

ANALYZING THE PROFESSIONAL GAMING INDUSTRY
IN THE UNITED STATES OF AMERICA: A PEDAGOGICAL
CASE STUDY

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It's only work if somebody makes you do it.

Calvin & Hobbes (Bill Watterson)

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Abstract

The unquestionable popularity of video games has propelled the evolution of professional gaming to become an important part of today's youth culture. More than simply playing video games, millions watch carefully as professional gamers showcase their abilities against one another. Despite facing strong social barriers, in recent years, professional gaming has experienced an exponential growth and video game companies can no longer ignore its importance for their own future.

In the western world, the US currently has the strongest professional gaming industry and sets an example for the structure that this relatively new business should take in order to be successful. Nevertheless, the professional gaming industry and the potential that this new trend has to generate a worldwide business has not been the subject of many managerial studies and our understanding of the variables within the industry and surrounding it is lackluster. The increasing number of professional gaming viewers and enthusiasts justifies the necessity and pertinence of such studies.

The purpose of this thesis is to provide a basis for the study of the professional gaming industry in the US by developing a pedagogical case study. The requested application of some of the most crucial analytical frameworks in Management promotes a necessary study of the industry as well as expands the knowledge about professional gaming for anyone involved in its resolution.

Keywords: professional gaming, video games, strategy, strategic analysis

JEL classification system:

- **M 10:** General Business Administration
- **L10:** General

Resumo

A popularidade inquestionável dos videojogos impulsionou a evolução do *professional gaming* para se tornar numa parte importante da cultura da juventude actual. Mais do que o simples act de jogar videojogos, milhões de pessoas expectam atentamente quando os jogadores profissionais mostram as suas habilidades. Apesar das fortes barreiras sociais, o *professional gaming* experienciou um crescimento exponencial em anos recentes e as empresas de videojogos já não podem ignorar a sua importância para o futuro.

No mundo ocidental, os Estados Unidos da América têm actualmente a presença mais forte no *professional gaming* e são um exemplo de estrutura que este negócio relativamente novo deve tomar para ser bem sucedido. No entanto, a indústria do *professional gaming* e o potencial que esta nova tendência tem para gerar um negócio global não tem sido sujeita a muitos estudos e o entendimento das variáveis presentes dentro e fora da indústria é escasso. O aumento do número de espectadores e entusiastas do *professional gaming* justifica a necessidade e pertinência de tais estudos.

O objectivo desta tese é fornecer uma base para o estudo da indústria do *professional gaming* nos Estados Unidos da América através da preparação de um caso de estudo pedagógico. A aplicação de algumas das mais importantes ferramentas analíticas na Gestão que é requerida, promove um estudo da indústria assim como expande o conhecimento acerca do *professional gaming* para todos os envolvidos na sua resolução.

Palavras-chave: *professional gaming*, videojogos, estratégia, análise estratégica

Sistema de classificação JEL:

- **M 10:** *General Business Administration*
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List of abbreviations

CEO – Chief Executive Officer

DOTA – Defense of the Ancients

GDP – Gross Domestic Product

GPA – Grade Point Average

IEM – Intel Extreme Masters

KeSPA – Korean eSports Association

LCS – League of Legends Championship Series

LOL – League of Legends

MLG – Major League Gaming

NBA – National Basketball Association

PC – Personal Computer

PESTEL – Political; Economic; Social; Technological; Environmental; Legal

Pro-gamers – Professional gamers

SWOT – Strengths; Weaknesses; Opportunities; Threats

TV - Television

US – United States

VRIO – Value; Rarity; Imitability; Organization

WoW – World of Warcraft

1. Introduction

The online world was born in the United States of America (Odd de Presno, 1993). This online world is a system of databases, data transport services, gateways, networks and user interfaces (Odd de Presno, 1993). In recent years, with the development of a vast internet structure, this online world has gained an enormous amount of space in people's lives in the 21st century making people live both in the "real" world but also in this virtual or online world. Whether by necessity or simply for entertainment purposes, people seem to be living more and more in this virtual atmosphere¹. The growth of social media has steered the population, particularly in urban areas, to a cultural change in their habits (LaRose, 2010). The opportunities that the World Wide Web presents, such as eCommerce, are vast and companies have strived to take advantage of this new way to perform their activities.

In this online world, video games have always been a presence. They are still perceived by many as a mere form of entertainment for youth but, in recent years, the video games industry has developed into a more complex environment. Professional gaming was the giant leap that transformed video games from a simple entertainment product into a virtual sport. Nowadays, playing video games is a possible career path (Taylor, 2012), and the professional gaming industry, given its recency has still not been explored to its full potential. There are still video game players not familiarized with professional gaming, and many companies that can compete in this industry are not yet doing so.

Professional gaming is the use of video games for the purpose of competitions. The basic idea is to place two people or two groups of people playing against each other in games where there is a clear objective that must be completed for one individual or team to win. People involved in the professional gaming industry view video games as more than just entertainment and perceive professional gaming as a "phenomenon that has become a fundamental element in today's digital youth culture"².

This industry presents new possibilities and also new challenges for managers, marketers and advertisers. The most obvious example of an enormous business opportunity within it is video game spectating. Video game spectating is a "...popular

¹ <http://www.businessinsider.com/how-much-time-people-spend-online-2013-10>

² Wagner, M. G., On the scientific relevance of eSports

activity (among the youth), boosted by the rise of online video sites and major gaming tournaments”³. From all over the world, using the World Wide Web, people can watch professional gaming competitions, and with the effort companies currently place on web advertising, this might be the right place to do so.

Nevertheless, the professional gaming industry has not been the target of many academic studies, particularly in the field of Management as most of the research into it has focused on its social and psychological effects. To help fill this gap in our understanding of the business side of professional gaming, this thesis will focus on strategic analysis and application tools of such analysis to the professional gaming industry in the United States of America. The US was chosen as the focus, because it not only currently has the most developed professional gaming industry in the western world but also hosts some of the key players in that industry.

Therefore, the objective of this work is to elaborate a pedagogical case study about the professional gaming industry in the United States of America. This pedagogical case study will allow students from bachelor’s degrees in the management area to learn about and practice some of the tools and concepts that will help them progress as managers while acquiring knowledge related to an industry they may not know much about. Students will be asked to develop strategic analysis (PESTEL; Porter 5 forces; VRIO; SWOT) by studying the variables surrounding the professional gaming industry in the US.

It is hoped that this work will contribute to our knowledge and understanding of what is a growing, and likely to become increasingly significant, industry in the Western world. The aim is to provide a better understanding of how this industry operates and what can determine success in such a competitive environment. At the same time, the analysis of the case study should allow those studying it to enrich their knowledge of the relevant strategy tools.

The thesis is structured in the following chapters:

- Chapter 1 – this chapter consists of an introduction to the work being presented and its structure.

³ Cheung, G. & Huang, J., StarCraft from the stands: understanding the game spectator

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- Chapter 2 – presentation of the pedagogical case study with information about the professional gaming industry in the USA as well as information regarding a particular company operating in this industry.
- Chapter 3 - presentation of the pedagogical note which includes four subchapters
Firstly, the identification of the target audience and pedagogical goals for this case study. Secondly, a brief literature review will also be presented revising the analytical tools and frameworks that are important to the case study. The next subchapter is the animation plan designed to help teachers present the case to their students as well as the resolution of the case. In the final subchapter we can find a few inferences we can withdraw from this case study to management.
- Chapter 4 – this chapter consists of a conclusion to the work that was presented.

2. Case Study

2.1. Introduction

The present case study will focus on the professional gaming industry in the United States of America. The US is the most prominent western country in the industries related to video games. Despite having a great gap to close with the professional gaming environment in South Korea, it still is the country that presents the best structure and development in the western world for the development of professional gaming competitions. Furthermore, the inexistence of a language and cultural barrier, as opposed to South Korea, eases the understanding of the steps that were taken to create and improve a new industry.

In this case study, information about the creation and development of the professional gaming industry in the US will be presented as well as some of the issues the industry faced in its early developments. It is necessary to analyze the industry's external and internal environments to understand the evolution that professional gaming went through and to speculate about what the future holds. Additionally, the particular circumstances of one of the world's biggest video games companies will be studied. Blizzard Entertainment dominated the professional gaming industry in its early advances on the last decade of the 20th century but recently the company has faced new challenges and challengers that have proven to be difficult to overcome.

Professional gaming is the competition through the use of videogames. It is the competitive aspect of eSports and therefore has a much smaller scope than the whole of eSports. eSports can be defined as “an area of sport activities in which people develop and train mental or physical abilities in the use of information and communication technologies.”⁴

The terms eSports and professional gaming are often mixed and misused especially when referring to professional gamers. Not everyone that simply plays videogames is a professional gamer. The difference lies in the professionalization which includes regulated competitions, prize money, salaries and sponsorships. This is also the

⁴ Wagner, M. G., On the scientific relevance of eSports

difference between gaming and professional gaming. Gaming, which is the act of playing video games, has a large influence in the professional gaming industry especially in determining the popularity of video games. Professional gamers (pro-gamers) are videogame players that study the game in depth and are paid to do so either by a sponsoring company or by earning money in tournaments.

Overall, the understanding of the professional gaming industry in the US is still lackluster. The definition of the industry itself is not clear because of the influences it has from the video games industry. Setting barriers for the professional gaming industry is very difficult because of its strong connection to video games and the fact that without them there would be no professional gaming.

2.2. Early Stages

In 1972, the first known video game competition in the US was held at the Stanford University. Players were invited to participate in a tournament for the video game *Spacewar*. Throughout the seventies, some other competitions were held but always on a small scale. It was in the 1980's that the first large scale competitions were created with Atari playing a great role in the development of those competitions. Atari was arguably the most prominent company in the video game industry in the 1980's and some of their competitions attracted thousands of participants.

Nintendo was another company that appeared in the 1990's with some video game tournaments. The company had a strong position in the video games market and took that advantage to attract competitors to its events. Nevertheless, Nintendo's and other companies' competitions were developed independently and sporadically and they were not regulated by an official institution. They were simply periodic gatherings of people that shared a passion for both video games and competition.

Until the late 1990's, the potential for a professionalized video games playing industry was limited but the first radical change happened when one of the most famous video game in history was released. In 1998, a company named Blizzard Entertainment released a video game called *StarCraft* that was the best-selling video game of that year and won multiple awards including the recognition as the best strategy game for PC of the year. However, the most important aspect was not the sales but what happened in

South Korea and the impact it would have on the development of a professional gaming industry.

In South Korea, the enormous success of *StarCraft* led to an unprecedented frenzy among video game enthusiasts. Because the nature of the game provided an online player versus player dispute, competitions started to be held. A crucial aspect for the fast growth and popularity of this video game was the strong broadband infrastructure present in Korea. “In the mid-nineties Korean policy-makers had deregulated advanced telecom applications causing a rapid growth of the Korean broadband infrastructure”⁵. These video game competitions gained such a strong recognition in the beginning of the 21st century that the events started to be televised.

The major difference between the US and South Korea in this respect was the regulation of the video game tournaments and the creation of an eSports association, the KeSPA (Korean eSports Association). It was necessary to acquire government support at those early stages in order to improve the public broadband infrastructure and to create an entity that could regulate the industry, but whereas in South Korea this was acted upon quickly, in the US no such action was taken, and as a result, the discrepancy between the two countries in terms of professionalization became extremely large. As a matter of fact, the US nowadays still does not have an official eSports association or a professional players association to defend the rights of pro-gamers.

