

ANALYSIS AND RESEARCH ON CURRENT SITUATION AND DEVELOPMENT OF CHINESE MOBILE GAMES MARKET

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Summary

This thesis is aiming to help Chinese mobile game makers and Chinese government acquire a better understanding of status quo of Chinese mobile games market through conducting a comprehensive research and analysis on current situation & existing problems and two famous mobile games from Japan and China, respectively. The final purpose is leading Chinese mobile game makers and Chinese government to make proper strategies and plans in order to developing Chinese mobile games market better and healthier. Nowadays, Chinese mobile games market has already taken the top 1 position especially when regarding to revenues and downloads recent years, attracting more and more mobile game makers' attentions both local and overseas. It's truly a critical period for the development of Chinese mobile games market.

Chapter 1 is actually the introduction part, consists of research background and research significance. The research background part first introduces the current situation and development of global games market and the rapid growth of mobile games market. Then it indicates the NO.1 position and overall situation of Chinese mobile games market in the world. The research significance part mainly discusses the increasing competitors and fiercer competition in Chinese mobile games market thus the importance for getting full awareness of current situation and existing problems for Chinese mobile game makers and government.

Chapter 2 mainly conducts the analysis of the current situation and existing problems of Chinese mobile games market. There are six main current situation of Chinese mobile games

market: 1. Industrial chain is going mature but still potential. 2. The growth rate of user scale is declining while the numbers of paying users is increasing. 3. RPG earns most every month while casual games cover most numbers of devices. 4. Tencent and NetEase are the two companies who have performed most wonderful these years in China. 5. Application stores is the main channel of obtaining information of mobile games. 6. The development of live streaming for mobile games in China is growing rapidly. Then it comes to the existing problems part; there are five main problems: 1. The user scale is about to peak. 2. The quality of local mobile games is not good enough. 3. The user's unit payment is a little too low (lower than CHY50). 4. The payment system is not safe enough. 5. Although live streaming for mobile games has become more and more popular, it is facing lots of challenges.

Chapter 3 conducts two case studies for Japanese phenomenal mobile game ("Pokémon go") and Chinese phenomenal mobile game ("Onmyoji"). The main Analysis applied is SWOT analysis. For both cases, they have part of brief introduction, development, impactions on the companies and finally SWOT analysis. Then there is a comparison between the two mobile games concluding downloads & revenues, and the main similarities and differences.

Chapter 4 is several recommendations for Chinese mobile game makers and Chinese government based on the evaluation of current situation & existing problems, and also the case study: Quality is far more important than strong marketing; Collaboration with foreign companies can be a good choice; Live streaming and offline activities should be paid attention to; Formal research is significant; Chinese government should make proper policies and regulations.

Chapter 5, as the last chapter, includes conclusion and prospect parts. Even though the Chinese mobile game industry still possesses deficiencies in numerous areas as well as yet a little reputation in the world, the combined effort from the Chinese mobile game makers and the Chinese government will definitely improve the situation.

<Inside Cover>

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CHAPTER 1. RESEARCH BACKGROUND AND SIGNIFICANCE

SECTION 1. RESEARCH BACKGROUND

Nowadays, with the development of technology and economy, smartphone has become more and more popular in the world. The functionality of smartphones has also evolved so much these years that we could even regard them as mini computers. In the past, people can only play simple miniature games on cellphones whereas now we can enjoy much more complicated games on smartphones.



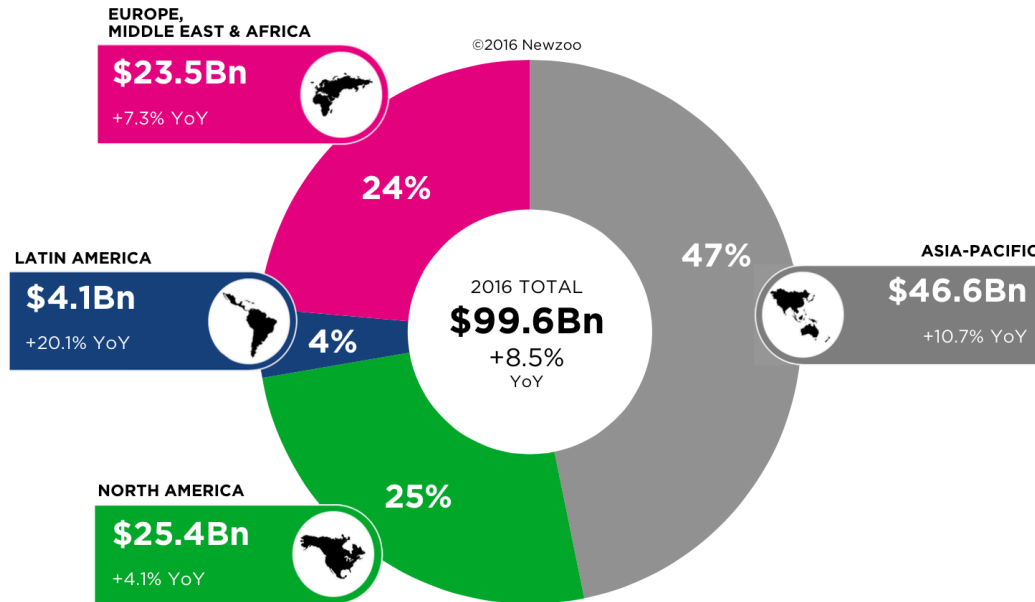
Source: Newzoo, “2013 Global Games Market Report”

Figure 1.1: Global Games Market 2012 – 2016

From figure 1.1 above, we can observe that the total global games market kept increasing from 2012 to 2016. Among these segments, the market share of PC/Mac and social/casual games began to decline while tablet and smartphone games increased continuously yet rapidly.

2016 GLOBAL GAMES MARKET

PER REGION WITH YEAR-ON-YEAR GROWTH RATES



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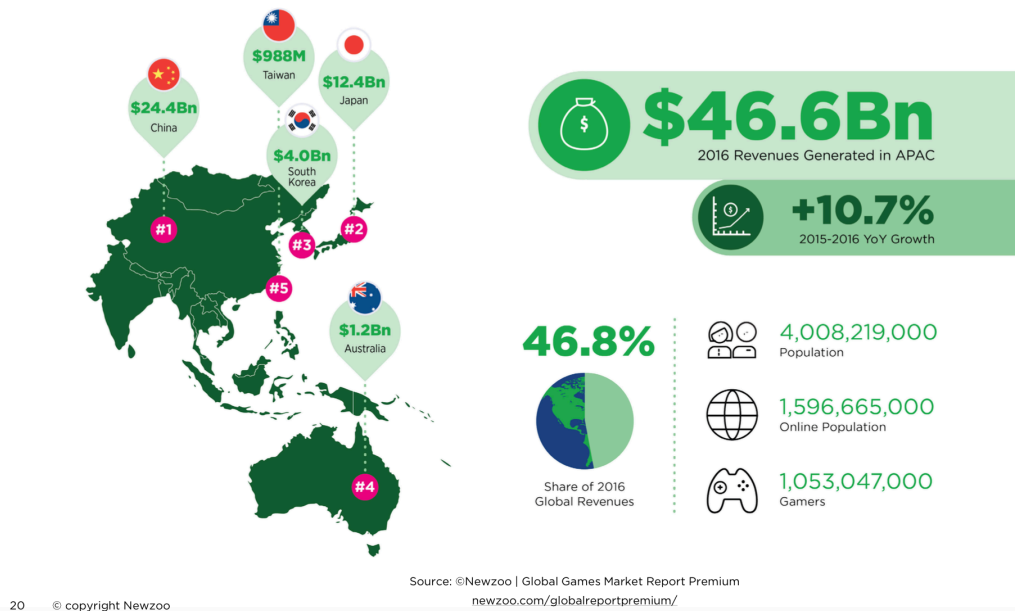
Source: Newzoo, Global Games Market Report Premium

Figure 1.2: 2016 Global Games Market – per region with year-on-year growth rates

From the Figure 1.2, we can conclude that in 2016, the Asia-Pacific region has generated \$46.6 billion revenues of global games market --- nearly 47% of the total of all regions. In addition, its revenue has grew over 10% when compared to the figure from its previous year.

ASIA-PACIFIC

2016 REVENUES, TOP COUNTRIES, AND KEY KPIS



Source: Newzoo, Global Games Market Report Premium

Figure 1.3: 2016 Revenues, Top Countries, and Key KPIS of Asia-Pacific

Among all the countries in the Asia-Pacific region, in 2016, a big proportion of the revenues of the gaming industry came from China, which was recorded to be \$24.4 billion (Figure 1.3). In addition, China had the largest gaming market in the world with the majority revenue coming from computer and online games. However, mobile games had a much faster growth rate than computer & online games.

Furthermore, according to <Research Report for Chinese mobile games market from 2016-2017>, the user scale of Chinese mobile games has reached 523 million, and the market share has reached \$78.32 billion. Although mobile games grew at a much faster rate than computer & online games, the growth rate of mobile games was decreasing gradually.

SECTION 2. RESEARCH SIGNIFICANCE

Since the Chinese mobile games market has already become the largest one in the world not only when considering the revenue but also the numbers of downloads, a large amount of

overseas investors and companies are highly interested in this so-called “fat meat”. Also, except for overseas competitors, local mobile game merchants’ competitions are becoming increasingly fierce. Furthermore, as local customers’ living conditions get better and better, they can no longer be satisfied with simple mobile games. Local gamers turned their expectation to more exciting and creative mobile games, which suggests that the upgrade and improvement of mobile games has become far more rapid than ever before.

Under this condition, the government of China, local game companies and local mobile game developers should have sufficient awareness of Chinese mobile games market’s current situation and also the existing problems. In addition, it has become necessary especially for local mobile game developers to analyze the situation and problems carefully in order to prepare appropriate strategies in order to survive and continue to go further.

Appropriate strategies are significant because they definitely assist the local mobile game developers and companies to take advantage of this “war”. Local developers and companies should be fully aware of competitors from both local and overseas, and at the meantime they can take advantages of them (for instance, learning valuable experiences and strategies from them).

In the following chapters, I will conduct deep analysis of Chinese mobile games market’s current situation and its existing problems. Followed by making comprehensive consideration in regards to the reasons, and get a better understanding of how to develop applicable strategies through examining several case studies from Japan and China. In the end, I will propose a few recommendations and make prospects for the future.

CHAPTER2. CURRENT SITUATION AND EXISTING PROBLEMS OF CHINESE MOBILE GAMES MARKET

SECTION 2.1. CURRENT SITUATION OF CHINESE MOBILE GAMES MARKET

In 2016, the scale of Chinese games market has reached 176.8 billion, a total of a 23.2% increase when compared to last year's figure. Among all different types of games, mobile games accounted for 49.5 % ---- surpassing PC games for the first time (Table 2.1). As mentioned before in Chapter 1, according to < Research Report for Chinese mobile games market from 2016-2017>, in 2016, the scale of market has reached CNY 78.32 billion and at the meantime, the scale of game users has reached 523 million. Nevertheless, the growth rate has continued to slow down. To sum up, the Chinese mobile games market has reached almost a matured phase. Also, the Chinese mobile games market has already surpassed the U.S games market (taking the lead of the world's mobile games market).

Table 2.1: The Proportion of Distribution for Types of Games in Chinese Game Market in 2016

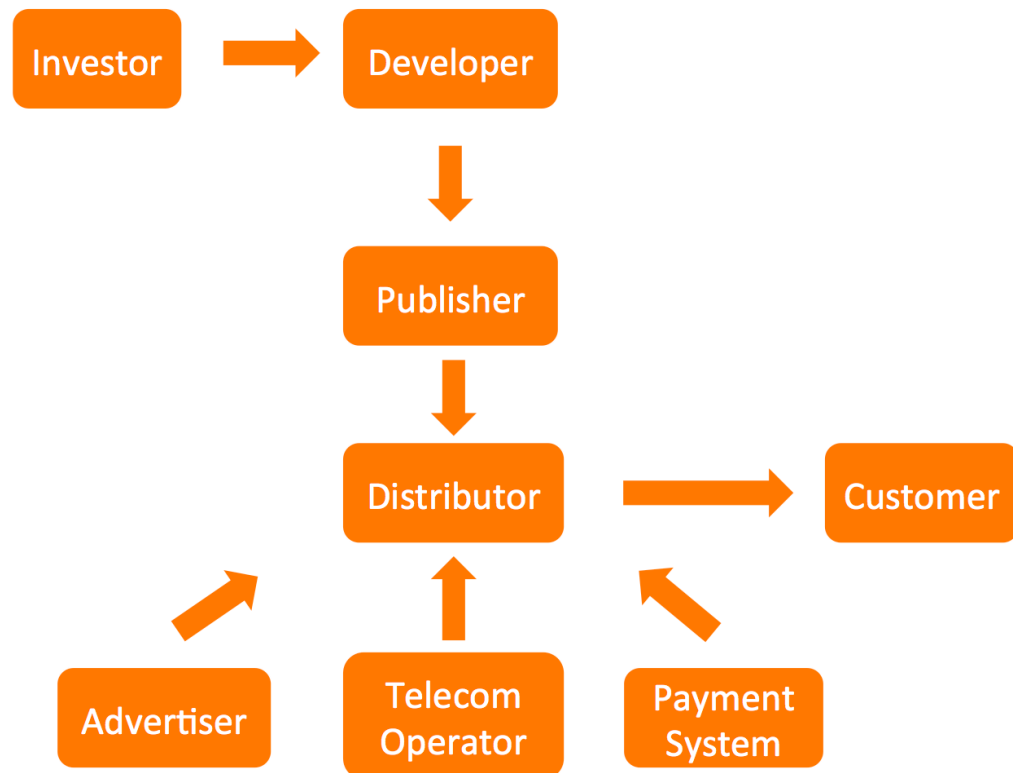
Game Type	Proportion (%)
Client Game	35.20
Social Game	3.50
Web Game	11.30
Mobile Game	49.5
Home-video Game	0.10
Console Game	0.40

Source: JiaMaData, 2016 China Game Industry Report

We could say it's truly a critical period for Chinese mobile games market. Mobile games merchants from both aboard and local still pays a great attention towards this matured but yet potential market. Therefore, China should also pay attention to it and the first step could be acquiring a better understanding of its current situation and identifying existing problems.

