and direct figure informing investors about the future state of electronic sports. The rise in frequent audiences implies the rise in the core fanbases that might result in higher merchant's sale figure. Similarly, the increase in occasional viewers is a hint for the increase in customer awareness and will be valuable for investors who want to approach to a large number of audiences. Both can be translated to direct sales and indirect benefits from marketing and brand advertising.

In the theoretical framework, the role of customer preference is emphasized as an important element affecting the supply and demand of a good or service. As technology is transforming human lifestyle in the past decade, it is undeniable that our preferences in leisure activities have also changed. Chapman (2019), along with other researchers in the field, reports eSports fans to be digital natives whose ages are mostly between 21-35. Unlike older generations, millennials have different views on technology and contemporary sports. They prefer digital activities and enjoy participating in online events where they can easily to connect to thousands of other friends all over the world.

According to the same report, 22% of all male millennials in the United States watch eSports and the number is expected to grow. Same number of viewers is found in baseball audiences and is higher than hockey viewers. Another great thing of digital and technology blended events is that it attracts both male and female participants. Unlike many traditional sports where physical trait prerequisite, electronic sports are suitable for both male and female counterparts. 38% of eSports fans are female, which is much higher than the number found in previous research done in the field of sports. The number of female fans have the tendency to be higher in younger age group, thus, hinting of a future where there are no discrepancies between male and female in eSports.

In conclusion, the steady growth that eSports are experiencing, plus the advancement of technology, and the change in preferences in the way young audience perceive sports have attracted investors to invest in eSports. And now, to finalize the argument of eSports being a growth industry, the compound annual growth rate (CAGR) of eSports is presented. Reyes (2019) calculated the CAGR

for eSports viewers between 2019 and 2023 to be 9%. Deloitte (2018) also reported a year to year (YoY) growth rate of 837% from 2017 to 2018, and a CAGR of 103.1% regarding number of investments in five years period. In terms of revenue, the total revenue of eSports throughout 2018, 2019, and 2020 are \$776.4, \$957.5, and \$950.3 million, respectively. Applying the CAGR formula, the estimated CAGR for eSports in three years period is 6.97%.

6.2 The Strategy Diamond

The Hambrick and Fredrickson's strategy model or the strategy diamond, is a framework created by Donald Hambrick and James Fredrickson in 2001. The strategy describes how strategies should be created and how they are connecting to each other. Bit by bit, five elements of the models are linking to each other, supporting each one of them to shape into a diamond figure – a symbol for organize affiliation.

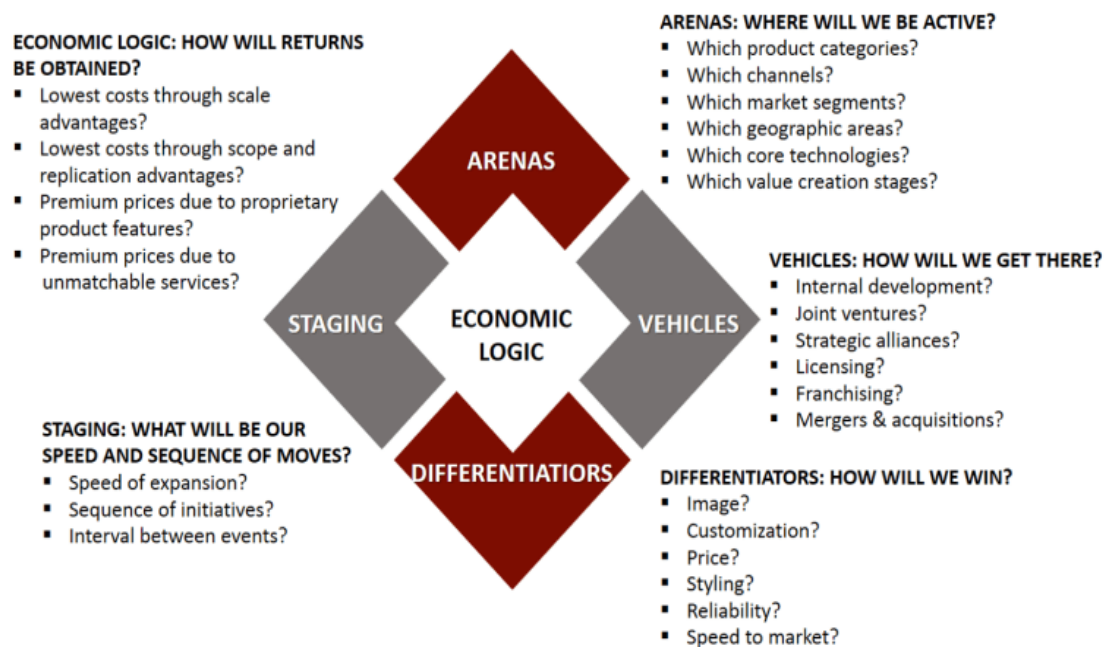


Figure 8. Diamond Strategy by Hambrick and Fredrickson

Figure 8 illustrates five main elements of Hambrick and Fredrickson's strategy, as they are Staging, Arenas, Differentiators, and Vehicles. With the first element is

Arenas representing the fundamental question any business needs to answer, that is to identify the main market area where the company will operate. To successfully infiltrate the market, firms need to make strategic choices by answering questions regarding product categories, selling channels, market segments, core technologies to be used and which value-creation stages to choose.

After understanding strategic choices need to be made, firms will then find the solution of how to get to the “arenas”. In *Vehicles*, Hambrick and Fredrickson mentions several options to choose from, as they can be internal development, joint ventures, make alliances with other firms, or organizations can license their business, as well as join/make a franchise. Mergers and acquisitions can also be a great choice to have. In the next stage, firms handle questions regarding their options in winning over customers. In *Differentiation*, companies look closely at what they offer and find out outstanding features that make them stand out in the crowd. They might want to look at distinctive customizations, build a fresh image for their products, choose a better price range, or improve product reliability. In short, in *Differentiation*, firms should find out unique strategies to differentiate themselves.

