TENCENT’S 2018 GAMES STRATEGY

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Tencent held its annual UP conference on April 23rd, 2018 in Beijing. The slogan for the conference was ‘With love We create’. The company announced a strong line up of games for 2017 as well as a number of new initiatives that Tencent plans to engage in this year. Tencent is now the largest games company in the world, generating annual revenues of RMB 118 billion ($18.7 billion) from its games across PC, Mobile and distribution platforms.

Tencent’s vision for games this year is to ‘explore more possibilities’ for games by creating more engaging games across a variety of genres and platforms. At the event, Tencent announced 26 brand new games across multiple genres such as RPG, Action, Simulation, Card, ACG, AR+LBS, Sandbox, serious games and battle royale.

Pan Entertainment

Tencent is continuing to focus on its pan entertainment strategy with co-operation across its digital businesses – Tencent Pictures, Tencent Animation, Tencent Literature, Tencent Esports and Tencent Games.

Tencent Pictures announced 15 brand new film and television works including new TV shows for Honor of Kings and JX Online 3. Tencent Animation announced a number of initiatives which include creating an esports anime, releasing a series of comics based on Honor of Kings and working with Tencent Games to create mobile games for ‘Fox Spirit Matchmaker’ and ‘Under one person’.

Tencent Literature is maximising the value of its IP by collaborating with Tencent Games, Tencent Pictures and Tencent Animation to utilize Its IP across many different segments. Tencent Esports will continue to explore the esports business model, foster talent and promote the development of the industry. The segment is also planning to build upon the international influence of Chinese esports to reach more players with its Honor of Kings world cup.
Two other games that Tencent are working on are Lord Xue Ying and Dou Po Cang Qiong. Lord Xue Ying is an MMORPG fantasy game that is based on a popular novel. Tencent will collaborate with internally to create an animation and other entertainment based on the IP. Dou Po Cang Qiong is also an MMORPG developed by Tencent’s Timi studio and based on a popular novel. The IP will also have its own TV show and animation to broaden the scope of the IP and to carry out Tencent’s pan entertainment strategy.

**Battle Royale**

Battle Royale has been a hot trend in China since PUBG launched on Steam in the first half of 2017. Tencent was quick to jump on the trend and lost no time in negotiating a deal to bring PUBG to China. The final agreement included that Tencent purchase a 5% stake in Bluehole, gain the rights to the PC version and a license to develop two mobile versions of the game. The two mobile games were published in January 2018 in China and launched in the rest of the world last month. The PC version of the game is still in development and will release later this year.

In addition to PUBG, Tencent has also secured the rights to publish the battle royale mode for H1Z1 in China. Tencent has also developed battle royale modes for CrossFire Mobile and Call of Duty Online. Glorious Mission is a standalone battle royale game developed for mobile devices and Europa is a standalone battle royale game for PC. Tencent is working with Garena to test Europa in Southeast Asia before officially releasing the game. It’s clear that Tencent is working to dominate the genre.

At the UP conference, Tencent announced that it would also publish Fortnite in China due to its relationship with Epic Games. The company has a 48% stake in Epic and will work with the company to localise the game, offer in game content and create an anti-cheat experience. Tencent is investing RMB 100 million ($15.8 million) into the game. Half of the money will be used to create new content for the game whilst the other half will be used to develop an esports scene for the game. Fortnite now has 45 million players worldwide.
Blockchain, AR & LBS

Tencent is continually exploring new technology to create new types of games. One such trend that has been gaining steam recently is the concept of blockchain games. Blockchain games are games that have digital items that have the potential to appreciate and depreciate in value like cryptocurrencies. CryptoKitties is an example of a successful blockchain games where users can buy digital cats on the blockchain, breed them with other cats to create new cats with unique attributes, then trade them at a higher value. Tencent, NetEase, Baidu and Xiaomi are just some of the Chinese companies that have released blockchain games.

Tencent’s brand new blockchain game is called ‘Let’s Hunt Monsters’. The game is essentially a cross between Pokemon Go and CryptoKitties as it allows users to capture virtual monsters in the real world using augmented reality and location-based services. Players can then trade, exchange and breed these monsters that are stored on the blockchain. Tencent has confirmed that the game will launch in May and up to 110 billion digital monsters can be stored on the blockchain.

