

FC SCHALKE 04 ESPORTS

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Decision making in a changing ecosystem

SASCHA L. SCHMIDT
FLORIAN HOLZMAYER

“Only a couple of years ago everyone was laughing at eSports. Now it is the next big thing and everyone wants to get involved.”

Alexander Jobst,
Managing Board Member,
FC Schalke 04

On a sunny day in mid-March 2018, Tim Reichert, Chief Gaming Officer at FC Schalke 04, met with Managing Board member Alexander Jobst (Marketing) for a strategy meeting to make fundamental decisions about the future of FC Schalke 04's eSports activities. They were in a generally positive mood. The club's football team was well positioned in the Bundesliga^a and their League of Legends (LoL)^b team recently returned to the first division, i.e. the European LoL Championship Series (EU LCS)^c.¹

FC Schalke 04's eSports^d involvement started in May 2016 with a LoL team; they

began a FIFA^e team just a few months later. In 2017, the club acquired a Pro Evolution Soccer (PES) player, adding a third game (title) to its eSports portfolio (see **Exhibit 1** for a brief description on these and other eSports titles). The objective was to capitalize on the promising growth of the eSports industry and to strengthen the FC Schalke 04 brand – both nationally and internationally² – with a younger digital target group, which made up the majority of eSports consumers. The starting phases of FC Schalke 04's eSports involvement, however, could not have been more volatile. Their LoL team was initially relegated to the second division, the Challenger Series, then promoted in subsequent years. The FIFA team enjoyed great initial success, but as other Bundesliga and European clubs joined the eSports scene, future success was less assured.

Professor Sascha L. Schmidt (WHU) and doctoral student Florian Holzmayr (WHU) prepared this case.

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^a The Bundesliga was the first (highest) German football league and belonged to the largest football leagues in Europe

^b League of Legends was a multiplayer online battle arena video game

^c The EU LCS was the first division of the LoL eSports system in Europe

^d Better known as professional video gaming

^e FIFA was a football simulation, mostly played on computer or video game console

Jobst and Reichert had to make two key decisions for the future of FC Schalke 04's LoL and FIFA engagements: The first decision related to a current request from venture capitalist ALPHA INVESTMENT. The venture capitalist was interested in negotiations to purchase FC Schalke 04's LoL spot for the 2019 season. The request was very attractive, particularly considering the current revenue generation challenge with the game. However, market growth and a reformed league system could make continuing the engagement even more attractive in the long-term. In addition, certain learnings and synergies with the core football business were beginning to be realized.

FC SCHALKE 04

Overview

FC Schalke 04's development had been impressive in terms of sporting success (see **Exhibit 2** for FC Schalke 04's historic season positioning). Revenue wise, the club had grown from €55 million in 2001 to €230 million in 2017³ triggered by increasing broadcasting income (see **Exhibit 3** for FC Schalke 04's historic revenue development). This resulted in a CAGR^F of more than 9%. FC Schalke 04 was positioned number three in terms of revenues in Germany, behind Bayern Munich (revenues 2017: €588 million) and Borussia Dortmund (2017: €333 million), and number 16 in Europe⁴ (see **Exhibit 4** for a revenue comparison between European top teams in season 2016/17).

In order to become part of the European Top 10 on the pitch, economically and emotionally within the next 8 to 12 years, FC Schalke 04 had developed a new corporate strategy in 2017, Jobst explained:

Our new strategy consists of five goals: First, the club's football team is urged to practice an attractive playing style. Second, the club is promoting expansion in terms of new revenue sources,

The second decision concerned the club's FIFA engagement. Professionalization and monetarization were key issues as the overall market size was much smaller compared to other eSports titles. One way to improve monetarization was a FC Schalke 04 FIFA youth academy, that would bring up talents like Tim Schwartmann (19), alias 'Tim Latka', who was the rising star on the club's FIFA team. This could help to increase sportive success in the future and serve as a potential revenue source by selling promising talents to other eSports teams. As such, the club had to decide whether and how to engage and promote such a youth academy.

infrastructure and internationalization. Third, the club intends to enhance its profitability through increased revenues and effective cost management. Fourth, the club plans to execute digitalization throughout the entire organization and to trigger its monetarization. Fifth, the club always keeps the fans at the center of all business activities.

To fulfill this strategy, specifically in terms of profitability and expansion, the club had already begun internationalization and infrastructure initiatives. To promote internationalization, FC Schalke 04 held its winter training camp 2016 in Orlando, U.S.⁵ In the summer of 2017, the entire team traveled to China for a mixture of friendly matches and commercial activities to increase awareness of FC Schalke 04.⁶ To expand the club's local infrastructure in Gelsenkirchen, the club had started the 'Berger Feld' project; it included the restructuring and extension of all training facilities from youth teams to the professional team. The first phase of these developments was already complete.⁷

In order to generate new revenue sources and promote digitalization, Jobst needed to convince his colleagues to enter the eSports

^F CAGR = Compound Annual Growth Rate

market and become one of the first professional sports clubs in the football industry with an eSports team. He explained:

We entered the eSports business to close the revenue gap to other football teams. However, all our eSports activities aim at supporting our football business – football will always be the core!

The eSports leadership

So far, the club had engaged in three eSports titles: LoL, FIFA and, most recently, PES. The entire engagement was managed by Jobst, as the responsible Managing Board member, and Reichert, as operating chief.

Alexander Jobst

Before joining FC Schalke 04, Jobst gained experience in sales and sports with engagements throughout Europe. In 2000, he began his professional career as a global sponsorship manager with Siemens AG, one of the largest industrial manufacturing

companies. Five years later, he took over as head of international development at Spanish record champion Real Madrid, before moving to Switzerland to join FIFA⁹ as head of sales in 2007. In 2011, he became part of the Managing Board of FC Schalke 04, tasked with the marketing of the club.⁸ In 2016, his contract was extended until 2022.⁹

Tim Reichert

Reichert began his professional career as a football player in Bundesliga 2, the second highest football league in Germany. Just before becoming a professional football player, he had co-founded the eSports team SK Gaming in 1997¹⁰, which was still famous among gamers and fans today. During that time he was known as 'SK|Burke'. After his active sports careers Reichert studied business administration at the university and worked for MEDIACOM, a media agency network. When FC Schalke 04 entered the eSports scene, Reichert joined the club as Head of eSports. In 2017, he was promoted to Chief Gaming Officer.¹¹

INSIGHTS INTO ESPORTS

Reichert explained his expectations for growth development in eSports:

eSports is growing rapidly and will naturally be seen as sports by the society in the future: I think it will be bigger than other sports disciplines soon.

