

Research on the operation of game enterprises under the regulatory system: Based on the case of Tencent holdin

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Abstract. Since 2000, modern entertainment has become more and more diverse, and games are a common one. The rapid development of games has produced a series of social problems. For the protection of minors, the Chinese government has begun to strictly regulate the game industry. However, due to the late development and rapid development of China's game market, there is a serious lag and nonstandard in China's regulatory system, which has a significant impact on China's game enterprises. Through the analysis of Tencent, this paper finds that China's game regulatory policies have a great impact on the profits of game companies. First, China's regulatory policies are changing at any time, which is difficult for enterprises to deal with. Second, corporate profits will be affected by policies. Third, enterprises must improve their R & D capabilities based on policies to maintain stable profits. As one of the largest Internet Co in China, Tencent's game business has always been the top priority of Tencent. With the strengthening of supervision, Tencent's profits are also affected. This paper is based on the case analysis of Tencent holdings, to study the reform methods of China's market regulatory authorities and how to deal with them.

Keywords: Tencent holding game supervision

1. Introduction

At the end of the last century, game machines and personal computers entered Chinese families. This is the first time that China has come into contact with games. With the gradual expansion of the game market in the future, games have entered thousands of households. According to an article published by the school of law of Shanghai University in 2008, "Research on China's online game regulatory issues", as early as 2008, China's game market brought 47.84 billion yuan to other industries. At the same time, China has no laws and regulations specifically for game market [1]. Therefore, the regulation of China's game market is not perfect, and the lack of a corresponding legal system has led to the chaos in the development of China's game market. In August 2021, China's National Press and Publication Administration issued the "notice on further strict management to effectively prevent minors from indulging in online games", which had a significant impact on relevant game companies.

According to the research of other papers, there are too radical regulatory policies in China's game regulation, and these policies are unreasonable and imperfect. Chinese game companies often face the pressure of regulatory policies. However, because China has a huge game market, game companies can still survive in the market. Tencent benefits from its strong economic strength and R & D capabilities, as well as its huge user base, can often become the leader of Chinese game companies [1-4].

Through the analysis of Tencent holdings, this paper studies how the government should conduct reasonable market regulation, and what countermeasures should enterprises make to deal with the reduction of profits under the strong regulatory system.

The rest of this paper is organized as follows: Section II: introduces the logic of influencing game enterprises under supervision. Section III: game regulation in China and analysis based on Tencent, Section IV: concludes.

2. The logic of influencing game enterprises under supervision

Tencent is a comprehensive Internet enterprise. One of its core businesses is value-added services for games. However, in recent years, a series of regulatory policies, such as the suspension of game version numbers and the prevention and control policies for minors' games, have resulted in the inability to distribute games, the loss of game users and the reduction of user game time. As a result, the profits of the game company have declined, causing the overall performance of the company to decline.

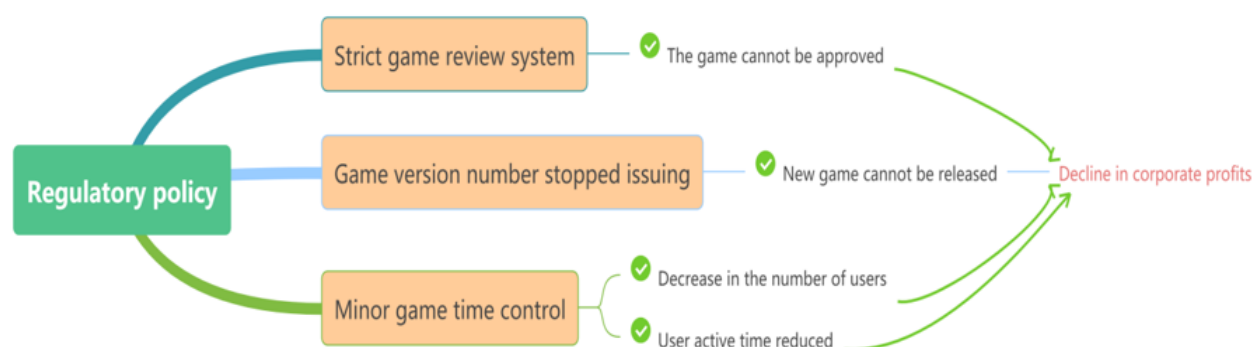


Figure 1. Logic diagram of the impact of game supervision on Enterprises.

