FEATURE STORY: FACT OR FICTION? WHAT WESTERN DEVS NEED TO KNOW ABOUT LAUNCHING MOBILE GAMES IN CHINA

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here’s a new sheriff in town, and its name is China. After decades of dominance, the world’s leader in global games revenue has changed hands from the U.S. to China. According to data revealed by the Ministry of China, revenue in China’s games sector attained $22 billion in 2015 buoyed by the country’s 670 million internet users (almost half the population of China)—370 million of which were playing online games (larger than the U.S. population).

Notwithstanding Japan, no other country has risen as fast as China has, from a country that once banned game consoles for over a decade to the most profitable country for games in the world. By 2019, games research and analytics firm Newzoo predicts gaming revenue in China to reach $28.9 billion, with mobile accounting for $13.9 billion. Seeing as more than half the country still yet to become internet users, the opportunity for growth is immeasurable. Now, more than ever, is the golden era of gaming in China.
China’s breakneck growth in the gaming market is no coincidence. In essence, the console ban sparked a chain of events that led to mobile gaming’s swift ascension. Since Chinese gamers had no semblance of a world with game consoles for over 10 years, they, in turn, adopted and embraced PC and browser-based MMO games—most of which using the free-to-play model such as 2001’s The Legend of Mir 2. Accordingly, gamers in China made a smooth transition to free-to-play mobile games—especially when F2P became the country’s dominant pricing plan for mobile.

Internet and gaming giants Tencent (makers of messaging app WeChat and King of Glory), NetEase (creators of Yin and Yang Shi and Fantasy Western Journey) and other domestic companies are reaping the rewards of China’s mobile gaming explosion. In Q2 2016, Tencent reported $5.38 billion in revenue, with online game revenue up 32 percent year-on-year. Meanwhile, NetEase posted $1.47 billion in Q2 2016 revenue, up 96 percent year-over-year. Revenue from online game services for the Beijing-headquartered NetEase, in particular, rose 76 percent from the same quarter of the previous year.

Now, Chinese mobile game developers with strong domestic performance are looking westward to fuel growth. Tencent, China’s No. 1 mobile gaming company, bought a majority stake in Supercell—one of the most profitable western free-to-play game devs—from SoftBank for $8.6 billion in June 2016 (you can read more about the top 2016 Chinese acquisitions in this report). An acquisition such as this proved that the revenue potential in the West is undeniable. Asian games market researcher Niko Partners pegged Chinese game devs to generate $1.3 billion in revenue from foreign markets. By 2020, such revenue is projected to hit $2.1 billion.
All of these advances in the Chinese app market have come at a price, though. Foreign mobile game developers haven’t had the best of luck penetrating the walls of China. Countless regulatory hurdles, fragmentation among app distribution providers and cultural differences combine to make China an unfriendly market to outside game devs.

In this edition of the Power-Up Report, we go on quest to explore China’s mobile gaming dynasty. Through a range of interviews with Yodo1, Zenjoy, Newzoo and more, we decode how mobile game developers can build successful businesses in China. This guide will provide exclusive insights from Niko analyst Daniel “ZHugeEX” Ahmad on China’s latest publishing rules, highlight trends shaping the Chinese market, provide advice for launching games from West to East and East to West, and more. Let this guide be your compass to chasing mobile gaming greatness in China.
At one point, China was an unimaginable market for foreign game companies to penetrate. Though China still presents many hurdles to eager foreign devs, the country remains an attractive market thanks to its faster-than-the-speed-of-light mobile phone adoption rates and high revenue potential. Take a look at how mobile gaming has changed over the years in China, from the launch of the first iPhone in 2009, to the addition of game support to WeChat in 2013, and to Tencent’s blockbuster purchase of Supercell in 2016.

continue ▶
Google Prepares Android Launch With China Mobile
August 2009
Google and China Mobile team up, launching the first smartphone running the Android operating system in China.

Android Fragmentation Emerges Over Google Censorship
March 2010
Android Market’s adoption suffers as a result of Google’s censorship feud with China, opening the door for third-party Android app stores.

Android Reaches 90% Market Share
November 2012
Android, in less than four years, surpasses 90 percent market share in China—up from 58.2 percent the year prior.

