

The End of a Great Dot-com Idea

The story behind the washout of the ESWC

Angel Munoz is kind of the opposite to Matthieu Dallon. The interviews with the founder of CPL have always been superlatives. But no one got to know the "new era of eSports" which was constantly proclaimed by the American. In this point, the ESWC boss Dallon differs. Conversations with him have substance. You get to know something about the real ideas and concepts of the ESWC founder. Until a few weeks ago people kept thinking that these two men embodied their companies: On the one hand some empty phrases from the U.S., on the other a consistent approach from France. Today, we know that both failed. After CPL having to shut down a year ago, Games-Services (GS), the company behind the Electronic Sports World Cup, is financially at its end now. Even though the work and thus the failure of both companies has not much in common, the question arises: How could Game-Services come to such an end?

The world-wide recession was of course a crucial factor in the decline of Games-Services. But a general justification is a too one-sided view also for Dallon. The global economic crisis was only the coffin nail for Games-Services, not its cause. In 2007 the French already had to deal with enormous problems. The main reason: Nvidia's exit as main sponsor in the meantime which resulted in halving off the prize money and a losing 370.000 Euros (before taxes and interest) for the French start-up company.

Even Games-Services looked economically pretty good in 2008 with a company turnover of around 1.6 million Euros to more than 2 million Euros and the reduction of its losses through the temporary return of Nvidia with related extensions such as the Masters Tournaments. One thing remained: the economic dependence on the main sponsor Nvidia.

After last year's Grand Final in San José the cooperation had finally come to an end and the financing of Games-Services finally came apart at the seams. Dallon tried to find new sponsors by including other possible partners or leagues. And in March, it looked like as if the continuing existence of Games-Services was possible. Therefore, the Grand Final just got postponed and not canceled by the French. But by the end of the month there was no money left to cover the running costs for office and employees. "Between September 2008 and March 2009 we have contacted several dozen of potential partners, big and small brands", Dallon explains. "But we always received the same answer: 'Our stock value is in free fall, the sales decline, we are going to lose money this quarter, so we have to reduce all our marketing and communication budgets'."

Games-Services' bankruptcy was sealed by the world's bad economic situation. But the problems were homemade. The main income has always been sponsors' money, especially Nvidia's. Games-Services didn't manage, except of one year, to operate in the black. "Almost always Games-Services has lost money. More than one million Euro combined in six years of ESWC", Dallon explained. "First it was a choice, then it became a handicap for the company's development, and finally it has been a real issue during the crisis." Even other sources of revenue (meaning the licensing of the national partners) were based on sponsorship: "Our licensed partners all around the world faced the same difficulties, what has doubly impacted our financing", confirmed Dallon.

The common business model

Can anybody really blame Games-Services for being financially dependent on just a few sponsors? This business model was of course not sustainable but it was the common one within eSports. WCG could probably hardly exist without Samsung and despite some contrary statements of the ESL, its professional track including EPS and Intel Extreme Masters wouldn't be there either, without having Intel on board.

The ESWC bankruptcy might have an even more frightening impact on the industry because ESWC did a lot of things the right way and some even better than other competitors. Where it was possible they sold eSports as kind of a lifestyle. Moreover they have managed, at least in Europe, to gain an interested audience, including a relatively large number of women. 35,000 spectators at the Finals 2007 and 31,000 during the Masters 2008 in Paris are impressive numbers. The presentation of Dallon and his crew delivered everything that was in their might. "We have brought champions on stage, we have dramatized the games, we have developed live audience, we have programmed applications to provide real time info and instant emotions", explained the former head of ESWC the efforts to make eSports and its players an attraction.

If all this effort is not enough to attract sponsors and investors, it will be very difficult for the competitors to earn money in the future. Dallon explained their strategy like this: "All sports, or events, that generate sustainable business, are based on media rights, which are mostly TV rights." In his eyes even the Korean eSports lives from TV rights.

Efforts by GS to find a broadcasting partner who actually pays for the rights as well didn't succeed even though Dallon tried ambitiously to make the games understandable and exciting also for people outside the eSports scene. "The game is like that: being strong enough to survive until the you can benefit from the media rights ", Dallon argues. The start-up entrepreneur thinks that this is what the WCG tried in a long term and the CGS in a short term strategy. The outcome of the CGS trying to broadcast eSports via cable TV is well known. Whether the WCG as one of the last big old-school tournaments will be able to make profit out of TV rights is questionable. Taking into consideration that viewers from the eSports scene classically watch the games on the internet via HLTV and Waaagh!TV, it might be doubted. In addition to that, also the publishers and developers of games have a voice in this chapter since they have the first claims for TV generated money.

For Games-Services these questions are not of any relevance anymore. All the efforts to reveal more income sources didn't prevent them from bankruptcy. Actions like the expansion of the ESWC's website in the end haven't been more than efforts to gain a bit more of the market share. A market which was and still is a niche. Even if GS tried to present big numbers to the investors like 70 million gamers or 400 million potential viewers, the ESWC has just been a big event for the hardcore eSport scene. The event was placed nearby the heart of the community to keep "the legitimacy of the scene". This was one of the reasons why Games-Services resisted working together with publishers, like CPL or WCG did. Thanks to this philosophy, there were still nine-year-old game classics within the Electronic World Cup. Games like Quake. No Guitar Hero or 'World of Walking'. This attitude always impressed the hardcore community. But it also caused that ESWC didn't enthuse the millions of casual gamers.

