

China's mobile game industry's possibilities for Finnish game developers ¹

Summary in English

The Chinese mobile game market has bypassed United States with the number of downloads and the marked revenue is expected to surpass so far the largest market, the US, by the end of 2015. Due to extreme growth and huge potential the Chinese market appears inviting also to those Finnish game developers that until now have been mainly focused on the Western market. The Chinese mobile market differs quite substantially from the more familiar Western market.

The key to enter and succeed in the Chinese mobile game market is to understand these differences and characteristics. Neogames Finland ry conducted this preliminary study with project preparation funding from the Ministry of Education and Culture. It describes the current situation (2014-2015) of the Chinese market, highlights the market's special features and raises some of the most crucial challenges and possibilities.

The distinct characteristics of the Chinese market are at least the following:

- **Android dominates the Chinese market as the #1 platform** and in China the Android platform's game business value chain differs substantially from the Western one. The role of tele operator and distribution channel is far greater and game developer's share of the revenue in the value chain is smaller than in the Western market.
- **The difference between the payment systems.** The current payment method in the Western market is payment by credit card. In China text message payment is still the most common method of payment in the bigger Android platform (measured by revenue).
- **Android market in China is quite fragmented.** There are approximately 400 distribution channels/stores but the substantial part of the business happens in the 10 biggest stores (cf. 1-2 significant Android stores in the Western market).
- **A Western actor in the Android market needs a local partner for regulatory reasons.** Chinese mobile market can be described more protective than the Western market.
- For the Western game developer Apple's iOS (App Store) is considerably simpler and clearer than the Chinese Android market. Even if **iOS is significantly smaller market** it grows faster compared to Android in device penetration as in number of downloads and revenue.²
- **Telecommunication infrastructure is weaker than in the Western countries.** This makes e.g. the spread of credit card billing more difficult.
- A big difference in China is also the **absence of certain social media platforms** such as Facebook, Youtube and Twitter that are being used in for example for user acquisition and community management in the Western market. The Chinese market has its own social media application such as Weibo, WeChat and Momo.

¹ This paper summarizes the report made in Finnish by Neogames about the different possibilities China's mobile game industry can offer to the Finnish game developers

² App Annie Index / Market Q-1 2015; China and Mexico Charge Ahead <http://go.appannie.com/app-annie-index-market-q1-2015/>

- **Monetization models** in the Western market differ substantially from the one's in China.

As an outcome of this preliminary study can be stated that choosing the right partner is one of the most important parts in entering and succeeding in the Chinese market. In Apple iOS market the partner is naturally Apple but in the wider Android market game developer can partner up with the following actors:

- 1.) aggregator or publisher
- 2.) distribution channel / store
- 3.) tele operator
- 4.) device manufacturer (pre-download)

Below is a short “Best Practices” guide to companies contemplating entry to Chinese market.

Best practices: Heading to China?

Neogames Finland organized in the end of May an one day “Heading to China” event for companies interested in the Chinese mobile market. The speakers of the event were:

- Jaakko Harlas / Supercell
- Miikka Lindgren & Maggie Wu / Rovio
- Jarkko Paalanen / Fingersoft

In addition to Finnish speakers two Chinese publishers, Netease and 4inch, shared their visons about the possibilities of market entry to China.

The working language of the event was English due to the fact, that some Finnish company representatives were non-Finns.

Following list of best practices is largely based to presentations and discussions of the day.

1. Minimum requirements for market entry

Make a good game

- If your metrics are bad, there is a little your local partners can do to help you
- Your ARPU has to be good, otherwise publishers will not be interested in you
- More broader global audience your game is targeted to, less it is likely to need localising

Make a game with enough content

- Chinese gamers tend to be passionate about playing a game. For that reason you need have enough content available for them in your game, especially for a casual game.

Make an Android version of your game

- Android is the leading platform in China and for this reason you are strongly advised to do the Chinese launch with an Android version of the game. It will boost the sales of your iOS version as well.

Tailoring the social media networks, analytics and ad networks

- Most of the Western social media networks are blocked in China, so you need to improve them from the game and possibly replace them with local social network.
- Furthermore, the Great Firewall of China usually blocks the Western analytics and ad networks as well, so you might want to consider removing them from your Chinese build.

Localise the game

- **Translate your game in Chinese:**
 - A western version of the game should not be launched in China. At least the texts should always be properly translated to simple and traditional Chinese. The quality of the translation has to be far beyond simple machine translation. It is not even enough to use standard Chinese. You have to be able to use slang words in your game.
- **Re-skin your game for Chinese**
 - Chinese have their own specific esthetical norms. For this reason you should re-skin the graphics of your game for Chinese taste.
- **Remove politically sensitive content**
 - The flags of Taiwan or Hong Kong, for example, are not allowed in Chinese games.

Balancing a multiplayer game

- If your game is going popular in China and you have global matchmaking system in a game, you might quickly end up to a situation where most of the other players a Western gamer is meeting in a game are Chinese. For this reason you might want to tailor your matchmaking algorithms also regionally.