Since its inception, eSports and the industry had experienced enormous growth (see **Exhibit 5** for the evolution of eSports). In 2017, the entire industry earned \$655 million in revenues, more than quadrupling in five years (\$130 million in revenues in 2012^{12 13}), resulting in a CAGR of almost 40%. The industry was expected to achieve revenues of \$1.65bn by 2021¹⁴ (see **Exhibit 6** for the revenue growth of the eSports industry), including matchday, merchandising and broadcasting income.

In Germany, revenues from eSports were forecasted to increase from €50 million in 2017 to €130 million in 2020. At €50 million, eSports had already caught up with more traditional sports leagues like basketball, ice hockey and handball.^{15 16}

The development of eSports and its industry was unique; to understand this development, one needed to examine the ecosystem in its entirety (see **Exhibit 7** for an overview of the eSports ecosystem) consisting of **publishers, teams, leagues, events** and **broadcasters**. Currently, revenues stemmed mainly from two sources: **sponsors**, for instance, Intel, Samsung, Coca Cola, Red Bull, or Daimler had entered the scene, and **consumers**¹⁷ (see **Exhibit 8** for a detailed description of each ecosystem element).

⁹ Federation Internationale de Football Association (the governing world football association)

Supporting revenue growth, the worldwide audience grew from 134 million in 2012 to 335 million in 2017. Over 40% of this audience were enthusiasts^h as opposed to occasional viewersⁱ.¹⁸ The biggest growth over the time

period occurred in prize money won in eSports tournaments. In 2017, for example, \$112.2 million in prizes were distributed, almost 10 times more than in 2012.¹⁹

FC SCHALKE 04'S ESPORTS ENGAGEMENT

League of Legends

The club's brave journey

Led by Moritz Beckers-Schwarz, Head of Corporate Development and Arena Management, and Claudio Kaspers, Head of Corporate Controlling, FC Schalke 04 began its eSports engagement in the top league of LoL by acquiring the EU LCS spot from eSports team Elements in May 2016²⁰. While the team experienced a strong start, its subsequent performance was less inspired.²¹ At the end of 2016, the team was relegated to the Challenger Series, the second international division of LoL.²² As a consequence, the team manager was dismissed and the team was reassembled. Despite this, promotion back to the EU LCS, was not accomplished in the next season.²³

There were two LoL splits (seasons), and therefore two opportunities for promotion or relegation each year. After failing to regain their spot in the first season of 2017, club management changed the team composition, among other measures, for the second season. This time, the club was luckier and finished second in the league; after successful relegation matches, the team was back to the EU LCS in August 2017, less than one year after the relegation.²⁴ The deciding match was followed by more than 100,000 viewers.²⁵ Reichert described the situation:

We never questioned our commitment in eSports and were rewarded for it. We had learned a lot from the first year, drawn the necessary conclusions and developed with each new experience. The fact that we had

been promoted back to the LCS showed that we were on the right track.²⁶

Besides sportive success, access to a new consumer target group through the LoL team was a valuable asset for the entire club. It enabled FC Schalke 04 to reach consumers that were generally hard to target via classical media channels, for the football industry in particular. This group specifically included the under 35-year-olds. Even though there was a clear overlap of consumers of FIFA and football enthusiasts, LoL reached customers outside of the traditional football business. For FC Schalke 04, approaching new target groups was not a one-pronged strategy. Reichert explained:

Our goal is to make FC Schalke 04 interesting for the young eSports community – but on the other hand, we also want to grow the interest of our football fans in eSports.

And Jobst added:

ESports is growing rapidly, and this development reflects the changing consumer behavior of a very young generation. This generation will also grow older at some point, then the current discussion [about eSports as 'real' sport] will cease.²⁷

Growing LoL market

After its introduction in 2009, LoL quickly established itself as one of the most popular titles to feature in eSports competitions. It consistently listed as the most popular title in

^h eSports enthusiasts are defined as "gamers that watched eSports more than once per month and/or participate in (amateur) eSports league" (Newzoo 2016, "2016: Global Esports Market Report")

ⁱ eSports occasional viewers are defined as "games who watch eSports less than once a month" (Newzoo 2016, "2016: Global Esports Market Report")

terms of twitch.tv^j viewers. LoL had an estimated 15 million monthly active users (MAU) worldwide in 2011; by 2016, that number increased to 100 million.²⁸ LoL was also one of the top ranked PC titles worldwide by revenues. In 2017, the title generated \$2.1 billion²⁹, up from \$624 million in 2013.³⁰

Publisher Riot owned and operated LoL and its leagues around the world. As of 2017, the LCS had two professional leagues - one operating in Europe and one in North America. The best teams at the end of each season qualified for the LoL World Championship.

Investors entering the LoL scene

The market was changing as investors entered the U.S eSports scene by acquiring LCS teams. For example, in 2015, Venture Capitalists bought the 'Immortals', a very successful eSports team.³¹ NBA teams like the Philadelphia 76ers also moved into the eSports space by purchasing a majority stake in an eSports organization and a LoL team.³² Retired pro athletes like Shaquille O'Neal and Magic Johnson and celebrities like Ashton Kutcher and Rick Fox invested in LoL teams as well. Apart from FC Schalke 04, other football clubs such as West Ham United (UK), Galatasaray Istanbul, Besiktas Istanbul or Fenerbahce Istanbul (all Turkey) had also discovered LoL.³³ Even corporations such as Korean tech giant Samsung started to run their own eSports teams.³⁴ Attracted by the high growth rates but also by the access to a young consumer audience, investors injected severe amounts of capital. For example, Samsung saw the teams as a promotion measure for their mobile product portfolio.³⁵

