Business Analysis of Mihoyo and Its Honkai Series
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Abstract. Mihoyo has become a star in China’s game field through its unique Honkai IP. The company has grown into one of the largest game companies in China by taking advantage of the development of China’s game industry and the policy support of the Chinese government. The Honkai series has become one of the most distinctive IPs in China by taking advantage of the growth of China’s economy, new generational ideas, the support of policies, and the advantages of technology. Against this background, this paper analyzes the development and direction of this game according to the five-force model, which is developing a new game mode based on the Honkai IP.

Keywords: Mihoyo, video game, China, technology.

1. Introduction

In the 21st century, China’s network technology development began to accelerate, giving birth to a large number of network-based emerging industries. Among them, the most famous is China’s game industry. These companies have achieved unprecedented development by relying on China’s extensive market and user base. Mihoyo is the most representative example of these companies. It has created an original domestic game animation IP — the Honkai series and many famous mobile games such as Honkai, Honkai 2, Honkai 3, and more. Developing from a small micro-enterprise to one of the largest game companies in China, the success of Mihoyo is a classic business case. This article takes Mihoyo and Honkai 3 as specific examples to analyze the company’s success through the swot and porter five forces model, providing suggestions for the development of the classic Honkai 3 game.

2. SWOT Analysis of Mihoyo Company

2.1 Strength Analysis

The rise of Mihoyo has been driven by its unique, attractive IP. The Mihoyo Game Company is one of the earliest Chinese game companies to carry out IP operations. It owns its own well-known Chinese IP Honkai series [1]. After years of development and accumulation, this IP has gathered an extensive user base and core fans. Honkai IP describes the story of people fighting against disasters and protecting a better life by collecting and using the special energy of Honkai in a world where survival tests such as wars and natural disasters erode (Honkai). In Honkai IP, protagonists of different identities come together because they believe in saving the world and fighting against Honkai factors through their efforts and teamwork. Mihoyo has created various products such as mobile games, comics, animations, light novels, and animation peripheral products around the Honkai IP, forming an IP product ecosystem [1]. Mihoyo has developed three mobile game products based on Honkai IP, which are Honkai 1, Honkai 2, and Honkai 3. Among them, the R&D value of the first game Honkai 1 is to accumulate market experience and customer data for the company in terms of technology, game operation, and promotion, and provide valuable experience for subsequent product development. Based on the first game product, Mihoyo subsequently launched Honkai 2 to expand the influence of Honkai IP. Honkai 2 follows the underlying data, art materials, and early core gameplay of Honkai 1. At the same time, Honkai 2 also enriches the game content, for example providing a substantial increase in the number and content of mainline levels, adding more branch modules to improve the playability of the game [1]. Some years after the launch of Honkai 2, Mihoyo launched the latest product in the Honkai series, Honkai 3. Through its unique IP, Mihoyo Games has
designed highly competitive game products, which have provided good financial support and popularity for the company’s development.

Mihoyo is not only a game company but also a cultural company, which makes the development of Mihoyo more comprehensive. In addition to developing games, Honkai IP also has strong long-tail commercial value, through comics, animations, light novels, and animation peripherals. Mihoyo created a series of comics such as Honkai Gakuen, Honkai Gakuen EX and Honkai 3 under the Honkai IP [1]. Comics products are similar to games, animations, and other products in terms of plot and character settings, which are a further refinement and extension of the Honkai IP. In the animation field, Mihoyo has launched Honkai PV and Honkai Gakuen’s four-frame handwritten animation, which not only makes IP characters more plump and vivid but also expands the IP’s fan audience and influence. In the light novel section, Mihoyo’s light novel Honkai 2 Extra has launched series such as Houmu Rescue Operation, Honkai Cooking Classroom, and Inner World Novels [1]. In the animation peripheral products section, Mihoyo has designed animation peripheral products such as pillows, umbrellas, figures, keychains, based on the characters of the Honkai IP, which is conducive to enhancing the integration of the company’s IP content and products [1]. The company has also developed peripheral products related to games, such as novels, dolls, and even virtual idols. In addition, Mihoyo launched the dynamic desktop wallpaper software “Artificial Desktop” based on Honkai IP [1]. The software is centered on virtual idols, and users can experience rich dynamic wallpapers and immersive visual experiences through “Artificial Desktop”. After the launch of “Artificial Desktop”, with the fan base of virtual idols, as well as exquisite modeling, high-quality light, shadow, skin effects, etc., Mihoyo has gained a substantial number of loyal users. It can be seen that the expansion of other IP products also makes Mihoyo a more comprehensive two-dimensional culture animation company, which provides a strong impetus for the development of Mihoyo.