2.1.1. Industrial chain entering maturity but still holds potential

Every industry has its own industrial chain. A complete and stable industrial chain always plays a key role in an industry and is particularly important to all the associated enterprises.



Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

Figure 2.1: Industrial Chain of Chinese Mobile Games Industry

Figure 2.1 describes the current status of the industrial chain of Chinese mobile games industry. We could see from the figure that the first main players are investors, who invest in chosen developers to develop mobile games. When games are complete, developers will run the games by themselves or collaborate with other platforms. They may also choose to sell the proxy to publishers. Then publishers will publish the games and execute marketing & promotion actions. However, some powerful enterprises represent both developers and publishers, such as Tencent and NetEase. Inside the supply chain, the distributors are the ones that hold a stable number of customers. E.g. application stores, mobile applications, terminal manufactures and

mobile-advertising platforms. They accept mobile games from developers/publishers and distribute the products to the customers. Finally, there are three types of service supporters: advertiser, telecom operators and payment systems. To conclude, although the whole industrial chain seems to be in the mature phase, there is actually still a lot of potential due to more and more entrants with other areas' knowledge & background as well as collaboration between mobile game industry and non-gaming industries. Both industries can bring plenty of new ideas and concepts to Chinese mobile games industry and at the same time, promote the value of the gaming industrial chain.

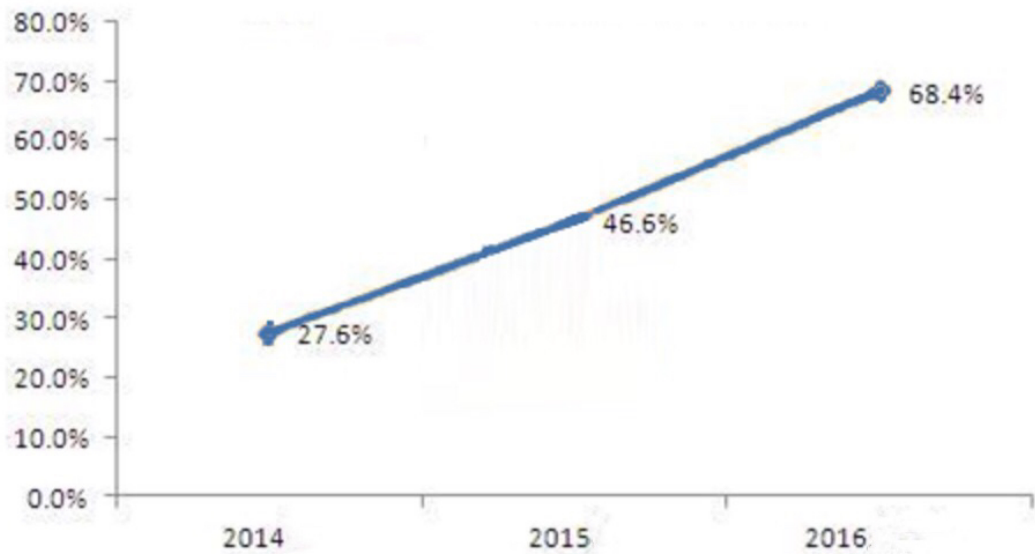
2.1.2. Decrease in growth rate of users scale & increase in paying users

According to the Table 2.2 and Figure 2.2, the growth of mobile games users scale has continued to slow down in 2015. However, the number of paying users has continued to grow in 2014. This is mainly due to the reason of growth in average income and an upgraded consumption concept in China over the past several years.

Table 2.2: 2014-2018 Chinese Mobile Game Users Scale and Forecast

Year	User Scale (hundred million people)	Growth Rate (%)
2014	4.67	Null
2015	5.02	7.50
2016	5.23	4.20
2017	5.43	3.80
2018	5.63	3.70

Source: iiMedia Research Group, "2016-2017 China Mobile Game Market Research Report"



Source: Zhiyan Consulting Group, “2017-2022 Supply & Demand Forecast and Investment Prospects of Chinese Mobile Games Market Analysis Report”

Figure 2.4: 2014-2016 Trend of Paying Rate for Chinese Mobile Games Paying Users

Table 2.3: Proportion of Distribution of Types of Mobile Games that Chinese Mobile Game Users paying for in 2016 (Multiple Answers)

Game Type	Proportion (%)
RPG	54.40
Chess Game	32.10
Card Strategy Game	30.00
Timely Strategy Game	28.80
Elimination Game	27.90
Shooting Game	25.00
Business Simulation Game	14.40
Gravity Project Game	13.20
Action Game	11.50
Others	3.50

Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

From Table 2.3 we could observe that RPG mobile games has earned the most (over 50%). Next are the chess games and card strategy games (approximately 30%).

Table 2.4: 2016 Proportions of Reasons for payment of Chinese Mobile Game Users

(Multiple Answers)

Reason	Proportion (%)
Props and Equipment	73.80
Stage Clearing and Upgrading	30.00
Obtaining Guides	27.70
Downloading	25.00

Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

Note that over 70% of the paying users are will to pay for props and equipment in games.

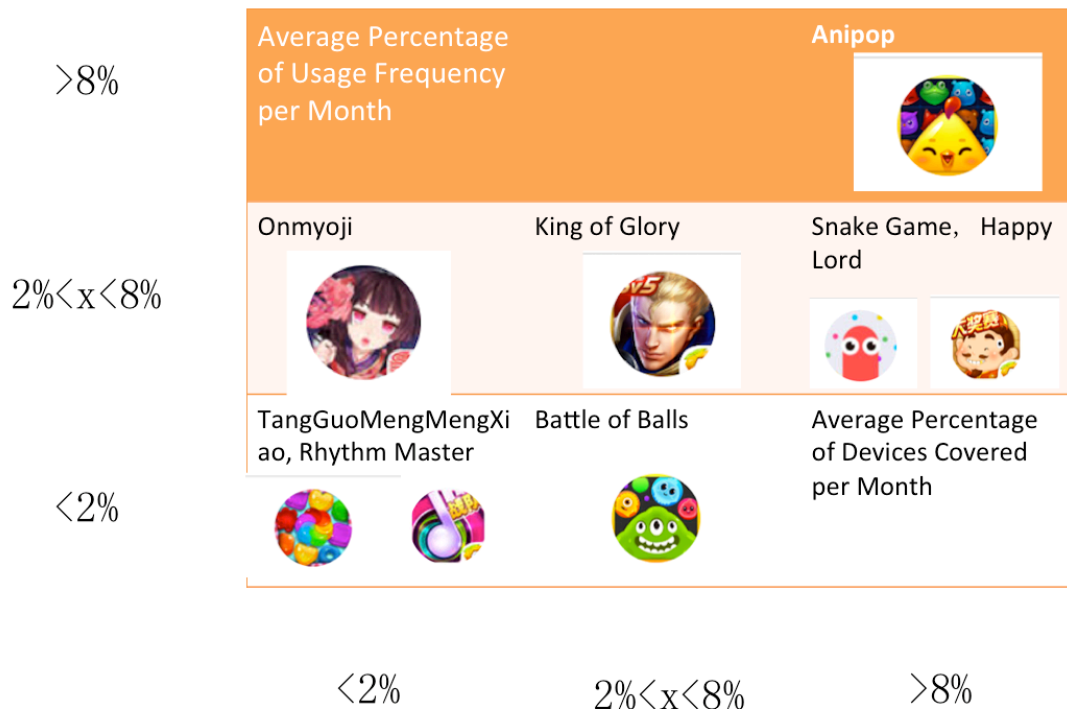
2.1.3. RPG leads in total revenue per month while casual games cover the greatest number of devices

If we divide the types of mobile games into eight different categories, these games including RPG (Role Play Games), Card games, MOBA (Multiplayer Online Battle Arena) games, casual games, shooting games, strategy games, Adventure games, and sporting games. According to Table 2.5, among all the games with revenue over CNY10million per month, the leading category is undoubtedly RPG, accounting for nearly 67% of the market. The second is the card games (accounting nearly 14%). However, note that even if the proportion of casual games turns out to be approximately 4%, casual games actually possess the majority coverage of devices in China.

Table 2.5: Proportion of Revenue for Mobile Games in Chinese Mobile Games Market

Game Type	Proportion of Revenue (%)
RPG	66.80
Card Game	13.50
MOBA Game	6.60
Casual Game	4.20
Shooting Game	3.60
Strategy Game	2.90
Adventure Game	2.10

Source: JiaMaData, 2016 China Game Industry Report



Source: iResearch Group, “2016 China Mobile Game Industry Research Report”

Figure 2.3: Sudoku of Typical Apps of Chinese Mobile Games in 2016

Here is another chart (Figure 2.3) showing the comparison in regards to the average percentage of usage frequency and the average percentage of the devices covered every month. Clearly, we can acquire the information that casual games’ two indexes are much more balanced. The main reason for this is because of the simplicity to adapt casual games, which unlike the RPG and strategy games that require gamers to think almost all the time in order to advance or to win the “battle”. When individuals want to get away from work, study or pressure, they would definitely choose to play casual games in order to relax while other mobile games may not be able to provide this “function”.

2.1.4. Local publishers’ performances --- Tencent and NetEase

Nowadays, Tencent and NetEase are both deserved winners in the Chinese mobile games industry. In total, they account for nearly 70% of the Chinese mobile games market share. Chinese people even make jokes by saying that “There are only three game companies in China: Tencent,

NetEase and others.”

The revenue of mobile games of Tencent was CNY 38.2 billion in 2016, which accounted for almost half of the total revenue in the Chinese mobile games industry. Followed by NetEase, whose net profit for 2016 to be 11.6 billion. Note that the revenue from NetEase’s mobile games was about 17.9 billion CNY (accounted for more than 20% of total Chinese mobile games market).

The core advantage of Tencent is its huge and royal customers base due to its strong social platform. In addition, Tencent possess relatively more experiences regarding operations and games. On the other hand, the company’s strong background and capital advantage enables it to acquire better quality mobile games than most of its competitors. Above all, it’s still the top 1 leading company in the Chinese mobile games industry. However, the number of mobile games that Tencent published in 2016 decreased. Also, the company’s representative mobile games lost when compared to NetEase’s popular mobile games.

Now let’s talk about NetEase, whose performance in mobile games could definitely be identified as a miracle in 2016. The most famous and popular mobile game NetEase developed and published was Onmyoji. In China, this game is named “phenomenal” and immediately made NetEase the most well known company not only in China but also in the overseas market as soon as it has been released. Onmyoji also has brought fat profit for NetEase in a very short period of time. The core strength of NetEase is the capability of developing its own games. Under this condition, it can have full control in all the procedures when developing mobile games as well as minimizing the costs which leads to more profits. Also, this helps NetEase to attract more potential loyal customers in the future by making others realize that NetEase has strong power of developing its own mobile games. In addition, NetEase always keeps an eye on the quality and creativity of the mobile games that they are going to develop, which is exactly what the contemporary gamers require most.

Further more, both Tencent and NetEase pay much attention to overseas mobile companies and markets in order to expand their mobile games business and at the same time entrench their places in China. Nevertheless, the two companies chose different strategies. For instance, Tencent purchased Supercell --- a developer from Finland. This developer has created four famous mobile

games that has brought the highest income ever for iOS and Android platform, which are “Hay Day”, “Clash of Clans”, “Boom Beach”, and “Clash Royale”. Unlike Tencent’s acquisition strategy, NetEase focuses more on developing more creative mobile games in order to attract game users’ attention from all over the world. Take Onmyoji for example, it has already opened its service in Japan since April in 2016. The English version is also going to be available to the U.S and European countries.

2.1.5. Main channel of acquiring information of mobile games --- application stores

According to Table 2.6, the main channel for users to obtain information is still the application store, which accounts for 65% of the total channels. However, the social media platforms such as We-chat and QQ are also significant, which accounts for more than 40% of the total market. This is because these social media platforms retain a large customer base, meaning more opportunities for users to obtain the information of mobile games. Then it comes to friends’ recommendations, whose proportion is nearly 40%. Although it is not the main channel of acquiring information, this way of reference usually leads to the highest rate of true downloads and involvement of the games. The opportunities of obtaining information is of course necessary, however, the more essential point is that whether mobile users are willing to actually download the application/game.

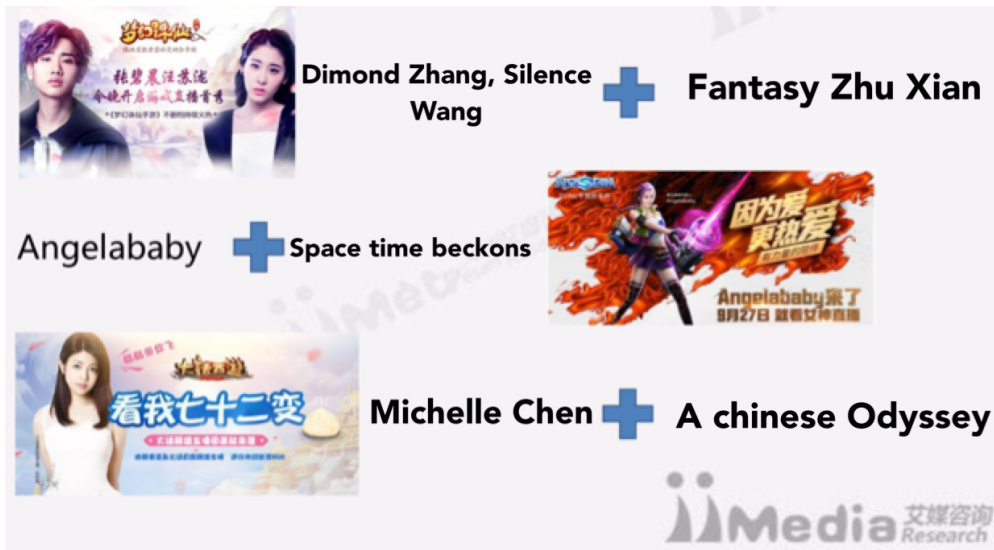
Table 2.6: Proportion of Distribution of Channels for Mobile Phone Users Acquiring Mobile Games Information (Multiple Answers)

Distribution	Proportion (%)
Application Store	65.00
Social Media Platform	43.90
Recommendation from Friends	36.70
Community Forum	25.30
Website or Video Advertisement	22.00
Live Streaming Platform	20.90
Weibo	14.00
ACG Platform	8.40
Others	3.50

Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

2.1.6. Live Streaming for mobile games is rising

With the development of technology, Internet and social activities, live-streaming platforms are increasing rapidly. Therefore, more and more developers and publishers are foreseeing huge opportunities within it. These developers and publishers then aims to develop a mass of platforms in order to support mobile games.



Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

Figure 2.4: Collaborations between Entertainment Stars and Live Streaming for Mobile Games in China

In addition, as shown in Figure 2.4 above, these platforms attract lots of entertainment stars to join live streaming, with the purpose to raising fans’ enthusiasm for mobile games.

Furthermore, live streaming for mobile games is also beneficial for its promotion in three main ways:

1. Firms could find the proper target customers via the ID search for those who have registered the live streaming platform for mobile games as well as those who are watching the live streaming of mobile games on general platform. This can greatly narrow the range of the targeting users and result in not only the reduction of cost, but also the time that firms spend on searching for appropriate customers.

2. When new games are released, live streaming could also be a very good and effective way for publicity. Because generally speaking, live streaming for mobile games can help gamers to know the new games more comprehensively. The Anchors will show all the gamers how to play and answer any questions that the audiences post online. This procedure really helps the audiences to get a better understanding of the newly released games. Plus, all they need to do is to simply watch the live streaming (listening to other players talking online) rather than having to read the game instructions or learn the game rules by themselves. This method eventually makes it even easier to acquire information about most of the new games. Also, simply because it is not difficult to access, even players who do not enjoy mobile games so much may be willing to spend the time watching them. Under this circumstance, live streaming for mobile games indeed raise new mobile games' brand awareness rapidly.
3. Finally, audiences can post their questions to anchors during live streaming, and they can also chat with each other directly both online or offline. This is probably the best and most effective way for the delivery and spread of the information regarding mobile games.

To sum up, nowadays, with the increasing competition of live streaming for PC games, more and more platforms are starting to pay attention to live streaming for mobile games. In order to promote mobile games, mobile games companies also collaborate with live streaming platforms actively. The decisions of collaboration create a “win-win” situation due to the perfect combination between mobile games and live streaming. On one hand, this combination will definitely bring better and smoother game experiences for customers, leading to more and more popular liver streaming for mobile games. On the other hand, the rising heat of them will gradually expand the market of live streaming for mobile games. This collaboration works in a loop and is extremely beneficial for both parties.

Table 2.7: Proportion of Motivation for Chinese Mobile Game Users Watching Live Streaming for Mobile Games in 2016 (Multiple Answers)

Motivation	Proportion (%)
Learn Strategy and Skill	61.40
Search for Interesting Game	42.10
Communicate with Others about game	40.50
Obtain Information of Game	31.80
Kill Time	11.60

Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

We could summarize from Table 2.7 that most gamers’ motivation of watching live streaming for mobile games is to learn the strategies and skills of a certain mobile game. This means that at least a majority of individuals do enjoy and have enthusiasm on these games. And watching live streaming really helps them get involved and know the game much faster and more enjoyable. Nearly half of the gamers are willing to watch live streaming for mobile games because they are eager to find out the currently trending games, which means live streaming is a truly effective way to attract new customers. Next, more than 40% individuals watch live streaming because they want to communicate with others about the opinions and strategies of the games. Since social life is extremely important in the Chinese society, conversations (Word of mouth) regarding recent mobile games will also promote the popularity of mobile games. In addition, note that only about 10% of the audiences choose to watch live streaming for mobile games when they have nothing to do. However, this is a good phenomena since that these 10% individuals could be highly possible to becoming potential customers. On the other hand, this proves that at least most audiences have concrete purposes for watching live streams, which also means that they could be potential loyal customers.

SECTION 2.2. EXISTING PROBLEMS OF CHINESE MOBILE GAMES MARKET

Although the Chinese mobile games market has already became the top 1 in the world (especially with the consideration of the sales and numbers of gamers), there are several severe problems that followed. In order to know the ways to improve Chinese mobile games market, a

better understanding of the existing problems is extremely significant.

2.2.1. User scale is about to peak

In general, the continuous increase in the number of total gamers should be extremely useful figures for the local mobile games market. However, even if the number of users keeps increasing, the user scale will eventually saturate when it reaches the peak one day since the market is limited. From Table 2.8, we could see the change in Chinese mobile game user scale from 2006 to 2016. At 2006, the user scale was only 0.23 hundred million people, however, the number increased to 5.23 hundred million people in 2016, a growth of nearly 2300%. This is really a huge change in the Chinese mobile games market. In addition, we could also see from this table that the highest growth rate occurred during the period between 2011 and 2014. Nevertheless, the growth rate decreased dramatically from 2015 and continued to decrease in the following years. This is actually a sign indicating that the scale of mobile game users is about to reach the peak, meaning that the range of developable customers is shrinking gradually. Hence, mobile game makers should take a deep consideration in how to cope with this issue.

Table 2.8: 2006-2016 Chinese Mobile Game Users Scale

Year	Number of Users (hundred million people)	Annual Growth Rate (%)
2006	0.23	Null
2007	0.30	29.1
2008	0.64	116.6
2009	0.89	37.9
2010	1.35	52.1
2011	1.62	19.9
2012	2.80	172.84
2013	3.11	111.07
2014	4.67	150.16
2015	5.02	7.49
2016	5.23	4.18

Source: DataEye&S+, “2016 China Mobile Game Industry Report”

2.2.2. Quality of local mobile games requires improvement

For any products in the world, quality could be considered as one of the core elements (one of the most significant factors determining if the product will last or not). Thus, similar to Chinese local mobile games, the quality of the game is a critical point for their length of life cycle. This phenomenon is especially critical in the Chinese market nowadays.

The quality problem reflects three main aspects:

1. Local mobile games are lack of creativity and the problem of plagiarism happens extremely often. It is worth noticing that plagiarism always exists (not only in the mobile game industry but also in other fields as well). Since plagiarism could greatly reduce the cost and the time needed on developing mobile games, as a result, many developers easily violate this rule in one way or the other. Moreover, even if a mobile game is sued for plagiarism, it is very hard for the plaintiff to win due to the complexity of collecting evidences and other necessary law-related procedures. This is another reason why the act of plagiarism has become so common.
2. Many companies care more about the game ranking rather than the quality of the games. Usually the companies make lots of similar mobile games but do not care much about the brand establishment. In order to obtain a higher ranking, companies are willing to invest in other game publishers for assistants in brand establishment. Since most users are inclined to download the top ranking mobile games, many mobile game companies spend extra attention in this area in order to boost the downloading number.
3. The local mobile games' technological level needs to be improved. A mobile game that has good quality is always equipped with reliable technological support. Without the support, it is even more difficult for the users to download and play the games smoothly. Hence technology is another big issue in determining whether a mobile game will be successful or not.

Table 2.9: Proportion of Distribution for Chinese Mobile Game Users’ Comments on Mobile Games’ Problems

Problem	Proportion (%)
Login	31
Stability	22
Compatibility	15
Network	8
Account	6
Update	5
Game System	4
Safety	4
Function	4
Charge	1

Source: Tecent We Test, “2016 China Mobile Game Quality White Paper”

From Table 2.9, we could know that the two main problems are related to login and stability. Regardless of a mobile game’s popularity, users intend to quit when they experience difficulty when logging in into the game or instability during the game. How could one enjoy a mobile game if they cannot log in smoothly or experience forced termination all the time?

2.2.3. Unit amount of payment from users usually lower than CNY50

In most cases, mobile games make profits in four different ways, including download charges from the end users, content charges, value-added services, and in-game advertising. However download charges and content charges are difficult to make profits due to the user habits in China. Users usually prefer free downloads and are extremely unwilling to pay for advanced levels in games. Among all these ways to make profit, value-added service is undoubtedly the most and the only effective method. Most paying users spend their money on purchasing props and equipment, coins, and cards in mobile games.

Table 2.10: Distribution of Unit Amount Payment from Chinese Mobile Game Users in 2016

Unit Amount of Payment (CNY)	Proportion (%)
0-50	45.20
51-100	27.30
101-200	15.00
201-300	6.70
301-500	3.20
Above 500	2.60

Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

The number of paying users has kept increasing in recent years, which indicates a positive expectation for the gaming industry. We could observe from Table 2.10 that the unit amount of payment from users is usually lower than CNY50. Nearly half of the users cannot accept paying more than CNY50 for games. And the reason to this is closely related to the unique local conditions in China.

Table 2.11: 2016 Age Distribution of Mobile Game Users

Age	Numbers of Users (million people)	Proportion (%)
Under 18	0.38	7.3
19-25	1.77	33.9
26-30	1.26	24.1
31-35	0.73	13.9
36-40	0.47	9.0
41-50	0.51	9.7
51-60	0.09	1.8
Above 61	0.02	0.3

Source: MEGA, “2016 Global Mobile Game Industry White Paper”

We could see from this Table 2.11 that most mobile game users belong to the younger generation, mainly between the ages of 19 to 25 years old. China has about 5,000-year’s history, resulting in several deep-rooted traditional believes. For instance, some earlier generations always

consider that games are for kids rather than for adults, and that playing games will create huge negative influences on a person's daily life. Under such circumstance, since individuals aged from 19 to 25 are either student with no income or young teenagers who have just started to work with little income, they usually cannot afford to spend too much on mobile games without the supports from their parents. This is one main reason explaining why the unit amount of payment is relatively low. The other key reason is that even though most RPG mobile games have more value-added services compared to other games, it is still a new kind of game genre in the Chinese mobile game market. Therefore, Chinese people may not be willing to spend too much for mobile games yet.

2.2.4. Higher security of payment system is imperative

According to Table 2.12, there are several different kinds of payment method for users to choose. Among all the options, most users prefer third-party payment including Alipay. This is mostly due to the reason that it has a solid customer base, has high security level and is very efficient at the same time. Alipay has an extremely good reputation making it the most popular payment method among customers. The second and the third leading methods are mobile banking & Internet banking payment methods. These methods may not be as convenient as Alipay, but still maintains a high level of safety. Also, it is worth noticing that the strategy of "Taobao helps for paying" has become more and more popular in recent years. Although this unofficial method is still doubtful for its safety, this method is relatively cheap. From the users' point of view, since the final purpose remains the same (which is obtaining coins inside mobile games), why should one spend more for the same amount of credits? The low cost is worth the risk, and many Taobao sellers are actually quite reliable in providing the service for the users.

Table 2.12: Proportion of Distribution for Chinese Mobile Game Users Payment Method in 2016 (Multiple Answers)

Distribution for Payment	Proportion (%)
Third Party	71.50
Mobile & Internet Bank	44.70
Telephone Charge	30.60
“Taobao helps for paying”	11.20
Others	2.40

Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

However, there still remains major concern regarding payments and purchases made for mobile.

Table 2.13: Proportion of Reasons for Chinese Mobile Game Users’ Property Loss in 2016

Reason	Proportion (%)
Account Compromised	27.90
Game’s Bug	26.10
Unofficial Charge	17.90
Fraud	16.10
Others	12.00

Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

According to the investigation of causes for Chinese mobile game users’ property loss in 2016 (Table 2.13), we could see that the major reason for losses is the accounts being stolen by unauthorized users. In addition, system bugs in mobile games may also result in potential disastrous property loss. Sometimes when a system bug is identified, the users will take full advantage of the system bug instead of paying for the service. In this case, we can also identify the situation as the users’ property loss. Since unofficial payment methods are generally unreliable, property loss often happens for the users that choose to use unreliable mediums due to the low price. When customers encounter a property loss, they will inevitably create a sense of dissatisfaction and disappointment towards the mobile games. The mobile games not only lose

customers through this situation, but the result also has a huge negative impact towards the game’s reputation. And both of these elements are undoubtedly extremely significant to the game’s future development. Therefore, it is very important for mobile games to obtain a high security of payment system in order to survive in the industry.

2.2.5. Live Streaming for mobile games facing number of challenges

As we can see, Live Streaming for mobile games has continued to gain its reputation in China in year 2016, however numerous problems and challenges has also arise.

Table 2.14: Proportion of Distribution of Chinese Mobile Game Users’ Recognition of Existing Problems in Mobile Games’ Live Streaming in 2016 (Multiple Answers)

Recognition of Existing Problems	Proportion (%)
Low Quality of Anchor & Barrage	39.90
Instability	39.20
Unprofessional Explanation	38.30
Too much Advertisement	33.10
Little Interaction	17.70
Too Small Screen	17.40
Little Information of Mobile Game	13.80
Few types of Mobile Games	10.00
Others	0.30

Source: iiMedia Research Group, “2016-2017 China Mobile Game Market Research Report”

According to the investigation of “Distribution of Chinese mobile game users’ recognition of existing problems in mobile games’ live streaming” (Table 2.14), the top three problems are: low quality of anchor and barrage; unstable game execution; unprofessional explanation of anchor. In order to increase the degree of satisfaction from customers, these problems should be addressed promptly and carefully.

As a “newly released” product, live streaming for mobile games in China faces a mass of challenges:

1. Technology needs to be improved. Technology is actually the most important

fundamental support for mobile games' live streaming. Although the hardware condition for smartphones is under continuous improvement (such as bigger screens and advanced settings), the technology (software) for live streaming on smartphones is not achieving the anticipated level of advancement. Better technology should be integrated in order to support the system as an increase in the complexity of mobile games that are appearing on live streaming.

2. Compared to PC games, the content of mobile games are not as “colorful”. In addition, various constraints of mobile phones (as compared to computers) also limit the users' level of enjoyment when watching live streaming for mobile games. Furthermore, audiences that watch live streaming for mobile games usually have concrete purposes. For example, to quickly learn the strategies and tactics of a particular game. As a result, as soon as the users obtain the information that they need, they will immediately leave the live streaming. This suggests that the intension to use live streaming for mobile games for an extensive time is relatively weak.
3. According to policies and regulations stated by the SARFT (State Administration of Radio Film and TV) and the Ministry of Culture published in 2016, the live streaming platforms must obtain the “Internet Culture Business Permit” in order to operate. In addition, live streaming platform must have the “License for Dissemination of Audio-Visual Programs through Information Network” in order to run their own programs, broadcast and be able to provide integrated operating services. If the live streaming platform does not obtain the stated permit, they will not be able to conduct any related events, lives or public broadcasts. As we can see, the local political environment is continuously applying constraints on live streaming for mobile games.

