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## THE RISE OF eSPORTS

### League of Legends Article Series

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Riot Games has made no secret of its intention to build its game into a competitive sport and thereby vault electronic sports, or eSports, into mainstream culture. But is that even possible? How can gamers get elevated to the status of athletes and the video games they play become spectacles engaging enough to draw large audiences? A brief glance at the development of *League of Legends* (LoL) over the last two years shows that this is more than a possibility; it's already happening.

LoL is a multiplayer online battle arena (MOBA) game, a relatively new gaming genre that has exploded in popularity over the past few years. In this genre, each player controls only one unit – the “hero.” Teams consist of five players competing against each other in a race to destroy the opposing team’s fortified structure at the opposite end of the map.

Launched in 2009, LoL is already the most popular PC game in the world and well on its way to becoming the most popular video game ever played. Riot Games, the developer of LoL, [recently reported](#) that 27 million people play the game daily. These users log over two billion hours of gameplay each month. The game is entirely free to download and play. Its business model offers players the opportunity to make micro-transactions for new in-game characters, visuals, and other downloadable content. LoL is calling into question many of our basic assumptions about gaming and its potential for broad cultural and economic significance in the United States and throughout the world.

#### THE COMPETITIVE SCENE

Though *StarCraft* was the first computer game to draw large audiences, its success and the emergence of *StarCraft II* as television programming have been limited to South Korea. Other games, like *Counter-Strike*, have sustained competitive scenes that were more geographically diverse, but less lucrative. What separates LoL from those video games is its worldwide and lucrative competitive scene, which revolves around the Riot-created League Championship Series (LCS).

The LCS consists of separate North American and European Leagues, each with eight teams. These teams play 10-week regular seasons, which culminate in playoff tournaments with prize payouts – first prize during the most recent season earned teams \$50,000, or \$10,000 per person. Teams have starting lineups, substitutes, managers, and coaches. Players also sign contracts with their teams that determine salaries, player and team responsibilities, and a wide array of other

issues. If this sounds a lot like the NBA, the NFL, or the English Premier League soccer, that's because it is – and in many more ways than just a professional sports league structure.

**Do pro players actually make money?** Yes. Some earn salaries well into six figures. Under the 2013 LCS League Rules, players received a minimum salary of \$12,500 from Riot for a ten-week season, with the opportunity to earn prize money in the playoffs. Players can also receive additional compensation from their teams for producing game-related content, merchandise sales, and streaming their screens to online audiences (discussed later). Incorporating these various revenue sources, one team manager **recently estimated** that professional LoL players can make anywhere from \$30,000 to well above \$300,000 annually.

Furthermore, every LCS team is sponsored. Most have several corporate partners whose logos (as in soccer and the WNBA) are displayed on player jerseys during competitions. Some teams have previously reached agreements to include corporate titles in their names, such as TSM Snapdragon (representing Qualcomm's new processor), and Vulcun TechBargains. Even Coca-Cola has entered the mix, sponsoring LoL's "Challenger Series," which creates a path for aspiring amateur players to qualify for the professional circuit. The involvement of big-money, blue-chip advertisers augurs well for the future of eSports. Commenting on Coca-Cola's recent partnership with LoL in an online article on **The Daily Dot**, Matt Wolf, Coca-Cola's global head of gaming, said, "eSports is at a point now where the company feels like it's time to move into the industry. There are several signs that show that this is real, it's sustainable, and the growth is astronomical."

According to **recently released financial figures**, Riot took in \$624 million in revenue for 2013. Interestingly, Riot claims that it loses money on the LCS and other major eSports events. Yet Riot's ongoing investment

in the competitive scene suggests that it understands what other profitable franchises like *StarCraft*, *Counter-Strike*, and *Magic: the Gathering Online* don't – namely, that money spent on supporting a professional class is advertising revenue very well spent. This investment has been the defining factor in the expansion of the game's player base beyond any other player base, and helped bring major corporate partners to the table. Thus, while LoL's "best in the world" are already able to live pleasant lifestyles with their current levels of income, it's likely that LoL – including its well compensated players and the teams they represent – has only begun to scratch the surface of its earning potential.

**Who watches competitive gaming?** A large audience with big potential for growth. For example, on October 4, 2013, the top teams in the world competed for the Summoner's Cup in the Season 3 World Championship. This event was played before a sellout crowd at the Los Angeles Staples Center, home of two NBA teams and an NHL franchise. Over 10,000 tickets sold out in less than one hour at \$40 to \$100 each; many were scalped online for a profit, which is encouragingly similar to more mainstream sporting events. Even more astonishing, over 32 million people tuned in to watch the final match, both online and on TV networks in China and Korea. This marked a fourfold increase in finals viewership from the previous year. That level of participation might not compare with the 108 million 2013 Super Bowl viewers, but it eclipsed the audiences of the deciding games in the 2013 Stanley Cup (8 million), World Series (18 million) and NBA Finals (26 million). With competitive gaming being a recent phenomenon that has yet to fully saturate mainstream American culture, there is every reason to believe the viewership – and the revenue it brings – will continue to grow at an astonishing rate.