Another successful development of Mihoyo is due to its game community strategy. After launching its game product, Mihoyo launched its exclusive community, Miyou Club, to connect users more closely [2]. Mihoyo will release relevant information in this community, such as the game’s customs clearance method or the matching of equipment, which can turn game fans into fans of Mihoyo. This is because most of Mihoyo’s games are exploration games, and the complex tasks and characters, diverse weapons and equipment, and other mechanisms are designed to be extremely complex and sophisticated, leading to high costs and thresholds for players. Therefore, the Miyou Club’s practice of guiding new players to find solutions by publishing some quintessential content can greatly increase players’ dependence on the game and Mihoyo [3]. In addition, this community is also the ecological derivative and protective weapon of Mihoyo games. A large number of gamers can have related discussions in this community, and can also use this community as a dating platform to chat. During this process, many players will make reasonable suggestions for the game, which will be an important source of feedback for the development of Mihoyo’s next game. Moreover, since Mihoyo does not have its own social software or platform, Mihoyo has become an important territory for Mihoyo to maintain its image. For example, some companies hired a large number of Internet users to discredit Mihoyo, which once caused a sharp decline in Mihoyo’s reputation. During this period, the Miyou Club has always been the focus of players’ exchanges of relevant information. Many gamers spontaneously went to social media to clarify the facts after realizing that this was a conspiracy against Mihoyo, which maintained Mihoyo’s popularity. In the end, this community has become one of the sources of development for the fan economy. Mihoyo IP peripheral products will be released in this community, which will increase the company’s revenue while strengthening the company’s reputation and providing more funds for the company’s development. It can be seen that the forum community of the Miyo Club has provided great help for the development of Mihoyo.

2.2 Opportunity

The Mihoyo company is located in Shanghai, a city that provides a positive environment for China’s gaming industry. At the beginning of the 21st century, e-sports began to sprout in China. Inland cities headed by Chengdu and Xi’an have become early e-sports centers in China due to their
slow pace of life, many students, low PC penetration rate, and large-scale Internet cafes. With the continuous expansion of the influence of world-renowned e-sports events such as the World E-Sports Competition and the E-sports World Cup among Chinese e-sports enthusiasts, the core model of Chinese e-sports has begun to change from Internet cafe events to regular events [4]. The early practitioners of the e-sports industry have also begun to go out of the mainland and gather in Beijing and Shanghai. However, due to the disapproval of mainstream social ideology, e-sports in this period is still in the ascendant stage, and minstream society is not particularly tolerant of e-sports. But for e-sports, which was not accepted by the mainstream society at the time, Shanghai showed a consistently tolerant attitude [5]. Shanghai has a high degree of commercialization. In the face of applications for e-sports events, venue suppliers in Shanghai pay more attention to whether the host company is legal and whether the public security fire protection agreement is complete. Also, for a controversial emerging industry such as e-sports, the Shanghai government adopted a tolerant attitude or, rather, tried to accommodate it in the early stage of its development. The high-quality soil provided by this tolerance is even more valuable than many subsequent targeted support policies. Shanghai has therefore become the most dynamic game industry cluster in China. In addition, relying on sound economic foundations and industrial ecological environment, Shanghai continues to help the combination of e-sports and urban development, and actively organizes global events to enhance the influence of the city’s e-sports industry. For example, in 2019, more than 1,500 e-sports events were held in Shanghai, and the types of events held also included the most popular types of e-sports games on the market [6]. At the same time, Shanghai has created a multi-level competition system model, developing the mass market through urban competitions, national competitions, and campus competitions, and continuously improving the appeal of e-sports events and e-sports games to the whole population. Shanghai has also secured cooperation with many well-known Internet companies, adding strong impetus to product development and innovation, technological change, and the ecological incubation of Shanghai’s e-sports industry. Mihoyo is located in Shanghai, the financial center of China. In this context, Mihoyo continues to develop in an environment that is highly conducive to the survival of the game industry, thus avoiding many obstacles and finding many shortcuts in the process.

