The Benefits of Co-branding for Chinese Games Going Overseas

Yufei Hu¹, a, †, Yuyang Hu¹, b, *, † and Ruoxi Ren², c, †

¹School of economics, Harbin Normal University, Harbin, Heilongjiang, 150500, China
²School of Japanese, Tianjin Foreign Studies University, Tianjin, Tianjin, 300011, China
a914321852@qq.com, bchengchang.wang@gecademy.cn, c406245240@qq.com
*Corresponding author: Yuyang Hu
†These authors contributed equally to this paper.

Abstract. With the popularity of 5G networks, China's game industry has seen unprecedented development prospects. For The Chinese game industry, the domestic market growth from growth to stable, the domestic demographic dividend temporarily came to an end, but the foreign game market is still a blue sea, Chinese game enterprises rely on the development of overseas game market to create profits and it has become the most effective way to maintain the sustainable growth of game income scale. The purpose of these study was to explore the joint launch of Player Unknown's Battleground (PUBG) by Tencent in China and KRAFTON in Korea. The qualitative analysis and SWOT analysis were used in this paper. This research concluded that brand awareness, brand image and brand loyalty are interrelated. Besides, there was correlation between brand image and brand loyalty. Thus, by investing in overseas manufacturers, Tencent not only acquire game dealership rights but also introduce advanced research and development (R&D) technology from overseas to further improve its own R&D level. On this basis, Internet Protocol (IP) licensing opportunities obtained through investment cooperation will not only test the ability of self-research but also pave the way for Tencent to build its own matrix of games in all categories.

Keywords: Co-branding; Tencent; Gaming Abroad.

1. Introduction

1.1 Background

China's game industry has experienced unprecedented development prospects since the outbreak of COVID-19. Mobile games are being downloaded 1 billion times a week and will remain at that level through the first half of 2021. Tencent is one of the most important names in the mobile game industry. The company has a large portfolio of well-known games, including Player Unknown's PUBG, Honor of Kings, Crossfire, and more.

Tencent's online game revenue has shown steady and unstoppable growth every year for the past decade. The game industry, as the leader of China's cultural industry's foreign investment, is enjoying increasing profits from overseas investment. The move to enter the overseas market has become a way for domestic game enterprises to break out from the domestic oligarch pattern.

In terms of China's game industry, the domestic market has grown from growth to stability, and the domestic demographic dividend has ended. However, the foreign game market is still a blue sea. If Chinese game enterprises want to maintain the continuous growth of the game income scale, the most effective way is to exploit the overseas game market and create profits under overseas development (Chen, 2019).

After more than ten years of accumulation and precipitation, Tencent has rapidly developed into a leading enterprise in the domestic game industry. Through continuous product output and aggressive overseas investment and acquisition, Tencent has become the largest game company in the world and has absolute influence and voice in the industry.

Tencent officially started its game business in 2003. By 2008, it ranked first in market share with NetEase, surpassing the earliest online game companies such as Sanqi Interactive entertainment,
Perfect World, Giant Network and Shengda. Subsequently maintained 12 years of continuous growth, and the second NetEase drew a significant gap (Pinyue, 2022). By 2019, Tencent and NetEase accounted for 70% of the game market share, of which Tencent took up 50% of the market share, 2.5 times that of the second largest NetEase (Pinyue, 2022).

What’s more, as can be seen from the Figure 1, according to Newzoo, 2021 was a banner year for gaming, with global revenues approaching $200 billion (Pinyue, 2022). Of that, $127 billion was generated by the top 10 companies. Among the top 10 companies, Tencent topped the list with revenue of about $32.2 billion in 2021, up 9.9% from the previous year (Pinyue, 2022). The revenue figure is almost as much as the combined revenue of SONY and Apple, which ranked second and third, showing Tencent's strength in the gaming sector (Tang, 2022).

[Image: Banner Year for Gaming Led by Tencent]

South Korean media Inven reported that recently, KRAFTON issued an official announcement announced that it has reached a strategic partnership agreement with Tencent. Tencent has acquired more than 10 percent of KRAFTON and its original investors, but Jang Byung Koo, co-founder of KRAFTON, remains as the company's first shareholder (PUBG eight times, 2021). Since last year, Tencent has been working with KRAFTON to provide PUBG services in The Chinese market, and recently, with the official license of KRAFTON, Tencent also developed mobile games for PUBG and published them in over 100 countries and regions around the world (PUBG eight times, 2021).