WeChat Adds Mobile Game Support
August 2013
Popular Chinese messaging app WeChat adds the ability for mobile games to integrate with its services.

Unicom Brings iPhone to China
October 2009
After reaching an agreement in August 2009, carrier China Unicom and Apple partner to officially launch the iPhone in China.

Apple Localizes Chinese App Store
October 2010
Apple announces it has translated its App Store in Simplified Chinese, with localized app feature placements and China-specific top charts.

Ski Safari Chinese Version Takes Flight
December 2012
Defiant Development and Chinese publishing company Yodo1 releases one of the first western mobile games that culturalizes content for Chinese players.

Baidu Publishes Plants vs. Zombies 2 in China
September 2013
Chinese internet search giant releases the Chinese version of western-developed Plants vs. Zombies 2 exclusively on its app store, one of the first publishing deals of its kind.

Tencent Partners With Glu, Launches Rival Fire in the West
July 2016
Tencent taps Glu to bring its hit shooter game WeFire to the West, renaming the title Rival Fire and adapting the game for western gamers.

Tencent Acquires Supercell for $8.6B
June 2016
Chinese tech titan Tencent leads a group that buys an 84 percent stake—which equates to $8.6 billion—in Finnish gaming house Supercell.
TREND WATCH: MAJOR SHIFTS SHAPING CHINA’S MOBILE GAME INDUSTRY

China’s mobile game market is expected to reach $10 billion in 2016. That’s a 41 percent increase from 2015, and accounts for 27 percent of global mobile game revenue. The opportunity for profit makes China a tantalizing possibility for devs around the world, but most should tread carefully: China’s market, though influential, is unique.

Mobile games came to China following an era of PC gaming. Though most international gamers in the 2000s were investing in Xbox and PlayStation, consoles were banned in China. Instead, PC games came to the forefront of the Chinese market. And through PC games, China’s gaming audience grew accustomed to what is now commonplace in the mobile gaming world: fierce competition between games, free-to-play titles and in-app purchases.

Today, China’s mobile game market remains unique—and complex. The country has hundreds of app stores, a variety of languages, stringent regulations and distinct genres. A closer look at the top trends shaping the mobile game industry in China will help devs understand how to draw (and retain) the attention of China’s massive player base and offer a glimpse into what China’s influence might be on the larger mobile gaming industry in the future.
1. DIGITAL AND MOBILE VIDEO AD SPEND CONTINUES TO RISE

In China, as in other parts of the world, media habits are moving away from TV and print to mobile. Advertisers have taken note of this shift. eMarketer estimates that mobile video ad spend will reach $3.09 billion in China, up 76.7 percent year-over-year. By 2020, mobile video ad spend is projected to hit $9.15 billion.

Mobile users and gamers alike in China are engaging with mobile video ads. A Nielsen study in March 2015 found that 56 percent of internet users took action after viewing digital and mobile video ads. Chinese mobile users aren’t only engaged with video ads on mobile, they’re also more likely to convert. According to a Deloitte poll in June 2015, pre-roll video ads were the most likely mobile ad format to drive Chinese mobile users to make a purchase, at 21 percent.
2. ESPORTS ARE POPULAR AND LUCRATIVE

While mobile eSports have been slow going in the U.S. and other western countries, the Chinese market has a long history with organized online gaming competitions. The Chinese government even acknowledged eSports as a sport as far back as 2003.

This adoption has made China a receptive market for eSports titles. The Chinese eSports market was worth $36.7 million in 2015 even despite minimal investment in eSports-friendly sectors such as advertising (due to the lack of large-scale programmatic opportunities) or eSports betting (which is currently illegal in China). In China, 24 out of the 100 top grossing Android apps and 19 out of the 100 top grossing iOS apps are considered eSports games—with Tencent’s MOBA King of Glory and Yinhan’s MMO RPG Space Hunter topping the charts.
3. ONLINE FORUMS INCREASE ENGAGEMENT AND ENCOURAGE FEEDBACK

App stores are the primary marketplace of the mobile game economy, but the success of China’s mobile game online forum and distribution services hint at a more all-encompassing future for mobile games.