The fourth piece of the diamond strategy is *Staging*, a stage where business decide the pace of their decisions based on the level of urgency and business situation. Business opportunities are rare and hard to grasp; hence, firms are often at the stage of choosing what to do to optimize their capitals and resources. They can make estimations by considering what is the desire speed of expansion or at what speed do they want to make initiatives. Those questions are important to companies who wish to make long term investment, and to build a sustainable business model.

The fifth facet, also the last piece of the puzzle that every company needs to consider – *Economic Logic*. Most companies are profit motivated; hence, this is the most crucial element for them to consider. It is how they can generate profits – or in other words, how to make their returns higher than the cost of the production process. There are tons of options for firms to pick from, they can try to lower the costs, leverage the prices, improve resource allocation, or take advance of technology to boost outcomes.

In conclusion, the Hambrick and Fredrickson's diamond strategy provides concrete and elemental questions that business corporate should consider while establish their business strategies. All five elements are interrelated, they are logically connected, and should be served as a tool to evaluate the potential performance of a firm. In this thesis, the diamond strategy is adopted as a fundamental standard to analyze the successful performance of Tencent Holdings Ltd – a prime example of how an eSports company can utilize strategic plans to revolutionize the gaming industry.

7 Case Study: Tencent Holdings Ltd

Tencent Holdings Limited or also known as Tencent is a Chinese multinational corporation. Founded in 1998, the company concentrates on developing artificial intelligence and information system technology for entertainment activities. Starting out with Tencent QQ – a messaging platform, Tencent soon expands its business to other brands of communication including Qzone – a social media platform and WeChat – an upgraded version of QQ. With the success of early investments, the company realize the profitable of virtualize entertainment activities. In 2008, the firm starts investing heavily in gaming industry and soon become the world largest game vendor.

By 2017, Tencent has officially become a conglomerate and is one of the most valuable brands worldwide. Until recently, the firm has operations in multiple business, ranging from e-commerce to luxury car dealership. Among them, Tencent earns its reputation for being the pioneer in the development of eSports. For the ten years period, Tencent has continuously making various investments in gaming and eSports. In 2011 and later in 2013, the firm completed its purchase of Riot Games. Later, the company acquired majority of share from Epic Games and Blizzard.

Along with other purchasing and expanding to different business sectors, Tencent starts making its own games and pushing the advancement of game industry in general. The firm acts as host for numerous international eSports events, leading to

the exponential explosion in eSports reputation and consumer awareness among youngsters. Some of the most well-known events are the championship series for League of Legends and Arena of Valor. Not stopping there, the corporation made its first game console in 2016 to promote their own games and started a flagship in gaming platform.

Twenty years since its establishment, Tencent Holdings Ltd has made in total of 24 investments in gaming and eSports. The firm is now the biggest game companies in the world by owning more than 20 brands and subsidiaries. In 2019, the firm announced its revenue to be \$13.3 billion dollar, making its among top five biggest company in the world. Among those, 33% are reported to be generated from their gaming activities. The success of Tencent Holdings Ltd is not only from financial outlook, but it is from the perspective of a pioneer, one who has fully capitalized the growth of eSports and have played a significant role in promoting it.

Hence, this part of the thesis is dedicated to analyzing the strategies done by Tencent Holdings Ltd. By using the diamond strategy framework made by Hambrick and Fredrickson, business tactics designed by Tencent are presented and evaluated. With the hope of shedding light on the firm business plans and their approach, the thesis wishes to provide a concrete case on how to optimize the diamond strategy to fully capitalize eSports – a nascent industry.

7.1 Tencent Holdings Ltd Financial Summary.

The tables below demonstrate Tencent Ltd financial statement in five years period (2015-2019). The first one gives out information regarding revenue, gross profit for company and shareholders both before and after tax. Whilst the second table provides statements of financial position in the same period. In this table, assets (non-current and current), equity and liabilities are presented.

	2015	2016	2017	2018	2019
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenues	102863	151938	237760	312694	377289

Gross Profit	61232	84499	116925	142120	167533
Profit before income tax	36216	51640	88215	94466	109400
Profit for the year	29108	41447	72471	79984	95888
Profit attribute to equity holders	28806	41095	71510	78719	93310
Total comprehensive income	44723	48617	79061	67760	119901
Total comprehensive income attribute to equity holders	44416	48194	78218	66339	116670
Non-IFRS profit attribute to equity holders	32410	45420	65126	77469	94351

Table 2. Tencent condensed consolidated statements of comprehensive income 2015 - 2019.

Column1	2015	2016	2017	2018	2019
	RMB million	RMB million	RMB million	RMB million	RMB million
Assets					
Non-current assets	151440	246745	376226	506441	700018
Current assets	155378	149154	178446	217080	253968
Total assets	<u>306818</u>	<u>395899</u>	<u>554672</u>	<u>723521</u>	<u>953986</u>
Equity and liabilities					
Equity attribute to equity holders	120035	174624	256074	323510	432706
Non-controlling interests	2065	11623	21019	32697	56118
Total equity	<u>122100</u>	<u>186247</u>	<u>277093</u>	<u>356207</u>	<u>488824</u>
Non-current liabilities	60312	108455	125839	164879	225006
Current liabilities	124406	101197	151740	202435	240156
Total liabilities	<u>184718</u>	<u>209652</u>	<u>277579</u>	<u>367314</u>	<u>465162</u>
Total equity and liabilities	<u>306818</u>	<u>395899</u>	<u>554672</u>	<u>723521</u>	<u>953986</u>

Table 3. Tencent condensed consolidated statements of financial position 2015 – 2019.

