

Analysis of Tencent's IP Convergence Development Strategy

Hao Jiang^{1, *, †} Qingyi Liu^{2, †} Yi Wang^{3, †}

¹ Division of Humanities & Social Sciences, Beijing Normal University-Hong Kong Baptist University United International College, Zhuhai, Guangdong 519000, China

² Business School, University of New South Wales, Sydney, NSW 2052, Australia

³ NOIC Academy, Ontario, ON L3S 2H4, Canada

*Corresponding author. Email: ¹p930031060@mail.uic.edu.cn

[†]Those authors contributed equally.

ABSTRACT

Tencent, as the leading enterprise in Chinese entertainment sector, holds a very large market share. However, as competition becomes more and more intense and diversified, and viewers' demand for content gradually increases, Tencent must respond if it wants to maintain its previous dominant position, and Tencent Interactive Entertainment, as the operator of Tencent's entertainment segment, must assume more responsibility. After Tencent put forward the concept of "pan-entertainment", the integration of its own resources has been accelerated, but many problems still exist. This paper uses SCP theory to analyze Tencent Interactive Entertainment's existing business structure and success factors, and uses a questionnaire to study the IP segment. According to the above analysis, Tencent Interactive Entertainment's high-quality IP integration will be a necessary tool to occupy a favorable position in the market competition.

Keywords: Interactive Entertainment, IP Integration, Tencent

1. INTRODUCTION

With the rapid development of the Internet, the trend of integration of various industries has been highlighted, and the industrial and corporate boundaries in the global market are gradually blurred, and various industries are penetrating each other [1]. The integration across borders can indeed better enhance enterprise value and audience perception. In this regard, companies or individuals with a large number of IPs will receive greater dividends, and the fusion of IPs will greatly enhance corporate awareness.

The most successful IP fusion in the market is Marvel and Disney. It is undeniable that Marvel and Disney's IPs themselves have a very wide range of influence. Before Marvel launched the Avengers in 2012, Iron Man series (Iron Man 1, Iron Man 2) movies had received a global box office of more than \$12.09 billion, and Thor and Captain America also won respectively the global box office is \$4.49 billion and \$3.31 billion. In addition, these superheroes have also brought Marvel more revenue, such as toys, endorsements, etc. In 2012, Marvel launched the Avengers series of movies, which gave

more vitality to the already excellent box office. The box office of the Avengers is \$15 billion, the Avengers 2 box office is \$14 billion, the Avengers 3 box office is 20.484 billion US dollars, and the Avengers 4 box office is \$27.902 billion. The Avengers series of movies have also become the best box office movies in film history.

Tencent Interactive Entertainment (IEG) and China Literature Limited (CLL) are two Chinese companies with a large number of IPs and have very close cooperation in terms of commercial cooperation as well as equity [2]. IEG has also put forward the concept of "pan-entertainment" in recent years. IEG and CLL have a large number of IP resources in animation, games, literature, film and television, which is similar to Marvel and Disney, but in terms of IP utilization as well as effective marketing is still a big gap with Marvel. In this article, we will analyze as well as forecast the two most popular IP modules in the market, literature and games, owned by IEG and CLL.

2. METHOD

We adopt the SCP paradigm to analyze the Tencent Interactive Entertainment.

The SCP model or paradigm shows the relationship between three components in an industrial organization which are structure, conduct and performance. SCP first published by economists Edward Burling and Joan Robinson in 1933 [3], and developed by Joe S. Ban is in a model of industrial organization economics, and it provides a solid performance causal theory explanation of economic behavior through incomplete markets.

Based on the structure-conduct-performance paradigm, there is a direct, short-term influence of the market environment on the market structure. Market structure in turn exerts a direct pressure on the economic behavior of firms, and consequently on their market performance. In particular, feedback effects arise so that market performance may influence behavior and structure, or behavior may influence market structure. In addition, external factors such as legal or political interventions can influence the market framework, which in turn affects the structure, behavior and performance of the market.

As for IEG, the structure is complex and covers lots of areas. Tencent games, literature, animation, pictures, E-sports are all parts of IEG. The multiple sections reflect the ambition of IEG. The most well-known part is IEG games. Take the "Honor of Kings" as an example, it allows players to compete with each other. Supported by Wechat or QQ, it becomes much easier to play games with friends. By 2020, it has attracted more than 0.5 billion players and the number is still on an upward trend.

