



# GAMES

## MARKET STUDY

### CHINA

### JAPAN

### SOUTH KOREA

*OPPORTUNITIES FOR FINNISH GAME DEVELOPERS*



**neogames**  
HUB OF THE FINNISH GAME INDUSTRY

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# 1. INTRODUCTION

This study gives a brief overview of the games markets in China, Japan and South Korea (Republic of Korea). The main focus of this study is on the South Korean and Japanese games markets. The Chinese games market was investigated in detail in an earlier study published on the Neogames Finland website<sup>(1)</sup> in 2016.

**Asia-Pacific (APAC) is the biggest games market area in the world in 2018, with a 47 % share of the global game revenues. More than half, 1.6 billion, of the global 3 billion smartphone users live in the APAC area and its three biggest national games markets are China, Japan and South Korea.**<sup>(2)</sup> Due to their large market size, these markets are also appealing for Finnish game developers.

In 2019, Neogames Finland Assn. received funding from the Finnish Ministry of Culture and Education to investigate the Japanese and South Korean games markets. This study gives a brief overview of these markets for Finnish game developers, mapping out new business opportunities in these areas. Due to the significant role of the Chinese games market, Neogames has also updated its information regarding it and included those updates in this report.

This report is based on freely available market data (sources mentioned in the footnotes) and interviews with Japanese, South Korean and Nordic game developers and other industry experts.

## APAC Market Overview

According to Newzoo's Global Games Market report 2019,<sup>(3)</sup> China is the biggest games market in the APAC region with \$36,5Bn revenues from games, Japan second with \$19,0Bn and South Korea third with \$6,2Bn. (Chart 1.)

On the mobile games market, Newzoo estimates<sup>(4)</sup> China to hold a 49.6 % share, Japan 28.2 % and South Korea 8.1 % of mobile game revenues in the APAC area.

The same trends repeat on individual mobile platforms. In the global **iOS Appstore** (based on the on Sensor Tower 2019-2023 Mobile Market Forecast)<sup>(5)</sup> China is the first, Japan the third and South Korea the fifth largest country by mobile games revenue. Similarly, the top three countries by revenue in **Google Play** were Japan first, the U.S. second, and South Korea third (Google Play is not available in China).

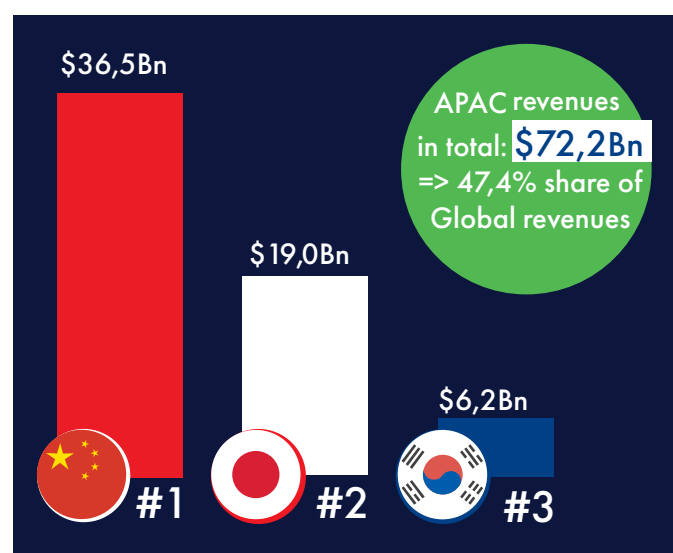


Chart 1. Top Countries by Game Revenue in the APAC Area 2019

1) Neogames Finland: China mobile games market 2016. Available in:

<https://www.neogames.fi/china-mobile-games-market-2016-report/>

2) NewZoo: Global Games Market Report 2019. Available in: <https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

3) NewZoo: Global Games Market Report 2019. Available in: <https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

4) NewZoo: Global Games Market Report 2019. Available in: <https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

5) Sensor Tower: 2019-2023 Mobile Market Forecast. Available in: <https://sensortower.com/blog/sensor-tower-app-market-forecast-2023>

According to App Annie, twelve out of the twenty top mobile publishers of 2018 were from China, Japan or South Korea. The list is based on the worldwide annual revenue in iOS and Google Play -stores combined (see the disclaimer).<sup>6</sup> (Chart 2.)

When considering the top companies in terms of revenue on all platforms globally (including consoles and PC), Newzoo Global Games Market report 2019<sup>7</sup> estimates that 12/20 of the top game companies were Chinese, Japanese or South Korean. (Chart 3.)

As all Asian markets, the Chinese, Japanese and South Korean markets differ quite a lot from western markets and are not always open for foreign game developers and publishers. Thus Finnish game developers should consider opportunities for cooperation with local companies, when aiming to enter these market areas. **When publishing games in China it is mandatory by law to have a local, licensed partner.** However, some Finnish developers have successfully self-published their games in Japan and South Korea. In this study, these experiences are also reflected.

1. Tencent / China
2. NetEase / China
3. Activision Blizzard / United States
4. Bandai Namco / Japan
5. Netmarble / South Korea
6. Sony / Japan
7. Supercell / Finland
8. mixi / Japan
9. Playrix / Ireland
10. LINE / Japan
11. Giant Network / China
12. InterActiveCorp (IAC) / United States
13. Aristocrat / Australia
14. Niantic / United States
15. Square Enix / Japan
16. Netflix / United States
17. Cyper Agent / Japan
18. NCSoft / South Korea
19. Konami / Japan
20. Electronic Arts / United States

Chart 2. Top 20 publishers of 2018, based on worldwide annual revenue in iOS and Google Play stores (source: AppAnnie)

1. Tencent / China
2. Sony / Japan
3. Microsoft / United States
4. Apple / United States
5. Activision Blizzard / United States
6. Google / United States
7. NetEase / China
8. Electronic Arts / United States
9. Nintendo / Japan
10. Bandai Namco / Japan
11. Take Two Interactive / United States
12. Nexon / South Korea
13. Ubisoft / France
14. Netmarble / South Korea
15. Warner Bros / United States
16. Square Enix / Japan
17. NCSoft / South Korea
18. Cyper Agent / Japan
19. mixi / Japan
20. Konami / Japan

Chart 3. Top 20 public game companies, (source: Newzoo Global Games Market report 2019)

6) App Annie: App Annie's Top 52 Publishers of 2018. Available in: <https://www.appannie.com/en/insights/app-annie-news/top-52-app-publishers-2018/>. DISCLAIMER: "Revenue rankings are based on revenue earned from paid downloads and in-app purchases on the iOS App Store and Google Play Store. They do not include revenue earned from in-app advertising or subscriptions outside app store channels, or other Android marketplaces, that are very common in China, where Google Play is not allowed."

7) NewZoo: Global Games Market Report 2019. Available in: <https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

## DISCLAIMER

These days game developers use statistics and metrics to support their decision making processes. It is important to keep in mind that data from market statistics and reports based on estimates of the whole market area is not as accurate as the data on individual games based on consumer interviews or in-game data analytics. Naturally, this does not make high-level data totally unreliable, but market data certainly is less accurate than data collected from games directly. Therefore, the foundation of this study does not rely on the data of these markets.

It is important to realise that in the Chinese markets Chinese Android versions dominate both mobile devices and marketplaces. Unfortunately, in practice, this means that there is no reliable information available on the size of the Chinese Android marketplaces (especially not in English). A detail that most studies and reports on the Chinese mobile games markets neglect to mention.

Lastly, bear in mind that the information in this report is intended to provide only a general overview on the markets mentioned. Although all reasonable measures have been taken to ensure that the information is as accurate as possible, the content of this report should not be construed as legal advice. Before relying on any information in this report, readers should independently verify its relevance for their purposes.

## FEEDBACK & COMMENTS?

Please feel free to contact us, if you have further questions or any comments.

Sincerely,

Suvi Latva

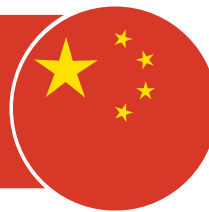
*Chief Business Advisor*

*Neogames Finland*





# 2. CHINA



## 2.1. CHINESE MARKET OVERVIEW

**The Chinese government has recently significantly tightened its regulatory grip on local games markets, and this has weakened China's leading role as the biggest games market in the world.** Before 2018, China was the biggest games market in the world for several years in a row.<sup>(8)</sup> In April 2018, the Chinese State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) provided new approval rules<sup>(9)</sup> for games published in China. The new rules caused a **nine-month complete licensing freeze for new games released in China**, during which no new games were approved for sale. As a result, in 2018 the U.S. surpassed China for the first time since 2015 as the biggest games market globally by revenue. According to Newzoo, in 2018, the size of the U.S. games market was \$ 36.9 billion, while the size of the Chinese market was \$ 36.5 billion.<sup>(10)</sup>

It is worth emphasising that, according to Niko Partners, in 2018 **China's games PC market (\$ 15.21 billion) represented 50 % of the world's PC game revenue, but only 25 % of mobile revenue. China has 312.4 million PC online gamers in total, but out of them only 80 million were money spending players.**<sup>(11)</sup>

## 2.2. MAIN PLATFORMS FOR GAMES IN THE CHINESE MARKET

### MOBILE GAMES DISTRIBUTION IS FRAGMENTED

**Mobile is the number one platform in the Chinese games market**, and in the Chinese mobile games market Android is the dominating operating system. Unlike in the Western markets, **Google Play store is not available in China**. Instead, there are several different Android marketplaces,<sup>(12)</sup> but most of the revenue comes from the 10 largest Android stores. These top 10 Android marketplaces (according to the Newzoo & Mintegral report)<sup>(13)</sup> are listed in Chart 4.

### TOP ANDROID STORES:

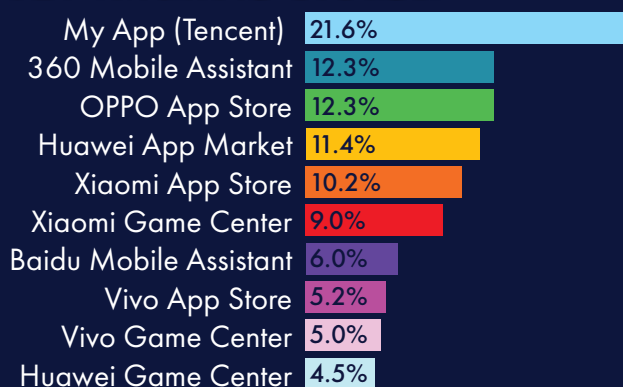


Chart 4. Top 10 Android Stores in China  
(Source NewZoo & Mintegral)

8) NewZoo: Global Games Market Report 2019. Available in:

<https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

9) Niko Partners: China Gaming regulator to introduce new approval process this month. Available in:

<https://nikopartners.com/china-gaming-regulator-to-introduce-new-approval-process-this-month/>

10) NewZoo: Global Games Market Report 2019. Available in:

<https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in:

<https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

11) VentureBeat: Niko Partners. China's game market to hit \$41.5 billion and 767 million players by 2023. Available in: <https://venturebeat.com/2019/05/07/niko-partners-chinas-game-market-to-hit-41-5-billion-and-767-million-players-by-2023/>

Niko Partners: PC + mobile games revenue in China projected to pass \$41 billion with 767 million gamers by 2023. Available in: <https://nikopartners.com/news/pc-mobile-games-revenue-in-china-projected-to-pass-41-billion-with-767-million-gamers-by-2023/>

12) AppChina; AppChina Chinese Appstore rankings. Available in:

<https://www.appinchina.co/market/app-stores/>

13) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in:

<https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>



# CHINA



Based on monthly active users in 2018, the top mobile device brands were (according to the Newzoo & Mintegral report)<sup>(14)</sup> OPPO (24.8%), Apple (24.4%), Vivo (17.5%), Huawei (12.6%). (Chart 5)

Chinese developers are dominating Apple Appstore China. The top 10 grossing (iOS) list is almost totally governed by Tencent and NetEase.<sup>(15)</sup>



Chart 5. Top Mobile device brands and devices in China.  
(Source NewZoo & Mintegral)

## PC GAMES MARKET IN CHINA IS HUGE

As mentioned earlier, China has a big share of the global PC games market. China represents 50 % of the world's PC game market with \$ 15.21 billion revenue. The fact that **foreign games generated 60% of China's PC Gaming revenue**,<sup>(16)</sup> makes the Chinese PC market interesting also for Finnish game developers. The significant presence of foreign companies in PC markets is partly due to the fact that PC games are distributed mainly via Steam in China. Like Apple Appstore earlier, Steam is still operating in a very grey area, and most of the games there do not have government approval.

One reason for the growing popularity of PC games can be that there are more new games and content to play, because a majority of games do not have official approval. On mobile platforms, where games official ISBN approvals are heavily monitored, the amount of new games is drastically smaller.