3. The impact of strong supervision on the operation of game enterprises: Based on the case study of Tencent

3.1 The history of game market regulation in China

In the 90s of the last centuries, because there was no special department responsible for auditing, some imported games at that time were introduced into China by domestic companies, and directly handed over to the corresponding issuers for independent auditing and distribution. For example, the cooperative publisher of EA was China Book Import Corporation. Due to the lack of corresponding auditing and supervision, China actually introduced and distributed a large number of games from the 1990s to the early 21st century, among them, there are some games involving pornography and violence. In 1996, the press issued Interim Regulations on the management of electronic publications. In the following two years, the Ministry of electronic industry issued Interim Measures on the management of software products. In a journal in 1999: China electronic publishing published an article "gains and losses of game introduction", this paper discusses some negative effects of game development without regulatory system

"At present, China's introduced version of the game is mainly introduced through the China Book Import and Export Corporation and China Electronic Materials Corporation. By rights, since these units are the main channels for the introduction of national game products, they should strictly control, introduce healthier, upward, conducive to the development of intelligence, learn advanced technology and modern scientific and cultural knowledge products, and put the mediocre works with low style are excluded from the country, providing a good environment for the healthy growth of Chinese teenagers. "

In 2000, the Ministry of electronic industry updated the Interim Measures for the management of software products previously issued, issued formal management measures, and strengthened the management of software, games and other publications. In 2002, after the game market grew, the version office and the Ministry of information industry jointly issued the Interim Regulations on the management of Internet publishing, it stipulated those online games must be audited by the local administrative department and then submitted to the State Administration of radio, film and television for approval. This regulation basically laid a symbolic process for Chinese game audit. After that, China's game regulatory constitution entered a more perfect mixed industry regulatory mode. In 2003, the Ministry of Culture issued the "Interim Measures for Internet culture management". In 2005, the

Propaganda Department of the Central Committee of the CPC, The Ministry of culture, the State Administration of radio and television and other departments jointly issued the "measures on strengthening the import management of cultural products". So far, the introduction of foreign games into China has become complex and cumbersome. The audit process must be approved by various departments, and foreign game companies cannot directly issue games. In 2008, the game regulatory authority was transferred to the Ministry of culture because of institutional reform, in the following period of time, the development of China's PC and host games was sluggish. After the emergence and popularity of smart phones, mobile games gradually became one of the public entertainment methods. The previous PC Game audience gradually converted to mobile games. In 2016, the State Administration of radio and television issued a notice on the management of mobile game publishing services. Online games that have not been approved are not allowed to be put on the shelves, the game that has been put on the shelves needs to go through the approval procedures. In 2018, due to the institutional reform again, the game version number was stopped. Later, in order to prevent youth myopia, the National Health Commission of China released the "comprehensive prevention and control of children and youth myopia implementation plan". The game time of Chinese minors was limited, which was later the "anti-addiction system", China's game market regulation has gradually entered the stage of standardization. From 2018 to 2021, China's various departments jointly issued a total of 14 regulations on the regulation of games, and the regulatory strength has reached an unprecedented height [2].

3.2 China's game market size

As mentioned above, China's game market was introduced as early as the 90s of the last centuries. At that time, due to the lack of a market of a certain scale, it did not attract the attention of the regulatory authorities, so in the early development of China's game market, the production, distribution and introduction of games were relatively loose, which directly led to the rapid development of the game market in the later period, According to the data of the article "China's online game market 2004 annual report", the scale of China's online game market in 2004 was 2.47 billion yuan, an increase of 47.9% over 2003. The author predicted that the sales revenue of China's online game publishing market in 2009 would reach 10.96 billion yuan, and the annual compound growth rate from 2004 to 2009 was 34.7%, In the article, the author's words well summed up the game market in that period: "the number of domestic independent R & D Games has increased dramatically, and the spring of national online games is coming" [3], which shows that at that time, the Chinese game market was not only developing rapidly, but also began to issue a large number of independent R & D games, which made a good start for China's game industry.