In the US, despite the success and recognition of video games like *StarCraft*, the professional gaming scene did not evolve at all and the tournaments kept being held by the companies that developed the games, rather than being regulated or commercialized by a third party. There was no fast reaction to the emerging opportunity as happened in South Korea. Without support from an official institution, video game companies would have to face the challenges of creating a new set of activities to make professional gaming possible all on their own.

The lack of support from government institutions and the general population may be explained by some of the social issues the country was facing in the late 1990’s and the fact that many news outlets related video games with a few of those social problems at the time, instituted a negative connotation to video games, particularly the ones with

⁵ Wagner, M. G., On the scientific relevance of eSports

violent content. Furthermore, there was no group lobbying for the case of professional gaming which happens for many other industries.

2.3. Issues and controversies

In the late 1990's and the beginning of the 21st the negativity towards videogames was so strong in the US that bringing up the subject of playing them as a profession was almost inconceivable. The US is the self-proclaimed land of freedom where anyone can pursue their dreams but a society working in democracy will debate over every aspect of life because an entire country will hardly agree completely on an issue. The high ethnicity mix present in the country is also a contributor to some of these discussions particularly when racial topics are debated.

Many subjects troubled North-Americans in the first decade of the 21st century and most of those subjects still generate debate nowadays. Subjects like homosexuality, the legalization of soft drugs, abortion and gun policies (Carroll, 2003), generated heated debates and divided a nation. It was in this somewhat troubled environment that videogames and professional gaming were also being discussed⁶.

Video games generated discussion about whether or not they were beneficial in some way or just prejudicial. The major concerns about videogames were related to the degradation of social skills, poor academic performance, addiction and violence. Many academic studies have focused on the effects that videogames have on the personality, attitudes and behavior of the players (Allaire et al, 2013).

Videogame related violence was probably the most debated aspect of videogames with public opinion and the media heavily alerting to the relationship between violent games and consequent violent crimes. An example of this was the Columbine High School massacre of 1999 when two high-school seniors killed 13 people and themselves. The media linked this massacre to the fact that the two students played violent videogames. Families of the victims went as far as legally charging computer game makers for their "help" in bringing about the killings but those lawsuits were dismissed.

⁶ <http://www.apa.org/science/about/psa/2003/10/anderson.aspx>

Some of the most prominent video games at the turn of the century were based on warfare. *Counter Strike*, *Call Of Duty* and *Quake* are examples of such games, which were also used for competition purposes because they suited the goal of professional gaming which was the player(s) versus player(s) system. Despite the fact that, until today, the link between videogames and violence has been researched, the results have been inconclusive because some have found a link (Adachi et al, 2011), and others have not (Ferguson et al, 2011).

The virtual world that tools like the internet provide can provoke an isolation of individuals that leads to a degradation of social connections. These tools, which include video games, lead to people spending more time at their respective houses and that may cause social exclusion. However, videogames can also provide a platform of social education by bringing people together through collaborative playing in order to complete certain objectives. Some studies also indicate that social exclusions are not a consequence of playing videogames as they can in fact provide both online and offline social support (outside of the game itself) (Trepte et al, 2011).

Academic performance is extremely valued in American society. A great example of this is the need for student-athletes at high school and college levels to have a minimum GPA (Grade Point Average) in order to be eligible to play their sports. It has been suggested that by removing focus from their studies, videogames impact the students' commitment to education and cause a pattern - where the student spends most of his time playing - that is difficult to change, particularly because we are talking about adolescents who are in a very vulnerable stage of their lives (Drummond et al, 2014).

The most famous story about a player that decided to abandon everything, including his family, to attempt a career in professional gaming is the story of Yiliang Peng, known as Doublelift in the professional gaming community. His parents did not approve of his passion for videogames so he decided to move to Los Angeles, where most of the companies creating tournaments were based. He lived with the help of a friend and was hired by a professional League of Legends team, which was one of the most popular video games at the time. He went on to become arguably the best LOL player in the US

but his path to success was very difficult. The lack of support from anyone apart from his friends could have been his downfall as he has stated in many interviews⁷.

Despite the fact that playing videogames does not necessarily impact academic performance, a career in professional gaming likely will. Having to practice for 10 or more hours every day, pro-gamers have no time to study and therefore have to abandon school⁸. It is one of the dangers of pursuing a pro-gamer career, the risk is extremely high because it requires a lot of time investment, the career does not have great longevity and the probability of success is low because many others are competing for the same goal.

Apart from social disapproval, and lack of political support and regulation, professional gaming in the US was not structured enough to become a strong industry at the beginning of the 21st century. Professional gaming did not have any of the qualities that other events, for instance sporting events, had: a large audience, sponsors and recognizable figures (players). There was also no viable way to broadcast the events to whoever wanted to see them. Unlike in South Korea, there was no way of distributing video game competitions to the public. Television companies failed to see what benefits they would have in broadcasting those types of events. That was about to change at the start of the second decade of this century.

2.4. The industry's evolution

As we have seen, professional gaming was somewhat “held back” in the US for many years. Perhaps the biggest change needed was to find a viable business model so that video game companies could take that step further and invest in making their games a spectator's eSport. When it comes to any type of competition, the profit comes from the people willing to watch it and become interested in future events because they allow larger advertising fees. The industry's evolution represents a period from 2009 to 2013 where companies like Riot Games and Valve started to invest heavily in professional gaming competitions and the popularity of such events grew significantly.

⁷ Doublelift: The Road to Success - <https://www.youtube.com/watch?v=2XQQhrssnBY>

⁸ <http://www.rtsguru.com/article/5375/A-Typical-Pro-Gamers-Schedule.html>

Video games like *Counter Strike*, *StarCraft* and *Call of Duty* remained relevant in the professional gaming community but two crucial games were released that propelled the popularity of professional gaming to the next level: *League of Legends* and *DOTA*. Crucially, these two games urged two companies that would become the major developers of professional gaming to invest in video game competitions. Those companies were Valve and Riot Games.

Valve had already developed *Counter Strike* and therefore, had some experience in this area. Riot Games was a completely new player in the market. Blizzard also remained relevant with the release of *StarCraft 2* but in the US it did not have the same impact as the other two games, *League of Legends* and *DOTA*. At the time these games were launched there was no structure for the distribution of professional gaming events but the appearance of live streaming websites enabled companies to have a viable way to attract a large audience. Streaming is the act of using a live feed transmitted on a website. The internet became the television of professional gaming.

Technological development was also a huge factor in the evolution of the industry. Hardware companies started to create products specifically designed for gaming and they also started to compete with each other for the ability to sponsor a certain game or company exclusively. Video games benefited from technological advances that provided a wide range of possible experiences for the players. Computer peripherals like the mouse, mouse pads, keyboards or even headphones were perfected for videogame playing. Videogame consoles and computers keep improving the visuals (graphics), hardware and also the amount of influence the player has on the game. The amount of information that the player receives and is able to input when playing video games has increased tremendously.

The US is a country that has many entrepreneurs and technology quickly develops through all fields of science, engineering and others. The high number of patent requests⁹ shows that the protection of intellectual property is very important in the country. However, the piracy of digital content has shown that in some regards, the intellectual property rights of certain companies, including video game companies, was not being successfully protected (LoPiccolo 2005).

⁹ <http://www.timeshighereducation.co.uk/news/epo-sees-growth-in-patent-applications-with-us-requests-growing-faster-than-eus/167586.article>

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Professional gaming in the US was regulated by a limited set of video game companies and associations, namely Riot Games, Valve, Blizzard and Major League Gaming.. Competitions were held in events that operate in a similar fashion to sports competitions with a group stage followed by an elimination phase. Some tournaments adopted only a bracket elimination structure that allowed for a faster completion of the tournament. This latter structure is especially used in gaming events that are held for more than one game simultaneously in order to overcome time barriers.

Despite the usual lengthy process of law approval in the US, a positive step to the further development of the industry was the certification of pro-gamers. The US, since 2013, recognizes pro-gamers as professional athletes and has started to grant visas to pro-gamers coming from a foreign country to pursue a professional gaming future in the US. This is of great importance because the immigration laws in the US are extremely strict and the process to acquire a work visa is complex. This certification eases this process immensely. Europe also has some professional gaming leagues such as the LCS (League of Legends Championship Series) and gaming events like the IEM (Intel Extreme Masters) or DreamHack.

Pro-gamers earn money mainly through two ways: salaries and prize money. Salaries are paid by the teams that sign a contract with the players to represent them and ensure that a player's earnings are not solely based on results. Prize money however, is based on results and only the teams/players able to succeed are can attain them. These prizes are given by the companies that organize the competitions.

Live events in professional gaming have become similar to sports events or music concerts. In these events, teams or individual players compete in front of a live crowd much like a football or basketball competition. Spectators of a professional gaming event watch the competition through a giant screen usually located between or above the players. There is also live commentary provided by announcers to explain the details and strategies being displayed in a certain competition and also to provide entertainment between games by analyzing the games or interviewing the players involved. The opportunity to interact with the players and share the atmosphere with other fans has led to an increase in the popularity of these live events in the US.

Seemingly immune to the economic crisis the country was facing since 2008, professional gaming evolved into a structured industry and the investment in it was a

viable strategy. Competitions became global with players from all regions playing against each other and events being held all over the globe, from Europe to Asia and America.

2.5. Current situation

Nowadays, pro-gamers have a celebrity status amongst the community that follows professional gaming. As table 1 shows, the US has an estimated 2250 pro-gamers that earn around 14 million dollars per year all together. It is the country with the highest number of pro-gamers and has the third highest total earnings for pro-gamers. The US has the most popular internet channels that are used to watch professional gaming and even Google showed interest in recent years to acquire another one of those channels (they already own YouTube) in order to gain control over that aspect of the industry. That channel was Twitch, which became the world's largest video streaming site in gaming in 2013. On that year the website had 45 million unique viewers per month who watched a total of 2.4 billion hours that entire year.

Table 1 - Top countries by professional gaming earnings¹⁰

Country	Earnings (dollars)	N° of pro-gamers
South Korea	20.951.498	990
China	15.184.024	497
USA	14.447.502	2250
Sweden	7.825.266	653
Germany	3.357.128	685

As a whole, the video game industry was worth 21.53 billion dollars in 2013, divided into three categories: content (the games themselves), hardware and accessories. This represents an increase from the 20.77 billion in 2012 but is still not as much as the 24.75 billion generated in 2011. The digital format for sales has also been growing when

¹⁰ <http://esportsearnings.com/countries>

compared to the physical sales format because of the ability to buy games through the internet.

Riot Games, Valve and Blizzard Entertainment still remain as the major companies in the professional gaming industry. There is not an intense rivalry between them in the battle for supporters despite the fact that the crucial aspect for profit in professional gaming is acquiring viewership and followership from the consumers. In video games gaining loyalty from consumers relates more to specific games rather than a brand. Many consumers spend time watching and using the products of multiple companies. Watching professional gaming is an activity comparable with viewing any other sports competitions. It is a form of entertainment and as such it relies on a consumer decision to watch a specific competition.

The top tier videogames for professional gaming in terms of popularity are *Dota 2*, *League of Legends* and *StarCraft 2*. These games generate the most viewership and have the biggest prize pools in professional gaming. *Dota 2* has beaten the record for the biggest prize pool in professional gaming history in its annual event, The International, with a total of 10 million dollars in prizes for the competing eight teams. On a lower tier in terms of popularity, but still with good presence in the professional gaming community are games like *WarCraft 3*, *Call of Duty*, *World of Tanks*, *Hearthstone: Heroes of WarCraft*, *Counter-Strike GO* and *FIFA 14*.