Joyme, one of the most successful combined online forum and distribution services in China, boasts 10 million active users. Joyme’s platform uses a wiki model which allows players to post helpful game guides, entertaining Let’s Play videos and advice posts alongside games. These services drive users to distribution platforms in search of this content—users who have the potential to increase monetization and retention. Any westerner considering launching a mobile game in China should pay close attention to the feedback users will submit via platforms like Joyme.

Combined online forum and distribution services are viable in China due to its fragmented mobile economy which allows for alternative marketplaces to exist outside of the App Store and Google Play. Still, the hybrid store/content provider approach could be a smart expansion on app store recommendation.
4. HYPER-LOCALIZED GAMES ARE TOP PERFORMERS

Games with a very local flavor dominate in China. According to Newzoo, 10 percent of the top 100 grossing games in the Chinese market were Dou Dizhu-themed card games. Roughly translated as “fighting the landlord,” Dou Dizhu sets farmers against a landlord in a way that imitates the class struggles of China’s 1966-1976 Cultural Revolution. The style of game is already recognized as an eSport in the country by the Chinese government—a testament to its popularity.

But it’s not just genres that show China’s attachment to locally-inspired titles. Games based on local myths or strong Chinese IPs are also more likely to attract interest (and user downloads) than those without. Games based on classic stories like popular tale Journey to the West regularly perform well in the Chinese market in terms of revenue, while Maggie Nazarenus, marketing director at Chinese publisher Onix, suggests games based on Chinese TV dramas and PC games from the ‘90s are also reaching the top.
Publishing mobile games in China has gotten more complicated with new requirements from the Chinese government that went into effect in July 2016.

These new rules require developers to fill out paperwork with information about the mobile game, load each game onto a working smartphone and mail the phone to the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT). SAPPRFT is the regulatory agency responsible for administering and supervising entertainment in China, and will now review every game before it can be placed on any one of China’s more than 200 app stores.

While this vetting process existed prior to July 1, 2016, most publishers ignored it. The only requirement was that publishers be registered with China’s Ministry of Culture within 30 days of launch. The new regulations make submitting a game for approval mandatory. This stands to make publishing a mobile game in China much more time-consuming and—between obstacles like purchasing a smartphone to send and filing paperwork—potentially costly.

When the new regulations came out, Daniel Ahmad, analyst for the digital games market in Asia for U.K.-based Niko Partners, wrote an exhaustive 3,500-word report on the regulations under the pen name ZHugeEX. Ahmad’s piece detailed the possible implications these regulations would have on foreign game publishers.
Let's summarize the new regulations in China. What changed?

Before July 1 [2016], if you were a publisher or developer, you could go to any app store and put your game on there for the end user to download. Now, you have to go through an approval process, which is carried by the SAPPRFT. They have to approve the game and provide you with a version number or publishing number— basically a code—which you then give to the app store. That will allow you to publish the game.

Your original report talked about a loophole that applied to non-Chinese developers. Has that been cleared up?

It’s still open. Anyone that’s outside of China still has the option to publish a game via iTunes Connect— there’s just a box to tick that makes the game available in China. You still have to translate the game into Chinese, so people would actually be able to understand what they’re downloading. But yes, you can just still technically self-publish (on iOS only) if you’re a non-Chinese company.

Why is there such a crackdown now?

The Chinese government is basically trying to regulate the market more as it grows. They’re trying to cut down on low-quality games— games that are seen as bad for Chinese citizens—and also games that break copyright laws or are rip-offs of other games.

How is the government going to keep up with all the games that are submitted?

What we’re seeing is that the number of apps that are released overall isn’t growing. Between 2014 and 2015, the number of apps released almost doubled. This year, however, we might just see the same number of games released as last year because there isn’t going to be much room for additional growth with this regulation.

In your opinion, is this good for the Chinese gaming market?

There are a lot of downsides. Indie devs are going to face a lot of trouble in the future just in regards to self-publishing and going through this process and having to factor in all the costs. Certainly in regards to the indie space, it means there aren’t going to be as many of those games coming through. It can also harm innovation, especially with the long approval times.