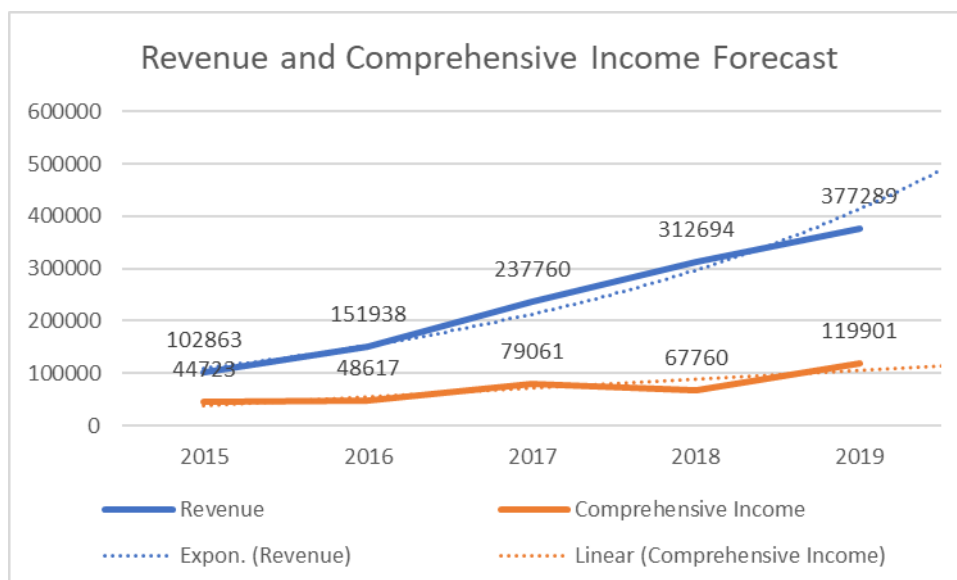
To further analyze the change in terms of financial gain each year, year over year (YoY) formula is applied to demonstrate the growth rate in revenues and profits for company and shareholders. The result is presented in table 4.

Year Over Year growth rate	2015	2016	2017	2018	2019
Revenue		0.48	0.56	0.32	0.21
Gross Profit		0.38	0.38	0.22	0.18
Profit before income tax		0.43	0.71	0.07	0.16
Profit for the year		0.42	0.75	0.10	0.20
Profit attribute to equity holders		0.43	0.74	0.10	0.19
Total comprehensive income		0.09	0.63	-0.14	0.77
Total comprehensive income attribute to equity holders		0.09	0.62	-0.15	0.76
Non-IFRS profit attribute to equity holders		0.40	0.43	0.19	0.22

Table 4. Tencent Year over year growth rate of comprehensive income 2015 – 2019.

From data presented in table 2 and table 3, in five years period (2015 – 2019), the total revenue has raised tripled itself from 102863 million RMB in 2015 to 377289 RMB in 2019, equivalent to a rise from \$15700 million to \$57594 million. Similarly, the gross profit has grown more than double in the same time period, reaching 167533 million RMB or \$25574 million in 2019. Shareholders who invest in Tencent Holdings Ltd has gained five times the amount of profit compared to 2015. Despite the extraordinary number of final incomes reported in 2019, the YoY trend seems to decrease in some aspect.

Graph 1 shows the growth in revenue and comprehensive income as well as the forecast for these indicators in a short future term. The firm revenue is expected to rise accordingly to the growth in the past years. The comprehensive income, however, is expected to stabilize in upcoming years. As comprehensive income reflects the true income of Tencent Ltd in a short specific period, the steady balance estimated by post and current amount hints for a sustain performance within the company. This might serve as a valuable information for investors who wish to invest a large sum in Tencent Ltd.



Graph 1. Tencent revenue and comprehensive income forecast.

7.1.1 Tencent Ltd financial key highlights in 2019 – third quarter of 2020.

In 2019, total revenues reach 54.082 billion dollars, equivalent to 21% raise compared to 2018. On a non-IFRS basis (International Financial Reporting Standards), the operating profit was over \$16.427 billion – a 24% increase YoY. The profit of the year raised 22% compared to 2018 with a net margin of 26%. The number of profits shareholders gained also on the rise and reached \$13.525 billion. The provided figures represent the core earning without including the one-time and non-cash items (Tencent Ltd, 2019 Fourth Quarter and Annual Results).

On reporting revenue followed by the International Financial Reporting Standards, operating profit for 2019 was \$ 4.100 billion – a 65% increase year on year. Similar result can be found in profit over the period (\$3.207 billion) with the net margin experienced a slight increase from 17% to 21%. In the same manner, profits attributed to shareholders received an increase of 22% - equivalent to \$13.525 billion by the end of 2019. By that, the basic earnings per share have also increased and was valued of HKD 1.20 per share (Tencent Ltd, 2019 Fourth Quarter and Annual Results).

Despite having difficulties in adjusting strategies due to the negative effect of COVID-19, the revenues of Q3 in 2020 has surpassed the amount in Q3 2019, reaching RMB 125 billion – equivalent to over \$18.4 billion (Valentine, 2020). The operating profit was reported to be \$5.6 billion, relatively higher than the published number in 2019. According to the unaudited income statement released recently, despite higher cost of revenues in multiple business sectors, the end profit – before tax and after tax are on the rise.

As a result, both non-current assets and current assets are higher than Q3 2019. In total, accumulation of assets has reached RMB 1190029, compared to 953986 in the previous year. Tencent Ltd also shared a positive result in terms of net margin (28%) and operating margin (34%). Almost all business aspects have experienced a sharp growth, including online advertising, FinTech & Business services, and especially in online games - which will be demonstrated with more details in the next sub section of this thesis.

7.1.2 Tencent Ltd financial key highlights regarding competitive gaming and eSports in 2019

In total, the revenues generated from gaming and eSports activities are RMB 52,308 million, or slightly above \$ 8,1 million. In terms of percentage, the revenues gaming and eSports brought about in 2019 corresponded to 15% of total revenues. Compared to 2018, the revenues rose 25% from just a little above RMB 30 million. According to the company announcement, the increase in profits is largely thanks to the acquisition of PUBG (Player unknown's Battlegrounds) – an eSports title, and Supercell – a Finnish game company. Around 13% of revenues in this category are from gaming and eSports events live broadcasting and streaming services.

