Current State of China’s Online Gaming Industry and the Obstacles in Development

Bin Qiu¹, Shaoqin Sun², Cunyan Fan³, Shujen Chen⁴

¹School of Economics and Management, Southeast University, Nanjing 210096, China
binqiu@163.net

²Dept. of Economics and Trade, Nanjing Information Engineering University, Nanjing 210048, China
shaoqinsun@yahoo.com.cn

³Netease Company, Guangzhou 510665, China
hivans@sina.com

⁴California State University, Fullerton, U.S.A.
Schen@exchange.fullerton.edu

ABSTRACT

This paper aims at identifying the current state of China’s online gaming market, and exploring the obstacles that keep China from developing this industry further on the basis of analyzing the value chain of online gaming industry. In the meanwhile, a case study will be made about the domestic leading online gamer—Shanda corporation, a listed corporation on NASDAQ. And in the end some conclusions will be made on how to assess the online gaming industry in China and how to remove the obstacles in accelerating the development of online gaming industry in China.

Keywords: online gaming industry, current state, China, obstacles, Shanda Corporation

After the dot-coms gradually lost their wizards in the past few years, the new economy firms never stopped seeking the potential lucrative industry that can make them “recovered”. Recently, they have found a booming industry that can lure people from other things—online games. According to a recent survey made by the International Data Corporation, or IDC, China’s online gaming market grew 46 percent in 2003, and in the next two years its Massive Multiplayer Online Role-Playing Games (MMORPG) are expected to dominate its online gaming market.

1. MARKET SCALE OF CHINA’S ONLINE GAMING INDUSTRY

1.1 Global Online Gaming Market Size

The increase in broadband connectivity to the home has an explosive impact on the world of online gaming, thus, the online gaming sector is growing tremendously as the availability of faster processing hardware enables the development of more advanced games.

According to the most recent statistics, the global online game market scale reached 7.6 billions U.S. dollars in the year of 2003, and by estimate, the total revenue of online gaming industry in 2004 will reach 9.9 billion U.S. dollars (see Figure 1).

1.2 Current State of China’s Online Gaming Market

In 2003, China has become the second-largest country of installing PCs and has the third-largest internet users. According to the latest survey made by CNNIC in July 2004, the internet users in China has become 87 million, among whom 31.1 million people use broadband as the method of accessing internet. There is no doubt that high speed Internet accession is another reason why China is growing so rapidly in online gaming industry. [1]

Game developers in China are hoping that they can occupy more market share currently dominated by Korean companies. Legend of Knights, the first online game made by Chinese company has been quite successful with peak simultaneous players of 80,000. A variety of statistics made by iResearch Consulting Company recently demonstrate that internet games have become a great business in China. Earlier this year, of the Top 100 tycoons on the Forbes list, three from the IT industry confirmed that most of their revenue had come from the online gaming industry. [2]
Statistics show that the total revenue of China’s online gaming industry reached 2.55 billion U.S. dollars in 2003. By estimate, the volume of total output of this industry in China will reach 6.65 billion U.S. dollars in 2005 (see Figure 2). Online gaming market estimate has also shown that China has the highest potential of growth in the Asia-Pacific region. The most optimistic remark on China’s growth from IDC says that China will probably become the largest online gaming market in 2007 with availability of broadband and wireless networks acting as the key to growth.

2. VALUE CHAIN OF ONLINE GAMING INDUSTRY AND THE POSITION OF CHINESE FIRMS

As we know, the whole value chain of online games industry can be divided into the following categories: game developers, game operators, marketing channels, ISPs and peripheral services.

The main chain of the online game industry is as follows: online game players, online game operators, online game developers and ISPs; and the supporting chain of the online game industry is: internet Cafés, online game sellers, peripheral products for online games, mediums and publication industries, computer software industry, etc (see Figure 3).

In terms of the main value chain, the Chinese firms mainly concentrate on the marketing of online games, while the hi-end of the value chain, i.e. the development of online games is under the control of foreign companies especially at the hand of Korean companies.

![Figure 3 Value Chain Of Online Gaming Industry](image-url)
3. THE MAIN OBSTACLES THAT KEEP ONLINE GAMING INDUSTRY IN CHINA FROM DEVELOPING FURTHER

3.1 Main Obstacles from the Perspective of End-Users of Online Games

Although the internet infrastructure construction has made great progress in recent years, connect speed is still the first factor that influences end-users in choosing what games they play. The fact that 69.4% of the Chinese online game players think that connect speed is the main factor on their game choosing demonstrates that the broadband service in China is not so satisfactory. Cost is the second factor that affects online game players (39.3%). Besides, difficult level, story design and visual design are roughly equal with about 30-40% players deem them as factors that influence them on choosing games respectively (See figure 4).

