

MASTER
MANAGEMENT

Beyond the game : contributes to enhance the E-sports business model in Portugal

João Miguel Felgueiras Gomes

M

2023



F
A
C
U
L
D
A
D
E
D
E
E
C
O
N
O
M
I
A



Beyond the game: contributes to enhance the E-sports business model in Portugal

João Miguel Felgueiras Gomes

Dissertation
Master in Management

Supervised by

Maria de Belém da Conceição Ferreira Barbosa

José António Cardoso Moreira

2023

Acknowledgments

This report was realised with the support of several people, for whom my appreciation is indispensable.

Firstly, I would like to express my gratitude to my supervisors, Professor Belém Barbosa and Professor José Moreira. Their availability, accompaniment and counselling throughout this laborious journey proved to be fundamental to the outcome of this work. Without them, I certainly wouldn't be finishing this stage of my life in the same way.

I would also like to thank my family, especially my parents, brother, grandmother and godmother. Their unconditional support throughout all these years of my academic career has made me who I am today.

I would also like to say a word of thanks to my friends and colleagues from my master's programme. It was with their support that I spent all the good and bad moments of this stage of my life, and they were undoubtedly a support that I could always count on.

Abstract

This study investigates the financial viability of E-sports organizations in Portugal, exploring in depth the constantly evolving scenario of this emerging sector. With the exponential growth of E-sports around the world, the national context is not left out of this trend. However, understanding the specific financial challenges and opportunities that E-sports teams and organizations face in Portugal is essential for their sustainable development.

The research analyses the organizational structure of E-sports teams, their sources of revenue, operating costs and growth strategies. In addition, it investigates the influence of government regulation and sports institutions on the E-sports environment in Portugal. The diversification of revenue sources, including sponsorships, live events, merchandise and media content, emerges as a key strategy to ensure the financial stability of organizations.

Interviews were conducted with a variety of stakeholders in the sector to gather empirical validation of the industry's reality. The results reveal a challenging scenario, where E-sports organizations face rising costs, fierce competition for sponsorships and the need to attract investment. However, there are promising signs of growth, driven by the growing fan base and the increasing acceptance of E-sport as a legitimate form of entertainment and competition.

In summary, this report offers a comprehensive overview of the financial viability of E-sports organizations in Portugal, providing valuable insights for industry leaders, investors, regulators and enthusiasts interested in the future of E-sports in this ever-evolving country.

List of Contents

1. Introduction.....	1
1.1. Background	1
1.2. Research Gap	2
1.3. Research Problem.....	2
1.4. Research Objectives.....	3
1.5. Scope of the report.....	4
2. Literature Review.....	5
2.1. E-sports sector origin	5
2.2. E-sports growing popularity	6
2.3. E-sports vs. traditional sports.....	7
2.4. Challenges of the Industry	9
2.5. Current Revenue Model	12
2.6. Regulation in E-sports, comparing with regular sports	13
3. Methodology.....	16
3.1. Methodological Approach.....	16
3.2. Interview Script.....	16
3.3. Ethical principles	17
3.4. Participants	18
4. Results	19
4.1. Current state and evolution of E-sports in Portugal to date.....	19
4.2. Prospects for the future of E-sports in Portugal.....	20
4.3. The main challenges facing the E-sports sector in Portugal.....	22
4.4. Sources of revenue for E-sports organisations in Portugal	24
4.5. Financial situation of E-sports organisations in Portugal	25
4.6. Causes of financial difficulties for E-sports organisations in Portugal.....	26

4.7. Comparison between E-sports organisations in Portugal and international organisations in terms of financial health	28
4.8. Alternative sources of revenue for the future of E-sports organisations in Portugal	29
4.9. Adaptations of the traditional sports revenue model for E-sports.....	31
5. Conclusions	33
5.1. Main findings	33
5.2. Theoretical Contributions.....	33
5.3. Managerial Implications.....	34
5.4. Limitations and future research directions	35
6. References.....	37
7. Annexes.....	42

List of Tables

Table 1 – Characterization of the participants.....	18
---	----

1. Introduction

1.1. Background

In recent years, a remarkable phenomenon has taken the world by storm, captivating millions of enthusiastic fans and redefining the landscape of competitive sports. This revolutionary form of athletic competition, known as E-sports, has witnessed an unprecedented surge in popularity, establishing itself as a global industry with a fervent following (Cranmer *et al.*, 2020). It is possible to identify characteristics of traditional sports in E-sports, starting with the way they are presented to the public. The marketing and dissemination, the competition system and the preparation of professionals contribute towards the consolidation of E-sports as sports. This sector, which has as its largest share of both players and fans a young age group, between 17 and 25 years old, allows the viewer to follow the event in real time or through recordings. E-sports also extend to a variety of devices and platforms, from the smallest and most mobile personal phones to the largest consoles and computers (Zanchet de Lima *et al.*, 2022). As technology continues to advance and connectivity becomes more pervasive, E-sports has emerged as a cultural and economic force, revolutionizing the way we perceive and engage with sports.

The roots of E-sports can be traced back to the early days of arcade gaming and local LAN (Local Area Network) parties, where gamers would gather to compete against one another in multiplayer games. However, it was with the rise of online gaming platforms and the emergence of games like Starcraft, Counter-Strike, and Dota that the foundation for modern E-sports was laid. These games facilitated online matchmaking and competitive leagues, enabling players from around the world to engage in high-stakes tournaments and showcase their skills to a global audience (De Moor *et al.*, 2022). The industry has rapidly evolved from a niche market into a mainstream activity, with an estimated global audience of over 500 million people (Cranmer *et al.*, 2020). This growth has been driven by a number of factors, including advances in technology, the emergence of new games, and the increasing popularity of online streaming platforms such as Twitch and YouTube (Reitman *et al.*, 2020).

To understand the context of the e-sports sector, one must recognize the rapid progression of digital technology in recent decades (Peng *et al.*, 2020). With the advent of increasingly powerful computing systems, widespread internet connectivity, and the

emergence of online gaming platforms, a new realm of competitive gaming has emerged. E-sports, also referred to as electronic sports or competitive gaming, represents the organized and professionalized form of video game competitions, where skilled players compete against each other in various game titles.

Over the years, e-sports has witnessed an exponential rise in popularity, attracting substantial investments from major corporations, traditional sports teams, and media outlets. Prize pools for tournaments have skyrocketed, with some reaching multi-million dollar figures, further solidifying e-sports as a viable career option for professional gamers. E-sports events now fill arenas and stadiums, drawing massive crowds and generating substantial revenue through ticket sales, merchandise, sponsorships, and broadcasting rights (Pizzo *et al.*, 2021).

1.2. Research Gap

This growth has brought a number of challenges for those involved in the industry, from marketing and sports management to the financial issues facing the sector. With the growth of the industry and the emergence of associated problems, the trend is for the number of studies on the subject to grow. However, there is at present still much to be studied in the field of E-sports, and there is still a suitable revenue model to be defined.

1.3. Research Problem

Despite the growing popularity of E-sports, many organizations and teams struggle to generate revenue and remain profitable (De Moor *et al.*, 2022). As e-sports has grown, so too have the challenges facing the industry. One of the most significant issues is the financial problems associated with the sector. As competitive video gaming continues to captivate audiences worldwide, the economic viability of E-sports teams has become a subject of great interest. For many E-sports organizations, winning is the primary goal, and the focus is on building the best team possible rather than generating revenue. This approach is understandable given the competitive nature of E-sports, where success is often measured by the number of tournaments won and the strength of the team. However, this focus on winning can lead to financial challenges, as organizations may overspend on player salaries, travel expenses, and other costs associated with running a team.

While the focus on winning may be understandable, esports organizations and teams must also consider the financial aspects of the industry. A sustainable business model is essential for long-term success, and organizations must find ways to generate revenue while maintaining a competitive team. This may involve finding new revenue streams, such as merchandise sales or subscription services, or exploring partnerships with established companies to create new opportunities for revenue generation. In light of these challenges, it is clear that the E-sports industry is at a critical juncture. This issue overlaps with other possible focuses within the sector, because in a growing sector, the financial viability of the players should be different, and this could compromise the future of the industry itself in the medium and long term. The teams within this sector mostly live without generating profit, which in the long term is not sustainable.

1.4. Research Objectives

This report aims to understand the dynamics of this growing sector in the national context, through the valuable insights of different stakeholders involved in the sector.

To identify improvements in the current revenue model, it is a priority to first define it. To present a definition of the current revenue model it is essential to understand the underlying value chain of the E-sports sector. Associated activities are included in the E-sports value chain in addition to the main industry. These associated activities comprise peripheral elements in the sphere of the sector, such as team academies, merchandising and the venues where events take place. In supervising this chain, there are regulatory bodies (Wong & Lewis, 2022).

That being said, there is the lack of a clear revenue model. Unlike traditional sports, which generate revenue from ticket sales, broadcast rights, and merchandise (Kim *et al.*, 2020), E-sports has yet to establish a consistent revenue model (De Moor *et al.*, 2022). Many organizations rely on sponsorship deals and advertising to generate revenue (Kim & Kim, 2022), but these sources of income can be unpredictable and subject to market fluctuations.