Although industry revenue growth was quite promising, LoL teams faced challenges from stagnating sponsorship income and ever-increasing costs of player salaries, staffing, housing and content production. Issues with sponsors were mainly caused by Riot's restrictions of not allowing brands to be

visible at its tournaments; this made LoL unprofitable for many teams.³⁶ Consequently, French football club Paris Saint-Germain decided to withdraw their LoL team in 2017.³⁷

Outside of LoL, there were examples of how to improve monetarization in eSports. For instance, Activision Blizzard launched a new league system in 2017 for its eSports title, Overwatch. In contrast to Riot's current LCS series, the new league system promised substantial revenue generation by closing a sponsorship deal with Intel and HP.³⁸

The new LoL league system

In order to improve its league business model, Riot announced plans for a new closed league system with permanent teams (franchises). At first, these franchising plans were focused on the North American LoL Championship Series (NA LCS) starting with the 2018 pro season: Promotion and relegation were substituted by 10 permanent league slots, revenue sharing with players and team owners was introduced, and the Challenger Series^k was replaced by an Academy League.³⁹ Existing and new teams were able to apply for a franchise slot in NA LCS. Riot evaluated applications along certain criteria such as brand, fan engagement, eSports affinity, financial aspects, future talent development and sponsorship strategy. Teams were also required to have an additional development squad in the new Academy League. Each accepted franchise had to pay a fee of \$10 million (\$13 million for applicants without an existing NA LCS team) for a slot. In terms of revenue sharing, Riot would share 35% of revenues with the players and 32.5% with the teams (including fixed and variable components), while keeping the remaining 32.5%. Meanwhile, a minimum salary of \$75.000 p.a. for players was introduced. The promotion-relegation system was replaced by rewards for high performing and penalties for low performing teams.^{40 41 42} Despite these new regulations, Riot could already confirm

^j Twitch.tv was the leading online streaming platform of eSports content

^k The second highest LoL leagues after the LCS so far. A Challenger Series existed in Europe and North America respectively

more applicants than spots available in the upcoming league.⁴³

For the 2019 season, Riot also published plans for a similar franchise system in Europe. As such, revenue sharing would be analogous to the U.S. model. Fees for an accepted franchise would be €8 million (€10.5 million for newcomers).⁴⁴ In addition, minimum salaries were set at €60,000.⁴⁵ Finally, programs with resources and personal development for upcoming players and current pros were planned, while regional leagues remained untouched.⁴⁶

The application for this league would contain a three stage process.⁴⁷ In the first phase, teams would be asked for details on team strategy, brand, and ownership details. Further, a concrete business plan that incorporated actions for connecting with players and fans was needed.⁴⁸ In the second phase, interviews would need to be conducted with pre-selected teams.⁴⁹ In the last phase, successful applicants would be announced in late 2018.⁵⁰

In general, these plans were appreciated by the teams, and also by FC Schalke 04. Jobst outlined:

A franchise system in Europe helps to maintain a balance between the two leagues (Europe and North America). In addition, it would offer a much larger security for our investment, as teams could not get relegated anymore. Yet, a fee of €8-10 million as in North America would lead to a new level of investments for European eSports teams like FC Schalke 04.

FIFA

In comparison to LoL, EA's FIFA was much smaller in terms of viewership and prize money. As such, the world championship in LoL or DotA2 could attract more than 10 times as many viewers as the FIFA Interactive

World Cup (FIWC)¹, which was the virtual version of the FIFA World Cup of football and one of the largest FIFA events⁵¹. However, FC Schalke 04 expected that FIFA would be one of the few titles that could keep up with LoL or DotA2 in the long-run⁵² (see **Exhibit 9** for an overview on recent developments on the FIFA market including the competitive landscape in Germany).

As such, just a few months after the LoL engagement in 2016, FC Schalke 04 introduced a FIFA team. Its first move was to hire Mario Viska and Cihan Yasarlar, two eSports athletes that had previously been active for the German eSports team SK Gaming.⁵³ While Viska was a very prominent player with several championships in Germany and Austria, Yasarlar was a newcomer and rather unknown. Yasarlar would prove himself quickly by winning both the virtual Bundesliga and the FUT Champions Regional in 2017.⁵⁴

Talent development and FIFA youth academy

In August 2017, the club suffered a setback with an unexpected loss to its team: Top player Yasarlar had decided to look for a new challenge and moved to Bundesliga competitor RB Leipzig^m, who had just started an eSports outlet.⁵⁵ After this transfer, Tim Schwartzmann, winner of the Electronic Sports League (ESL) FIFA 17 cup, became the number one player for FC Schalke 04's FIFA team⁵⁶; his second was Lukas 'Idealz' Schmandt, who had been signed at the end of 2016.⁵⁷ Schwartzmann was a homegrown talent discovered by FC Schalke 04 at a regional eSports cup in 2016, and helped the team recover from the loss of Yasarla.⁵⁸ Schwartzmann described his strong connection to the club:

I am very proud to be a part of FC Schalke 04 and have always been a fan. I really

¹ In addition, the ESL, one of the most important league bodies in the Western eSports scene, organized FIFA tournaments every year such as the ESL FIFA 17 cup

^m RB Leipzig was a German Bundesliga club that had also started with an own FIFA eSports team

want to represent this club in the eSports world.

In 2017, he extended his contract with FC Schalke 04.⁵⁹ Local recruits like Schwartzmann presented an important resource to improve sportive performance, raise awareness of the club, and attract local fans. Jobst clarified:

The development of local talent goes along with our strategy in the football business, where many well-known national team players originated from the 'Knappenschmiede', FC Schalke 04's youth academy in Gelsenkirchen. And from those that leave us, we often generate substantial transfer income (see **Exhibit 10** for examples of famous graduates of FC Schalke 04's football youth academy).

Besides potential transfer proceeds from a FIFA youth academy, there was a need to educate and train eSports talents in the scene. As such, there were only 50 gamers that could be counted as professionals, but a large number of amateur and ambitious FIFA players that were eager to improve their skills (see **Exhibit 11** for an overview of the FIFA playing community). However, FC Schalke 04 was not alone in this idea; Bundesliga competitor Hertha BSC Berlin, for example, had already announced plans for a similar youth academy concept to develop local FIFA talents.⁶⁰ In addition, organizations outside the Bundesliga, like STARK eSports, eSports reputation or bPartGaming, had presented

plans to found FIFA schools or academies.⁶¹ For instance, STARK eSports planned to support upcoming talents in the development of their eSports career with coaches, experienced players and managers, and necessary training facilities.⁶²

Social Media

Internationally, Schwartzmann was also becoming an increasingly important asset. For instance, he accompanied the football team to China due to his popularity in Asia. Moreover, he had become an influencer on social media. He instantly reached 160.000 people with his content, interacting with fans all around the world.