As mentioned earlier, Steam is not officially available in China although it has lots of Chinese users. However, community features, like forums, are blocked in the Chinese version of Steam. It is good to remember that it is mandated by Chinese legal authorities that foreign companies cannot operate their own online games in China and must license the game to a Chinese company to operate it instead.<sup>(17)</sup> In May 2019, Epic launched its Epic store for Chinese users.<sup>(18)</sup> (Tencent bought a 40% of share of Epic in 2013.)<sup>(19)</sup> The official PC game distribution channel in China is Tencent's WeGame.

14) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in:

<https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

15) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in:

<https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

16) PC Gamer: There will soon be more PC gamers in China than the total population of the United States. Available in: <https://www.pcgamer.com/China-PC-online-game-market-report-2019/>

Niko Partners; China PC Online Games. Available in: <https://nikopartners.com/china-pc-online-games/>

17) PCGamer: Censorship, Steam, and the explosive rise of PC gaming in China. Available in:

<https://www.pcgamer.com/its-time-to-pay-attention-to-china-inside-the-worlds-largest-pc-games-industry/>

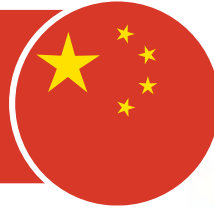
18) PC Gamer: China is the next battleground for Epic and Steam, but why haven't. Available in:

<https://www.pcgamer.com/china-is-the-next-battleground-for-epic-and-steam-but-why-havent-they-been-banned/>

19) Polygon: Tencent's \$330M Epic Games investment absorbed 40 percent of developer [Updated]. Available in:

<https://www.polygon.com/2013/3/21/4131702/tencents-epic-games-stock-acquisition>

# CHINA



Internet cafes are still an important part of Chinese online PC gaming and eSports is boosting the growth of the online PC games market even more. When talking about online games it is good to remember that the great firewall of China blocks any content that is deemed unsuitable by the Chinese government. More information about regulation in the next chapter.

## CONSOLES WERE BANNED FOR YEARS:

Console games (PlayStation, X-Box and Nintendo) have a minor market share in China. This is due to the fact that consoles were banned in China in 2000-2014.<sup>(20)</sup> Since the ban was lifted, the console markets are now slowly beginning to grow. Xbox One was launched in 2014 and Sony Playstation 4 launched in 2015.<sup>(21)</sup> In February 2019 Nintendo announced a partnership with Tencent aiming to launch Switch in China.<sup>(22)</sup> While consoles are seen as expensive consumer products in China, it is worth mentioning that there is also quite a large grey market for consoles; the amount of legal consoles (according to Niko Partners)<sup>(23)</sup> was in 2019 estimated to be 510 000 units (Sony Playstation dominating, Nintendo Switch second and Microsoft Xbox third) while the amount of grey market consoles was larger, 670 000 units. Among the grey market consoles Nintendo Switch holds the biggest share, Sony Playstation is second and Microsoft Xbox third. However, legal console software revenue is expected to overtake the grey market revenue by 2023.

## SERVICES:

For non-Chinese game developers, it is important to note that many familiar Western services supporting game development and distribution like **Facebook, WhatsApp, Instagram, Twitter, Twitch and all services provided by Google are banned in by the Chinese government.** However, there are several corresponding Chinese services to replace western services and operating systems.



20) Niko Partners; China's Console & TV-based games market. Available in: <https://nikopartners.com/chinas-console-tv-based-games-market/>

21) Xbox Wire: Xbox One Launches in China. Available in: <https://news.xbox.com/en-us/2014/09/29/xbox-one-launches-in-china/>

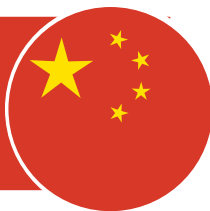
Niko Partners. Sony PlayStation in China – Two years in. Available in: <https://nikopartners.com/sony-playstation-china-console-game-market/>

22) The Verge: Nintendo and Tencent reveal Switch release plans for China. Available in: <https://www.theverge.com/2019/8/2/20751368/nintendo-switch-china-tencent-launch-partner>

23) Niko Partners; China's Console & TV-based games market. Available in: <https://nikopartners.com/chinas-console-tv-based-games-market/>



# CHINA



## 2.3. CHINESE REGULATION AND CENSORSHIP

### PRIVACY AND DATA PROTECTION

China introduced its first voluntary, but de facto mandatory soft-law, privacy rules in May 2018 called national standard Personal Information Security Specification and is currently reviewing them. Not surprisingly Chinese and European approaches on privacy have significant differences. <sup>(24)</sup>

### ISBN APPROVALS

Any game published in China should be approved by Chinese government and have an official license number (ISBN) before being distributed to local markets. <sup>(25)</sup> Furthermore, **all games, foreign and domestic, should be published via a licensed Chinese publisher.** <sup>(26)</sup> However, Steam in the PC markets is operating in a grey area, as all games in its store do not have ISBN approval, as Steam is not officially available in China.

***Nevertheless, it is highly recommended (and ordered by the Chinese law and regulations) to apply ISBN when publishing any game in any store in Chinese markets.***

24) iapp, Privacy Tracker | More updates on the Chinese data protection regime in 2019.

Available in: <https://iapp.org/news/a/more-positive-progress-on-chinese-data-protection-regime-in-2019/>

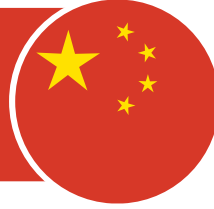
25) Niko Partners: What's behind the lack of new game approvals in China? Available in:

<http://nikopartners.com/whats-behind-the-lack-of-game-approvals-in-china/>

26) Niko Partners; Nearly 1000 games have received a licence since the start of game approvals in China. Available in: <http://nikopartners.com/nearly-1000-games-have-received-a-license-since-the-restart-of-game-approvals-in-china/>



# CHINA



From March 2018 SAPPRFT (State Administration of Radio, Film, and Television) has been responsible for these approvals, but later The State Administration of Radio and TV (SART) <sup>(27)</sup> has also had the role of digital game approvals in China. The consequence of this is that both administrators need to give approval for the ISBN licence.

**China's State Administration of Press and Publication (SAPP) released new rules for regulation** on April 20th, 2019.<sup>(28)</sup> Listed below are a few of the new requirements introduced by the new regulation:

- The regulation established (under the guidance of the Publicity Department of the Central Committee of the Communist Party of China (CCPD)) an online game ethics committee to review content and follow **"core social values"**, including games that promote traditional culture.
- **Certain types of games**, like low quality copycat games as well as poker and mah-jong games, **will no longer get approval from the regulator**. According to Niko's tracking, 37% of the games approved in 2017 were Poker and Mahjong games.
- **The protection of minors** policies are expanded to all mobile publishers and they have to introduce **anti-addiction systems** across all their titles.
- **Mini games and HTML5 games must follow the same approval process as all other digital games**. Previously, these games did not require an approval for release.
- SAPP is aiming to make their **content regulation more transparent**, so that a **Chinese game publisher can self-regulate their own games**, in order to speed up the approval process
- SAPP also encourages Chinese game publishers to self-develop **titles with China's core social values in mind, including developing games promoting traditional culture**. In addition to this, game publishers are encouraged to ensure **that games contain correct information about Chinese history, politics and law**. Honor of Kings, for example, has been criticised for misrepresenting the lives of historical figures.

In addition to the requirements mentioned above, according to Niko Partners, <sup>(29)</sup> the SAPPRFT provided additional guidance to game publishers on how to approach the new submission and content review process:

- *If a game is part of a series, this must be noted in the application. If not noted, the game will be assumed to have the same title as an existing game and is unlikely to get a license.*
- *If an online game has offline content, the application must indicate that and explain the offline content.*
- *When submitting a game for approval, do not include the version number in the title.*
- *There shall be no images of dead bodies or pools of blood in any games.*
- *Developers may not change the colour of pools of blood to accommodate.*
- *Mobile game applications do not require publishers to send a smartphone with the game pre-installed for approval.*
- *Publishers no longer need to submit a paper copy of the "banned words list" for each game, a digital version of the list is sufficient.*

27) Venture Beat: China's game-regulation mess is starting to hurt developers. Available in: <https://venturebeat.com/2018/08/15/chinas-game-regulation-mess-is-starting-to-hurt-developers/>

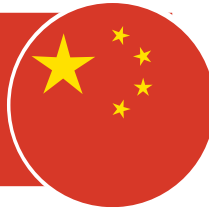
28) Reuters: China releases new rules on game approvals. Available in: <https://uk.reuters.com/article/us-china-games/china-releases-new-rules-on-game-approvals-idUKKCN1RW07F>

Niko Partners: China Gaming Regulator to introduce new approval process this month. Available in: <https://nikopartners.com/china-gaming-regulator-to-introduce-new-approval-process-this-month/>

29) Niko Partners: China Gaming Regulator to introduce new approval process this month. Available in: <https://nikopartners.com/china-gaming-regulator-to-introduce-new-approval-process-this-month/>



# CHINA



Since January 2019, the Chinese government has approved some new games to markets,<sup>(30)</sup> but the regulation has already caused, and is expected to cause in the future, severe hurdles for China games markets' value and available opportunities.

The new regulatory approach has significantly decreased the number of new games launched in China compared with other game markets. The approval processes continue to be slow, unpredictable and require various elements of a game to be edited and made to comply with content policies. Niko Partners estimated that less than 5,000 new games are going to be approved in 2019.<sup>(31)</sup>

**Since the ISBN regulation was implemented in March 2018, for a full year none of the global game developers got a license for their games.** According to a list released on March 29th by Niko Partners, **only 30 foreign games: 22 mobile games, 5 PC games and 3 Console games, were approved in the first months after new regulation took effect and the publishing ban was lifted.** Japanese IPs were most common, accounting for 9 of the approved licences with the U.S. second with 6 approvals. Some of the globally successful titles such as Fortnite and Call of Duty Mobile have yet (by Q2 in 2019) to receive a license for monetisation. However, according to SAPPRFT website, the number of the foreign approvals for the year 2019 was 145 by October 2019. Approvals were for several different platforms, including PC and consoles although, mobile games had major share with 108 games.<sup>(32)</sup>

Games as a Free-to-Play (F2P) service are one way to tackle piracy issues in China since services are not that easy to pirate. However, there are some weak signals about a rising interest towards premium games. Some publishers assume that premium games could be treated better in the Chinese governmental approval process, because premium products are simpler to evaluate and investigate by authorities than F2P services.



30) Venture Beat: China thaws game-license freeze with 80 new approvals. Available in:

<https://venturebeat.com/2019/01/02/china-thaws-game-license-freeze-with-80-new-approvals/>

Venture Beat: Chinese regulators have resumed certifying mobile games. Available in: <https://venturebeat.com/2018/12/20/niko-partners-chinese-regulators-have-resumed-certifying-mobile-games/>

Niko Partners: What's behind the lack of new game approvals in China? Available in:

<http://nikopartners.com/whats-behind-the-lack-of-game-approvals-in-china/>

TechCrunch: Winter is ending: China to restart game approvals: Available in:

<https://techcrunch.com/2018/12/20/china-restarts-game-approval-process/>

Pocket Gamer Biz: China's games market is officially open for business again. Available in;

<https://www.pocketgamer.biz/asia/news/69713/chinas-games-market-is-officially-open-for-business-again/>

31) Niko Partners: China Gaming Regulator to introduce new approval process this month. Available in:

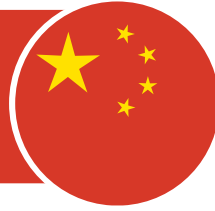
<https://nikopartners.com/china-gaming-regulator-to-introduce-new-approval-process-this-month/>

32) Niko Partners; Nearly 1000 games have received a licence since the start of game approvals in China.

Available in: <http://nikopartners.com/nearly-1000-games-have-received-a-license-since-the-restart-of-game-approvals-in-china/>

State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China official website available in; <http://www.sapprft.gov.cn/sapprft/contents/7027/396106.shtml>

# CHINA



## CASE PUBG

**Despite all aforementioned difficulties PUBG, one of the global hit games in PC, developed by South Korean Bluehole (later Crafton), has been, in its own peculiar way, a stunning success also in China.**

In **November 2017, Chinese Tencent obtained the rights to publish and operate PUBG in China.** <sup>(33)</sup> However, the Chinese government had already pointed at PUBG as harming the “socialist core values and traditional Chinese culture and ethical norms” and “not conducive to the physical and mental health of young consumers”. <sup>(34)</sup> Therefore, Tencent was committed to make all cultural, political and moral changes needed for the game to be officially published in China. <sup>(35)</sup> However, Tencent struggled to obtain government approval <sup>(36)</sup> and eventually ended up killing the PUBG mobile version in China and replaced it with a new game; “Game for Peace”.

Game for Peace is described as being very similar to PUBG, except there is no blood and dead people. <sup>(37)</sup> Game for Peace was even developed by the same South Korean studio, Bluehole that originally created PUBG and a player’s progress in PUBG transfers to Game of Peace, when it is updated.