When we look at the moment, we come to the current 2022, China's game market has experienced several regulatory reforms, but under a strong regulatory system, China's game market still shows great resilience. According to the survey of the "2021 China's game industry report", the actual sales revenue of China's game market in 2021 was 296.513 billion yuan, The number of users reached 666 million, which is just the scale of the mobile game market, and it is not included in the game income of the host platform and computer platform. Under the rapid development of China's domestic game market, China's games are also expanding overseas. The survey report shows that the actual sales revenue of China's independent R & D game overseas market reached US \$18.013 billion, an increase of 13.59% over 2020 [4].

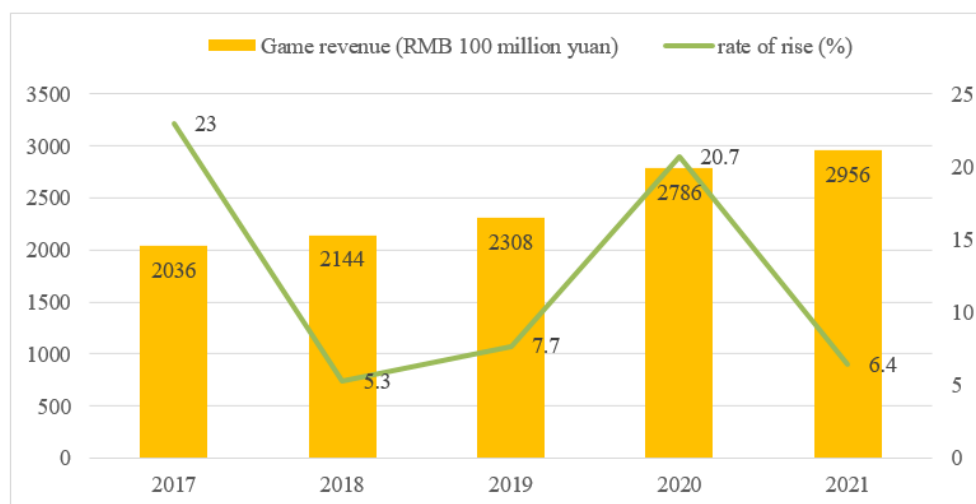


Figure 2. The scale and growth rate of China's game market since 2017.

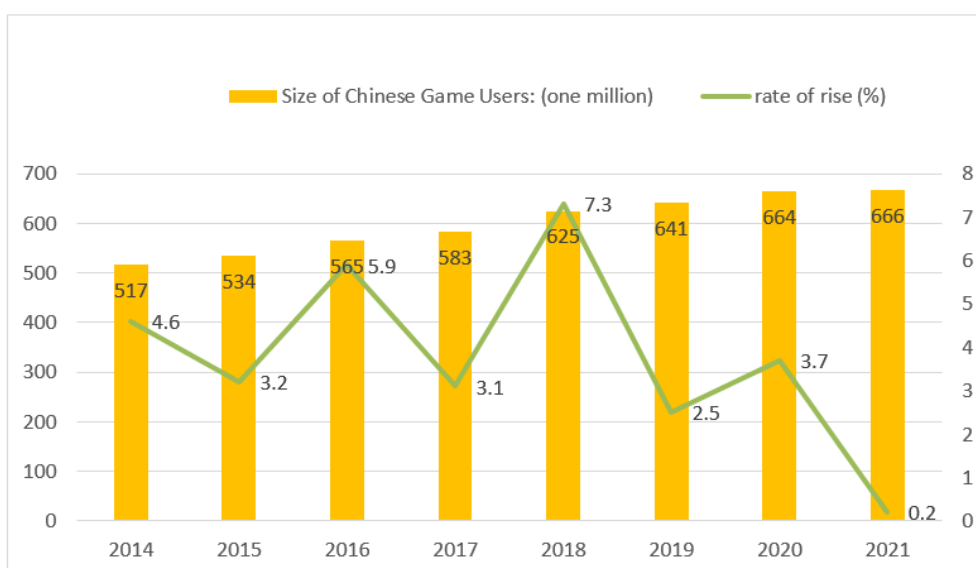


Figure 3. Scale and growth rate of Chinese game users since 2014.