The popularity of games is determined by both the number of people playing the game worldwide and the number of people who watch the professional competitions. League of Legends has 27 million players daily and 67 million monthly worldwide. Obviously, some games are more popular in certain regions of the world than others. Sometimes, a language barrier emerges and affects the distribution of videogames. This is particularly true when western companies try to launch their products in Asia because there is a delay in translating all the content.

The distribution of professional gaming events is very well established nowadays. The Internet provides a simple and inexpensive way of distributing videogame competitions by streaming them online. Streaming is used to capture a much larger audience than live events and to allow consumers to spectate competitions that take place online instead of in a live event. This online channel has allowed for the globalization of professional gaming. Over 44% of the world's online population, which means people who can

access to the internet, play online games (Spill Games, 2013) Therefore, this is the channel that most effectively reaches the community that is available to watch professional gaming.

Professional gaming is usually associated with men. As far as professional gamers go, that still holds true but currently, viewership numbers indicate that more and more women are becoming interested in the world of professional gaming. That is also visible in the live events and the increasing number of women who take the time to attend them. Overall, the ratio between men and women watching professional gaming is currently at 1/5.67 (data by MLG). However, within e-sports enthusiasts¹¹, the difference is much smaller, and 30% of all e-Sports enthusiasts are women. Furthermore, the average age of a viewer for both genders is 21 years old (Newzoo 2014).

In 2013, the League of Legends Season 3 World Championship attracted 32 million viewers worldwide, an increase of 400% from their previous event (Season 2 World Championship) that had over 8 million viewers. The live event took place in Los Angeles but was also broadcasted through several streaming websites worldwide. That number outdoes some sports TV broadcasts like the NBA Finals decisive game seven (26.3 million viewers) (SuperData Research, 2014).

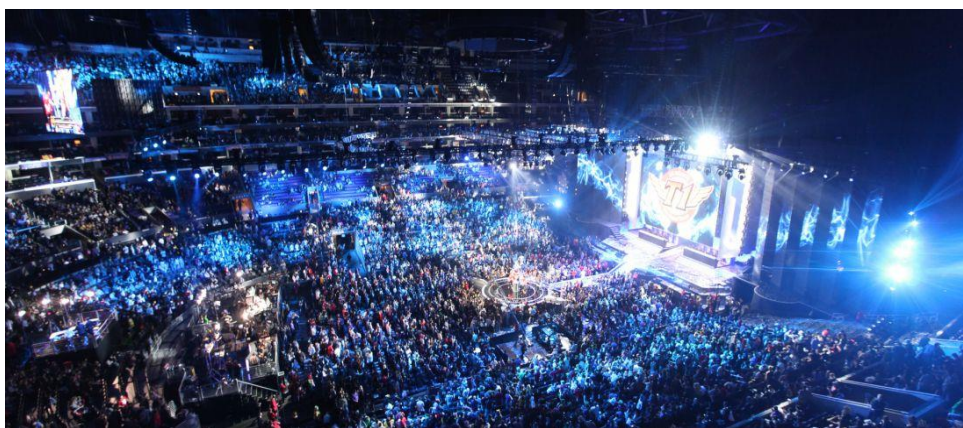


Figure 1 - Crowd attending the LOL World Championship Final (Source: www.ongamers.com)

Professional gaming viewers are spread out over the entire world because the internet provides a global platform. Nevertheless, the regions with the most viewers are the ones

¹¹ Frequent eSports viewers

where professional gaming is already structured like Korea, China, Europe and North America. Some other countries like Turkey, Russia and Brazil are experiencing a growth in terms of viewers. Still, the US is the country with the most viewers overall partly because of its large population but also because there is a growing interest in the culture of gaming. Also, the fact that people are spending more and more time on the internet¹² makes professional gaming a suitable entertainment product for them. These viewers also influence the industry by making certain demands to the companies like the improvement of the streams quality or the quality of the venues for the live events.

In the US, the most prominent websites for streaming professional gaming competitions are Twitch, YouTube, Azubu.tv and the Major League Gaming website. Twitch gained a large advantage over the other websites when they signed an exclusivity deal with Counter Logic Gaming, a professional LOL team that previously has a contract with Azubu.tv¹³. These websites have replaced television for people looking for entertainment and since the TV screen is no longer the sole family focal point, brands are struggling with where to run their video ad content (Spill Games, 2013) and these streaming websites are a possible solution.

The professional gaming industry still has a lot of potential to grow, mainly in terms of acquiring new viewers. If we look at who is playing video games nowadays, we see that 48% of players are women. As figure 2 also shows, most of the players are over 36 years old. These are the players that are currently not watching professional gaming but are potential consumers for the industry. We can also see that the average age of professional gaming viewers (21 years old as referred previously) is about 15 years below the average of video game players. Despite the strong connection between playing video games and being interested in watching professional competitions featuring those games, the majority of players have not yet been attracted to professional gaming.

¹² <http://www.emarketer.com/Article/Digital-Set-Surpass-TV-Time-Spent-with-US-Media/1010096>

¹³ <http://www.ongamers.com/articles/counter-logic-gaming-announces-new-streaming-partnership-with-twitch/1100-1627/>

PROFESSIONAL GAMING IN THE USA

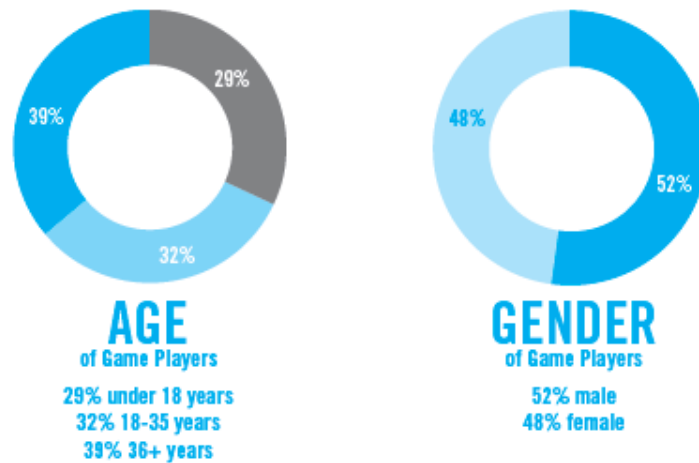


Figure 2 - US video game players' demographics (Source: Entertainment Software Association 2014)

One of the concerns for the industry is the current economic situation of the US particularly its debt which is now over 17 trillion dollars, more than 100 % of the GDP (see figure 3), as the debt ceiling has been raised by the President to allow the country to borrow more money. Another issue is the inflation rate that has increased from 1.5 in the beginning of 2014, to 2.1 in June 2014. Because it is perceived as an entertainment product, professional gaming may suffer from the low purchasing power that a possible new crisis may inflict in the US. The fear of a new crisis is still present due to the extended fallout of the global financial crisis of 2008.

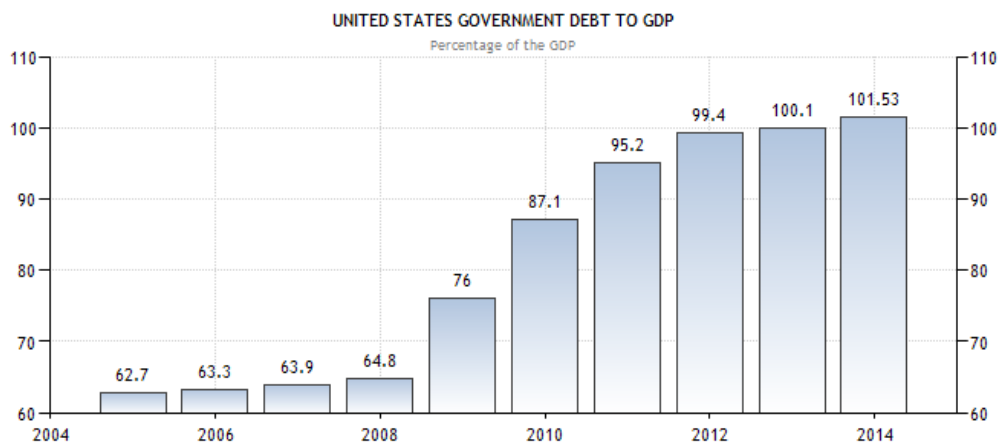


Figure 3 - US debt to GDP ratio over the past ten years (Source: www.tradingeconomics.com)

2.6. Blizzard Entertainment

Blizzard Entertainment is a developer and publisher of entertainment software since 1994 and arguably the most recognizable brand in the video games market. The company belongs to the Activision-Blizzard group and has its headquarters in Santa Monica, California. The group has video game development locations across the globe, 16 cities in total, but the majority is still located in North-America. Blizzard itself has 9 locations worldwide that work on video game development. In 2013 Activision-Blizzard presented 4.3 billion dollars in revenue, a decrease of 700 million dollars from their 2012 revenues. In their latest quarterly report (June 2014), the group presented the following values (millions of dollars):

Table 2 - Values for the second quarter of 2014

Assets	4.199
Liabilities	167
Net income (January-June 2014)	497

For Blizzard in specific, the revenues in 2013 decreased by 485 million dollars and the company offers the following explanation for that decrease: “Blizzard’s net revenues decreased for 2013, as compared to 2012, primarily due to the release of *Diablo III* in May 2012, without a comparable release in the current year, lower revenues from the World of Warcraft franchise, and the release of *World of Warcraft: Mists of Pandaria* in September 2012, without a comparable release in the current year. The decreases were partially offset by the release of *StarCraft II: Heart of the Swarm* in March 2013, the release of *Diablo III* for the Playstation 3 and Xbox 360 in September 2013, and revenues from *Hearthstone: Heroes of Warcraft* during its closed beta” (Activision-Blizzard annual report, p.29).

Blizzard Entertainment has been responsible for some of the best-selling games in history. Video games like *StarCraft*, *World of Warcraft* and *Diablo* have created franchises of their own and made a distinctive mark in video games history. However, the company has experienced some problems in the past few years. If we concentrate on the professional gaming industry in particular, Blizzard has struggled to stay as relevant as its two main competitors: Valve and Riot Games.

The popularity of the *StarCraft* franchise was the biggest asset that Blizzard had in the professional gaming community. However, in recent years, with the release of *StarCraft 2*, that popularity has been decreasing as players have started to migrate to other video games. Despite still being the #1 selling PC game of 2013, the *StarCraft* franchise is not able to attract nearly the same amount of viewers or players as *League of Legends*. This discrepancy between sales and viewership numbers can be explained by the fact that Riot Games, for instance, has a free-to-play model where their video games do not require a purchase from consumers, they are free. Riot Games offers in-game purchases that are not required to play the game, they are simply extra visual upgrades the players can buy. More than a matter of preference change from the customers, perhaps it were some internal issues that lead to a decrease in prominence that the company had in the professional gaming industry.

In 2012, the company decided to lay off 600 workers due to the decrease in player traffic for their online video game *World of Warcraft*. Most of the people laid-off occupied positions not related to game developing but such a large firing instead of relocating employees to other developing games was a sign that the company was expecting a decrease in revenues. Furthermore, Blizzard lost one of their top game developers, Greg “Ghostcrawler” Street, who decided to accept an offer from Riot Games. Human resources are fought over by the main companies in the video game industry because great game developers are a core asset of any strategy. The compensation policies, like stock based compensation Blizzard offers, were not enough to retain such a valuable asset.