*It is unclear how this kind of cooperation between China and South Korea is possible under the existing trade war between these two countries.*

However, in May 2019, the original PUBG was still available in Chinese Steam even though Steam is not officially available (but not blocked either) in China and the game does not have official approval.

China's new regulation might sound frightening especially to foreign (non-Chinese) game developers. However, regulation has been part of the Chinese business even before the licensing freeze. For example, in 2016, only 227 foreign titles were approved, and in 2017 the number of approved foreign games was 467.

33) PC Gamer: Tencent wins rights to officially release PUBG in China, will ‘accord with socialist core values’. Available in: <https://www.pcgamer.com/tencent-wins-rights-to-officially-release-pubg-in-china-will-accord-with-socialist-core-values/>

34) PC Gamer: PUBG faces China ban for deviating from ‘socialist core values’. Available in: <https://www.pcgamer.com/pubg-faces-china-ban-for-deviating-from-socialist-core-values/>

Niko Partners: Will China ban Player Unknown Battlegrounds? Available in: <https://nikopartners.com/will-china-ban-playerunknowns-battlegrounds/>

35) Reuters; Tencent to bring world’s hottest video game to China, promises socialist values. Available in: <https://www.reuters.com/article/us-china-tencent-videogames/tencent-to-bring-worlds-hottest-video-game-to-china-promises-socialist-values-idUSKBN1DM192>

36) Abacus News: South Korea asks China to stop banning its games. Available in: <https://www.abacusnews.com/digital-life/south-korea-asks-china-stop-banning-its-games/article/3014558>

37) PC Gamer; Tencent kills off PUBG Mobile in China, replaces it with a patriotic version. Available in: <https://www.pcgamer.com/tencent-kills-off-pubg-mobile-in-china-replaces-it-with-a-patriotic-version/>





# CHINA



***As the second biggest games market in the world, China cannot be ignored. But it is crucial to understand that because of regulatory market access barriers, the Chinese game market is not easy to access, especially for a foreign developer.***

By studying the market features and regulation carefully, and building a trusted partnership with Chinese publishers, there is a possibility to succeed also in China. One good way to find Chinese partners is to look for references from previously published Western titles.



# 3.JAPAN



## 3.1. JAPANESE MARKET OVERVIEW

The Japanese games industry dominated the world in the 80's and 90's <sup>(38)</sup> and Japan still has a strong games culture, as the home of Tetris, SEGA, Super Mario, Nintendo, Pac-Man, Sonic the Hedgehog, Pokemon, Legend of Zelda and many other well-known games and game brands.

In the APAC region, **Japan is the second largest games market by game revenues after China.** <sup>(39)</sup> The Mintegral & Newzoo report declares **Japan to be the world's third-largest games market.** <sup>(40)</sup> However, in the Japanese market growth is expected to be slower than in the Chinese and South Korean markets. The Japanese games market is also considered the **most saturated of these three market areas.** <sup>(41)</sup>

## 3.2. MAIN PLATFORMS FOR GAMES IN THE JAPANESE MARKET

### JAPANESE MOBILE GAMERS ARE THE BIGGEST SPENDERS IN THE WORLD

Like in many other market areas mobile games have the biggest share of all game markets in Japan as well. Based on monthly active users, Apple dominated 70% of mobile device markets in October 2018. (according to the Newzoo & Mintegral report) <sup>(42)</sup> (Chart 6.)

Google Play and iOS Appstore are the main channels for mobile games distribution, but there are also a few popular subscription channels like NTT Docomo, KDDI and Softbank.

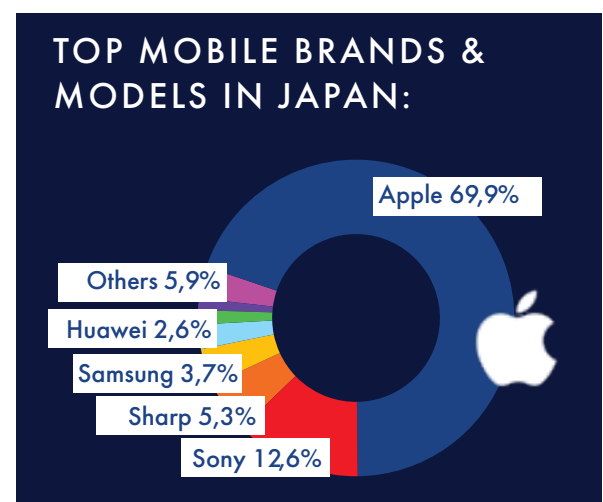


Chart6. Top Mobile device brands and devices in Japan (Source NewZoo & Mintegral)

38) History of the Japanese Video Game Industry. Available in: <https://www.soas.ac.uk/jrc/events/seminar-and-events/14nov2018-history-of-the-japanese-video-game-industry.html>

39) NewZoo: Global Games Market Report 2019. Available in: <https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

40) Newzoo: Insights – Japan Games Market 2018. Available in: <https://newzoo.com/insights/infographics/japan-games-market-2018/>

41) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

42) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>





# JAPAN



# JAPAN



The top 10 grossing games list on an iOS Japanese games marketplace is dominated by Asian developers.<sup>(43)</sup> (Chart 7). The competition between Chinese, South Korean and Japanese game developers has a significant impact on Japanese games markets. South Korean developers cannot enter Chinese markets at all (more about that in chapter 5.1), which makes Japanese markets highly interesting for them. Meanwhile Chinese developers focus on Japanese and South Korean markets, as they are not as distant (by the market features) as Western markets. At the same time, Chinese regulation is making mobile game publishing in China very tricky also for Chinese companies.

GAME	GENRE	PUBLISHER
1. Monster Strike	Puzzle	XFLAG
2. Fate/Grand Order	Role Playing	Aniplex
3. Puzzle & Dragons	Puzzle	GungHo
4. Knives Out	Battle Royale	NetEase
5. Dokkan Battle	Puzzle	BANDAI NAMCO
6. Granblue	Fantasy Role Playing	Cygames
7. Pokémon GO	Casual	Niantic
8. Power Pros	Sports	KONAMI
9. LINE: DisneysūmTsum	Casual	LINE
10. KIZNA	Strategy	Sumzap

Chart 7. Top Grossing iOS Games in Japan 2018  
(Source NewZoo & Mintegral)<sup>(44)</sup>

In 2018 Japan's seven biggest mobile game publishers lost 21% in operating profit and their stocks lost \$6billion of their market value.<sup>(45)</sup> The decline is partly due to South Korean developers successfully conquering Japanese mobile games markets.

## CONSOLE GAMES IS THE SECOND BIGGEST GAME MARKET IN JAPAN

Console games is the second biggest game market in Japan. According to VGCharts Sony PlayStation and Nintendo are playing a crucial role in the Japanese console games market. Developers can access the local console markets via already existing global partnerships with these console companies or use publisher cooperation to reach out to local platform holders.

## PC IS THE THIRD BIGGEST GAME MARKET IN JAPAN

Some sources claim that PC gaming is growing also in Japan. In addition to Steam there are also a few other PC games distribution channels like [DDM](#) and [DLsite](#).

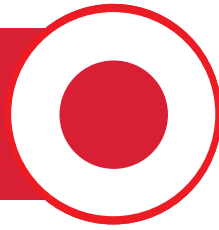
43) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

44) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

45) Bloomberg: The Good Times Are Over for Japan's Loot-Box-Style Gaming Bonanza. Available in: <https://www.bloomberg.com/news/articles/2018-11-05/the-good-times-are-over-for-japan-s-loot-box-style-gaming-bonanza>



# JAPAN



## 3.2. JAPANESE CONSUMERS

**Japanese mobile gamers are the biggest spenders in the world.** An average Japanese mobile game player spends annually \$371.0 in games, which is 3.5 times more than a typical mobile gamer in the U.S. Japanese gamers are less competitive players than Chinese and South Koreans.<sup>(46)</sup> They play games when commuting and like games that do not cause too much stress. Japanese consumers seem to be loyal players and generate good lifetime value. But as the other Asian consumers, also Japanese players require enough deep content and in game events need to be provided to keep them satisfied. Punctuality, convenience and high expectations regarding quality are good points to keep in mind when serving games to Japanese customers.

Like in nearly all other countries, social networks have an important role in how the games are discovered also in Japan. Line messenger is the largest social network platform in Japan. YouTube and Twitter are also very popular, while Facebook does not have so many Japanese users. Furthermore, it is common to promote games through celebrities.<sup>(47)</sup>

A foreign developer should focus a lot of attention on proper Japanese language localization. Japanese females, for example, use different words and expressions than males. Also age and position in the hierarchy of society affects the expressions used. It is also good to note that often system fonts from Android do not work properly. Knives Out, from Chinese NetEase, is a good example of successful localization.<sup>(48)</sup>

## 3.3. GENRES IN JAPAN

Japan has a strong cultural history with comics, Anime, Manga and [Kawaii](#) that is reflected also in games, and maybe because of that characters are an important element also in games.

According to the Mintegral & Newzoo report<sup>(49)</sup> one of the new trends in Japan is to combine elements from several different game genres into one game. An ideal example of an appealing game is (the top grossing #3 iOS game) Puzzle & Dragons that is a **card game with an RPG design**. Japanese gamers top genres in mobile are **RBG, card, and puzzle games**. In mobile, **match 3 games** are popular (in 2018 three out of five top-grossing iOS games in Japan were match 3 games). See the 5 most popular genres in Chart 8. Mobile eSports in Japan is less popular than in South Korea.

#	REVENUES	DOWNLOADS
1	RPG	Action
2	Action	Puzzle
3	Adventure	Adventure
4	Card	RPG
5	Puzzle	Simulation

Chart 8. Top 5 iOS genres in the Japanese market (based on the Mintegral & Newzoo report)

**Gacha mechanisms** (mystery prizes that cost real-world money) are a crucial part of most of the financially successful games in the Japanese mobile games market. Almost all of the Japanese top grossing 200 games contains gacha mechanics.<sup>(50)</sup>

46) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

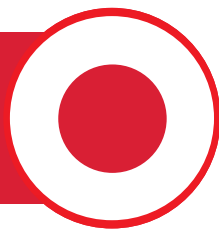
47)Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

48)Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

49) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

50) Game Refinery: Cultures Combined - Japanese Gachas Are Sweeping F2P Mobile Games In The West. Available in: <https://www.gamerefinery.com/japanese-gachas-sweeping-f2p-games-west/>

# JAPAN



## 3.5. PARTNERING WITH JAPANESE COMPANIES

During the 2010's, the co-operation between Finnish game developer studios and Japanese game industry giants has increased significantly. In 2013, Japanese tech and telecoms group **SoftBank acquired 51 % of the Finnish mobile game studio Supercell** for €1.1 billion<sup>51</sup> after Supercell's mobile game Clash of Clans became super successful globally. In 2017, **Japanese game publisher Gumi Inc.** (in cooperation with Nordisk Film) announced<sup>52</sup> that they are establishing an incubator program targeting Nordic VR/AR startups in Helsinki.

In the beginning of 2019, the Finnish mobile game streaming platform **Hatch announced strategic investment from Japanese NTT Docomo** aiming to bring the 5G cloud gaming revolution to Japanese consumers.<sup>53</sup> This co-operation with the biggest operator (Docomo) in Japan gives Finnish cloud gaming a great advantage. A local partner, and especially a mobile operator, can offer significant support in reaching out to Japanese customers.

For developers it is not always easy to reach out to Japanese partners. A proven track record and success in business in other markets is often required to even open a discussion with local partners. **Punctuality is a necessity**, you can lose all your opportunities for cooperation just by being late for a meeting or missing a deadline. It takes time to build a trusted partnership with Japanese partners (and win their trust). There is Japanese saying "ningen kusai" that can be translated in English as "full of human traits", which means sincerity and trust between business partners in business but also on an emotional level. Therefore, personal and face to face relationships are very important in Japanese business culture.

## 3.6. TOP JAPANESE GAME INDUSTRY PLAYERS

According to a report<sup>54</sup> from the Japanese data provider Gzbrain, Japan's top 10 mobile games in terms of gross revenue on iOS and Android in February 2018 were;

- 1) *Monster Strike* from Mixi: US \$ 842 million
- 2) *Fate/Grand Order* from Sony subsidiary Aniplex: US \$ 800 million
- 3) *Puzzle & Dragons* from GungHo Online: US \$ 440 million
- 4) *Knives Out* from Netease (NTES): US \$ 365 million
- 5) *Dragon Ball Z Dokkan Battle* from Bandai Namco: US \$ 307 million
- 6) *Disney Tsum Tsum* from LINE: US \$ 244 million
- 7) *Granblue Fantasy* from CyberAgent subsidiary Cygames: US \$ 238 million
- 8) *Pokemon Go* from Niantic: US \$ 226 million
- 9) *Powerful Pro Baseball* from Konami: US \$198 million
- 10) *Idolmaster: Cinderella Girls Starlight Stage* from Bandai Namco: US \$ 182 million

All games, except Pokemon Go, in the above list were released by a public company. The top 10 games listed account for roughly 40 % of the revenue generated in Japan's entire mobile games market.<sup>55</sup> However, this list is partly conflicting with NewZoo & Mintegral's list<sup>56</sup> presented in the previous chapter.