E-sports are still a relatively new market, and there is no established infrastructure or governing body to ensure that organizations and teams are treated fairly. This can lead to situations where teams are forced to compete for prize money in tournaments, with little or no support from the organizers. The infrastructure, technology, and amenity

requirements for hosting e-sports events must be met, including stadiums, computers, consoles, connections, and large-screen monitors. As a result, E-sport organizations are essential to the hosting of e-sport events because they assume responsibility for upgrading the facilities and infrastructure to meet the requirements for hosting e-sports events and luring tourists. Government involvement is crucial to the success of e-sports events because it affects the funding allocated for tourist development and the influence of IT infrastructure and technology (Kim *et al.*, 2020).

1.5. Scope of the report

This report follows a curricular internship at Betclic Apogee, a Portuguese E-sports team. During this internship I was able to work directly with the people in the organization who make the strategic decisions. The vision and definition of the team's objectives were the main points focussed on during this course. With this in mind, it was possible to be in contact with the various departments of the organisation, namely the sports side and the marketing and social media side. By having the opportunity to get to know all these players in the organisation's performance, it was possible to get a very broad view of the challenges facing E-sports organisations in Portugal.

2. Literature Review

2.1. E-sports sector origin

The origin of the E-sports sector took place at the end of the 20th century, accompanied by trends in the development of the society as a whole, with a special focus on technology-centred globalisation. Jonasson & Thiborg (2010) mention that the origin of E-sports is closely tied to the emergence of the worldwide web in 1989 and the advancements in software and hardware technologies with multiplayer capabilities in the early 1990s. Also Zanchet de Lima *et al.* (2022) said that the origin of e-Sports is deeply dependent on the launch of the World Wide Web (www) in 1989 and the early 1990s, with network and multiplayer software and hardware technologies. In the early 1990s, the history of E-sports began and became increasingly known during this period. Medeiros, & Sayeg (2022) also concluded that the advancement of E-sports is closely linked to the progress of the internet itself. Jonasson & Thiborg (2010) note that E-sports gained popularity during the last 15 years, with the number of players significantly increasing. The most popular genres within E-sports are first-person shooter (FPS), real-time strategy (RTS), and sports games. E-sports competitions revolve around defeating opponents, either by destroying them or achieving goals, such as racing or scoring. These competitions take place over the internet or through Local Area Networks (LAN), with LAN events being the most prestigious. Successful E-sports participants can earn money and even make a living from it. The economic opportunities within E-sports incentivize players to invest countless hours in training and competing. Internet communities provide platforms for players to train against each other using systems like Ladder, where winners move up while losers move down. The E-sports scene includes players, organizers, competitions, and communities worldwide.

The definition of what is or is not considered E-sports generates divergent opinions in the literature. Lu (2017) mentioned that competitive player-versus-player gaming traces its roots back to the late 1970s when arcade and console games gained popularity in Japan and the USA. In their turn, Medeiros & Sayeg (2022) say that the arcade platform allowed for the first E-sports competitions, such as the World Video Game Championship in 1983.

However, despite these differences, it is important to define the basic elements of this recent sector. Reitman *et al.* (2020) view E-sports consumption as a complex assemblage of practices involving playing, watching, and governing E-sports.

2.2. E-sports growing popularity

Over the decades and with the advance of technology, the sector has developed exponentially. Abanazir (2018) highlights the differences between historical events involving game consoles and recent developments in E-sports. The increased computer literacy, connectivity, and streaming capabilities have led to a rise in E-sports' popularity, attracting more spectators, professional players, and financial opportunities. Lu (2017) mentions that the emergence of affordable personal computers (PCs) in the mid-1990s, coupled with the rapid growth of the internet, led to PC games replacing arcade and console games as the preferred platform for competitive gaming.

The first professional teams also began to emerge, who noticed potential in the area. According to Lu (2017), over time, more video game companies began using gaming competitions as a means to promote their products, leading to the rise of both arcade and home console competitions with sponsors, audiences, and media coverage becoming increasingly common. Medeiros & Sayeg (2022) mention that the professionalization of E-sports began in the early 2000s, with well-organized competitions and increasing prize pools, turning players into celebrities. The growth of E-sports accelerated in 2011 with the establishment of the social network Twitch TV, which enabled live broadcasts of matches and training sessions, contributing to players' earnings. The mere existence of professional leagues for clubs to compete in is a significant step forward. Lefebvre *et al.* (2020) wrote about the competitive advantages that can be achieved through of E-sports divisions within clubs. As a consequence, the number of professional players and the prizes increase: Kim *et al.* (2020) state that the presence of a large player base and substantial prize pools indicates the rapid growth of E-sports.

E-sports as a form of entertainment has also been an important driver for the sector's growth into a worldwide phenomenon. Reitman *et al.* (2020) state that the emergence of platforms like Twitch and YouTube has allowed streamers to serve as players, performers, and entertainers, further blurring the lines between sports and entertainment. Kim *et al.* (2020) state that E-sports has gained significant popularity in recent years, rivalling traditional sports events in terms of viewership and revenue.

Today, there is a varied group of parties involved in the sector that contribute to its growth and diversification. Wong & Meng-Lewis (2022) mention that E-sports is influenced and shaped by its diverse stakeholders, and their interactions may transform the dynamics of the industry.

Despite being recent, the E-sports sector presents very relevant figures. Pizzo *et al.* (2022) state that the E-sports industry has a massive global audience, with projected revenues surpassing \$3 billion in 2022. Newman *et al.* (2022) state that since 2014, investments in the industry have been increasing rapidly, with a compound annual growth rate of 103.1% from 2014 to 2018. The total yearly investments rose from \$490 million in 2017 to \$4.5 billion in 2018. Finally, venture capital investments in E-sports companies have shown an average year-to-year growth rate of over 100% from 2013 to 2018.

2.3. E-sports vs. traditional sports

The definition of E-sports and its inclusion in the sports sector is highlighted in the literature. To better understand these aspects, it is first necessary to point out the main characteristics of both and prove that they are aligned in determining the main factors. Vera (2016) studied the defining characteristics of E-sports, including formal organization, rules and playfield, capital investment, and media coverage and concluded that E-sports incorporate elements of traditional sports spectacles while introducing unique features, thereby creating a distinct form of entertainment within the video game industry. Lu *et al.* (2022) agree that E-sports not only challenges the mind but also integrates physical exercise. It improves participants' responsiveness, thinking ability, teamwork, and stress resistance while enabling them to pursue their ideals and values. Kim *et al.* (2020) mention the significant viewership and revenue generated by e-sports events, comparing the viewership numbers to that of major sporting events like the Super Bowl.

On the other side, traditional sports have distinctive characteristics from all other areas, and which have made it one of the most captivating forms of entertainment and competition over the centuries. According to Jonasson and Thiborg (2010), sport, in its various forms, has always played a significant role in cultures, particularly modern competitive sport. The emergence of modern competitive sport is connected to the civilizing process. Modern sport is defined as a physical, competitive, and institutionalized activity, characterized by standardized rules and a scientific worldview, as well as notions of fair play and equal opportunity. It is considered beneficial for physical and mental health,

social integration, and the internalization of societal values. However, deviant behaviour such as doping and cheating exists within sport. Despite this, sport is generally seen as a positive contributor to society and is financially supported by the state and adults. Computer gaming, a popular activity among youth, challenges the traditional view of sport. It is not fully accepted or encouraged by adults, and there is often a negative perception of its effects, including addiction and social isolation. The sport analogy may serve to counter the negative rhetoric surrounding computer gaming. These authors consider three potential future outcomes for the sector, regarding the comparison with traditional sports: 1) E-sports as a counterculture or alternative to modern sport, 2) E-sports being accepted and integrated into the hegemony of sport, and 3) E-sports becoming the dominant sport of the future.

Also Heere (2017) argues that regardless of whether E-sports can be considered traditional sports, they should be studied within the field of sport management because they represent a phenomenon known as “sportification”. “Sportification” refers to the process of either: (a) perceiving, organizing, or regulating a non-sport activity in a way that makes it resemble a sport, providing a fair, enjoyable, and safe environment for individuals to compete, cooperate, and compare their performances with others, as well as with past and future performances; or (b) incorporating elements of sport into an existing activity to make it more appealing to its audience.

Zanchet de Lima *et al.* (2022) mention that many traits of traditional sports can be observed in E-sports, especially after the implementation of the concept of spectacle. Whether through media formats, combat structures, scoring systems, produced narratives, or the composition of professionals, this characteristic construction oriented towards e-Sports is important for their consolidation as a sport. Kim *et al.* (2020) emphasize that the only difference between traditional sports and E-sports lies in the level of interest and the rate of growth of the games.

Llorens (2017) focuses on athletes and says that the recognition of gamers as elite sportspeople has significant implications for labour law and public policy implementation. Professional gamers are employed by clubs, supervised by managers, receive regular training, and are paid a salary. If E-sports is acknowledged as a sport by the relevant authorities in each state, gamers could be considered professional sportspeople.

The acceptance of E-sports as a traditional sport globally is a long and difficult process that has been the focus of stakeholders, with constant innovation and growing awareness

2.4. Challenges of the Industry

As the E-sports industry continues to flourish, it faces a unique set of challenges that demand attention with a particular focus on the revenue model and the institutionalization process.