The Activision-Blizzard group also took some organizational decisions that deeply impacted the results of Blizzard and their options moving forward. The “2011 Restructuring” involved a focus on the development and publication of a reduced number of titles which included: “the discontinuation of the development of music-based games, the closure of the related business unit and the cancellation of other titles then in production, along with a related reduction in studio headcount and corporate overhead” (Activision-Blizzard annual report 2013, p. 28). However there is a lack of cooperation between Activision and Blizzard because they both focus on their own projects or in collaborations with other companies.

Blizzard is also developing a new game called *Heroes of the Storm*, from the same genre as LOL and DOTA. The game has still not been released to the public (still has to go through beta testing) and we already have a professional team confirmed¹⁴. This game is another attempt by Blizzard to remain relevant in the professional gaming industry. The company describes this new project as follows: “Blizzard is hard at work on another free-to-play game, *Heroes of the Storm*TM. *Heroes of the Storm* taps into a booming genre, the free-to-play online team brawler” (Activision-Blizzard annual report 2013, p.18). The company believes one distinct advantage this game will have is the fact that several characters of this game are withdrawn from their other franchises such as *Warcraft*, *StarCraft* and *Diablo*.

2.7. Case questions

1. Develop a PESTEL analysis and indicate what factors were barriers for the professional gaming industry’s first developments in the US.
2. Analyze the professional gaming industry in the US using the Porter 5 forces framework.
3. Develop a VRIO analysis for Blizzard.
4. Develop a SWOT analysis for Blizzard.

¹⁴ http://2p.com/8252739_1/First-Heroes-of-the-Storm-Professional-Team-Announced-by-Ancol-Lin.htm

3. Pedagogical Note

3.1. Target audience

This case study is aimed at students of bachelor degrees from the Management area. Given the analytical tools to be used in the case study resolution, it better suits the courses of Strategy taught within these Management degrees that focus internal and external analyses, and the firm's response to its shifting environment, in search of a sustainable competitive advantage.

Because this case study is based on real information it can also be used in recruitment processes in order to determine a candidate understanding of the strategic frameworks to be used and also their skills when applying them. As such the companies that would have an interest in using this case study would be consultancy firms looking to hire new employees particularly for strategy consultancy as it is a common practice to use case studies to evaluate candidate's skills. However, the focus and interest of this pedagogical case study is in the classroom setting.

3.2. Pedagogical objectives

The pedagogical objectives of this case study are as follows: to consolidate the theoretical knowledge about the analytical tools (PESTEL; Porter 5 forces; VRIO; SWOT) used in this case study; to provide a practical exercise to train the development of those analyses; and also to allow the understanding of how the professional gaming industry in the US operates.

Through the resolution of this case study, it is hoped that students will improve their overall knowledge of strategic analysis and its importance to the study and development of a successful business strategy. Therefore, this pedagogical case study should allow students to develop the ability to:

- Apply the same analytic tools/frameworks in other situations;
- Understand the process of perusing information to withdraw conclusions;
- Understand the importance of the analytical tools presented;

- Identify the key variables used for both the internal and external analysis;
- Comprehend the significance of the external environment.

3.3. Literature review

This literature review will present the concepts and strategic analyses that the pedagogical case study requires students to use as well as contextualizing them. Analyses such as the Porter 5 forces and its relevance to the development of an industry analysis; the PESTEL analysis and how it provides a framework to study the external environment; the VRIO analysis and its importance in understanding a firm's resources and capabilities that translate into internal strengths and weaknesses; and the SWOT analysis that consolidates the information from the previous analyses.

3.3.1. Industry analysis

An industry is a “a group of companies offering products or services that are close substitutes for each other—that is, products or services that satisfy the same basic customer needs” (Hill et al 2013, p.47). A company must determine which industry it is competing in by looking at the basic customer needs it is serving. The identification of the industry the company operates in is the first step in an industry analysis (Hill et al 2013). The identification of an industry's boundaries and therefore its definition are not always easy to do.

To proceed with an industry analysis, managers must understand that the industry environment comprises a set of factors that directly influence a company and its competitive actions and responses (Hitt et al 2011). That set of factors determines an industry's intensity of competition and profitability (Porter 1980). Managers have to gather information in order to proceed with the industry analysis and one crucial aspect is competitor analysis.

A competitor analysis enables a company to “predict the extent and nature of its rivalry with each competitor” (Hitt et al 2011, p. 133). By gathering information about the industry as a whole and each competitor in specific, a company sets and adjusts

strategies. Relating a company to its environment, particularly the industry it competes in, is essential for formulating competitive strategies (Porter 1980).

The five forces model was presented by Michael E. Porter in 1979 as a framework for industry analysis. The objective of this model was to study the competing forces present in an industry in order to determine a company's best possible position and formulate a strategy so that this position would not be vulnerable to attack (Porter 1979). The state of competition in an industry, according to the model, can thus be determined by those five forces which are as follows:

- The threat of new entrants
- The bargaining power of suppliers
- The bargaining power of customers
- The threats of substitute products or services
- Rivalry among current competitors

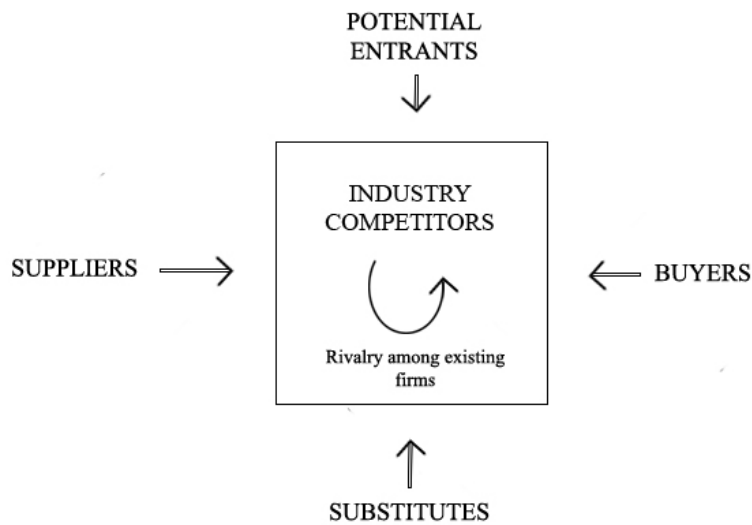


Figure 4 – Porter's 5 forces model (Source: Porter 1979)

Because this model was presented in 1979, suggestions have been made since then in order to improve it. Specifically, it has been suggested that the introduction of other forces could add value to this framework. The power of other stakeholders, a sixth force, - such as government, local communities, creditors, trade associations, shareholders or unions- should be added to Porter's model (Wheelen 2012). In this same line of thought, the introduction of complementors was suggested (Brandenburger et al 1997). Complementors are companies or industries whose products work well with a firm's product and without which the product would lose much of its value (Wheelen

2012). These complementors can be integrated with the other stakeholders previously mentioned.

I will now analyze the forces and their determinants one by one starting with the threat of new entrants to the industry. “New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources” (Porter 1979, p.3). The degree of the threat of new entrants is determined by the existing barriers and by the reaction from existing competitors that the new entrants can expect.

A possible reaction from the existing competitors could be to cut prices in order to maintain market share (Porter 1979). These new entrants unsettle the industry because “...new competitors may force existing firms to be more efficient and to learn how to compete on new dimensions (e.g., using an Internet-based distribution channel)” (Hitt et al 2011). The companies already established in an industry may sometimes try to discourage potential new entrants in order to maintain their market share and their ability to generate profit intact (Hill et al 2013). Porter (1979) also identified six major sources of barriers to the entry of new competitors:

1. Economies of scale – forces the new entrant to come in on a large scale or to accept cost disadvantages.
2. Product differentiation – a barrier caused by brand identification that forces new entrants to spend heavily to overcome customer loyalty.
3. Capital requirements – the need to invest large financial resources for fixed facilities, customer credit or inventories
4. Cost disadvantages independent of size – learning curve, access to best raw materials, government subsidies and favorable locations are cost advantages that current competitors may have that are not attainable by new entrants no matter what their size is.
5. Access to distribution channels – new entrants have to secure their distribution channels and are sometimes forced to create their own.
6. Government policy – legal limitations to new entrants with controls such as license requirements and limits on access to raw materials.

“Suppliers can exert bargaining power on participants on an industry by raising prices or reducing the quality of purchased goods and services” (Porter 1979, p.5). Suppliers’ actions can reduce the profitability of an industry if “a firm is unable to recover cost

increases by its suppliers through its own pricing structure” (Hitt et al 2011, p.55). Their bargaining power can be determined by analyzing some factors that shape what kind of influence suppliers can exert on the industry. A supplier group is powerful if (Porter 1979):

- It is dominated by a few companies and has, therefore, a high concentration.
- The product they supply is unique or differentiated, or if there are switching costs present when changing from one supplier to another.
- It is not obliged to contend with other products for sale in the industry.
- It poses a threat to integrate forward into the industry and become a direct competitor with the companies they are supplying.
- The industry is not an important customer to the supplier group

The bargaining power of customers can be analyzed in the same manner as the suppliers. Customers determine demand and influence the characteristics of products. Customers can “force down prices, demand higher quality or more service, and play competitors off against each other...” (Porter 1979, p.5). Nowadays, in many industries, buyers have increased bargaining power because they have access to information about the manufacturer’s costs and because the Internet provides an alternative distribution channel and also because the switching costs for buyers are virtually zero (Hitt et al 2011). A customer group is powerful if (Porter 1979):

- It is concentrated or if customers buy in large volumes
- The products they buy are standard or undifferentiated (easier to find alternatives)
- The products purchased form a component of the buyer’s products (business-to-business) and represent a significant fraction of its cost.
- The industry’s product does not save the buyer money.
- The buyers pose a threat of integrating backwards to start making the industry’s products.

Substitute products are “goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces” (Hitt et al 2011, p.56). Substitute products can influence an industry by presenting a suitable, but not exactly equal, alternative solution that can satisfy the same need (Wheelen et al 2012).

These substitutes limit the profit potential of an industry by presenting a more attractive price-performance trade-off (Porter 1979). Substitute products that deserve the most strategic attention are the ones subject to trends that improve their price-performance trade-off or the ones being produced by industries with high profits (Porter 1979).

However, the identification of possible substitute products is not always obvious: “sometimes a difficult task, the identification of possible substitute products or services means searching for products or services that can perform the same function, even though they have a different appearance and may not appear to be easily substitutable” (Wheleen et al 2012, p. 112).

The final determinant force of an industry is the rivalry between its competitors. The actions of one firm will cause noticeable effects on its competitors and may cause retaliation (Wheelen et al 2012). This rivalry intensifies when “a firm is challenged by a competitor’s actions or when a company recognizes an opportunity to improve its market position” (Hitt et al 2011, p.57). Tactics like price competition, product introduction or intense advertising are used to gain a better position in the industry (Porter 1979). An intense rivalry between established companies is a threat to profitability because it lowers prices and raises costs (Hill et al 2013). On the other hand, a less intense rivalry gives firms the chance to raise prices and reduce their spending. There are a number of factors that influence this rivalry (Porter 1979):

- Competitors are numerous or are more or less equal in size and power.
- Industry growth is low which prompts a battle for market share.
- Fixed costs are high or the product is perishable causing a temptation to reduce prices.
- Exit barriers are high, for instance, the possession of specialized assets, and management’s loyalty to a particular business. Companies keep operating in a business even with low or negative earnings.
- The product/service lacks differentiation or switching costs
- Capacity is normally augmented in large increments causing periods of overcapacity and price cutting.
- The rivals are diverse in strategies which leads to different ideas about how to compete.