3.3 Game business of Tencent holding

Tencent holdings is the largest comprehensive Internet Co in China, and its business has the characteristics of diversity. Today, the main business of Tencent holdings is three plates, one: value-added services, two: online advertising, three: financial technology and enterprise services, of which value-added services specifically refer to games, video members, digital music, virtual props, etc., financial technology and enterprise services refer to 2B businesses such as payment and cloud computing, and Tencent's most basic business is value-added services. In the telecom era, value-added services are divided into mobile value-added services, telecom value-added services and Internet value-added services. In 2013, they were collectively referred to as value-added services. According to the 2021 annual report of Tencent holdings, the annual income of value-added services was 291.572 billion yuan, among them, the game income was 128.8 billion yuan, accounting for 44%. In recent years, Tencent holdings released many popular games in China and even abroad. Most of these games are concentrated in mobile terminals, and the representative works are "King glory" and "peace elite". According to the data of Sensor Tower, the total income of "King glory" in 2021 in IOS district was 2.8 billion US dollars, about 17.8 billion yuan, from the income source of the main business, Tencent is also a real game company [5].

3.4 How about the competitiveness of Tencent games

According to China's huge population base, game users can still be further improved in the future. However, the current game market development is close to saturation, and the number of game users will not increase too much. Now China's game market is gradually moving towards the high-quality line. The R & D cost of a game may be as high as tens of millions of yuan, According to the data disclosed by the Chinese game company Mihayou, the development cost of the game "original God" is as high as one hundred million yuan, the development cost of the popular game "peace elite" held by Tencent is 95 million yuan, and the development cost of another game "King glory" is as high as 500 million yuan, which directly shows that in the future game market, small and medium-sized game companies will be difficult to survive independently, One is that it is difficult to get enough funds to develop good games. Two is the bad market competition environment. Three is that the public's taste for games is getting higher and higher. In the future, small and medium-sized game companies will face the fate of being acquired by large companies.

As China's largest Internet Co, Tencent has many advantages. First, Tencent has enough funds to develop games, and even can spend a lot of money in order to issue a blockbuster game. Second: Tencent's gamer research and development ability is very strong. According to the information on the PC game website, Tencent acquired 93% of the shares of the first game studio in 2011 (the remaining shares were acquired four years later). In 2012, it invested in Epic Games. In 2017, it invested in blue hole company, which produced the famous "Jedi survival: great escape" [6], Tencent has invested, acquired and invested in dozens of game studios over the past decade, which makes Tencent's game R & D capabilities second to none in China and even in the world. Third: Tencent has more than ten years of successful game operation experience, and has a strong logistics team, which allows Tencent too easily and smoothly issue, promote, operate and maintain a game, and the operation and maintenance of the game plays a crucial role in the game experience of players. A good operation team can significantly reduce the loss of game users. Fourth: compared with other game companies, one of Tencent's biggest advantages is that it has its own social platform. Tencent's QQ and WeChat have the largest user group in China. According to Tencent's 2021 annual report, as of December 31, 2021, WeChat monthly active users were 1.268 billion, and QQ monthly active users were 552 million. Part of this huge user group was directly converted to Tencent's game users, and through the value-added services in the game to bring huge profits to Tencent, plus Tencent relying on its own sufficient funds and strong game R & D capabilities and operation and maintenance team, in the future market, Tencent will be the most competitive game development company in the Chinese game market [7].

3.5 The impact on Tencent under the supervision

The previous article detailed the regulatory status of China and Tencent's game business. This section will specifically discuss the impact of Tencent under the supervision.

