

Tencent's Profit Model in Gaming under the Impact of COVID-19

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Abstract: With the outbreak of COVID-19 in 2020, the global game market generated approximately \$177.8 billion, a year-on-year growth rate of 23.1%. Profit is the foundation for the survival and development of an enterprise, and only a long-term stable profit model can make an enterprise survive for a long time. This paper takes Tencent as the main research object. Since Tencent is one of the world's largest video game providers and the leader of large domestic game companies in China, its research is more representative. This paper will conduct an in-depth analysis of its two strategies during the epidemic. At the same time, although Tencent's profit growth in the game business is considerable, there are still some potential risks and threats from itself and external competitors that need to be resolved urgently. Studying the profit model of Tencent's online game business in 2020 can find that it has a significant impact on the outside world. On the one hand, it promotes the prosperity and development of other industries and even the social economy, and on the other hand, its profit model is worthy of reference in the industry. This paper provides implications for the development of the entire industry.

1. Introduction

Gaming has become an industry having a huge potential in recent years. From 2011 to 2021, the digital market value of gaming has been increasing from 5.3 percent to 34.4 percent [5], indicating a steady trend of growth. Furthermore, COVID-19 is unable to halt its expansion. The worldwide games market earned around \$177.8 billion in 2020 as a result of the COVID-19 pandemic with a growth rate of 23.1 percent year on year [2].

As one of the largest video game vendors in the world, Tencent, a Chinese multinational technology conglomerate holding company that provides a wide range of services, owns many famous games such as Honor of Kings, Cross Fire, and so on. When many firms were suffering from COVID-19 in 2020, Tencent nonetheless recorded a 28 percent revenue increase [7]. Meanwhile, Tencent's games generated the majority of the earnings in 2020. In comparison to the previous year, its gaming profits have climbed by 36% [7]. This demonstrates that Tencent has capitalized on the opportunities presented by the epidemic in its gaming business. As a result, it is vital to examine how Tencent managed its gaming company throughout such a unique period. This study will investigate Tencent's gaming profit model under the influence of COVID-19 in order to summarize its competitive tactics in the gaming sector and evaluate its performance during the pandemic.

The Paper is organized as follow: Section 2 presents an analysis of Tencent's gaming strategy during the pandemic, Section 3 documents possible risks that Tencent faces under its game profit model, and Section 4 demonstrates Tencent's effect on other industries and the implications it brings.

2. The analysis of Tencent's strategies in gaming during COVID-19

Considering gaming is the most important factor driving Tencent's revenue growth even during the epidemic, it's critical to analyze Tencent's profit model strategies in the gaming industry. The paper focuses on two key strategies implemented by Tencent in this section. One is the active measures that Tencent has taken in gaming in order to react to the high demand for games. Another factor is Tencent's focus on long-term sustainability.

2.1. Actions for its gaming profit model

2.1.1. Internal development

Tencent has made significant investments in game innovation. In 2020, R&D spending became one of the key drivers of the increase of general and administrative expense [7]. Tencent established the TGideas group to focus on new ideas [1], with the goal of supporting products in effectively communicating and engaging with people through creative design approaches and high-quality derivative contents, therefore attaining product commercial value. This group is the champion in marketing games. Its creative design promotion can last the whole life cycle of a game. The Tencent Game Developers Conference (TGDC), where TGideas was involved in conceptual design and detailed execution, came up with the theme "GAME 4 CHANGE" in 2020, the start year of the pandemic, and discussed how changes and improvements were about to be made in the gaming industry to support the changing demand from customers under the impact of COVID-19, demonstrating Tencent's strong commitment to gaming development.

Due to the development of the gaming industry under the influence of COVID-19, the gaming market becomes more sophisticated. Therefore, there are more personalized needs arising from players, and they pay more attention to their gaming experience. Based on the demand change, in 2020, Tencent has upgraded its gaming systems and modes. For instance, in the game called Honor of Kings, Tencent created new game modes, Kings' practice competition, which provides different types of gameplays, and 1V1 mirror competition which offers players a new type of titles and a new way of ranking. Additionally, Tencent has developed its system of the Infinite Melee mode, which adjusted the buffs that players complained about, added new tools, and upgraded the performance of arts. Technically, Tencent founded Tencent Start in December 2019, a cloud gaming service, to enrich its customers' gaming experience and adapt the development of 5G technology. In October 2020, Tencent Start has published its testing version for both Windows and macOS. This action not only benefits more PC users but also offers the users a smooth gaming experience in macOS, which users always complained about due to the poor gaming experience it brought.