In general, social media efforts within the eSports division offered a completely new set of opportunities for the entire club. To capitalize on these opportunities, the eSports social media experts started to manage the social media channels for the entire club; this ensured cohesiveness and standardized the content distributed by the different divisions. Reichert emphasized:

Here, I expect much marketing and brand building potential. We need to use our players as brand ambassadors. Thereby, we can leverage their reach and combine it with FC Schalke 04's core brand.

IMPACT OF ESPORTS ON THE ORGANISATION

Jobst spoke of the digital transformation and other ways that operations in the eSports division seeped into the club as a whole. These synergies were crucial to obtain an advantage over other football clubs. These included learnings from the team management as well as strategic advances in digitalization, communication and sales/marketing throughout the club.

We underestimated what it means to integrate eSports into a professional football club. In fact, we implemented a digital business model for the entire club.

Operations

From the operating perspective, the club gained many learnings from the challenges of managing an eSports team. For instance, the number of tasks required to keep the team

going – ranging from laundry service to travel management – was time-consuming and challenging. An additional challenge was the home locations of the teams: While the FIFA team was settled in Gelsenkirchen with the football team, the LoL team was located close to Riot in Berlin. This made the supervision of all teams demanding. To meet this challenge, hiring qualified personnel was a necessity. For instance, the club had understood the importance of psychologists in supporting the teams as they were seen as a decisive factor for sportive success in the future.

Communication and PR

The eSports division accelerated the digitalization process of the entire club. As such, it introduced new technologies due to different customer behavior and communication channels in eSports. Reichert explained how the club responded to these changes:

At the beginning of our eSports engagement the business units and departments at FC Schalke 04 acted as silos with limited interaction and knowledge transfer. It was a challenge between the old and new world, respectively between digital converts and digital natives. As a consequence, training sessions for the entire staff were organized to broaden the understanding about digital transformation and potential overlaps between the divisions. These sessions soon bore first fruits as the football and the eSports divisions started to grow together.

Accordingly, this development led to a change in mindset and KPI^N focus. For instance, the football business previously perceived classical TV reach as the main indicator of FC Schalke 04's popularity. Today, digital reach was understood as crucial and marketing efforts were adjusted accordingly.

In its announcement of eSports engagement, FC Schalke reached 200 million people; this proved that eSports provided an efficient communication tool right at the start. Demonstrably, traditional news outlets that had rarely published about FC Schalke 04 before, now reported about the eSports team. Jobst clarified:

On the day of the announcement, our eSports engagement was the number one news item on ESPN^O – our football business has never managed to achieve that before.

To further increase its reach, the club intensified the cooperation with twitch.tv by signing an exclusive agreement. The idea was to broadcast live content to strengthen the bond and interaction between players and fans. "Creating live content is much easier than in football, you can do it at any time with only little (financial) resources," Reichert highlighted. As a next step, increased monetarization of such content was seen as a promising option.

Further improvements through the eSports engagement were perceivable in the PR department. For instance, this department was previously managed mainly via an external agency within the club. With the addition of eSports, an expert had been hired to manage PR for the club and eSports divisions; this led to increased professionalization in this topic for both divisions.

Marketing and Sales

Previously touted as separate brands, football and eSports were now sold by marketing and sales as the 'Schalke Welt'^P including all divisions of the club. This was particularly relevant in acquiring new sponsors as the combination of football and eSports offered a broader target group. For instance, as the eSports teams were playing in worldwide tournaments and leagues, the

^N Key performance indicators

^O ESPN was one of the largest sport broadcasters in the U.S.

^P Schalke World

FC Schalke 04 brand was visible across the globe; this had assisted in FC Schalke 04's internationalization efforts. This was particularly true in Asia where eSports players like Schwartzmann were in high demand.

FC Schalke 04 eSports was also able to sign a first non-endemic sponsor. Attracted by the new target group, AOK^Q expanded from the official health partner of the club's football business to the eSports division's first official partner. AOK was granted extensive advertisement rights as well as integration into social media activities of the eSports division.⁶³ It was a promising deal, Jobst emphasized:

It is crucial to integrate our existing sponsors from the football business into the eSports division. However, it is still challenging to acquire new sponsors overall. Yet, we also have new sponsors which just focus on our eSports unit, e.g.

DECISIONS TO BE MADE

Jobst summarized the financial investment made and the current economic situation of the eSports engagement:

Less than two years ago, we started with a six-digit investment volume. Revenues from sponsorship, content partnerships and prize money have made it possible for us to operate profitably in this field of business today. [... For the future,] I would very much like to see every Bundesliga club joining eSports, because this would also strengthen the popularity and branding of the Bundesliga internationally.⁶⁴

Although the financials of the eSports engagement looked promising, he and Reichert faced time pressure to decide on two matters. ALPHA INVESTMENT wanted to have a response to their request within the

manufacturers of high-end gaming equipment.

Other opportunities were realized in the existing infrastructure of FC Schalke 04's core business, football. For instance, training and business facilities were regularly used for eSports sessions, and further synergies were achieved by the players. In addition, efforts could be combined to provide event management and catering to both divisions. In the future, Reichert saw potential in the medical department, although the requirements between eSports and football players were difficult to align:

We need to fully understand the optimal training scheme in eSports. Currently this field is little developed and needs improvement, so that we can fully leverage our existing facilities and synergies. It will also be vital for developing further talent.

next six of weeks. And, they needed to reject or move on plans for a FIFA youth academy.

With the recently announced plans for a changed EU LCS, FC Schalke 04 found itself in a new situation. Having regained its EU LCS slot and understanding the selection criteria for the EU LCS, the club felt well-positioned to join the new league. Joining the league, however, required an additive investment. Jobst summed up the challenge for FC Schalke 04.