Tencent game has been studied as a subject by people before. Previous studies have reported the existing problems and future development trends of Chinese games moving to the sea (Zou, 2020). What already knew about the current situation of internationalization of Tencent games is largely based upon an empirical study that made SWOT analysis (Zhang & Jin, 2021). Recent evidence suggests the advantages and problems of online games in the construction of cultural soft power and put forward corresponding improvement strategies (Liu & Zhang, 2019).

1.2 Research Gap

Although there are many articles about Tencent games going abroad, the development of the game industry has changed due to the outbreak of COVID-19 in recent years, and the study on the direction of going abroad has made a significant change in the field of online games of Tencent games going
abroad. This seems to be a common problem that Tencent games is not fully formed in cooperation with overseas game manufacturers. As is known to all that no previous research has investigated the relationship between co-branding and brand awareness. What impact will this strategy have on consumers' brand loyalty and gaming intention? These problems enlighten subsequent enterprises to go global, with certain practical significance. This research plan contests the claim that mergers and acquisitions or strategic investment with overseas high-quality game manufacturers establish cooperative relations. By investing in overseas manufacturers, Tencent can not only acquire game dealership rights but also introduce advanced technology from overseas to further improve its research and development level.

1.3 Structure of The Paper

This paper reviewed the empirical research on the influence of Brand image of Wang and Zhang on brand emotion and brand loyalty, and concluded that brand image has a positive impact on customer satisfaction, and will affect customer loyalty through customer satisfaction (Wang & Zhang, 2015). Customer satisfaction also plays a mediating role in the influence of brand image on customer loyalty. While Rao & Ruekert examined potential advantages and disadvantages of co-branding activities (Rao & Ruekert, 1994).

Finally, SWOT analysis is carried out on the influence of Tencent and KRAFTON brands' cooperation on game going abroad, to better solve the research problems from a practical point of view.

2. Literature Review

2.1 Definition & Development

Co-branding, sometimes referred to as brand alliance, is an integrated term that refers to the collaboration between two or more marketable products to make the representation of multiple brands in the market. (Simonin & Ruth, 1998; Washburn et al., 2004). By brand representation, it means the product brand name, corporate brand name, product design and identity that are associated with the brand over time. The literature on co-branding points to many different strategies, such as affinity programs, cause-related marketing, component branding, cooperative advertising, dual branding, and joint sales promotions that can be used to add value to a product or a service (Rao & Ruekert, 1994; Swaminathan & Reddy, 2000).

It is important for a company to improve its brand image and awareness. Before promoting a product, companies should have a clear brand position of their products, that is, positioning the brand image.

Brand image is an important concept in the market. Since the 1950s, brand image has played an important part in the field of marketing, which has attracted the attention of academic and corporate circles. However, there is no unified understanding of the definition and measurement of brand image. Some scholars assert that brand image refers to the personification of the brand and the image of customers themselves. Generally, brand image is a comprehensive measure of the brand, which needs to be analysed and judged from different angles. The brand image reflects customers' evaluation and recognition of the brand. Tencent games, for example, create a "happy" brand image with the idea of "creating happiness by heart".

Brand awareness refers to the two-way relationship between brand elements and product categories in the consumer memory system related to purchase decisions. The consumer receives brand awareness via effective marketing communication channels such as television, handphone and online advertising as it gives assurance of product quality and its credibility, which helps to reduce risk in product evaluation and selection while buying a product (Aaker, 1996; Buil et al., 2013; Keller and Lehmann, 2003; Rubio et al., 2014).
2.2 Important Result

Brand awareness, brand image and brand loyalty are interrelated.

Brand awareness is related to brand loyalty. Brand awareness mainly focuses on customers’
cognition of the brand and their confidence in purchasing the brand products during the period, which
plays a positive role in brand loyalty and repeat purchase behaviour. Most of the researchers found
out that brand awareness significantly influences brand loyalty. Customers enhance brand loyalty
through information about their behaviour and a strong sense of security.

Co-branding has a positive effect on brand image and brand awareness.

Different researches have also solved the problem of the occurrence degree of brand image effect
in co-branding. For example, Washburn and others studied the impact of co-branding on co-branded
products and co-brand equity. The study found that when two high-asset brands jointly displayed
their respective connected products, that product had a high positive image (Washburn et al.,2000).
In addition, the authors also assumed that co-branding alliances made more achievements for brands
with weaker brand equity than for strong brands. In an in-depth study, Washburn et al. (2004) found
that pairing two high-equity brands could lead to a more positive alliance brand evaluation. The study
also showed that co-branding might hurt the corresponding brand image of the co-branded brand, as
well as the positive impact of co-branding arrangements. For example, Geylani et al. (2008) found
that combining different brand images would lead to consumers' uncertainty, and the joint brand
would damage the brand image.