In addition, the development of Mihoyo benefited from the support of relevant policies in China, especially in Shanghai. In 2017, Shanghai issued Several Opinions on Accelerating the Innovation and Development of Shanghai’s Cultural and Creative Industries, proposing that it will mainly focus on film and television, performing arts, animation games, and other industrial sectors [7]. The Shanghai Municipal Party Committee Propaganda Department and the Municipal Bureau of Culture, Radio, Film, and Television (2018) issued the Several Implementation Measures for Promoting the Development of Shanghai Animation and Game Industry, which aims to promote the rapid and healthy development of Shanghai’s animation and game industry, aiming to become a leader in the global animation and game industry. The city’s goals are progressing. In 2019, to promote the orderly and healthy development of Shanghai’s e-sports industry and accelerate the construction of the Global E-sports Capital, Shanghai issued 20 opinions on the healthy development of the e-sports industry, striving to build fully the Global E-sports Capital within 3 to 5 years [8]. The content of this policy includes promoting the development of the e-sports industry in Shanghai, such as enhancing e-sports content creation and technology research and development capabilities [9]. In 2020, when the world was hit hard by the epidemic, Shanghai issued Several Policies and Measures for Shanghai to Fully Prevent and Control the Epidemic to Support the Stable and Healthy Development of Service Enterprises, which proposed to support the e-sports industry affected by the epidemic and made it clear that it would make every effort to hold major events such as the 2020 League of Legends Global Finals, and actively attract international top events [10]. Moreover, this plan includes more than 40 specific measures including policy support, copyright services, guarantees for going overseas, strategic research, and trade channels. Judging from the promulgation of these policies, China, and especially Shanghai, has provided major policy support for the development of related industries such as games, which is also one of the key factors for Mihoyo’s success.
China’s advanced network technologies such as mobile terminals, network infrastructure, and wireless network coverage have also provided opportunities for the development of Mihoyo. These factors allow players in other regions of China to consume Mihoyo products and thus expand the market for Mihoyo products. After entering the 21st century, China has made substantial efforts to popularize the Internet. Combined with China’s vast population base, there remains considerable room for improvement in the number of Internet users in China, which will provide more potential customers for the online game industry. Moreover, the rapid increase in online game paying users provides a guarantee of the development and growth of the game industry. The 2013-2018 China Online Game Industry Market In-depth Research and Investment Prospect Evaluation Report shows that, in 2013, the number of Chinese client online game users reached 152 million, an increase of 1.98 times over 2008; The number of users reached 329 million, an increase of 4.60 times over 2008 [11]. It can be seen that the development of the network is an important factor for the success of Mihoyo.

New technologies such as 5G+AI, VR/AR, etc., may promote the dissemination channels of game products and bring about subversive changes in the game scene. Moreover, these technologies will also promote the development of scenarios and intelligence, bringing new consumer experiences. For example, 5G combined with cloud computing and increasingly mature virtual reality technology will innovate the participation model and business model of e-sports, such as the hyper-interaction of e-sports, allowing audiences to participate directly in a game, even interacting instantly with the game [12]. Players interact with the competition environment, which is an innovation and exploration that differs from traditional sports. It can be seen that the development of China’s network technology and the rapid growth of network consumption are also reasons for the development of Mihoyo.