3.3.2. External environment analysis

The general environment is composed of “dimensions in the broader society that influence an industry and the firms within it” (Hitt et al 2011, p. 37). This environment falls beyond a firm’s ability to control it. A distinction could be made between this macroenvironment, that contains forces that are unpredictable and uncontrollable, and the microenvironment composed of Porter’s five forces (Kotler 2014). The number of forces (or factors) that are present in this macroenvironment varies according to different authors:

- “We group these dimensions into seven environmental segments: demographic, economic, political/legal, sociocultural, technological, global, and physical” (Hitt et al 2011, p. 37).
- “...includes all the external factors - competitive, economic, political, legal/regulatory, technological, and sociocultural” (Ferrel et al 2011, p. 101).
- “...consists of the larger societal forces ...demographics, natural, technological, political and cultural forces” (Kotler et al 2014, p. 93).

Scanning the macroenvironment requires monitoring, evaluating and disseminating information (Wheelen et al 2012). One of the frameworks developed to perform this study of the external environment is the PESTEL analysis. PESTEL stands for political, economic, social, technological, environmental and legal.

The **political environment** consists of “laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society” (Kotler 2014, p. 107). Politics influence every aspect of the day-to-day life and therefore, companies should make an effort to “track political trends and attempt to maintain good relations with elected officials” (Ferrel et al 2011, p. 106).

This latter statement is a subtle suggestion towards lobbying, a practice that drastically influences governments and official institutions support or lack of support for specific industries and companies. Political stances can be influenced and companies must decide how to act: “some organizations publicly protest legislative actions, whereas others seek influence more discreetly by routing funds to political parties or lobbying groups” (Ferrel et al 2011, p. 106). Some examples of political variables are

government stability, special incentives, deregulation philosophies, educational philosophies and policies.

The **economic environment** consists of economic factors that influence customers' purchasing power and spending patterns (Kotler 2014). Such "...forces affect the general health and well-being of a nation or the regional economy of an organization, which in turn affect companies' and industries' ability to earn an adequate rate of return" (Hill et al 2013, p.71).

Variables within this economic dimension include GDP trends, inflation rates, interest rates, unemployment levels and currency markets among others. Hill et al (2014), state that the four most important macroeconomic factors are: growth rate of the economy, interest rates, currency exchange rates, and inflation rates.

1. Economic growth: leads to an expansion in customer expenditures; eases competitive pressures within an industry.
2. Interest rates: impact demand by changing customers' ability to borrow money; influence a company's cost of capital and promote or refrain new investments.
3. Currency exchange rates: define the comparative value of different national currencies; reduce or increase the threat of foreign competitors.
4. Inflation rates: price inflation slows economic growth; price deflation increases the real price of fixed payments (eg: debt payments).

The **social environment** refers to the way mores and values affect an industry (Hill et al 2013) and this dimension encompasses many aspects. Some authors (Ferrel et al 2011) include cultural factors and others (Hill et al 2013) separate demographic and social forces. In a PESTEL analysis, the demographic forces should come with this analysis of the social environment.

Socio-cultural factors affect the way people live, their values, beliefs and attitudes that influence their buying patterns (Ferrel et al 2011). Some examples of variables to be studied in this environment include the growth rate of the population, age distribution, life expectancies and birthrates, level of education, workforce diversity and health care.

The **technological environment** refers not only to new high-tech products but also to the "way we accomplish specific tasks or the processes we use to create the "things" we consider as new" (Ferrel et al 2011, p. 107). Therefore it includes institutions and

activities that create new knowledge and translate that knowledge into new outputs, products, processes, and materials (Hitt et al 2011). The rapid technological changes we are experiencing nowadays can create new product possibilities or make a product obsolete overnight and therefore it is both creative and destructive (Hill et al 2013). Some examples of variables present in this environment include research and development spending, patent protection, new products, telecommunication infrastructure, product innovations and applications of knowledge.

The **natural environment** involves the physical environment and the natural resources that both influence and are influenced by a company's activities (Kotler 2014). This natural environment refers to "...potential and actual changes in the physical environment and business practices that are intended to positively respond to and deal with those changes" (Hitt et al 2013, p.49). It is clear the impact that the ecological and environmental-friendly policies around the world has had in consumers and businesses. The Kyoto Protocol is a strong example of this because almost two decades ago, the trends in pollution provoked a discussion about greenhouse gas emissions that led to government intervention from the biggest economies in the world. The subject of global warming has divided politics, companies and society and has presented new threats and opportunities for businesses.

The shortage of raw materials and the overexploitation of natural resources has also caused major actions to be taken in order to protect ecosystems. Institutions like the South Atlantic Fishery Management Council have limited the permitted activity of fisherman to protected fish species from extinction. Some examples of the variables that should be studied in this dimension include energy consumption, renewable energy efforts, carbon footprints, sustainability policies, resource availability and government regulations.

The **legal environment** is concerned with legal and regulatory issues that have close ties to events in the political environment (Ferrel et al 2011, p. 106). Therefore, some authors analyze the political and legal environments jointly. Business legislation has been enacted in order to protect companies from each other, protect consumers from unfair business practices and to protect the interests of society against unrestrained business behavior (Kotler 2014). By promoting honest competition and fair markets for goods/services, legislation limits and controls businesses' actions. Some examples of

variables that companies should pay special attention to in this environment include tax laws, foreign trade regulations, laws on hiring and promoting, and outsourcing regulations.

3.3.3. Internal analysis

The internal analysis is developed to evaluate a firm’s strengths and weaknesses through the study of its resources and capabilities. Resources are tangible and intangible assets that can be used to create and implement a firm’s strategy. They can be separated into four categories: financial; physical; human; and organizational. A possible definition of capabilities is that they are a subset of the firm’s resources that enable the firm to take advantage of the other resources it controls (Barney et al 2012). Another possible definition is that capabilities are results of teams of resources working together and what the firm can do with them (Grant 1991). Marketing skills, teamwork and cooperation between managers are examples of capabilities (Barney et al 2012).

One of the frameworks to develop an internal analysis is the VRIO framework. This framework is built with a resource-based view, a model of firm performance that focuses on the resources and capabilities controlled by a firm as sources of competitive advantage in order to determine a firm’s internal strengths and weaknesses. VRIO stands for Value, Rarity, Imitability and Organization and those are the four questions one must ask about a resource or capability to determine its competitive potential (Barney et al 2012). These questions are summarized on the following table:

Table 3 - The VRIO analysis' questions (Source: Barney et al, 2012)

Value	Does a resource enable a firm to exploit an environmental opportunity and/or neutralize an environmental threat?
Rarity	Is a resource currently controlled by only a small number of competing firms?
Imitability	Do firms without a resource face a cost disadvantage in obtaining or developing it?
Organization	Firm’s policies and procedures organized to support the exploitation of valuable, rare, and costly-to-imitate resources?

The first question of this analysis is the question of value. If a firm answers this question positively, its resources and capabilities are considered strengths but if the answer is negative, they are considered weaknesses. One way to identify potentially valuable resources and capabilities is to analyze the value chain of a firm. A firm's value chain is "the set of business activities in which it engages to develop, produce, and market its products or services" (Barney et al 2012, p.72).

The value chain developed by Mckinsey suggests that the creation of value involves six different activities: technology development, product design, manufacturing, marketing, distribution, and service. Another value chain model created by Michael E. Porter, based on McKinsey's value chain, divides value creating activities into two groups: primary and support activities. Primary activities include inbound and outbound logistics, production, warehousing, distribution, sales and marketing. Support or secondary activities include infrastructure activities, technology development, human resource management and procurement.

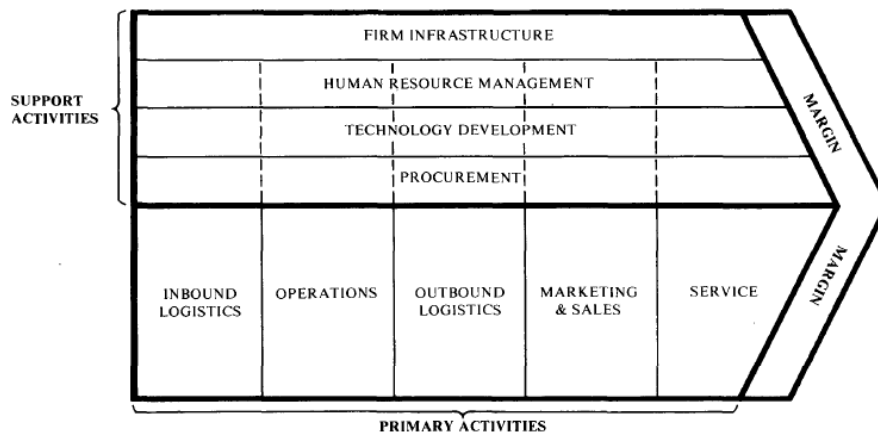


Figure 5 - Porter's value chain model (Source: Porter 1985)

The second question of the VRIO analysis is the question of rarity. If a firm's resource is determined to be valuable, only if it is not controlled by numerous other firms is it likely to be a source of competitive advantage because if a resource is valuable but common it is a source of competitive parity (Barney et al 2012). "In general, as long as the number of firms that possess a particular valuable resource or capability is less than the number of firms needed to generate perfect competition dynamics in an industry, that resource or capability can be considered rare and a potential source of competitive advantage" (Barney et al 2012, p.76).

The third question in this analysis is the question of imitability. Valuable and rare resources are sources of sustained competitive advantage only if firms that do not have them will face a cost disadvantage to obtain them (Barney et al 2012). There are four basic factors that may cause a resource to be costly to imitate (Barney et al 2012):

- Unique historical conditions – a firm gains low-cost access to resources because of its place in time and space
- Causal ambiguity – when competitors cannot tell for sure what enables a firm to gain an advantage
- Social complexity – when the resources and capabilities a firm uses to gain a competitive advantage involve interpersonal relationships, trust or culture
- Patents – only advantageous in some industries (eg: pharmaceuticals)

The final question of the VRIO analysis is the question of organization. Although a firm’s potential depends on value, rarity and imitability of its resources and capabilities, in order to fully get that potential a firm must be organized to exploit those resources and capabilities (Barney et al 2012). There are numerous components of a firm’s organization relevant to this question and these components are often called complimentary resources and capabilities. Some examples of these components are the firm’s formal reporting structure, the firm’s formal and informal management systems and its compensation policies.

Table 4 - The possible outcomes of the VRIO analysis (Source: Barney et al 2012)

Valuable?	Rare?	Costly to imitate?	Exploited by the organization?	Competitive implications
No	-	-	No	Competitive disadvantage
Yes	No	-	-	Competitive parity
Yes	Yes	No	-	Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

3.3.4. SWOT analysis

The results of the previous frameworks presented in this thesis (PESTEL analysis; Porter 5 forces model, VRIO analysis) will often be used to develop a SWOT analysis or matrix that consolidates both external and internal information. “SWOT analysis is the most popular method for examining external and internal information” (Wheelen et al 2012, p.199).



Figure 6 - SWOT analysis framework (Source: Kotler, 2014)

The SWOT analysis is a study of a company's internal strengths and weaknesses as well as its external threats and opportunities with the purpose of identifying strategies that can create a company-specific business model aligned with the company's resources and capabilities to best fit the demands of the environment in which the company operates (Hill et al 2012). This analysis will therefore help managers "...synthesize a wide array of information and aid the transition to the firm's strategic focus" (Ferrel et al 2011, p.131).

