Esports have never been bigger, hotter or more talked about. Over the last 10 years, esports have moved out from the shadows and into the mainstream with bigger competitions, more participants, and increased viewership around the world. Since the late 2000s, they have also become increasingly professional, with modern esports players making huge sums from tournaments, team membership, and developing areas such as live streaming.

Esports are now attracting such huge levels of investment and interest that many of the world’s foremost sporting organisations are looking to esports to increase their fan bases. These include the NFL, Formula 1, Paris Saint Germain, the NBA and the NCAA. There has also been a lot of talk about esports joining the Olympics following their inclusion in the 2022 Asian games which will be held in Hangzhou, China. Although still some way off being accepted by the IOC, any discussion shows how seriously the rise of esports is being taken.

Much of the recent interest in esports stems from the demographic which it attracts. A recent study by Limelight Networks found that men aged between 18-25 in the US prefer watching esports over both traditional sports and TV shows. This resonance with the younger generation of consumer is something that every sport can ill afford not to take an interest in when considering their future.

China has long been the global leader in esports. It has a vast online population, with the most recent estimates putting the figure at over 800 million people. Of this population, over 25% played and watched esports last year, putting the current active Chinese esports market around 220 million people.

Asia will account for 47% of global consumer spending on esports in 2017, totalling $51.2 billion, of which China makes up more than half. One major reason that esports has exploded to such a level in China is due to large levels of investment. A lot of focus has been drawn to the support that the government has provided to both football and basketball in recent years, however, esports received more investment than both sports last year.

With so many clubs, organisations and brands now looking to China with increasing focus, esports may offer a golden opportunity to engage with huge numbers of fans who are unlikely to take note of traditional sports. This report will offer a background to the esports landscape in China, why it’s so popular and who the fans are. It will also give insight into how brands are approaching esports, where the industry is headed and what opportunities there are for sporting organisations.
ESPORTS IN CHINA

Examining Esports Fans in China

A combination of factors are responsible for the vast popularity of esports in China. At the core, is the lack of traditional sports culture in China. Whilst this is now developing, it was not widely present during the upbringing of most Chinese millennials, the demographic that is now driving the growth of esports. This was due to a lack of facilities, access to sports broadcasting and very little interest in getting people into recreational sport from Beijing. These aspects, coupled with the huge numbers of only children, made playing video games a more common pastime than participating in traditional sports.

As the younger generations of Chinese citizens have become one of the main focuses of the world, their established passion for esports has come to the forefront. This has been aided by advances in technology making it easier, cheaper, more engaging and more social than ever to play esports.

Who are the Esports Fans?

81% male
19% female

60% of the esports audience is under 25

79.8% of esports fans choose to watch tournaments at home
33% of audiences have watched tournaments at internet cafes
50% More than 50% of esports fans watch tournaments for more than an hour at a time
21.5% 21.5% of audiences watch for more than 2 hours
50% of all users share their experience with friends after watching games.
40% 40% of audiences watch games alone.

Source: Penguin Intelligence Report on Trends of China’s Esports Viewership 2017

Penetration rate of esports in China’s 2nd tier cities is now 48%
# China’s Favourite Games

## ONLINE BATTLES

<table>
<thead>
<tr>
<th>No.</th>
<th>Game</th>
<th>China Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>League of Legends (LoL)</strong></td>
<td>Tencent</td>
</tr>
<tr>
<td>2.</td>
<td><strong>DOTA2</strong></td>
<td>Perfect World</td>
</tr>
<tr>
<td>3.</td>
<td><strong>Heroes of the Storm (HotS)</strong></td>
<td>NetEase</td>
</tr>
<tr>
<td>4.</td>
<td><strong>King of Glory</strong></td>
<td>Tencent</td>
</tr>
<tr>
<td>5.</td>
<td><strong>Starcraft</strong></td>
<td>NetEase</td>
</tr>
</tbody>
</table>