CHAPTER 3. CASE STUDY

This Chapter will conduct two case studies aiming to get a better understanding of some famous mobile games from Japan and China. The main analytical method applies in the case study is SWOT analysis.

SWOT analysis (alternatively SWOT matrix) is the short name for strengths, weaknesses, opportunities, and threats and is a structured planning method evaluating the four elements of an organization, project or business venture. It can be applied for a wide range of stuffs such as companies, products or industries.

Also, when the two case studies are finished there will be a conclusion referring to the two mobile games including comparison of downloads & revenues, similarities and differences.

SECTION 3.1. JAPANESE PHENOMENAL MOBILE GAME IN 2016 - POKÉMON GO

“On my business card, I am a corporate president. In my mind, I am a game developer. But in my heart, I am a gamer.”

“Even if we come from different sides of the world, speak different languages. Even if we eat too many chips, or rice balls, even if we have different tastes in games. Every one of us, here today, is identical, in the most important way. Each one of us has the heart of a gamer.”

--- Satoru Iwata, fourth CEO, Nintendo Co., Ltd

3.1.1. Brief Introduction

Pokémon go is a location-based AR (Augmented Reality) pet raising and battle RPG mobile game that developed & published by the collaboration of Nintendo, The Pokémon Company, and Google Niantic Labs. Among this collaboration, The Pokémon Company is in charge of content supporting and designing the game stories; Niantic Labs has the responsibility of technical support and offering AR technology, and it's also responsible for developing and publishing the mobile game; Nintendo is the shareholder of the two other companies.

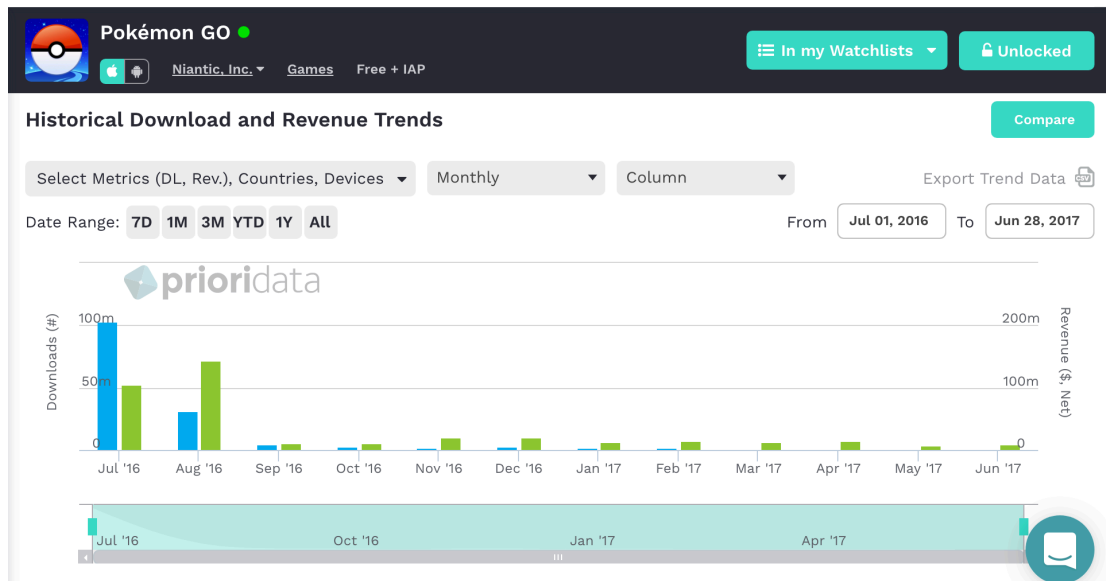
3.1.2. Release and Development

On July 6, 2016, Pokémon was first officially released in Australia, New Zealand and the United States. On July 13, 2016, it was officially available in Germany, which initiated its first step in Europe. Then it continued to be released in 26 other countries until July 17, 2016. On July 22, 2016, it launched in Japan and on July 24, 2016 it launched in Hong Kong. It launched in South Korea on January 24, 2017. By January 24, 2017 Pokémon go has officially released in over 110 countries and areas. (Table 3.1)

Table 3.1: Global Release Dates for Pokémon Go

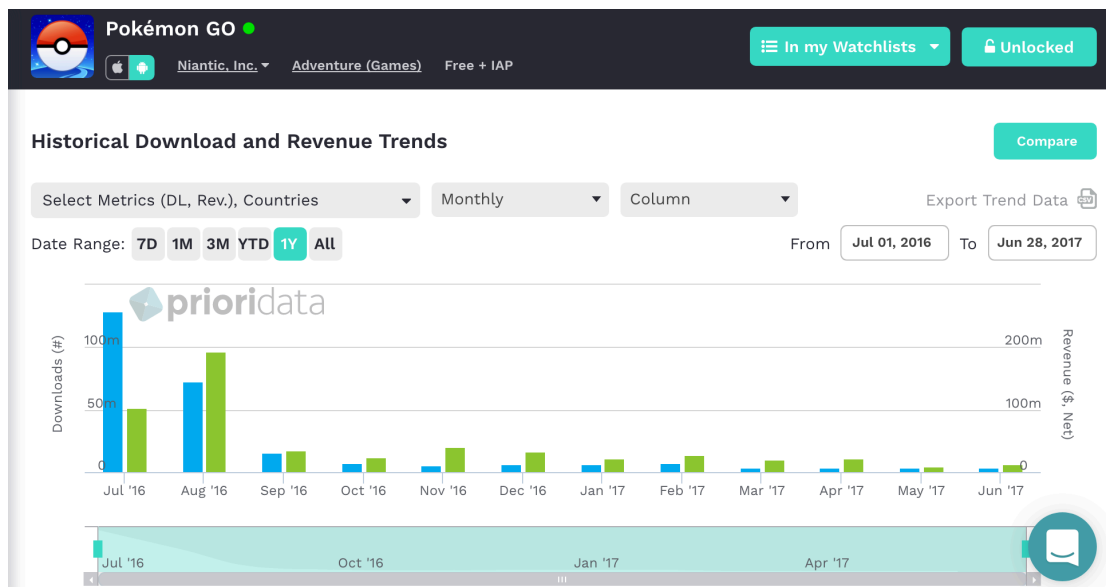
Date	Countries and territories
July 6, 2016	Australia, New Zealand, and the United States
July 13, 2016	Germany
July 14, 2016	United Kingdom
July 15, 2016	Italy, Spain, and Portugal
July 16, 2016	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Greece, Greenland, Hungary, Iceland, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Romania, Slovakia, Slovenia, Sweden, and Switzerland
July 17, 2016	Canada
July 19, 2016	Puerto Rico
July 22, 2016	Japan
July 24, 2016	France
July 25, 2016	Hong Kong
August 3, 2016	Lain America and Caribbean islands
August 6, 2016	Brunei, Cambodia, Federated States of Micronesia, Fiji, Indonesia, Laos, Malaysia, Palau, Papua New Guinea, Philippines, Singapore, Solomon Islands, Taiwan, Thailand, and Vietnam
September 29, 2016	Albania, Bosnia and Herzegovina, Macau, Macedonia, and Serbia
September 30, 2016	Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan
October 4, 2016	Benin, Botswana, Burkina Faso, Cape Verde, Chad, Cote d'Ivoire, Egypt, Gabon, Gambia, Ghana, Guinea-Bissau, Kenya, Liberia, Madagascar, Malawi, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Rwanda, Seychelles, Sao Tome and Principe, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, and Zambia
November 17, 2016	Bahrain, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, and United Arab Emirates
December 13, 2016	Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka
January 24, 2017	South Korea

Source: Pokémon go, <https://pokemongolive.com/en/post/>



Source: Prioridata, <https://prioridata.com/?landing=true>

Figure 3.1: Pokémon go's Historical Download and Revenue Trends on iOS Platform from Jul 01,2016 to Jun 28, 2017











Source: Prioridata, <https://prioridata.com/?landing=true>

Figure 3.2: Pokémon go's Historical Download and Revenue Trends on Android Platform from Jul 01,2016 to Jun 28, 2017

According to Figure 3.1 and 3.2 we could know that the numbers of downloads and revenues both reduce dramatically after two months since it has releases on both iOS and Android platforms. The main reason to this will later discussed in the SWOT analysis.









GAMES ▾
DOWNLOADS ▾
UNITED STATES ▾
JULY 2016 ▾

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	Pokémon GO	Niantic, Inc.	NEW!
	2	NBA LIVE Mobile	Electronic Arts	NEW!
	3	slither.io	Steve Howse	2 ▼
	4	CSR Racing 2	NaturalMotion	NEW!
	5	Rolling Sky	Cheetah Technology Corporation Limited	2 ▼
	6	Color Switch	Fortafy Games	4 ▼
	7	汤姆猫跑酷 Talking Tom Gold Run	Outfit7 Limited	NEW!
	8	Disney Emoji Blitz	Disney	NEW!

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.3: Rankings of Downloads in the United States in July 2016

GAMES ▼		DOWNLOADS ▼		UNITED STATES ▼		AUGUST 2016 ▼	
IMAGE	RANK	NAME	PUBLISHER	CHANGE			
	1	Pokémon GO	Niantic, Inc.	-			
	2	Flip Diving	Miniclip.com	NEW!			
	3	Fit The Fat 2	FIVE BITS, INC.	NEW!			
	4	Rolling Sky	Cheetah Technology Corporation Limited	1	▲		
	5	slither.io	Steve Howse	2	▼		
	6	汤姆猫跑酷 Talking Tom Gold Run	Outfit7 Limited	1	▲		
	7	Color 6	Tigrido	NEW!			
	8	NBA LIVE Mobile	Electronic Arts	6	▼		

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>










Figure 3.4: Rankings of Downloads in the United States in August 2016

GAMES ▼		DOWNLOADS ▼		UNITED STATES ▼		SEPTEMBER 2016 ▼	
IMAGE	RANK	NAME	PUBLISHER	CHANGE			
	1	Six!	GramGames	NEW!			
	2	Flip Diving	Miniclip.com	-			
	3	My NBA 2K17	2K	NEW!			
	4	Rolling Sky	Cheetah Technology Corporation Limited	-			
	5	Pokémon GO	Niantic, Inc.	4	▼		
	6	Bottle Flip 2k16	Aidan Sabourin	NEW!			
	7	*Solitaire*	CS54 INC	NEW!			
	8	Wheel of Fortune Free Play: Game Show Word Puzzles	Scopely	NEW!			

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>

Figure 3.5: Rankings of Downloads in the United States in September 2016









IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	FIFA Mobile Soccer	Electronic Arts	NEW!
	2	Plants vs. Zombies™ Heroes	Electronic Arts	NEW!
	3	Bottle Flip 2k16	Aidan Sabourin	3 ▲
	4	Rolling Sky	Cheetah Technology Corporation Limited	-
	5	Block! Hexa Puzzle	BitMango	NEW!
	6	IMPOSSIBLE ROAD	WONDERFUL LASERS	NEW!
	7	Color Switch	Fortafy Games	3 ▲
	8	Wheel of Fortune Free Play: Game Show Word Puzzles	Scopely	-
	9	Pokémon GO	Niantic, Inc.	4 ▼

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>

Figure 3.6: Rankings of Downloads in the United States in October 2016









According to Figure 3.3 to 3.6 we could see that Pokémon go take the TOP 1 position for the first two months in terms of downloads in the United States. However, it suddenly drops to NO.5 at the third month and even drop more at the fourth month.

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	Pokémon GO	Niantic, Inc.	NEW!
	2	Game of War	Machine Zone, Inc	1 ▼
	3	Mobile Strike	Epic War LLC	1 ▼
	4	Candy Crush Saga	King	1 ▼
	5	Clash of Clans	Supercell	1 ▼
	6	Candy Crush Soda Saga	King	1 ▼
	7	DoubleDown Casino	DoubleDown Interactive B.V.	1 ▼
	8	Big Fish Casino	Big Fish Games, Inc	1 ▲

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.7: Rankings of Revenues in the United States in July 2016

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	Pokémon GO	Niantic, Inc.	-
	2	Candy Crush Saga	King	-
	3	Candy Crush Saga	King	1 ▲
	4	Mobile Strike	Epic War LLC	1 ▼
	5	Clash of Clans	Supercell	-
	6	DoubleDown Casino	DoubleDown Interactive B.V.	1 ▲
	7	Candy Crush Soda Saga	King	1 ▼
	8	Big Fish Casino	Big Fish Games, Inc	-

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.8: Rankings of Revenues in the United States in August 2016

GAMES ▼		REVENUES ▼		UNITED STATES ▼		SEPTEMBER 2016 ▼	
IMAGE	RANK	NAME	PUBLISHER	CHANGE			
	1	Pokémon GO	Niantic, Inc.	-			
	2	Game of War	Machine Zone, Inc	-			
	3	Mobile Strike	Epic War LLC	1	▲		
	4	Candy Crush Saga	King	1	▼		
	5	Clash of Clans	Supercell	-			
	6	Clash Royale	Supercell	5	▲		
	7	Candy Crush Soda Saga	King	-			
	8	Big Fish Casino	Big Fish Games, Inc	-			

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.9: Rankings of Revenues in the United States in September 2016

GAMES ▼		REVENUES ▼		UNITED STATES ▼		OCTOBER 2016 ▼	
IMAGE	RANK	NAME	PUBLISHER	CHANGE			
	1	Pokémon GO	Niantic, Inc.	-			
	2	Mobile Strike	Epic War LLC	1	▲		
	3	Clash Royale	Supercell	3	▲		
	4	Game of War	Machine Zone, Inc	2	▼		
	5	Clash of Clans	Supercell	-			
	6	Candy Crush Saga	King	2	▼		
	7	Candy Crush Soda Saga	King	-			
	8	Big Fish Casino	Big Fish Games, Inc	-			

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>

Figure 3.10: Rankings of Revenues in the United States in October 2016

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	Game of War	Machine Zone, Inc	3 ▲
	2	Mobile Strike	Epic War LLC	-
	3	Clash Royale	Supercell	-
	4	Candy Crush Saga	King	2 ▲
	5	DoubleDown Casino	DoubleDown Interactive B.V.	6 ▲
	6	Clash of Clans	Supercell	1 ▼
	7	King of Avalon: Dragon Warfare	FunPlus	NEW!
	8	Pokémon GO	Niantic, Inc.	7 ▼