Some of the biggest Japanese game publishers and developers are listed in following page.

51) Reuters; SoftBank buys \$1.5 billion stake in Finnish mobile games maker Supercell. Available in: <https://www.reuters.com/article/net-us-softbank-acquisition/softbank-buys-1-5-billion-stake-in-finnish-mobile-games-maker-supercell-idUSBRE99E0ID20131021>

52) Nordisk Film: New VR/AR Incubator by Nordisk Film and Japanese game company Gumi Inc. is coming along fast – Nordic VR developers are called upon to apply. Available in:

<https://www.nordiskfilm.com/new-vrar-incubator-nordisk-film-and-japanese-game-company-gumi-inc-coming-along-fast-nordic-vr>

53) HATCH: Hatch enters strategic partnership with DOCOMO for Japan. Available in:

<https://playhatch.com/news/hatch-enters-strategic-partnership-with-docomo-for-japan/>

54) Kantan Games; Japan's top 10 mobile games in 2018 (by revenue). Available in;

<https://www.serkantoto.com/2019/02/14/japan-top-mobile-games-revenue/>

55) Kantan Games; Japan's top 10 mobile games in 2018 (by revenue). Available in;

<https://www.serkantoto.com/2019/02/14/japan-top-mobile-games-revenue/>

56) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in:

<https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>



COMPANY NAME		DESCRIPTION
	<a href="#"><u>MIXI</u></a>	<p>Originally Japanese social networking service. These days they are especially famous for their super successful mobile game Monster Strike<sup>(57)</sup> that according to Sensor Tower, has surpassed a worldwide gross revenue of \$7.2 billion already in October 2018<sup>(58)</sup></p>
	<a href="#"><u>GUNGHO</u></a> <small>ONLINE ENTERTAINMENT</small>	<p>The developer of famous Puzzle &amp; Dragons mobile game.<sup>(59)</sup> Recently, its most successful games in mobile have been Card Battle game Teppen<sup>(60)</sup> and RPG game Ragnarok Masters.<sup>(61)</sup></p>
	<a href="#"><u>BANDAI NAMCO</u></a> <small>ENTERTAINMENT</small>	<p>Japanese video game company that was born as the outcome of a merger between Bandai and Namco in 2006. Its most famous games are, among others, Pac-Man, Tekken (released on PlayStation 4, Xbox One and PC) and Ridge Racer franchises.<sup>(62)</sup></p>
	<a href="#"><u>LINE GAMES</u></a>	<p>The company is best-known for its popular Asian messaging app that is most popular messaging platform in Japan, Thailand and Taiwan. LINE merged a game developer NextFloor on July 2018.<sup>(63)</sup></p>
	<a href="#"><u>CYBER AGENT</u></a>	<p>The parent company of CyGames <sup>(64)</sup> partnered in April 2018 with Nintendo to build a new gaming application for smart devices.<sup>(65)</sup> One of the joint new games is Dragalia Lost.</p>
	<a href="#"><u>KONAMI GAMES</u></a>	<p>Konami Games has a very long history in the games industry. It is famous for its game series such as Castlevania, Silent Hill, Metal Gear Solid and Pro Evolution Soccer.<sup>(66)</sup></p>
	<a href="#"><u>DENA</u></a>	<p>The company behind a popular social mobile gaming platform Mobage Games, shut down in 2013.<sup>(67)</sup> In later years the company has re-entered mobile games markets. DeNA has recently (May 2019) partnered with the Pokémon Company <sup>(68)</sup> to make a new smartphone game. Previously, DeNA has successfully cooperated with Nintendo. Miitomo, followed by games like Super Mario Run, Fire Emblem Heroes and Animal Crossing: Pocket Camp are all well-known globally. <sup>(69)</sup></p>
	<a href="#"><u>NINTENDO</u></a>	<p>Nintendo has a solid place in the global video game history with its consoles, but Nintendo is a successful games publisher as well. Recently, the company has launched a popular new console Switch and mobile games like Super Mario Run. <sup>(70)</sup> In 2018, the company generated more than \$300 million revenue from mobile markets alone.<sup>(71)</sup></p>
	<a href="#"><u>SQUARE Enix</u></a>	<p>The company's most famous titles are the Tomb Raider- and Final Fantasy series. Focusing on high-end RPG Games. On August Square Enix announced partnership with Tencent. <sup>(72)</sup></p>
	<a href="#"><u>SONY</u></a> <small>INTERACTIVE ENTERTAINMENT</small>	<p>Represents the PlayStation family including PS4 and PS Vita. Game developers can self-publish in the PlayStation store, or cooperate with publishers or directly with Sony.</p>

# JAPAN



- 57) The Japan Times; Japanese tech CEO behind popular 'Monster Strike' in search of new hit. Available in: <https://www.japantimes.co.jp/news/2018/10/14/business/japanese-tech-ceo-behind-popular-monster-strike-search-new-hit/#.XTbtROgzZEY>
- 58) SensorTower: Monster Strike Revenue Passes \$7.2 Billion, Making It the Highest Earning App of All Time. Available in: <https://sensortower.com/blog/monster-strike-revenue>
- 59) Puzzle & Dragons: <https://www.gunghoonline.com/games/puzzle-dragons/>
- 60) Teppen: [https://www.gungho.co.jp/en/game/?anc\\_id=anc\\_newGame21](https://www.gungho.co.jp/en/game/?anc_id=anc_newGame21)
- 61) Ragnarok Masters: [https://www.gungho.co.jp/en/game/?anc\\_id=anc\\_newGame20](https://www.gungho.co.jp/en/game/?anc_id=anc_newGame20)
- 62) Videogames Chronicle: Bandai Namco Entertainment. Available in: <https://www.videogameschronicle.com/companies/bandai-namco-entertainment/>
- 63) Venture Beat. Line merges NextFloor with Line Games publishing division (updated). Available in: <https://venturebeat.com/2018/07/24/line-acquires-korean-game-studio-nextfloor-and-forms-publishing-division/>
- 64) CyGames web page: <https://www.cygames.co.jp/en/>
- 65) Cyber Agent: Cygames Partners with Nintendo Co., Ltd. On a New Gaming Application for Smart Devices. Available in: <https://www.cyberagent.co.jp/en/news/detail/id=21584>
- 66) WCCF Tech: Konami Has a Record Breaking Year with Games Being the Driving Factor. Available in: <https://wccfttech.com/konami-has-a-record-breaking-year/>
- 67) Games Industry Biz. DeNA shuts five Mobage games in Japan. Available in: <https://www.gamesindustry.biz/articles/2013-05-01-dena-shuts-five-mobage-games-in-japan>
- 68) GamaSutra: DeNA and The Pokemon Company have a mobile Pokemon game on the way. Available in: [https://www.gamasutra.com/view/news/342453/DeNA\\_and\\_The\\_Pokemon\\_Company\\_have\\_a\\_mobile\\_Pokemon\\_game\\_on\\_the\\_way.php](https://www.gamasutra.com/view/news/342453/DeNA_and_The_Pokemon_Company_have_a_mobile_Pokemon_game_on_the_way.php)
- 69) Forbes: The Pokémon Company And DeNA Are Working Together On A New Smartphone Game. Available in: <https://www.forbes.com/sites/olliebarder/2019/05/12/the-pokemon-company-and-dena-are-working-together-on-a-new-smartphone-game/#1fb6054b3c2f>
- 70) AppLovin; Opinion: How Nintendo's games can find success on mobile. Available in: <https://blog.applovin.com/nintendo-mobile-games-strategy/>
- 71) NewZoo: A Look at How Nintendo's Mobile Strategy Has Evolved Since 2016. Available in: <https://newzoo.com/insights/articles/a-look-at-how-nintendos-mobile-strategy-has-evolved-since-2016/>
- CNBC: Nintendo's big switch: Mario is finally going mobile, but the console king faces tough competition. Available in: <https://www.cnbcm.com/2019/04/13/why-nintendos-new-mobile-push-for-mario-is-such-a-big-switch.html>
- 72) Abacus News: Tencent partners with Final Fantasy and Tomb Raider maker Square Enix. Available in: <https://www.abacusnews.com/big-guns/tencent-partners-final-fantasy-and-tomb-raider-maker-square-enix/article/2162272>

## 3.7. JAPANESE REGULATION AND APPROVALS

Like in China, regulation has a significant effect on the Japanese game market as well. Many successful Japanese game developers utilize the so called ***gacha mechanism*** (mystery prizes that cost real-world money) in their games. The mechanism is practically very close to the Western lootbox mechanism that has been the subject of a wide public debate recently in both the U.S. and EU. Japanese regulators tackled the gacha mechanism the first time already in 2012, when Japan's National Consumer Affairs Agency declared the "kombu gacha" (complete gacha) mechanism found in several social games on Gree and DeNA's Mobage platforms illegal<sup>[73]</sup>. In March 2012, six companies behind leading Japanese game platforms established a liaison council to promote the safety of and to protect young gamers. Later in July 2012, the council announced voluntary "gacha guidelines" in order to prevent users from being misled by the mechanism.<sup>[74]</sup>

Due to a recent global debate on **WHO's Gaming Disorder classification**, the gacha mechanism is again under serious public scrutiny and attention by the Japanese government. Consequently many Japanese mobile game industry studios are now looking for new opportunities also outside the games industry.<sup>[75]</sup>

Japan has two age rating systems **CERO**<sup>[76]</sup> and an older system called EACS. Both give visible indicators of to whom a game is suitable.<sup>[77]</sup> CERO ratings are required for any release on Switch, PS4 or Vita and a separate rating is needed for each game published on each platform. All bureaucracy related to the rating process has to be done in Japanese and Applications have to be physically mailed to Tokyo. It is advised to consult legal authorities on how to proceed with the application process regarding a CERO rating.



# JAPAN



## PRIVACY AND DATA PROTECTION

Japan is one of the few countries that has already received a GDPR adequacy decision from the EU that permits a cross-border data transfer between EU and Japan without further authorisation from a national supervisory authority in Europe.<sup>(78)</sup> However, it is important to remember that an adequacy decision does not mean that there would not be small differences between GDPR and the Japanese privacy regulation called APPI.<sup>(79)</sup>

73) Kantan Games: It's Official: Government regulates Japan's social gaming industry over kompu gacha.

Available in: <https://www.serkantoto.com/2012/05/18/gacha-regulation-official/>

74) World\_Online\_Gambling\_Law\_Report\_Journal\_October2012.pdf. Available in:

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75) Bloomberg: The Good Times Are Over for Japan's Loot-Box-Style Gaming Bonanza. Available in:

<https://www.bloomberg.com/news/articles/2018-11-05/the-good-times-are-over-for-japan-s-loot-box-style-gaming-bonanza>

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78) EUR-Lex: Document 32019D0419. Available in: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2019.076.01.0001.01.ENG&toc=OJ:L:2019:076:TOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2019.076.01.0001.01.ENG&toc=OJ:L:2019:076:TOC)

iapp, The Privacy Advisor: The European Union and Japan adopt adequacy decisions. Available in:

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79) iapp, Privacy Tracker; GDPR matchup: Japan's Act on the Protection of Personal Information. Available in:

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# 4. SOUTH KOREA



## 4.1. SOUTH KOREAN MARKET OVERVIEW

Mintegral & Newzoo reports claim South-Korea to be **one of the fastest-growing game markets in the world**.<sup>(80)</sup> The South Korean game market consists of four different parts;

- 1) Over 50% of South Koreans play **mobile games**<sup>(81)</sup>
- 2) **Computer games are played in PC Bangs**,<sup>(82)</sup> designated rooms for several PC players
- 3) **E-Sports** is on TV every day. E-Sports was born in South Korea.
- 4) **Console platforms** are a minor, but still important market

## 4.2. MAIN PLATFORMS FOR GAMES IN SOUTH KOREA

The 2018 White Paper on Korean Games<sup>(83)</sup> states that in 2017 the share of mobile games (47.3%) surpassed PC games (34.6%) as the main distribution platform of games in South-Korea. The PC games and internet cafes market share had decreased from previous years. In third place regarding games consumed were internet cafes (very typical in South Korea, known as PC Bangs) with a share of 13.4 %. Consoles' share of games consumed was 2.8 %. (Chart 9).

According to the same study, it seems that Mobile and Console games' market share keeps growing, while PC games are decreasing. However, the popularity and growth of e-sports is expected to bring new growth of Internet cafes by 2020.

### MOBILE; VERY HIGH SMARTPHONE PENETRATION

South Korea has one of the highest smartphone penetration in the world. Estimated percentages varied depending on source. In 2018, Mintegral and Newzoo say it was 67.6% and highest in Asia.<sup>(84)</sup> At the same time according to Euromonitor and Pew Research, smartphone penetration in South Korea was estimated to be as high as 95 %, being the highest in the world.

