

Analysis of Business Strategy of NetEase

Tianzi Dong^{1, †} Ruizhe Jiang^{2, †} Jun Ma^{3, *, †} Anyu Xu^{4, †}

¹*Xiwai International School, Shanghai, China*

²*Living Word Shanghai, Shanghai, China*

³*College of Applied Technology, Soochow University, SuZhou, Jiangsu province, China*

⁴*Hefei No.1 High School, Hefei, Anhui province, China*

**Corresponding author. Email: guanghua.ren@geccademy.cn*

[†]*Those authors contributed equally.*

ABSTRACT

With the rapid development of China's network business, the online entertainment industry has gradually replaced the traditional offline entertainment mode and become the main way of customers' consumption, choice and attention. Many domestic enterprises invested more into online marketing arena and the competition is getting intense, even large and medium-sized internet enterprises of competitive advantage in local areas have been gradually weakened, facing unprecedented competition pressure. This study takes NetEase as the research object and studies its retention status by analyzing its key business areas. At the same time, it can also provide some theoretical basis and experience for enterprises in the Internet industry.

Keywords: *NetEase, internet, strategy*

1. INTRODUCTION

Wang Yi—NetEase is one of the major internet companies which is prominent in the game and music industries. The internet industry has become one of the most important and advanced industries in the world, and after decades of development, NetEase has become one of the biggest internet companies in China.

NetEase was founded by Ding Lei in Guangzhou in 1997, and it was listed on NASDAQ Stock Exchange in 2000. It is one of the leading internet technology companies in China. In the development of internet applications, services and other technologies fields, NetEase has always maintained an important position in Internet industry in China [1].

NetEase has not only created huge revenue in the past many years, but also is unique in the same industry. The internet is becoming more and more developed and complex in modern society. Many decisions of NetEase seem to be relatively slow paced, which makes people feel very confused. This research paper investigates the business strategies adopted by NetEase to analyze the reasons for its success in the Chinese market and whether this success can be replicated and developed in the long term. At the same time, we believe that NetEase has important research value as one of the more prominent and important Internet companies in the

music and game business. This research paper is not only a forecast of NetEase's future developments but also an analysis of the future possibilities of the Internet computer industry as a whole.

Unlike the historical internet companies in China, although NetEase is well known in many fields of internet, such as news, fund, entertainment, sports channels. It seems that NetEase abandons to develop these areas in the future. Instead, NetEase chooses to focus on the games and music industries which targets young people. This is exactly what this research paper is going to analyze today: NetEase Games and NetEase CloudMusic. It is important to understand these two segments because they are the core industries of NetEase, which have contributed high profits to NetEase. This research paper analyzed the business strategies and the future possibilities of NetEase from the following perspectives.

2. NETEASE GAME

NetEase had a unique growth mode: High quality and independent research. Before 2014, NetEase's performance in the field of mobile games was not outstanding, so much so that some people asserted that NetEase's mobile strategy had fallen behind the industry

for 4 to 5 years. But by the time of 2015, NetEase had released more than 80 mobile game products [2].

Of course, mobile games are only one aspect of NetEase. Classic games such as "Da Hua Xi You" and "Meng Huan Xi You" have been popular for more than a decade, while the games that launched in the same period often have a life cycle of only one to two years. From mobile games to computer games, Ding Lei still likes to make his own rules, and NetEase games have also formed their own unique growth model.

2.1. Pay attention to independent research and rely on high-quality games

"Xi You Luan Dou" is a turning point for NetEase in the field of mobile games, and it is also a sign of NetEase's intensive cultivation of designing and developing high-quality games in the mobile game market. "Xi You Luan Dou" won the 2014~2015 Apple China Outstanding Game Award, and the MOBA+RPG game mode has become the mainstream of today's mobile game market.

Since then, "Onmyoji", "A Chinese Ghost Story", and Westward Journey series have all become the excellent products in the industry. In NetEase's game revenue distribution, self-research accounted for 87.9%.