LoL leads any game – including mainstream sports – in online viewership and participation. Over the course of the World Championship tournament, the official LoL Championships "#Worlds" hashtag was tweeted 347,924

times and trended 40 times in the U.S. On Reddit, which calls itself, “The Front Page of the Internet,” the LoL community and subforum have the highest number of participants and readers. During major events, these numbers spike much higher. In an October 29, 2013, [interview with Gamespot](#), Erik Martin, Reddit General Manager, noted, “League Of Legends is a huge force. Spikes from LoL events on Reddit rival the Super Bowl, Oscars, and even national elections. What’s even more amazing is that most people have never heard of it. People also used to dismiss MMA and NASCAR and even basketball back in the day. They’ll come around.”

**What do the viewers see and hear?** Riot has invested a great deal of time, energy, and resources into creating a [professional-sports-caliber broadcast](#). Games are aired with color and play-by-play commentary from specially trained “shoutcasters.” The broadcasts also include slick graphics, player and team statistics, human interest pieces, post-game interviews, and even instant replay analysis. The production value is already high, and with Riot making all the right moves, we can expect it to grow at the same rate as the competitive LoL scene, and LoL itself.

## GAMES ARE BROADCAST ON STREAMING VIDEO

An ever-expanding portion of the U.S. population receives some or all of its television content online. A [recent RVA market research study](#) shows that roughly five percent of broadband subscribers exclusively use *Netflix*, *Hulu*, and other online video service providers for their TV, with approximately 40 percent of users getting at least some TV content online. Not surprisingly, these numbers increase dramatically for users under the age of 35, with 13 percent streaming all of their TV online and 70 percent watching some TV online. While one of the strongest draws for subscribing to cable is that it remains the primary option for watching live sports, eSports

– LoL in particular – are available almost exclusively online.

LoL events are streamed on a host of Internet platforms, including *Twitch.tv*, *Azubu.tv*, and *YouTube*. *Twitch* is by far the largest streaming site, hosting the majority of LoL content and boasting the largest viewer numbers. According to [Forbes](#), the site hosts as many as 10,000 video streams at any given time. In October alone, *Twitch* attracted 45 million unique viewers who watched an average of 100 minutes of video per day. To put that into perspective, *Hulu* attracted 30 million viewers and they only watched an average of 50 minutes per day over that same span of time. Similar to LoL, *Twitch*’s growth has been astronomical. The site had 8 million monthly viewers in its first month of operation and 17 million at the end of its first year. This growth helped *Twitch* secure more than \$40 million from private investors. It also encouraged console integration, the new generation of gaming systems (*Xbox One* and *PlayStation 4*) allowing players to stream their games online with the click of a button.

The expansion of *Twitch* has gone hand-in-hand with LoL. Unsurprisingly, LoL is easily the most popular game streamed on *Twitch* and viewership continues to grow at a staggering rate, marked by a 258 percent increase in monthly minutes watched over the past year. In an [October interview with CNN](#), Matthew DiPietro, *Twitch* Vice President of Marketing, said, “The biggest eSports events broadcast on *Twitch* receives millions of unique viewers. Collectively, these events match and often beat broadcast/cable TV audience sizes.” The interaction of *Twitch* and LoL is also not limited to large events. Professional LoL players constantly stream their practice sessions, providing a unique opportunity for fans to interact with pros and listen to live commentary about how they approach the game and improve their play. (Picture LeBron James streaming his individual workout while describing the shooting mechanic he is practicing.) These daily streams can attract significant audiences. For

example, Brian “TheOddOne” Wyllie regularly practices before audiences of 20,000-30,000. In between games, players air advertisements from sponsors. *Twitch* and the player split the revenue based on the number of viewers watching each advertisement.

This arrangement can generate considerable supplemental income for players and offers a significant opportunity for advertisers to reach such a concentrated gaming demographic. Coca-Cola’s Matt Wolf observed, “The Super Bowl is a massively viewed event with 111+ million viewers every time the Super Bowl happens. But when you start to layer on a gender and certain age split that we’re very interested in as a consumer-packaged-good company, you layer that on the Super Bowl and it comes pretty far down. An audience that what Riot has created has actually eclipsed it several-fold ... Viewership is growing in such an amazing way, and unless you’re in the games sphere it just doesn’t resonate.”