2.1.2. External growth

For technical innovation and customers greater gaming experience based on the changing demand under the impact of the pandemic, Tencent never stops its steps of acquisition and stays active in investing international gaming companies. In the year 2020, Tencent has already made 33 investments in the gaming sector [3]. For example, to learn and improve its AAA technology, Tencent has finished a full acquisition of Sumo Group, the UK studio behind LittleBigPlanet 3 and Crackdown 3. Moreover, Tencent has occupied 8.75 percent of shares of Sumo [6]. This action helps Tencent expand its international gaming market and brings the company more profitability, strengthening its status as the leader in the gaming industry.

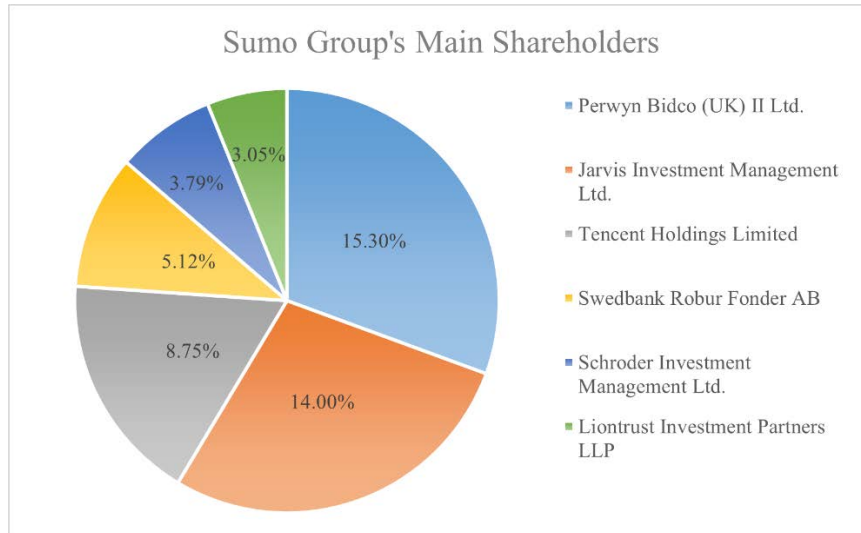


Figure1. Shareholding percentage of Sumo Group's main shareholders

Moreover, as a result of the great popularity of Tencent's games, Tencent intends to bring consumers more experience outside of the gaming product to provide a sense of freshness, as well as accomplish cross-user penetration on both sides [4], therefore, Tencent has started cross-border cooperation. For instance, due to the huge welcome of the game, Honor of Kings, Mac Cosmetics has partnered with Tencent in 2020 and launched the "Honor of Kings" make-up lines. The new line provided denizens of the game's fighting arena with an authentic experience while applying cosmetics in the presence of familiar heroes, bringing a huge win for both Tencent Games and Mac Cosmetics [1].

Benefiting from Tencent's effort on its product development and business expansion in gaming, its main businesses, as shown in table 1, VAS (communication and social, digital, and games) have contributed 55% of total revenue, which also contributed to most of Tencent's revenue growth in 2020 [7].

Table 1. Tencent's revenue composition

2020 Revenue	Amount (RMB in millions)	% of total revenue
VAS	264,212	55%
Online Advertising	82,271	17%
FinTech and Business Services	108,086	27%
Others	7,459	1%
Total revenues	482,064	100%

