

Monster Zombie Spider to Crush Super Mario's China Dreams: Tech  
2013-08-12 09:50:21.781 GMT

By Bloomberg News

Aug. 12 (Bloomberg) -- He's pudgy, middle aged and wears dungarees. So what makes investors believe Nintendo Co.'s Super Mario can take on Tencent Holdings Ltd.'s giant, undead spider Vilemaw in its Chinese lair?

Nintendo shares have risen 33 percent since state-run China Daily on Jan. 28 said the country was ready to end a 13-year ban on consoles. Meant to shelter China's youth from the violence and perceived corrupting influence of video games, the ban instead spawned a generation of gamers grown used to a free online model and increasingly migrating to mobile devices.

Console vendors Nintendo, Sony Corp. and Microsoft Corp. face an uphill slog to get consumers to pay hundreds of dollars for hardware they never knew they'd missed, said Shanghai-based Spicy Horse Games founder American McGee. With the U.S. industry mired in a two-year slump, console makers are looking to China's \$10 billion market for a boost that may never come.

"You are basically trying to take an elephant to a Ferrari race," said McGee, who set up Spicy Horse in 2006 to make games for PlayStation and Xbox before moving to online and mobile in 2011. "This is a market where free-to-play online and mobile has already won. These guys will be coming to the fight when the fight is already over."

Not only that: piracy, censorship and regulatory costs will add to their challenges.

Consoles like Nintendo's Wii U, released in November, and the upcoming Sony PlayStation 4 and Microsoft Xbox One, were banned by China in 2000. That let online titles dominate, like market-leader Tencent's "League of Legends," featuring Vilemaw.

### China Rising

The Shenzhen-based company holds 21 percent of China's video-game market, which grew 30 percent to 38.5 billion yuan (\$6.3 billion) in the first six months, Analysys International data show. U.S. sales of video-game hardware, software and accessories fell 15 percent in June from a year earlier to \$593.3 million, according to NPD Group Inc.

While "League of Legends" and many online games in China are free to play, operators charge users to stock up on or upgrade virtual weapons and armor. That model has carried over well to tablets and smartphones: Analysys said mobile gaming more than doubled to 5 billion yuan.

Touchscreen handheld devices such as Apple Inc.'s iPad and

iPhone aren't seen as gaming products in China, which last year overtook the U.S. as the world's biggest smartphone market.

### Black Market

If Chinese consumers are scrambling to go mobile, a trip to Li Jianwei's Game-You shop in Beijing illustrates the lack of pent-up demand for consoles. Li sells smuggled Xbox 360s with Kinect motion sensor for 2,300 yuan. His glass countertop is littered with binders displaying hundreds of pirated titles.

Li and an assistant playing "NBA2K13" basketball on a widescreen TV are the only people there. Three neighboring shops were also empty.

Chinese mobile gamers will rise 30 percent to 280 million this year, while there are only about 1 million users of black-market consoles, according to Analysys estimates.

Hopes for market access were further stoked last month when China Daily cited unidentified government officials saying foreign vendors would be allowed to sell their products in China if they are made in the Shanghai Free Trade Zone.

"It's encouraging news and we look forward to learning more," said Joanna Li, a spokeswoman in Beijing for Redmond, Washington-based Microsoft. Sony sees China as "an attractive market" where the Tokyo-based company always considers opportunities, spokesman Satoshi Nakajima said.

### Less Violent

With less violent titles and relatively inexpensive hardware, Nintendo would benefit most from an end to China's ban, said Michael Pachter, a Los Angeles-based analyst at Wedbush Securities. Nintendo shares have outpaced the Topix Index's 24 percent advance since the China Daily report after underperforming the benchmark for the past two years.

"The Chinese middle class could support sales of 50 to 100 million consoles and a similar number of handhelds over the next five years," Pachter said.

Yasuhiro Minagawa, a spokesman at Kyoto, Japan-based Nintendo, declined to comment.

Removing the hardware ban would be just a start for Nintendo, Sony and Microsoft.

Piracy "is always an issue," said Richard Williams, a Livingston, New Jersey-based analyst at Cross Research.

Pirated Xbox titles are easily available for 5 yuan -- or less than \$1.

### Crippled Hardware

Console vendors also face regulatory costs such as locating production to Shanghai and tailoring the content of games to comply with censorship, said Lisa Cosmas Hanson, managing partner of Niko Partners, a San Jose, California-based researcher focused on China's game market.

"Most console games are not being developed for Chinese standards and regulations," she said.

The high cost of devices and low appeal of censored software will translate into weak demand from customers happy to play Tencent's games for free, McGee said.

"You're going to end up with a crippled piece of hardware that can only play a limited selection of games," McGee said. "Very few people, unless there is a massive economic incentive built into it, will care much about buying a China-made game console."

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