In order to better analyze and research, we randomly selected 201 respondents in the form of a questionnaire this time, and the questionnaire was 100% efficient. The interviewees are between 16 and 50 years old. There are 94 men (46.77%) and 107 women (53.23); the education level ranges from high school to doctoral degrees, of which 29 (14.43%) have tertiary degrees, 139 people (69.15%) have a bachelor's degree and 14 people (6.97%) have master's and doctoral degrees. Details of the questionnaire and the data sheet can be found in Appendix.

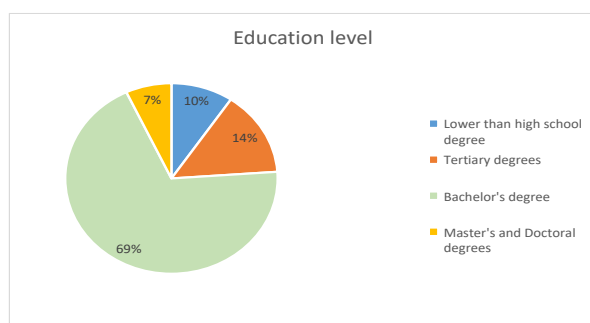


Figure 1. Education level of participants

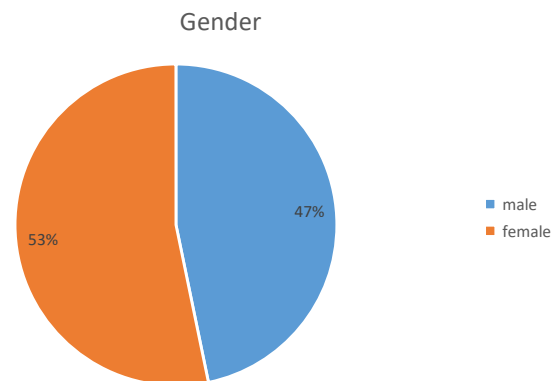


Figure 2. Gender of participants

3. ANALYSIS AND FORECAST

3.1. Analysis of the reasons for Tencent Interactive Entertainment's success

Tencent Interactive Entertainment is the priority of Tencent Group in recent years. Tencent Interactive Entertainment is divided into four main sections, with online games and social networking businesses accounting for over 60% of total revenue. In the following part, Tencent Games will be used as the main object of analysis to describe specifically why the Tencent Interactive Entertainment has become the industry leader by applying SCP theory.

From the perspective of external shocks, since the Chinese government announced its ambition to become a global sports powerhouse, China has initiated a radical restructuring of its online and mobile gaming industry. This is a great boost to IEG's development of the online electronics industry as well as the development of the e-sports industry. Tencent Games, one of Tencent's four major online platforms, is the world's leading game developer and operator, and the largest online game community in China. Both Tencent's overall online life model layout and the product layout of Tencent Games start with the most basic needs of users and the simplest applications, focus on the sustainable development and longevity of products, and create green and healthy high-quality games. Under the open development model, Tencent Games have adopted a combination of internal independent research and development and diversified external cooperation, and have formed a professional layout in a number of market segments of online games and achieved good market results.

In terms of industry structure, the overall trend of the e-sports industry is oriented to the masses, while only a small number of specific games are oriented to niche groups. If consumers are expected to spend money in the game, the price must be acceptable to the general public. China is the largest developing country in the world and the gap between the rich and the poor is enormous. Two or three hundred yuan for a set of fashion is acceptable to most players, and regular updates of game equipment

during the New Year holidays could also satisfy the consumption desire of players with ample funds. Moreover, the two major network payment platforms of Tencent, CaiPay and WeChat Pay, have from time to time preferential activities of game props as low as 0.1 yuan, which greatly promote the consumption of online games.

Apart from that, Tencent has its own unique corporate policy. As China's largest Internet service provider, Tencent's market positioning is "mass". University students are the most important group of online game consumers in China, followed closely by primary and secondary school students. Since most university students live on their parents' money, and most Chinese parents do not give their children much money to live on, their spending power is limited to a certain extent. This is why the majority of Tencent's games are value-added prop-based, with "zero spending" to attract players and allow them to play the game for free.