Tencent also announced another game called ‘Wang Pai Zhuo Yao Shi’ that will utilize AR + LBS. The game, which is developed by Tencent’s Lightspeed & Quantum Studio, is a pet catching and collection game that is similar to Pokemon Go. Once captured, the pets can be fed food, trained in combat, given better clothing and more. Trained pets can fight enemy bosses and engage in other various tasks. The game will even have a pet matching mode that allows users to pair their pets with those of their friends to create new friendships and increase stats.

Next Generation Sandbox

Tencent announced three new sandbox games at the UP conference this year. The company noted that sandbox games have been extremely popular since the launch of Minecraft in 2009 and that these types of games open up entirely new possibilities for gamers. Tencent is working with Freejam games to bring Robocraft to China. The game, which has already sold over 14 million units on Steam, is a ‘build, drive and fight’ sandbox game where users build robots and then engage in online battles.
Tencent is also working with Bohemia Interactive, the developers of DayZ, to bring a new sandbox game to China called Ylands. Ylands is a sandbox exploration adventure game that is similar to Minecraft. Players can create their own characters, choose an environment and start their own adventure. The game even has an in-game editor that allows users to create custom scenarios and environments. The game is set to launch on WeGame in June 2018.

In addition to working with overseas developers, Tencent is developing its own sandbox game called ‘Shou Gong Xing Qiu’. The game will allow players to drop into an open world where they can mine for materials, make tools, build houses and craft other items. The game in essence is extremely similar to Minecraft in both graphical style and gameplay elements. There will also be mod support, an in-game editor and a focus on educational features. The game is being developed to run across PC, Tablets and Mobile on a cloud server that stores all data. The game is set to go into beta in the third quarter of 2018.

**Sports games**

Tencent is a leader in the sports genre as it holds the rights to popular games such as NBA 2K Online and FIFA Online. The company plans to strengthen its hold on the sports genre by expanding to multiple platforms and launching updated versions of current games.

NBA 2K Online 2 is the sequel to the original game which currently has over 35 million registered users in China. NBA 2K Online 2 is developed by Tencent and 2K Games, it will include a brand-new engine, advanced physics and new innovative gameplay methods. The game, which is currently in beta on PC, will also have a professional esports league launch later this year.

Tencent is also working with Nexon and EA to launch FIFA Online 4 for PC in China later this year. The game will have improved graphics, a more aggressive AI and new gameplay mechanics such as an in-game card system. In addition to the brand-new PC games, Tencent is working with both 2K games and EA to bring the games to mobile devices. NBA 2K Online and FIFA Soccer World will come to smartphones with real time PVP gameplay later this year.
Serious Games

Earlier this year Tencent announced that it was looking to extend beyond traditional video games by launching a number of ‘serious games’ with the primary purpose of solving real world issues. Tencent plans to release similar games across five unique categories: Traditional Culture, Educational Knowledge, Science and Engineering, Popular Science and Parent-Child Interaction. Whilst these games will help others solve real world issues, Tencent will also be able to use the data to improve and grow its business.

Tencent has already launched a number of serious games and at the UP conference the company announced 4 more games that cover education, popular science, traditional culture and science and engineering. Epistory, which is currently available on WeGame, is an RPG game that allows users to perform actions by typing. Kerbal Space Program is a space simulation game that allows users to learn about space travel. Tumor Doctor is a medical simulation game and Tale of Nisan is a game that teaches players about traditional Chinese culture.

WeChat Mini Games

WeChat Mini Games has become a hot topic in China after reaching more than 400 million users in just a few months. Mini Games are small applications that run within WeChat and do not need to be downloaded in order to play. These games are usually simple to play and contain a competitive element in order to attract casual gamers and non-gamers who use WeChat on a daily basis but do not download games from app stores regularly.

One of the most popular launch games is called ‘Jump Jump’. This game, which has players jumping from one block to the next, has accumulated more than 100 million daily active users due to the addictive nature of the game as well as the strong competitive element which is amplified by social features and leader boards. On April 21st, Tencent held a WeChat Mini Games esports event that invited the top 30 players at ‘Jump Jump’.

The competitive event saw all 30 players compete in trying to get a high score. Five players were able to play the game for more than 120 minutes and in the end the top player was awarded prize money of RMB 100,000. Whilst Mini Games traditionally don’t fit into the definition of an esports game, it’s clear that Tencent is aiming to engage casual gamers through
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this event and build a WeChat gaming ecosystem. According to Tencent around half of WeChat Mini Game players are female and around 40% are not active mobile gamers.