What is your advice for developers— both those who are already publishing games in China and those that may want to break into the market?

First, there is a list of regulations where you can’t have excessive violence or anything that talks about politics too much. A game like Grand Theft Auto, for example, would be completely banned. Build the game you want and then see if it works for China.

Once you’ve found one that works, find a publisher in China; someone that you can work with and trust. They’ll be able to localize the game, put it through the regulations, promote the game. You just need to be a bit more clued up now because you need to understand what licenses the publisher has to have, what licenses a game has to have and how the approval process works. ●
FACT OR FICTION?
WHAT WESTERN DEVS NEED TO KNOW ABOUT LAUNCHING MOBILE GAMES IN CHINA
he rapidly maturing state of China’s mobile game market is an exciting prospect for many devs in the West. Mobile game revenue will grow to $10 billion by 2016’s end, a 41 percent increase from 2015, according to data from Newzoo. It’s expected to continue at this rate and reach $28.9 billion by 2019.

As the market grows, it changes. Many preconceptions or expectations developers in North America or Europe have about the market are now out-of-date. What’s more, most in the industry who have any experience with China’s mobile game market advise finding a partner to help with everything from designing a game to resonate with Chinese users, to localizing marketing and distribution. Not to mention navigating the new regulations announced in China earlier this year that are complicating the process to submit an app even more.

But before mobile game developers begin seeking such a partner, they must be aware of what’s fact and what’s fiction about launching a mobile game in China.
FACT: THE ANDROID MARKET IS FRAGMENTED

Android is the dominant force in China, thanks to its open nature—a contrast to the iOS walled garden. But a feud over censorship between the Chinese government and Google resulted in the downfall of the Android Market (former name of Google Play), opening the door for a string of alternatives to crop up. The sheer number of Android app stores and distribution platforms that exist have long been a thorn in the sides of foreign devs. And according to Vincent Diao, vice president at Chinese publishing company Yodo1, the number of viable distribution platforms on Android is going up, not down.

“To launch a game in China, if you want to reach the majority of Chinese Android users, publishing on 40 to 60 Android markets at launch is pretty standard, with more to come over time,” Diao says. Each marketplace has its own verification processes, rules and regulations, which can post a major hurdle for devs in the West used to submitting their games to three or four marketplaces at most.
It’s a common misconception that Chinese gamers don’t monetize. Fortunately for devs, it’s simply not true—monetization numbers are rising.

“This view is outdated from years back when Chinese users were accessing pirated or scraped binaries of their games and had no way to spend money in-app even if they wanted,” says industry consultant Josh Burns. Piracy is actually falling, he adds.

Traditionally, most Android marketplaces in China banned in-app ads in their stores due to the country’s strict advertising laws, making in-app purchases the only monetization model for free-to-play games. But that’s changing. Android marketplaces have begun to allow in-app ads. This will give struggling games that lack IAP function a fighting chance as in-app ads evolve in the Chinese market.

“We will start seeing more casual games with an ad-based model,” predicts Burns, good news for popular western genres like arcade and puzzle games.
Once games are successfully in China’s plethora of app stores, UA remains a challenge. According to Eric Wang, vice president of U.S. operations at China-based mobile internet company Zenjoy, UA in China is a different ball game, particularly on Android. The dominant method of UA is based on store placement. In Android marketplaces, that tends to favor big sellers, while Apple tends to promote a variety of critically acclaimed games—not just the top names.

Since UA isn’t a major feature on Android in China, many devs report the amount they have spent in the past hasn’t delivered the number of users one would expect in the West.

The Chinese market’s reputation for copycat games may lead devs to believe games that perform well in the West can be just as big of a hit in China. But Burns and Diao agree that’s just not the case. The market today is incredibly competitive.

Though monetization methods may be converging with those utilized in the West, thematic differences remain stark. According to Burns, some games just won’t work. Titles based on western IP or celebrities often fall flat in China. Gambling and casino games are outright illegal. Diao adds that the western games on either end of the complexity spectrum struggle in China: light games have difficulty monetizing because they lack IAP and heavy games are often inaccessible to Chinese gamers.