3.2 Lack of Support from Government with Unclear Industry Policies

Apart from the negative attitude from the public who tend to think that online gaming industry might be a potential threat that keep their children away from studying, the government also shows a vague attitude toward this industry. For example, it’s not an easy thing to get licensing of setting up Internet Café in China. Another fact that can not be ignored is that the internet accession fee is still high compared to the income of the internet game player (Most of the game players are young students who still rely on their parents). There are still other problems such as piracy problem, monopoly problem in telecommunication industry, etc. [3]

3.3 Weak Domestic Online Gamers at the Lower-end of Value Chain

At present, the Chinese online gaming market is still dominated by Korean companies. The domestic online game developers are facing stiff competition from Korea, Japan and other countries. Most of the Chinese online game developers lack capital and comprehensive abilities of developing and operating in this industry. Some companies are very slow in renewing their games and the R&D activities are at a lower level compared to the above mentioned advanced countries.

4. CASE STUDY—SHANDA CORPORATION, AN OBSTACLE REMOVER IN CHINA’S ONLINE GAMING MARKET

Shanda is the largest operator of online games in China. This Corporation offers a portfolio of online games that are licensed from third parties and that are developed in-house. The games that Shanda offers include The Legend of Mir II, which is the most popular online game in China according to users surveyed by International Data Corporation (“IDC”), The World of Legend, which is Shanda’s leading in-house developed game, and BNB, which was the highest ranked casual game in IDC’s survey of the top ten most popular online games in China in 2003. Shanda is headquartered in Shanghai, China.

4.1 Shanda’s IPO Strategy

In May 2004, Shanda Interactive Entertainment filed with US regulators for an initial public offering valued at up to 200 million US dollars. According to a preliminary prospectus filed with the U.S. Securities and Exchange Commission, Goldman Sachs underwrote most of the IPO for Shanghai-based Shanda. Other groups like Piper Jaffray and the Hong Kong and Shanghai Banking Corporation or HSBC also took part. Shanda said it has applied to list its American depository shares on the Nasdaq stock market under the trading symbol “SNDA”.

The IPO of Shanda brought this company both fame and wealth. And this had made Shanda a pioneer among Chinese online gamers. Also, Tianqiao Chen, the CEO of
Shanda Corporation has become the richest person in China according to the shares he holds and the most recent market price of SNDA on NASDAQ.

4.2 Shanda’s M&A Strategy
In August, 2004, Shanda acquired Hangzhou Bianfeng Software Technology Co., Ltd. Bianfeng is a leading developer and operator of chess and board games in China. Currently, Bianfeng offers over 50 different games, which attracted over 200,000 peak concurrent users in July 2004.

The acquisition is based on the fact that board games are deep rooted in Chinese culture and have a large and loyal users especially among mature age groups. The acquisition of Bianfeng adds another important segment to Shanda’s casual games platform and greatly broadens Shanda’s user base demographics. [4]

4.3 Shanda’s Marketing Strategy
The focus of Shanda’s marketing strategy is the so-called “experience marketing” style. This style means that Shanda Corporation attaches great importance in finding their customers’ feelings and preferences in playing their online games. For example, the data base naturally generated from the records in the process of consumers’ playing can be of great help in analyzing what kinds of games they like to play, at what price level customers can afford, and at which time periods during a day the customers frequently log in, etc. The above mentioned information can help Shanda Corporation do better job to improve their services to seize a clearer group of target market.

Another factor that leads to Shanda’s success in it’s marketing strategy is that this company uses internet Cafés as their marketing channels. By using internet Cafés which are very popular in China, it’s relatively easy for Shanda to establish its marketing channel in a short period of time. In the meantime, Shanda installs E-Sales system in each internet Café to build up an integrated information system among the distributors, and this helps a lot in doing business statistics and thus giving different discounts to distributors according to their business scale. Because there is no logistics problem in online gaming industry, Shanda utilizes banks and post-offices as its channel of collecting money for playing games.

5. CONCLUSIONS
The online gaming industry in China is still at an early stage, therefore, the online gaming market in China is immature at present. The main reason lies in the fact that the upstream of this industry is still dominated by foreign firms.

The online gaming industry has a long value chain including many industries such as medium and publication industry, telecommunication industry, hardware and software industry, retailing channels, etc, and the market opportunity is tremendously huge.

The main obstacles of online gaming industry in China include internet accession infrastructure to be improved, unclear industry policies and high industrial barriers and the internal reasons of Chinese online gamers including lack of capital, weak R&D abilities and relatively small scale, etc.

Some domestic online gamers in China have grown more and more strong. The Shanghai-based Shanda Corporation has set a good example in its IPO strategy, M&A strategy as well as its marketing strategy. We believe that more and more domestic corporations like Shanda will achieve great success in China’s online gaming industry in not a long future.

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