2.2. NetEase game development strategy always conforms to market law

Behind the rise of mobile games is that mobile phones have replaced PCs as the new mainstream entertainment tool. Looking at NetEase's mobile game strategy from this perspective, instead of using slightly ironic words such as "conservative" and "slow" to describe it, it is better to say that NetEase respects market rules in terms of product rhythm.

In 2011, NetEase tentatively launched the first smartphone game, "Flip Book". At that time, the popular ones on the market were "Angry Birds", "Plants vs. Zombies", "Fishing Master" and other stand-alone games. Games, under the restrictions of mobile phone configuration, internet speed, payment methods, and many other rigid conditions, mobile games have not ushered in the real spring.

However, in 2013, NetEase approved more than 20 mobile game projects with unified development requirements [3]. This period is also an important node for domestic mobile phones to move from cost-effective to high-end, mid-to-high-end. It should be said that NetEase, which respects market rules, has grasped the trend of heavy mobile games by its long-standing advantages in terminal game research and development.

2.3. Innovation and development some highly influential IP (intellectual property)

IP has long become the benchmark in the entertainment industry, and the game is no exception. In the layout of NetEase games, two routes have been continued, one is the reserve and mining of heavyweight IP, and the other is the creation and undertaking of IP brands.

For example, NetEase has reserved high-quality IPs such as the Gulong series and Kung Fu Panda series. The popular mobile game versions of "Westward Journey" and "Fantasy Westward Journey" originated from their own Westward Journey IP. The success of "Onmyoji" is probably the best case to prove NetEase's IP operation capabilities. Judging from the existing news, NetEase announced the film adaptation plan of "Onmyoji", trying to use the "movie game linkage" method to develop IP.

Regardless of whether it is a mobile game or a mobile game, due to the limitations of interaction methods, it is difficult to have disruptive innovations in the game mode. In the future, IP discovery and operational capabilities will be tested even more. In NetEase, we also saw another layer of the value of IP, which is a game diversion. For example, the TV series "A Chinese Ghost Story" and "A Chinese Ghost Story" have been in the top five of the AppStore free list for two consecutive weeks. For NetEase, which has weak channel capabilities, heavyweight IP undoubtedly makes up for this shortcoming.

3. NETEASE MUSIC

3.1. The motivation of NetEase CloudMusic obsession with developing a community culture

NetEase CloudMusic attracted a lot of young people and introduced them to the company, which probably prompted them to choose NetEase among many possibilities. The culture of NetEase's cloud community, which also has social share function like Wechat and QQ, but instead of focusing on itself, it seems to be looking for ways to reengage the people it attracts into its games, becoming users of its games to gain profit..

Back in 2013, when NetEase Cloudmusic was first launched, Dinglei, the Founder of NetEase, had already introduced the definition of Mobile Music Community: users share unique discoveries around the content of music, which in turn creates a unique music community [4]. The specific developments are as follows: users share interesting comments under the comment section and create a distinct community atmosphere. Also, users can customize their own song lists and share them among other users. In addition to these two aspects, NetEase CloudMusic has also made a series of attempts

in radio and short videos, showing his ambition for the music community.

In August 2019, NetEase CloudMusic launched another online community section called Cloud Village [5]. Following the development track of NetEase CloudMusic, the emergence of Cloud Village is not unexpected, but what we need to figure out is the reason why NetEase CloudMusic has such a strong obsession with the community.

3.2. Target audience: Young People

We already know that NetEase CloudMusic’s target audience is young people, and NetEase CloudMusic has a unique perspective to attract the attention of these young people: developing community culture. It is persistent in developing community culture, in its unique way.

The “2018-2019 China New Potential Crowd App Contact Behavior Report” released by Morketing Research revealed a set of data that in the list of the most influential apps among the post-00s, NetEase Cloudmusic ranked first in the music category, only after WeChat, QQ, Alipay, Taobao, and Weibo [6].

The reason that NetEase captures lots of younger users is closely related to their strategy launched by Dinglei in 2013. “Young people are the main force of consumption in society” [7]. That is the reason why NetEase Cloudmusic focuses on capturing the attention of younger people and conforming to their habits.