And this is the most important difference between Paris and Seoul or Cologne: ESWC is dead (for now), WCG and Intel Extreme Masters (still) exist. The support of Microsoft respectively Blizzard and the range of the provided games seems to be an important pillar

for these tournaments. One, that ESWC resigned to use.

\$ 242.000 outstanding money

So what remains are a few dozens of players who still wait for their unpaid prize money. If they ever will receive a cent – no one knows at this moment. In 2007, the pay-out already was being postponed by eight months at least, normally even twelve due to economical problems. In 2008 every participant of the ESWC signed an agreement that he or she would wait up to one year until the money would be paid out. "It is unfair and harmful to all champions", Dallon describes his feelings about not being able to pay out the money. "Even though I have no personal liability in that process of payment, I do my best to make it happen", the entrepreneur explains. The best case would be that either the insolvency administrator or the new owner pays the money. Thus, the claimants do not think that this is a probable scenario. "The company is insolvent. I'm pretty sure no one will receive his money", states Alexander 'TheSlaSh' Müller, managing director of SK Gaming. Some of his players are waiting for their money as well. In total, the outstanding money sums up to \$242.000, including the Masters of Paris and the Grand Final in San José.

This circumstance hits many players in a harsh way, especially those who don't win much money regularly. One of them is Marcel '[k1llsen](#)' Paul who surprisingly achieved a second place at the 2008 finals, earning \$ 7.000. "The prize money is pretty important to me, I planned a few things with it", he stated in a [forum](#). The father of a son seems to need the money, just like the two Quake high flyers Alexey '[Cypher](#)' Yanushevsky and Maciej '[av3k](#)' Krzykowski who are waiting for \$ 14.500 and \$ 1.000. "Of course both of them are very disappointed", says Bas Peeperkorn, CEO at Serious-Gaming. "They invested a lot of time in order to become the best at what they're doing and being able to win tournaments. It mostly hits Cypher because he simply deserves the money and now he feels betrayed by an organization which he respected a lot. Of course it will affect his life besides eSport if he doesn't get the money."

In the meantime some of the players got a message by the claimant's procuration. It says that they have to announce their claims within a two months period to Games-Services. But it can be doubted that they succeed and receive their money. Peter Siedlatzek, lawyer and in-house counsel of n!faculty – the clan for which Trackmania player Frostbeule won the ESWC in 2008 – thinks: "One can expect that, just as in Germany, the costs of the insolvency proceedings will be paid first, mainly the costs for court procedures and the liquidator. If then some money will be left, it will be paid out to the creditors", he explains. But Games-Services lacks of assets with a real value. As an event organizer, there are no expensive machines or something comparable to sell. Thus the sale of the brands ESWC and overgame.com have to make enough money to cover the costs for insolvency proceedings and in addition to that the unpaid USD 242.000 – something that can be doubted as well. "From my perspective the only real chance is that Games-Services has resilient arrears against the sponsors to pay the prize money which the liquidator can collect", Siedlatzek evaluates a possible solution.

No definite end

Meanwhile, the chances of selling the brand ESWC to somebody aren't the worst: "Yes, there are serious offers", Dallon affirms. Some of them actually come from Germany and Austria. Among these there is probably one from Nescho Topalov. He organized the national ESWC qualifiers in Germany, Austria, Czech Republic and Slovakia for many years. Now Topalov could benefit from Games-Services' financial problems. "We would like to be available as a partner for ESWC both nationally and internationally because we know how ESWC and the community works", confirms the CEO of Top Ideas. But more partners are needed, he adds. Dallon expects a decision whether the brand ESWC will keep on existing until the very end of summer. Although there is no lack of serious offers, one of the biggest companies in the business, Turtle Entertainment, does not seem to be interested.

But even a continuation of the brand ESWC does not necessarily mean that all the players will receive their prize money. "A new owner of the brand is not legally obligated to pay possibly outstanding money. Such an obligation can only be imposed on somebody by contract", Siedlatzek explains. It seems as that only time will bring the answer whether the money will be paid to the winners.

Despite of the bankruptcy Dallon is proud of what he and his team have established in recent years. Over 10 million euros revenue was invested into ESWC, gamers from over 50 nations have participated in seven major events and more than \$ 1.2 million of prize money was paid to the winners. Probably no bad record for a bunch of young guys that went out to get Gaming out of the children's rooms into the wide world. "We have produced ten times more turnover than losses, which is a reasonable ratio for an international start-up on Internet, and which might be the most competitive ratio compared to the other international projects as WCG, CGS or MLG, whose budgets and losses reach several millions per year", explained Dallon. "I work to legitimate video games champions as genuine athletes and new icons of our digital society. I do all this because I know what it's like to feel the sweat between your palm and your mouse and what the tremblings before a victory feel like. I also know that all these emotions can be shared. So even it is hard, and even though I am handicapped now, I don't want to do anything else."

On the GS website you can now find a sentence, which sounds like an inscription on a gravestone: "September 1, 2000 † March 30, 2009". But perhaps we will see Matthieu Dallon someday once again in the eSports. For him eSports is more than just a business. His ideas brought eSports to another level, even though he economically failed with them in the end. At least they were in any case better than Angel Munoz' prophetic visions.