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>

Figure 3.11: Rankings of Revenues in the United States in November 2016

Although the numbers of downloads of Pokémon go only holds the NO.1's position for 2 months, the revenues of it has held the dominating position for 4 months, regardless of the sudden drop in November, 2016. (Figure 3.7- Figure 3.11)

3.1.3. Records and Awards

“Pokémon go” won lots of awards (Table 3.2) and truly surprised most people all over the world. In addition, it broke 5 Guinness World Record in just one month since it was officially released:

1. Most revenue generated by a mobile game for its first month --- \$206.5 million.
2. Shortest time to generate \$100 million by a mobile game --- in 20 days.
3. Most numbers of downloads of a mobile game in the first month --- 130 million downloads
4. Most international charts topped at the same time for a mobile game in the first month (downloads)--- 70 countries

5. Most international charts topped at the same time for a mobile game in the first month (revenue)
 --- 55 countries

Table 3.2 Awards for “Pokémon go”

Award	Category	Result
Outdoor Association of Finland	‘Finish Mover’ Award	Won
Adweek’s Hot List of 2016	Hottest Mobile Game	Won
	Hottest Digital Obsession	Won
BBC Radio 1’s Teen Awards 2016	Best Game	Won
TIME’s 50 Best Apps of 2016	Best Apps of 2016	Won
Rock Health’s Top 50 in Digital Health	Best Designed Product	Won
The Game Awards 2016	Best Mobile/Handheld Game	Won
	Best Family Game	
Golden Joystick Awards 2016	Innovation of the Year	Won
	Handheld/Mobile Game of the Year	
USAToday’s Tech Innovations of 2016	Top Tech Innovations of 2016	Won
ComputerWorld’s 10 Most innovative Games of 2016	Most Innovative Games of 2016	Won
Gamastura’s Best of 2016	Top Game Developers of 2016	Won
IGN’s Best of 2016 Awards	Mobile Game of the Year	Won
	Most Innovative	
The Verge’s 11 Best Video Games of 2016	Best Video Games of 2016	Won
GameSpot’s Best Mobile Games of 2016	Best Mobile Games of 2016	Won
Cheat Code Central’s Cody Awards 2016	Best Handheld/Mobile Game	Won
Kotaku’s Best Video Game Surprises of 2016	Best Video Game Surprises of 2016	Won
MMORPG’s Best of 2016 Awards	Best Mobile MMO or RPG	Won
PocketGamer.co.uk’s Best iPhone and iPad Game of 2016	Best iPhone and iPad Game of 2016	Won
Paste Magazine’s Best Mobile Games of 2016	Best Mobile Games of 2016	Won
2016 TechRaptor Awards	Best Mobile/Handheld Game	Won

Academy of Interactive Arts & Sciences 20 th Annual D.I.C.E Awards 2016	Mobile Game of the Year	Won
	Game of the Year	Nominated
New York Game Critic Awards	A-Train Award for Best Mobile Game	Won
	Central Park Zoo Award for Best Kids Game	
2017 KAPi Awards	Best Augmented Reality Experience	Won
TechCrunch's Crunchies 2017	Best App of the Year	Won
GSMA's Glomo Awards 2017	Best Overall Mobile App (Judge's Choice)	Won
Stuff Malaysia's Readers' Choice Awards	New App of the Year	Won
	Game Changer of the Year	
Stuff Singapore's Readers' Choice Awards	New App of the Year	Won
Game Developers Choice Awards 2016	Innovation Award	Nominated
	Best VR/AR Game	Nominated
	Best Mobile/Handheld Game	Won
2017 SCSW Gaming Awards	Mobile Game of the Year	Won
	Excellence in Technical Achievements	Nominated
13 th British Academy Games Awards	Mobile	Won
	Family	Nominated
	Game Innovation	Nominated

Source: Pokémon go, <https://pokemongolive.com/en>

3.1.4. Impactions

There is no doubt that this incredible mobile game has created great reputation for all three companies, especially for Niantic, which doesn't have quite a long history nor accumulated reputation compared to the other two companies. On the other hand, most people consider that Nintendo should be the biggest winner by holding 32% of Pokémon go's shares. However, it is interesting to know that this may not be the case.



Source: MarketWatch, <http://www.marketwatch.com/investing/stock/ntdooy>

Figure 3.12: Stock Price for Nintendo on July 6, 2016



Source: MarketWatch, <http://www.marketwatch.com/investing/stock/ntdooy>

Figure 3.13: Stock Price for Nintendo on July 18 2016

We could see from Figure 3.12 and Figure 3.13 that Nintendo’s stock price increased rapidly from \$17.63 on July 6, 2016 to as high as \$37.37 in merely two days after the release of “Pokémon go”. Most investors were extremely confident in Nintendo. However, on July 23, 2016 Nintendo announced that the real rights and interests that Nintendo held is very limited and thus the total revenue only increased slightly with the release of Pokémon go. Therefore, after this announcement, many investors were very disappointed and Nintendo’s stock price continued to decrease.

Consolidated Results for the Years Ended March 31, 2016 and 2017

(1) Consolidated operating results (Amounts below one million yen are rounded down)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended March 31, 2017	489,095	(3.0)	29,362	(10.7)	50,364	74.9	102,574	521.5
Year ended March 31, 2016	504,459	(8.2)	32,881	32.7	28,790	(59.2)	16,505	(60.6)

[Note]

Percentages for net sales, operating profit etc. show increase (decrease) from the last fiscal year.

	Profit per share	Return on equity	Ordinary profit on total assets	Operating profit to net sales
	yen	%	%	%
Year ended March 31, 2017	853.87	8.5	3.6	6.0
Year ended March 31, 2016	137.40	1.4	2.2	6.5

(2) Consolidated financial positions

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	million yen	million yen	%	yen
As of March 31, 2017	1,468,978	1,250,972	85.2	10,412.59
As of March 31, 2016	1,296,902	1,160,901	89.5	9,662.73

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents - ending
	million yen	million yen	million yen	million yen
Year ended March 31, 2017	19,101	69,518	(14,435)	330,974
Year ended March 31, 2016	55,190	(71,740)	(2,996)	258,095

Source: Nintendo Co., Ltd. "Earnings Release for the fiscal year ended March 2017"

Figure 3.14: Consolidated Results for the Year Ended March 31, 2016 and 2017

Consolidated Statements of Income

million yen

Description	Year ended March 31, 2016	Year ended March 31, 2017
Net sales	504,459	489,095
Cost of sales	283,494	290,197
Gross profit	220,965	198,898
Selling, general and administrative expenses	188,083	169,535
Operating profit	32,881	29,362
Non-operating income		
Interest income	4,693	6,237
Share of profit of entities accounted for using equity method	1,887	20,271
Other	7,970	2,083
Total non-operating income	14,550	28,593
Non-operating expenses		
Sales discounts	106	3
Loss on redemption of securities	-	2,199
Foreign exchange losses	18,356	5,256
Other	178	131
Total non-operating expenses	18,641	7,591
Ordinary profit	28,790	50,364
Extraordinary income		
Gain on sales of non-current assets	9	185
Gain on sales of investment securities	398	64,589
Total extraordinary income	407	64,775
Extraordinary losses		
Loss on disposal of non-current assets	351	328
Restructuring loss	1,130	80
Total extraordinary losses	1,482	409
Profit before income taxes	27,715	114,730
Income taxes-current	2,482	25,331
Income taxes-deferred	8,714	(13,183)
Total income taxes	11,197	12,147
Profit	16,518	102,582
Profit attributable to non-controlling interests	13	8
Profit attributable to owners of parent	16,505	102,574

Source: Nintendo Co., Ltd. "Earnings Release for the fiscal year ended March 2017"

Figure 3.15: Consolidated Statements of Income



Source: MarketWatch, <http://www.marketwatch.com/investing/stock/ntdoy>

Figure 3.16: Stock Price for Nintendo on July 25 2016

We can see from Figure 3.14 – Figure 3.16 above that the net sales did not increase even with the introduction of Pokémon go and the stock price dropped to \$25.65 on July 25, 2016.

Furthermore, it's worth mentioning that Apple is another big winner/benefiter because of the sharing model in the Apple Store, 30% of the revenues in Pokémon is paid to the Apple Store, which belongs to Apple. Another 30% from the revenue would go to Niantic and The Pokémon Company will also receive 30%. Therefore, there is only 10% left for Nintendo.

3.1.5. SWOT analysis

Strengths:

1. The collaboration of the three major companies could bring huge benefits (strong background) to Pokémon go. Both the Nintendo and The Pokémon Company have a long history and great reputation in the market. On the other hand, although Niantic does not possess such a long history, it was best known for a game called “Ingress” (a mobile game whose technology was like the “initial version” of Pokémon go). Niantic is very interested in the Pokémon series and The Pokémon Company is also fascinated by the game “Ingress”, as a result, the two companies eventually formed a perfect collaboration.
2. Pokémon go is a free to play mobile game for both IOS and Android devices. “Enjoy at no cost” is always an attractive factor to all individuals. Especially for those who are not interested in the game in the first place, may even consider “since it is free to download the game, there won't be any losses for me, therefore, why not give it a try?”

3. Pokémon go has both its classic as well as modern elements. The Pokémon series has a long history and a huge bunch of loyal fans. Pokémon go maintains the features from the original game such as catching and battling Pokémon. This will definitely fulfill the old players as in making them feel that the original concepts and the spirits of Pokémon series remain unchanged. On the other hand, the playing mode of the game is not so difficult for new players to learn. Those who have never played the Pokémon series are still able to get hands on the game easily. Therefore, it indeed attracted lots of new players.
4. The cutting-edge technology --- AR could also be identified as one of the key points to its success. It makes “Pokémon go” a real location based mobile game that really catches attention and excites the gamers. It is an incredible mobile game that motivates people to really leave their house and walk in the real world in order to search for and catch “Pokémon”. In the circumstance, this game not only helps people to exercise, but also improves the relationship of one and another.

Weaknesses:

1. Players may get tired of the game in a short period of time since the number of different species of Pokémon is limited. Many players complained about the high frequency appearance of low-level and ordinary Pokémon. While the high-level and rare Pokémon seldom or almost never appear (such as Pikachu). Eventually, people have realized that the species of Pokémon’s appearing actually depends on the geographic feature of the area. For instance, the water type Pokémon usually appears near areas such as rivers and lakes. While the normal & rock type Pokémon always show up at dry areas (desert terrains). In this case, it is difficult to make the game fair for countries that have vast territories or single geographical condition. For example, when players in the United States need to drive miles away in order to catch a Pokémon of a different type, players in Japan may be able to catch various types of Pokémon within the 30 minutes walk on the way to work or school.
2. The technology requires improvement. It often crashes with technical issues. In addition, the degree of deviation of the map system is even worse than that of “Ingress”.
3. Although the general mode is similar to that of the classic Pokémon series (catching and battling Pokémon). Many old players complain about the battling system and the battling

mode to be not classical at all. However, it is indeed much easier for new players to learn. The balance of keeping both new players and old players satisfied is a significant issue that needs to be carefully handled.

4. Some of the Pokémon stops are located at improper places, such as police office and cemeteries, attracting massive number of players searching for Pokémon. This problem eventually creates bad reputation regarding the game operation.
5. Since “Pokémon go” is a mobile game that requires players to walk into the real world in order to catch Pokémon, it is extremely dangerous for players to stare at their smartphones while walking. There has already been many reports indicating a number of accidents occurred due to “Pokémon go”.

Opportunities:

1. Although “Pokémon go” has been released in over 100 countries, there are still many countries that has not been covered yet. For instance, China, which now possesses the top1 mobile games market in terms of revenues and the scale of users. In addition, instead of waiting for Pokémon go to be released in China, many Chinese players bought foreign accounts in order to download the game. If “Pokémon go” successfully launches in China, the number of players will receive significant boosts.
2. Along with the development of technology, the number of smartphone users is also increasing rapidly. As a result, the number of potential mobile game players (market) also increases significantly. More people have access to mobile games such as “Pokémon go”, meaning that it still has a vast number of potential customers.
3. More and more people are becoming conscious of the importance to live a healthy life due to a higher living quality nowadays. As one of the unique features of “Pokémon go” is to require players to travel from one place to another in order to search for Pokémon, the Pokémon go would likely act as a good choice for those who love mobile games but at the same time are worried about being unhealthy. In addition, social events exist everywhere in the world. “Pokémon go” could act as a medium to help creating a new type of social network with its popularity and easiness to play. Individuals that want to improve their social skills may be willing to play the game in order to get involved in the same conversation with the

surrounding players.

Threats:

1. The mobile games industry's rising results in a fiercer competition in mobile games market all over the world. Although "Pokémon go" really surprised the world, its technology and contents still require lots of improvement and modifications. The competitors will also learn from it and try to develop better and more attractive mobile games.
2. Nowadays, players are always demanding better quality and more attractive mobile games. On top of this, since there is an increase appearance of variety attractive and modern mobile games, if "Pokémon go" does not add more features and modify its existing problems, players are likely to abandon it sooner than later.
3. Although "Pokémon go" has received a great deal of good comments, it has also been criticized strongly and sued concerning the social problems that it has caused for the society. If the company cannot take actions to resolving the existing problems in a timely manner, there will undoubtedly be negative influences on its overall reputation as well as future development.

SECTION 3.2. CHINESE PHENOMENAL MOBILE GAME IN 2016 --- ONMYOJI (陰陽師)

"Innovation is an eternal theme. Only innovation can bring surprises to consumers. NetEase has always been innovating."