One of the most pressing challenges for E-sports lies in establishing a sustainable and profitable revenue model. Unlike traditional sports, which have well-defined revenue streams such as ticket sales, broadcasting rights, and sponsorships, E-sports grapple with finding the most effective monetization strategies. The digital nature of E-sports presents both opportunities and hurdles in generating revenue. Lefebvre *et al.* (2020) states the need for the sector to develop a genuine E-sports identity, allocate resources effectively, and design new business models. The authors emphasize the need for clubs to adapt their strategies in the rapidly changing E-sports landscape and highlight the importance of measuring the success and profitability of E-sports divisions. Newman *et al.* (2022) consider that it remains to be seen whether E-sports revenues will match the level of investor spending. The growth rate of revenues is significantly lower compared to the growth rate of spending. This suggests that expenses are outpacing revenues in the E-sports industry. It also indicates a high level of risk associated with E-sports investments. The authors emphasize that the narratives surrounding E-sports investments help investors make sense of limited data and an uncertain future. Investors tend to invest with the spread of narrative rather than against it, and media coverage plays a significant role in shaping investment decisions. These narratives make them overlook the unique proprietary structures of competitive gaming and the differences in revenue generation between E-sports and traditional sports. Scelles *et al.* (2021) highlight the need for economic cooperation between competitors in E-sports and draws parallels with the concept of "coopetition" in the sports industry.

There has been discussion in the literature about sponsoring E-sports, concerning its main benefits and the aspects that may concern companies when evaluating the investment. Freitas *et al.* (2020) consider that sponsoring E-sports offers benefits such as increased brand awareness and higher sales. The authors affirm that understanding the E-

sports industry, and aligning with the fan-base's preferences are crucial for maximizing these benefits. Aghey (2020) raises two main concerns regarding integration. The first is social responsibility, emphasizing the need for E-sports to promote positive values and healthy habits. The negative stigma associated with gaming disorders should be countered by emphasizing healthy lifestyles and physical activities. Partnerships between E-sports and organizations like the World Health Organization can help promote these values. The second concern is the environment, suggesting that minimizing the number of electronic devices through cloud gaming services can be more environmentally friendly. Cloud gaming is seen as a disruptive invention that can dematerialize gaming and reduce the reliance on physical devices.

Moreover, the institutionalization of E-sports is another significant challenge that requires careful consideration. Institutionalization involves establishing standardized rules, regulations, and governance structures to ensure fair competition, protect the rights of players, and maintain the integrity of the sport. Wong & Meng-Lewis (2022) raise concerns about the fragmented governance of the industry. Heidenreich *et al.* (2022) mention that unlike traditional sports, where non-profit associations administer and develop the sport, E-sports publishers, as for-profit corporations, control the virtual environment, game rules, and possess exclusive property rights. This being said, publishers play a fundamental role in the sector's institutionalisation process. Peng *et al.* (2020) states that the stability of the E-sports industry is lower compared to others due to constant updates, changes, and elimination of games by publishers. Publishers use licensing agreements to create a governance framework and ensure compliance with their interests by stakeholders such as tournament organizers. The authors also mention that game publishers are companies that finance the design, development, marketing, and distribution of video games, making them the ultimate owners of the games' intellectual property. Each E-sports game is governed by its publisher, and different publishers have their own governance approaches, resulting in a fragmented governance network. Aghey (2020) highlights the importance of maintaining a proper balance between the interests of publishers and international federations in the booming E-sports industry. While publishers prioritize private interests, they should also consider public considerations. Other authors have also mentioned the comparison between E-sports and traditional sports with regard to these challenges. Medeiros & Sayeg (2022) talked about the similarities between the traditional sports and E-sports allow for the application of existing legislation to E-sports until specific regulations are introduced.

However, a new concept of work that incorporates ethical and sustainable principles is needed to address the unique dynamics between sports entities and cyber athletes. It is crucial for this perspective to inform the ongoing political debates surrounding the regulation of E-sports.

With all these similarities, there is a growing presence of sports entities in the E-sports sector. Freeman & Wohn (2019) mention that E-sports has prompted sports organizations to adapt and position themselves to tap into this growing market. Despite the stigmas surrounding video gaming culture, many sports entities are embracing E-sports as a means of engaging young, tech-savvy audiences. Also Lefebvre *et al.* (2020) discuss the growing interest of professional football clubs and sports organizations in the E-sports market. It highlights the rapid increase in the number of clubs involved in esports Pizzo *et al.* (2022) note that professional sport organizations are grappling with the challenges of organizational maturity and are adopting digital innovations and diversifying into new industries. E-sports, organized video game tournaments and competitions, have gained significant traction in the sports industry. Many professional sports organizations have established their E-sports leagues and acquired E-sports teams. This diversification into E-sports allows them to tap into the growing E-sports industry and connect with its large spectator base. The authors refer that professional sport organizations possess versatile resources and experience-based tacit knowledge that enable them to effectively manage and monetize their investments in the E-sports industry. Aghey (2020) mentions that aligning E-sports with existing sports structures, such as sports federations, can facilitate reaching wider audiences and provide familiarity to fans. This contact is also valuable for sport institutions since E-sports represent a market resistant to unexpected phenomena that can constrain the activities of normal clubs, given its inclusion in the globalisation and connection with technology. Kim *et al.* (2020) notes that traditional sports brands are investing in E-sports, particularly due to the COVID-19 pandemic's impact on traditional sports. It is also emphasized the importance of creating official e E-sports organizations, developing e-sports venues, and integrating E-sports as a legitimate sport to foster growth and revenue.

However, some authors refer that there is little concrete information that allows making relevant advances in this area. Kim *et al.* (2020) emphasize the need for quantitative analysis to demonstrate the economic profitability and sustainability of hosting E-sports events. Also Crammer *et al.* (2020) mention that the lack of comprehensive research across

different domains has impeded the understanding, definition, classification, and realization of E-sports' business potential, thereby hindering industry growth.

2.5. Current Revenue Model

To define the current revenue model for the sector, it is important to first understand which stakeholders are present in the sector and what their importance is. Kim & Kim (2022) mention the various stakeholders in the E-sports ecosystem, including athletes, teams, media institutions, sponsors, and IP (intellectual property) holders. The authors state that sponsorships and media rights are the primary sources of revenue in the global E-sports industry, accounting for three-quarters of the total market in 2020. Peng *et al.* (2020) focus on identifying key stakeholders, understanding the current governance framework, and examining how stakeholders influence E-sports governance. Aghey (2020) lists the primary stakeholders in the E-sports industry that include game publishers, tournament organizers, professional teams, players, and communities. Secondary stakeholders consist of governing bodies, sports organizations, the general public, investors, media, entrepreneurs, and shareholders.

Following this point, some authors define a list of revenue channels, and their respective weight in the sector's economy. Newman *et al.* (2022) list various revenue streams that contribute to the industry, such as streaming and broadcasting rights fees, merchandising, ticket sales, sponsorships, video game sales, micro transactions, and crowd sourced prize pools. Kim *et al.* (2020) discuss the revenue sources and growth in the E-sports industry. In traditional sports, teams generate revenue through ticket sales, media rights, advertising, and sponsorships. However, in E-sports, teams primarily rely on winning tournaments, sponsorships, and advertising for revenue. This revenue model can be unstable, emphasizing the importance of brand growth. Kim *et al.* (2020) state that more than half of the revenues come from marketing, but it is anticipated that revenue streams will expand to include media rights, merchandizing, and ticket sales. The authors explain the revenue sources for E-sports teams, which differ from traditional sports. In E-sports, teams generate revenue through winning tournaments, sponsorships, and advertising.

Among these sources, there is a clear emphasis in the literature for sponsorship. Scelles *et al.* (2021) emphasize the dominance of sponsorship and advertising in E-sports and the need for diversification of revenue streams. The authors also suggest that exploring digital and streaming revenues can contribute to a more balanced financial model for E-

sports teams. Cuesta-Valino *et al.* (2022) discuss the effectiveness of sports sponsorship in the context of E-sports. Sports sponsorship is seen as a long-term investment that helps build relationships between brands and buyers. With the growing audience of E-sports, sports sponsorship provides an opportunity to gain the trust of buyers and create brand interactions. The digital nature of E-sports allows for widespread access to potential consumers, providing a platform to convey brand messages and enhance buyer relationships. Freitas *et al.* (2020) mention that sponsoring E-sports can improve brand image, but various elements can influence the extent of the benefit or damage. Validity, relevancy, coolness, and rejuvenation are the main elements of brand image that can be enhanced through successful E-sports sponsorship.