<sup>(85)</sup>

### PLATFORMS IN SOUTH KOREA:

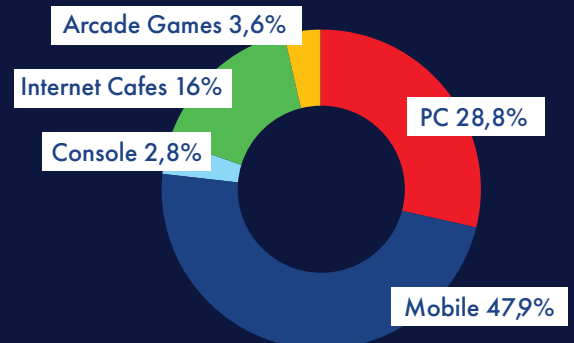


Chart 9. Platform Share in South Korea  
(source The 2018 White Paper on Korean Games)

80) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

81) SEOULZ: Top 10 Korean Gaming Companies of 2019 to Watch For. Available in:

<https://seoulz.com/top-10-korean-gaming-companies-of-2019-to-watch-for/>

82) Rooms, where gamers of all ages are sitting next to computers in rows

83) 2018 White Paper on Korean Games

84) Newzoo: Top 50 Countries/Markets by Smartphone Users and Penetration. Available in:

<https://newzoo.com/insights/rankings/top-50-countries-by-smartphone-penetration-and-users/>

Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in:

<https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

85) Business Finland: Korea presentation. Available in:

[https://www.businessfinland.fi/globalassets/food/fff\\_coachingday\\_korea\\_presentation\\_final\\_it.pdf](https://www.businessfinland.fi/globalassets/food/fff_coachingday_korea_presentation_final_it.pdf)

Korean Times: 95% of South Koreans own smartphone: data. Available in:

[http://www.koreatimes.co.kr/www/tech/2019/02/133\\_263177.html](http://www.koreatimes.co.kr/www/tech/2019/02/133_263177.html)



# SOUTH KOREA



The South Korean iOS market's top grossing 10 (2018) was dominated by local developers like Netmarble, Pearl Abyss, and NCSoft. However, there was room also for three foreign developers: Supercell (Finnish), Chuang Cool (Hong Kong) and Efun (Chinese).<sup>(86)</sup> The Newzoo & Mintegral report states that more than 10 % of total Mobile Game revenues in South Korea came from Netmarble in the first half of 2018.<sup>(87)</sup>



86) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

87) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>



# SOUTH KOREA



Statcounter Global Stats<sup>(88)</sup> estimates that 71 % of the mobile devices in South Korea use Android and 22 % are iOS devices. According to the Newzoo & Mintegral report<sup>(89)</sup> Samsung is dominating (65.5 %) devices in smartphones. (Chart 10)

## TOP MOBILE BRANDS & MODELS IN SOUTH KOREA:

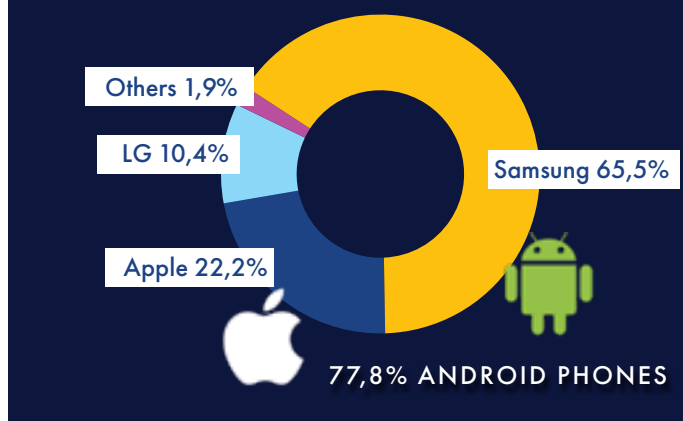


Chart 10. Top Mobile Brands and Models in South Korea

## PC GAMES HAVE LONG HISTORY IN SOUTH KOREA

According to Euromonitor, South Korea is expected to be ranked the second among the top 10 PC online game markets in the world in 2022.<sup>(90)</sup> South Korean developers are globally strong in PC-online development. Dungeon Fighter (Neople), CrossFire (Smilegate) and PUBG made the top 10 on the global PC -online sales list.<sup>(91)</sup>

## INTERNET CAFES; PC BANGS

Internet cafes, called PC Bangs, are convenient from the perspective of South Korean players, as the games are always already installed and updated, and you pay based on how long you have played. Games are downloaded through specific platforms, out of which the three biggest are Netmarble, Nexon and NCSoft. These platforms share royalties to game developer studios based on playtime, and based on the needs and choices of the players.



88) Statcounter Global Stats: Mobile Operating Market Share Republic Of Korea. Available in: <http://gs.statcounter.com/os-market-share/mobile/south-korea/#yearly-2018-2019-bar>

89) Mintegral & NewZoo: Insights into Asia's Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

90) BusinessKorea: Korean Gaming Industry Faces Deepening Crisis. Available in: <http://www.businesskorea.co.kr/news/articleView.html?idxno=28050>

91) BusinessKorea: Korean Gaming Industry Faces Deepening Crisis. Available in: <http://www.businesskorea.co.kr/news/articleView.html?idxno=28050>

# SOUTH KOREA



## CONSOLES ARE MINOR A PLATFORM FOR GAMES IN SOUTH KOREA

The saturated South Korean domestic markets in PC and Mobile platforms encourage local developers to look for new opportunities from other platforms. Console platforms such as Play Station, Xbox and Nintendo Switch are appealing to also South Korean developers like Nexon, Netmarble, Krafton and Pearl Abyss.<sup>(92)</sup> Also Chinese developers, who have already conquered part of South Korean mobile markets, do not have as much experience in console development since consoles were banned in China<sup>(93)</sup> for years. Furthermore, South Korean developers are still struggling to export their products to China (read about the trade war in chapter 5.1. in this

study), therefore the biggest console game market in the world, the U.S.<sup>(94)</sup>, is tempting for South Korean game developers.<sup>(95)</sup>

In August 2018, Nexon released Hype Universe, a game exclusively designed for XboxOne, but ended up shutting down South Korean servers of the game in November 2018.<sup>(96)</sup> Netmarble announced in February 2018 that they are releasing Seven Knights for Nintendo Switch.<sup>(97)</sup> PUBG corporation, a subsidiary of Krafton released the PUBG game for Play-Station 4 in December 2018<sup>(98)</sup>. PUBG was released also for Xbox One.<sup>(99)</sup> Pearl Abyss released Black Desert for Xbox One in the beginning of the year 2019 and will release it for Play-Station 4 in August 2019.<sup>(100)</sup>

92) Korean Times: Nexon, Netmarble rushing to roll out console games. Available on:

[http://www.koreatimes.co.kr/www/tech/2019/07/134\\_265576.html](http://www.koreatimes.co.kr/www/tech/2019/07/134_265576.html)

93) Business Insider: China has finally lifted its 14-year ban on video games. Available in:

<https://www.businessinsider.com/china-lifts-14-year-ban-on-gaming-consoles-2015-7?r=US&IR=T>

94) NewZoo: Global Games Market Report 2019. Available in:

<https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

95) Korean Times: Nexon, Netmarble rushing to roll out console games. Available on:

[http://www.koreatimes.co.kr/www/tech/2019/07/134\\_265576.html](http://www.koreatimes.co.kr/www/tech/2019/07/134_265576.html)

96) MMO Culture: Hyper Universe – Korean server of side-scroll MOBA shutting down next month. Available in:

<https://mmoculture.com/2018/10/hyper-universe-korean-server-of-side-scroll-moba-shutting-down-next-month/>

97) Nintendo Everything: Seven Knights releasing on Switch. Available in:

<https://nintendoeverything.com/seven-knights-releasing-on-switch/>

98) The Verge: PUBG is coming to the PS4 on December 7th. Available in:

<https://www.theverge.com/2018/11/13/18091630/pubg-playstation-4-release-date-features>

99) Gamespot: E3 2017: Playerunknown's Battlegrounds On Xbox One Coming This Year. Available in:

<https://www.gamespot.com/articles/e3-2017-playerunknowns-battlegrounds-on-xbox-one-c/1100-6450753/>

100) EuroGamer: Black Desert Online, the MMORPG with the fancy character creator, is coming to PS4. Available in:

<https://www.eurogamer.net/articles/2019-06-12-black-desert-online-the-mmorpg-with-the-fancy-character-creator-is-coming-to-ps4>

Pearl Abyss: Public Press Release: Black Desert on PlayStation 4 Launches August 22, Now Available for Pre-Order. Available on:

[https://www.pearlabyss.com/news\\_public\\_list/newsview?idx=337&lang=en](https://www.pearlabyss.com/news_public_list/newsview?idx=337&lang=en)

# SOUTH KOREA



## 4.3. SOUTH KOREAN CONSUMERS

The South Korean games market is described as very dynamic and fast. Local players use game content many times faster compared to other markets. Therefore developers entering South Korean markets should be prepared to produce deep enough gameplay and a vast amount of playable content. South Korean consumers like to follow trends and purchase items that are “must have” -products. Their fear is that they are old-fashioned if they don’t have certain products.

Following tips partly based on Korean newspaper SEOULZ<sup>(101)</sup> regarding marketing to South Korean consumers:

1. Language:
  - ⇒ Most South Korean people do not speak English
2. Visibility and Discoverability:
  - ⇒ Naver is the primary search tool on the internet, not Google. Although YouTube is very popular.
  - ⇒ Visibility on e-commerce platforms like [G-market](#) and [Coupang](#)<sup>(102)</sup>
  - Social Media:
    - ⇒ South Korean consumers use social media platforms mostly after work
    - ⇒ Offering “대세감” (great feeling) when marketing games for South Korean games is essential
    - ⇒ Remember the impact of local social media influencers
    - ⇒ Kakao (local social media channel)<sup>(103)</sup>
    - ⇒ Instagram is in fast growth at South Korea<sup>(104)</sup>
3. South Korea has the fastest internet connections in the World +5G
4. South Koreans are early adopters of tech
5. Consumers appreciate special promotions and discounts

## 4.4. GENRES IN SOUTH KOREA

According to Mintegral & Newzoo’s “Insight into Asia’s Top Mobile Markets: China, Korea, Japan” -report<sup>(105)</sup>, **Role Playing Games** are the most popular genre in South Korea like in many other Asian markets. Strategy games are the second most popular genre in South Korean mobile games. South Korean players also respect classic IPs such as Lineage and Three Kingdoms.<sup>(106)</sup>

## 4.5. E-SPORTS

South Korea is said to be the birthplace of e-sports. The South Korean government has shown strong support for e-sports for a long time. At the end of the 1990’s the South Korean government decided to build a national broadband network. Widespread internet access enabled the rise of online and video games in South Korea. In addition to that, internet cafes became very popular and allowed gaming to be part of the mainstream culture.<sup>(107)</sup> The first Korean Esports Association (KeSPA) was founded nearly 20 years ago in 2000. In August 2018, The Ministry of Culture, Sports and Tourism announced a project to build three new e-sports stadiums in South Korea.<sup>(108)</sup>

<sup>101)</sup> SEOULZ: Everything You Need to Know About South Korean Consumers: Available in: <https://seoulz.com/everything-you-need-to-know-about-south-korean-consumers/>

<sup>102)</sup> SEOULZ: Everything You Need to Know About South Korean Consumers: Available in: <https://seoulz.com/everything-you-need-to-know-about-south-korean-consumers/>

<sup>103)</sup> SEOULZ: Everything You Need to Know About South Korean Consumers: Available in: <https://seoulz.com/everything-you-need-to-know-about-south-korean-consumers/>

<sup>104)</sup> Korea Herald: Instagram fastest-growing social media app in S. Korea: survey. Available in: <http://www.koreaherald.com/view.php?ud=20190611000673>

<sup>105)</sup> Mintegral & NewZoo: Insights into Asia’s Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

<sup>106)</sup> Mintegral & NewZoo: Insights into Asia’s Top Mobile Markets: China, Korea, Japan. Available in: <https://newzoo.com/insights/articles/insights-into-asias-top-mobile-markets-china-korea-japan/>

<sup>107)</sup> NOVASIAGSIS: Esports and Gaming Culture in South Korea: A “National Pastime” or Addictive Disease? <http://novasiagsis.com/esports-gaming-culture-south-korea-national-pastime-addictive-disease/>

<sup>108)</sup> VIE; Korean government will build three new esports stadiums. Available in: <http://viesports.com/korean-government-will-build-three-new-esports-stadiums/>



# SOUTH KOREA



There has been a lot of hype about eSports all around the game industry. However, building an eSports game is not just a decision or a strategy chosen. Naturally, a developer should add eSports features like competitive gameplay into a game already in the beginning of production. However, until the game can truly be called an eSports game, it has to have quite a big and enthusiastic fan and user base. Achieving that is the goal for most games. When there are enough excited users eager to play and other people to watch, the game can be transferred to eSports. This can be included in the strategy already in the beginning, but it's very challenging to execute before a certain amount of success. However, when a developer has already reached the eSports requirements with their game, South Korea is definitely a market to consider.