In the 1990s, Don Schultz, professor of marketing at Northwestern University, put forward integrated marketing communications (IMC) and advocated the concept of "audience-centric" consumer orientation [4]. With the development of China's network in recent years, the concept of 4I, namely Interesting, Interests, Interaction and Individuality, has been gradually put forward in integrated network marketing, which is entirely based on the market customers and aims to improve user participation. On this basis, this paper attempts to study the successes of Tencent's online game marketing strategy and propose corresponding countermeasures and marketing strategies to address the existing problems.

Although Tencent is a late entrant to the online game market, its products now have a market share of nearly half of the Chinese game market and have formed a brand. According to the 4P marketing theory (i.e., product, pricing, promotion and channel), Tencent's huge platform user resources and gradually accumulated brand reputation are important reasons for the success of its games.

With the rapid development of the mobile network, Tencent focused on the client-side game market and the mobile online game market, focusing on the two main types of games: competitive games and casual platform games. The core users of competitive games are mostly young men in their 20s; the number of female mobile game players in China is on the rise, with students and newcomers to the workplace being the core users of casual games. Based on the needs of these two groups of people, Tencent has adopted a strategy of developing diversified products.

At the same time, advances in digital media technology have made interaction on social platforms extremely cost effective and convenient, allowing consumers to fully participate in the interaction and

creation of online marketing. The brand of the future will be a half-finished product, half defined by the consumer's engagement experience, and using the consumer as a subject to initiate equal interaction with the brand can give a unique competitive advantage to marketing. Tencent's competitive games have a team, channel and friend dialogue system to facilitate communication in the game interface, allowing people to match up with friends in their neighbourhood and share their game results and experiences through their circle of friends. In random matches, you can even turn on your voice and communicate with friends from all over the country; there are also in-game video recordings for players to record their moments. Every time a new campaign is released, relevant content is posted on WeChat and Weibo to attract players to click, like and retweet the content, thus such events create a wider spread.

3.2. IEG's IPs status analysis

As an enterprise with the largest number of original IPs in China and a leading position in the market, IEG must change the existing model if it wants the enterprise to further develop. Facing the increasingly fierce competitive development trend, the entertainment industry has gradually developed in the direction of the group's industrial chain [5]. The development of the group is facing internal resource integration, and the IP integration has become the most effective and necessary step.

Based on the combined analysis of the four questions 4, 5, 6 and 7 of the questionnaire, we can draw similar conclusions. IP fusion is a very necessary measure for companies with a large number of IPs. More than 135 (67.17%) respondents said that Marvel IP fusion resulted in more compelling and widely known movie stories. Again, this illustrates the need for IP integration at IEG.

Do you think that after Marvel gradually integrates independent superheroes (such as Spider-Man, Iron Man, etc.) into a world view (Avengers), the perception of the story and the popularity will increase

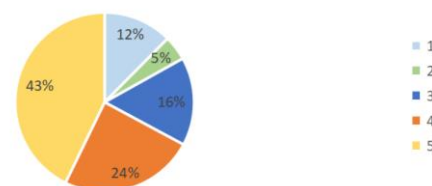


Figure 3. Answers to Question 4

The IPs owned by IEG can be mainly divided into three sections: the novel resources of China Literature Limited (CLL), the game resources of IEG itself and downstream manufacturers, and the animation resources of IEG itself and CLL. Novel resources and Game resources will be used as the main analysis content.

3.2.1. Novel resources

As the leading domestic novel reading platform in China, CLL was founded in 2002. CLL includes well-known brands in the industry such as QQ Reading, Qidian Chinese Network and New Classic Media. It has a reserve of 14.5 million works and 9.4 million creators, covering more than 200 content categories and reaching hundreds of millions of users [6]. There are 24 writers and four works in the China Online Literature Influence List released by the Chinese Writers Association in September 2021, of which 13 writers and two works belong to reading [7].

In 2015, IP film and television dramas and adapted films showed an explosive growth trend. TV series *Hua Qiang* and *Nirvana in Fire* have received high attention on the Internet, TV, social networking and other platforms. In the same year, many film and television works in China that changed from popular online novels received praise. In the following years of development, IP film and television adaptation is still very popular, but the quality of film and television is gradually declining. According to questions 14 and 15, a total of 122 people learned about these IPs, of which a total of 44 (36.07%) were looking forward to adaptations; a total of 39 (31.97%) were satisfied with the effect of the changes, indicating that in the eyes of the respondents, these changes worked well.