Zenjoy’s Yummy Mania

Zenjoy’s Slots Vegas Casino
Chinese gamers do enjoy many of the genres popular in the West, such as RPGs. But, says Wang, they prefer content that is much more localized to their culture, such as being centered around the popular novel Three Kingdoms or Chinese medieval fantasy themes. Western devs should infuse Chinese culture into their games. 

Diao calls this culturalization, “which means not only localizing the copy, but also localizing in-game content like graphics, voice overs, and even character designs.” While working with western partners, Yodo1 will often help rewrite the game text in a fully local way rather than simply translating.

The complicated nature of the Chinese mobile game market may put devs off from considering China—but it shouldn’t.

“More and more Western developers that are seeing China as a top two to three grossing market for their games—versus two to three years ago when China was a much less significant piece of their revenue,” Diao says. While winning over the Chinese audience will certainly be a challenge, devs with the right game have the potential for success.
In the first six months of 2016, merger and acquisition activity in the mobile gaming industry reached a combined $25 billion. A huge chunk of those deals came from one place in particular: China.

The largest of these was Chinese tech powerhouse Tencent’s $8.6 billion acquisition of Finland-based Clash of Clans creator Supercell. The following month, Shanghai Giant Network Technology led a consortium of Chinese investors who went all in on social casino—agreeing to purchase Slotomania maker Playtika for $4.4 billion. In addition, Chinese publisher Youzu Interactive agreed to acquire German mobile specialist Bigpoint for up to 80 million euros.

So what has all these Chinese companies looking to new markets? A closer look at the top four mobile game acquisitions from China in 2016 highlights the sheer scale of China’s market and the country’s growing influence—and interest—in the West.
1. Chinese internet giant Tencent acquires Supercell

**Acquisition date:** June 2016

**Price:** $8.6 billion

**The deal:** Chinese tech colossus Tencent, owner of mobile messaging app WeChat and League of Legends developer Riot Games, purchased a 84 percent stake in Finnish, free-to-play expert Supercell directly from internet giant SoftBank after weeks of rumored negotiations.

**The impact:** Supercell CEO Ilkka Paananen said he signed off on the purchase so the Finnish four-hit wonder could “chase a future.” For Tencent’s part, the company is already the world’s largest video game publisher. But the Supercell acquisition marks a strategic investment in global expansion, specifically into western markets.
2. Chinese consortium agrees to $4.4 billion purchase of Playtika

**Acquisition date:** July 2016

**Price:** $4.4 billion

**The deal:** A consortium of Chinese investors led by online game company Shanghai Giant Network Technology agreed to buy Caesars Interactive Entertainment’s Playtika, an Israel-based social casino games studio. Along with Giant, the consortium consisted of Giant Investment (HK) Limited, Yunfeng Capital, China Oceanwide Holdings Group, China Minsheng Trust, CDH China HF Holdings Company Limited, and Hony Capital Fund.

**The impact:** Playtika is no stranger to an acquisition. In 2011, Caesars Entertainment Corporation purchased the Israeli casino developer for up to $90 million. Playtika represents an instant, strong source of revenue for the Chinese consortium. Even before the acquisition, Playtika already held the title as the leading moneymaker of the social casino sector.
3. Zhejiang Century Huatong acquires CMGE (China Mobile Games and Entertainment Group)

**Acquisition date:** April 2016

**Price:** $1 billion

**The deal:** One of this year’s most curious pieces of business saw automotive plastic parts manufacturer Zhejiang Century Huatong acquire leading mobile studio—which had annual sales of $204 million in 2014—CMGE for $1 billion.

**The impact:** The growth of China’s game market poses a tantalizing prospect even for non-gaming companies. CMGE will have released 13 mobile games by the end of the year, many of which are already high-performing. Its Superhero and Legend of Sword and Fairy bring in monthly revenues of $2.5 million and $7.5 million respectively. What’s more, CMGE plans to launch another nine titles in 2017, including some based on Western properties such as The Walking Dead and Assassin’s Creed. It’s likely much of Zhejiang’s $1 billion will support that effort.
4. Mobvista acquires GameAnalytics and NativeX

**Acquisition dates:** February and July 2016

**Price:** $25 million+

**The deal:** Asia’s largest mobile ad company, Mobvista, made two notable purchases this year with the acquisitions of monetization firm NativeX and analytics outfit GameAnalytics. Combined, the deals costed the Chinese company over $25 million.