According to Tencent announcement, the revenues in gaming and eSports sector has doubled itself after one year. The newly gained profits are largely thanks to successful investment in international eSports titles. Hence, 23% of total game revenues are generated by international eSports titles, namely PUBG, Call of Duty and League of Legends. By the end of 2019, the company owned five out of top ten

most popular games in mobile platforms. The company representative also stated the importance of enhancing development abilities by organizing global eSports events e.g., the League of Legends championship and the Honor of Kings KPL, both were ranked as most watched events in PC and smartphones in 2019.

Valentine (2020) reported that the online games revenues of Tencent Ltd are up and rise since the beginning of lockdown period against the latest global pandemic. To be specific, the total revenues of online games – including multiple eSports genres have raised 45% compared to the previous year. In 2019, the correspondent percentage of gaming to total revenues were estimated to be 15%. In 2020, gaming and eSports have now accounted for 33% of total revenues, reaching \$6.2 billion. Such increase is largely thanks to the raise in smartphone games and eSports titles – PUBG mobile, MOBA League of Legends, and Honor of King.

According to Tencent Ltd, the revenues from gaming activities increase every year, leading to constant development in this sector. The company shows its strong confident in the future of gaming and eSports by introducing multiple new games in several platforms, as well as announce new eSports events to match with the success from the League of Legends World of Championship in Shanghai 2020. The company aims to promote eSports even further by updating contents across social media channels and expand networks with multiple streaming platforms.

7.2 Analyze Tencent Ltd 's Strategy Model.

The success of gaming and eSports section in terms of financial growth is largely thanks to the company development strategy. In this part of the thesis, the Diamond strategy model created by Donald Hambrick and James Fredrickson; is used as a standard framework to analyze how Tencent Ltd has directed their growth strategies. In this case, Tencent Ltd is served as a prime example of how corporations can achieve outstanding results by integrating bits of strategies into a unified model. By following the five elements of the Diamond strategy (Arenas, Vehicles, Differentiation, Staging, and Economic Logic), the thesis aims to analyze

steps taken by Tencent Ltd in each stage of developing competitive gaming and eSports.

7.2.1 Arenas

As its name might describe, in Arenas – companies need to decide where do they want to operate. Before getting into how Tencent able to choose the right arena to operate, it is equally important to look at the company history. Founded in 1998 by Pony Ma, Zhang Zhidong, Xu Chenye, Chen Yidan and Zeng Liqing, the company first product was a messenger service. However, it soon got tangle into a lawsuit with AOL regarding the name of the product. For the first three years, it saw no profit and had to sell roughly half of it share to a South African media company.

Like many other startups, Tencent Ltd struggled a lot in choosing a right strategy for further development. It was not until 1999 the company launched QQ – a multiple social platforms in China. QQ can be seen as the first notable product of Tencent Ltd as it is the first stepping-stone for the company to establish Tencent Games division in 2003. When facing the question of “where?”, Tencent has chosen China as its first geographic area.

Looking at the history of Tencent Ltd, all original founders are Chinese nationality with years of experience in technical fields. China was an appropriate geographical arena for the founders since they were familiar with the country’s culture, work formalities as well as business connections to help Tencent with initial funding for the first few years. Rising from the failure of their first product, the company started looking into the local business and found an answer for the right “product categories arena”. From 2005 onwards, the company realized that they could generate income from virtual goods – a specialized product segment not visible to many companies at that time. They soon saw the potential profit for online gaming through licensing and selling virtual items, hence, started investing heavily in online game markets. In 2007 – 2008, they started making their own game titles and establishing several social media platforms with close connection to their gaming business.

In three-year period, Tencent Ltd has completed their initial plan for “Arenas”, with product categories being virtual goods through online games. Their main channels are social media platforms where players and users can easily connect and shared the contents of their progress. These social media channels soon escalate into new market segment that will be analyzed further in the upcoming part. Tencent Ltd chose China as their first geographic areas to fully capitalize experience and business networks of their founders. The company established a R&D department to specialize in latest game technology – marking their first step towards a global game manufacturer. Finally, Tencent Games Arena (TGA) was established in 2010 as the fruitful result of the company R&D department. Become independent in 2016, the brand started acting as a separate business branch. Since then, Tencent eSports have grown into one of the most famous eSports brands in the world in terms of revenue and viewers. It has also become a precedent for others eSports organizations to follow.

The last part of “Arena” emphasizes the importance of value creation – which, by definition, can be interpreted as value created by business model that benefits the owners, the employees and their customers. By concentrating on entering game market segment, Tencent Ltd has experience rise in incomes, revenues for them, for their employees and for shareholders. Therefore, it is safe to say that the product categories they chose is profitable. From customers perspective, at the time period when Tencent started investing in games development, they barely met any opponents due to the lack of diversity in games markets.

With the advancement of internet, online games start to become more than just a hobby. However, not everyone had the appropriate view for its growth potential. Tencent Ltd – stood out as one of the first pioneer to bring free online games to players. And that is how they create value for their customers in China, and then all over the world. The company understood what players want – to have entertainment experience with the lowest cost. For such reason, Tencent Ltd and all their subsidiaries in the future provide mostly free to play contents with potential to have in-game purchase. And for eSports fans and enthusiasts all over the world, Tencent Ltd is the leading name in promoting the development of eSports locally and globally. The company has invested heavily in creating a professional support for eSports

athletes and viewers regarding ecosystem, education, and regulation (Tencent, 2020).

7.2.2 Vehicles

After defining the core arenas of product categories, channels and market segments, one must define the “vehicles” in which they will “drive” their business. In Vehicles, the company first need to identify their business intention. For example, if they wish to expand their business internationally, they will look joint venture or licensing / franchising options. In the case of Tencent Ltd, after the rough few years of finding their own position in China, the company started growing substantially. In 2003, Tencent Games was established – this was the first “vehicle” Tencent chose in their long journey. At this time, they decided to invest internally by creating a division specialized in making online games, and later a separate business branch for eSports.