# SOUTH KOREA



## 4.6. PARTNERING WITH SOUTH KOREAN COMPANIES

Some Finnish game companies are already cooperating with South Korean companies. **Remedy Entertainment is cooperating with Smilegate on developing CrossFire.**<sup>(109)</sup> In 2016, Finnish game studio **Critical Force raised € 4 million investment from NHN.**<sup>(110)</sup> **Korean Investment Partner has invested in several Finnish game studios like Seriously,**<sup>(111)</sup> **Matchmade**<sup>(112)</sup> **and Traptlight Games.**<sup>(113)</sup>

According to interviews conducted for this study and several other sources, South Korean game developers and publishers are very interested in enhancing their opportunities to publish games on Western markets. This could offer a good opportunity for cooperation between Finnish and South Korean companies. However, the leading Finnish companies like Supercell have been able to succeed in the South Korean market by themselves through self-publishing in Apple Appstore and Google Play.<sup>(114)</sup>

Some of the biggest South Korean game publishers and developers are listed on next page. Many of the companies listed there, offer also investment and M&A opportunities.

109) Remedy Entertainment Press release: Remedy signs a new game project with Smilegate. Available in:

<https://www.remedygames.com/remedy-signs-a-new-game-project-with-smilegate/>

110) Good News From Finland: Critical Force hooks EUR 4 million in seed funding. Available in:

<http://www.goodnewsfinland.com/critical-force-hooks-eur-4-million-seed-funding/>

Pocket Gamer Biz: Critical Force raises \$4.5 million to push FPS eSports title Critical Ops out to Asia market. Available in:

<https://www.pocketgamer.biz/news/63892/critical-force-nhn-entertainment-partnership/>

111) Seriously Entertainment: Press Release: Series A Led by Northzone Along With Korea Investment Partners, Upfront Ventures, Sunstone Capital and Daher Capital. Available in:

<https://www.seriously.com/seriously-raises-18-million-to-build-out-its-mobile-first-entertainment-strategy/>

112) EU-Startups: Finnish startup Matchmade, an influencer marketing platform for games, raises €4 million. Available in:

<https://www.eu-startups.com/2018/11/finnish-influencer-marketing-platform-for-games-matchmade-raises-e4-million/>

113) GamesIndustryBiz: Traptlight secures \$2.7m funding round. Available in:

<https://www.gamesindustry.biz/articles/2017-03-23-traptlight-secures-USD2-7m-funding-round>

114) Pocket Gamer Biz: Brawl Stars takes \$50 million in South Korea. Available in:

<https://www.pocketgamer.biz/asia/news/70718/brawl-stars-takes-50-million-in-south-korea/>

115) Reuters: Nexon founder to sell controlling stake in gaming company's holding firm: Korea Economic Daily. Available in:

<https://www.reuters.com/article/us-nexon-sale/nexon-founder-to-sell-controlling-stake-in-gaming-companys-holding-firm-korea-economic-daily-idUSKCN1OX010>

116) BusinessKorea: Bid Prices Fall Short of NXC CEO's Expectations. Nexon Founder Scraps Plan to Sell Majority Stake in Holding Company.

Available in: <http://www.businesskorea.co.kr/news/articleView.html?idxno=33701>

Korean Investors: Sale of Korean game firm cancelled in lack of strategic buyers. Available in: <http://www.koreaninvestors.com/?p=6479>

South Morning China Post: Korean video games firm Nexon fails to draw bid from Tencent, scraps deal potentially worth US\$16 billion.

Available in:

<https://www.scmp.com/business/companies/article/3017824/korean-video-games-firm-nexon-fails-draw-bid-tencent-scraps-deal>

117) SEOULZ: Top 10 Korean Gaming Companies of 2019 to Watch For. Available in:

<https://seoulz.com/top-10-korean-gaming-companies-of-2019-to-watch-for/>

Business Korea: Netmarble Breaks into Global Top 5 in Mobile Game Sales in 2018. Available in:

<http://www.businesskorea.co.kr/news/articleView.html?idxno=28585>

118) <https://gamevilcom2us.com/>

119) SEOULZ: Top 10 Korean Gaming Companies of 2019 to Watch For. Available in:

<https://seoulz.com/top-10-korean-gaming-companies-of-2019-to-watch-for/>

Business Korea: Netmarble Breaks into Global Top 5 in Mobile Game Sales in 2018. Available in:

<http://www.businesskorea.co.kr/news/articleView.html?idxno=28585>

120) SEOULZ: Top 10 Korean Gaming Companies of 2019 to Watch For. Available in:

<https://seoulz.com/top-10-korean-gaming-companies-of-2019-to-watch-for/>

CCP GAMES: News - Black Desert Online developer Pearl Abyss announced that it will acquire CCP Games. Available in:

<https://www.ccpgames.com/news/2018/black-desert-online-creators-pearl-abyss-to-acquire-ccp-games-makers-of-eve>

121) SEOULZ: Top 10 Korean Gaming Companies of 2019 to Watch For. Available in:

<https://seoulz.com/top-10-korean-gaming-companies-of-2019-to-watch-for/>

122) The Investor: Bluehole launches new brand for its subunits. Available in: <http://www.theinvestor.co.kr/view.php?ud=20181105000797>

123) Kakao Games website: <https://www.kakaocorp.com/service/KakaoGame?lang=en> and <https://www.kakaogamescorp.com/>

124) Venture Square: Kakao signs contract with Bluehole to publish Korean version of PUBG. Available in:

<https://www.venturesquare.net/world/pubg-korea-kakao/>

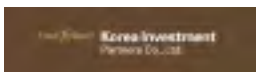
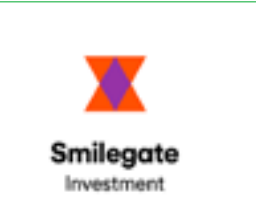




COMPANY NAME		DESCRIPTION
	<a href="#"><u>NEXON KOREA</u></a>	<p>Nexon Group controls Nexon Co which is the largest gaming company in Korea. At the beginning of 2019, a Nexon founder was planning to sell the majority stakes of the company<sup>(115)</sup>. However in July 2019, CEO Kim Jung-ju decided to cancel the tender, as the prices offered were not matching his expectations and assessment of the value of the company<sup>(116)</sup>.</p>
	<a href="#"><u>NETMARBLE</u></a>	<p>Netmarble had a lot of success also outside South Korea. Company was ranked the fifth in terms of sales among global mobile game publisher in 2018. Their most successful releases include Lineage 2, Marvel Future Fight, Cooke Jam, BTS World<sup>(117)</sup>.</p>
	<a href="#"><u>NCSOFT</u></a>	<p>NCSOFT is known for the famous Lineage and Guild Wars series.</p>
	<a href="#"><u>SMILEGATE</u></a>	<p>Smilegate is the company behind Crossfire, the most played FPS with over eight million concurrent players across the globe.</p>
	<a href="#"><u>GAMEVIL</u></a> <a href="#"><u>COM2US</u></a>	<p>Gamevil and Com2us merged in 2013 and the resulting company was renamed Gamevil Com2us<sup>(118)</sup>. In South Korea, these two companies operate separately<sup>(119)</sup>.</p>
	<a href="#"><u>PEARL ABYSS</u></a>	<p>Pearl Abyss is best known for their MMORPG Black Desert Online that has over 10 million users from 150 countries. They have also released a successful game called Black Desert in mobile. The company acquired Iceland-based CCP Games, the creators of popular spaceship MMORPG EVE Online, in September 2018<sup>(120)</sup>.</p>
	<a href="#"><u>NEOWIZ</u></a>	<p>Neowiz is the operator of a popular South Korean games portal called Pmang.<sup>(121)</sup></p>
	<a href="#"><u>WEBZEN</u></a>	<p>Webzen best known for the MU Legend series.</p>
	<a href="#"><u>WEMADE</u></a> <a href="#"><u>ENTERTAINMENT</u></a>	<p>WeMade Entertainment is famous for The Legend of Mir2 and holds the IP for Silkroad Online</p>
	<a href="#"><u>EYE DENTITY</u></a> <a href="#"><u>ENTERTAINMENT</u></a>	<p>EyeDentity Entertainment is known for Dragon Nest and its eSports brand WEGL (World eSports Games &amp; Leagues).</p>
	<a href="#"><u>CRAFTON</u></a> <a href="#"><u>(BLUEHOLE)</u></a>	<p>Krafton (Bluehole) is the developer of PUBG. In November 2018 Bluehole launched a new brand called Krafton to represent a group of its game developer units<sup>(122)</sup>.</p>
	<a href="#"><u>KAKAO</u></a>	<p>Kakao is the operator of South Korea's dominant mobile messaging app Kakao Talk. They have their own games division called Kakao Games,<sup>(123)</sup> which also develops its own games. Kakao Games is the publisher of PUBG in South Korea<sup>(124)</sup>.</p>



# SOUTH KOREA



Some of South Korean investors for games sector are listed on below. <sup>(125)</sup>

COMPANY NAME	DESCRIPTION
	<a href="#"><u>KOREAN INVESTMENT PARTNERS</u></a> Korea Investment Partners (KIP) are a venture capital and private equity investor. They manage an investment fund worth around \$ 2.5 billion. They have also invested in several Finnish Game Studios such as Seriously, Traplight, Armada and MatchMade.
	<a href="#"><u>SMILEGATE INVESTMENT</u></a> Smilegate Investment is a venture capital firm that offers early-stage, private equity growth and buyout fundings. Smilegate Investment has a strong focus on the game industry. In 2014, they opened Orange Farm and Orange Fund, that support early-stage startups in many business sectors <sup>(126)</sup> .
	<a href="#"><u>SOFT BANK VENTURES</u></a> SoftBank Group Corporation has expanded and launched new Seoul-based SoftBank Ventures Asia that is worth \$ 500 million. It is focusing on early-stage investments <sup>(127)</sup> .
	<a href="#"><u>LB INVESTMENT</u></a> LB Investment is a venture capital firm that specializes in buyouts and seed for early-stage, growth stage, cross-border transactions. They invest mainly in companies that have operated for 3 to 5 years since their founding. LB Investment was formerly known as LG Venture Investment <sup>(128)</sup> .
	<a href="#"><u>IMM INVESTMENT</u></a> IMM Investment manages 12 venture capital funds and over 13 private equity funds. They invest in several business areas, including, for example, PUBG developer Bluehole Studio <sup>(129)</sup> .
	<a href="#"><u>ATINUM</u></a> Venture Capital that has over \$ 783 million in assets under management. Atinum has invested in, among others Gamevil <sup>(130)</sup> .

125) SEOULZ: Top 10 Korean Venture Capital Firms You Need to Know for 2019. Available in: <https://seoulz.com/top-10-korean-venture-capital-firms-you-need-to-know-for-2019/>

126) SEOULZ: Top 10 Korean Venture Capital Firms You Need to Know for 2019. Available in: <https://seoulz.com/top-10-korean-venture-capital-firms-you-need-to-know-for-2019/>

127) Reuters: SoftBank's Son finds more love for early-stage investing, new fund planned. Available in: <https://www.reuters.com/article/us-softbank-group-korea/softbanks-son-finds-more-love-for-early-stage-investing-new-fund-planned-idUSKBN1QR0XZ>

128) SEOULZ: Top 10 Korean Venture Capital Firms You Need to Know for 2019. Available in: <https://seoulz.com/top-10-korean-venture-capital-firms-you-need-to-know-for-2019/>

129) SEOULZ: Top 10 Korean Venture Capital Firms You Need to Know for 2019. Available in: <https://seoulz.com/top-10-korean-venture-capital-firms-you-need-to-know-for-2019/>

130) SEOULZ: Top 10 Korean Venture Capital Firms You Need to Know for 2019. Available in: <https://seoulz.com/top-10-korean-venture-capital-firms-you-need-to-know-for-2019/>

# SOUTH KOREA



## 4.7. REGULATION IN SOUTH KOREA

Like in China and Japan, regulation has a significant impact on South Korean game markets.