In general, we could imagine to invest €8 million for a European LCS franchise spot – but the business plan needs to be very clear. However, it is also an option to sell our spot to an investor – partially or in total.

Recognizing the potential for a new league system, ALPHA INVESTMENT asked the

^Q AOK was one of the largest health insurances in Germany

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club to enter into negotiations for acquiring the club's LoL spot in the LCS. If Jobst and Reichert sat down with the venture capitalist, important questions would need to be answered beforehand: Would a full or partial takeover be preferable? Would the spot be sold before or after engaging in the new EU LCS system? How would they come up with the right price range for the LoL spot? What would be the explanatory levers that justified such a price range?

Given the current developments in the FIFA market, the club's representatives had to evaluate what FC Schalke 04 should do to generate more money from this engagement. Reichert commented:

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We need to see a scenario in which FIFA can generate steady revenues – currently, such a format does not exist.

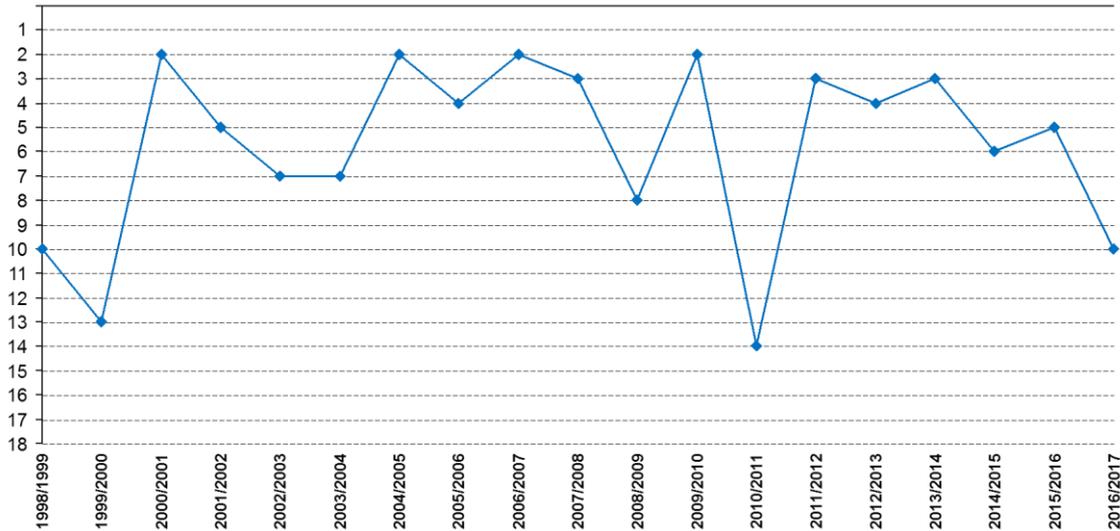
Would a FC Schalke 04 FIFA youth academy, similar to the Knappenschmiede in football, be the right approach to improve monetarization by raising revenues from transfer proceedings? There was some evidence to suggest this was the right path: Recently, eSports gamer Zhang 'Lao Shuai' Yuchen was transferred for \$1.2 million from one team to another.⁶⁵ Besides new revenues, how could such an academy help in developing more local talents like Schwartzmann to advance the club's FIFA team?

Exhibit 1 Brief descriptions on the main eSports titles

FC Schalke 04's eSports titles	League of Legends (LoL)	League of Legends was published by Riot Games in 2009 and falls into the Multiplayer Online Battle Arena (MOBA) genre. It is played in a 5vs.5 mode. Players control virtual champions that try to destroy the core of the opponent team, which can be interpreted as the central point of a team's structure.
	FIFA	The football simulation game, FIFA by EA, was invented 1993 and is one of the oldest eSports titles. Besides regular updates, a new version is published every year with new features, graphical improvements, and the latest update of the football player database. Played either in teams or in 1vs.1 competitions, a football team is chosen and simulated football matches are played against each other.
	Pro Evolution Soccer (PES)	Similar to FIFA, PES by publisher Konami is a football simulation game; it has been available since 2001. It is renewed every year and played in 1vs.1 or team competitions. PES is differentiated from FIFA, amongst other factors, in terms of licensees and gaming modes.
Other well-known eSports titles	Counterstrike: GO (CSGO)	The Counter strike series, first introduced in 2000 by Valve, is a typical First-Person-Shooter (FPS) game. Its popular version, Counterstrike: GO, is normally played in a 1vs.1 or 5vs.5 competition, where one team plays terrorists trying to arrange an attack. In order to prevent this terroristic action, the opposing team acts as the counter-terrorists. The game is won by the team that completely eliminates the other. Counterstrike has faced severe criticism due to parallels to the worldwide terrorism situation.
	World of Warcraft (WoW)	World of Warcraft is a multiplayer online role-playing game that Activision Blizzard published in 2004. Players normally pay a subscription fee and take the role of a large variety of characters that can fight other characters/players in the game. In addition, there are dungeons and raids that players can participate in. The ultimate aim of the game is to grow as a player in terms of its rank, skills and capabilities.
	DotA 2	DotA (Defense of the Ancients) 2 by Valve is a community-created successor of the Warcraft series published in 2013. It is categorized as a MOBA game and normally played as a 5vs.5 competition. Similar to LoL, respective teams aim to destroy its opponent by using individual heroes. Each team member can be the team hero after gaining strength, items, and experience.
	Hearthstone	Hearthstone is a free online collective card game by Activision Blizzard introduced in 2014. It is played between individuals in a 1vs 1 format. A player uses his or her own cards to fight the opponent's cards. Used cards are replaced at random with new ones. The game is won with better card strategy and, ultimately, destruction of opponent.
	Overwatch	Overwatch is the youngest of the aforementioned eSports titles, released by Activision Blizzard in 2016. It is an online multiplayer first-person shooter video game, where the player had to choose one of several heroes to participate in competitive 6-person team shooting matches.