2.6. Regulation in E-sports, comparing with regular sports

Although E-sports represent a growing sector with great potential, there are problems to be addressed, and one of the most referenced in the literature is the lack of regulation in the sector. This process may be defined as the institutionalization of E-sports. Kim *et al.* (2020) refers to institutionalization as the process of regulating and standardizing sports once they reach a certain size. This standardization involves the establishment of specific rules that all participants accept as valid. Abanazir (2018) specifically explores the institutionalization aspect of sport and compares it to the processes found in modern sports. It mentions the absence of a centralized governing body for E-sports, as various organizations, video game publishers, and licensors organize tournaments. The production and governance processes of E-sports and modern sports are discussed, along with their consequences for institutionalization. He concludes that due to the differences between E-sports and modern sports, achieving a clear judgment on the institutionalization of E-sports as an element of sport may take more time. The author explores the organizational structures and rule-making processes in modern sports and E-sports. In modern sports, international sports federations are responsible for creating and maintaining the rules of the game, while also organizing tournaments. Examples such as FIBA for basketball and NBA for professional basketball in North America are given to illustrate this. On the other hand, E-sports rely on the video game developers as rule-makers, with the source of the game being the code and audiovisual representations. Publishers often have control over the product, and in some cases, they act as both the developer and the publisher. Unlike modern sports, there is no centralized governing body in E-sports, and tournaments are

organized by various entities, including publishers, licensors, and third parties. It is also discussed the role of licenses and sanctions in tournament organization, as well as the influence of private enterprises and government support. The interconnection of video game publishers, licensors, licensees, and third parties is highlighted, indicating the presence of multiple interest groups shaping the practice of E-sports. The author also raises questions about the degree of stability and institutionalization in E-sports, with differing viewpoints on what constitutes enough institutionalization. The nature of the source in E-sports, being the video game itself, further complicates the matter. Peng *et al.* (2020) highlight the lack of a formal and durable governance structure in E-sports and the challenges it faces. which can, among other things, contribute to the existence of integrity-eroding activities such as cheating, match-fixing, and illegal gambling. Kim *et al.* (2020) report that when a sport reaches a certain size, regulations are implemented to establish a set of rules accepted by all participants. These rules are often based on community practices, but tournaments operationalize them and ensure compliance. Jonasson and Thiborg (2010) suggest that E-sports is undergoing rapid changes towards “sportification” by adopting the qualities of modern sport. While institutionalization is considered a characteristic of sport in the literature, there are challenges in quantifying, measuring, and establishing a threshold for institutionalization. Furthermore, the production processes and tournament structures of video games differ from those of traditional sports, necessitating a different perspective in analyzing whether E-sports qualifies as a sport.

This process is time consuming and depends on entities outside the sector, namely the government. Kim *et al.* (2020) note that government support and investment contribute to the success of E-sports events. However, there is a lack of understanding and support from authorities in some cases. The authors present various factors contributing to a country's success in hosting successful E-sports events, including the influence of governing forces and the country's GDP. Rather than solely relying on increasing GDP, countries should prioritize integrating E-sports as a legitimate sport, similar to traditional sports like football or soccer, to attract a larger audience and drive future revenue and growth. With technology advancing, E-sports has the potential to become a major sport, prompting cities and countries to invest in the industry. The literature also describes cases where this process is being done. Llorens (2017) describes two international associations, the IeSF and the WESA, exist in E-sports. The IeSF follows the federation model, while the WESA operates as an employers' association. Except for South Korea, where E-sports

are popular and the IeSF is headquartered, there are no national associations yet. National recognition by competent bodies is required for these associations to become actual federations. The IeSF and WESA, although considered private associations, have potential implications for the future of E-sports. The WESA, in particular, is partnered with major event organizer ESL and prominent teams like Fnatic and Ninjas in Pyjamas. Teams within WESA must sign exclusive contracts, committing to participate solely in ESL competitions. Aghey (2020) suggests that the successful integration of E-sports in international federations requires collaboration between three parties: an E-sports department, a legal department, and the publisher's competitive gaming department.

3. Methodology

3.1. Methodological Approach

The main objective of this report is to specify the measures that can improve the revenue model of E-sports organizations in Portugal. To this end, this work includes an exploratory study, which, given the problem in question, leads us to consider a qualitative study methodology strategy, in the form of a semi-structured interview. Qualitative research is a technique that emphasizes words rather than the quantification of data collection and analysis, and its research is largely inductive, constructive and interpretive. In this research, the natural environment is the direct source of data, with the researcher being the main instrument (Bryman, 2012). Qualitative research is descriptive and qualitative researchers are more interested in the process than simply the results. Qualitative researchers tend to analyze their data inductively, with its meaning being of vital importance (Bryman, 2012). This methodology is suitable for the subject as it is a new topic without much literature.

Given the context and purposes of this report, and as we mentioned above, we have chosen to adopt a semi-structured interview approach. In this type of research, we do not formulate specific hypotheses. The interviewer uses a set of broad guiding questions as a starting point and asks these questions during the conversation as the opportunity presents itself, not necessarily following the predefined sequence in the script. This structure is advantageous for the topic in question, as it allows the interviewer to ask additional questions when the information provided by the interviewee so requires.

3.2. Interview Script

The semi-structured interview script (see Annex A) was drawn up by the researcher and is divided into three parts: the first with the characteristics of the interviewee, the second about E-sports in Portugal, and another about the financial side of the sector. The questions that make up the interview were drawn up on the basis of the literature review, taking into account the content that was to be explored and analyzed. For the interview to

be successful, the interviewer must be fully familiar with the script, trying to know everything inside out (Bryman, 2012). The aim is to be flexible enough to make the interviewee feel comfortable so that they can provide answers with as much content as possible (Bryman, 2006).

3.3. Ethical principles

Discussions about ethical principles in social research usually focus on recurring issues that apply in a variety of contexts. Harm to participants, lack of informed consent, invasion of privacy and deception are four areas that constitute a useful classification of ethical principles in social research (Bryman, 2012).

Research that may harm participants, either physically or psychologically, both participants and researchers, is considered unacceptable. Concern about harm to participants is also addressed in codes of ethics, emphasizing the importance of maintaining the confidentiality of individuals' information. This means that participants' identities and records must be kept anonymous, so that neither the researcher nor the reader of the research report can identify them.

Moving on to the issue of lack of informed consent, this is often considered the most debated ethical principle in social research. This principle means that prospective research participants must be given all the information they need to make an informed decision about their participation in the study. Research must be based on the free and informed consent of individuals. In voluntary interviews, participants should not feel that they are being pressured to take part. They should be aware of their right to refuse participation at any stage, for any reason, and to withdraw the information they have provided.

The third ethical principle, invasion of privacy, concerns the degree to which invasions of privacy can be tolerated. This principle presents challenges in qualitative research, as it is easier to keep records anonymous in quantitative research, so as not to identify individuals.

The fourth and final ethical principle is deception. Deception occurs when researchers present their work differently from what it really is. The ethical objections to

deception revolve around two situations: firstly, it is unethical; secondly, there are concerns about professional self-interest. Deception is often used sparingly in social research. Researchers often seek to limit participants' understanding of the nature of the research in order to elicit more natural responses while retaining full information about the purpose of the interview (Bryman, 2012).

3.4. Participants

The universe of this report is all the stakeholders in the E-sports sector. It was not possible to cover all the stakeholders, and given the time and limitations that exist, an attempt was made to diversify as much as possible within the sector. The first participants were contacted directly, and the rest through contacts provided by the former. The sample is diverse in terms of academic background, from secondary school to doctorate level. In terms of functions there is also great diversity, namely the top management of the CEO and general manager, the marketing department of an organization, the organization of events, and the legal and regulatory part of a federation. In terms of age, the sample is not so variable. This is due to the characteristics of the sector studied, which, being recent and extremely digital, appeals mainly to a younger generation.

Table 1 Characterisation of the participants

Characterisation of the participants			
Interview	Age	Education	Current position and duties
Interview 1	25	Highscholl	Event Organiser
Interview 2	33	Bachelor	Marketing Diretor
Interview 3	31	Bachelor	CEO
Interview 4	29	Bachelor	CEO
Interview 5	33	Bachelor	E-sports Coordinator in a Federation
Interview 6	29	PhD	E-sports general manager

4. Results

This chapter presents and discusses the results of the study presented in the previous section, which comprises 6 interviews. This analysis takes into account the literature review previously carried out and aims to provide answers to the objectives initially defined, which include realising how the revenue model is constituted, and, as this is a recent and expanding sector, understanding the possible paths to be taken in the future of the sector. After transcribing and analysing all the interviews, it was possible to analyse points of convergence and divergence between the various interviewees, as shown in the next sections.

4.1. Current state and evolution of E-sports in Portugal to date

Although there is no extensive literature on the sector in Portugal, the evolution of the sector is partly similar to the rest of the global panorama, since technological development allows new sources of income to emerge over time and existing ones to develop (Cranmer *et al.*, 2020; Abanazir (2018); Lu (2017)). In addition, the perception of E-sports and its separation from gaming means that practitioners, the public and regulators are increasing in number and making the sector's community grow.

Among those interviewed, the growth of the sector and the professionalization of E-sports in Portugal in recent years is virtually unanimous. This was described in great detail by several interviewees, as the following passages demonstrate.

I1 (interviewee 1) mentions that *"between 2016 and 2018 there was growth, but it was slow. The events were done for the public, events where sometimes there were one or two people working professionally and the rest were people receiving very little money or even people who were there for the love of the cause and dedication to the sector."* I2 agrees that the sector is in a phase of positive evolution in Portugal and mentions the growing demand from younger people in terms of careers. I6 shares the opinion of the recent growth of the sector at national level, and recalls its small size before this recent expansion: *"the prize pools within what were sports simulation video games or even first-person shooters were quite small and fundamentally our history 3 to 4 years ago was governed by*

Ricardo Fox Pacheco¹. *Little more than that. Since then there has been an interesting growth, I would say, within what is the E-sports panorama in Portugal*".

As part of the sector's development, I3 stresses the importance of growing public awareness: *"I think there's more and more awareness of what E-sports are and it's a topic that's been put on the table more"* and I5 reveals that the awareness of society as a whole makes more entities from various areas (regulators, organisers, sponsors) interested and involved in the sector: *"nowadays we have clubs like Sporting Club Portugal, Sporting Clube de Lisboa e Benfica, Futebol Clube do Porto, Sporting Clube Braga, but we also have other clubs linked to the area, more to the area of sports", "since 2017, the Football Federation has been involved in this sport, and what has been done since then is the creation of this ecosystem, with competitions, with initiatives, with a clear focus on what are also fundamental areas for the growth of a sport, such as the issue of health, as well as the sharing of knowledge for players and organisations, and this has also brought us to 2013, to 2023, with a very strong ecosystem and very similar to what happens in sports such as football, futsal, beach football"*.²

Despite the mostly positive evolution, I4 focuses on one particular financial aspect of sports simulation E-sports, players' salaries, as a negative consequence of the enthusiasm that this growth has caused in the industry *"There is still some inflation of salaries, there is still sometimes a bit of a dream that E-sports are more than what they are in Portugal"*.