In 2004, the first game QQ Tang was released, followed by series of 2D online games e.g., Dungeon Fighter Online and The Three Kingdoms. By 2005, Chinese scholars marked 2005 as a groundbreaking year for Chinese game industry as local developed games had surpassed imported ones (Mathew, 2016). Among the honorable names, The Three Kingdoms by Tencent Ltd was praised as one of the top games in terms of revenues. By the end of this year, the total revenues of the company had reached \$0.18 billion, which was largely contributed by the success of game and social media departments.

From uncommercialized in the period of 1998-2001, the company had turned around by choosing an appropriate first vehicle – internal development. As they have decided their “arenas”, the company invested heavily in social media QQ (1999), Pai Pai (2004), and Qzone (2005), as well as in online games (2003 onwards). A special thing about their Research and Development department was that they concentrated on connecting gaming experience with social media experience. By joining their social media platform, users can freely explore the many game titles and vice versa. Such inclusive relationship has led to the rapid

rise in the number of both players and users. For example, QQ users could freely joined all Tencent games and others specialized games opened just for them like QQ Sanguo – role play game, QQ Dance- musical game or QQ Speed – racing game.

Very soon after gaining success locally, Tencent strike for a better reach globally by multiple investments and acquisitions. These can be considered as Tencent 's last vehicle for the company to get to its current position. Some of its notable acquisitions are Riot Games (2011 – 2015), Epic Games (2018), Supercell (2016), and recently Klei Entertainment (2021). Among 26 acquisitions (in entertainment category only) that the company has made over the years, many are towards eSports companies and broadcasting platforms, as some of the most noteworthy names are Riot Games, Supercell, and Discord. According to Mark Ren – Chief Operating Office of Tencent, the company believes in eSports potential to become a new form of contemporary sport. The company has every intention to turn eSports into an independent industry by supporting its ecosystem, strengthening its business models, developing cutting edge technologies, and shaping regulations and policies with agreements from multiple governments and organizations (Hongyu, 2020).

To achieve this goal, multiple steps have been made by Tencent Ltd. First, they acquired multiple international game companies. By spending big money in purchasing gaming firms, Tencent Ltd can easily get access to new technologies, new fanbase as their acquisitions are well known brands with multiple profitable titles, without spending too much effort in market research or fear of unexpected issues in entering a new foreign market. Secondly, they started franchising and licensing those originally belonged to those recently acquired companies. With strong vision and commitment in giving eSports the spotlight it deserves, multiple franchised titles are born e.g., Wild Rift – a mobile title in heritage from |League of Legend and Call of Duty: Mobile – mobile version of eSports game Call of Duty are among top examples. Third, in the process of globalize company's products, Tencent Ltd has join alliances with several high-tech companies to cover variety of subjects. In 2018, the organization joined in a strategic partnership with Square Enix Group. The strategic alliance among the two has drawn a lot of attention as it marked an unprecedented for two of largest game companies to cooperate. Such

alliance is expected to help Tencent Ltd in improving internet services and broaden their gaming contents. In short, with the three "vehicles" mentioned, Tencent Ltd has overcome early difficult and reach a profitable stage where they are expanding rapidly in terms of profit and reputation.

7.2.3 Differentiation

In this part of elements of five strategy, companies seek answers for the question of "how will we win"? Let's start with the company branding strategy. So far, multiple branches supporting multiple business functions have been introduced. Managing multiple different business aspects are completely normal for big organizations, however, what distinguished Tencent Ltd from the rest is that their business branches all serving under the same brand. Most of its core business are related and correlate with each other one way or another, with eSports falling under the same umbrella.

Wei, H (2017) shared that Tencent secret weapon is youth, that is, most of its entertainment activities aim at young generation. In previous part of the thesis, how their game titles are connected to QQ and others social media platforms for promotion has been mentioned. But there are much more than that. Social media channels and broadcasting platforms are standard methods to promote eSports and sports related events – that is common knowledge any marketers now. What about non-traditional channels? Tencent Ltd has found some very unique ways to approach their fans and potential customers. First, let's talk about Tencent pricing strategy. Most of their popular eSports and gaming contents are free to play / free to participate. Hence, it is easier for regular gamers to try out their game titles. With a huge number of players – the game titles soon pick up reputation and attract professional players to join – those who play in big leagues and compete against each other.

Second, lets discuss styling. gaming worlds – similar to our world, allow users who "live" in it to customize characters appearances, personal items, locations, titles... and many more. Taking advantage of this, most game titles concentrate heavily in

graphic designs and flexibility they offer their gamer. No matter is it a Battle Royal or Fantasy type, players are given ability to change everything they like – from their setup worlds to how their characters would look like. Tencent game titles are famous for its unique artful conception and intrigue playstyle, which leads to the third differentiation strategy done by the company: diverse in marketing and partnering channels.

To many players, in-game purchase is no longer a strange concept. As most of game and eSports titles by Tencent Ltd are free to participate, most of the firm revenue for gaming and eSports are generated from in-app microtransactions and goods sold. For many other firms across sectors, the most popular ways to generate income is from selling products, but with Tencent Holdings, since their products are "free", they have to be creative in how they can make profits. In the latest research done by Scoop World, eSports in-app game purchases had grown by 23.5% as revenue from in game content is expected to reach \$1.56 billion. The research also pointed out a new trend in the market, as hybrid monetization method saw a sharp decline of 8% in the last year.

Previously, revenues are drawn upon selling the physical games and advertisements, with small percentage from microtransactions. With the rise of digital era, gaming gradually adopts as-a-service model, meaning that they are switching from a "physical goods" to a "service" with users pay when they decide to subscribe. Buyers also have all the right to decide when and what they want to pay for – leading to the rapid rise in the number of buyers and microtransactions. Hence, most eSports titles offer free to play contents with options for in-game purchases. Take Fortnite as an example, this eSports game is completely free to join and enable users to buy various in-game items with their money. Batchelor, J (2018) reported that almost 70% of players spend their money in in-game purchases with the average amount being \$85.