PC to Mobile Game adaptations

Tencent recently invested RMB 3 billion ($474 million) in Shanda Games. Shanda noted that this investment will help them bolster their core gaming business and lead to future collaborations with Tencent. Shanda, which was once the leading games company in China, is known for its popular games titles such as Dragon Nest and The World of Legend. Tencent recently published a mobile version of Dragon Nest in 2017 and this week announced that they will also publish The World of Legend 3D for mobile. Both games were originally released for PC and are now being adapted to mobile devices.

Tencent is also working with Perfect World to bring some of its older games to mobile. The game ‘Perfect World’, which launched on PC in 2005, will be coming to smartphones later this year with Tencent as the distributor. Perfect World is working with Tencent to utilise its strong distribution channel, so the game can find success. The game is set to launch later this year and will include updated graphics and PVP gameplay.

In addition to working with partners, Tencent is also adapting many of its older PC titles to mobile in order to breathe new life into the IP. Since December, Tencent has launched QQ Speed, QQ Dance and QQ Huaxia for mobile devices with huge success. Later this year the company plans to launch QQ Free Fantasy, adapted from the game of the same name that released on PC in 2007. Tencent has demonstrated that it can create an original game IP, operate it successfully on PC, then extend its success to mobile.

Other games

Tencent has acquired the license to Red Alert, the real time strategy game that was originally released in 1996. Tencent is developing a brand-new game called Red Alert Online which will have real time strategy and simulation elements, new and improved graphics, and a rich social experience that is set to release in July.
Tencent will also localise and distribute Magic the Gathering Arena for PC in China. The company plans to break into the PC trading card game market through this title and others in the franchise in order to compete with the likes of NetEase and Gaea who distribute Hearthstone and Gwent: The Witcher Card Game in China. Tencent is even planning to create an esports tournament for the game.

In an effort to grow its position in the ACG (Anime, Comics, Games) segment, Tencent is working with Namco Bandai to bring Naruto Online to mobile devices. The mobile game will be based off the browser game which has 60 million registered users in China and holds the title of the world’s most popular web game.

**Tencent investment / M&A data**

According to data from digi-capital, Tencent led the way in games related investments and M&A activity over the past 12 months. A total of $22 billion was spent on games related deals over the past 12 months with Tencent accounting for more than 40%. The top deals included investments of $632 million and $462 million in game live streaming companies Douyu and Huya. The publisher also invested $476 million into Shanda Games, $130 million into Kakao games and $72 million into Ourpalm.

Whilst these deals are of high value, Tencent did not have a huge M&A deal like it did with Supercell in 2016 or Riot Games in 2011. Speaking at the GamesBeat Summit on the 10th of April, the head of Tencent business development in North America explained, “A couple of years ago, our deals were the big ones that you’ve heard of. But over the last 12 months, we’ve started doing smaller investments — around $3 million — at an earlier stage.”

Tencent is a strong partner due to its experience in video game development and publishing. The company has a long history of working with both domestic and overseas partners and also has a huge social network presence with WeChat and QQ that allows it to excel in games distribution. Tencent’s strategy includes investments in gaming companies that augment its existing games and pipeline, picking up on trends for growth areas globally. Tencent is able to utilise its partners expertise when launching its own games as well as provide its own expertise when launching its partners games in China.
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Summary

With 26 brand new games, it’s clear that Tencent is heavily focusing on its gaming business as a huge growth driver for 2018. Tencent is continuing to release games in mainstream categories such as MMORPG, Action, Shooter and Strategy to strengthen its hold in these markets whilst expanding to new categories such as ACG games, Blockchain games, AR+LBS games, sandbox games, serious games and battle royale games. The company continues to collaborate across its business segments to expand its pan entertainment and multi-screen strategy.

In addition to its focus on the domestic market, the company is making a number of moves to bring its self-developed games to the global market. Tencent has been able to increase its games distribution strength through WeGame on PC and MyApp, WeChat Mini Games and QQ on mobile. In addition to self-developing titles, Tencent continues to license titles as well as fund new titles through its Aurora project. Tencent is set to remain the largest games company in the world and we expect to see strong growth in 2018 and beyond.