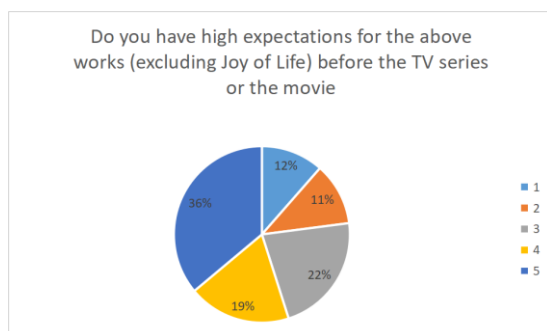


Figure 4. Answers to Question 14

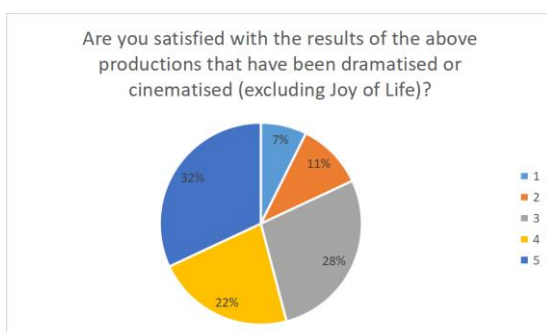


Figure 5. Answers to Question 15

However, this result is completely contrary to that of well-known film and television scoring websites in China. *Grave Robbery Notes Genting Heavenly Palace* is only 2.6 points out of 10 point in Douban, and *Douluo Continent* is only 6.5 points out of 10 point in Douban,

which is very different from many high-quality film and television works. According to questions 16, 17 and 18, only 42 people (38.89%) have read *Joy of Life* 's original work, while 78 people (72.22%) expressed their love for this work. It can be analyzed that the main factor for the successful film and television adaptation of *Joy of Life* 's work is not whether you like the original work or not, but the quality of the adapted work. Therefore, it can be explained that the film and televisionization of IP not only stay on film and television, but also invest more energy in creating more high-quality film and television dramas.

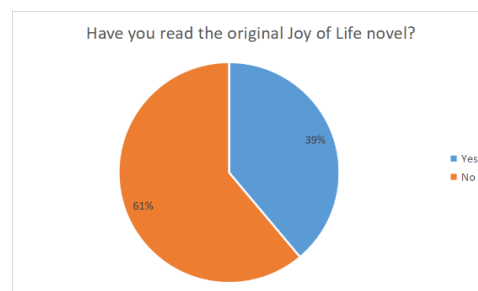


Figure 6. Answers to Question 17

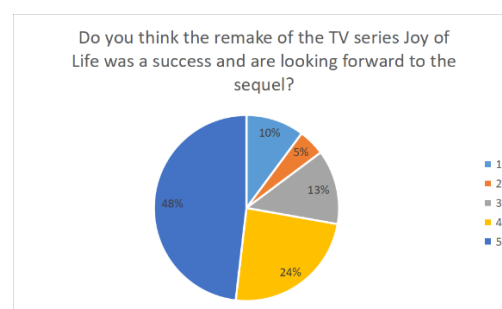


Figure 7. Answers to Question 18

CLL and IEG has a large number of high-quality novel IPs, and film and television are indeed the best IP value amplifiers and the art carrier that can help IPs go further [8]. Only by ensuring that the quality of film and television is high enough can the development of IPs be smoother in the future and the effect of IPs integration be better.

3.2.2. Game resources

After nearly 30 years of development, China's game market officially surpassed the United States to become the world's largest game market in 2016. In 2020, the total revenue of online games was 156 billion yuan, an increase of 36% year-on-year. In the fourth quarter, the total revenue of online games reached 391 billion yuan, an increase of 29% year-on-year. Q4 mobile game revenue is 367 billion yuan, and overseas game revenue accounts for 26.56 % [9]. IEG said in its financial report that Honor of Kings has been at the top of the global mobile game best-selling list for two consecutive years and continues to be the most popular mobile game in China." Honor of Kings is IEG's most well-known,

influential, and revenue-generating game. Honor of Kings has an average daily active user of 100 million from 2020 to the present, and its total revenue has exceeded 10 billion U.S. dollars since its launch [10].