Lei Ding, Founder & CEO, NetEase, Inc

3.2.1. Brief Introduction

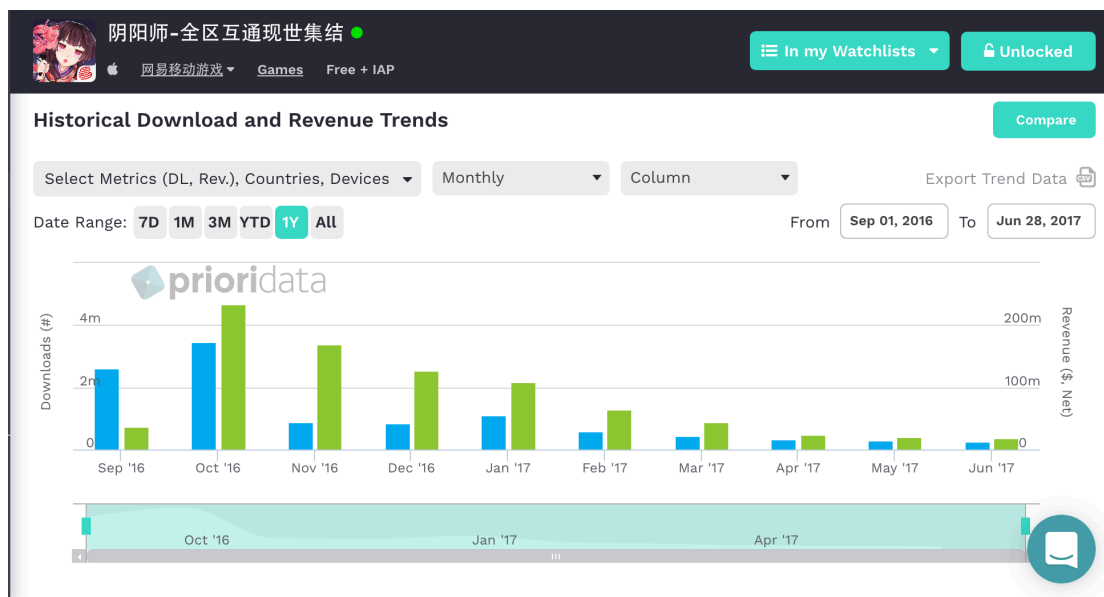
"Onmyoji" is a 3D Japanese style's turn based card & RPG mobile game developed by NetEase. It uses the theme of Onmyoji from Japan, and also invited many famous Japanese voice actors to dub the characters in the game. All the game stories and cut scenes are dubbed in Japanese but the subtitle is in Chinese. In addition, NetEase even invited a well-known musician in the field of Asian film (Shigeru Umebayashi), who has musicalized the movie series "Onmyoji" to musicalize this mobile game. The game plot is about Onmyoji Abe no Seimei explore his own memories in the world with Yin and Yang.

On September 2nd, 2016, the game was officially releases in China landing on iOS platform, then on September 9th, 2016 landing on Android platform.

On February 21st, 2017, the game was officially made available in Japan on iOS platform. On February 25th, 2017, landing on Android platform.









3.2.2. Development

According to Figure 3.16, we can conclude that the number of downloads and revenues of Onmyoji on iOS platform reached its peak during the second month after it was officially released. However, it was then followed by a decrease in both the number of downloads and revenues in the following months. Next I will look into the rankings of downloads and revenues.



Source: Prioridata, <https://prioridata.com/?landing=true>









Figure 3.16: Onmyoji's Historical Download and Revenue Trends on iOS Platform from Sep 1st, 2016 to Jun 28th, 2017

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	贪吃蛇大作战 Snake Game	Wuhan Weipai Network Technology Co., Ltd.	1 ▲
	2	王者荣耀 King of Glory	Tencent Mobile Games	1 ▼
	3	倩女幽魂 Ghost Story	NetEase	-
	4	阴阳师 Onmyoji	NetEase	NEW!
	5	球球大作战 Battle of Balls	Superpop Games	1 ▼
	6	My pixel World: Super classic game creation	BO SHE	NEW!
	7	开心消消乐 Anipop	Happy Elements	4 ▲
	8	欢乐斗地主 Happy Lord (Qq Official Version)	Tencent Mobile Games	7 ▲

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.17: Rankings of Downloads in China in September 2016

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	贪吃蛇大作战 Snake Game	Wuhan Weipai Network Technology Co., Ltd.	-
	2	王者荣耀 King of Glory	Tencent Mobile Games	-
	3	阴阳师 Onmyoji	NetEase	1 ▲
	4	球球大作战 Battle of Balls	Superpop Games	1 ▲
	5	开心消消乐 Anipop	Happy Elements	2 ▲
	6	欢乐斗地主 Happy Lord (Qq Official Version)	Tencent Mobile Games	2 ▲
	7	倩女幽魂 Ghost Story	NetEase	4 ▼
	8	Gardenscapes	Playrix Games	2 ▲

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.18: Rankings of Downloads in China in October 2016

GAMES		DOWNLOADS		CHINA		NOVEMBER 2016	
IMAGE	RANK	NAME	PUBLISHER			CHANGE	
	1	贪吃蛇大作战 Snake Game	Wuhan Weipai Network Technology Co., Ltd.			-	
	2	王者荣耀 King of Glory	Tencent Mobile Games			-	
	3	Asphalt Xtreme	Gameloft			NEW!	
	4	阴阳师 Onmyoji	NetEase			1 ▼	
	5	开心消消乐 Anipop	Happy Elements			-	
	6	欢乐斗地主 Happy Lord (Qq Official Version)	Tencent Mobile Games			-	
	7	球球大作战 Battle of Balls	Superpop Games			3 ▼	
	8	欢乐麻将全集 Huan Le Mahjong	Tencent Technology (Shenzhen) Company Limited			1 ▲	

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.19: Rankings of Downloads in China in November 2016

GAMES		DOWNLOADS		CHINA		DECEMBER 2016	
IMAGE	RANK	NAME	PUBLISHER			CHANGE	
	1	王者荣耀 King of Glory	Tencent Mobile Games			1 ▲	
	2	贪吃蛇大作战 Snake Game	Wuhan Weipai Network Technology Co., Ltd.			1 ▼	
	3	Goat Simulator	Coffee Stain Studios			NEW!	
	4	阴阳师 Onmyoji	NetEase			-	
	5	开心消消乐 Anipop	Happy Elements			-	
	6	欢乐斗地主 Happy Lord (Qq Official Version)	Tencent Mobile Games			-	
	7	欢乐麻将全集 Huan Le Mahjong	Tencent Technology (Shenzhen) Company Limited			1 ▲	
	8	猫和老鼠官方手游 Tom And Jerry	NetEase			NEW!	

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>











Figure 3.20: Rankings of Downloads in China in December 2016

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	王者荣耀 King of Glory	Tencent Mobile Games	-
	2	贪吃蛇大作战 Snake Game	Wuhan Weipai Network Technology Co., Ltd.	-
	3	街头篮球	Tencent Mobile Games	NEW!
	4	My Talking Hank	Outfit7 Limited	NEW!
	5	消消乐海滨假日	乐元互动(北京)游戏技术有限公司	NEW!
	6	阴阳师 Onmyoji	NetEase	2 ▼
	7	球球大作战 Battle of Balls	Superpop Games	2 ▲
	8	欢乐斗地主 Happy Lord (Qq Official Version)	Tencent Mobile Games	2 ▼

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>

Figure 3.21: Rankings of Downloads in China in January 2017

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	王者荣耀 King of Glory	Tencent Mobile Games	-
	2	贪吃蛇大作战 Snake Game	Wuhan Weipai Network Technology Co., Ltd.	-
	3	Rolling Sky	Cheetah Technology Corporation Limited	7 ▲
	4	Rabbids Crazy Rush	Ubisoft	NEW!
	5	欢乐麻将全集 Huan Le Mahjong	Tencent Technology (Shenzhen) Company Limited	8 ▲
	6	消消乐海滨假日	乐元互动(北京)游戏技术有限公司	1 ▼
	7	欢乐斗地主 Happy Lord (Qq Official Version)	Tencent Mobile Games	1 ▲
	8	My Talking Hank	Outfit7 Limited	4 ▼
	9	地铁跑酷	DreamSky	2 ▲
	10	Hitman: Sniper	SQUARE ENIX INC	NEW!









Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>

Figure 3.22: Rankings of Downloads in China in February 2017

From Figure 3.17 to 3.22 we can infer that “Onmyoji” stayed in the top 10 rankings for nearly half a year in terms of downloads in China. What about the rankings of its revenues among other games? Following will be the revenue rankings in China from September 2016 until May 2017 (Current).









GAMES ▼ REVENUES ▼ CHINA ▼ SEPTEMBER 2016 ▼

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	梦幻西游 Fantasy Westward Journey	NetEase	-
	2	诛仙 Zhua Xian	Arc Games Co.,Ltd.	NEW!
	3	倩女幽魂 Ghost Story	NetEase	3 ▲
	4	阴阳师 Onmyoji	NetEase	NEW!
	5	王者荣耀 King of Glory	Tencent Mobile Games	3 ▼
	6	剑侠情缘 Legend of The Swordman Mobile	Tencent Mobile Games	2 ▼
	7	大话西游 Fantasy Westward Journey 2	NetEase	4 ▼
	8	问道 Asktao	厦门雷霆网络科技有限公司	3 ▼

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.23: Ranking of Revenues in China in September 2016

GAMES		REVENUES		CHINA		OCTOBER 2016	
IMAGE	RANK	NAME	PUBLISHER			CHANGE	
	1	阴阳师 Onmyoji	NetEase			3 ▲	
	2	王者荣耀 King of Glory	Tencent Mobile Games			3 ▲	
	3	梦幻西游 Fantasy Westward Journey	NetEase			2 ▼	
	4	倩女幽魂 Ghost Story	NetEase			1 ▼	
	5	永恒纪元 The Epoch of Eternity	Anhui Shangqu play Network Technology Co., Ltd.			12 ▲	
	6	黎明之光 Li Ming	xue han			9 ▲	
	7	天堂2 Tian Tang 2	Suzhou Snail Digital Technology Co., Ltd			2 ▲	
	8	诛仙 Zhua Xian	Arc Games Co.,Ltd.			6 ▼	

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.24: Ranking of Revenues in China in October 2016

GAMES		REVENUES		CHINA		NOVEMBER 2016	
IMAGE	RANK	NAME	PUBLISHER			CHANGE	
	1	王者荣耀 King of Glory	Tencent Mobile Games			1 ▲	
	2	阴阳师 Onmyoji	NetEase			1 ▼	
	3	梦幻西游 Fantasy Westward Journey	NetEase			-	
	4	倩女幽魂 Ghost Story	NetEase			-	
	5	大话西游 Fantasy Westward Journey 2	NetEase			4 ▲	
	6	问道 Asktao	厦门雷霆网络科技有限公司			8 ▲	
	7	征途 Zheng Tu	Tencent Mobile Games			8 ▲	
	8	《炉石传说：魔兽英雄传》 Hearthstone	Blizzard Entertainment, Inc.			5 ▲	

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.25: Ranking of Revenues in China in November 2016

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	王者荣耀 King of Glory	Tencent Mobile Games	-
	2	阴阳师 Onmyoji	NetEase	-
	3	倩女幽魂 Ghost Story	NetEase	1 ▲
	4	梦幻西游 Fantasy Westward Journey	NetEase	1 ▼
	5	大话西游 Fantasy Westward Journey 2	NetEase	-
	6	梦幻诛仙 Meng Huan Zhu Xian	Tencent Mobile Games	NEW!
	7	火影忍者 Naruto Mobile	Tencent Mobile Games	4 ▲
	8	Fate/Grand Order	Wuhu Sharejoy Network Technology Co.Ltd	NEW!

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.26: Ranking of Revenues in China in December 2016

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	王者荣耀 King of Glory	Tencent Mobile Games	-
	2	阴阳师 Onmyoji	NetEase	-
	3	梦幻西游 Fantasy Westward Journey	NetEase	1 ▲
	4	倩女幽魂 Ghost Story	NetEase	1 ▼
	5	火影忍者 Naruto Mobile	Tencent Mobile Games	2 ▲
	6	大话西游 Fantasy Westward Journey 2	NetEase	1 ▼
	7	剑侠情缘 Legend of The Swordman Mobile	Tencent Mobile Games	3 ▲
	8	穿越火线:枪战王者 Cross Fire	Tencent Mobile Games	12 ▲

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.27: Ranking of Revenues in China in January 2017

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	王者荣耀 King of Glory	Tencent Mobile Games	-
	2	阴阳师 Onmyoji	NetEase	-
	3	梦幻西游 Fantasy Westward Journey	NetEase	-
	4	倩女幽魂 Ghost Story	NetEase	-
	5	大话西游 Fantasy Westward Journey 2	NetEase	1 ▲
	6	剑侠情缘 Legend of The Swordman Mobile	Tencent Mobile Games	1 ▲
	7	永恒纪元 The Epoch of Eternity	37Games	5 ▲
	8	梦幻诛仙 Meng Huan Zhu Xian	Tencent Mobile Games	2 ▲

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.28: Ranking of Revenues in China in February 2017

IMAGE	RANK	NAME	PUBLISHER	CHANGE
	1	王者荣耀 King of Glory	Tencent Mobile Games	-
	2	梦幻西游 Fantasy Westward Journey	NetEase	1 ▲
	3	阴阳师 Onmyoji	NetEase	1 ▼
	4	龙之谷	Tencent Mobile Games	NEW!
	5	倩女幽魂 Ghost Story	NetEase	1 ▼
	6	大话西游 Fantasy Westward Journey 2	NetEase	1 ▼
	7	Fate/Grand Order	Wuhu Sharejoy Network Technology Co.Ltd	2 ▲
	8	剑侠情缘 Legend of The Swordman Mobile	Tencent Mobile Games	2 ▼

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>









Figure 3.29: Ranking of Revenues in China in March 2017

GAMES		REVENUES		CHINA		APRIL 2017	
IMAGE	RANK	NAME	PUBLISHER			CHANGE	
	1	王者荣耀 King of Glory	Tencent Mobile Games			-	
	2	梦幻西游 Fantasy Westward Journey	NetEase			-	
	3	龙之谷 Dragon Nest	Tencent Mobile Games			1 ▲	
	4	倩女幽魂 Ghost Story	NetEase			1 ▲	
	5	阴阳师 Onmyoji	NetEase			2 ▼	
	6	热血江湖	龙图游戏			NEW!	
	7	大话西游 Fantasy Westward Journey 2	NetEase			1 ▼	
	8	勇者大作战	Hoolai Game Ltd			NEW!	

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>

Figure 3.30: Ranking of Revenues in China in April 2017

GAMES		REVENUES		CHINA		MAY 2017	
IMAGE	RANK	NAME	PUBLISHER			CHANGE	
	1	王者荣耀 King of Glory	Tencent Mobile Games			-	
	2	梦幻西游 Fantasy Westward Journey	NetEase			-	
	3	天龙八部手游	Tencent Mobile Games			NEW!	
	4	倩女幽魂 Ghost Story	NetEase			-	
	5	神话永恒	Peiwen Yang			NEW!	
	6	阴阳师 Onmyoji	NetEase			1 ▼	
	7	热血江湖	龙图游戏			1 ▼	
	8	Fate/Grand Order	Wuhu Sharejoy Network Technology Co.Ltd			NEW!	