Already in 2011, the South Korean government introduced the so-called **shutdown law (Cinderella Law)**<sup>(131)</sup> that prevents children under the age of 16 from playing online games after midnight. To boost the game industry, the Ministry of Culture, Sports and Tourism decided to ease the law in 2016 to be based on the parents' choice.<sup>(132)</sup>

In May 2019, the World Health Organization (**WHO**) **defined Gaming disorder as an illness** in the International Classification of Diseases (ICD-11) *"as a pattern of gaming behaviour ("digital-gaming" or "video-gaming") characterized by impaired control over gaming, increasing priority given to gaming over other activities to the extent that gaming takes precedence over other interests and daily activities, and continuation or escalation of gaming despite the occurrence of negative consequences."*<sup>(133)</sup> Furthermore, there is currently discussion about new regulations targeting lootboxes in South Korea and according to a few sources, WHO's global classification for game addiction has alarmed some of the South Korean game studios. Therefore, the South Korean Ministry of Culture, Sports and Tourism has shown strong support for the growth of their local games industry. The South Korean Minister of Culture, Sports and Tourism has removed monthly restrictions for adults on how much they can spend in online PC games and **objected to the WHO decision.**<sup>(134)</sup> A South Korean tech companies association, including 194 companies (among them Naver and Kakao, for example), has expressed their opposition to WHO's classification.<sup>(135)</sup>

## PRIVACY AND DATA PROTECTION

The European (GDPR) and Korean (PIPA) share a number of similarities, although there are some differences as well.<sup>(136)</sup> The South Korean government is currently introducing some changes in its privacy rules in order to overcome the biggest differences between GDPR and PIPA.<sup>(137)</sup> After the changes are implemented, it is likely that South Korea, like Japan, will get a GDPR adequacy decision from the EU that permits cross-border data transfer between EU and South Korea without further authorisation from a national supervisory authority in Europe.

<sup>131</sup>) CNN: South Korea pulls plug on late-night adolescent online gamers. Available in: [edition.cnn.com/2011/11/22/world/asia/south-korea-gaming/index.html](https://edition.cnn.com/2011/11/22/world/asia/south-korea-gaming/index.html)

<sup>132</sup>) The Korea Herald: S. Korea to ease online game 'shutdown law': <http://www.koreaherald.com/view.php?ud=20160718000987>

<sup>133</sup>) WHO: Gaming Disorder. Available in: <https://www.who.int/features/qa/gaming-disorder/en/>

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# SOUTH KOREA



## APPROVALS REQUIRED FROM GCRB AND CRAC

Before any game can be released in South Korea, it needs to have approval from official rating boards GCRB (Game Content Rating Board) and GRAC (Game Rating and Administration Committee), according to user age and platform targeted. Every platform requires separate approval even if the game would have exactly the same content. It is important to note that by law, a foreign company is not allowed to apply for the rating. **To get the rating for a game to be distributed in South Korea, non-locals must have a contract with a local publisher or a proxy before applying. Setting up a branch in South Korea can also be a solution.**<sup>138</sup> The application process is well described on the Game Rating and Administration Committee website <https://www.grac.or.kr/english/> and in CRAC Yearbook 2018 under Rating Classification & Post Management of Game (Summary / October, 2018).

However, it is advised to consult legal advisors on how to proceed with the application process regarding GCRB and CRAC.<sup>139</sup>

<sup>138</sup>) South Korean Game Rating and Administration Committee: Enforcement. Available in:

<https://www.grac.or.kr/english/enforcement/Enforcement.aspx>

GCRB – Game Content Rating Board: Enforcement. Available in: <https://www.gcrb.or.kr/English/enforcement/Enforcement.aspx>

<sup>139</sup>) CRAC Yearbook 2018 on Rating Classification & Post Management of Game (Summary / October, 2018) available for download in: <https://www.grac.or.kr/english/statistics/2017.aspx>



# SOUTH KOREA





# 5. TRENDS

In this chapter, a few of the biggest trends based on their impact on Chinese, Japanese and South Korean games markets are highlighted. The reasons behind the trends are sometimes political and sometimes related to the development of technological infrastructure, such as 5G networks. These days and in the future, political tensions can also have great consequences in the game industry and can escalate even into disruption of markets; for example, if Google's Android OS gets serious competitors from Chinese mobile manufacturers, or trade wars can cause hurdles also for Apple sales in China. Political tensions can also affect global development of 5G networks since the development of 5G technology relies partly on patents owned by Chinese mobile manufacturers.

## TRADE WARS

### CHINA AND U.S.

The trade issues between China and the U.S.<sup>(140)</sup> (Google os. and Huawei) have been a big topic in the global media during 2019. The case of Huawei and Google can escalate in several ways. Apple's market share is expected to decrease in China<sup>(141)</sup> anyway, but also ***new operating systems, like Huawei's new Harmony/Hongmeng OS based on Linux<sup>(142)</sup> to replace Googles Android can cause disruption to markets.***

### SOUTH-KOREA AND CHINA

Unlike in Western countries, games have been part of trade wars for years in Asia. **China has put an ongoing block for South Korean games' approvals on Chinese markets<sup>(143)</sup>** due to political tensions between the two countries that escalated in 2016, when South Korea agreed to deploy the U.S.s anti-ballistic missile system THAAD on the Korea Peninsula.<sup>(144)</sup> This conflict does not concern only the games industry, but other areas of

business and entertainment as well.<sup>(145)</sup> Since March 2017, only two partially South Korean titles, developed in cooperation with foreign partners, have been approved for Chinese markets.

China used to be the largest export market for South Korean games. In 2017 a significant amount of South Korean games were exported to China (60,5 % of the export) and quite a lot (12,2 %) to Japan as well.<sup>(146)</sup> However, due to the current political situation, no South Korean games are published in China, and South Korean games have several challenges also in the Japanese market. The ban is also hurting Chinese companies, which were distributing South Korean games in Chinese markets. *However, one way to bypass the block is to establish a satellite office in Hong-Kong.*

140) BBC News: A quick guide to the US-China trade war. Available in: <https://www.bbc.com/news/business-45899310>

The New York Times: As Huawei Loses Google, the U.S.-China Tech Cold War Gets Its Iron Curtain. Available in:

<https://www.nytimes.com/2019/05/20/business/huawei-trump-china-trade.html>

141) Forbes: Huawei Has Taken Over Apple's Market Share In China; It Will Get Worse: <https://www.forbes.com/sites/kenrapoza/2019/05/02/huawei-has-taken-over-apples-market-share-in-china-it-will-get-worse/#59448647385f>

Reuters: Apple cuts sales forecast as China sales weaken; iPhone pricing in focus. Available in: <https://www.reuters.com/article/us-apple-forecast/apple-cuts-sales-forecast-as-china-sales-weaken-iphone-pricing-in-focus-idUSKCN1OW106>

142) The VERGE; Huawei's new operating system is called HarmonyOS: <https://www.theverge.com/2019/8/9/20798251/huawei-harmonyos-hongmengos-smartphones-internet-of-things-operating-system-android>

Wired; If Huawei can't build a true Android rival with Harmony OS, no-one can. Available in:

<https://www.wired.co.uk/article/huawei-harmony-os-android>

143) Niko Partners: What's behind the lack of new game approvals in China? Available in:

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144) Abacus News: South Korea asks China to stop banning its games. Available in:

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145) Quartz: Online video games are the latest casualty of China's war against Korean businesses. Available in: <https://qz.com/928459/online-video-games-are-the-latest-casualty-of-chinas-retaliation-against-korean-businesses-for-the-thaad-antimissile-defense-system/>

The Korea Herald: Culture minister vows support for gaming market. Available in:

[http://khnews.kheraldm.com/view.php?ud=20190708000641&md=20190710003120\\_BL](http://khnews.kheraldm.com/view.php?ud=20190708000641&md=20190710003120_BL)

146) 2018 White Paper on Korean Games



# TRENDS

While South Korea does not really have any access to the Chinese games market, Chinese games are celebrating in South Korean games markets, especially in the South Korean mobile games market. Some Chinese sources claim that as many as one third of the hundred most popular mobile games in South Korea are made by Chinese developers.<sup>(147)</sup> Naturally, challenges in their domestic markets are also enticing Chinese developers to find new market opportunities outside China. The Chinese government is even supporting Chinese game developers in their export activities. At the same time, South Korean companies like Nexon and Smilegate are facing big challenges, when one of the biggest game markets in the world (and for many years their major source of income) is not open any more for their hit games like Dungeon and Fighter and Crossfire.<sup>(148)</sup>

## JAPAN AND SOUTH KOREA

In July 2019, political tensions emerged between Japan and South Korea. A skirmish, concerning compensations for forced labour in South Korea during World War II, escalated in June 2019.<sup>(149)</sup> As a result, Japan has started to hinder exports of raw materials that are crucial for the South Korean tech industry.

147) Abacus News: South Korea asks China to stop banning its games. Available in:

<https://www.abacusnews.com/digital-life/south-korea-asks-china-stop-banning-its-games/article/3014558>

148) BusinessKorea: China Permitted No Korean Games for over a Year. Available in:

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# TRENDS

## 5.2. 5G NETWORKS BOOSTING NEW OPPORTUNITIES IN GAMES

Faster networks, especially wireless 5G, are potentially going to have a large impact on mobile and cloud gaming. The increased bandwidth of 5G enables better cloud-based services, ie. subscription services, such as Apple Arcade that was launched in September 2019, and Google Stadia that is going to be launched in several countries in November 2019. Faster networks naturally also enhance multiplayer games and boost especially eSports.

Asian mobile operators are globally ahead in investing in 5G networks. According to GSMA's Mobile Economy series,<sup>(150)</sup> local mobile operators are investing \$ 370 billion in building new 5G networks during 2018-2025. The world's first nationwide 5G network was launched in South Korea in April 2019.<sup>(151)</sup> Japanese Softbank announced that they are targeting 60% population 5G coverage in Japan by 2023. Japanese NTT Docomo are also investing heavily in 5G.<sup>(152)</sup> During summer 2019, China has also started testing 5G on its major cities and provinces.

Political tensions between the U.S. government and Huawei and other Chinese technology manufacturers (ZTE, Oppo and China Academy of Telecommunications Technology), who not only dominate 5G technology, but also own a majority of the patents regarding 5G technology, might hinder the development of 5G networks in the U.S. The patent portfolio of U.S. companies is even smaller than that of the Finnish mobile company Nokia, which has 1397 patents, 29 more than U.S. companies in total. South Korean companies hold 2051 patents. Neither South Korean Telecom nor Korea Telecom uses Huawei Technology in its 5G networks.<sup>(153)</sup> It is also worth noting that it is quite a different market to have millions of people in a small area like in South Korea and Japan, compared to other geographical areas less densely populated.

150) GSMA; 5G Arrives in Asia as Operators Invest Billions Rolling Out Next Generation Networks, Finds New GSMA Study. Available in: <https://www.gsma.com/newsroom/press-release/5g-arrives-in-asia-as-operators-invest-billions-rolling-out-next-generation-networks-finds-new-gsma-study/>

151) VOA; South Korea to Launch World's First National 5G Networks. Available in:

<https://www.voanews.com/silicon-valley-technology/south-korea-launch-worlds-first-national-5g-networks>

152) VentureBeat; NTT Docomo moves up Japan-wide 5G to June 2020, offers early access. Available in:

<https://venturebeat.com/2019/09/19/ntt-docomo-moves-up-japan-wide-5g-to-june-2020-offers-early-access/>

153) VOA; South Korea to Launch World's First National 5G Networks. Available in:

<https://www.voanews.com/silicon-valley-technology/south-korea-launch-worlds-first-national-5g-networks>









# 6. INTERESTS

## OF FINNISH DEVELOPERS TOWARDS ASIAN MARKETS

Neogames asked Finnish game studios about their interests towards the Chinese, Japanese and South Korean markets in September 2019. In total 48 companies replied to the inquiry. Despite the publishing and regulation challenges, **China was still seen as the most potential market of these three** (China, Japan, South Korea) among Finnish developers. **Regarding partners and investors, South Koreans were most wanted.** However, **from a trade mission perspective, Japan was seen as the most interesting from Finnish game developers' point of view**, although the difference to the two other was not great.

When asked about market potential, in total **56 % considered the Chinese market most potential from their perspective** and 31 % of developers who replied found it very interesting. 23 % saw little or no potential at all and 21% were unsure.

Regarding the Japanese market, 54 % considered the market potential to them and 19 % found it very potential. For 23 % there was little or no potential at all, and 23 % were unsure.