Build a local client for the game

- Most probably your publishing partner has their own SDK you have to use

Optimise the data use and stability

- You have to optimise the data traffic caused by your game as the network connections usually are poor in China. Furthermore, you should test your game on the main local mobile phones and tablets.

Update your security and anti-cheating systems

- The most talented hackers come from China and if your game is popular, they are going to attack you.

2. Extra requirements

- **Make your game more tailored to Chinese gaming culture**
 - Chinese players want to celebrate their in-game spending in their social networks and this should be enabled by the game.
- **Tailor your monetisation**
 - Purely ad-based (the payments per ad are extremely small and it is a lottery if you will ever get any money to your bank account) or pay-per-download based business models do not work well in China yet. Consequently, you should strongly consider going to free-to-play model.
 - Unlike in the Western world, Chinese consumers are happy to go for pay-to-win model and therefore you should enable it.
 - As Chinese consumers are happy with much harder monetisation, you might want to remove the levels that give out resources in free-to-play games too easily (in order to lure Western gamers to pay in the game). The first purchase point in the game should arrive within the first week.
 - Carrier billing is the most used payment method in China and it should be enabled in your game.
- **Do your homework**
 - A successful entry to Chinese markets requires that you have done your homework well beforehand. Furthermore, due to quickly changing market situation, you should be ready to learn new things and update your strategies all the time.
- **Be ready to invest time, effort and money and to be patient**

- Finding the right partners takes time and effort, but it is worth it
 - Marketing and running a game in China takes money
 - Things might go onward slowly, so be patient
- **Prepare for regulatory challenges and delays**
 - The first thing you should do is to register your copyrights in China, otherwise someone will steal them from you. Registration gives you a possibility to enforce your copyrights.
 - Secure that your publishing partner has taken care of your licenses to operate in China. Chinese government strictly controls all content published in the Chinese markets. The content review is not limited just in new games, but on updates as well. And what is accepted and what is not changes over the time. If you are successful, you are going to be an easy target, if you have not done everything by book.
- **Be careful with contracts**
 - Chinese actors usually prefer an exclusivity for your game in China. If you do that, you cannot co-operate with anyone else.
 - Always do your contracts on a neutral territory, as you really do not want to go to a Chinese court to fight against a Chinese company.
 - You have to know your value. Chinese negotiation culture is harsh, so don't make bad deals. Don't feel sorry to ask for a minimum guarantee that makes them to work for your game.
- **Find a right channels**
 - Do not try to target all Android platforms, target the ones which reach the majority of the markets. Targeting 10 biggest players is more than enough.
- **Do not sign an exclusive deal, if you don't have to**
 - Many channels claim that exclusivity is something you have to provide in order to operate in China. It is not true. However, it might be something that is worth considering under right circumstances (e.g. a channel is otherwise absolutely perfect for your game)
- **Do not trust too much on the market data**
 - In general, all rankings and market data is manipulated somehow in China. Apple, for example, is punishing Chinese developers manipulating the top charts in the Chinese App Store.
 - The biggest question is, whether or not one should stay as a neutral player or form a strategic partnership with a single distribution channel. In the end, this is an optimisation problem: do you want to have big part from a small cake or small part from a big cake.
 - **Open platforms**
 - On open platforms the revenue share of a game developer is around 19,6 %; a publisher takes about 10% for bad debts, a payment service operator takes 5-30%, a market place takes 30%, an aggregator takes 50% and effective tax rate is about 16,7%. Out of the taxes the withholding tax can be reduced in the Finnish taxation, but other taxes you are forced to pay.
 - If you want to increase your share in the value chain, you can refuse to accept payments through carrier billing. However, this seriously limits your audience, as especially the people in the rural areas rarely have an access to any other payment method than carrier billing. Furthermore, doing an exclusive deal with one carrier might block your access to other carriers.
 - **Closed platforms**

- On closed platforms, the revenue share of a developer is around 31,2%; the payment service and bad debt costs are around 25% combined, the market place takes about 50% and the effective tax rate is the same 16,7%
- The problem with closed platforms like Tencent is the fact that although they do not guarantee the visibility in their game center, for example Tencent's WeChat, they demand an exclusive rights for the game. In practice this blocks your access to all other digital distribution channels. This is a major challenge as at the moment a single distribution has about 30% maximum market share.
- **Global standards**
 - One has to keep in mind that global standards are much more favourable for a game developer: bad debt is around 3% and market place takes 30%, so a developer gets on 67%.

