Chapter 10

Analysis of Online Game Distribution in China’s Internet Cafés

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ABSTRACT

Internet Cafes are the most popular locations for internet users to enjoy online game playing in China. At the beginning of this chapter, the authors analyzed reasons for Internet cafes’ popularity as well as listing difficulties the Internet Cafés are confronting. Applying the distribution strategy put forward by Kasper, the authors analyzed how five of the top ten most popular games are distributed in the Internet cafés by their game operators. In the conclusion, the authors suggest game operators of different market dominance should utilize different distribution strategies (intensive or selective one) to match the game product with the players’ demand. At the end of this chapter, some recommendations are put forward for the Internet cafés to take into account.

1 INTRODUCTION

Online game operators in China are the game suppliers. Due to the limited use of online payment system in China, cash-based point card sales (both virtual and physical cards) have been the most popular payment method. Online game players can buy the point cards through game operators’ official game websites or through distributors and retail outlets, including Internet cafes, software shops, supermarkets, bookstores, newspaper stands, and convenience stores.

1.1 How Prepaid Point Card Works in an Internet Cafe?

In order to play online games or to pay for in-game value-added services, game players have to buy pre-paid cards, which are sold in both virtual and physical forms. Each pre-paid card

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contains a unique access code and a password so that users can add value to their accounts for one or more specific online games. Online game operators, such as Shanda, NetEase etc, generally sell offline physical pre-paid cards to a group of regional distributors who resell the cards to sub-distributors. In turn, these sub-distributors sell the cards directly to Internet cafés and other retail points of sale.

Online game operators always offer sales discount to the distributors and the discount percentage also depends on the tier the each distributor belongs to. In 2006, Shanda offered average sales discounts of approximately 19.3% and 16.6% to e-sales distributors and offline distributors. Here is another example. Shanghai-based online game operator, The9, chose Junnet as its exclusive national distributor for the game titled MU. Junnet got a discount offer of 30% because it was responsible for the all the logistics of dealing with lower-tier distributors. In addition, about 500 city-wide distributors contracted with NetEase directly and gained a discount of 14%.

Physical cards are “scratch” cards with pass-codes printed on them. Virtual cards are essentially a list of pass-codes. Presently, majority of urban Internet cafés adopted the E-sales distribution systems which are always developed by online game operators for buying the pre-paid virtual cards directly and then sell to the customers.

Here is an example of virtual pre-paid card purchase in an Internet Café. The customer should pay in advance at the counter usually RMB 10 and the cashier will give him or her one slip or a card with the login and password. Sometimes it is only a login number with the password blank. For instance, 00452917 is the login and 789 is the password. Once registered, the customer may access the Internet, select and activate the desired games he or she wants to play, and then his or her account will be charged from the prepaid card or prepaid online points he or she just bought. After the customer has finished his or her session, the cashier will return the change to the customer. Large operators usually explore their own “E-Sales” systems which are used for monitoring virtual card transactions from operators to different levels of distributors, and including finally sales in Internet cafés.

1.2 Internet Cafe: A Big Revenue Generator

Internet cafés are not limited to work as point card sellers. Following homes, they are the second most popular places to enable game products to finally reach the end users – game players. “Internet cafés are critically important to China’s online game market,” said Lisa Cosmas Hanson, the managing partner of Niko Partners (2008). It is the key factor for online game operators to distribute their online games and is expected to generate 40 percent of $2.5 billion service revenues in 2008.

In order to sustain the competitive advantage, game operators usually have to manage channels to meet the customer demands with supply through the efficient exploration of each element in the value chain (See Figure 1). At the same time, each element in the value chain has its own specific needs, which should be carefully taken into consideration by each sensible online game operator. Current situations and problems which are encountered by the Internet Cafés in China are displayed in the second part of this paper.

2 RESEARCH BACKGROUND

2.1 Popularity of Internet Café in China

It is reported by CNNIC (2008) that 67.3 percent of the 220 million Chinese internet users rank home as the most convenient place of Internet access. Internet café is chosen by over 33.9 percent of the Chinese internet users for online access. In
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