52 % of the companies who replied considered the South Korean market potential from their perspective and 21% of those found it very potential. 31 % of the developers were not sure if there is potential for them. 17 % found that the market has very little or no potential for them. (Chart 11)

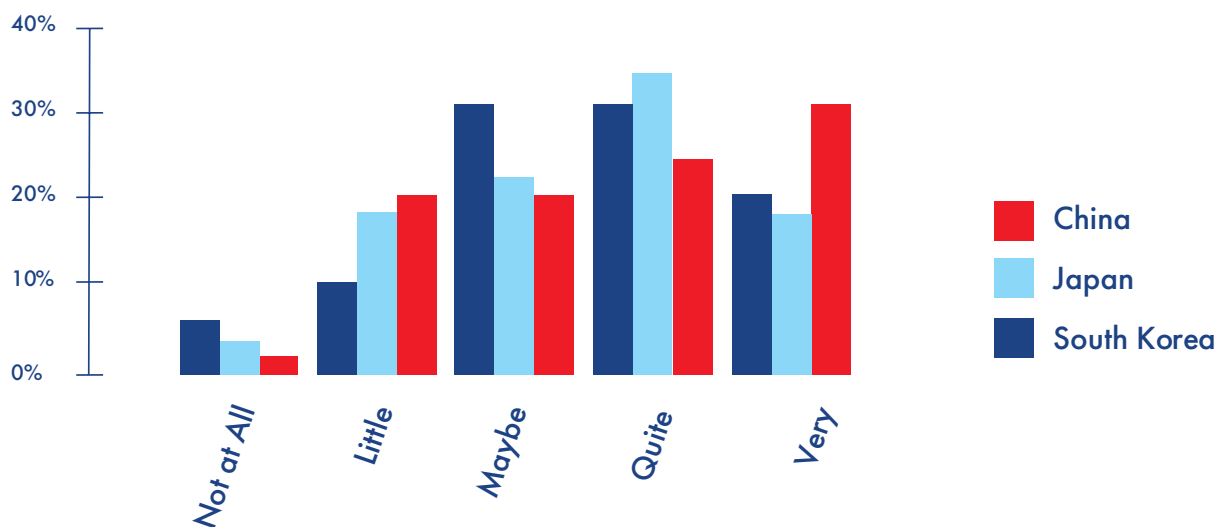


Chart 11. How potential Finnish Game developers see the Chinese, Japanese and South Korean markets from their business point of view currently and in the near future.

# INTERESTS

Half of the companies replied that they are looking for partners or investors from some of these markets. Chart 12.

Even if China was seen as the most potential market among Finnish developers, the largest share (30 %) of the companies were interested in finding partners and investors from the South Korean market. Little less, 28 %, were interested in finding partners and investors from the Japanese market and 25 % from the Chinese market. The smaller share of interest in finding Chinese partners and investors could be due to there having been a lot of attempts to build business relations between Finnish and Chinese actors. Neogames started China market investigations already in 2015, and Finnish trade missions to China were executed in 2016 and 2017. Therefore, there are already many existing business relationships between Chinese companies and Finnish developers.

When Neogames asked about the preliminary interest towards a trade mission to these three markets, there was almost equal interest towards all three. Japan was seen as a little more interesting for 61% of the replied companies, but South Korea was almost even with 59 % of interest and China received 54 % of interest. Companies could choose more than one target to show interest for the trade mission. Chart 14. The market developers would prefer to have trade mission

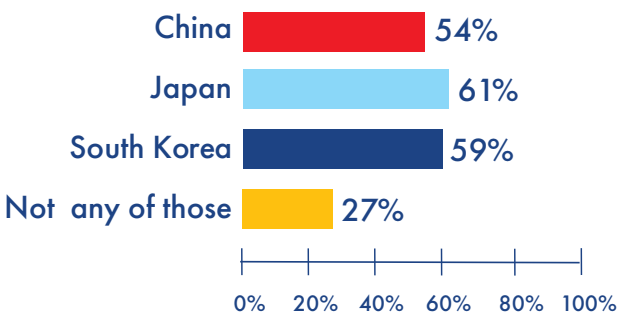


Chart 14. The market developers would prefer to target a trade mission

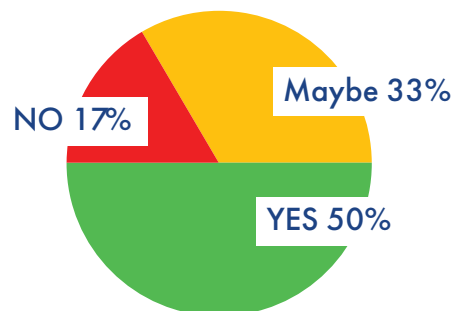


Chart 12. Looking for partners and investors, from China, Japan and South Korea

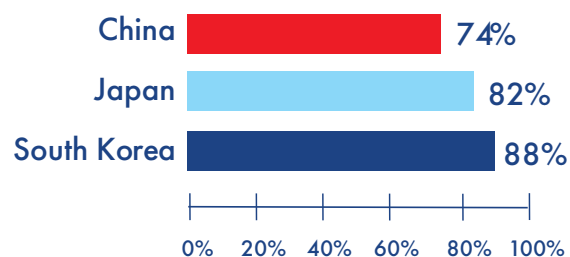


Chart 13. The Market where Finnish Developers were interested in looking for a partner or investor





# 7. BEST PRACTICES

Based on the information gathered in this study, the following options (not in any specific order) for Finnish game developers looking for a way to enter these markets are recognized;

- **Self-publishing in Japan and South Korea through digital distribution channels ie. Apple Appstore, Google Play, Steam and Epic store or console platforms**
- **Strategic investment from local investors in China, Japan or South Korea**
- **Offering outsourcing services for Chinese, Japanese, or South Korean companies**
- **Buying outsourcing services from Chinese, Japanese, or South Korean companies**
- **Cooperation (for example in publishing) projects with Chinese, Japanese, or South Korean companies**

Even though there are advice and even rules on how to enter the market, Finnish game developers have a good track record in doing things differently. Supercell, for example, did not partner with Kakao when they entered the South Korean market in 2014. At that time, cooperation with the largest local social media company was seen to be the only way to access the market and reach the local players. The example of Supercell successfully self-publishing several games in South Korea has proved that there are more options for market access. However, Supercell did open a local office in both Japan and South Korea already in 2014 to increase their presence and to understand local markets.

In summer 2019, Finnish SmallGiant, which was acquired by Zynga in December 2018, decided to self-publish in both South Korea and Japan. It is common knowledge that visibility with celebrities and big billboards on the streets are essential for user acquisition in these markets. However, the strategy of SmallGiant was different. They focused their attention on laser sharp performance marketing to reach the (right) local players, and their game Empires & Puzzles has been a great success in the South Korean market.

SmallGiant has also proved that local social media channels are not the only way to enter these markets. Western services (like Twitter, Facebook, YouTube, Google, Vungle, Unity) are starting to have a significant presence also in Japan and South Korea (but not in China). Naturally, it is good to cooperate with local social media channels at some point, but it can also be done step by step. However, it is very valuable to have good connections with local platform holders and distribution channels (like Google Play, iTunes etc., bear in mind that there are several different Android Appstores in China). They can help and guide you with local regulations, for example, but also with visibility.

Furthermore, there has been a lot of discussion on how important it is to modify the content of Western games to fit certain Asian markets. Based on interviews conducted for this study, on some level the creative styles and preferences are merging between countries and cultures. Therefore, content localization does not seem to be an absolute necessity either.

# & RECOMMENDATIONS

However, there are a few things which still seem essential for a foreign game developer to keep in mind, when aiming at these market areas;

## 1) FOCUS!

- ➡ Include market entry as a firm part of your company's long term strategy.
- ➡ Investigate the market you are entering
- ➡ Asia is big. Enter these markets one by one
- ➡ Have enough time and resources to focus on each market when launching your game

## 2) Having enough content to PLAY is fundamental

- ➡ Chinese, Japanese and South Korean players play a lot and they consume content faster than customers in Western markets
- ➡ You also need to have lot of events for local players

## 3) You need to have enough content to PAY for

- ➡ Have solid KPI testing
- ➡ Especially Finnish developers are often modest, when it comes to in-game spending
  - ✓ There is nothing wrong in offering added value for money for a player who enjoys playing the game.
  - ✓ The opportunities for in-game spending and the value for the money invested needs to build in the game already from the beginning

## 4) Language:

- ➡ Many of the local partners in China, Japan and South Korea do not speak English
  - ✓ Having a person speaking the local language helps to approach platform holders, PR partners, social media etc.
- ➡ Language localisation is still valid in all these three countries.
  - ✓ It is important to pay attention to the quality of translation and understand cultural differences between these countries

## 5) TEST and Softlaunch your game before entering to Asian target market

- ➡ Malaysia is a good place to test for Chinese Players
- ➡ You can test your game as a separate app in case you want to maintain the integrity of the game itself
- ➡ Build you strategy based on these test results

## 6) Follow the local rules

- ➡ Regulation is becoming a bigger and bigger market access barrier. In order to overcome It, you need to familiarise yourself with the key local rules and regulations for games.

## 7) Be polite

- ➡ Always communicate respectfully
- ➡ Be punctual in everything you do



# 7. BEST PRACTICES

Cooperating with a local partner can give you a lot of support and help, especially if you do not have enough time or resources to gain a deep understanding of the market. Still, it is very important to have a basic understanding of the local culture to be able to cooperate successfully. Choosing a partner who already has some previous experience of cooperating with western developers can be a good choice. Especially in PC and Console games, a local partner can offer a lot of support regarding physical retail, but also for presence at trade events, including organizing meetings with partners and press, and for visibility in general.

Even though creativity is one of the strongest assets of Finnish game developers, when approaching Chinese, Japanese and South Korean partners, it is very important to be able to justify your decisions by profits in business. Sometimes visuals and playable demos are a good way to reach a common understanding, but in the end, money is the international language.

Keep in mind that there are big differences between the Finnish working culture and hours compared to Asian countries, where there is a lot more hierarchy in decision making and working hours are much longer. When meeting different partners in all these three countries, it is not polite to mention that you are meeting several other local partners too, even so that they would be aware of the fact.



China is the largest games market in the APAC area and the second largest in the world. Publishing a game in the Chinese market always requires a local partner. Therefore, Finnish developers are advised to find a trusted Chinese partner, preferably with a good track record from publishing Western games. China is still a lucrative market even though the licencing regulation is creating some extra challenges. However, it is strongly advised to obey legal processes and apply the ISBN approval before publishing games in the country. It is also good to understand that the Chinese mobile market is very fragmented and the business environment itself very different from the West. Therefore, it is important to pay attention to the fact that launching games in China requires a lot of time, attention, focus and resources from a foreign developer. For PC games the market is huge, even though it is also a slightly complicated without officially available Steam with its enormous user base.

It is also good to understand the differences between Chinese and Finnish business cultures. Bear in mind that all the Chinese business partners are not English speaking or fluent in English. Having a Chinese-speaking person on the Finnish developer side is an advantage.

It remains to be seen how the political tensions between the U.S. and Huawei will affect the market, and whether it will be disrupted by the possible new operating system replacing Google's Android. However, when asking the Finnish game developers, they considered the Chinese market as the most potential from the three markets looked at in this study.



Japan is the second largest games market by revenues in the APAC area and the third largest globally. Japanese players are the biggest money spenders in the world. In Japan, mobile games are the biggest by revenue and console games second.

From a cultural point of view, there seem to be a lot of similarities between Finnish and Japanese business culture. However, it is important to remember that like in many Asian countries, failing is an issue in Japanese culture. The Japanese avoid losing face until the end. Thus, it is very important to evade embarrassment in your relationship with Japanese partners. Fear of failure also presents itself as a lack of willingness to take risks and hesitation in new ventures. Fear of losing face applies also to products and IPs that are highly valued and well treated in Japan. In practise this means that it is very important that the launch will be successful, otherwise there is a threat that you cannot access the market again with the "embarrassed" IP.

Language can be a barrier in business operations. Japanese partners prefer to communicate in Japanese, so interpreters or another Japanese-speaking person from the Finnish developer side makes the cooperation smoother. It is good to note that patience is important when operating with Japanese companies. It takes time to build a trusted partnership with them. Of these three countries, Finnish game developers found Japan the most interesting target for a trade mission.

# & RECOMMENDATIONS

## SOUTH KOREA



South Korea is said to be one of the fastest growing game markets in the world. South Korea has a very high smartphone penetration and it is leading the global competition of building national 5G networks. Mobile and PC are the biggest platforms for games by revenue.

The South Korean market is very dynamic; the trends change quickly. It can be a challenge to provide enough content to high consuming and demanding players. It is therefore good to be well prepared for launching a game in South Korea and not leave users too hungry for new content and disappointed already in the beginning. It is good to remember that the cultural differences between South Korea and Finland are quite significant, even though they are not always that obvious. This applies especially to business relationships and working culture. For example, in Finland, the organization and hierarchy of companies is usually very flat. In South Korea there is much more hierarchy that must be respected.

When considering cooperation with South Korean companies, it is good to ask for advice from the Western and Nordic companies who already have experience of such cooperation. There are several big, globally successful South Korean partners and investors that are open for cooperation with Finnish game developers. Finnish games and game developers have a good reputation and are highly appreciated in South Korea. However, it is also proven that self-publishing, at least in mobile games, is a viable method for Finnish developers to enter the South Korean market.

## IN GENERAL

Regarding all these three markets, as appealing as they are, Finnish developers should not trust the idea of the games market being global with no need for specific go to market strategies. Each of these markets is very unique and differs tremendously from the Western markets that are familiar to us already. There are big differences in games distribution, but even more in culture. When considering entering these markets, it is necessary to do some homework in order to understand its players and business culture. This does not mean that by default the game content would need to be fully localised, but better understanding enhances the developer's opportunity to serve local players better and to do better business with local partners. There are several service providers, for example in localisation, market analysis, add networks etc., to help you enter these markets. Sometimes an agency to help you find a good local partner or investor can be a good choice.





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