Others eSports titles under Tencent Ltd, similar to Fortnite – are free to join and offer options to buy cosmetic items. As microtransaction has gradually become a main way to generate revenue, Tencent Ltd has long seen the potential benefits of partnering with non-endemic brands. From 2019, the luxury clothing brand – Louis

Vuitton announced its special partnership with eSports League of Legends. The world championship cup was designed by the notorious brand, and multiple "prestige in-game cosmetics" are also designed by Louis Vuitton and are being sold to League of Legends fans. No one beside Tencent Ltd has thought of such collaboration between two seemingly unrelated business sectors that are gaming and fashion. Tencent Ltd's whole idea sounds "crazy" until it brought success for both companies. Multiple articles revealed that the first collection by Louis Vuitton and League of Legends had been sold out under an hour since released. Apparently, gamers love owning "prestige" skins as fashionistas love seeing their favorite game being featured in the latest fashion collection.

Partnering with a fashion brand is not the only differentiation strategy Tencent Ltd has in the last couple of years. 2019 also marked a groundbreaking collaboration between a K-pop idol group and an eSports event. To promote the League of Legends series championship, Tencent Ltd and Riot Games have created a music video featuring G-IDLE – a K-pop girl group. The original purpose was to honor the host country for the series. However, such collaboration has drawn attention from not only eSports fans but also from K-pop fandoms, whom perhaps for the first time ever heard of eSports. The music video was so successful that K-DA (a virtual group made of in-game characters and real-life idols) were created and has a comeback in 2020. They are now known as one of the most successful virtual idol groups with millions of fans worldwide. They have their own albums, fandoms, light sticks just like any idol bands out there.

In summary, Tencent Ltd has been extremely successful in differentiating themselves from the rest thanks to numerous unique strategies from pricing to advertising. By choosing a different approach and expanding their partnerships to non-endemic brands, they have achieved success in terms of revenue and reputation. Such differentiation strategies allow them to access millions of new customers as the previous example pointed out. Tencent Ltd has proved that the potential of eSports is enormous, and they are on the right track to bring it to the limelight.

7.2.4 Staging

In the fourth piece of diamond strategy – the Staging, companies need to decide their expansion speed and sequence of movements they make. Staging and pacing depends heavily on multiple aspects: available resources, market condition, and urgency of the staging. In case of Tencent Ltd and the expansion of eSports, the need for a global recognition has long been in their mind. eSports dated back to the early 20s with small number of competitive tournaments in Western countries. However, the chance of developing it into an industry only appears in the last decade. The growth of technology has led to the "digitalize" human lives in many facets.

The controversy around whether eSports are "real" sports is never-ending argument. In this thesis, we will not discuss in detail whether eSports belong to the family of "sports". Instead, we want to emphasize on the evolution of internet and technology has affected how people entertain and perform daily activities. That is when eSports start becoming a nascent industry. Tencent Ltd – among other leaders in the technology era, saw this as a golden opportunity to promote a new – a digital approach to entertainment activities. Timing is a crucial key in making expansion, and for Tencent Ltd – after failing repeatedly in the first five years, they have waited for the right moment to make the ultimate move – internationalize their company.

They first focused on Asian market – especially South East Asian countries, those who have great potential with young citizens and fast-paced growth towards digitalization. Tencent Ltd initial plan has proved to be extremely successful since they developed and obtained many profitable game titles like Jianxia Qingyuan Online – the company first MMORPG export, then Audition Online - one of the first dancing game worldwide. The success of those titles has given Tencent Ltd monetary resources as well as reputation to get to the second stage – approaching western countries. Early 2000s was the golden age for MMORPG and for PC gaming. However, the truly stood out from the crowd, Tencent Ltd was more than keep up the pace with western gaming publishers.

Tencent Ltd – now a big organization saw a new direction for their expansion, browser and mobile application with Zynga's Farmville being a strong representative for the first. The game became a hot trend back in 2010s with numerous copycats and sequels. However, players taste soon change along with the rise of smartphone. Note that at this time period, the company has already successful in capturing the eSports markets in PC with League of Legends. Still, eSports are not that popular with only a few in spotlight. Hence, early 2020s saw a sharp change in expand direction from the company. Smartphone gradually become the most common device in the earth, making it become a convenient gaming console for both regular gamers and eSports professionals.

In 2017, eSports officially become a billion-dollar industry, the estimation for revenue has surpassed 3 billion dollars in the next few years. According to latest report done by NewZoo, the mobile gaming section has grown 19% per year and was expected to capture half of the current game market. The trend was fairly new, however, Tencent Ltd – again – captured the right moment and invest \$7.7 billion into smartphone eSports projects in 2017, then raised the total investment to \$14.6 billion in 2018. To summary, Tencent Ltd has successfully figured out the timing and speed for the expansion by strong plans in exploit current assets, and by capturing the change in trend and technology capabilities. The company expansion is not limited by geographical areas, it is in depth and is calculated meticulously to reach the highest level of profit.

7.2.5 Economic Logic

From microeconomics perspective, economic logic – is the logic of how firms will create positive profit value after taking into account the cost of capitals. More generalize, from macroeconomics point of view, economic logic is how firms contribute to its business at corporate level, and then at industry level.

By combining the right strategies described in Arenas, Differentiations, Vehicles, and Staging; Tencent Ltd has overcome the unprofitable sessions. Since early 2000s, Tencent Ltd has successfully transformed its business models and gained

numerous success across business sectors. In eSports, the organization has become the leader as revenues and profits has steadily increased over the past decade. These figures represent the strong progress towards achieving the economic logic facet by Tencent Ltd.