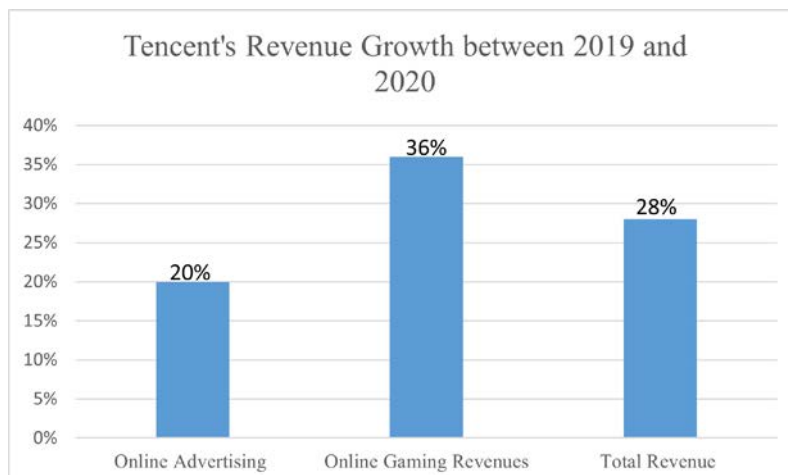


Figure 2. Tencent's 2020 revenue growth rate

2.2. Efforts on its long-term sustainability

2.2.1. Rules and regulations

Although the gaming industry has achieved huge success under the influence of pandemics, it also causes the problem that teenagers become too addicted to games, bringing harm to their health. Hence, the Chinese government has released the Law of the Protection of Minors to prevent teens from being hooked to the internet and mobile gaming. In terms of Tencent's response, it showed a strong agreement with the new law and came up with some new rules for players under 18 years old. For instance, Tencent's games have restricted the length of playing, the times of topping up, and made a compulsory facial ID identification. Besides, as some players broke the game's rules for winning, to ensure every player satisfied gaming experience and protect the fairness of playing, in the game Honor of Kings, it has upgraded the credit system that players will not be allowed to play the games if their credits are lower than the requirement.

Tencent's actions of updating rules and regulations create a healthy gaming environment and show its strong corporate social responsibilities, which is helpful to provide users a better gaming experience and to strengthen Tencent's reputation in society. Therefore, they are beneficial for Tencent's sustainable growth in the long run.

2.2.2. Technology benefiting to future games' development

COVID-19 has stimulated the rapid growth of Tencent's mobile gaming, however, the limit of mobile phones' configuration makes the phones easy to get hot, lose the connection with the internet, and load games slowly. To solve this problem, Tencent has partnered with Black Shark, a technology company that can provide great mobile ecology and good-quality hardware such as chips. In addition, Tencent has also made good use of artificial intelligence and 3D printing technology in gaming to improve its games' visual effect. By doing these, Tencent can provide players with a better experience and build up a long-term relationship with its customers.

2.2.3. Corporate Social Responsibility

Tencent's games have contributed positive social values. Being affected by COVID-19, the whole society and economy in China were unfortunately damaged. In 2020, the pandemic attacked Wuhan again. To express its support for the city, Tencent has included sesame paste noodles, a characteristic Wuhan noodle, in the game's scene of The Tale of Food [8]. In addition, this game partnered with Dahankou to release a gift package of sesame paste noodles. Besides, Tencent has incorporated a portion of epidemic prevention quizzes in several of its games, such as Moonlight Blade and Lego is Infinite, to enhance people's knowledge of epidemic prevention.

To aid the recovery of poor regions affected by the pandemic, Tencent has included the regions' natural scenery into its board game scenario [8], providing players with a virtual trip experience and encouraging them to travel offline, therefore boosting tourism there.

3. Potential risks

3.1. Unreasonable advertising insertion method

As a developer, Tencent, to obtain more profits from its online game business, may insert some promotion from its own company's products or advertisements from investors in a certain game of its own company, thereby increasing the download rate of consumers or the possibility of participating in the purchase of products to increase Tencent's revenue. The way to insert ads in the game is very convenient and inexpensive, so it is a good way to attract potential customers. However, the large number of inserted advertisements and frequent appearances will directly affect the user's experience of the game is experienced. Over time, the user's love will gradually decrease. As a result, it is difficult to achieve the developer's original goal. At the same time, the developers not only failed to improve the effectiveness of the promoted mini-games but also encouraged users to participate in other similar products with fewer advertising insertions and a better experience. Take Tencent's online mini-game

called Happy Landlord as an example. This game requires players to have a sufficient number of game beans to continue the game, and the way to get more game beans if the player fails to become a winner is by watching ads for more than ten seconds, but more players said that they would continue to watch ads of poor quality when they were unable to win the game continuously, which would make the mood worse, and while waiting for the ads sometimes need to return to the game when your hand clicks into the advertisement by mistake, which will make the game experience worse.

3.2. Conflict exists between value-added services and game fairness

Top-up money is a very popular vocabulary in the current game industry. It refers to spending money to recharge game operators in online games, but now it is gradually developing towards a large amount or recharge trend. Most Tencent games are not one-time paid games. The subsequent development of a series of value-added services corresponds to the explanation of Top-up money. Therefore, large-scale games developed by Tencent, such as Honor of Kings, are often called Krypton Gold Game by consumers. For example, the Honor of Kings will regularly produce some game props and skins, then the skill attributes of the game characters will change accordingly. Players need to continuously spend time and energy to learn and apply new skills. In the process, consumers will likely experience a worse game experience and eventually quit the game, which is contrary to the goal of developers who want to increase profits. Another very important point is that the emergence of krypton gold games has gradually produced some complaints about the fairness of the game because it requires constant recharge to obtain more powerful game attributes. It seems that having enough wealth based on a strong operation force is the standard for becoming the most powerful character in the game. The virtual world breaks the barrier with the real world through constant top-up money, and the experience in the virtual world gradually needs to rely on money and strength to be more and more smooth. It can be an experience that can be separated from the real world, but it is similar to the life of the real world. Over time, consumers' needs in games have changed from improving their operating capabilities to improving their consumption capabilities. Not only has the original intention of experiencing the game changed, but the fairness of the virtual world has disappeared.