The external analysis will determine the threats and opportunities a company has and which can be found in many different areas. The study of products/services, markets,

competition and technology is also crucial to identify threats and opportunities (Weihrich, 1982) On the other hand, the internal analysis will determine which are the company's strengths and weaknesses. The factors that define them can be found in areas such as management and organization, finance, operations and marketing (Weihrich 1982), which can be studying through the VRIO analysis.

The SWOT matrix, by focusing on the possible interactions between its four variables, indicates four possible generic strategies (Weihrich 1982):

- WT strategy – one position every firm will want to avoid where they have to minimize both weaknesses and threats.
- WO strategy – minimize weaknesses in order to take advantage of opportunities.
- ST strategy – maximize the strengths of the organization to combat and minimize the threats it faces.
- SO strategy – ideal position where the company can maximize their strengths and take full advantage of the opportunities the market presented.

Table 5 - Possible strategies from the SWOT analysis (Source: Weihrich 1982)

	Opportunities	Threats
Strengths	SO	ST
Weaknesses	WO	WT

3.4. Methodology

The composing of the pedagogical case study was based on gathering, processing and selecting information from secondary sources. The secondary sources used were scientific articles related to professional gaming and video games, reports related to the video game industry and archival data containing information about the country being study. Other secondary sources used were several websites that published news, reports or interviews appropriate to the case study. Once the information that was selected due to its relevance and accuracy was obtained, the case study was structured into six main sections:

1. Introduction – providing a definition of professional gaming and eSports as well as justifying the choice of the USA for the purposes of the case study.
2. Early stages – providing a brief history of the first steps of the industry.
3. Issues and controversies – providing information about the external environment of the industry and the problems it faced that justify the slow growth it experienced throughout the first decade of the 21st century.
4. The industry's rise – providing information about the changes that lead to the exponential growth of the industry
5. Current situation – providing an insight about the current status of the industry and of its external environment.
6. Blizzard Entertainment – providing specific information about one company facing some troubles to maintain and expand their business in the professional gaming industry.

Case studies are complex examples which give insights into the context of a problem (Fry et al 1999). Case studies are also an inquiry that “investigates a contemporary phenomenon within its real-life context” (Yin 2014). Despite the fact that this pedagogical case study in particular is not exactly a traditional, there are similarities with the concept of a case study particularly on the utility they give for teaching purposes because “educational research has shown case studies to be useful pedagogical tools” (Davis et al 2003, p.4).

Davis et al 2003 state that, in their experience, case studies can be used to (Davis et al 2003, p.4):

- Allow the application of theoretical concepts to be demonstrated, thus bridging the gap between theory and practice
- Encourage active learning
- Provide an opportunity for the development of key skills such as communication, group working and problem solving.
- Increase the students' enjoyment of the topic and hence their desire to learn

We can see that these uses for case studies are in line with the pedagogical objectives proposed for this pedagogical case study.

The literature review was structured to present the four types of analysis in a comprehensible manner and in a logical sequence by using the following structure:

1. Environmental analysis – beginning with an analysis of the external aspects surrounding an industry and presenting the concept of the PESTEL analysis.
2. Industry analysis – following with an analysis that includes the immediate variables and actors that a company interacts with and presenting Porter's five forces model.
3. Internal analysis – bringing the analysis inside the company and presenting the VRIO framework.
4. SWOT analysis – finishing the literature review with an analysis that includes both external and internal factors and therefore extracts information from the previous analyses presented.

3.5. Animation Plan

In order to take full advantage of this case study for teaching purposes, some recommendations should be considered. When being used in a classroom, this case study can be solved either individually or in small groups (of 4 to 5 to ensure all members are able to participate and that fruitful discussion can be undertaken). The reading of the case study should be done prior to the class so that the students can start working on the analysis required right away and also to allow them to search for any extra information they believe to be relevant to improve their resolution of the case study.

It is suggested that the resolution of this case study should be done in a total of 180 minutes (3 hours) which represents two classes in most universities. Therefore, there will be three stages in each of those classes with stages 1-3 being performed in the first class and stages 4-6 being performed on the second class. The stages are as follows:

- **Stage 1:** this stage is the preparation of the resolution and therefore is done before any of the questions are studied.
- **Stage 2:** resolution of the first question regarding the PESTEL analysis
- **Stage 3:** resolution of the second question about the Porter 5 forces model
- **Stage 4:** if necessary, review the work done in the previous class and the resolution of the third question regarding the VRIO analysis
- **Stage 5:** resolution of the final question concerning the SWOT analysis
- **Stage 6:** withdraw conclusions about the case and the analysis developed

For the first and last stages of the resolution of this case study it is suggested that the teacher ask the students some animation questions in order to motivate them about the case and to understand what knowledge they have about professional gaming.

These are the starting animation questions:

1. What do you know about the professional gaming industry?
2. Are you personally interested in professional gaming?
3. Do you play any videogames? Which ones?
4. Did you find the case study interesting?

These are the finishing animation questions:

1. What particularities did you find about the professional gaming industry?
2. If you were a manager for a company investing in professional gaming what strategy would you use? Which audience would you target?
3. Do you think that strategy (answered in the previous question) would suit Blizzard Entertainment? If not, what other suggestions would you make to that particular company?

The following table summarizes the time and tasks to be done in every stage for the resolution of this case study:

Table 6 - Animation plan

Stage	Time (min)	Tasks
1	20	Ask the students the starting animation questions Evaluate the students understanding of the case study Explain any doubts placed by the students
2	30	Analyze the information in the case and develop a PESTEL analysis Chose a student (or a group) to present their analysis and ask the rest of the students to provide their input
3	40	Analyze the information in the case and produce a Porter 5 forces analysis Chose a student (or a group) to present their analysis and ask the rest of the students to provide their input Ask the students what are the substitute products for professional gaming.
4	40	Analyze the information in the case about Blizzard Entertainment and develop a VRIO analysis Chose a student (or a group) to present their analysis and ask the rest of the students to provide their input
5	20	Analyze the information in the case and construct a SWOT analysis Chose a student (or a group) to present their analysis and

		ask the rest of the students to provide their input
6	30	Presentation of the resolution slides and ask the students what difficulties they found when solving the questions Ask the students the finishing animation questions

3.6. Case resolution

Important Note: It is expected that in preparing for and analyzing this case, students will research additional sources. Therefore, while primarily based on the data presented, the resolution can include elements not explicitly mentioned therein.

3.6.1. Case question 1: Develop a PESTEL analysis and indicate what factors were barriers for the professional gaming industry's first developments in the US.

Political

The US is a country that emphasizes the importance of democracy and giving a voice to all its members. The strong values present in their constitution set the tone for the discussions in the political atmosphere. The belief that everyone is entitled to a presence in the governmental decisions has led to the creation of a strong democratic setup. However this democratic setup enables power struggles that are present in every aspect of the political atmosphere in the US. Notoriously, the Republican Party and its conservative views create a political resistance towards some video games. This resistance affects professional gaming by placing a negative connotation on video games and resulting in a lack of support for the industry.

When we look at the importance of lobbying groups in this discussion we can conclude that the pressure the government faces is harsh and can shift the attention from developing the country and resolving its issues towards a strictly political agenda. In this environment, professional gaming has a tough time arguing his case because other matters are more important and have larger lobbying groups supporting them.

Another issue that this strong democratic setup brought to the US is the lengthy design and approval of laws. Each law is scrutinized by several institutions, more notoriously the Senate and the House of Representatives, in a process that can extend for many years. Particularly, laws that present significant changes in any aspect of the country's current procedures and policies will take full commitment from government and society in order to be approved. The Affordable Health Care act is one of the most recent examples of this. When we look at the needs professional gaming has nowadays in

terms of legislation, we can determine that it would take a long time to approve any type of law such as pro-gamers contracts or new taxes on the industry (or tax exemption as is the case with the National Football League).

Economic

The US economy is the largest in the world and its markets set the pace for the global economic landscape. The stock market in particular concentrates the attentions of analysts from all over the globe. However, as a country, the US has struggled with economic issues in recent years when the financial crisis of 2008 crippled not only the US but many other economies. Nowadays, there are some major concerns in the US economy.

Firstly, the increasing national debt has raised the alarm over the amount of money the government has been spending. The debt ceiling has been raised several times but the issue itself has not been tackled. The issue is that currently, the national debt exceeds the annual GDP which raises concerns about the country's ability to sustain that debt because in recent years the US has not been able to reverse the growth of their national debt. If there is a need to increase tax revenues, companies will see their profits reduced and this is why companies in the professional gaming industry have expanded their businesses to other countries in order to increase their revenues.

Secondly, the increase in the inflation rate witnessed in 2014. This could mean a decrease in competitiveness of US companies and a consequent decrease in the purchasing power of customers as salaries remain the same. These inflation rates also increase prices which can directly impact video game companies and consequently, professional gaming. The fear of a new recession is also ever in the country. The 2008 financial crisis left a mark and a warning for the future of the country. The collapse of the economy does not seem probable in the near future but that risk impacts businesses.

One of the positive indicators for the US economy is the decrease in the unemployment rate after years of social concern due to its increase. This indicator shows that companies are hiring and that the economy is moving forward positively showing a growth of 4.20% in the second quarter of 2014.

Social

The US society is extremely varied in many aspects: opinion; origins; age; race. Despite having a white race majority, its population of over 300 million people also has many African Americans, Hispanics and Asians. There is also a creased difference between rural and urban areas especially when subjects of conservationism or changes to the constitution emerge.

The country is engulfed in many social discussions that deeply divide the nation because they touch very sensitive aspects of life. Topics like same sex marriage or changes to gun policies provoke heated debates in society. Because of its varied population, differences in opinion are arguably more frequent in the US than in most of the western countries.

Another important social aspect in the US is the impact that media coverage has on public opinion. The strongest example is actually video games because as stated in the case study, the link between violence in video games and the high violent crime rate in the country has been presented many times by the media. Overall, there is also an intimidation from the media because many topics are hyperbolized causing social misconceptions as is the case with the video games discussion. As the case study states, the link between a school shooting and violent video games was presented by the media without any actual proof. Perhaps the goal was to shift attention away from the gun policies issues the country had.

Lastly, society as a whole has moved many of its interactions to the online world. The social media in particular, have enabled communications to take place in a virtual atmosphere instead of a physical environment. People spend more and more of their time in the internet and using communication technologies like phones, tablets or PCs¹⁵.

¹⁵ <http://www.nielsen.com/us/en/insights/news/2014/how-smartphones-are-changing-consumers-daily-routines-around-the-globe.html>

Technological

The US is one of the world's centers for technology research and development in various fields of science and engineering. Whether in space, medicine or communication technologies, the US is on the frontline of technological change and these changes are happening faster and faster as years go by. Entrepreneurship is a concept very well cemented in the American society and many try to bring something new to the market with their ideas and inventions.

Hardware and software companies are probably the most pressured to produce innovation and adaptation to newer trends. Companies like Apple and Google are always on the race to bring a novelty into the market. When we look at the adaptation that some products have suffered, we can see that one example is professional gaming because nowadays, these companies already focus some products specifically for gaming purposes. For instance, a mouse developed for gaming purposes has more buttons than a regular mouse to allow extra and faster inputs from the players.

One of the biggest changes in the technological environment that the US experienced in the 21st century is the improvement of its broadband infrastructure. Internet and mobile communication enables much more interactions between companies and consumers. It has brought a new way to develop a business with concepts like e-commerce. The amount of geographical area covered has also improved tremendously and is no longer an exclusivity of large cities. This allowed players to participate in online professional competitions from their houses, something that was not possible in the beginning of the 21st century.