## FIRST PERSON SHOOTERS

<table>
<thead>
<tr>
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<th>Game</th>
<th>China Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Counter-Strike: Global Offensive (CS:GO)</strong></td>
<td>Perfect World</td>
</tr>
<tr>
<td>2.</td>
<td><strong>World of Tanks</strong></td>
<td>Kongzhong</td>
</tr>
<tr>
<td>3.</td>
<td><strong>CrossFire</strong></td>
<td>Tencent</td>
</tr>
</tbody>
</table>

## CARD COLLECTION

<table>
<thead>
<tr>
<th>No.</th>
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<th>China Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Hearthstone</strong></td>
<td>NetEase</td>
</tr>
</tbody>
</table>

## TRADITIONAL SPORTS

<table>
<thead>
<tr>
<th>No.</th>
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<th>China Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>FIFA Online 3</strong></td>
<td>Tencent</td>
</tr>
</tbody>
</table>
Where Do Fans Watch Esports?

**POPULAR DIGITAL PLATFORMS**

- Live streaming:
  - Douyu
  - Huya
  - NetEase CC
  - Panda
  - Shihou

- TV:
  - GTV
  - Game Fengyun
  - Guangdong TV

**VIEWERSHIP ACROSS PLATFORMS IN ONE GAME SEASON**

- **League of Legends**
  - 5 billion +
- **Crossfire**
  - 700 million +
- **DOTA 2**
  - 130 million

Source: Tencent

**KPL (KING PRO LEAGUE) TOURNAMENT**

- **2016 total viewership in a 22-day session**
  - 560 million

- **2017 total viewership for the spring session**
  - 2.1 billion

Source: Tencent

**2016 CUMULATIVE VIEWERSHIP**

- **League of Legends**
  - 460 million +
- **DOTA 2**
  - 480 million +
- **Overwatch**
  - 160 million

Source: Twitch
WHAT’S HAPPENING IN CHINA?

Sponsorship

WHY BRANDS SHOULD PAY ATTENTION TO ESPORTS

1. Esports is a new growing platform that allows savvy marketers to reach new audiences. Marketers must be aware of trends and how untraditional platforms work and create specific content around them.

2. Most of the esports community are millennials and generation Z. Engaging with these audiences and building relationships will be key to success over the next 10 years.

3. Gamers and esports events have a lot in common with premier athletes and traditional sports. High recognition of esports will give sponsors huge brand awareness.

4. There is still risk. Esports is a very new area to marketers. Brands that have already engaged with the esports community are still trying to figure out how to leverage attention from esports.

Esports has its origins in social media, however, over the past 5 years it has broken out beyond online video and into major live events. In 2016, the League of Legends World Championship Semifinals were held at Madison Square Garden, NY, which was followed by its finals which were hosted by the Staples Center in Los Angeles. Each event attracted more than 20,000 fans and another 43 million viewers online. This year, the Worlds have returned to China, where the finals will be held at the 91,000 seater Bird’s Nest Stadium following a series of other events held around China.

Esports is an example of a developing platform where marketers can reach their most-coveted audience: millennials and generation Z. Engaging with these audiences and building relationships will be key to success over the next 10 years.

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One sector that does not have a direct link to esports, but can gain a great deal from esports sponsorship, is home food delivery. As mentioned, esports events attract huge crowds both in the venue and tuning into live broadcasts and streams. For many fans, glued to their phones and computers, ordering food will be a very popular option, much as it is during traditional sporting events. However, a brand’s association to a game goes deeper than this, in that fans are likely to also want to order food when playing for their team.

Brands that do not have a direct link to Chinese esports must play a longer game. The aim must be to become synonymous with a game, thereby building a much deeper relationship with the esports community. Jeep, for example, are a major sponsor of the 2017 LPL tournament. Given the demographics of Chinese esports audiences, they cannot be expecting to make many direct sales of their Renegade SUV as a result of the partnership. However, their presence has begun to build recognition with all who interact with this year’s tournament, many of whom will soon become members of China’s ever growing middle class and, as such, Jeep’s target market in China.
Esports licensing has the potential to generate huge levels of income for clubs, events and operators. It also offers another way to grow awareness of esports and engage with fans. Anything can be licensed: from conventional merchandise all the way to traditional Chinese mooncakes, even more creative licensing ideas and crossover products can, and are, being produced.

