



## Take Rates in China

Will Quality Development Beat  
Out Traditional Distribution?

### Take Rates in China – Will Quality Development Beat Out Traditional Distribution?

#### **Epic v. Apple Sets the Stage for Developers Evaluating High Take Rates in China**

Apple charges 30% of every transaction that takes place in apps distributed through the App Store, worldwide. China App Store is no exception. In 2020 Epic Games challenged this “standard” in an anti-trust case that has received wide recognition in the West. Epic says that the 30% “take rate” is too high and wants to offer its own store on iOS as an alternative. The Epic Games Store, currently available on PC, charges a 12% take rate to third-party developers who distribute via that store. Epic says that it only costs them around 5% to process payments, 1% for the CDN bandwidth and 1% for other costs, which means the total cost per transaction is only around 7%. Epic takes roughly 5% profit on top, while Apple takes approximately 23% profit, assuming the costs are equivalent.

Notably, 28 Chinese app developers filed a complaint against Apple in 2017 for its abuse of market power which included removing apps and charging a high take rate for in-app purchases. Apple has a significant market share globally and roughly 25% of Chinese gamers play games on iOS smartphones. Chinese iOS gamers generally spend more on games than do Android gamers, with roughly 40% of mobile game revenue from iOS smartphones. Epic could afford the risk of Fortnite getting kicked off the App Store for violating payment policies in protest to the 30% take rates, but smaller developers cannot afford that risk.

#### **China Developers Aren’t Challenging Apple, but Look Out Local Android Stores**

While the media focuses on Epic v Apple, Chinese game developers are starting to challenge domestic *Android* app stores. This is something not seen in the West, although Google Play, the world’s largest Android app store, also charges a 30% take rate. Android is an open platform and 3<sup>rd</sup> party stores exist on it, which is not possible with Apple’s closed system. While Epic Games did initially try and bypass Google Play on Android, by distributing the game directly, the company ended up changing course and putting its game on Google Play.

## Asia Games Market Intelligence: Take Rates in China

Google Play is not in China. Google services are essentially banned in China. The void is filled by hundreds of Chinese Android app stores, with about 10-20 of them taking the vast majority of market share. Many of these dictate their own take rates, as high as 50%. Some developers tacitly protest that fee, including Lilith Games (Rise of Kingdoms), miHoYo (Genshin Impact), and Giant Interactive (Pascal's Wager). These games are not distributed through big stores, rather directly from the developer or via platforms that charge lower take rates.



*Genshin Impact*

## Android App Store Ecosystem in China

Chinese smartphone manufacturers including Huawei, Oppo and Vivo dominate the domestic Android smartphone market. These three, along with others, formed the Mobile Hardcore Alliance in 2014 to consolidate Android app distribution. Smartphone manufacturers pre-install their own app stores on their branded Android devices and share resources to increase appeal to developers. In 2020 the Global Developer Service Alliance (GDSA) was launched by smartphone manufacturers, including Huawei, Xiaomi, Oppo, and Vivo, to create a joint platform that would allow developers to upload apps and games to all their app stores simultaneously. This is another effort to simplify the disjointed China Android ecosystem and consolidate power with smartphone manufacturers.

## Smartphone Stores

As a result of the proactive approach to recruit apps and distribute them easily, smartphone manufacturers are the dominant force in China's Android app distribution market. They have pushed out most competition from smaller companies, though large tech firms, such as Tencent and Alibaba, are still competitive. Tencent's MyApp store is one of the most popular app stores on Android due to its integration with WeChat and distribution of Tencent games. Soon the manufacturers and tech giants determined they could justify charging 50% take rates, by offering integrated services such as distribution across all GDSA partners and marketing services to promote games. App distribution is a profitable business for smartphone manufacturers, which often see low margins on hardware sales. For example, gross profit margin for Xiaomi's smartphone sales is just 7.2% while its Internet Services, including app and games distribution, enjoys gross profit of 64.7%.

The largest developers have had some success negotiating lower take rates. NetEase was able to negotiate a lower fee for in-app purchases in *Fantasy Westward Journey* while Tencent was able to negotiate a lower fee for some of its key titles. These are the only two who have publicly said they have done so, but even NetEase has been unable to extend this offer to its newer titles. Game developers have effectively been forced into accepting the 50% take rate on these app stores as it has been the only way to reach a broad audience. If Epic v Apple is causing a harder look at the 30% rate, the 50% rate may be short lived.

## 2021: Huawei Pokes at Tencent

At the beginning of 2021 Niko Partners became aware of a revenue dispute between Huawei and Tencent, with the former removing all Tencent games from its app store due to a disagreement on take rate charges. This dispute was resolved the same day, but it continues to show how more developers are looking to exert their power over traditional app stores to maximise their gross profit margin. One must acknowledge the irony in that example, because Tencent also charges a 50% take rate for apps and games that are distributed through its store yet fought Huawei's identical rate as unfair. We also became aware of NetEase opting for direct distribution rather than via traditional app stores for one of its newest titles, Yu-Gi-Oh: Duel Links, which was released January 14.