2.3 Weakness

Mihoyo is currently facing some difficulties, such as small capital scale, immature technology, and a single revenue model. Mihoyo’s operating income in 2016 was 424 million yuan and its net profit was 272 million yuan; in the first half of 2017, its operating income was 588 million yuan, and its net profit was 447 million yuan; its operating income in 2020 was 10.128 billion yuan, and its net profit was higher than that of 2019. An increase of 4.77 billion yuan, an increase of 474.51% [1]. Compared with Tencent, China’s largest game company, Mihoyo’s profitability and revenue scale are still small, affecting the company’s ability to be frustrated in the development stage. In addition, lack of funds cause Mihoyo’s technology to remain at a relatively weak level. To make matters worse, most of Mihoyo’s revenue sources come from the consumption of game products, which makes Mihoyo’s income structure very singular and unable to face the impact of the market. Finally, most of Mihoyo’s products are themed on Honkai, which can make gamers feel bored and reduce the competitiveness of Mihoyo’s products.

2.4 Threat

In addition, Mihoyo faces external threats. First, as a rising star in the game field, Mihoyo grabbed the cake from other game companies, such as Tencent and NetEase. In this case, Mihoyo is facing the containment of the two-game companies. Mihoyo does not have enough powerful social software to make the game more convenient to log into. Moreover Tencent, which controls QQ and WeChat, will not give Mihoyo a chance to cooperate. Thus, there are not a few players who give up the Mihoyo game because they cannot log in easily. Moreover, in view of the shortcomings of Mihoyo’s small user base, some game companies employ a substantial number of Internet users to discredit the Mihoyo company, in order to increase people’s negative impression of this company. Second, Mihoyo has received reports from the parents of young players. The parents of this generation of young people are extremely hostile to all games, which makes Mihoyo’s external environment more difficult. For example, parents of junior high school or high school students do not equip their children with electronic products such as mobile phones and computers, which prevents these students from accessing Mihoyo games. In addition, these parents also control their children’s pocket money and savings, which prevents the most dynamic gamers from bringing substantial income to the game.
Finally, large Chinese game companies dominated by Tencent began to copy Mihoyo’s successful works. These companies often have a stronger capital base and higher technical facility than Mihoyo, making it easy for these companies to imitate Mihoyo’s products. After imitating similar products, these companies can take advantage of capital to lower the prices of game props to crack down on Mihoyo’s games. Therefore, Mihoyo is facing a major external threat.

3. The Methods and Analysis of Honkai 3 to Attract and Retain Players

3.1 Strengths

The most significant factor in attracting and retaining players is playability, which includes the shaping and modeling of the characters, the game plot, the special effects and impact of battle, the new operation mode, and its original Chinese emotional selling point. After Honkai 3 entered the market, the first aspect to arouse strong responses was the modeling of game characters. Most of the characters in Honkai 3 are very beautiful Valkyries, attracting a substantial number of players and achieving an objective of Mihoyo. Compared with the popular Glory of Kings and Peace Elite in China, Honkai 3 characters have a very gorgeous close-up, which satisfies the player’s fantasy of the characters. In addition, the plot of Honkai 3 is very classic, which is the second reason why this game attracts and retains players. Honkai 3 continues the story of Honkai IP, which leads players to connect with previous games when enjoying this game, reducing the unfamiliarity of players with this game and allowing players to quickly enter their roles. Third, the factors that attract players to Honkai 3 are the gorgeous special effects and a strong sense of combat. In the character battle, each character has different skills, and most of these skills have exceptionally attractive special effects, so players will be very addicted to the game and become dependent on this game. Moreover, each skill of the characters in Honkai 3 has a very strong sense of attack, and the vibration of the screen makes the players of the game have a very strong sense of substitution, so as to achieve the effect of integrating the game and reality. Fourth, Honkai 3 has a new operational mode in 3D full-view operation. Compared with games such as League of Legends, Honkai 3 has a stronger sense of space. In other words, Honkai 3 gamers enjoy the game from a third-person perspective that is at the level of the game characters, which brings players a stronger three-dimensional sense, such as a sense of flying. Finally, Honkai 3 is an original game by a Chinese team, with very strong national feelings. China’s game market is replete with foreign games, and domestic game companies either buy out the agency rights of foreign games or copy the models of foreign games, which means that these games are not domestic games in the minds of players. However, the design team and world background of Honkai 3 belong entirely to China, giving players a stronger connection to this game.