There is an estimated $1 billion of counterfeit products produced each year. This huge figure shows both the appetite for branded goods and a major challenge to be considered when looking to establish licensing deals.

Very similar to sports licensing, esports licensing is a contractual agreement by which an esports club or organisation gives a company a license to use its name, logo, image or trademark on the company’s products. Licensing an esports product gives your business an opportunity to reach a market of sports fans that could be local, national or global, depending on the game or team and its popularity.

Licensing provides an important source of revenue for both esports bodies and licensees. Teams or organisations gain a new revenue stream and the licensor receives a royalty for each licensed product that they sell. Meanwhile teams or organisations use esports licensing to build relationships with their supporters.

**WHY LICENSING MATTERS**

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**FOR EXAMPLE:**

- Merchant Bank - LoL Credit Cards
- Tencent - Häagen-Dazs LoL Mooncakes
- Sprite - Honor of Kings edition drink
- vivo - Honor of Kings edition smartphone
The esports industry is estimated to be worth $696 million and shows no sign of slowing. Indeed, research firm Newzoo have predicted it to surpass $1.6 billion by 2020 as brand investment doubles.

According to Lanxiong Sports, between Jan 2016 and Feb 2017, esports received RMB 5.3 billion investment in China, making it the most heavily invested-in sport over that period. Tencent, OFC, IDG Capital and Sequoia Capital have all been very active in esports investment. Two areas of esports investment in China that are particularly popular are facility construction and team ownership.

China has a shortage of sporting facilities, which has been recognised by the government. Part of their approach to fixing this has been to encourage investment by offering incentives such as tax breaks, discounted leases and capital to companies looking to build new facilities. Esports arenas are very much included in this scheme and given their trajectory, many investors have chosen them over traditional sporting arenas.

The current rate of development of Chinese esports facilities is well ahead of the global trend. There are relatively few esports specific venues outside of China. As such, the likelihood of many of the major tournaments choosing China as a regular host is further increased, thereby solidifying China’s status as industry leaders.

Investment into esports teams has also become a popular route to involvement in the market. This is an opportunity that is open to a much wider range of potential investors due to the lack of regulations involved compared to venue ownership. This trend is taking off in all esports markets and several major sports teams have already invested. PSG, Schalke 04, Lyon, and Manchester City all own professional esports teams and both the NBA and NFL are in the process of creating leagues for their games.

WHAT YOU NEED TO KNOW ABOUT CHINESE ESPORTS TEAMS

Esports teams can be organised as domestic companies, international companies, or as a group of individuals playing together under a common team name. Many esports “teams” actually consist of multiple teams that play different games, compete in different tournaments and as a result, enjoy varied revenue streams – all whilst coexisting under a single banner.

Depending on a team’s structure, there are different ways in which investors can buy in. An ownership stake in one (sub-team), as opposed to the umbrella entity, represents a way into the market without the risk and expense associated with owning an entire team. Sub-teams will also reap the benefits of the parent organisation’s global success and so this sort of investment can offer a major upside.

Money making in Chinese esports is also distinctive because of the teams-within-a-team structure. Each organisation is premised on different games that, unsurprisingly, have different revenue generation potential.

The more popular and well-established competitive scenes, such as LoL, CS:GO, and Dota 2, offer bigger prize pay outs, wider marketing appeal and far more substantial dedicated fan bases. These games also typically involve players who benefit from individual success on streaming platforms, such as Twitch. The esports organisation model can offer investors built-in diversification, with teams competing on multiple platforms, an investor’s bet is automatically hedged.
WHAT WILL HAPPEN NEXT?