Moreover, what Tencent Ltd has created is much more than just a gaming brand, the company has created an umbrella platform for eSports ranging from producing, marketing, to authorizing eSports activities. Yupei, Z & Zhongxuan, L (2020), in their research has remarked the successful of Tencent Ltd has led to the "platformization" of Chinese eSports industry. In short, the company under their subjection has built up a sociotechnical system includes technical infrastructures, business operations, end users' interactions, and communities' support.

In terms of macroeconomics, Tencent Ltd has accomplished monetary advancement for itself and for its business partners. Furthermore, the organization has set up a platform includes economic, regulation support and partnership for many other eSports firms under its umbrella. Tencent Ltd has opened up multiple opportunities for startups and young brands to enter eSports industry. Its success also draws positive attention from public viewers and governance bodies. Take Chinese government as an example, the Chinese authorities regard Tencent Ltd achievements as a sign of technology advancement. The companies vision fits into Chinese government vision of digitalization and of technology-driven industries.

To summary, Tencent Ltd – with strong development strategies have achieved economic logic of creating surplus value for the company, for its employees, for partners, as well as create an impact on eSports industry. The success of Tencent Ltd has proved to be a valuable case for others to follow, as its success has become a key indication, on that pushes for changes in regulation across nations.

8 CONCLUSION

This thesis aimed to identify the progressive growth of electronic sports as a nascent industry. In the first two chapters, an overall view about history and memorable milestones marking its development are presented. In the third chapter, evidence of eSports rapid advancement is provided. Based on the given evidence in growth speed, revenue, and total amount of investments, eSports are perceived as a nascent industry. Continue with the same logical assumption, the fourth chapter deals with eSports influence in multiple business sectors with tourism being the prime example.

Next, the expansion of eSports is tied directly to the development of technology. Moreover, such expansion has brought positive impact on both global and local economic. Future trend of eSports is then presented with support from in-depth information regarding its ecosystem. In the fifth chapter, main components of this industry are shown. By taking similarities to traditional sports, eSports ecosystem is fueled by brands, broadcast & media channels with professional teams being the main beneficiaries.

The sixth chapter puts eSports under a theoretical framework, where its growth and characteristics are being reviewed to analyze its title as a nascent industry. In this chapter, multiple economic definitions are used as common grounds for further analysis. Then, the CAGR – compound annual growth is defined and calculated which leads to the conclusion of eSports fitting into the definition of a nascent industry. Moving forward, the Strategy Diamond by Hambrick and Fredrickson is introduced as a standard model for corporations, who are looking for establish outstanding business strategies that can drive their business towards success.

In the last chapter, a case study is introduced. The main objective of this chapter is to provide an example of how corporation can take advantage of the Strategy Diamond to capitalize the rapid growth of a nascent industry, which in this case – is eSports. The case study takes Tencent Holdings Ltd into the limelight by analyzing its past, present, and future strategies. Starring the financial situation of the corporation throughout the years, this chapter adopts the Strategy Diamond as

a sole framework to analyze how Tencent Ltd strategies have gained its success based on its business strategies.

To summarize, this thesis provides commencements and demonstrations of eSports developing into a young industry. Furthermore, a study case and a theoretical framework for strategy establishment are presented. The thesis hopes to shed lights into the potential beneficial of imposing such framework for decision making. Still, there are limitations and issues that are not addressed in this thesis. For example, governments and political related matters play an important role in the rise of eSports as well as the growth of Tencent Ltd. Hence, more studies into this field are needed.

9 REFERENCES

Ahmed, A & Tong, J. 2019. Esports: The next billion-dollar industry. <https://www.lexology.com/library/detail.aspx?g=d452955d-26e1-4574-bf62-3988f6c8ab9d>.

American Gaming Association 2018. National Economic Impact of the U.S. Gaming Industry. Accessed on 02.04.2021. <https://www.americangaming.org/resources/economic-impact-of-the-u-s-gaming-industry-2/>.

Ashton, G. 2019. Shanghai Stadium to Host 2020 League of Legends World Championships Finals. Accessed on 11.03.2021. <https://esportsobserver.com/worlds2020-shanghai-stadium/>.

Barry, L.B. 2020. How Esports Are Fueling The Data Economy. Accessed on 01.02.2021. <https://www.forbes.com/sites/ibm/2020/01/08/how-esports-are-fueling-the-data-economy/?sh=558b506a35e1>.

Besombes, N. 2019. Esports Ecosystem and Landscape. Accessed on 06.01.2021. <https://medium.com/@nicolas.besombes/esports-ecosystem-and-landscape-3dbbd653dc2c>.

Bussiness To You 2017. Top 5 Business Frameworks according to Strategy Consultants. Accessed on 22.04.2021. https://www.business-to-you.com/top-5-business-frameworks/?fbclid=IwAR0tEENVz5V5Yexn5-gsf81jnza_F3H4smF0tAdP_RQm0pZuBS4eg7VOAU4.

Chang, E. 2017. eSports: The missed billion-dollar opportunity for publishers and platforms. Accessed 04.01.2021. <https://www.gamesindustry.biz/articles/2017-01-31-esports-the-missed-billion-dollar-opportunity-for-publishers-and-platforms>.

Chapman, J. 2017. Esports: A Guide to Competitive Video Gaming. Accessed on 15.04.2021. <https://www.toptal.com/finance/market-research-analysts/esports>.

Meier, J.D. 2010. Strategy Diamond. Accessed on 19.04.2021. <https://sourcesofinsight.com/strategy-diamond/>

Chen, H. 2020. Tencent Esports and Global Esports Federation to Jointly Launch 'Worldconnected Initiative'. Accessed 27.04.2021. <https://esportsobserver.com/tencent-esports-gef-initiative/>.

Chen, J. 2020. Growth Industry. Accessed on 12.04.2021. <https://www.investopedia.com/terms/g/growthindustry.asp>.

Chew, M.M. 2016. A Critical Cultural History of Online Games in China, 1995-2015. *Games and Culture* 14(3). Doi:10.1177/1555412016661457.