These comments are in line with the literature on the growth of the sector (Kim *et al.* (2020); Reitman *et al.* (2020)).

4.2. Prospects for the future of E-sports in Portugal

The literature looks to the future of E-sports with confidence, because despite being a recent market it already has huge numbers that compete with historically established sports (Pizzo *et al.* (2022); Newman *et al.* (2022)). The interviewees of the current study focus on certain stakeholders as key to the sustainable development of the sector. Regulatory bodies, streaming platforms and other media, and the state itself will play a fundamental role in shaping the future of the E-sports sector. I1 mentions the talent that exists in Portugal, but says that the conditions are not in place for this talent

¹ Ricardo Fox Pacheco is considered to be the greatest CS:GO player ever in Portugal

² There are now E-sports clubs that play under the names of traditional sports clubs

to thrive, which means that it ends up being lost abroad *"because the truth is that the talent we have had, whether it's sports talent or the talent behind the server, talent like managers, coaches, producers, tournament organisers, the reality is that they go abroad because the Portuguese market doesn't allow them to evolve and doesn't allow them to stabilise their lives the way they want to."* I6 also stresses this point, reinforcing the lack of structure in E-sports organisations in Portugal *"There are very few E-sports teams in Portugal that have structure, and when I'm talking about structure I'm talking about financial viability, so that, point number one, you can keep the talent here, and point number two, you have the strength and plans to be able to anticipate what the future is. "*

In addition to human resources, investment is a point raised by the interviewees, or in this case, the lack of investment. I2 talks about the causal relationship between professionalization in the sector and increased competition: *"This will also increase competition, naturally, and also because more and more players in E-sports, in particular, are starting to have a successful career, let's put it that way, for those who succeed. In this sense, it seems clear to me that there will have to be greater investment in Portugal."* I3 reinforces this point by mentioning the importance of new agents and stakeholders entering the national scene *"But I think a lot remains to be done so that we can effectively gather more resources, both private and government players."*

The third aspect highlighted by the interviewees in relation to the future growth of the sector is the definition of a regulatory framework, because without its existence, there is no competitive organisation. In this respect, sports federations are extremely important. I3 emphasised this: *"I think it will depend a lot on the regulatory framework that exists in this regard, which at the moment is still very absent. There are, for example, two federative projects to try to become federations in Portugal, which will be FEPODL and FPDE, neither of which has been very successful yet. So the organisations, I think they have some competitive viability to study, because sports organisations exist in the most varied forms."...* *"I think there is still a lot of work to be done, mainly dictated by this framework. As long as there aren't these conditions that protect the clubs, ok, that make the clubs have a say, the market is going to be weakened, because if we, the organisations, have the responsibilities, the missions of making money, etc., and then the onus is still very much on the players and there's very little regulation, the Tournament Organisers and the players, the people have more of a say these days in E-sports, and the resources are highly concentrated (...)" ... "changes are still needed in E-sports.)"*... *"significant changes are still needed, especially on the legal front, to enable the government, institutions and brands to put more money into the clubs"*. I5 also mentions this point, exemplifying the case of

sports simulators, one of the major branches of E-sports, and how partnerships and initiatives with the federations of the respective sports can have a significant impact on the development of the sector: *"if we apply this ecosystem that the Portuguese Football Federation (FPF) has created, the truth is that other sports also ended up benefiting a lot from the commitment of other entities, not the FPF, which in fact only organises virtual football competitions, but we had the entry of RTP, with its RTP project still broadcasting many competitions, this gave more visibility to E-sports"*.

In short, the interviewees foresee a path of success for the sector, in line with what has been happening in recent years, as evidenced by I5 *"we believe that this path of success and evolution that has been traced in recent years will continue and we will have more and more players taking part, more and more people watching the competitions and also more brands joining this sport and this sector."* This way of looking to the future supports the literature, which considers that the future of E-sports will be one of growth, with competitive organisation (Lefebvre *et al.* (2020)), the continued development of digital platforms (Reitman *et al.* (2020)), and the growing participation of various stakeholders in the dynamics of the sector (Wong & Meng-Lewis (2022)).

4.3. The main challenges facing the E-sports sector in Portugal

E-sports, being a recent and constantly developing sector, present a wide variety of challenges of their own. Previous authors have highlighted some of these challenges. Lefebvre *et al.* (2020) emphasised the need to develop an identity for the sector as a whole. Scelles *et al.* (2021) also pointed to co-operation in the sector, referred to as "coopetition", as being important for the sector's stakeholders to address. E-sports regulation and governance are also challenges that are very much present in the literature (Wong & Meng-Lewis (2022); Heidenreich *et al.* (2022); Peng *et al.* (2020); Medeiros & Sayeg (2022)).

The interviewees mentioned challenges in all these areas, touching on some common points and interpreting other challenges differently.

The identity of the sector was underlined by I4, who highlighted converting fans as a major challenge for the sector: *"It's a bit like evangelising fans, in other words, really fervent fans, like in football, who will follow the teams, the events. I think that's the main challenge, because I think E-sports have a challenge of converting fans to the brand that sponsors them. E-sports teams have this challenge a lot. E-sports fans don't convert well in terms of monetisation and I think this is the main challenge."* I3 also emphasises the need for unity among stakeholders, mentioning the lack of a respected federation: *"there is this figure of an effectively strong federation that people in the market*

respect, which is primarily what is missing. If there's no one working to defend the interests of E-sports in general, without any club insignia, and if this work isn't done with state organisations, etc., we're always going to have fewer chances."

Instability was also a point of agreement among the interviewees when it came to the challenges of E-sports. I1 mentions that the characteristics of the country, whether geographical, social or economic, are something that affects the development of the sector: "Portugal is a country of 10 or 11 million inhabitants, I don't even know how many we have at the moment. Let's compare that with some cities in the rest of Europe, we have almost less than certain cities, so obviously the market we have is much smaller. The market being smaller also means that there are fewer opportunities for brands and less investment" and compares the consequences of these variables with traditional sport. If a player wants to be the best, he has to leave the country to be in the most competitive environment possible. This outflux of players increases the turnover of players in teams, which in itself brings constraints. I5 speaks of the same when he says "Many of these clubs also depend on other activities and so it's also an expectation, it's always a challenge that we have, we don't have a clear, we don't have a certainty in terms of betting on clubs and even players, as there are other *sports, but in football or futsal or basketball and so on we always know almost with certainty 99% of the clubs that are going to participate in the season yes and we, in the case of sports, we don't have that certainty, so that always brings some doubts here in the market as well*". I6 also shares the same concern, and adds the volatility of sponsorships to the turnover of players: "So yes, I think we need to work out how we're going to grow, how we're going to adapt our rapid growth so that the decline isn't so rapid either."

With regard to regulation and governance, although the interviewees generally considered it an essential challenge to resolve the issue of the existence of regulatory bodies that create a healthy and fair competitive environment, I2 considered the other side of the same issue, stating that the lack of legislation could be an opportunity for the sector to grow: "the lack of legislation in E-sports creates an unrivalled opportunity for growth"; "from my perspective, this lack of legislation creates blank spaces for people to operate in. In other words, legislation usually limits a company's scope of action. How far you can go, what initiatives you can take part in, how much you can pay, how much you can deliver in terms of value or a brand. At the moment in E-sports there aren't really any barriers to break down. I can be here in Portugal and my whole team can be in China and I can work continuously."..."The absence of legislation allows us to work in all kinds of ways. I'll give you an example: if an E-sports company wanted to pay a person's salary through tuition or college fees, this is

possible, without any extra remuneration. It's a bit different from what can be done in other types of action."

The variety of challenges in E-sports addressed by the interviewees is in line with the challenges set out in the literature. The sheer number of possibilities for growth in the sector also brings demanding challenges for all stakeholders and makes the future unpredictable.

4.4. Sources of revenue for E-sports organisations in Portugal

Despite the fact that there is almost no literature on the sources of revenue of E-sports organisations in Portugal, there are sources of revenue in the sector that are assumed to be global. Among the various sources of revenue, such as merchandising, broadcasting rights, team tokens, prize pools and advertising, there is one that stands out in the literature: sponsorships (Newman *et al.* (2022); Kim *et al.* (2020); Scelles *et al.* (2021); Cuesta-Valino *et al.* (2022); Freitas *et al.* (2020)).

The interviewees approached this topic in a uniform way, focusing on sponsorship as the revenue for E-sports organisations in Portugal. I4 states that "In Portugal, an E-sports organisation depends a lot on sponsorship, in other words, in Portugal 70 to 100 % of an E-sports organisation's revenue comes from sponsorship". I6 also mentions sponsorship as crucial, noting that there are other sources that have to be exploited under the right conditions "I would say that sponsorship is perhaps the most important in terms of financial weight and in terms of the percentage of where the earnings come from, but then there are obviously other issues, i.e. you have to stratify your business and get the most out of it"...This possibility of generating revenue from alternative sources is explored by other interviewees, who also emphasise that the conditions for this in Portugal are not yet in place. I5 stresses that "in Portugal we're not at that level yet in terms of broadcasting rights, that's still a long way off for the reality of E-sports in Portugal, and then you can also have, eventually, with actions or initiatives or with the question of creating memberships or other types of contributions that can be created by the organisations themselves", referring to broadcasting rights and fan monetisation. I2 is of the same opinion, commenting that "There is the possibility of creating an income through marketing platforms, by creating content and obtaining some kind of revenue. However, here in Portugal the market is still too immature to achieve the necessary volume of

content for this to effectively be a source of income here in Portugal for an E-sports organisation.”