Another set of studies investigated the effects of co-branding activities on consumers’ evaluations
of the allying brands and the co-brand. For example, Simonin and Ruth (1998) showed in their
seminal work that the fit between the partnering brands positively influences consumers’ evaluations
of new co-branded products. More recently, Swaminathan et al. (2015) investigated brand alliances
involving brands with either complementary or similar attributes and how they affected consumers’
evaluations of co-branded products. The authors found that the concept combination interpretation
strategy influences the evaluation of co-brands with similar or complementary attribute levels.
Newmeyer et al. (2014) assumed in their conceptual work that functional complementary is an
important partner characteristic in co-branding arrangements. Whereas utilitarian benefits offered by
the attributes of a product refer to its functional, instrumental and practical benefits, hedonic attributes
refer to aesthetic, experiential, and enjoyment-related benefits (Chitturi et al., 2008). Functional
complementary relates to the extent to which the allying brand's strength counterbalances a brand's
weakness in a utilitarian attribute on that attribute (Newmeyer et al., 2014). The more complementary
the allying brands are regarding utilitarian attributes, the more positive the evaluation of the brand
alliance respectively the co-branded product (Park et al., 1996 )

3. Method

3.1 Research Design

Using qualitative case studies is a well-established approach in Tencent and the KRAFTON brand
joint to promote the game to the sea. A variety of methods are used for qualitative analysis. Each has
advantages and disadvantages. Thus, this paper will use SWOT analysis.

Qualitative analysis is an analysis method that deduces the nature and development trend of things
according to the forecaster's subjective judgment and analysis ability. The qualitative analysis focuses
on the development process and mutual relationship of things, and the research object is qualitative
descriptive data. It does not have a strict analysis procedure, has greater flexibility, and mainly adopts
the logical analysis and the philosophical thinking method. Susceptible to subjective factors and
sensitive to the background.

SWOT analysis has significant structural and systematic characteristics. In terms of structurization,
SWOT analysis is first expressed in constructing a SWOT structure matrix and endowing different
analysis meanings to different areas of the matrix. Secondly, the main theoretical basis of SWOT
analysis also emphasizes the analysis of enterprises' external environment and internal resources from the perspective of structural analysis. SWOT analysis is more in line with the development needs of enterprises. By systematically studying various factors, the strategic development plan of enterprises can be more comprehensive, accurate and detailed.

In the study of China's development and utilization of the Northern Sea Waterway, Wang Shuchun and Wang Chensheng systematically compare the internal and external advantages and disadvantages, opportunities and challenges of China's development and utilization of the Northern Sea Waterway, combining various internal and external conditions, and draw the corresponding strategic choices for China (Wang & Wang, 2021). Using the SWOT method, this paper puts forward some suggestions for China to participate in developing and utilising the Northern Sea Waterway in the next stage.

In the SWOT analysis of China's participation in global health governance, it is found that the international community has increased expectations of China's health cooperation, and the inclusiveness and resilience of the Belt and Road Initiative during the epidemic have created better external opportunities for China to participate in global health governance in the future. However, China's current global health national strategy is unclear, the degree of cooperation with various professional multilateral organizations is insufficient, and the path and subject of participation in governance are single. Therefore, in the post-epidemic period, it is suggested that China further support who, strengthen the cooperation network, and formulate China's national strategy on global health as soon as possible to take health cooperation as a breakthrough point and promote the return of China-US relations to the right track and sound development.

3.2 PUBG

The content of the research is the joint launch of PUBG by Tencent in China and KRAFTON in South Korea. As a battle Royal-style player versus player (PVP) game, PUBG became popular worldwide after it was launched on Steam in 2017. Although Chinese players account for half the total number of players, Chinese players can only access the game through accelerators or VPN, and the game experience is not very good. PUBG is a competitive game developed by KRAFTON for global players. To better get the game experience, Tencent reached cooperation with KRAFTON after many times of public relations and won the exclusive agency of PUBG in China. Due to the huge market in China, it is an imperative trend for KRAFTON to choose a Chinese agent. The partnership will further enhance KRAFTON’s game development capabilities and accelerate its expansion into overseas markets.