3. Find the right partners

- **Find the right publishing partner for you**
 - If you want to publish your game in China, you need a local partner. Not just for regulatory reasons, but also for taking care of fan forums, legal paper work (e.g. operating licences, government censorship)
 - You need to choose a right publishing partner for your game. Choosing a right publisher is about building an overall package that depends on the resources you already have.
 - What is the market segment they are focusing in? Some publishers are focusing on RPG's others on Casual games.
 - What is their business model? How do they make money out of your game?
 - What is their track record? How experienced they are? It is important to ensure that they have some experience on working with Western game developers and they actually have some market evidence of their skills.
 - What kind of services (localisation, marketing etc.) do you need for your game? Some are offering only a minimum services others a lot more. For example:
 - The partner should have good technological expertise in helping developers to integrate their SDK in their games.
 - The partner might be the one taking care of your Chinese fan community.
 - Can you trust your publisher? It helps if your partner speaks English, is good at communicating with you and shares similar working culture with you. It is a good idea to get references from your networks about your partners. Furthermore, you might want to check if search engines find something in Chinese about your potential partner (Potential scandals)
 - How committed they are to you? Your partner should be committed to work with you and not just focusing on their bigger clients. In China finding the right match is crucial.
 - How connected they are in China? Your partner should have good connections to main market players in China.

- Be prepared to the fact that discussing with Chinese partners is difficult. Partly because they often do not speak good English, but also because they want you to sign massive NDAs and discussions tend to go forward slowly.
 - In an ideal case you should be able to negotiate all business terms including exclusivity and revenue share
 - It is possible to succeed even in China with a small publisher, if you have a good game, however getting attention is difficult, but not impossible.
- **Sharing your source code or IP with a local partner**
 - You should be extremely careful with sharing your source code or IP with a local partner. You should only do it, if you trust them 100% and you have excellent contracts with your local partner. Otherwise they might exploit your game or your IP too much.
- **Joint ventures with Chinese actors**
 - Building a joint companies, where Chinese own 51% of the company as required by the Chinese law, is risky
- **IP-licensing**
 - For this, you need to be extremely popular in China

4. Solve the technological / market challenges

- If your servers are not located in China, the great firewall of China slows the connection down significantly and makes rooting difficult. Sometimes the Chinese government closes the connection completely down. Furthermore, the internet connections are poor in China, so you are going to have latency issues anyway.
 - It is a good idea to have a local CDN or a proxy.
- Many publishers claim that thanks to their SDK you only need it to publish your game in all Chinese distribution channels. In practice, these SDK's do not (always) work. For this reason, you need to develop a well-functioning process for installing different SDKs in your game. It helps, if your publisher can provide technical assistance with this.
- Integrating a SDK takes time. For this reason you should schedule your launch so that you have enough time for SDK integration.
- **Update your game constantly**
 - Every update is good for retention and featuring. For this reason you should update your game at least monthly, if not weekly.
- **Prepare for payment delays**
 - It usually takes from three to four months for the money to arrive from China to your bank account.
- **Fight the pirated versions of your game in market places**
 - Only if you have the copyrights for your game in China, you can fight the pirated version of your game in China. And Chinese will pirate your game for sure. They even scan the Western app-stores to find games in soft-launch to steal. A good way to minimise piracy is to launch Android and iOS version simultaneously.
- **Open a local office**
 - **Hire local people to take care of your local actions**
 - Hire local people with good communication and relationship management skills. You have to be present in China and have face to face meetings in order to make your business run.
 - **Local Community management**
 - If you want to keep your fan community in your own hands, you need to hire a local Chinese speaking community manager.

- **Moderators for in-game communication**
 - If you want to enable in-game communication between users, you need local moderators who secure that discussions do not go to the topics banned by the government. In the worst case, the government might ban the whole game because of the in-game chat function.

5. User acquisition

- User acquisition is still a wild west in China.
- **User acquisition helps a lot, but is not a must**
 - The organic growth in China is slow, but you can build rather successful games by relying on that as well.
- **Events**
 - You need a big promotional events, conquering the whole city
- **Celebrity endorsement**
 - Having a celebrity partner promoting your game is one of the most effective ways to do user acquisition in China.
- **Local media partners**
 - You need a local partner to run media campaigns for you in TV, trains, social media etc.
- **Social media**
 - You need a local partner for using local social media networks, as western social networks do not work in China
- **Traditional paid user acquisition (e.g. banners) does not work**
 - The main problem is the fact that as you are operating in an environment controlled by multiple Android stores, you cannot know where you should redirect the consumers clicking the banner.
 - It is really hard to find high quality users through traditional western user acquisition techniques.

6. Having a Chinese investor

- Companies providing investment opportunities are usually not the best publisher partners, as investing and publishing are usually two different businesses.
- A risk associated with a publishing license is much smaller than an investment risk. So you should be careful with those who provide investment money first. It usually takes time to earn the trust.

7. How to prepare yourself for Business trip to China

- Do your homework
- Make a plan, it is easy to get overwhelmed.
- Set up meetings with the most interesting potential partners beforehand
- Check the consumer exhibitions
- Have a proper sales pitch. Chinese want to know how you make money.
- Do not be afraid of asking more information and make a solid offers. In order to be able to compare the offers you will get, you have to make the same offer for each of your potential partners.

- It would help a lot, if you have a native speaker with you. However, you can always hire a translator.

8. What next

- It is rumoured that Google Play would become available in China.
- Competition is getting more difficult on ads. Companies started with banners, now they have advertisement videos in their apps. However, it looks like the ad market is overheating at the moment and therefore the developer revenue is currently rising on that side.
- Finnish companies need more public support to operate in China.