The lack of diversity in sources of income in the sector in Portugal today is the cause of one of the main challenges mentioned in section 4.3, the volatility of organisations, and the ease with which an organisation's main source of income can be lost in a short space of time and its existence threatened. To this end, Freitas *et al.* (2020) recommend that the use of sponsorship agreements should serve as a catapult for the organisation's brand value, so that it can generate alternative sources of income that allow it to have stability and vision in the medium to long term.

4.5. Financial situation of E-sports organisations in Portugal

There is no information in the literature that characterizes the situation of the main E-sports organisations in Portugal. Even when talking in global terms, the literature gives us different views, which depend on the socio-economic context in which the organisations are located (Heidenreich *et al.* (2022); Wong & Meng-Lewis (2022); Peng *et al.* (2020); Pizzo *et al.* (2022)).

Among the interviewees there are different opinions about the financial health of E-sports organisations in Portugal. On the one hand, there is the opinion that this aspect is well developed and the situation is stable. I2 is of this opinion, stating that this is due to the sponsors, but stressing that the situation is "very unprofessionalised", which means that the market is always running at a loss". However, most of the interviewees share the opinion that the financial situation of the organisations in question is very unstable and delicate, arguing mainly that the positive financial situations are concentrated in a few players within an extensive universe. I3 mentions that *"As they are the ones who have the biggest numbers and still manage to do so, they are basically in a position of dominance and monopoly over all the other teams"*, commenting on the hegemony of a few teams, which he says causes an infinite spiral effect in terms of revenue and competitiveness in the sector. I5 also touches on this point: *"The pyramid is very thin and, in this case, there aren't that many clubs that can fit in there and, in fact, it's difficult, so normally, a champion can win 10,000 Euros, for example, but the champion is only one and we have a lot of clubs in Portugal, fortunately."* The situation, in the opinion of these interviewees, is therefore quite heterogeneous. I5 relates this situation to the influence of brands *"It's characterised in a very delicate way, it's not really an easy reality, so we don't have so many measures We don't have so many brands involved in the environment, we don't have so many tournaments with price*

pools that can guarantee the sustainability of half a dozen clubs". I4 corroborates this opinion: "Convincing these brands to enter, but managing to solve the problem that I identified before conversion, of the E-sports fan converting well to brands, to sponsorship, I think that this will then encourage brands to enter. At the moment, the trend I've observed is that brands have gone the other way. They've been getting out of E-sports and there are more brands getting out of E-sports than getting in at the moment."

There are also those who consider the financial situation to be very negative. I1 points out that there is no long-term planning, that all decisions are made with a view to the short term, and that perhaps only 1 or 2 organisations are sustainable. I6 also points out the same problems: *"So we're talking about three of the hundreds or thousands of sports organisations that exist in Portugal, so I would say that the financial situation is non-existent here in Portugal, unfortunately that's the case."*

The interviewees' contributions are in line with the literature in that there is a wide spectrum of financial situations, even within the same environment.

4.6. Causes of financial difficulties for E-sports organisations in Portugal

As there is no extensive literature on the difficulties of financial organisations in Portugal, it is only possible to compare the causes of these organisations' difficulties internationally. However, with the digital aspect that encompasses the sector, it is more likely that these causes are transversal across the globe, so what happens internationally may also be happening in Portugal. The literature focuses on the financial instability of the sector (Aghey (2020); Peng *et al.* (2020)) and the importance of regulatory bodies (Wong & Meng-Lewis (2022), Medeiros & Sayeg (2022)) for the financial health of E-sports organisations. However, the lack of studies and quantitative data to support this is also emphasised (Crammer *et al.* (2020)).

The interviewees point to various causes for these difficulties. I1 divides the causes into three groups: *"The first section is the competitive part. The second section is content creation. The third section is branding"*. The interviewee refers to the competitive part as the *"dream, for anyone to be able to... for any boy who is currently in his room at the age of 12 and has just got home and simply wants to watch a game of his favourite team to try and qualify to win the world cup"*. I4 also stresses the importance of this relationship between the fan and the organisation on the competitive side: *"The E-sports fan hasn't converted well"*. With regard to the brand, I1

emphasises that *"For the brand, at the moment in Portugal, there is only one thing and one thing only. Positioning on social networks, positioning on the shirt, positioning of content creators"*.

Another topic focussed on by the interviewees is the lack of planning, which leads to an unstable market. I2 gives the example of the planning of the sports season in terms of competitions, which entails expenses: *"There is a general lack of planning of what is going to happen, and this is partly the responsibility of the E-sports teams themselves, but the sports themselves don't have enough anticipation of what the competitive calendar will be. In other words, I know that I'm going to compete in 3, 4, 5 championships next year, but I don't know when they're going to be, where they're going to be, what kind of requirements are needed, what aren't, and this means that it's not possible to predict with a high degree of certainty what the costs of a competition will be, for example."*

The third topic is the one most often addressed by the interviewees, and concerns the lack of investment in the sector. I3 talks about this gap and says that it comes mainly from a lack of recognition for the sector: *"We're not looked at seriously, that's the main challenge, we're not equated with sport, which is a fight we want to be, chess is sport, CS (Counter Strike), isn't it? A professional player allegedly burns 800 calories playing three maps, and now with all the rise of this awareness, they're saying that now in Paris they want to put on the Olympic Games. And I think that's the kind of change and governmental shift that needs to take place for us to be taken more seriously."* This leads to a lack of incentives and support for the activity, also emphasised by I5: *"we're in no man's land completely. We have no help from anything, from the government, incentives, etc."* I6 also mentions the lack of investment, despite the large number of organisations in the sector: *"There are obviously good projects in Portugal, there are several, but, man, no matter how well organised they are, sometimes there are simply brands that don't want to advertise the way they want to, or maybe sometimes there's a lack of negotiating skills to try and bring in sponsors, but the market exists, There are thousands of people here in Portugal who follow and post, so it's only a matter of time before the brands realise, but then you also have to get the need across to them."* However, I6 adds that the problem is not entirely external, as there has to be a demonstration of value on the part of the organisations, so that the value of the partnership is perceived by the brands. There is therefore a need for *"a well-designed marketing plan"*.

These interventions are in line with the evidence found in the literature for the global panorama. However, it should be noted that the interviewees focused much more on the lack of investment from brands and the lack of commitment from organisations as the cause of the difficulties, which doesn't seem to happen as much on the international

scene. However, these differences between geographies and cultures will be explored in the next section.

4.7. Comparison between E-sports organisations in Portugal and international organisations in terms of financial health

In the literature it is not possible to find evidence of this comparison between the realities of countries where the sector is more developed and the Portuguese reality.

Among those interviewed, the feeling of inequality between these two realities was notable. The difference in awareness of the E-sports sector among society as a whole was emphasised. This difference brings with it a more serious look at investment, at the entry of brands into organisations, and at the recognition of success in the competitive model of E-sports. I3 mentions this difference: *"it's a completely different reality and awareness of this market to ours"* and gives the example of Denmark: *"In Denmark, you have the chance to have CSGO (Counter Strike: Global Offensive) at school. It's something that people live with on a daily basis. It's a very big reality. "This awareness also comes from the organisations' planning at international level. As soon as there is planning for the sporting season, in terms of competitions, exposure to the public and possible sources of return, there is greater stability in terms of sponsorship, as I5 points out in relation to organisations on a global scale "many of these organisations end up knowing how to plan, having a market that is always working, this guarantees these organisations a much greater capacity to receive investment, to have visibility, because they know how many tournaments they're going to have throughout the season, they know that by taking part in tournament X, or taking part, for example, in a major, they're going to have brutal visibility and this ends up being something very similar to what happens in football, for example, in a team that knows it's going to play in the Champions League, it knows it can, it knows it's going to have very high visibility, it knows it's going to have very high investment from the organisation itself, or it's going to have access to a much higher public price".*

Another point that the interviewees focused on was the issue of identity and monetising sources of income related to marketing and social networks. I2 emphasises the importance of content creators *"we need this innovation, we need them to bring more things, we need them to bring more of this kind of income, because let's be honest there are millions and millions of people watching it, there are millions and millions of people behind content creators, we have huge content creators"* and adds that their success can lead to a snowball effect *"YouTube for example has monetisation,*

the twitch channel has monetisation, twitter has monetisation at the moment, everything can be monetised on social media at the moment, even Instagram will have it, Facebook will also have open monetisation, so it's a great way to monetise channels and it's already content that you're normally making, you just have to optimise that content and grab those viewership that will once again be aggregated to the content creators" leading to social media becoming reliable and regular sources of income, contributing to the organisation's financial stability. I4 also emphasises the importance of personalities in the expansion of brands: *"the new generations identify more with people and personalities than with brands,"* and says that *"E-sports teams then have to find a strategy to reverse this, and I think that strategy involves having influencers associated and faces associated with the team,"* referring to the need to diversify sources of revenue in Portugal.