3.2 Weaknesses

Honkai 3 also has many disadvantages in the process of attracting and retaining players, such as fewer game rewards, forced online presence, fewer characters, mistakes in game planning, and decreased freshness. First, Honkai 3 is very unfriendly to players’ recharge and lottery. For example, when players work hard to get the materials for the lottery and are looking forward to the lottery, Honkai 3 will not always give players the rewards they deserve. Moreover, the possibility of securing rare rewards is very low when recharging players to draw prizes, which makes players highly dissatisfied and demotivated with this reward model. In addition, Honkai 3 has many tasks, and players must complete these tasks in order to secure rewards. More seriously, the materials obtained by players are time-sensitive, which results in players having to go online to perform quests. In this case, players no longer enjoy the game but are forced to play the game, which undoubtedly makes players highly dissatisfied with the game. Third, although the characters in this game are very good, the number of characters is relatively small. This leads to slow development of characters as, when the game characters grow, players lack motivation to play the game, and Mihoyo loses these players. In response to this situation, Mihoyo increased the difficulty of the game’s growth and added a lottery system during the growth process. Yet the success rate of the lottery is pitifully low, so players often
complain about the lack of Honkai 3’s characters and the difficulty of growth. In response to these problems, the game planning of Honkai 3 has not only not improved but has even ignored the demands of players. For example, the game planning of Honkai 3 secretly lowered the aggression and sense of attack of the characters, prompting anger from players. Moreover, for the bugs existing in the game, the game planning has not been repaired in time, diminishing the game experience. Finally, the Honkai plot can become boring in relation to the gaming market, leading to a significant decrease in the freshness and playability of the game. Therefore, it can be seen that there are many disadvantages to Honkai 3’s means of attracting and retaining players.

3.3 Opportunities

In the development of Honkai 3, external opportunities have given the game the possibility of attracting and retaining players. First, China’s gaming market does not have high-quality mobile games. For example, Tencent’s Honor of Kings is a copy of the hero joint name. Although this game has a substantial player base, many people do not rate this game highly. This is because the game launches new items and skins too quickly, making players think that the game is cheating players into paying money. Another popular game in China, Peace Elite, is also facing the problem of plagiarism. Peace Elite can be seen as a mobile version that simulates a battlefield, and the publisher of this game is also Tencent. Therefore, when this game entered the market, many people thought it was a pirated game and criticized Tencent as a vending machine for pirated games. Moreover, plug-ins for this game are particularly rampant, which also prompts anger from players. In this case, Mihoyo launched Houkai 3. Compared with the first two games, Honkai 3 is a game independently developed by China, so it does not have many plagiarism attributes. Furthermore, the game uses a new mode of operation, which has led to the game being well-received by the market. In addition, the game is supported by Chinese government policy. Compared with Tencent and its products, Mihoyo and Honkai 3 have more Chinese cultural attributes, which is helpful for players to understand Chinese traditional culture. Therefore, the game has a good reputation, which is an external opportunity for this game to attract and retain players.

3.4 Threats

Honkai 3 also faces external threats in the process of attracting and retaining players, such as serious infringement, obvious homogeneity, and the lack of relevant technical personnel. First, Honkai 3 faces serious infringements, such as account hacking, cheating, and piracy. The hacking violated the virtual property of Honkai 3 players and affected the user experience of gamers. The plug-in destroys the fairness of Honkai 3, and also the numerical balance of the game, thereby affecting its sustainable development. The plagiarism or piracy led to the loss of players on the official server of Honkai 3. Although China has strengthened its crackdown on related acts, and Mihoyo has also strengthened the development and accumulation of security technologies, due to reasons such as the rapid transmission of the Internet and the easy loss of evidence, infringements against Honkai 3 still occur from time to time. In addition, there are many games that are homogenized with the three products. The success of Honkai 3 has allowed other game developers to develop similar products quickly. This has resulted in homogenized competition, which has led to the loss of players of Honkai 3. Third, Honkai 3 is a complex product, and its content includes planning, art, music, programming, and other elements, resulting in extensive demands on wide-ranging skillsets. However, at present, the professional training for online games in Chinese colleges and universities is not yet mature, so the game team of Honkai 3 is lacking.