**The impact:** Much like Tencent, Mobvista is keen to become a global player. But instead of purchasing a western dev studio like Supercell, Mobvista, picked up two of the biggest mobile service providers in the West.

Both companies currently offer insights and ad tech to industry juggernauts such as EA, SGN, PopCap, Tencent and Flaregames. By purchasing the pair, Mobvista advanced its own monetization capabilities, linked up with some of the biggest names in the business, and widened its international footprint across Europe and North America. 

Vstargame’s Anime Arena
China’s mobile game ecosystem is infamous for its culture of “copycatting” or “cloning.” While Western culture mostly acknowledges individual ownership over things like characters, art and game mechanics, in China ownership rights are a theoretical notion at best.

“There are a ton of copycats [in China],” says Matthew Leopold, business development and marketing director at China-based publishing company Yodo1. “But there are no real anti-piracy legislation in place. Fighting copycats is always an uphill battle.”

But developers should be careful not to approach copycatting practices overly simplistically in the East. Not all Chinese players are comfortable with knockoffs, and not all successful mobile games are clones. The causes of copycatting in China are complex and worth a closer look.
Launching a mobile game in China involves regulatory and business complexities, so western devs often delay a Chinese launch. The result? Chinese gamers are forced to wait for games they want to play, or don't know that the original exists—and copycat developers happily exploit the temporary vacuum.

That makes copycatting, first and foremost, a timing issue. If western developers launched their games immediately in China, in many cases those games wouldn't be successfully cloned. In fact, many Chinese users actually don’t approve of copycats, according to Nicolas Gilot. Gilot is a product manager at AppInChina, a company that helps foreign companies launch their apps in the Chinese market.

"Copycats create a bad reputation for China," Gilot says. "But [players] don't have a choice, if copycats are the only thing there." So stories continue to appear bewailing cloners: developer Playsaurus, for instance, reported that copycat devs released their game in China and got half a million plays ahead of Playsaurus's own planned launch.

Without this imbalance of demand and availability, westerners might be surprised by just how passionate Chinese players can be about original IP. A particularly strong segment are fans of Japanese anime, comics and games—called "er ci yuan" fans—a loosely organized community that connects through a variety of streaming websites and forums. "They are firm supporters of IPs they favor and strongly prefer originals over copycats," explains Shanshan Cao, senior market analyst of China at mobile intelligence company Newzoo.
CLONES OFFER COMPETITIVE PLAYERS A FRESH START

A cultural factor contributes to copycat game adoption in China: the natural competitiveness of Chinese gamers. Chinese schooling teaches kids to be competitive. In games, this translates to heavy competition in individual performance-based game systems such as leaderboards, as opposed to most western games that compete primarily using guild or clan systems.

The side effect? Each copycat on the market allows players a fresh start, an opportunity to join another competition and come out on top. Even successful games tend to structure themselves to give more competitive opportunities to incoming players. "In China, [devs will] make a new server every few weeks because it allows a fresh start," Gilot says. "Players then spend as much money as possible to become No. 1."
APP STORE FRAGMENTATION EXACERBATES CLONING

It can be nearly impossible to uproot copycats, though this isn’t a sign of Chinese intransigence so much as of a wildly overgrown market. In most of the world, a company only has to ask Apple and Google to eradicate a clone, whereas China has 60 to 70 app stores to petition. And often, those app stores may see little reason to help.

“Let’s say the copycat makes multiple hundreds of millions a month,” says Shlomo Freund, founder of AppInChina. “The platforms are motivated to protect games that are making money. The effort may not be worth the payoff.” As a result, devs don’t need to look far to find games that copy entire games as a whole like clones of Supercell’s Clash Royale.

Chinese players love established IP—in fact, China’s most popular games of 2016 are based on established IP. But foreign developers have to be fast to beat copycat devs to the punch. With the popularity of all-in-one game development platforms, AppInChina reports that copycatting is happening faster than ever, as specialty Chinese devs have learned to quickly clone game code and assets.