In short, the aim is to diversify sources of income, a process that is already being carried out by international organisations, as I2 points out *"the reality is that abroad we have teams that are becoming more and more sustainable and are managing to make more and more money, and smaller teams are appearing - this is due to the fact that the area is able to look for new sources of income, something that is not being done in Portugal"*.

4.8. Alternative sources of revenue for the future of E-sports organisations in Portugal

The literature, although it doesn't focus on Portuguese organisations in particular, presents various sources of revenue for E-sports organisations. Examples of these sources are athletes, technical teams, media technicians, sponsors, game publishers, tournament organisers and the fan community (Peng *et al.* (2020); Kim & Kim (2022)). Other authors (Aghey (2020)) also distinguish some secondary stakeholders, such as the general public, investors, the media and entrepreneurs. By focusing on stakeholders, especially secondary ones, it is possible to visualise a large number of possible sources of revenue for E-sports, such as memberships, partnerships and external investment. These channels are made possible by constant technological development, the growth of the E-sports sector and the frequent increase in associated numbers.

With regard to Portugal, the interviewees were on the same level as the literature and listed some possibilities for what could be the recipe for the economic viability of E-sports organisations. I6 mentioned that all the sources of revenue that exist internationally will arrive in Portugal sooner or later. He also emphasised the importance of contact

between players and fans, with the development of initiatives between the two. Finally, he mentioned the possibility of training as a source of income, through the possibility of *"having our coaches giving lessons"*. Education was a topic that I2 touched on a lot, focusing on the potential of this revenue channel, with the formation of *"training schools or academies, to pursue careers in this area, because it can actually be a source of constant income because there are more and more young people playing, specialising, and when I say specialising in E-sports it doesn't necessarily have to be just for players, all the functions necessary for an E-sports team, whether it's in Marketing and Social Media, videographers, photographers, sound technicians, specific systems for this, the sports analysts themselves, we still have a cadre here in Portugal who are people who understand the process because they've learnt it through practice, but they need certification, and I think it's up to E-sports teams to create these tools and use them to create a secondary source of income that is interesting, profitable and sustainable over time."*

There was also a focus on other stakeholders. I1 pointed to initiatives with brands, such as selling advertising, as something that could be advantageous. I4, on the other hand, mentioned the potential of broadcasting events, with the possibility of pay-per-view events, for example: *"In the future this could happen, but I don't see it happening like football, with TV broadcasting rights. I think that before that happens we'll enter a model more similar to the UFC (Ultimate Fighting Championship), for example, which is a pay-per-view model for certain competitions."*

I4 approached the topic differently, and said that the main source of unused revenue is sports betting: *"Sports betting is a big issue. Classically it's the ticket office that feeds football and the Porto football club and all those clubs. But sports betting, is something that would bring in a very large additional stream of revenue. It doesn't exist yet, because it's not regulated."* He added: *"I'd say that if sports betting were regulated, if we were seen or equated with a sport, we'd be able to unlock a lot more money, both from the private sector and from the public sector."*

To summarise, it is possible to see that Portugal has no restrictive barriers to the entry and acceptance of new revenue channels in the E-sports sector, it is just a matter of time, investment and diversification. These contributions from the interviewees are in line not only with the literature on revenue sources (Newman *et al.* (2022); Kim *et al.* (2020); Scelles *et al.* (2021); Cuesta-Valino *et al.* (2022); Freitas *et al.* (2020)), but also with the literature on regulation and institutionalisation (Regulation (Wong & Meng-Lewis (2022); Medeiros & Sayeg (2022)).

4.9. Adaptations of the traditional sports revenue model for E-sports.

E-sports have been undergoing a process of "sportification" (Jonasson and Thiborg (2010)), and at the same time are beginning to try to be treated and respected as one of the traditional sports. With regard to this topic, the literature focuses on comparing E-sports to traditional sports in various ways (Vera (2016); Lu *et al.* (2022); Kim *et al.* (2020); Thiborg (2010); Heere (2017); Lima *et al.* (2022)).

During the interviews, there was a common concern about broadcast revenues from E-sports events, as well as monetisation of membership, which is one of the main sources of revenue in traditional sports.

I1 mentions that the creation of specific arenas for E-sports events would be extremely advantageous, arenas that could even be virtual. However, before the media and the public pay to enjoy this spectacle, the image of the sector has to change: *"E-sports are still seen in a very negative light by the media and most parents don't want their children involved in gaming and E-sports, let alone paying to be involved. I think this is a path that will be taken in the future because it's an obvious path for us to end up following"*. As well as ticket sales for these events, it also opens the door to naming events and venues, which is also common in traditional sports. I4 also mentions the existence of members as a game-changer in the sector: *"the figure of having club members is a mechanic that allows for a constant stream of revenue and allows for a certain loyalty to the club, which is something that classically exists in traditional sports and less so in e-sports."* I5 is of the same opinion and once again highlights the importance of the member, while stressing the importance of the role of organisations in this process: *"The question of being members of the club and also being able to contribute to helping the club. That could happen, but once again, it's also going to depend a lot on the development of the club itself, on how it manages to ensure, create history, ensure stability, and then become a reference club for fans, to the point where those fans want to be members and want to help the club."*

The interviewees' comments are in line with the literature on the "sportification" of E-sports, mainly with the inclusion of the fan and major events as a point of contact between these fans and the spectacle of sport. The image of the sector is important in this process, so that it can be treated with the same respect and professionalism as traditional sports.

5. Conclusions

This report thoroughly examined the financial viability of E-sports organisations in Portugal, with the aim of understanding the dynamics of this growing sector in the national context, through the valuable insights of different stakeholders involved in the sector.

The results of this survey revealed that E-sports organisations in Portugal face significant challenges, but also present promising opportunities. Although many of these organisations operate on tight margins due to rising costs such as professional player salaries and marketing expenses, there is a growing fan base and sponsorships. In addition, the dissertation highlighted the importance of diversifying revenue sources, such as organising events, live broadcasts, merchandise and strategic partnerships. These strategies can help E-sports organisations reduce their dependence on sponsorships and external investors, making them more financially resilient. Additionally, the research also identified the need for greater recognition and support from government and sports institutions in Portugal, with the aim of establishing a more favourable environment for the development of the sector in the country.

5.1. Main findings

The results obtained in the study contribute to the ongoing development of knowledge about the E-sports sector in Portugal. In general, it is possible to conclude from the results of the report that the E-sports sector has enormous potential, as the literature has been emphasising in the global context ((Cranmer *et al.*, 2020); (Peng *et al.*,2020)), but has constraints that need to be resolved using all the stakeholders present. but presents constraints that need to be resolved using all the stakeholders present. In Portugal, the sector has good growth rates and good indicators for prolonging it in the future. However, there are problems of stability, regulation and financial viability that need to be overcome. Regulatory organisations, external investors and the ability of organisations to diversify revenue channels play a key role in this ((Pizzo *et al.*, 2021).

5.2. Theoretical Contributions

The financial viability of E-sports organisations in Portugal is a complex subject, with challenges and opportunities. The possibilities of expansion are still very great and the

literature does not cover them all, of course. In this sense, it was important to draw up this report in the sense that it allowed us to examine perspectives and draw empirical validation for the possibilities of growth and diversification in the sector, as well as the dangers and threats present in it. As such, this report is a complement to the existing literature on the E-sports sector in Portugal.

5.3. Managerial Implications

Based on the analysis on the financial viability of E-sports organisations in Portugal, and its relationship with existing literature, it is possible to highlight some recommendations for the different players in an E-sports organisation, such as a focus on top management (CEO), the finance department, and the marketing and social media department.

From the point of view of strategic management, the need to diversify sources of income became clear. The dependence on sponsorship in Portugal is notorious and this situation increases instability within the organisation and reduces its financial independence. Organising events, merchandising sales and training are some of the areas that should take on greater importance. It also became clear that there was a need to foster relations with the public, especially E-sport fans. In addition to recognising the organisation and forming a personality, fans can contribute to a variety of alternative sources of income.

In financial terms, there should be medium- to long-term planning to ensure the stability of the organisation. Both in terms of costs, mainly player salaries and travel linked to the competitive calendar, and in terms of income linked to less dependence on a single revenue channel.

When it comes to social media marketing and networks, planning is also a need. A long-term content strategy that includes interactive content between fans and players, for example, must be planned in advance. In addition, the connection with strong personalities in digital media, influencers, should be explored so that this means of interaction serves as a driver for the organisation's other channels.

5.4. Limitations and future research directions

This section presents the limitations of this report, which should be explored further and could serve as a basis for future work in the field of E-sports.

First of all, it should be emphasised that this study was only carried out by collecting the testimonies of professionals working in Portugal, and therefore may not be able to explain the realities in different geographies, where the problems may not be the same and the proposed solutions may not be equally applicable. There are countries where the E-sports sector is more developed, such as Denmark, Sweden and in some E-sports Asian countries. It would be interesting to carry out comparative studies between the realities of these different countries.

Another limitation is the small number of participants in the qualitative study. Despite the contribution of the interviewees' experience, the number of interviews was small, so the results cannot be extrapolated to the population. Studies with larger samples are therefore recommended. Also with regard to the participants in the study, it was possible to realise during the interviews how important the public is in the E-sports sector, so their participation is essential. In this study this aspect was beyond the scope, however, it is recommended that financial studies or studies on the profitability of the audience be carried out for better conclusions.