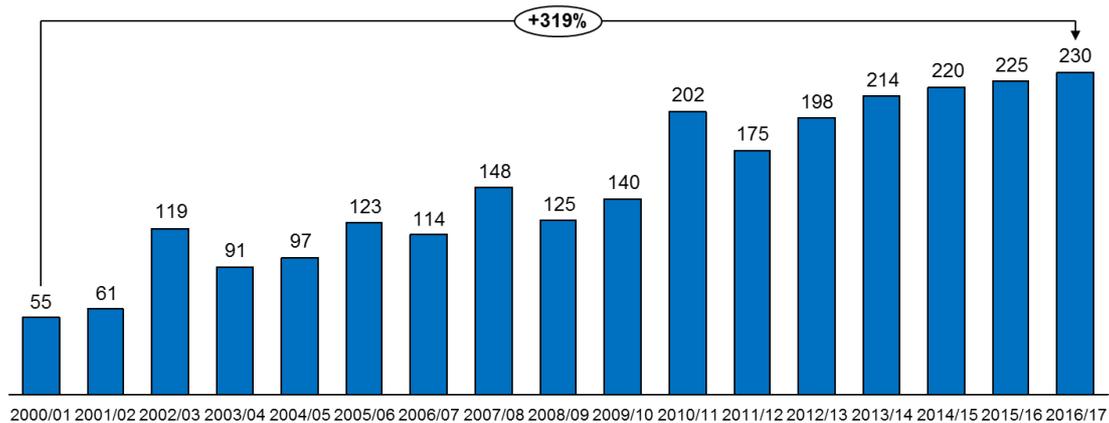
Source: Casewriters

Exhibit 2 FC Schalke 04's historic season positioning



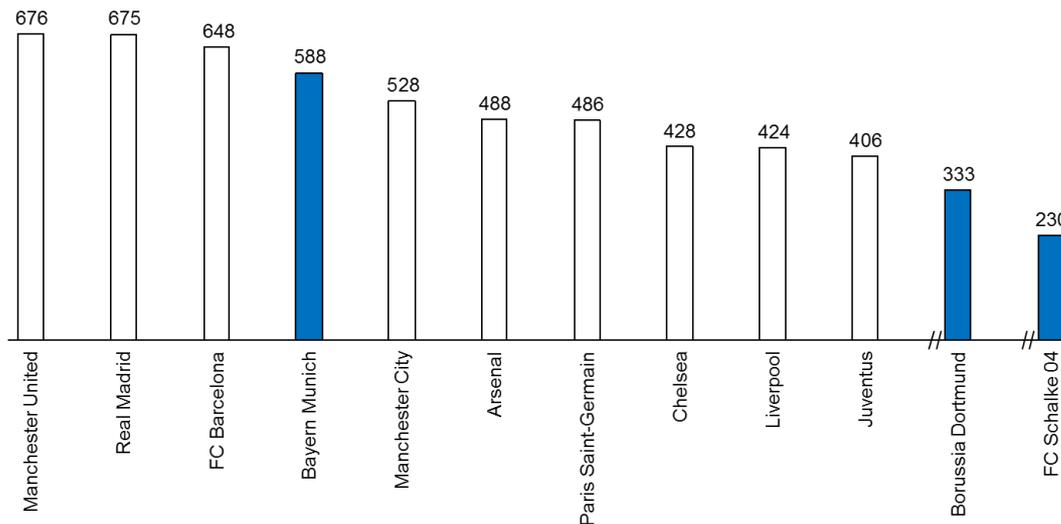
Source: Adapted by casewriters from transfermarkt.de website, <https://www.transfermarkt.de/fc-schalke-04/platzierungen/verein/33>, accessed March 2018.

Exhibit 3 FC Schalke 04's historic revenue development (€ million)



Source: Adapted by casewriters from Deloitte Money League Report 2006-2018, "Top of the table Football Money League," <https://www2.deloitte.com/na/en/pages/audit/articles/deloitte-football-money-league.html>, accessed on March 2018.

Exhibit 4 Revenue comparison between European top teams in season 2016/17 (€ million)



Source: Adapted by casewriters from Deloitte Money League Report 2018, "Top of the table Football Money League," <https://www2.deloitte.com/na/en/pages/audit/articles/deloitte-football-money-league.html>, accessed on March 2018.

Exhibit 5 The evolution of eSports

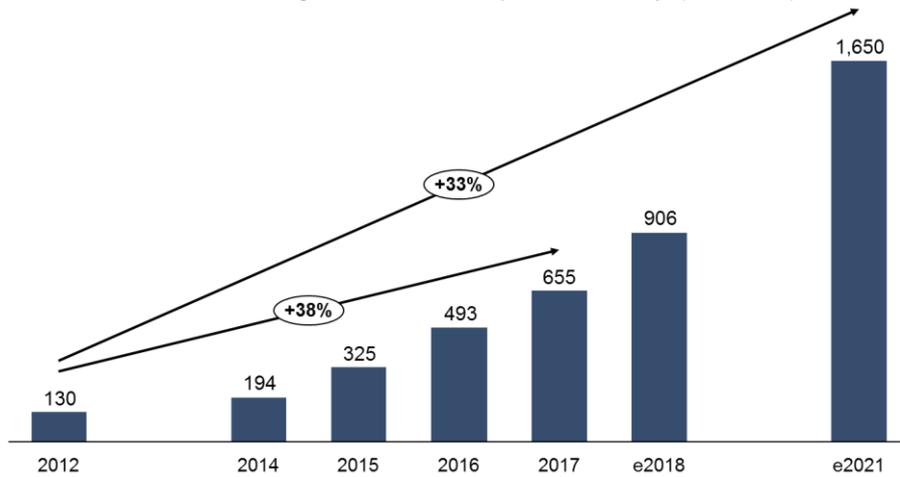
ESports, better known as professional video gaming, can be traced back to the 1970s. In 1980, one of the first-recorded gaming competitions, the Atari's Space Invaders tournament, took place.⁶⁶

It took until the 1990s, however, for the evolution of eSports to accelerate. For example, Doom, a first-shooter game that enabled users to play via a local area network, appeared, setting the stage for the success of other LAN parties. Titles like Quake and StarCraft soon followed.^{67 68} Players began to form teams (clans) and take part in leagues and tournaments.⁶⁹ The first large tournament, the Street Fighter tournament in California, was organized in 1996 and is still played today. Professional leagues continued to develop: For example, the Cyberathlete Professional League (CPL) was founded in 1997 and the Deutsche Clanliga (DeCcarL), now known as Electronic Sports League (ESL), was founded in 2000.^{70 71} However, South Korea remained the pioneer of eSports and the 'Mecca' for professional gamers.⁷²