First of all, the social demand of the young is more vigorous than any other generations. Influenced by family planning, most of the post-90s and post-00s are the only child of their families. From the perspective of educational psychology, adolescence is often a critical period in a person’s psychological development. The lonely environment of growing up makes the post-90s and post-00s more willing to expand their social circle. At the same time, the development of the internet and smartphones coincidentally fulfill this demand, and many people have started began to friends with internet users all over the world.

The second reason is the natural interaction scenes of music communities. Social circle is like a telephone and an address book, while communities are bars, coffee shops, and squares. The value of socialization is the stability of the relationship, and the core criterion for evaluating the value of a community is the efficiency of screening out like-minded people of the same kind, in which music plays a role that cannot be underestimated.

For example, people who like the same song have a much higher probability of being the same kind of person than a simple and brutal gender selection. This is the value of music communities for young people, as there are many topics that can be developed around a

song. When hearing music with emotional resonance, it is often accompanied by a strong desire to share it.

3.3. The role of NetEase games and NetEase CloudMusic

The first characteristic of NetEase games is that they always pay attention to independent research and rely on high-quality games. This makes it easy for its games not only to attract new users, but also to retain old ones.

The second characteristic is that its game development strategy always follows the market. This makes them less likely to make mistakes, because the whole market does so, and there are many companies that try and make mistakes before NetEase. It means that although NetEase rarely has first place in the market, it can always have a foothold in the advanced field.

The third feature is NetEase is used to innovating and developing some very influential intellectual property rights. This allows them to develop conservatively without falling behind, and to keep pace with the larger forces in economic and technological development.

These characteristics make NetEase games to create a high income for NetEase company, like the soldiers in the game. It creates profits and wins for NetEase at the front end of the market. NetEase CloudMusic is like a consigiere, attracting more users for NetEase Games.

NetEase Game and NetEase CloudMusic complement each other, which has helped NetEase gain a lot of progress in recent years.

4. DISCUSSION

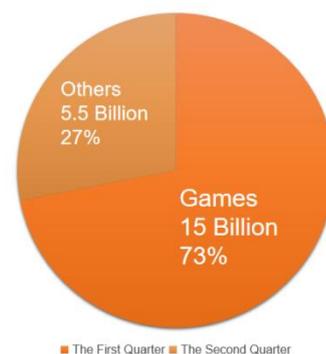


Figure 1 NetEase’s game revenue

Figure 1 shows that in the first quarter of 2021, NetEase’s game revenue reached 15 billion yuan, accounting for 73 percent of the company’s total revenue, while the rest accounted for only 27 percent [8]. It can be said that NetEase’s current success is closely related to the profits of its game industry. As NetEase’s main secondary industry, NetEase CloudMusic has not brought high revenue. However, this does not mean that

its investment in NetEase CloudMusic is a waste of resources. The investment in NetEase CloudMusic enables more young people to be familiar with the NetEase and start to use NetEase products, including playing its games for the experience. Such a marketing strategy is novel and successful in terms of results. Whether it can achieve sustained high revenues in the final practice remains to be proven.

NetEase is a stable and progressive company that relies heavily on its games and music businesses as the main marketing strategy, which has brought in significant revenue over the past few years. However, in today's rapid technological development and the emergence of many industry giants in the internet industry, NetEase is barely an industry leader in China, but from a global perspective, it is far from enough. Every step of NetEase is very solid and slow, which easily leads to the slow development of NetEase compared to other companies in the industry. This situation may cause NetEase to often not being the first one to seize the market opportunity when it arises, because they are too cautious.