An essential aspect of the E-sports landscape in Portugal is sponsors. Most of the organisations in the sector in Portugal depend on this source of income, which was not represented among those interviewed. With this in mind, it is recommended that in the future they be asked for their reasons for investing financially in the E-sports sector, rather than in a traditional sport.

The topic of regulation and the institutionalisation of E-sports could also be developed further. It is recommended that some aspects of this point be studied. We can highlight the international comparison of regulations: there are countries in which

| CONCLUSIONS

governments or sports federations have more influence in the sector than in others, and the results of these countries should be evaluated to conclude the best course of action. There is also the issue of players' contracts. The growth of the sector requires underlying professionalization, and this aspect can make a positive contribution to that. The training and integration of E-sports into the education system exists in some countries, and can be exploited to better educate young E-sports fans. There is also the question of the integrity of E-sports and the legality of betting in the sector. There are currently many illegal bookmakers profiting from this market and in doing so they are slowing down the growth of the sector, as well as promoting illegal practices. These recommendations for future research will help to deepen the understanding of regulation and legislation in relation to E-sports in Portugal, providing a solid basis for future developments and decision-making in the field.

6. References

- Abanazir, C. (2018). Institutionalisation in E-Sports. *Sport, Ethics and Philosophy*, 13(2), 117–131. <https://doi.org/10.1080/17511321.2018.1453538>
- Aghey, C. (2020). Integration of eSports in the structure of Ifs: disruption or continuity? *The International Sports Law Journal*, 20(3–4), 120–125. <https://doi.org/10.1007/s40318-020-00175-7>
- Cranmer, E. E., Han, D. D., Gisbergen, V., & Jung, T. (2021). Esports matrix: Structuring the esports research agenda. *Computers in Human Behavior*, 117, 106671. <https://doi.org/10.1016/j.chb.2020.106671>
- De Medeiros, B., & Sayeg, R. H. (2022). E-sports and the application of sports and labor legislation. *International Journal of Innovation*, 10(2), 212–240. <https://doi.org/10.5585/iji.v10i2.21570>
- De Moor, W., Terrien, M., Durand, C., & Besombes, N. (2022). The current situation of the French professional esports industry: economic models of the clubs and regulation of the leagues. *European Sport Management Quarterly*, 1–22. <https://doi.org/10.1080/16184742.2022.2080853>

- Freeman, G., & Wohn, D. Y. (2017). Understanding eSports team formation and coordination. *Computer Supported Cooperative Work*, 28(1–2), 95–126.
<https://doi.org/10.1007/s10606-017-9299-4>
- Heere, B. (2018). Embracing the sportification of society: Defining e-sports through a polymorphic view on sport. *Sport Management Review*, 21(1), 21–24.
<https://doi.org/10.1016/j.smr.2017.07.002>
- Heidenreich, H., Brandt, C., Dickson, G., & Kurscheidt, M. (2022). Esports associations and the pursuit of legitimacy: Evidence from Germany. *Frontiers in Sports and Active Living*, 4. <https://doi.org/10.3389/fspor.2022.869151>
- Jonasson, K., & Thiborg, J. (2010). Electronic sport and its impact on future sport. *Sport in Society*, 13(2), 287–299. <https://doi.org/10.1080/17430430903522996>
- Kim, H., & Kim, S. (2022). The show must go on: Why Korea lost its first-mover advantage in Esports and how it can become a major player again. *Technological Forecasting and Social Change*, 179, 121649.
<https://doi.org/10.1016/j.techfore.2022.121649>
- Kim, Y. H., Nauright, J., & Suveatwatanakul, C. (2020). The rise of E-Sports and potential for Post-COVID continued growth. *Sport in Society*, 23(11), 1861–1871. <https://doi.org/10.1080/17430437.2020.1819695>

Lefebvre, F., Djaballah, M., & Chanavat, N. (2020). The deployment of professional football clubs' eSports strategies: a dynamic capabilities approach. *European Sport Management Quarterly*, 1–19.

<https://doi.org/10.1080/16184742.2020.1856165>

Llorens, M. R. (2017). ESport gaming: the rise of a new sports practice. *Sport, Ethics and Philosophy*, 11(4), 464–476.

<https://doi.org/10.1080/17511321.2017.1318947>

Lu, Y., Chen, H., & Yan, H. (2022). E-Sports Competition Analysis based on Intelligent Analysis system. *Computational Intelligence and Neuroscience*, 2022, 1–

10. <https://doi.org/10.1155/2022/4855550>

Newman, J. I., Xue, H., Watanabe, N. M., Yan, G., & McLeod, C. M. (2020). Gaming Gone Viral: An analysis of the emerging Esports narrative economy.

Communication and Sport, 10(2), 241–270.

<https://doi.org/10.1177/2167479520961036>

Peng, Q., Dickson, G., Scelles, N., Grix, J., & Brannagan, P. M. (2020). Esports

Governance: Exploring Stakeholder Dynamics. *Sustainability*, 12(19), 8270.

<https://doi.org/10.3390/su12198270>

Pizzo, A. D., Jones, G., Baker, B. J., Funk, D. C., & Kunkel, T. (2021). Sensemaking of novelty: the dynamic nature of integrating esports within a traditional sport organization. *Sport Management Review*, 25(3), 383–405.

<https://doi.org/10.1080/14413523.2021.1935609>

Reitman, J., Anderson-Coto, M. J., Wu, M., Lee, J. S., & Steinkuehler, C. (2019).

Esports Research: A Literature Review. *Games and Culture*, 15(1), 32–50.

<https://doi.org/10.1177/1555412019840892>

Scelles, N., Peng, Q., & Valenti, M. (2021). Do the Peculiar Economics of Professional

Team Sports Apply to Esports? Sequential Snowballing Literature Reviews and

Implications. *Economies*, 9(1), 31. <https://doi.org/10.3390/economies9010031>

Valiño, P. C., Rodríguez, P. G., & Loranca-Valle, C. (2022). Sponsorship image and

value creation in E-sports. *Journal of Business Research*, 145, 198–209.

<https://doi.org/10.1016/j.jbusres.2022.02.084>

Vera, J. a. C. (2016). De jugadores a espectadores. La construcción del espectáculo

mediático en el contexto de los e-sports. *Anàlisi: Quaderns De Comunicació I*

Cultura, 55, 1–16. <https://doi.org/10.7238/a.v0i55.2893>

Wong, D., & Meng-Lewis, Y. (2022). Esports: an exploration of the advancing esports landscape, actors and interorganisational relationships. *Sport in Society*, 26(6), 943–969. <https://doi.org/10.1080/17430437.2022.2086458>

Zhouxiang, L. (2016). From E-Heroin to E-Sports: The development of competitive gaming in China. *International Journal of the History of Sport*, 33(18), 2186–2206. <https://doi.org/10.1080/09523367.2017.1358167>

7. Annexes

Annex A – Interview script

Começo por agradecer a sua disponibilidade para participar neste estudo.

Este estudo tem por principal objetivo compreender a viabilidade financeira do setor dos E-sports, explorando o modelo de negócio do setor e a integração do mesmo num contexto competitivo. Pedimos que nos concedesse esta entrevista devido à sua experiência no setor dos E-sports.

Queria dizer-lhe que a sua participação é voluntária, pelo que pode interromper ou desistir de participar em qualquer momento, se assim o entender. São também garantidos os princípios de anonimato e confidencialidade. A entrevista é gravada para futura transcrição, e as gravações serão destruídas no final da pesquisa. Nas transcrições serão omitidas quaisquer identificações de pessoas, todos os nomes serão substituídos por pseudónimos. Os dados recolhidos, incluindo pequenas transcrições, poderão vir a constar de publicações científicas e outras que sejam consideradas na divulgação dos resultados.

Se concordar, poderíamos agora iniciar a entrevista.

Depois de iniciada a gravação: Começo por lhe perguntar se autoriza a gravação da entrevista e a utilização dos dados da forma descrita.

Parte I. Sobre o participante

1. Para efeitos de caracterização da amostra, poderia dizer-me a sua idade e a sua área de formação?
2. Há quantos anos está envolvido no setor dos E-sports?
3. Durante esse tempo, que funções profissionais desempenhou?
4. Como caracterizaria as suas funções atuais no setor dos E-Sports?

Parte II. Sobre os E-Sports em Portugal

5. De uma forma geral, e da sua experiência, como tem evoluído o setor dos E-sports em Portugal?
6. Na mesma linha, como antecipa a evolução do setor dos E-Sports em Portugal nos próximos anos?
7. Em sua opinião, quais são os principais desafios para o crescimento das organizações de E-Sports em Portugal?

Parte III. Aspetos Financeiros

8. Quais são as principais fontes de receita de uma de uma organização de E-sports em Portugal?
9. Como caracterizaria a situação financeira das organizações de E-sports Portuguesas?
10. Quais são, em sua opinião, as causas de dificuldades financeiras das organizações de E-sports?
11. De que forma a situação que descreveu é semelhante ou diferente das organizações de E-Sports de referência (europeias ou outras)?
12. Que outras fontes de receita para organizações de E-sports Portuguesas considera que possam vir a existir no futuro?
13. Pensando nos modelos de receita dos desportos tradicionais, o que pode ser adaptado desses desportos para beneficiar o setor dos E-sports?
14. Para terminar, e em resumo, o que sugere que façam as organização de E-sports para assegurar o equilíbrio financeiro em termos de custos e/ou receitas?