Honor of Kings, as a super popular game in China, has itself become IEG's gold-lettered signboard, playing a very important role in IEG's revenue. However, in September 2021, the revenue of Game Genshin impact developed by Chinese game manufacturer Mihoyo reached \$3.41 billion, surpassing Honor of Kings and winning the first place in global game revenue [11]. Whether in the long run or market competition needs, Honor of Kings does need new revenue points, so Ips integration or deeper linkage is more important.

In fact, IP linkage has brought considerable revenue to Honor of Kings. Honor of Kings launched a skin co-branded with BMW for game character Zhao Yun in 2017, selling 1.5 billion yuan in one day [12]. There are still a lot of ip-linked skins in Honor of Kings, such as Wonder Woman, Pizza Hut, Journey to the West, etc. And Honor of Kings is also co-branded with other traditional Chinese cultural IPs, such as Dunhuang Mogao Grottoes, Guqin, China Three Gorges Museum, traditional martial arts, etc. According to questionnaires 9 and 10, the respondents have a positive attitude towards Honor of Kings co-branding with other brands or launching IP derivative products. IP derivative products are the subsequent multiple forms of profitability or development derived from the original IP. For example, films, games,, merchandise and theme parks based on an IP are all part of that IP derivative products.

Honor of Kings' IP co-branding is already at the top level in China, but it is still necessary to maintain its leading position and export outwards. Integration with the existing IEG IP is a feasible way. Letting the characters of Honor of Kings appear in other film and television works or animations will give people a bright feeling. According to questionnaire 11, 71.58% of the respondents expressed a netural or positive attitude.

If Honor of Kings launches related games, movies, animations and other derivatives in the future, will you support these?

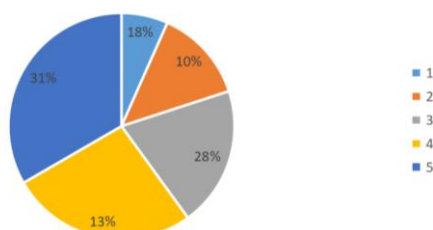


Figure 8. Answers to Question 11

In the summer of 2021, Honor of Kings tried to launch its first TV series *You Are My Glory*, which gained a very good reputation and brought many new users to the game. And IEG has announced that it will create other

games based on the Honor of Kings world view [13]. In the future, with the gradual construction of the Honor of Kings world and the continuous development of integration and linkage with other IPs, it may be hoped to see the emergence of an amusement park with IEG IP as the theme. According to question 20 of the questionnaire, a total of 124 people (61.69%) expressed positive intentions.

If IEG's popular ip is developed into an ip theme park like Disney, will I be interested in playing it?

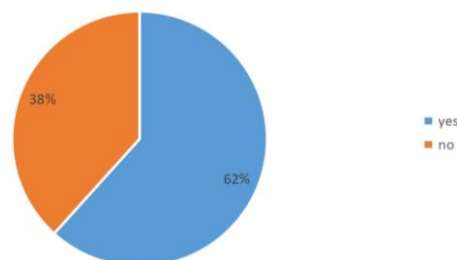


Figure 9. Answers to Question 20

4. PREDICTION

Compared with Disney, Tencent Interactive Entertainment still has a long way to go. Disney and Marvel can set a positive example for IEG.

In order to enhance its popularity, they need to use the strategy of IP integration. Like Disney and Marvel, the IP fusion can give them a large amount of revenue and popularity. Under such a digital information age, every company must spare no effort to make itself be exposed to the public. It should be noted that Tencent should not only focus on popularity. According to the data collected, lots of audiences show strong demand for high-quality works. Therefore, they should also ensure the quality of works.

In short, the future of Tencent Interactive Entertainment is very likely to succeed through the IP integration, which can make up for the gap between quality and popularity.

5. CONCLUSION

In conclusion, by applying the SCP model and analyzing the questionnaires we conducted, Tencent has a great opportunity to succeed in the cultural and entertainment neighborhood. First, the structure and price cater to the Chinese context. Secondly, Tencent has its own unique corporate policy. In addition, Tencent has a leading and growing social media presence, which makes it easier for people to receive the content Tencent wants to distribute. Today, IEG has a variety of IPs, mainly in games and novels, and a very large audience. If Tencent wants to achieve greater success, it would be very suitable to adopt an IP integration strategy.