Environmental

Important Note: There is no information in the case study about the natural environment because there is yet no visible link between it and professional gaming. Nevertheless, a small analysis of this dimension is presented because it is possible that in the future the natural environment may have influences in the professional gaming industry.

The topic of climate change has been discussed for many years and concerns with global warming and pollution levels have led to a change in some of the practices that

companies perform and also in the habits of consumers. Nowadays, society has great awareness about ecological behavior and demands that companies comply with certain policies that have been put in place to protect the environment.

The US has been involved in some controversies related to environmental issues particularly the carbon emissions discussion, and their refusal to ratify the Kyoto Protocol has led to pressures from other countries due to the fact that the US may have an economic advantage if they do not comply with the protocol they have signed.

Legal

The US has a complex legislative system that derives from the need of protection the country has as a whole. For instance, the need to protect their borders originated strict immigration laws to stop the increasing flow of immigrants, especially from Mexico, that were trying to move to the US. Acquiring a work visa is a complicated process and requires scrutiny and acquiring nationality is even more so. This impacts players from other regions of the globe that want to compete in the US.

Another legal factor with great relevance is the high number of patent requests. This suggests that there is a good protection of intellectual rights in the US. However, when we take the analysis of this legal environment with aspects related to professional gaming we can determine that the anti-piracy laws the country has are not very effective. Video games companies, among other entertainment industries, suffer from the illegal copying activities that cripple their profits¹⁶.

The following table summarizes the most important topics in each dimension of the PESTEL:

Table 7 - Summary of the PESTEL analysis

Political
Strong democratic setup

¹⁶ <http://www.digitalspy.co.uk/gaming/news/a352906/software-piracy-the-greatest-threat-to-the-gaming-industry.html#~oRbfgwrnRwd4QF>

Lobbying groups influence government decisions Law designing and approval are lengthy
Economic
Increasing national debt Increasing inflation rate Decreasing unemployment rate Fear of a new recession
Social
High ethnicity mix Social discussions deeply divide the country Media coverage is highly influential Change of habits causing an exodus to the online world
Technological
Fast and continuous technological change Solid internet infrastructure and coverage Hardware and software innovations and adaptations
Environmental
Growing concerns with pollution Global pressure Environmental laws and policies impact businesses
Legal
Strict immigration policies Ineffective anti-piracy laws High number of patent requests

Barriers for the professional gaming industry’s first developments:

When analyzing the information presented in the case study we can determine that the following factors contributed for a slow initial development of the professional gaming industry:

- Inexistence of viable distribution channels
- Poor internet infrastructure
- Lack of government support

- Inexistence of regulations
- Social concerns with online activities, especially their impact on youngsters
- Social disapproval of video games and of professional gaming as a career path

3.6.2. Case question 2: Analyze the professional gaming industry using the Porter 5 forces framework.

Bargaining power of customers - Medium

Being a relatively new phenomenon, professional gaming has not reached its full potential as an industry and has not been able to attract the enormous audience that still does not follow professional gaming but is interested in video games. Also, professional gaming is a viewer (they are the customers that we analyze here) based industry and without them it will simply cease to exist because there will be no revenues and no sponsorships.

Furthermore, customers demand some improvements in the distribution of professional gaming whether it is in the video quality of the streams, the quality of the venues that hold the live events, the amount of merchandise and its availability, among other aspects. They do so through social media, forums or through e-mails.

However if we look at some other aspects we can see the customers' strength is somewhat decreased:

- Buyers are concentrated but do not purchase in large amounts
- The product is not a component, it is a final product
- The product does not save the buyer money, it is an entertainment product
- Buyers do not pose a threat of integrating backwards

Bargaining power of suppliers

Firstly, we must determine exactly who the suppliers are in this particular industry. This definition is crucial because professional gaming is a very specific industry. This industry has three different needs that require three types of suppliers:

Streaming websites: currently the most used distribution channel of professional gaming events.

Hardware: companies that develop products like computers and peripherals.

Overall, the bargaining power of these two suppliers is low because there are a lot of suppliers in this area. Hardware companies, such as Logitech, battle each other to be able to sponsor specific professional gaming events and the cost of changing from one supplier to another is low. The same applies to streaming websites, like Twitch or Azubu.tv, since they are pressured by big companies in the market, such as Riot Games, because if a company decides to change suppliers in this area and starts streaming on another website, the viewers will most likely follow them leaving the supplier without a large part of his business. This is exactly what happened when Azubu.tv lost almost the entirety of their LOL audience to Twitch.

There are other aspects that contribute to the low bargaining power of these suppliers:

- The professional gaming industry is dominated by a few competitors
- Low switching costs, changing hardware suppliers is fairly easy due to the amount of companies supplying those products nowadays
- The industry is a very important customer for streaming websites because it is the main source of attraction for viewers

Nevertheless, there is one threat that hardware pose to the companies operating in the professional gaming industry: the threat of integrating forward and starting to develop their own professional gaming events. One company that has done so is Intel that has a very popular event called Intel Extreme Masters. The issue is that not many hardware companies have the financial requirements to perform this integration.

Venues: companies that rent spaces that enable live events to take place.

As far as venues goes, their bargaining power is high because professional gaming events are becoming more frequent and more companies invest in them. Currently, frequent professional gaming events are only held by a limited number of companies but as more competitors arrive to the market they will compete to have the best venue and also, these venues can be rented for other events like concerts, therefore the companies renting those spaces will have a higher bargaining power.

Threat of new entrants - Low

There are some barriers for the entry of new competitors in the professional gaming industry but professional gaming is not far from the reach of many companies in today's market. There are no legal limitations for a company wanting to invest in professional gaming because government policies have not been created to regulate the industry.

However, professional gaming relies heavily on viewership numbers and brand identification is extremely important so that customers can instantly connect with what they are seeing. Creating loyalty is done through the popularity of the games and the quality of the broadcasts and live events. This means that any company wanting to enter this business will be forced to do so in a large scale. High capital requirements are needed in order to create a large enough business from the start because starting small and trying to grow will provide little or no revenue for quite some time.

Threat of substitute products - Medium

Professional gaming is an entertainment product but the need for entertainment is not the only one it caters to. There are other needs present in the viewers of professional gaming much like what we can observe in spectator' sports. Belonging a group, sharing the same interests and discussing opinions and preferences are all needs that professional gaming attends caters to and this gives it certain specificities.

Despite being an entertainment product, professional gaming generates strong emotions in its viewers, much like sports events because viewers are also supporting specific teams or players. Nevertheless, there is always a risk of losing customers because the

product lacks quality or because of a preference change. If customers lose their interest in playing video games, they will most likely stop watching professional gaming.

The most probable substitute products for professional gaming are obviously entertainment products that generate some type of emotional response from the viewers like spectator' sports; movies and television series. Identifying other substitute products is not a clear task because professional gaming is an extremely specific preference and that is why the strength of the substitute products is only medium.

Rivalry among current competitors - Low

The two major competitors in the professional gaming industry are Riot Games and Valve. If we considered Blizzard as the third largest competitor we can identify that there is a small number of competitors in the industry. Because professional gaming is a viewer based industry, companies only compete to attract new viewers or viewers currently loyal to other companies or specific games.

The issue with attracting viewers from other games is that the games with relevance in professional gaming are usually very different and therefore specific to a particular audience. The exception lies between LOL and Dota 2 which are similar in the way they are played but excluding those two, every other game is significantly different. As such, the preference of customers is linked to their own playing experiences as they will most likely watch pro-gamers play if they have played the game themselves.

Despite the great difference in games, there is a lack of differentiation in the way the products are presented to the audience. Holding live events and broadcasting them online is the way every company operates in this business and no one has innovated yet. This lack of innovation could be due to the fact that companies don't feel threatened enough by their competitors that they feel a change is necessary to stay relevant in the professional gaming industry or simply because they do not believe investing more in professional gaming is worth it at this point.

The following table summarizes the forces of the industry and their strengths:

Table 8 - Summary of the five forces analysis

Force	Strength
Bargaining power of customers	Medium
Bargaining power of suppliers (hardware / streaming websites / venues)	Low / Low / High
Threat of new entrants	Low
Threat of substitute products	Medium
Rivalry among current competitors	Low

3.6.3. Case question 3: Develop a VRIO analysis for Blizzard.

Financial resources

The Activision-Blizzard group had a total of 4.3 billion dollars in revenue; however Blizzard's revenue decreased 485 million dollars from the previous year. Blizzard is a large firm and therefore able to access loans, investments and sponsorships fairly easy. The revenues from their most popular franchises enable the firm to invest in other projects and give the company some financial security.

To compete in the professional gaming industry, a company needs strong financial resources and Blizzard can use its revenues from video game developments as well as having access to loans that can facilitate the early stages of such investments. Because this is a valuable resource but not exactly rare due to the fact that many video games companies have access to it, this resource is a source of competitive parity.

Physical resources

The Activision-Blizzard has 16 locations worldwide but the majority in North America. Blizzard itself, has 9 locations worldwide specifically dedicated to video game development. This large number of physical locations gives access to a vast array of technological assets for game development. However, a great part of those physical resources are allocated to the *World of Warcraft* franchise.

Blizzard is one of the companies with the largest amount of physical resources. The ability to allocate projects to one or several locations conjunctly gives the company a lot of flexibility. For the past 20 years, Blizzard has been known for their solid game development and that is in part due to their ease of access to the best technological resources any video games company could get.

There is however a strong emphasis on the WoW franchise because it is their major source of revenue. This focus may cause some lack of support for other projects but nevertheless, Blizzard has been utilizing its physical resources effectively and they give the company a sustained competitive advantage. These resources are rare because most video game developers do not have the same number of physical locations (and the ones that do don't use them for video game development but rather for customer support, for instance, Riot Games) and setting up a new location requires a large investment.

Human resources

Blizzard has a lot of experienced workers in their staff. That is a necessity for the development of quality video games. Nevertheless, the search for new talent is a continuous activity because new ideas are always welcome in the video games industry. Blizzard offers career paths that are attractive for young programmers coming out of university. The collaboration between these two types of workers (the more experienced and the novices) can produce great results by bringing creativity while maintaining the quality that made Blizzard famous.

The company could have allocated them to new projects or invested in new areas but decided to let them go. Despite the stock based compensation policy that Blizzard implemented in 2008, Blizzard seems vulnerable and unable to retain certain human

resources. The issue seems to rely on the interest for Blizzard's projects as they are not as attractive as Riot's. For all these reasons, this resource is a source of temporary competitive advantages and only if Blizzard takes steps towards the retention of their workers can it become sustained.

Organizational

The strategic decisions that impact and drive Blizzard forward are usually taken by the Activision-Blizzard group. The company is dependent on the group's strategic analysis and must comply with the direction they are pointed to. Despite that fact, Blizzard has the power to manage their resources independently which gives the company strong flexibility for the completion of projects and for the solution of their needs within the limits of the group's general guidance.

One issue with the organization is the fact that independence in this particular case also means no cooperation with the other half of the Activision-Blizzard group. There is no synergy between the variety of knowledge from Activision and Blizzard because Blizzard only focuses efforts in their own projects. Therefore, this resource is a source of competitive parity because Blizzard is not using its full potential.