At the beginning of 2000s, new shooting games like Counter Strike, Halo 2, and Call of Duty appeared on the market.⁷³ With broader access to the internet, video content and online services, the popularity of titles like StarCraft and Counter Strike increased.⁷⁴ Technological improvements of computers and internet connections coupled with lowered costs further increased the popularity of eSports; this attracted sponsors to the industry and prize money available at tournaments rose as a result.⁷⁵ In 2010, Multiplayer Online Battle Arena games were introduced and new titles LoL and DotA 2 became global bestsellers, with millions of players, respectively, around the globe.⁷⁶ Streaming platforms, such as twitch.tv, made tournaments more popular than ever before, and supported additional growth of the eSports market. In 2016, Overwatch entered the eSports scene, although a new title it soon became one of the most popular titles internationally.

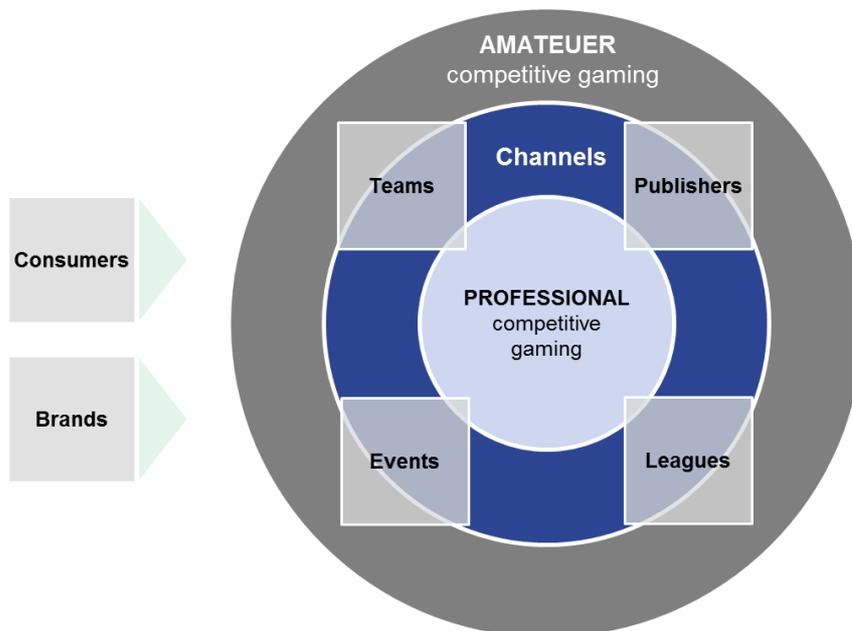
Source: Casewriters

Exhibit 6 Revenue growth of the eSports industry (\$ million)



Source: Adapted by casewriters from Newzoo (2015a), "Free Report Preview: The Global Growth of Esports Trends, Revenues, and Audience Towards 2017," February 17, 2015, <https://newzoo.com/insights/trend-reports/free-report-preview-the-global-growth-of-esports-towards-2017/>, accessed March 2018; Newzoo (2016), "2016: Global Esports Market Report"; Newzoo (2017), "Global Esports Market Report 2017 | Light," February 14, 2017, <https://newzoo.com/insights/trend-reports/global-esports-market-report-2017-light/>, accessed March 2017 & Newzoo (2018), "Global 2018 Global Esports Market Report | Light", February 21, 2018, <https://newzoo.com/insights/trend-reports/global-esports-market-report-2018-light/>, accessed March 2018.

Exhibit 7 Overview eSports ecosystem



Source: Newzoo (2016), "2016: Global Esports Market Report"

Exhibit 8 Details on the eSports ecosystem

Publishers owned the intellectual property of titles. A limited number of publishers dominated the eSports market⁷⁷ and controlled the distribution of the titles.⁷⁸ The most prominent publishers included Riot Games (well-known hit(s): LoL), Activision Blizzard (World of Warcraft, Overwatch, Hearthstone), Valve (CSGO, DotA 2), EA (FIFA), and Konami (PES)^{79 80}.

The involvement of the publisher could be described with two contrary approaches by Riot and Valve.⁸¹ Riot was in control of every detail of its ecosystem, for example, and LoL's professional competitive landscape was operated almost entirely in-house. This model was advocated by the advantages of management efficiency and safeguarded integrity of the game. However, critics underlined the lack of transparency in terms of financial outcomes between Riot and the other stakeholders.⁸² In contrast, Valve had given the power, for instance, to run tournaments, to third party providers, a more *laissez-faire* approach. This led to some issues in terms of leadership and coherent problem-solving.⁸³

Titles were played by eSports **teams** (or clans). As the level of organizational professionalism of the teams increased - though there was some variation - the financial attractiveness, in terms of investment increased. For instance, sponsoring, merchandise and social media coverage rose in significance and increased the teams brand value. Moreover, eSports teams' obligations were much more about entertaining and engaging with their followers than the obligations of traditional sports teams.⁸⁴

Teams played each other in **leagues** and tournaments. Competitions were hosted by independent commercial enterprises that, unlike traditional sports, were not part of an association. ESports teams were free to choose in which and how many leagues and tournaments to participate. The exception was LoL's publisher Riot that allowed teams to participate in its league system only.⁸⁵ The two most important league bodies in the Western eSports scene were Major League Gaming (MLG) in the U.S. and the ESL in Germany. The finals of the leagues manifested in large stadium **events** around the globe, with festival-like atmosphere.⁸⁶ These entailed numerous revenue-making opportunities including, but not limited to, ticketing, merchandising, and sponsoring.

However, the main way to consume eSports was online. As such, one of the main reasons for the current growth of the eSports industry were the online **broadcasters**. The streams on their channels offered the opportunity for consumers to follow events worldwide and an opportunity for sponsors to reach more consumers. In the Western eSports world, the broadcasting market leader was twitch.tv. Founded in 2011⁸⁷, it showed all major titles and experienced a rapid increase in unique viewers. In 2015, twitch.tv claimed 43% market share of the total video game content industry worth roughly \$3.8 billion.⁸⁸ In addition, publishers and major leagues, such as MLG and ESL, streamed their content on twitch.tv.⁸⁹ Besides twitch.tv, YouTube Gaming was a prominent competitor, not only for streaming actual games but also for individual players to share content with their audiences.