## Chinese Devs Going Direct

NetEase is not the only company opting for direct distribution. Duoyi (Shenwu), Giant Interactive (Battle of Balls), and G-Bits (AskTao) have all dropped from app stores and gone direct to Android gamers. Other examples of developers that are going direct for specific titles are: Hypergryph (Arknights), QC-Play (The Marvellous Snail), Giant Interactive (Pascal's Wager), Lilith Games (Rise of Kingdoms), and MiHoYo (Genshin Impact).

The method can be hugely successful. Duoyi's Shenwu has been a top 20 grossing hit, and gross profit exceeded 95% on Android thanks to direct distribution. The game would have had 50% gross profit margin had it distributed via Android app stores – one could argue this is still a big margin, but if you don't need the Android stores, why forego it at all? Shenwu has 70% margin on iOS, distributing through the App Store as there is no other option. It takes effort to create that level of success for a title. In this case, Duoyi invested heavily in marketing and directing would be users to its own site. This was enabled by the game having a popular PC version with avid users who were a ready audience for such marketing.

## Other Success Stories

New IP such as Lilith's *Rise of Kingdoms*, which launched in China on September 21, 2020, grossed around \$100 million in the first month without listing on major Android app stores. Lilith hired popular actors known for historical roles (similar to the theme of the game) as part of a high-cost marketing strategy. The company also invested in mass digital and traditional ads that led to more than 3.5 million pre-registrations prior to launch.



*Rise of Kingdoms*

## **Smaller Devs May Consider 50% Take Rates to be an Acceptable Cost of Doing Business**

Building strong direct distribution capabilities is a good strategy for some, but it is not easy. Smaller developers, and even some large developers, still value distribution via traditional Android app stores or via publishing partners such as Tencent, for distribution and marketing services. These smaller developers are unable to utilise a direct to market approach in an efficient manner and so working with app store distributors or a publishing partner makes more sense. This costs 50% of their total revenue, so they pay it. While they would have a higher gross profit margin with direct distribution, it would be to a smaller audience and ultimately produce lower revenue.

## **Fan Sites, Community driven app stores and Influencer Marketing Boost Popularity**

High quality games get recognized, with critical marketing effort, no matter what the mode of distribution. An example is miHoYo's Genshin Impact, which spent 4 years and \$100 million to make it as strong as it is today. One prong of miHoYo's strategy was to invest in cultivating a fan base via community driven app stores such as TapTap and fan sites such as Bilibili which has the largest anime, comic, game (AGC) fanbase in China. TapTap channelled 4 million pre-registrations and Bilibili added 3 million, plus miHoYo's own 9 million from direct distribution.

TapTap does not charge a take rate for games. The business model is an ad platform on which developers bid to promote their game. TapTap offers developers the ability to build their own gaming communities through dedicated forums, access to game tests and more. The platform is much stickier than traditional Android app stores and is a key user acquisition tool. Chinese games publisher IGG recently announced that it would be distributing all of its future games exclusively on TapTap. The developer has been extremely successful overseas but hasn't had a hit at home just yet. Rather than pay a 50% take rate, to traditional app store distributors, the company is now looking to build a community via TapTap and reach players directly, while maintaining a high gross profit margin.

Bilibili charges a fee for games distribution but has the right ACG audience for miHoYo's games. These types of fan sites are crucial for games in certain genres and we expect to see developers latch on to certain fan sites in order to market their games to these communities prior to launch.

Influencer marketing uses key opinion leaders, spokespeople and streamers to promote games prior to launch. Other new marketing channels are ads via high engagement short video apps such as Douyin and Kuaishou. User generated content on these platforms can also play a huge role in having games go viral. Traditional marketing also continues to play a large role with billboards and TV commercials reaching a broader audience. This increased investment in marketing is offset by higher gross profit margins via direct distribution channels.

### **Quality Content over Distribution**

Genshin Impact was so successful via this direct distribution strategy that Xiaomi ended up striking a deal with MiHoYo to bring the game to its store with a reduced take rate of 30%. Other app stores have not made similar moves just yet, and it should be noted that Xiaomi has not extended this offer to other developers yet either. However, it is still a positive sign for the industry and shows that developers going direct and community driven app stores are changing the app distribution landscape in China. We expect to see additional market changes throughout 2021.

In summary, developing a high-quality game with broad appeal is a better way to impact sales than broader distribution of lesser games. Genshin Impact had a huge marketing budget, but its success came from the fact that it is fun to play, accessible on multiple platforms, and is polished to a AAA level. Pairing a high-quality game with new marketing strategies and promotion via community driven platforms is a recipe for success that will lead to higher profit margins and more options for distribution for developers, threatening the current status quo under which traditional app stores have thrived. This is how market-driven changes will occur – remarkably in China, and perhaps even worldwide. We await the outcome of Epic v Apple to see.



## Asia Games Market Intelligence: Take Rates in China

Store	Region	IAP Take Rate
Apple App Store	Global	30%
Google Play Store	Global	30%
Huawei App Store	Outside China	30%
Huawei App Store	Mainland China	50%
Tencent MyApp Store	Mainland China	50%
TapTap	Global	0%
Epic Games Store	Global	12%

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