3.3. Threats from competitors in the same industry

As China's Internet aircraft carrier, Tencent occupies more than half of the domestic game industry, and it is difficult to find a rival in the industry. If you must find a competitor of Tencent in the game industry, NetEase is worth studying, because Tencent and NetEase together occupy 80% of the domestic game market, making other companies survive in the cracks. The threat that NetEase, also a leader in the industry, poses to Tencent is not its market share and revenue, because evaluating a company's ability is not just to see who makes more money from the data in the financial statements, but also deeper analysis and comparison, such as research and development and operational capabilities. As we all know, Tencent's strengths are in operation. Through long-term survival and development, it has accumulated a lot of experience in the selection, localization, and fine operation of agency games, and its operating resources are even more powerful. Compared with Tencent, NetEase has a different strategic plan. It is good at independent research and development, cultivating research and development talents, accumulating research and development strength, and constantly launching high-quality products, such as a series of games about A Chinese Odyssey. It is difficult for the domestic game market to rely solely on agency games to satisfy the tastes of game players for a long time, which will damage the interests of the operating company. The future game market must be dominated by self-developed games.

4. Discussion of Tencent's influence and implication to gaming industry

The coming of this sudden pandemic, COVID-19 has a big influence in every industry. Online entertainment became famous around people because everyone needed to stay at home for many days in order to survive the pandemic. The government extended the length of the Spring Festival, and many companies stopped work and production for a long time. Therefore, people became to use more

social apps, they played more games at home. The use of mobile phones increased dramatically because they cannot do many things at home for a lot of days. Hence, the paper will mainly focus on two main ideas. One is that the improvement of other industries because of Tencent's gaming industry during the COVID-19. The other one is that the industry can learn from what from Tencent's profit model during the pandemic.

4.1. The improvement of other industries by Tencent's gaming industry during the COVID-19

The development of online gaming is a big improvement in the economic increase. The manufacturing industry and the electronic sales business are very profitable. Because of the pandemic, people needed to stay at home for the whole day, hence online entertainment became famous. Online entertainment promotes the development of the manufacturing industry, like mobile phones and flat computer. The sales of mobile phones and flat computers increase dramatically. According to the prediction of "Global Gaming Market Report 2020", the revenue of the global market of the gaming industry will reach 217.9 billion RMB, and the total users will reach 3.05 billion [2]. Mobile gaming is changing the social life of the age of information technology. Mobile games will comprehensively drive the prosperity of China's entertainment and cultural industry. With the constant development of the mobile gaming industry, not only have a good score in the domestic market, but also gain a lot in the international market. The sale of China's own game production increased a lot in the overseas market in 2020. There are almost 49% of the revenue of the gaming industry came from the market of American and China [10].

4.2. The knowledge industry can learn from Tencent's profit model

Tencent is a company that did very well in the pandemic, COVID-19 did not have a big impact on Tencent, even had no negative influence on the revenue and profit of Tencent. After looking at the financial statement of Tencent between 2019 and 2020, the paper found that the revenue of Tencent has grown 27.8% from \$377,289 to \$482,064. And the profit for the year also increased by a huge number from \$95,888 in 2019 to \$160,125 in 2020 which has gone up by about 67.0% [7]. The gaming industry played a big role for Tencent. And we can see Tencent as a good example for the gaming industry. Therefore, after describing what profit model and strategies Tencent is using for handling the sudden pandemic, this paper discusses what the same industry of gaming company can learn from Tencent.

4.2.1. The integration of the gaming product with instant messaging products

QQ and Wechat are instant messaging products of Tencent at first. They are widely sought after by users because of their advantages of being free for use, convenient and swift, simplicity of operator. And the scale of users increases dramatically. The mobile game products that came out after that continue the characteristics of that, they can achieve the objective of playing online games with others. Although friends are not staying with us, we can play online with friends conveniently. In this way, the mobile game enhances communication between friends and breaks the limitation of geography. Users can use their QQ or Wechat account to log into their games that the advantages of convenient and swift not only reflect on registration and Login game for users, but also can reflect on playing online with friends easily. Users can invite friends directly in the game without adding friends in the game to play online together because the friend list in the game will auto-update to the same friend list in QQ or Wechat. This advantage brings a lot of revenue for Tencent during the pandemic. First, the easy operation reflects the demand of users to play games for relaxing. Second, playing online with friends and family gives a chance for communicating because people cannot go out because of the COVID-19. Online entertainment strengthened the communication between people. Nowadays, "Honor of Kings" has become a hot gaming product. During the Spring Festival of 2020, the maximum number of daily active users went to 95.35 million people [10]. And another hot gaming product for Tencent named "Game for Peace" reached the peak number of 79.94 million daily active uses during the Spring Festival in 2020 [10]. Hence, the method of combining social software account with together online gaming is worth learning for the same industry. People can make friends that can meet

