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Tapping into China's Entertainment and Cultural Industry

The article is based on an exclusive stars interview with Alice Kong, Managing Director, Wanda Cultural Industry Group, Beijing, China, stars alumna. The interview was conducted by Jacqueline Tao from the Energy Studies Institute of the National University of Singapore, on the sidelines of the 5th stars China symposium in April 2017 in Chengdu.

With rapid economic growth, China's middle class has been expanding and is expected to continue to grow. The Economic Intelligence Unit forecasts that a third of the Chinese population will have attained middle-class status by 2030, with an annual disposable income in excess of US$10,000, up from the 10% figure today[1]. Coupled with the rising middle class, China is set to see an increased demand for entertainment and cultural goods and services as consumers look beyond basic necessities to seek fulfilment of their spiritual needs. In fact, the entertainment industry itself is expected to see rapid growth rates of 8.3% per annum in the next 5 years, almost twice the global growth rates of 4.2%[2].

Drivers of growth

A variety of push factors drives this rapid growth. One of the most important drivers is the increased demand for such products and services as a result of the rising middle class. With a myriad of business opportunities, a variety of market players have effectively sprung up to meet this new demand, supported by innovative business ideas involving new mediums and emerging technologies. Favorable government policies, as well as explicit financial and administrative support from local governments, have also fueled the growth in the industry, easing the entry of new entities and streamlining new business projects.

Understanding the Numbers

Trying to give a number to the expected growth to the Chinese entertainment industry is, by itself, complicated, not only because the entertainment industry is broadly diverse in scope (spanning film, television, internet, gaming, among others), but also since the growth is expected to be at varying levels across the industry. Thus, a deeper understanding of the figures cannot be achieved without a closer examination of the constituent sub-sectors.

In the film industry, growth prospects are not only in terms of box office sales, which have exceeded 40 billion RMB in 2016. Taking into account that box office sales only constitute about a quarter of the industry earnings, with most of the business opportunities lying in the areas of in film derivatives and commercial products, the size of the Chinese film industry is expected to be huge. However, given that the Chinese film industry remains in the early stages of development, the film derivatives consumer segment remains relatively marginal and may require more time to develop. In spite of this, there is already

[1] http://www.scmp.com/news/china/money-wealth/article/2042441/chinas-middle-class-rise-more-third-population-2030-research
[2] http://www.chinadaily.com.cn/business/2017-06/09/content_29678938.htm

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very encouraging growth in this area, with the overall industry set to see around 5-10% growth in the future.

The television business is expected to experience even greater growth, with a major section stemming from various China-based innovations in entertainment forms. One example would be in the live broadcasting market, an emerging market with the potential to be as big as the film industry, which will see rapid growth of about 20% going into the future. The growth potential for the promising online video streaming industry is even more unimaginable.

In recent years, previously ancillary segments such as the sports industry, have increasing angled towards the entertainment industry. One of the most representative examples of sports crossing over into the entertainment sector would be the Super Bowl phenomena in the United States (US). We can all attest to how in the recent years, the Super Bowl has gradually moved away from a pure-sports event to incorporate many areas of entertainment. In China, the sports industry, both in terms of sports entertainment and sports activities, is booming. Concurrent with the rising middle class, Chinese consumers place more emphasis on the physical (health) and spiritual (mental-health) wellbeing. Moreover, the concept of health has also migrated away from seeking treatment (such as visiting the doctor when you are unwell, engaging healthcare services etc) to incorporate more preventive elements such as maintaining a good health through healthy lifestyles, through sports and exercises. China has already surpassed the industry threshold of GDP per capita above 7,500 used to estimate the consumer concern for health and wellness. This concern and awareness of physical well-being is already being reflected in the increasing proportion of the population engaging in sports and exercise such as running, soccer and basketball among others. Accompanied by the governmental target to expand the sports population to 500 million people by 2025, there is expected to be an expansion in effective customers who are willing to spend on sports games, services and goods.