Source: Newzoo,

<https://newzoo.com/insights/rankings/top-ios-games-and-apps-revenues-downloads/>

Figure 3.31: Ranking of Revenues in China in May 2017

According to Figure 3.23 to 3.31, although the rankings of downloads falls out of top 10 after half a year, the ranking of revenues was almost always kept within top 5 since it has officially released. In this case, its dropping revenue does not necessarily indicate that it is shrinking in the Chinese mobile games market. “Onmyoji” is still considered as one of the most successful mobile games in China.

3.2.3. Impacts on NetEase

As the developer of “Onmyoji” mobile game, NetEase has not only harvested its good reputation among customers, but also has gained a huge amount of profits.



Source: MarketWatch, <http://www.marketwatch.com/investing/stock/ntes>

Figure 3.32: Stock Price for NetEase on September 22, 2016



Source: MarketWatch, <http://www.marketwatch.com/investing/stock/ntes>

Figure 3.33: Stock Price for NetEase on October 25, 2016

According to Figure 3.32 and Figure 3.33, we can see that after the release of “Onmyoji”, NetEase’s stock price first jumped slightly on September 22nd, 2016. Then followed by its second peak on October 25th, 2016. In this case, “Onmyoji” really has a great positive influence on NetEase’s stock price. However, the increase in stock price does not necessarily prove growth in either revenue or profit.

NetEase, Inc. Consolidated Statements of Operations and Comprehensive Income (in thousands except per share data or per ADS data)				
	For the year December 31,			
	2014 RMB	2015 RMB	2016 RMB	2016 US\$ Note 2(n)
Net revenues:				
Services	11,712,256	21,685,341	33,748,455	4,860,789
Product	578	1,117,554	4,430,389	638,109
Total net revenues	11,712,834	22,802,895	38,178,844	5,498,898
Cost of revenues				
Services	(3,258,481)	(8,345,541)	(12,602,876)	(1,815,192)
Product	(3,063)	(1,053,719)	(3,912,156)	(563,468)
Total Cost of revenues	(3,261,544)	(9,399,260)	(16,515,032)	(2,378,660)
Gross profit	8,451,290	13,403,635	21,663,812	3,120,238
Operating expenses:				
Selling and marketing expenses	(1,894,998)	(2,958,229)	(4,481,815)	(645,516)
General and administrative expenses	(467,669)	(1,014,395)	(1,506,154)	(216,931)
Research and development expenses	(1,323,498)	(2,158,888)	(3,046,979)	(438,856)
Total operating expenses	(3,686,165)	(6,131,512)	(9,034,948)	(1,301,303)
Operating profit	4,765,125	7,272,123	12,628,864	1,818,935
Other income/(expenses):				
Investment income, net	27,373	62,341	200,333	28,854
Interest income	601,502	596,930	541,969	78,060
Exchange (losses)/gains	(17,998)	133,776	146,510	21,102
Other, net	82,438	45,138	377,685	54,398
Income before tax	5,458,440	8,110,308	13,895,361	2,001,349
Income tax	(662,735)	(1,273,408)	(2,102,498)	(302,823)
Net income	4,795,705	6,836,900	11,792,863	1,698,526
Net income attributable to noncontrolling interests and mezzanine classified noncontrolling interests	(39,082)	(101,792)	(188,343)	(27,127)
Net income attributable to the NetEase, Inc.’s shareholders	4,756,623	6,735,108	11,604,520	1,671,399
Net income	4,795,705	6,836,900	11,792,863	1,698,526
Other comprehensive income				
Unrealized gains/(losses) on available-for-sale securities, net of tax	—	27,452	(232,633)	(33,506)
Reclassification adjustment for losses on available-for-sale securities recorded in net income, nil of tax	—	—	266,660	38,407
Total other comprehensive income	—	27,452	34,027	4,901
Total comprehensive income	4,795,705	6,864,352	11,826,890	1,703,427
Comprehensive income attributable to noncontrolling interests and mezzanine classified noncontrolling interests	(39,082)	(101,792)	(188,343)	(27,127)
Comprehensive income attributable to the NetEase, Inc.’s shareholders	4,756,623	6,762,560	11,638,547	1,676,300
Net income per share, basic	1.46	2.05	3.54	0.51
Net income per ADS, basic	36.43	51.27	88.40	12.73
Net income per share, diluted	1.45	2.04	3.51	0.51
Net income per ADS, diluted	36.29	50.94	87.72	12.63
Weighted average number of ordinary shares outstanding, basic	3,264,450	3,284,382	3,281,729	3,281,729
Weighted average number of ADS outstanding, basic	130,578	131,375	131,269	131,269
Weighted average number of ordinary shares outstanding, diluted	3,277,049	3,305,213	3,307,109	3,307,109
Weighted average number of ADS outstanding, diluted	131,082	132,209	132,284	132,284

Source: NetEase, Inc. “Annual Report for the year ended December 31, 2016”

Figure 3.34: NetEase, Inc. Consolidated Statements of Operations and Comprehensive Income

In terms of net revenues and net income of NetEase, we can see from Figure 3.34 that

“Onmyoji” indeed has contributed a lot to the figure. The net revenue increased from CNY 22,802,895 (thousand) in 2015 to CNY 38,178,844 (thousand) in 2016. The net income has increased from CNY 6,836,900 (thousand) in 2015 to CNY 11,792,863 (thousand) in 2016. The growth was extremely remarkable.

3.2.4. SWOT analysis

Strengths:

1. The classic IP (Intellectual Property) of “Onmyoji” attracts lots of old fans of the game. Usually, when developers use IPs for their mobile games, their aims are no doubt but to draw the attentions from these IPs’ old fans. Similar strategy to NetEase’s game “Onmyoji”. However, due to the special characteristic of this classic IP “Onmyoji”, it not only attracted fans of itself but also those who are interested in mysterious stories and Japanese culture. These players seldom have chances or are too lazy to get access to related games. In this case, since it is a Chinese mobile game and free to download, these customers were motivated to try the game.
2. As the CEO of NetEase said, innovation is what surprises the customers the most. Although the IP has been around for a while, the game itself has created several new elements. For instance, the story line in the game is very different from the classic version. The game is basically about Seimei’s journey to search for his lost memories and also focuses more on the relationship between human beings and ghosts & monsters. The story plot setting of the game is very attractive and came into attention of many players. On the other hand, “Onmyoji” is a unique mobile game that combined three features (turn-based, card and RPG). This uniqueness has brought significant interests for both old players as well as new players. This is because the players have never been able to enjoy a similar Chinese mobile game like this before.
3. NetEase’s excellent marketing strategy could be identified as one of the key reasons that enabled this mobile game’s success. NetEase has mainly used the brand marketing strategy for this game. First of all, NetEase has a clear positioned of its target customers and executed its strategy accordingly. The target customer was decided to be ACG (Anime, Comics, Games)

fans. With a clear target, NetEase has joined ChinaJoy (the most influential ACG show in China) and has made huge efforts in promoting the mobile game “Onmyoji”. It has successfully attracted ACG fans’ attention before the game was officially released. Secondly, it sets and emphasizes its unique brand image of “aesthetic pictures” and “excellent quality”. To be specific, these elements all reflected on the sophistication of this mobile game. Points such as beautiful images in the game, famous voice actors from Japan, humanize-designed playing method, etc. Furthermore, after “Onmyoji” was released, the promotion went a step further. It uses a variety of platforms for promotion, for example the live-streaming, social medias, video-sharing websites etc. It also encourages players to create more fan arts aiming to achieve wide-spreading influences and attract more customers. All of the described marketing efforts have made “Onmyoji” not a typical mobile game but a phenomenal one.

Weaknesses:

1. It’s easy for players to get tired of a game because of the proportion of SSR (the most rare cards) being extremely low and that players can seldom get these cards. Especially when many players spend a lot in the game but still cannot obtain a single SSR. As a result, more and more players decide to quit the game. This is one of the main reasons why the number of downloads and the revenue started to decline.
2. Even though one of mobile games’ main revenue sources come from the value-added services, the charge for this game was set relatively high in which many players complained about it. This was also the main reason for the cause of consumer dissatisfaction and ultimately led to negative effects on NetEase’s originally positive brand image.
3. Certain playing methods still require a great modification and the stories in the game are not beautiful or colorful enough. Some players have complained that the plots of the stories were embarrassing and the number of story plots was limited. Thus as soon as a player clears all the available challenges, the player will have no more stories plots to watch. On the other hand regarding the playing method, although at first the game made the players feel excited and interested (and was also not difficult for mobile game beginners to handle), after a while the players get bored of the game and begin to seek for fresher elements. This is actually one of the most common issues for all mobile games.

Opportunities

1. The ACG fans in China are increasing rapidly these years. Since the main targeted customers of “Onmyoji” are the ACG fans, the growing population of ACG fans in China is beneficial and vital for the development of “Onmyoji”. In addition, with the improvement of people’s living standards, ACG fans in China not only need a large amount of ACG products but instead prefer higher quality products. And coincidentally, “Onmyoji” mainly focuses on producing high quality ACG product, which perfectly satisfies ACG fans’ desire in almost all the fields (For example the VA (voice actor) fans, cosers (people who play cosplay), Japanese style fans, amateur singers, etc).
2. Nowadays, with the development of technology and globalization, more and more people from overseas become interested in Chinese and Japanese cultures as well as the entertainment works. In addition, the majority of the Chinese who live overseas has become much more considerate of their own country. Also, NetEase has already made “Onmyoji” official in Japan and has expanded its other related businesses outside of China. Therefore, the future of global expansion and development of “Onmyoji” is promising.
3. Chinese people are enjoying more social events than before and we can see that China is turning into a more social-orientated culture. The social media platforms such as Weibo, “moments” of Wechat, and Bilibili are becoming increasingly fashionable in Chinese people’s daily lives. In addition, because of NetEase’s powerful promotion strategy, “Onmyoji” is appearing on numerous social media platforms where we can see their advertisements almost everywhere we go. Therefore almost everyone in China has realized the existence of the game. Along with the numbers of its players increasing extremely quickly, the presence of the game continues to spread. It has become an excellent topic especially between individuals who don’t know each other (becoming a commonly known subject). Consequently, “Onmyoji” is no more a simple mobile game; it has ultimately turned into a social platform.

Threats:

1. Due to the fact that China has already taken the lead of the gaming industry in the world in terms of the total revenue and the scale of users, both local and overseas mobile game companies are paying more attention to this “fat meat”. In addition, since the market has

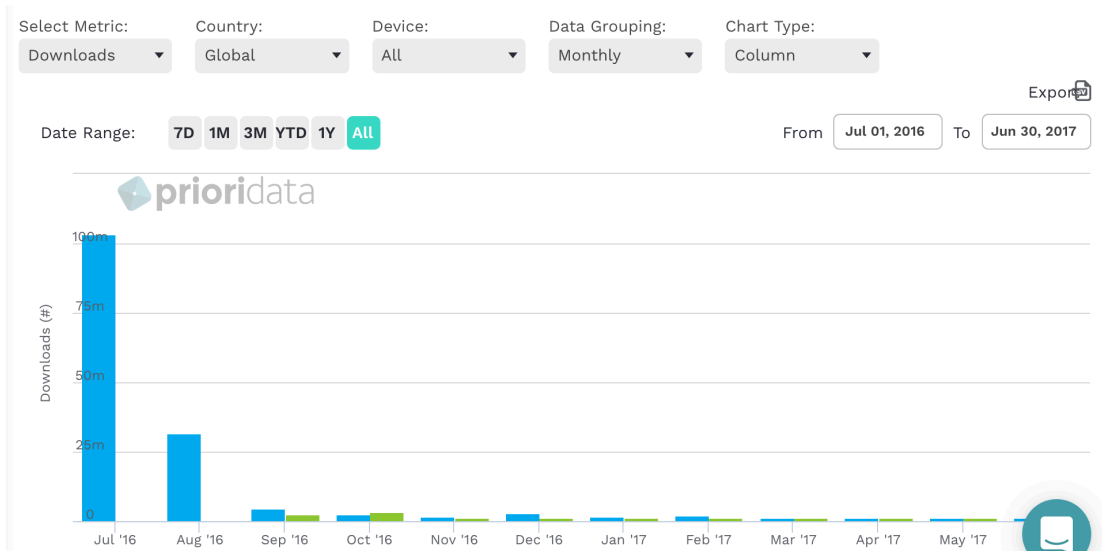
realized the success of “Onmyoji”, numerous other mobile game companies are learning and imitating NetEase’s marketing strategies (this includes realizing a company’s own shortcoming while exercising its advantages). As a result, this competitive culture may ultimately lead to fiercer competition in the Chinese mobile games market.

2. Although the revenue and the number of downloads of “Onmyoji” has continued to decrease two months after releasing, the ranking of its revenue still remains in the top 10. This indicates that the maturity of mobile games in China is still not enough. There are numerous excellent mobile games in the global mobile games market. If “Onmyoji” aims to achieve a stable position and be famous in the global market, further improvement and adjustments are absolutely inevitable.