APPENDIX

Questionnaire

1 - Strongly disagree, 2 - Disagree, 3 - Fairly, 4 - Agree, 5 - Strongly agree

Questionnaire	Options	Number of people	Proportion
1. Your gender	Male	94	46.77%
	Female	107	53.23%
2. Your age	Under 18	9	4.48%
	18-30	91	45.27%
	30-40	24	11.94%
	Over 40	77	38.31%
3. Your education level	Lower than high school degree	19	9.45%
	Tertiary degrees	29	14.43%
	Bachelor's degree	139	69.15%
	Master's and Doctoral degrees	14	6.97%
4. Do you think that after Marvel gradually integrates independent superheroes (such as Spider-Man, Iron Man, etc.) into a world view (Avengers), the perception of the story and the popularity will increase	1	25	12.44%
	2	9	4.48%
	3	32	15.92%
	4	49	24.38%
	5	86	42.79%
5. Do you understand the relationship between Marvel and Disney (Marvel belongs to Disney)	Yes	106	52.74%
	No	95	47.26%
6. Do you like an ip-fusion theme park like Disneyland?	1	20	9.95%
	2	5	2.49%
	3	39	19.4%
	4	44	21.89%
	5	93	46.27%
7. Would you like to go to Disneyland in order to meet your favorite character?	1	35	17.41%
	2	16	7.96%
	3	36	17.91%
	4	33	16.42%
	5	81	40.3%
8. Have you played the game Honor of Kings?	Yes	95	47.26%
	No	106	52.74%
9. Do you willing to recharge in Honor of Kings?	1	30	31.58%
	2	10	10.53%
	3	15	15.79%
	4	11	11.58%
	5	29	30.53%
10. If the character skin launched by the Honor of Kings is linked with your favorite IP, will it increase the willingness to buy?	1	21	22.11%
	2	16	16.84%
	3	12	12.63%

	4	15	15.79%
	5	31	32.63%
11. If Honor of Kings launches related games, movies, animations and other derivatives in the future, will you support these?	1	17	17.89%
	2	10	10.53%
	3	27	28.42%
	4	12	12.63%
	5	29	30.53%
12. Which of the following works IP belongs to IEG or CLL	<i>Fox Spirit Matchmaker</i>	50	24.88%
	<i>The Outcast</i>	27	13.43%
	<i>The King's Avatar</i>	63	31.34%
	<i>Doula Continent</i>	95	47.26%
	<i>Fights Break Firmament</i>	78	38.81%
	<i>My Heroic Husband</i>	47	23.38%
	<i>The Rise of Phoenixes</i>	11	5.47%
	<i>The Graver Robbers' Chronicles</i>	68	33.83%
	<i>Jade Dynasty</i>	52	25.87%
	<i>Joy of Life</i>	73	36.325
	<i>Candle in the Tomb</i>	61	30.35%
	<i>Nirvana in Fire</i>	70	34.83%
	<i>Legend of Fuyao</i>	31	15.425
13. Have you watched the TV series, animations or movies of the above works (excluding <i>Joy of Life</i>)	Yes	122	60.7%
	No	79	39.3%
14. Do you have great expectations for the above works (excluding <i>Joy of Life</i>) before they become TV series or movies?	1	14	11.48%
	2	14	11.48%
	3	27	22.13%
	4	23	18.85%
	5	44	36.07%
15. Are you satisfied with the effects of the above works that have been made into TV series or movies (excluding <i>Joy of Life</i>)	1	9	7.38%
	2	13	10.66%
	3	34	27.87%
	4	27	22.13%
	5	39	31.97%
16. Have you watched <i>Joy of Life</i> TV series	Yes	108	53.73%
	No	93	46.27%
17. Have you read the original <i>Joy of Life</i> (novel)	Yes	42	38.89%
	No	66	61.11%
18. Do you think the remake of the <i>Joy of Life</i> TV series is successful and look forward to the sequel?	1	11	10.19%
	2	5	4.63%
	3	14	12.96%
	4	26	24.07%
	5	52	48.15%
	1	35	17.41%

19. Are you happy to see the characters in your favorite works interact with other works	2	13	6.47%
	3	48	23.88%
	4	46	22.89%
	5	59	29.35%
20. If IEG's popular ip is developed into an ip theme park like Disney, will I be interested in playing it?	Yes	124	61.69%
	No	77	38.31%

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