## LEGAL ISSUES

As LoL’s popularity grows exponentially, the LCS will come closer to generating the level of revenue associated with other professional sports. However, this type of success is not without consequences. Riot, the LCS, and professional players have already faced a wide array of legal issues stemming from the game’s meteoric rise. There have been some major wins – chief among them, the ability for foreign players to enter the U.S. using P-1 athlete visas. There have also been some losses, including the chaotic departures of various professional teams. Yet these issues only hint at the various legal battles awaiting the LoL scene in the coming months and years. Below is a list of possible legal roadblocks and important topics of discussion for the evolution of eSports, and LoL in particular. This list is not intended to be comprehensive, but should give an idea of the scope of legal arenas Riot will have to contend with as it continues to drive LoL into the mainstream.

**Employment Law:** Are professional LoL players employees or independent contractors? Do they work for their teams, Riot, or both? Are players entitled to minimum wage and overtime compensation? What about during the offseason? When a player is removed from a team, should he receive unemployment compensation? The answers to these questions are significant for apportioning liability between the individual teams and Riot as the league operator. Players sign contracts with both Riot and their teams and the nature of these relationships remains somewhat ambiguous. Clarifying this area will be essential for potentially limiting Riot and team liability as controversies continue to arise and become more complex.

**Player Rights:** Are there any restrictions on player mobility? For example, what rights do players have to freely move from one team to another? Are they contractually restricted in their agreements with either Riot or their teams? Is there a way Riot can structure the league so fans don’t have to deal with such constant changes in the makeup of their favorite teams? This parallels the same fan loyalty problems suffered by mainstream professional sports. No two leagues are structured identically, but the LCS has thus far come down as the league with the fewest regulations surrounding player mobility. The impacts of these restrictions – or the lack thereof – affect teams, fans, and sponsors.

**Bargaining:** Is there a need for LoL pros to form a players’ association? What are the legal logistics of such an endeavor? Where do player and team interests align with one another and where do they differ? Would bargaining take place between just the teams and the players, or would Riot be involved in some capacity? The logistics of a players’ association for the LCS is considerably more complicated than for traditional sports. Unlike other sports, where the teams collectively own the league and bargain against the players, LoL involves three essential parties: the teams, the players, and Riot. Further complicating matters, Riot actually owns the game being played, creating

a unique level of disparity in bargaining power that doesn't exist in other sports. How players choose to address this issue will be crucial to the ongoing stability and development of the professional scene.

**Compensation:** Does Riot really lose money on the LCS? Are players appropriately compensated for their contributions to the game? Is there an opportunity for players and/or teams to receive some kind of revenue sharing for monies generated by the tournaments in which they play? When eSports stars participate in live events they only receive compensation through prize money. For LCS players, weekly matches don't provide that opportunity. Instead, players generate their income through the Riot-funded player salaries. However, as LCS viewership continues to grow, it is not unreasonable to expect that the company could quickly start to generate massive advertising revenue from selling the broadcast rights of LCS games online. Moreover, even if Riot does not directly generate significant revenue through LCS matches, the resulting growth in LoL's popularity certainly contributed to Riot's ability to generate \$624 million in 2013 revenues. Player compensation can play a large role in growing the game's fan base. Players, teams, and Riot will need to reconsider the current system in the very near future.

**League Structure and Team Ownership:** Who owns professional LoL teams? What are the risks and benefits of players potentially owning their own team? When a team is sold, who is entitled to compensation from that sale? The current LCS rules require a three party system, where Riot deals with the teams and the teams deal with the players. This system has already caused significant controversies, including determining how compensation is paid out to players and apportioning ownership of an LCS slot once the qualifying players create a limited liability company to oversee team rights and responsibilities. The current LCS structure is quite distinct from other professional sports and has significant

implications for Riot, players, teams, and fans. Whether or not it is ultimately beneficial for the growth of the sport or needs to be revised will be an important determination for Riot to make as the LCS potentially grows in size and popularity.

**Antitrust:** Do the existing restrictions, which are primarily promulgated through the LCS rules, constitute an unreasonable restraint on trade? Is Riot's prohibition on LCS teams from playing in other events valid? The Sherman Antitrust Act applies to almost all major U.S. sports (baseball has a narrowly carved out exception). Some of the largest legal battles in the history of sports have involved antitrust law – for instance, players in basketball and football successfully fought the “reserve clause” system, which allowed teams to keep players under their existing contracts, without the opportunity to negotiate with other teams or for increased salary. Antitrust law has therefore had an enormous impact on the evolution of professional sports and could similarly shape the development of eSports in the coming decades.

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