3.3 SWOT Analysis

3.3.1 Strength

According to the Figure 2, PUBG MOBILE, jointly developed by China's Tencent Lightspeed & Quantum Studios and South Korea's KRAFTON, tops the list. Through the case study of co-branding between Tencent and KRAFTON, Tencent has abundant investment capital and can establish brand cooperation relationships with well-known game companies overseas. Besides, it also has the advantage of customer resources accumulated for many years and has a huge consumer group in China. On the other hand, South Korea's game industry is mature and occupies most of the global market share by virtue of core technologies upstream of the game industry chain. KRAFTON has the unique advantages of games.

Through acquisitions or strategic investments, Tencent has been adept at building brand partnerships with overseas well-known game companies. By investing in overseas manufacturers, Tencent can not only acquire game dealership rights but also introduce advanced R&D technology from overseas to further improve its R&D level. On this basis, IP licensing opportunities obtained through investment cooperation will not only test the ability of self-research but also pave the way for Tencent to build its matrix of games in all categories.
3.3.2 Weakness
Since PUBG MOBILE entered foreign markets, its performance has been much smaller than in China and failed to capture much of the overseas market. The main reason is that in many European and American countries, the game market competition is fierce, Tencent lacks brand awareness, and brand publicity is not enough.

In this regard, Tencent should adopt active overseas marketing strategies. Firstly, it should hold e-sports competitions regularly. Secondly, it should cooperate with overseas manufacturers' brands or well-known KOL in the game industry to advertise through social media to increase brand awareness.

3.3.3 Opportunities
Outside of China, Tencent has established several PUBG Mobile e-sports tournaments (see Figure 3). In November 2018, Tencent teamed up with KRAFTON subsidiary PUBG Corp. and co-organized the first PUBG Mobile Multi-region e-sports competition -- PUBG Mobile Star Challenge. The tournament takes place in six worldwide divisions: Europe, North and South America, South Korea, Japan and China. The game has dedicated servers in the Middle East, which is very popular. The event garnered nearly 60 million views online, according to ESPN (Pingyue, 2022).

At present, China has introduced relevant policies to strongly support the development of e-sports, and China's e-sports industry is in a period of rapid growth. And South Korea is known as the world's largest e-sports country. The E-sports industry started early, mature development. Tencent and KRAFTON jointly hold e-sports competitions, which will positively affect Tencent's brand image and brand recognition. China's policy support for the e-sports industry is also an important opportunity for Tencent to go overseas in games.

**Figure 2.** The TOP30 MOBILE game revenues in China in May 2022 released by Sensor Tower (Sensor Tower, 2022).
Development history of e-sports industry policy in China

E-sports in China - embryonic stage:
In 2003, the State General Administration of Sport officially approved e-sports as China's 99th official project.

E-sports in China -- suffering a hit:
In 2004, the State Administration of Press, Publication, Radio, Film and Television (SARFT) issued a "Notice banning the broadcast of computer online game shows", and e-sports in China disappeared from public view.

E-sports in China -- start again:
In 2008, the General Administration of Sport of China redefined e-sports as the country's 78th sport.

E-sports in China -- slow growth:
In 2018, the National Development and Reform Commission issued the Notice on Printing and Distributing the Action Plan of Promoting Consumption to Drive Transformation and Upgrading, which proposed that on the premise of doing a good job in protecting intellectual property rights and guiding teenagers, enterprises should be the main body to hold national or international e-sports games and entertainment.

E-sports in China -- booming:
In 2018, in the Notice of general Office of the General Administration of Sport on announcing the list of the first Batch of sports and leisure Characteristic Town pilot Projects, Tianjinhu E-sports Town of Taicang city was also listed among them.
In 2019, e-sports was included in 02 categories of sports competitive performances in the Sports Industry Statistical Classification (2019) of the National Bureau of Statistics.
In 2021, the "14th Five-year plan" for the Development of Cultural Industry proposed the integration of e-sports and game and entertainment industry.

Figure 3. Development history of e-sports industry policy in China (Liu, 2021)

3.3.4 Threats
Piracy, private service, and the plug-in are still the main form of network game infringement. As different countries and regions have different levels of development, historical culture and forms of copyright protection, international copyright protection organizations do not have clear and specific legal provisions for the copyright protection of online games, and international copyright protection disputes are caused by the association of overseas brands of games are common.
To prevent all kinds of unknown risks after online games go to sea, it is necessary to firmly establish a transnational copyright protection system for infringing acts that threaten the healthy development of the game market. The development of blockchain technology provides an effective means of technical prevention and control for game copyright protection. Therefore, Tencent should take international copyright protection organizations as the fulcrum to promote international manufacturers to build an international copyright protection information network based on blockchain technology so that players can regain trust in the game, which is of great significance for Tencent to improve brand loyalty and build brand image.