First of all, from the perspective of investors, the most striking policy for game companies is no more than the control of minors' games and the suspension of game version numbers. In fact, the capital market of minors' game control has been digested for a period of time. In February 2021, the share price of Tencent holdings reached a new high of HK \$751 per share, the share price of Tencent holdings was cut in a year. On March 15, 2022, Tencent's share price once fell below 300 Hong Kong dollars, with a minimum of 296 Hong Kong dollars. There are many reasons for the decline in the share price, but one of the more important reasons is that Tencent's game business was suppressed. According to Tencent's 2022 Q1 quarterly report, the game revenue in the local market fell 1% to 33 billion in the quarter, the income of other mobile games also dropped 3% year-on-year. So, the funds in the secondary market are not optimistic about Tencent's future profits. Under the panic caused by heavy pressure, it led to the "stock disaster" of Tencent.

From the perspective of the company, one is that the supervision of minors is becoming more and stricter, especially the real name system of minors' games and the time for game control is shrinking. In August 2021, the notice on further strict management and effective prevention of minors from

addicting to online games issued by the National Press and Publication Administration directly limits minors' game time to one hour a day, The game can only be played on Friday, Saturday and Sunday every week, which directly affects the active users and value-added services of Tencent games. The second is that the development of China's game market mentioned above is saturated, and the user increase is hard to be greatly improved. So, the future growth of Tencent's game users will be smaller and smaller, because the expectation of slow user growth exists, Tencent can only rely on the development of new blockbuster games if it wants to increase its game business. But because the Chinese government stopped issuing game titles in 21 years, new games could not be released, and Tencent's game business profits fell as expected [8].

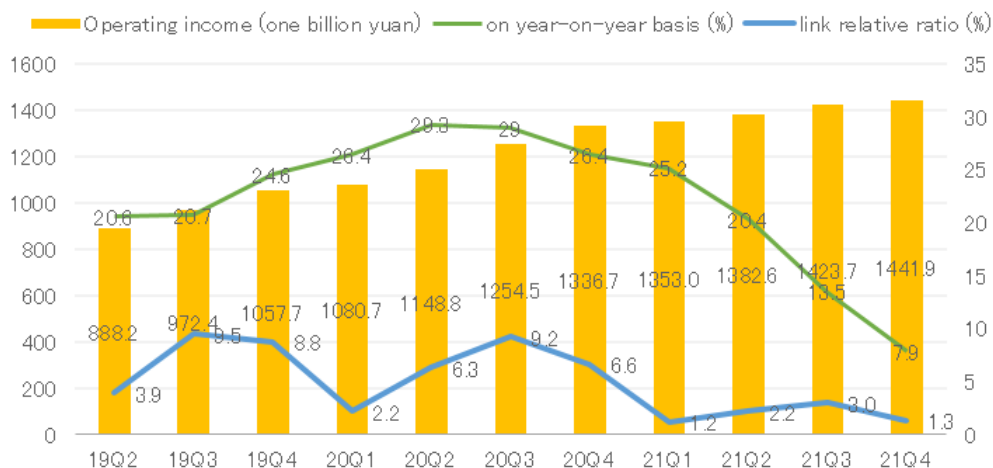


Figure 4. Tencent Holdings 2019-2021 performance statement.