Meanwhile, NetEase is slow to respond to market changes and seems to prefer to "fight prepared battles". Although they are also better at "pre-war preparations", sometimes too much concern may lead to missing opportunities to expand the market. In addition, NetEase's strategy of relying on the game and music markets seems stable at present, but this is also the primary threat of NetEase. We know that the market is constantly changing, especially the internet market. If there is a crisis in the game field or music field, NetEase may be difficult to deal with because it focuses almost all of its resources and attention on these two areas. In addition, although the NetEase is an industry leading enterprise in domestic, but its revenues, the diversity of the game, and the number of users are not top, such as its domestic rival Tencent and Alibaba are strong for NetEase. How NetEase handles its business and distribution market share with these companies is probably the biggest issue that NetEase needs to consider. In addition, NetEase also needs to solve the problems of industry pressure, timely handling of user feedback, and the proper handling of old games in the game update iterations.

5. CONCLUSION

We analyzed NetEase games and NetEase Cloudmusic, because these are the two core and most profitable projects of NetEase.

NetEase games have developed well in recent years. Most importantly, it has not given up quality for quantity. Although it has designed and developed many new games, each of them brings good experience to players, which is NetEase's strategy to make

high-quality games. At the same time, it kept up with the focused areas, developing computer games when computer games were popular in China, and catching up with mobile games when the age of cellphone came. Although NetEase was not the pioneer, it was rarely absent, and its decisions were always right and can bring back benefits. At the same time, NetEase game focus on creating characters that are memorable to players, which is the kind of innovation that leads development in the first place. There are a lot of Chinese players who are willing to play a game for their favorite character and even buy its peripherals. What NetEase has kept doing is developing and innovating more characters that players like, including using some popular elements of old games in new games, so that NetEase will keep gaining new user groups without losing old users.

The strategic focus of NetEase CloudMusic is the development of community culture, fundamentally because it is difficult to directly reap huge profits from a music software. However, it can gain a lot of attention and user groups, because there is a large number of young people who like to listen to music, and there are many music software. It is fair to say that many music software attract young people's attention for a long time, but with very little revenue for each. NetEase CloudMusic targets this group of young people, so it chooses to develop community culture to get consumer groups or loyal customers from these people as much as possible. To this end, NetEase has also invested heavily in NetEase CloudMusic in order to let users use NetEase CloudMusic, remember NetEase, and use more NetEase products.

The strategic decisions made by NetEase may not be the best, but they are always very suitable for its own development, in line with its corporate culture and ability to adapt to it. Therefore, although the future is unknown, NetEase still show a good deal of potential.

REFERENCES

- [1]Toutiao. 2021. China's Internet Enterprise comprehensive strength Index. retrieve November 26, 2021, from https://m.baik.com/wiki/%E7%BD%91%E6%98%93%E5%85%AC%E5%8F%B8/755469?searchId=202112101044130101501341671DF892F0&baike_source=baik_hudong_structure_new
- [2]Toutiao. 2017. There are only two models left in the Chinese game industry, NetEase and others. retrieve February 17, 2017, from <https://m.toutiao.com/i6387909191268303361/>
- [3]Toutiao. 2017. There are only two models left in the Chinese game industry, NetEase and others. retrieve February 17, 2017, from <https://m.toutiao.com/i6387909191268303361/>

- [4]Baidu. 2019. NetEase Cloud music "village", the community is reshaping the music market, retrieve August 5,2019 from <https://baijiahao.baidu.com/s?id=1641016120738734471&wfr=spider&for=pc>
- [5]Qianbidao. 2019. NetEase Cloud Music officially launched a new community board: Cloud Village Community. retrieve August 2,2019 from <http://app.myzaker.com/news/article.php?pk=5d4399988e9f096e106221a5>
- [6]IASK. 2019. Report on App contact behavior of New Potential Population in China (2018-2019). retrieve July 20, 2019 from <http://ishare.iask.sina.com.cn/f/6PNozVS3P7.html>
- [7]Baidu. 2019. NetEase Cloud music "village", the community is reshaping the music market, retrieve August 5, 2019 from <https://baijiahao.baidu.com/s?id=1641016120738734471&wfr=spider&for=pc>
- [8]Souhu. 2021. Revenue 20.5 billion increased 20% year on year game revenue accounted for 73%, retrieve May 18, 2021 from https://www.sohu.com/a/467167284_430392