Other relevant assets

- **Reputation:** Blizzard is known for its impeccable game development and their communication with customers.
- **Consistency:** Blizzard still has great capacity to innovate by creating new games and but all their projects meet the level of quality the company is known for. They are also known for their attention to detail in all of their video games.
- **Brand recognition:** Blizzard is probably the most recognizable brand in the video games industry and has a worldwide presence when other companies are limited to one or two regions.

The following table summarizes the VRIO analysis for Blizzard:

Table 9 - Summary of Blizzard's VRIO analysis

<u>Resources</u>	Valuable?	Rare?	Costly to imitate	Supported by the organization?
Financial	Yes	No	No	Yes
Physical	Yes	Yes	Yes	Yes
Human	Yes	Yes	Yes	No
Organizational	Yes	No	Yes	No

3.6.4. Case question 4: Develop a SWOT analysis for Blizzard.

This SWOT analysis summarizes the information obtained from the previous PESTEL, Porter's 5 forces and VRIO analyses. The most relevant strengths and weaknesses of Blizzard as well as the opportunities and threats the external environment presents, are described.

Strengths

The Blizzard brand is recognized worldwide and Blizzard's name has become synonymous with quality video games. This is due, in large part, to the global popularity of their biggest franchises, *StarCraft* and *World of Warcraft*. In order to maintain those franchises, Blizzard possesses large financial and physical resources. The size of the company works to its advantage by enabling the development and improvement of several projects at the same time. Furthermore, the experienced workforce currently employed by Blizzard gives the company a strong game developing capability.

Weaknesses

The structure of the Activision-Blizzard group limits the flexibility that Blizzard because it separates these two major companies instead of incentivizing them to work together. Because the expertise of these two companies is extremely different (Activision mainly develops first person shooter games and collaborates with several studios in the development of those games), collaboration could be fruitful to innovate in the video games industry.

Blizzard also has its revenues concentrated in the *World of Warcraft* franchise and the decrease in the popularity of this game has had repercussions in the company's overall profit. As was stated in the case study, the loss of one of Blizzard's most prominent game developers to Riot Games, a direct competitor, revealed that Blizzard was not protecting itself efficiently.

Opportunities

In the professional gaming industry, Blizzard has lost some of its presence. With the growth being experienced in this industry, the development of video games specifically designed for professional competitions presents a strong opportunity. Additionally, the growth of the female gaming audience, related to both simply playing video games and professional gaming, has led to the development of genre games created to suit the wants of female gamers.

The appearance of smartphones and tablets has also expanded the possibilities for the video games industry. These new platforms require specific game developing capabilities but are able to attract a great number of players because they provide a fast and portable way of entertainment. Because many smaller companies try to develop video games directed at these platforms, Blizzard could look to license its in-game characters from its most popular franchises and profit from giving such companies the advantage of having recognizable characters in their games. The benefit of having such characters in a game can be seen in the newest project Blizzard is developing, *Heroes of the Storm*.

Threats

The US economy has several issues that can impact consumers’ purchasing power in the near future. The increasing national debt could possibly cause a slow in economic growth that would most likely impact video games sales. If we conjugate this element to the fact that Blizzard has lost some ground to its rivals especially in the professional gaming industry, we can expect even more decreases in profit in the following years.

Furthermore, piracy has affected many entertainment related industries like music, cinema and video games, and the lack of a strong legal protection of the intellectual rights of these products contribute to less profitability of Blizzard. Companies like Riot Games have solved this issue by offering free-to-play games with in-game purchase offers. Blizzard also started to use that strategy in one of their recent games, *Hearthstone: Heroes of Warcraft*, but their most popular games still suffer from illegal copying.

Finally, another threat is related to society’s perception of video games. Despite a shift in the perception of a correlation between video games and violent behaviors, the US society still looks at video games as something without benefits and potentially prejudicial to the correct development of youngsters despite the fact that academic studies have shown video games can be beneficial and aid in education.

Table 10 summarizes the relevant topics of this SWOT analysis:

Table 10 - Summary of Blizzard's SWOT analysis

Strengths	Weaknesses
Strong brand image Extremely popular game franchises Large financial and physical resources Experienced workforce	No cooperation with Activision Revenue is concentrated in a few products Weak protection of their most valuable game developers

PROFESSIONAL GAMING IN THE USA

Opportunities	Threats
Development of games designed for professional gaming	Negative economic effect on consumer spending
Female gaming audience	Growth of rival video game companies
New gaming platforms	Social disapproval of video games
Licensing of in-game characters	Video games piracy

Important Note: the slides for the case resolution can be consulted in Appendix A.

3.7. Management inferences from the case study

In an ever-changing world, new industries need to be studied if companies are to take advantage of their potential. The sooner there is an understanding of what a new business means in the market, in terms of impact, potential sales/consumers or the resources necessary to compete in it, the faster companies can adapt their offer to suit the needs of the market by taking advantage of their current strengths and correcting present weaknesses that could incapacitate them to compete in this new business.

One of the most important inferences to take from this case study is that strategic analysis is crucial in any business but even more so when new opportunities arise in the market. A novelty means that companies will have to most likely change something in the way they operate or present their products to the market. Gaining a strong understanding of the various variables that influence this new opportunity is fundamental and strategic analysis facilitates that understanding.

The following analytical tools can enable a company to deeply explore the environment and will help companies answer some of the questions that arise with a new market opportunity:

- **PESTEL:** What external environment surrounds this new business?
- **Five forces model:** Who else is aiming at competing in the new business? What are the components of the industry? How attractive is it?
- **VRIO:** Do we have the resources/capabilities to compete in this new business? Are they valuable, rare and costly to imitate? Are we organized to maximize the benefit we can get from them?
- **SWOT:** Where do we stand and what strategies are available to us?

Another inference to withdraw from this case study is the need to respond to external threats, especially social issues that can damage an industry's development. By not acting upon the negative mentality surrounding video games that a large part of the American society had, video games companies crippled their own growth and by extension the growth of professional gaming. Video game companies should have acted proactively upon these social issues.

Finally, another inference to withdraw is the need to continuously adapt one's positioning in the market. As we saw, Blizzard had a strong position with a lot of solid products generating profit. Of course this was not the only reason for the loss of presence Blizzard had in professional gaming but because they did not use that advantage by investing in professional gaming when the industry experienced a major growth, they fell behind their competitors in this industry. They could not protect their assets effectively and use them to their full potential when they had strengths such as the popularity of their games and the example given by South Korea that used one of Blizzard's games as a catalyst for their professional gaming industry.

4. Conclusion

This pedagogical case study aimed to contribute to a better understanding of the professional gaming industry. It presented the story of the evolution of professional gaming from its primordial times to the current organized industry that continues to grow and attract more and more customers. Should the current trend continue, it seems likely that this industry will be a strong presence in both today's youth culture, and in that of coming generations. It is my personal conviction that professional gaming is the future of spectator's sports.

The goal of this thesis was to provide a pedagogical case study to allow students from the Management area to develop strategic analyses for the professional gaming industry and one of its key competitors in the US. By doing so, students would be able to both practice concepts and tools studied in their strategy courses, and learn about a growing industry that has still not been fully explored. I believe this thesis has fulfilled this goal by presenting relevant information about the most important aspects surrounding the industry, providing an example of a company operating within it and developing environmental, industry and internal analyses for it.

There were some limitations in the development of this thesis mainly related to the lack of reliable information available about the professional gaming industry in the US. Most data is not exclusive to professional gaming but to the video games industry as a whole. Companies do not discriminate professional gaming revenues from video game sales revenues. There are few quantitative growth indicators available aside from viewership numbers. Also, eSports and professional gaming are recurrently referred to as the same and therefore information about video game playing is misused as information for professional gaming.

I also hope that the analysis that this pedagogical case study will enthuse anyone involved in its resolution to further research professional gaming. Because I am a professional gaming enthusiast myself, I see great potential in this industry and its global influence opens new opportunities for investment for many countries.

If we look at our own county, there is a clear opportunity to develop professional gaming competitions, should companies be willing to invest, and given the necessary

governmental support. I believe Portugal can become a center for professional gaming events in the western world in part due to its great geographical location.

The United States and Europe often compete in tournaments, which oblige one of the sides to have to travel great lengths to compete in a two or three-day tournament. Notoriously, professional gamers from Denmark, Sweden and Finland, which are the strongest European countries in pro-gaming, are forced to travel to the US for many competitions and vice-versa.

One solution to this problem would be to hold some of these events in a “middle ground”, and Portugal could be a perfectly suitable option for this. This is why the study of professional gaming is of extreme relevance to our country, because of the immense opportunities it holds.

To conclude this work, I believe professional gaming deserves more attention from managers across the globe and the best way to get their attentions is to target the future managers by presenting them the professional gaming industry in a pedagogical case study.

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Appendix A – Slides for the case resolution

1

Question 1

- **Develop a PESTEL analysis and indicate what factors were barriers for the professional gaming industry's first developments in the US.**

2

Political

- Strong democratic setup
- Lobbying groups influence government decisions
- Law designing and approval are lengthy

Economic

- Increasing national debt
- Increasing inflation rate
- Decreasing unemployment rate
- Fear of a new recession

Social

- High ethnicity mix
- Social discussions deeply divide the country
- Media coverage is highly influential
- Change of habits causing an exodus to the online world

Technological

- Fast and continuous technological change
- Solid internet infrastructure and coverage
- Hardware and software innovations and adaptations

Environmental

- Growing concerns with pollution
- Global pressure
- Environmental laws and policies impact businesses

Legal

- Strict immigration policies
- Ineffective anti-piracy laws
- High number of patent requests

What barrier where there? (1/2)

- Inexistence of viable distribution channels
- Poor internet infrastructure
- Lack of government support
- Inexistence of regulations

What barrier where there? (2/2)

- Social concerns with online activities, especially their impact on youngsters
- Social disapproval of video games and of professional gaming as a career path

Question 2

- **Analyze the professional gaming industry in the US using the Porter 5 forces framework.**

Porter 5 forces analysis (1/2)

Force	Strength
Bargaining power of customers	Medium
Bargaining power of suppliers (hardware / streaming websites / venues)	Low / Low / High
Threat of new entrants	Low
Threat of substitute products	Medium
Rivalry among current competitors	Low

Porter 5 forces analysis (2/2)

- Viewer based industry – moderate power to the consumer
- Three types of suppliers – hardware, streaming and venues
- Financial but not legal entry barriers
- What are some substitute products for professional gaming?
- Only two major competitors in the industry – low competition

Question 3

➤ **Develop a VRIO analysis for Blizzard.**

VRIO analysis (1/2)

<u>Resources</u>	Valuable?	Rare?	Costly to imitate	Supported by the organization?
Financial	Yes	No	No	Yes
Physical	Yes	Yes	Yes	Yes
Human	Yes	Yes	Yes	No
Organizational	Yes	No	Yes	No

VRIO analysis (2/2)

- Financial – competitive parity
- Physical – sustained competitive advantage
- Human – temporary competitive advantage
- Organizational – competitive parity
- Other assets – reputation; innovation/creativity; brand recognition

Question 4

- **Develop a SWOT analysis for Blizzard.**

Strengths

- Strong brand image
- Extremely popular franchises
- Large financial and physical resources
- Experienced workforce

Weaknesses

- No cooperation with Activision
- Revenue is concentrated in a few products
- Weak protection of their most valuable game developers

Opportunities

- Development of games designed for professional gaming
- Female gaming audience
- New gaming platforms
- Licensing of in-game characters

Threats

- Negative economic effect on consumer spending
- Growth of rival video game companies
- Social disapproval of video games
- Video games piracy