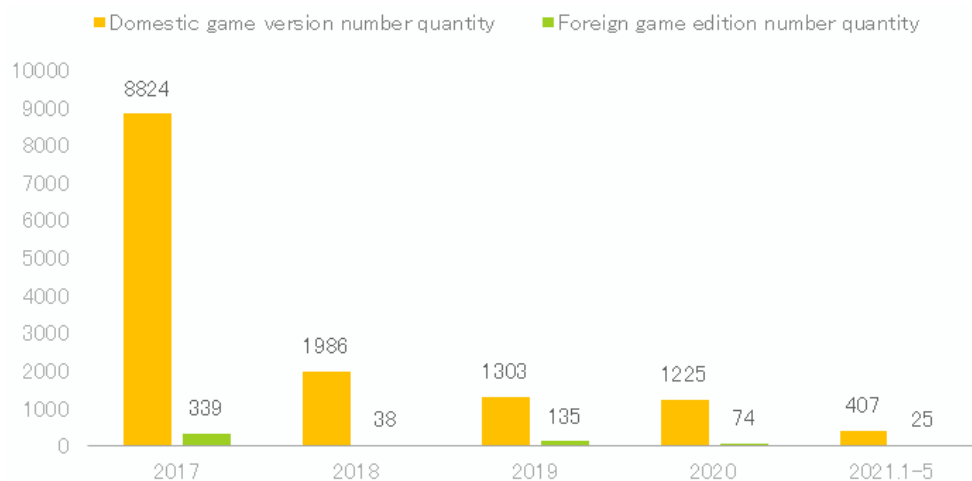


Figure 5. 2017-2021.6 Number of Chinese game version numbers.

3.6 How to deal with enterprises and regulatory suggestions for the government

For Chinese games, in order to survive in the market continuously, it is necessary for the government to further improve the relevant policies, and at the same time, game companies should also create excellent games.

From the perspective of Tencent, Tencent's game must survive in strong regulation and make profits in weak regulation. The solutions in this paper are as follows:

First: Tencent must create a long-lasting game, which is conducive to the long-term development of the game and provides a stable source of income for Tencent. Especially in the period of strong supervision, the new game has the risk of being unable to issue. At this time, it can only rely on the issued old game to share the pressure of the enterprise, such as the present "King glory", "PUBG" is a typical example, these games continued to generate profits for Tencent during the period when the

game version number was stopped in 2021, so that Tencent was not greatly affected by the version number issue.

Second: create a popular game suitable for national entertainment. Today's game groups are mostly concentrated in young groups such as students and office workers, and middle-aged and even elderly groups will continue to expand. If a national entertainment game is developed, the number of users of the game will be greatly improved, and this game will also open a new game market in China. In the case of China's continued serious aging, in the future, only games suitable for the elderly can meet the needs of other groups. [9]

Third: build a good game brand and have a good reputation for the game. Tencent's games, and even Chinese games, the public praise is not very good. Many games need a lot of game recharge to allow players to experience some advanced playing methods, or to meet their own vanity. Without good game reputation, players are easy to lose. If you have a good reputation, it will be conducive to the publicity and promotion of the game for the public, let more people know that games are not harmful things, but one of the entertainment ways of modern people [10].

From the perspective of the government, of course, we can't change the policy, but this paper still has some suggestions for the government, such as the game mentioned above is just a way of entertainment, the government should reasonably guide the game market, should not demonize the game, face up to the development and defects brought by the game, such as the adverse effects on minors, should strengthen the national cultural quality education, Instead of throwing the responsibility to the game, simply controlling the game time is just a temporary method. In the future, it will still face people's increasing demand for the game market. Therefore, the government should reasonably formulate policies for games from multiple perspectives, and relax the supervision of excellent games, such as promoting scientific knowledge and cultural traditions of games, and strengthening the supervision of inferior and bad games. Finally, it is hoped that the government can establish a game grading system. At present, most popular online games contain violence, pornography content, such as cheating and gambling, is very attractive to young people. The promotion of online game grading can divide different online game products according to different ages, which helps to determine the scale of regulatory authorities on online game content, rather than "one size fits all" on the game market [11].

4. Conclusions

Based on the impact of game regulation on game enterprises, this paper concludes that the game market in China changes according to the policy. When the policy is loose, the market will release a lot of internal demand and develop rapidly. When the policy is strict, the game industry will see a significant decline in profits, and the game companies are vulnerable to adverse effects, but even in such an environment, China's game market still has a huge development potential, with a population base and number of users that other countries can't match. The research object of this paper is Tencent holdings, as the largest Internet Co in China, this paper suggests that we must seize China's industrial development opportunities, use our own unique advantages, and make better games to resist policy risks.

This study suggests that with the improvement of people's demand and the development of science and technology, the future Chinese game market will accelerate with the opening of policies. In the near future, the government and enterprises should cooperate to achieve win-win results and create excellent games that meet people's needs.

There are some shortcomings in the current research of this paper, such as the research object may have a single situation, and the data is not accurate enough. In the future, it will be solved by analyzing more similar companies and studying more data.

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