More facilities, more events

China is well positioned to become the leading nation to host esports events. With the construction of more esports specific venues it is strengthening its hand. It is also a very safe place to host events which, in the current climate, is a more attractive prospect than ever. Gaming giants Tencent are clearly aware of this opportunity and are going all in to solidify themselves as the defacto leaders in esports events by creating an entire town dedicated to esports. It is of little wonder that Tencent is willing to invest so heavily in the industry. Over 47% of Tencent’s 2016 revenue came from games, with Tencent’s gaming unit posting revenues of nearly 70.84 billion yuan ($10.2 billion) last year, dwarfing that of rival NetEase, which posted revenues of 28 billion yuan ($4 billion).

TV broadcasting

Esports gaming grew up with online media. Now TV networks will try to catch up. ESPN and BBC were the first to start airing esports tournaments, and Turner has created its own CS:GO tournament to air on TBS and its other channels. In China Guangdong TV started to broadcast esports games in August. For years streaming was the only way to follow esports remotely, now the numbers are big enough to attract the big network television organisation.

Esports for social

People now play and watch esports on mobile anytime and anywhere. Mobile esports will drive growth through to the proliferation of smartphones, enabling games to be played and streamed on-the-go. Meanwhile, the reason people play esports is changing. Originally, people played for fun, however, there is an increasing community surrounding esports that will continue to provide the backbone to its growth.
Key Opinion Leader marketing is a well-established method of engaging fans in China. The development and integration of esports into social media and live streaming make leading players very well positioned to command large fan bases. Ensuring an authentic connection between KOLs and project is crucial to success and in the case of esports, it is often easy. For example, mini-tournaments are easy to arrange and stream to large audiences whilst also inviting a small number of well selected fans to attend live. Four mid-level esports players and a handful of fans of both the brand and the players/game can make for a very engaging entrance into the esports space and will feel authentic to the wider fans.

Sports stars and icons engaging with the interests and traditions of Chinese fans is generally very popular. This tactic is widely used by football teams, particularly when touring China, and has included activities such as trying out traditional martial arts to making popular Chinese foods. In the case of expanding into esports fan bases, producing content around famous players playing League of Legends online would both give fans a chance to play against their favourite players and also allow clubs and players to show their appreciation for their fan. Best practice for such events would be to partner with a network or game operator in China so as to ensure maximum exposure and a well-produced broadcast.

All sports fans enjoy competition, however, many traditional physical challenges are both hard to implement and will only appeal to a small number of fans. As such, esports can offer a perfect way to engage much larger numbers of fans, both established and new. Esports spans numerous interest demographics thereby opening up well designed campaign to larger audiences. One example of how to leverage this interest would be to run a campaign to find an account’s best gamer. This can be easily publicised and the addition of competition among the fans will boost engagement. Campaigns such as this, although focussed on current fans, are likely to create buzz in esports communities and so will begin to introduce brand recognition among new audiences too.

OTHER WAYS TO GET INVOLVED IN ESPORTS

Engaging KOLs

Playing Esports

Social Campaigns

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We hope that you have enjoyed reading The Esports Issue of the RED CARD+. If you have any questions about any of our reports, or would like to join the RED CARD+ mailing list, please reach out.

The next edition of the RED CARD+ will be The Ecommerce Issue and will be released in January. The report will provide a comprehensive comparison of the Chinese and Western ecommerce landscapes, a look at the top 3 Chinese ecommerce platforms, an analysis of ecommerce consumer behaviour and a best-practise guide on how to start in China.

For English
Tom Streatfeild-James
tsj@mailmangroup.com

For Chinese
Ruoyang Wu
ruoyang@mailmangroup.com

For Business Enquiries
David Hornby
david@mailmangroup.com

About RED CARD+
The RED CARD+ report is produced by Mailman. It offers a bimonthly inspection of digital trends and fan insights from China’s sports and marketing industries.

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Founded in 1999, Mailman is China’s leading sports digital consultancy and marketing platform. We help global rights holders, athletes, and organisations build a successful business in China.