4. The Development Direction of Honkai 3

Although Honkai 3 currently has an obvious advantage, its future potential is not promising. Therefore, in this section, this article will discuss the development method of Honkai 3 through Porter’s Five Forces Model.
First of all, from the perspective of the bargaining power of suppliers, Honkai 3 should enhance the uniqueness of the game and attract players to invest more money. First, Mihoyo’s customers come from tens of thousands of game players, so no player can become a customer that cannot be given up by Honkai 3. Therefore, Honkai 3 has strong bargaining power with suppliers. In addition, because the core competition point of the game is a novel experience, Honkai 3 should strengthen its uniqueness, such as new gameplay, new modes, or new plots. In this case, Honkai 3 can have features that other games do not have on the basis of maintaining the Honkai IP, which will make it difficult for gamers to find similar games. Third, Houkai 3 should aim to attract customers to invest in further costs, such as monetary cost, capital cost, and emotional cost. This approach can make gamers more dependent on the game because it would be costly for them to drop the game, thus increasing the game’s ability to retain players.

Second, from the perspective of buyers’ bargaining power, Mihoyo’s Honkai 3 has no advantages, because the demand for game production is the introduction of talent, and various game companies can attract talent through high wages and high benefits. In this case, the game production team of Honkai 3 can only attract game design talent through salary and benefits, presenting a limitation. Compared with other companies, Mihoyo can introduce relevant talent through the identities of two-dimensional fans and domestic game makers. In addition, the Honkai 3 team can also reduce the maintenance cost of the game through preferential national policies, such as policy subsidies and tax breaks.

Third, facing the threat of new entrants, Honkai 3 should raise the entry bar for this type of game. Due to the operation of the three places, the plot, missions, and other success factors have been clearly analyzed by the relevant game companies, so new entrants have a very mature system and very clear ideas. These new entrants only need to replicate the success of Houkai 3 to bring the game down from the altar. In this case, Honkai 3 can use the cultural patents of its Honkai IP to raise the entry barrier for such games.

Fourth, facing the threat of substitutes, such as console games and stand-alone games, Honkai 3 should insist on its high-quality advantage and improve the playability of the game on this basis. The alternatives faced by the Honkai 3 are mainly the Battlefield series of console games and stand-alone games launched by game companies such as Nintendo. These games often require greater hardware facilities and higher costs. But such games tend to have high graphics quality and playability. Honkai 3, on the other hand, has the advantages of mobile games—convenience and low cost. In this case, Honkai 3 should develop new gameplay and new plots on the basis of maintaining its high-definition picture quality, thereby improving its competitiveness.

Finally, in the face of competitors in the same industry, Mihoyo should insist on its uniqueness, open up a new game mode and increase the exit cost of the game. Facing competitors such as Tencent and NetEase, Mihoyo should insist on its unique attributes of the second dimension and create its own characteristics. In addition, in the face of competing products such as King of Glory, the Honkai 3 game team can insist on increasing the operability of the game on the basis of the 3D operation mode. Compared to the Glory of Kings, with a weaker 3D sense, Honkai 3 obviously has more development space. Third, Honkai 3 can increase the number of gamers and stimulate players’ desire to recharge through promotional activities. This can not only seize more game market share but also increase customer stickiness, thereby increasing the customer’s exit cost.

5. Conclusion
To sum up, Mihoyo has become a “miracle” as it is popular in China’s game field through its unique Honkai IP, and the company has also grown into one of the largest game companies in China by taking advantage of the development of China’s game industry and the policy support of the Chinese government. At the same time, the company’s Honkai series has grown into one of the most distinctive IPs in China by taking advantage of the growth of China’s economy, the change of the new generation’s ideas, and the support of policies, and the advantages of technology. Moreover, the
Honkai IP facilitated the development of Honkai 3 and made it one of the most attractive games for gamers. In the process, Honkai 3 saved a large number of customers with its unique plot, excellent character modeling, dazzling special effects, and full-view operation. Finally, according to the current development of Honkai 3, this paper analyzes the further development direction of the game according to the five-force model—that is, developing a new game mode based on the Honkai IP.

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