Clarke, J. 2020. Top 5 Esports Trends Investors Should Keep An Eye On In 2020. Accessed on 20.02.2021. <https://hackernoon.com/top-5-esports-trends-investors-should-keep-an-eye-on-in-2020-jh1v3aut>.

Duran, H.B. 2019. Louis Vuitton Designs Prestige Skins for League of Legends World Championship Finals. Accessed on 30.04.2021. <https://esportsobserver.com/lol-skins-lv-worlds-2019/>. ESports Bet 2020. Mobile eSports. Accessed on 02.05.2021. <https://esportbet.com/mobile/>.

ESportsGuide 2019. Understanding the Industry – What is Esports Franchising? Accessed 10.01.2021. <https://www.esportsguide.com/news/understanding-the-industry-what-is-esports-franchising>.

Grand View Research 2020. Esports Market Size, Share & Trends Analysis Report By Revenue Source (Sponsorship, Advertising, Merchandise & Tickets, Media Rights), By Region, And Segment Forecasts, 2020 – 2027. Report ID: GVR-4-68038-647-9

Gupta, S.K. A Strategy Diamond in the Rough (Explained with Examples). Accessed on 23.04.2021. <https://bstrategyhub.com/key-to-business-success-a-strategy-diamond-in-the-rough/>.

IGNews 2020. Four esports trends to look out for in 2020. Accessed on 22.02.2021. <https://www.iggalaxy.com/news/four-esports-trends-to-look-out-for-in-2020>.

Influencer Marketing Hub 2021. The Incredible Growth of eSports [+ eSports Statistics]. Accessed on 14.04.2021. <https://influencermarketinghub.com/growth-of-esports-stats/#:~:text=eSports%20Viewership%20is%20Growing,-Since%202016%2C%20there&text=Between%202016%20and%202017%2C%20there,the%20total%20audience%20335%20million.&text=And%20that%20there%20will%20be,the%20total%20audience%20557%20million.>

Massaad, J. 2020. Four more nations join International Esports Federation. Accessed on 19.03.2021. <https://esportsinsider.com/2020/03/four-international-esports-federation/>.

Newzoo 2016. Esports Awareness Exceeds 1 billion as New Global & Local Initiatives are Launched. Accessed on 05.01.2021. <https://newzoo.com/insights/articles/global-esports-awareness-exceeds-1-billion-as-new-initiatives-launched/>.

Nichols, M. 2017. Endemics vs non-Endemics: eSports expanding its sponsorship horizons. Accessed: 04.01.2021. <http://sponsorship.org/wp-content/uploads/2017/08/Sportcals-Endemics-vs-Non-Endemics-eSports-expanding-its-sponsorship-horizons.pdf>.

Research and Markets 2020. Worldwide eSports Market Analysis 2020-2025 - eSports Prize Pool Forecast to Grow at a CAGR of 25% Between 2020 and 2025. Accessed on 15.02.2021. <https://www.globenewswire.com/news-release/2020/06/15/2047964/0/en/Worldwide-eSports-Market-Analysis-2020-2025-eSports-Prize-Pool-Forecast-to-Grow-at-a-CAGR-of-25-Between-2020-and-2025.html>.

Reyes, S.M. Esports Ecosystem Report 2021: The key industry companies and trends growing the esports market which is on track to surpass \$1.5B by 2023. Accessed on 08.04.2021. <https://www.businessinsider.com/esports-ecosystem-market-report?r=US&IR=T>.

Saylordotorg 2020. The Five Elements of Strategy. Accessed on 02.05.2021. https://saylordotorg.github.io/text_international-business/s14-04-the-five-elements-of-strategy.html.

Singtel 2020. Taking gaming in Southeast Asia to new heights. Accessed on 18.02.2021. <https://venturebeat.com/2020/04/23/taking-gaming-in-southeast-asia-to-new-heights/>.

Stern, A. 2019. Is Franchising the Future for Esports? Accessed on 10.01.2021. <https://esportsobserver.com/franchising-esports-feature/>.

Takahesi, D. 2020. Newzoo: Global esports will top \$1 billion in 2020, with China as the top market. Accessed on 11.02.2021. <https://venturebeat.com/2020/02/25/newzoo-global-esports-will-top-1-billion-in-2020-with-china-as-the-top-market/>.

Tencent Ltd 2020. Tencent E-sports Details Plan in 2020 Global Esports Summit. Accessed on 26.04.2021. <https://www.tencent.com/en-us/articles/2201074.html>.

Tennis Tour-Talk 2020. Australian Open 2020 Delivers Record Economic And Broadcast Exposure Benefits To Victoria. Accessed on 24.02.2021. <https://www.tennis-tourtalk.com/60296/australian-open-2020-delivers-record-economic-and-broadcast-exposure-benefits-to-victoria>.

Tomasi, E. 2019. Esports as a tourism generator? It's more likely than you think! Accessed on 05.03.2021. <https://venturebeat.com/2019/11/06/esports-as-a-tourism-generator-its-more-likely-than-you-think/>.

Valentine, R. 2020. As lockdowns lift, Tencent gaming revenues continue to rise. Accessed on 23.04.2021. <https://www.gamesindustry.biz/articles/2020-11-12-as-lockdowns-lift-tencent-gaming-revenues-continue-rising>. Popular Time Lines. Tencent. Accessed on 26.04.2021. <https://populartimelines.com/timeline/Tencent>.

Vamplew, W. 2019. The Commodification of Sport: Exploring the Nature of the Sports Product. *International Journal of the History of Sport* 35(7-8):1-14. doi:10.1080/09523367.2018.1481832.

Vener, N. 2019. What Sports Bars Need to Know about eSports Fans & Gamers. Accessed on 12.01.2021. <https://sportsbarmarketing.com/what-sports-bars-need-to-know-about-esports-fans-gamers/>.

Zhao, Y & Lin, Z. 2020. Umbrella platform of Tencent eSports industry in China. *Journal of Cultural Economy* 14(3):1-17. DOI:10.1080/17530350.2020.1788625.