Such increases in consumer demand have been supported by various favourable government policies, such as the Number 46 Announcement and the government goal to grow the Chinese sports industry to 5 trillion RMB by 2025. While many may comment that the 5 trillion target is very much audacious, such rapid growth is actually achievable and largely reasonable if one considers that the Chinese sports industry is very much underdeveloped. When compared to the global industry standard of a sports to global GDP ratio of 2.7%, the Chinese sports industry merely accounts for 0.6% of the Chinese GDP. Furthermore, in recent years, the government is seen to be releasing various previously centrally controlled resources to the private sector. One relevant example would be the call for governments to release control on national athletes and allow them to go to the market and create some commercial value. Since then, there have been massive capital inflows into the sports industry, which have incentivized growth in the talent pool as well. With all these positive interactions, the 5 trillion target may not be too far off.

The gaming market also presents many opportunities for growth, best represented by the record ¥70.844 billion ($10.3 billion) revenue posted by Tencent's gaming branch in 2016 [3], significantly higher than their well-known international competitors such as Activision Blizzard.

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[3]http://www.gamesindustry.biz/articles/2017-03-22-tencent-cleared-usd10-billion-in-game-revenue-in-2016

Beside purely entertainment, the market is also set to see growth in the cultural industry. However, the cultural industry cannot develop without supportive infrastructure. The Wanda Group, particularly its Cultural Industry Group, is a trailblazer in this area with their destination travelling concept and their destination theme parks. One of Wanda's key innovations is their concept of "building a city within a city" wherein their theme parks constitute a city of their own. For Wanda, each of their theme parks have their individual themes with there are targeted infrastructure investment (such as hotels, shopping malls, shopping streets and even hospitals, schools) to support the creation of such individual themes. The Qingdao Movie Metropolis is a prime example of the integrated facilities build around a theme park. In Qingdao, Wanda built a studio base with surrounding infrastructure that was built to support the livelihood of the influx of a large crew of cinematic professionals for long periods of time (usually months), creating a new destination for producers to set the scene for their studios. Perhaps the future of the entertainment industry may lie the in provision of a variety of services through integrated facilities of a theme park which definitely provides an immersive experience.

Cooperation with the World

With rapid and admirable growth prospects, many are concerned about how the rise of the Chinese cultural and entertainment industry will affect international competitors. Contrary to popular belief, the industry actually sees more cooperation than competition with largely cordial relationships. Cooperation between Chinese and international counterparties provides much room for win-win situations, experience sharing and co-innovation. While in the past, people used to talk about "copy to China", the trend has been shifting of late, into "copy from China", with the rise of much innovation and creativity, especially in digital entertainment platforms in China.

Access to new markets

In recent years, the Chinese entertainment industry has seen a wave of inward investment, not only from domestic parties but also from international entities. These international entities enter the Chinese market to seek to tap into new sources of demand from China's rising middle class. While entering the Chinese market may be simple, the full benefits cannot be tapped without a clear understanding of local culture, a requirement that can be met through engaging local partners. A prime example would be the recent surge in interest for Hollywood films in China. While Hollywood has been in China for a number of years, they are seeing a step up in their box office revenues in recent years with the help of local partners. The increasing number of co-production movies as well as in integration of local Chinese elements in the movie have come as a result of inputs from Chinese partners/ producers which provide Hollywood directors with insights on how to modify the content to add more Chinese elements to ignite local interest and excitement for the production. Concurrently, Chinese producers also want unprecedentedly more connection with Hollywood, with many companies setting up branches in Hollywood. Key players in these areas are Wanda, Alibaba among other larger film companies who are seeking to enter the US markets. Cooperation in the industry thus helps all industry players tap new markets in diverse geographical locations.