SECTION 3.3. COMPARISON

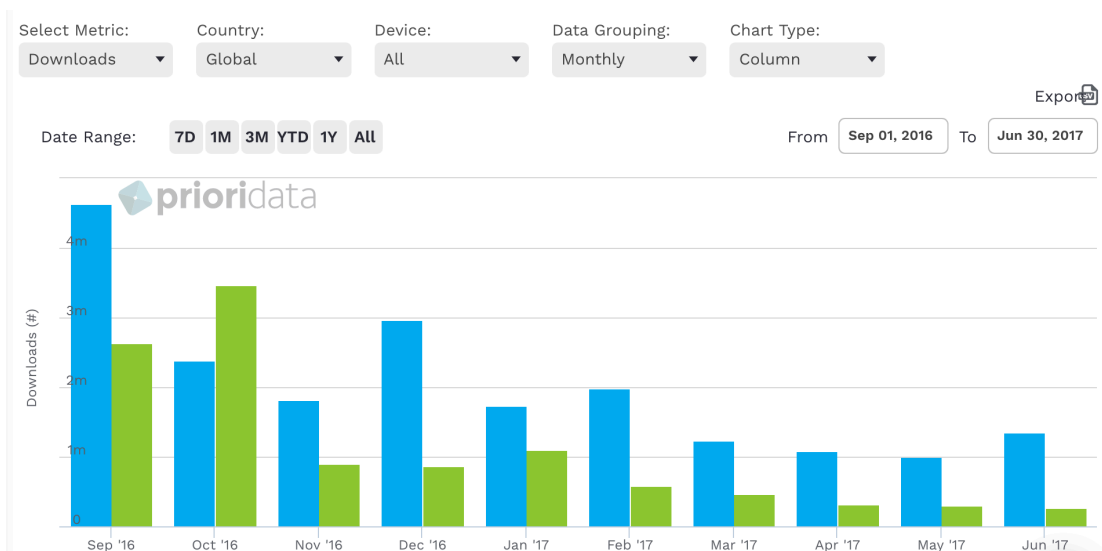
3.3.1. Comparison of Downloads & Revenues

We can see from Figure 3.35 and Figure 3.36 that the “number of downloads” for both games decreased rapidly two months after their first release. In addition, the numbers of downloads for “Onmyoji” did not surpass “Pokémon go”’s number even though the number of downloads of “Pokémon go” has dropped sharply in September 2016. The numbers of downloads of “Onmyoji” only exceeded that of the “Pokémon go” once in October 2016, for about 1 million downloads. Furthermore, note that the number of downloads on iOS of “Pokémon go” for its first month since it was released was more than 100 million downloads. However, the numbers of downloads on iOS of “Onmyoji” for its first month since it was released turned to be less than 3 million. If we look at the situation now, in June 17, the downloads of “Pokémon go” is 1.3 million while “Onmyoji” only has 262,900. All these facts indicated that “Pokémon go” is truly a global mobile game while Onmyoji’s popularity remains in China.



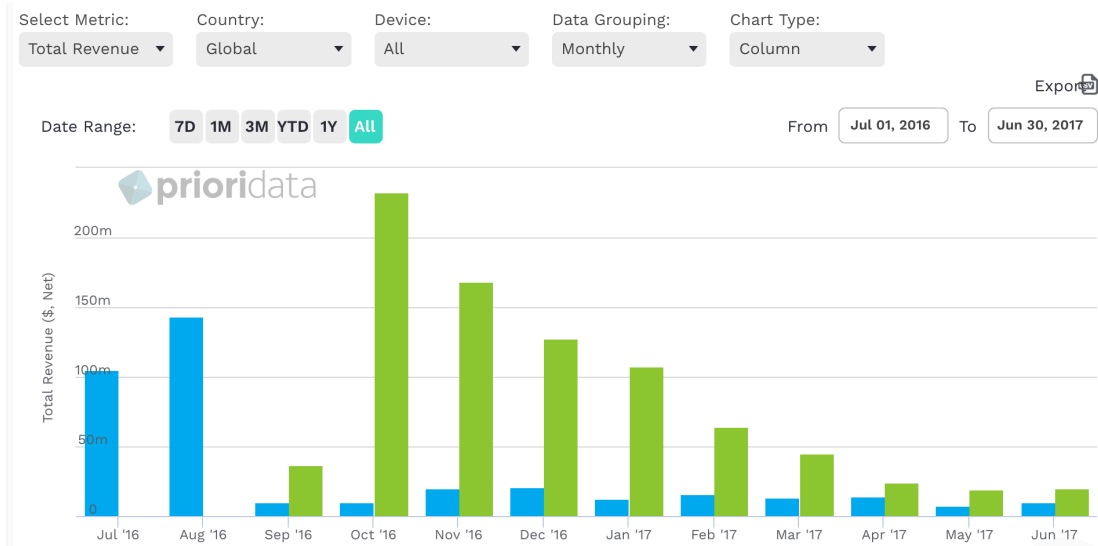
Source: Prioridata, <https://prioridata.com/?landing=true>

Figure 3.35: Global Downloads of “Pokémon go”(Blue) and “Onmyoji”(Green) from Jul 01,2016 to Jun 30, 2017 on iOS



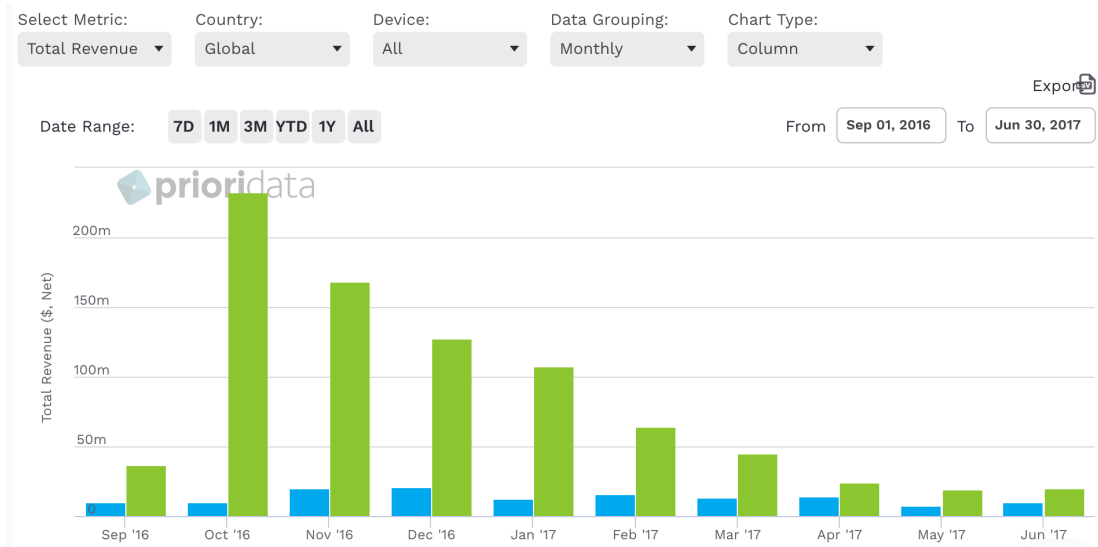
Source: Prioridata, <https://prioridata.com/?landing=true>

Figure 3.36: Global Downloads of “Pokémon go”(Blue) and “Onmyoji”(Green) from Sep 01,2016 to Jun 30, 2017 on iOS



Source: Prioridata, <https://prioridata.com/?landing=true>

Figure 3.37: Global Revenue of “Pokémon go”(Blue) and “Onmyoji”(Green) from Jul 01,2016 to Jun 30, 2017 on iOS



Source: Prioridata, <https://prioridata.com/?landing=true>

Figure 3.38: Global Revenue of “Pokémon go”(Blue) and “Onmyoji”(Green) from Sep 01,2016 to Jun 30, 2017 on iOS

According to Figure 3.37 and Figure 3.38, we can see that both mobile games achieved the highest total revenue during the second month after the release: \$143.7 million for “Pokémon go” and \$232.9 million for “Onmyoji”. Secondly, ever since “Onmyoji” was released in September

2016, the total revenue of “Pokémon go” has never surpassed the total revenue of “Onmyoji” on the iOS platform. Even though in terms of the number of downloads, “Pokémon go” definitely outnumbered that of “Onmyoji”, however, this does not necessarily concludes higher revenue for the company.

3.3.2. Similarities

Although “Pokémon Go” and “Onmyoji” are two totally different types of mobile games that were developed and published by different companies, there still remain similarities between them.

1. The two games were both in good terms in their first two months after they have been released. This fact indicates that nowadays, mobile games are often referred to as “fast-food style” games, meaning that the customers get bored of the games quickly and eventually quit playing the game. This is mainly due to the limitation of the mobile phone device and the technologies. Since everything needs to happen and integrated to the smartphone, the technology and the capability of mobile phones remain very limited. In other words, mobile games are now facing much greater challenges in terms of improvement/development of technology than PC or other types of game devices.
2. “Pokémon go” and “Onmyoji” are both free to play. Almost all the mobile games can be downloaded free of charge and can be enjoyed without paying any fees. This is the proper/common strategy for mobile games in order to attract as many players as possible when it is first released. After all, the main revenue comes from the payments for value-added services within the games.
3. Both games are developed based on classic IP: Pokémon and Onmyoji. There are many IP mobile games in the market nowadays and this is the easiest and most efficient way to draw more customers’ attention. Firstly, the IP fans will be very interested and curious of the new games and most of them are willing to give it a try. On the other hand, for non-IP fans, they may still be willing to try out the new games if they have heard of the IP before. Either way, regardless of other conditions, it is better to develop an IP mobile game that most people are familiar with instead of creating a whole new game.

3.3.3. Differences

Since these are two totally different types of mobile games, there are so many differences that we can find between them, thus I will only be addressing several important points to evaluate.

1. “Pokémon go” is designed and developed by the collaboration of three companies while “Onmyoji” is developed and published by a single company (NetEase). Even though a good collaboration allows a combination of several companies’ advantages, however, this also reduces the profit retainable for each company (Since the profit is divided among the companies). For instance, Nintendo only obtained a mere 10% of the total revenue of “Pokémon go” that was released on the iOS platform.
2. NetEase concentrated heavily on the marketing and promotion of “Onmyoji” while “Pokémon go” did not. There is no doubt that NetEase’s marketing and promotion strategies were very powerful and extremely successful (which is also the key reason that has made “Onmyoji” the phenomenal mobile game in China). However on the other hand, even though “Pokémon go” did not invest greatly into marketing or promoting the game, the game still attracted a much higher number of downloads globally compare to “Onmyoji”. This is due to the reason that when a game’s IP is strong enough, it does not require the support of other marketing or promotion strategies. “Pokémon” is an extremely strong IP that Nintendo has already spent more than 25 years building and maintaining it. Especially in such a globalized industry: you may not have watched the movie of Onmyoji before, but I am sure you are not a stranger to the name “Pikachu”.
3. Although “Pokémon go” has a much greater number of downloads than “Onmyoji”, its earnings is still lower than that of “Onmyoji”. The reason behind this is mainly due to the high charge of value-added services in “Onmyoji”. In the end, when the players decided to quit “Pokémon go”, many of them complained about that they became to felt tired of the game. On the other hand, the players that have abandoned “Onmyoji” not only complained about getting bored at the game, but also their dissatisfaction with the high charges. This was definitely not a desirable result for “Onmyoji”.

CHAPTER 4. RECOMMENDATION

In order to understand the current market and to achieve a better development and advancement of Chinese mobile games market, we have looked at the above two examples. According to the evaluation of the current situation & existing problems of the Chinese mobile games market as well as the evaluation of two successful mobile games from Japan and China, there are several recommendations for the Chinese game makers and government:

1. Chinese mobile game makers should concentrate on the quality of mobile games instead of putting excessive efforts into marketing and promotion strategies. Even though strong marketing and promotion strategies will assist the product to reach a much wider range of customers, players will not enjoy low quality games and have a high tendency to leave and quit with dissatisfaction (This will also affect the company's image negatively). Even though NetEase's marketing and promotion strategies were extremely powerful, the quality of "Onmyoji" was exceptionally high. This contributed to the reason why "Onmyoji" was so successful. Thus, Chinese mobile game makers should only invest heavily in marketing-related strategies given that the game is developed of high quality.
2. Chinese mobile game makers should grasp the opportunity to strengthen their relationship with famous game companies overseas. This will allow the local game makers to benefit from the foreign game companies' strong global reputation and influences. As a result, this will allow easier and more effective promotion of Chinese mobile games globally. On the other hand, overseas game companies could introduce new elements to the Chinese game industry such as overseas mobile games, cutting-edge technologies and famous IPs into China, which will eventually make the Chinese mobile games market much more competitive and dynamic.
3. Chinese mobile game makers should pay more attention to live streaming and offline activities. Recently, since live streaming for mobile games is on a rise, increasing social collaborations will be a wise choice for local mobile game makers in order to reach and attract more customers. In addition, companies should provide a better service spirits and at the same time, operate diverse offline activities to promote their product and show the company's sincerity.

4. Before a mobile game is developed, local mobile game companies should conduct significant research and investigations of the current market status. This will assist the company to have a clear target group of customers as well as the game's market position (Similar to what NetEase has done for "Onmyoji").
5. Chinese government should concentrate in controlling and supervising live streaming for mobile games. Only well-regulated and high-quality live streaming for mobile games could bring good watching experiences for mobile game players, which ultimately contributes to the healthy development of the Chinese mobile games market.
6. The Chinese government should enhance a standardized procedure of the paying method and system for mobile games. Only with the support from local government, a safer mobile game payment environment will be possible for the industry. This is another important factor that will definitely have significant influence on the growth of paying users as well as the size of the market.

CHAPTER 5. CONCLUSION AND PROSPECT

SECTION 5.1. CONCLUSION

The Chinese mobile games market is currently the NO.1 in the world as we have discussed. Nevertheless, there remains great potential and opportunities in the market. The local and overseas mobile game creators are starting to understand the trend and realize the importance of predicting the future market needs. Along with the raise in strategy-consciousness of the game developers as well as the increase in demand from the consumers, the industry will undoubtedly become much more competitive than it ever was before. In order to win the “war” and keep the company growing in a steady and healthy pace, Chinese mobile game makers should acquire a better understanding of the current situation (the existing problems and trends) as well as the key elements that will define the future mobile games market. The companies should conduct significant background research as well as critical analysis of the company’s current market position in order to develop the most appropriate strategy to advance forward. In addition, companies should rely on the past experiences of successful mobile games in order to select the essence and discard the gross. Furthermore, the Chinese government’s role is not negligible and is extremely influential of the future trend.

Although there still remains many problems in the Chinese mobile game market, as long as the Chinese mobile game makers and the Chinese government can both perform their designated duties, the future of the Chinese mobile games market is extremely promising.

SECTION 5.2. PROSPECT

Along with the development of technology and the prevailing usage of smartphones, mobile games will ultimately become the main current among all types of games. Also, with the increase in the average income level of China, the consumption concept is gradually changing and will undoubtedly become the main driver that boosts the number of paying users.

Even though the Chinese mobile game industry still possesses deficiencies in numerous

areas as well as yet little reputation in the world, the combined effort from the Chinese mobile game makers and the Chinese government will definitely improve the situation. It is often said, “Failure is the mother of success.” I believe that the Chinese mobile game industry will overcome its current obstacles and difficulties and evolve into a whole new phase that will ultimately secure its irreplaceable position in the future global mobile game market.

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