4. Result & Discussion
4.1 Result
Tencent not only has a strong investment fund but can establish brand partnerships with well-known overseas game companies; There are many years of accumulated customer resources advantage, in China has a huge consumer group. At the same time, Tencent has been good at building brand partnerships with high-quality overseas game manufacturers through mergers and acquisitions or strategic investments. By investing in overseas manufacturers, Tencent can not only acquire game dealership rights but also introduce advanced R&D technology from overseas to further improve its R&D level. On this basis, IP licensing opportunities obtained through investment cooperation will not only test the ability of self-research but also pave the way for Tencent to build its matrix of games in all categories. At present, China has introduced relevant policies to strongly support the
development of e-sports, and China's e-sports industry is in a period of rapid growth. And South Korea is known as the world's largest e-sports country; the e-sports industry started early, mature development. Tencent and KRAFTON jointly hold e-sports competitions, which will positively affect Tencent's brand image and brand recognition. China's policy support for the e-sports industry is also an important opportunity for Tencent to go overseas in games.

Competition in many European and American game markets is fierce, and Tencent lacks brand recognition, brand publicity and good brand cooperation awareness. At the same time, piracy, private server and the plug-in is still the main form of network game infringement. As different countries and regions have different levels of development, historical culture and forms of copyright protection, international copyright protection organizations do not have clear and specific legal provisions for the copyright protection of online games, and international copyright protection disputes are caused by the association of overseas brands of games are common.

4.2 Discussion

Alliances, affiliations or partnerships are usually introduced through marketing campaigns, with co-branding often taking the lead. A United brand is defined as a good or service that presents two or more brands to show the required image, Clark (2000). Brand combinations often bring more information to end users than individual brands.

Marketers have long asserted that co-branding is positive for each brand. Simonin and Ruth (1998) noted that (a) the fit of product and brand had a significant impact on alliance attitude; (b) previous attitudes towards single brands have influenced attitudes towards the league; (c) the effect of two familiar brands being united is the same.

Baumgarth (2004) replicated Simonen and Ruth's (1998) model, analysed the design, and confirmed the significance of brand attitude for each brand. They also conducted that brand fit was more important in the study as a predictor of the attitudes of individual brands rather than the success of co-branding. Keller (2003) asserted that a key skill for marketers to understand and optimize organizational positioning is to connect an organization's brand with other entities in an increasingly networked economy. At the same time, he points out a combined brand can work better than a traditional product marketing plan. Dickinson and Barker (2007) made efforts in marketing and found that (A)Through marketing efforts, a brand can be transferred to another one; (b) brand fit, attitude and familiarity are all helpful or harmful; (c) Consumers who know the company better are more likely to evaluate co-branded entities than consumers who are very familiar with them. Helmig et al. (2008) asserted that the functional benefits of co-branded products should be highlighted for co-branding communication. Communication should highlight the emotional integration of the two institutions and the integration of individuals. Payne et al. (2009) believed that customers, institutions, enterprises and their product/service experience are the most important factors in evaluating whether the co-branding plan can be carried out smoothly.

5. Conclusions

In the context of the outbreak of COVID-19, this paper studies the current situation of Chinese games going overseas and Tencent's game industry going overseas. The research question is what influence Tencent's strategy of cooperating with foreign game brands will have on consumers' brand loyalty and purchase intention. Through the qualitative analysis and the end of the game brand for China and South Korea conducted a SWOT analysis showed the intuitive Tencent in KRAFTON brand advantages and disadvantages that exist in the joint, facing the opportunities and threats, it is concluded that increasing brand joint will enhance the trust of the customer, product and service quality and customer satisfaction method can effectively improve customer loyalty. Tencent should take international copyright protection organizations as the fulcrum to promote international manufacturers to build an international copyright protection information network based on blockchain.
technology so that players can regain trust in the game, which is of great significance for Tencent to improve consumer loyalty and build brand image.

Like most studies, the current study suffers from several limitations. However, these also suggest potentially productive avenues for future research. Although Tencent has achieved great success in establishing cooperative relations with many game companies through brand association, this study does not study the independently developed products of Tencent. Tencent lacks originality in game development and often references or imitates other games, negatively impacting Tencent’s brand image. How to improve Tencent’s brand creativity and image through the brand association will be the direction of future research.

References


