

Four Keys to Unlocking China

Advice for Companies Looking to Enter the Chinese Casual Games Market

By Marc van der Chijs



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in Business Economics from Maastricht University, his background is firmly rooted in business management and technology. Prior to joining SPIL GAMES, Marc co-founded and was an active board member of the leading Chinese video site Tudou.com. From 1996 through 2002, Marc held several management positions at automobile manufacturer Daimler in Stuttgart and Beijing. You can reach Marc at marc.vanderchijs@casualconnect.org.

The number of Chinese Internet users has grown tremendously over the past several years, to the point that now China has the biggest online population in the world with over 298 million Internet users. Casual games have exploded onto the market with overwhelming adoption by local consumers. Business models have evolved as well, and many developers and publishers are highly profitable, earning their income from both advertising and the sale of in-game items. The opportunity is there; however, to be the most successful in this space there are several things that developers and publishers should know before entering the Chinese casual games market.

The 1st Key: Know the Local Laws

Certain licenses are required to operate in China, and securing those licenses is typically the biggest hurdle for foreign game companies to clear in order to be active in China. The most important license is the ICP (Internet Culture Permit) that allows so-called value-added telecom business. Without this license, you cannot even operate a website in China. Foreign companies need to set up a joint-venture with a Chinese company in order to obtain this license. Furthermore, non-Chinese games have to be checked by the Ministry of Culture before they can be published, a process which takes about 30 days. If the game is not approved, the ministry will state the reasons why, and the game must be modified and submitted for approval again.

The 2nd Key: Understand the Leading Business Models

Generally, the Chinese do not want to pay for games because they know that all of the games are available for free through piracy. Accordingly, China has developed its own business models for games. All games are available for free as a download or pre-installed in Internet bars. In the beginning, most game companies charged subscription fees, but almost all of them now have changed their business models to in-game transactions. This turned out to be a much more profitable approach for developers and publishers than subscriptions because of the low-barrier to entry for players to get into the game. For casual flash games, the model is free-to-play as well, but in this case advertising is used as the primary revenue model because people are not as willing to engage in micro-payments for shorter, more condensed games.

The 3rd Key: Work with Local Publishers

It is generally easiest to work with local Chinese publishers, as they know the market and know how to most effectively promote games and portals. Starting from scratch in China is possible, but most companies tend to fail because China's gaming and Internet market is very different from any other in the world. Companies seem to underestimate the significance of those differences, and time and again foreign game companies put lots of money into China without achieving the results they desire.

The top publishers for browser-based MMO games (massively multiplayer online games) are Shanda, The9, 9You, Tencent (QQ), and Netease. For casual flash games, the top publishers are 4399.com, Game.com.cn and Xiaoyouxi.com. Both Game.com.cn and Xiaoyouxi.com are operated by SPIL GAMES Asia.

For distribution, the leading online portals for casual flash games are 4399.com, Game.com.cn, Xiaoyouxi.com and 7k7k.com. For browser-based MMO games (also called web games), the main players are Shanda, which receives a lot of its traffic from their other games, and QQ, which gets its traffic primarily from its IM client. In addition, webgame.com.cn is a relatively new site that is attracting quite a bit of traffic already.

Some of the top web games already have hundreds of thousands of players and the expectation is that the top web games will soon rival the top PC-based MMO games.

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The 4th Key: Stay on Top of the Latest Market Trends

Currently, the four most popular casual game genres are action-style fighting games, puzzles, shooters, and platform games. Developers should initially focus on these genres in order to get publishers interested in their games, and publishers should focus on these genres to attract traffic.

Newcomers should also be aware that mobile games have become increasingly popular over the last few years. There are over 500 million mobile phone users in China, and over half of these users have a mobile phone that is Internet-enabled. In 2009, 3G will be further rolled out in China and the expectation is that this will increase the amount of Internet usage on mobile phones exponentially. Right now, most users still download games to their phones, but once a faster connection is available, Adobe Flash Lite technology will enable people to start playing online games on their phones as well. This is a huge opportunity for the online game industry in China.

Online browser-based MMO games (i.e. web games) will continue to grow further in 2009. Some of the top web games already have hundreds of thousands of players and the expectation is that the top web games will soon rival the top PC-based MMO games. One reason is that web games can be played in Internet cafes

without first downloading the client, and a lot of people in China go online in these Internet bars. In addition, it's important to note that these web games get the bulk of their revenue from the sale of in-game items. As stated previously, developers should consider a micro-payment revenue model for monetizing these games rather than subscriptions.

Some Final Words of Advice

- **Empower Your Managers**—Competition in China is tough, and you will need to react quickly if there are changes in the market. For this reason, the local management should have a lot of freedom to make decisions and take action. If your management team in China always has to wait for approval from headquarters, you will not be able to compete on an equal footing with local competitors.
- **Hire Someone Who Knows China**—If a manager is successful in Europe or the US, it does not mean that he or she will also be successful in China. It takes a different mindset to work effectively in China. Rather than put someone from the head office in charge, often it is the best strategy to appoint a local industry professional or at least someone with a lot of management experience in China to run the business.

- **Commit to the Long-term**—And finally, China is a long-term market. Even though the market potential is great, it takes time to build up an audience. For example, at SPIL GAMES it took us almost two years to grow our portal traffic from our initial launch to 10 million players per month; but within the last nine months alone we've grown our monthly portal traffic to 30 million visitors. Don't expect to break even in the first year—plan at least three years for that. ■

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