Sponsoring and advertisement from **brands** was the most important revenue source with a share of approximately 40% of total eSports revenues⁹⁰ and further growth projected. The sponsoring scene included famous endemic and non-endemic companies such as Intel, Samsung, Logitech, Nissan, CocaCola, RedBull, Wüstenrot, BMW, and Daimler.^{91 92 93}

The end **consumers** of eSports games were forecasted to reach 380 million by 2018.⁹⁴ In terms of audience origin, 38% belonged to the Asia and 44% belonged to the West (Europe & North America) in 2016.⁹⁵ The average spend of an eSports enthusiast was \$3.64, which was significantly lower than spends by basketball or all sports fans, at \$15 and \$54, respectively.⁹⁶ By 2020, the revenue per eSports enthusiast was expected to increase to \$5.20⁹⁷.

[†] Endemic companies stem from similar industries as the eSports industry, non-endemic companies do not have any relatedness to the eSports industry

In Germany in 2016, there were 3.1 million eSports enthusiasts, 75% of whom were between the ages of in the 10 and 35.⁹⁸ A cross-country study among consumers revealed that typical football fans (without any interest in eSports) and eSports interested people^s were very different. For instance, the average age of football fans in the selected sample was between 42 (China/USA) and 45 (Japan), while the average age of people with an eSports interest was much lower, from 27 (China) to 37 (Japan/South Korea). This finding confirmed that eSports reached the younger age group so attractive and yet so elusive to football clubs. The study also found that an advanced percentage of the eSports interested people belonged to a higher education class than the typical football fan, highlighting the potential purchasing power of eSports interested people.⁹⁹

Source: Casewriters

Exhibit 9 Overview on recent developments on the FIFA market including the competitive landscape in Germany

In 2018, the FIWC would be modified and the event would be renamed to FIFA eWorld Cup^l. Overall, the initiators saw this new format as trigger for future growth of the FIFA market.¹⁰⁰ The changes would enlarge the overall size of the tournaments, thereby increasing the consumption possibilities of FIFA for fans. External partners and sponsors were enabled to be more visible. Despite the new promising tournament format, teams and players still saw potential for improvement in the overall FIFA tournament and event calendar.

In Germany, several tournaments existed. For instance, the Deutsche Fußball Liga (DFL), the governing body of the German football league hosted the Virtual Bundesliga. This tournament was open to everyone not just professional players. Further, it was an individual competition and not for teams.¹⁰¹ Rumors existed that the DFL would announce a professional FIFA league for the national clubs.¹⁰² In the German Bundesliga, VfL Wolfsburg, VfB Stuttgart or RB Leipzig ran their own teams in direct competition with FC Schalke 04.¹⁰³ Soon to join were Leverkusen, which had acquired a FIFA player, and other Bundesliga clubs like Hertha BSC Berlin, 1. FC Cologne, and Hamburger SV, that had announced plans for eSports engagement.¹⁰⁴

Source: Casewriters

Exhibit 10 Famous graduates of FC Schalke's football youth academy

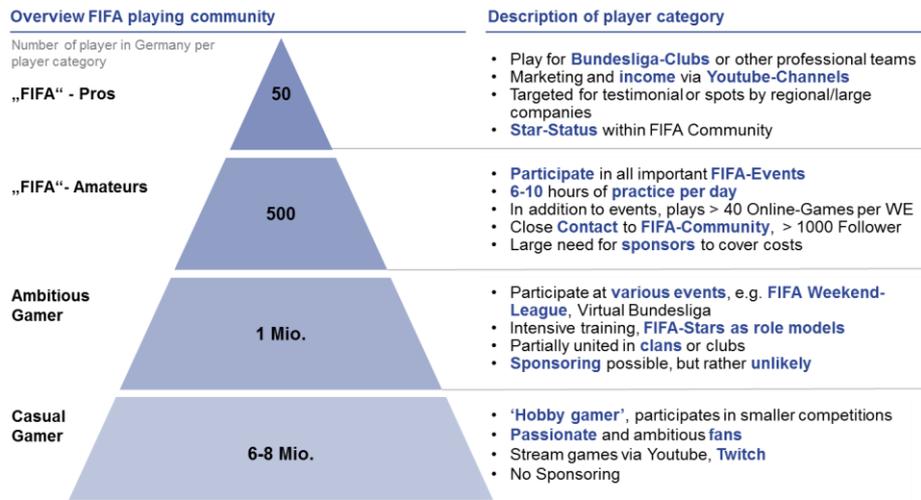
Player	Current club	With FC Schalke 04 until	Transfer income (€ million)	Current market value (€ million)
Manuel Neuer	Bayern Munich	07/2011	28.0	35.0
Julian Draxler	Paris St. Germain	08/2015	43.0	40.0
Joel Matip	FC Liverpool	07/2016	-	25.0
Leroy Sané	Manchester City	08/2016	50.0	75.0
Sead Kolasinac	FC Arsenal	07/2017	-	18.0
Benedikt Höwedes	Juventus Turin	08/2017	3.5 (loan)	15.0
Mesut Özil	FC Arsenal	01/2008	2.5	50.0
Leon Goretzka	Bayern Munich	07/2018	-	40.0
Max Meyer	FC Schalke 04			16.0

Source: transfermarkt.de, www.transfermarkt.de, accessed March 2018.

^s eSports interested people defined as people with any type of eSports consumption per week

^l In 2017, the FIWC entailed 32 spots and qualification was possible through the FIFA Ultimate Team (FUT) Champions competitions, open to everyone. In addition, the FUT Championship Series existed, which were seen as a second type of world cup. For 2018, EA and the Federation Internationale de Football Association announced the merger of FIWC and FUT Championship Series. Both would be replaced by the FIFA eWorld Cup (FeWC).

Exhibit 11 Overview of the FIFA playing community



Source: Casewriters

ENDNOTES

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