many friends who are out of our daily life and experience multiculturalism at the same time of experience the gaming product under a basic of two big platforms of instant messaging, QQ and Wechat.

4.2.2. The use of piece of time for advertising

Wechat published a new function called Wechat Video Channel in January 2021. It accurately catches users' pieces of time that use the most fashion industry of short video. Many gaming users of Tencent will share their great moments in their games. Through the integration of functions between Tencent's product to advertising for their own is an efficient way that can have low cost at the same time. Wechat Video Channel caused video advertising that also improve the revenue of Wechat advertising obviously in 2020.

4.2.3. The development of gaming live streaming platform

People have a lot of time to stay at home during the pandemic that increased the development of online entertainment and the short video. Therefore, the live streaming industry became hot. Gaming live became absolutely necessary for that. Tencent caught this opportunity, use network live streaming to advertise Tencent's game. In addition to gaining the attention of a large number of users and potential users, it has also obtained income from live streaming platforms. Gaming anchors spread the content of the game to every customer who is looking at life. Customers can see the whole game in there, not only the content of internet publication, but also gain the happiness of game. They can know more details about the game's content and the operation of the game. This way can truly integrate culture, networking, promotion and entertainment together.

4.2.4. The combination of culture and Tencent gaming

Mobile games are a more visual carrier of culture and a more acceptable way of cultural communication. Gaming was combined with many traditional stories. People no longer listen or watch a traditional story and they can feel it by themselves. "Honor of Kings" mixed many traditional characters into the game. And published the activities called "the 24 solar terms", "Glory China Festival" and so on which can strengthen the power of promoting Chinese traditional culture. Schools stopped the lesson to deal with the sudden pandemic, many students can realize Chinese traditional culture when they play the game at home for relaxing. Such easy cultural implantation is undoubtedly a more fashionable and more acceptable way of cultural communication for teenagers.

5. Conclusion

This paper considers that Tencent has a successful profit model of the online game business during the pandemic. First, Tencent has strategies that mainly focus on internal development and external growth two aspects. For the internal development, Tencent has increased its investment in gaming innovation, which aims to adapt to the personalized needs arising from players due to the Covid-19. For the external growth, Tencent remained its steps of acquisition and stayed active in investing in international gaming companies during the pandemic. Besides, Tencent has contributed to its long-term sustainability through taking its Corporate Social Responsibility. Tencent implemented the new rules to respond to the regulation that the Chinese Government promulgates for restricting the gaming time of the teenagers, it reduced the risk caused by teenagers' gaming addiction problem to Tencent's social reputation. Meanwhile, Tencent also applies itself to the technology benefiting future games development to ensure players' gaming experience and devotes itself to fulfilling its Corporate Social Responsibility during the pandemic.

However, this paper finds that Tencent still exists several potential risks though under the current successful profit model. First, for gaining more profit from the game business, Tencent inserts much advertising which is not related to the game. In addition, its value-added services conflict with game fairness, most of Tencent's games are not one-time paid games. Moreover, with the lack of independent research and development, Tencent also faced the challenge that its competitors in the

same industry bring.

Overall, instead of being influenced negatively, Tencent did well in the pandemic. Moreover, it even improved other industries, the manufacturing industry, and the electronic sales business are very profitable due to the online gaming's prevail. Therefore, Tencent's profit model is instructive to the industry, like combining the gaming product with instant messaging products which are maturing products, borrowing the basic of huge customer group, using the advantage of platform advertising to publicity by catching the piece of time of users, developing gaming live streaming platform and combining the culture with Tencent gaming.

In terms of the future prospect, Tencent can be more resilient in the future because of its strong growth of revenue from gaming during the pandemic, and its short-term development after implementing the rules still deserves concern. In addition, this paper still has its limitation, because it is only two years since the first outbreak of the epidemic, the information and data that is related to the pandemic are not comprehensive enough. For further research, it can base on a longer period to continue the subsequent research with enough information and data.

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