While the film industry presents a great case study, there are more areas of growth and cooperation not confined to the film industry. For example, there are various opportunities to work with foreign entities to import film intellectual property (IP) to be placed strategically in theme parks. While the domestic market, led by industry leaders such as Wanda, is trying to introduce and develop domestic film IP, there remains much interest in bringing international elements into the Chinese entertainment and cultural industry. Despite the interest in promoting local culture, the role of entertainment also lies greatly in presenting the whole world to Chinese consumers, with added specialties that spike domestic interest while retaining all the global insights and cultural attributes. In essence, cooperation with the world not only serves to enrich the content consumed by local consumers, but also expands the international influence of foreign partners.

Sharing of best practice

With the Chinese entertainment market growing rapidly from humble beginnings, the industry is evolving rapidly and actively incorporating innovation and creativity to support their growth. This allows for transfer of best practices and experience sharing that can be of mutual benefits for both Chinese enterprises and their international partners.

When Wanda acquired AMC, formerly the second largest cinema chain in the US, they were able to introduce new innovations, such as the use of new-generation ticket machines that were tailored to consumer demand, to AMC. Having received much positive feedback from the US consumers, the technology was adopted by other US cinema chains. On the other hand, Wanda was able to learn from the efficient operations of US cinema chains. While this presents a great case-study of how best practices can be exchanged to not only facilitate growth in international partners (with the help of Wanda, AMC grew to become the innovative leader and largest cinema chain in the US), but also to improve overall industry standards regionally and globally. However, care should be taken to avoid a direct replication of innovations, taking into account heterogeneity in market behaviour and structure. Content and application modification, as illustrated above, should be carried out with the aid of international partners.

How to enter the Chinese entertainment market?

Tip #1: Work with local partners

One of the key characteristics of the Chinese market is the strong need for local content, for which engaging a local partner would be highly beneficial. Prior to entering the Chinese market, many will have concerns that the harsh market environment and strong governmental control in the Chinese entertainment industry will pose a number of challenges. In fact, these considerations are largely unfounded. The major blunder that most face when entering the Chinese market is that foreign entities do not fully understand local consumer demand. The best way to match your expertise with the local demand is to engage a local partner who will modify your expertise into customized content that is interesting to the local market.

Tip #2: Maintaining an open mind and channel of communications

Experience sharing and open communications within the industry is also critical. One great example would be the experience sharing during the Wanda Film Summit organized by Wanda Group in Los Angeles in 2016. The Summit was attended by all the big 6 studios, with wide participation from Hollywood film producers. During the Summit, the foreign directors and studios were able to glean into the inner dynamics of the Chinese market to understand market demand and also challenges ahead. Chinese counterparts were able to help Hollywood directors troubleshoot and understand the reasons behind staggering box office sales in China. The director of Wanda Group highlighted the overly conservative strategy adopted by Hollywood in China to be the unattractive to the increasingly sophisticated Chinese consumers. In fact, the Chairman of Wanda commented that Hollywood's reliance on the latest technological advances have isolated viewers who used to be intrigued by and resonated with their story-telling ability and content creation, and that is the true reason behind the decline of Hollywood in Chinese markets. Such experience sharing have facilitated greater understanding of existing issues and challenges and have received positive feedback from industry players.

Tip #3: Experiment! Try something new!
International companies can stand out by opting for the unconventional routes through seeking new partnerships and destinations to invest in. While seeking big names like Wanda Group and Tencent is an easy choice, there are also a variety of smaller companies, who are also actively seeking international partners. These smaller companies make up for their lack of scale through their innovative drives and high flexibility.

In addition, foreign companies should also be open to exploring various locations in China. While top tier metropolises such as Beijing and Shanghai remain of hot interest to foreign entities, other Tier 2 cities like the action-packed Chengdu and Chongqing are equally attractive with much city buzz and evolving markets.
Wanda Group abides by their own advice, often choosing to build their new theme parks in Tier 2 and 3 cities in China. Exploring cities with unique cultural attributes, such as Chengdu, which has a long history and has its own Szechuan culture, creates opportunities of synergy when foreign entities integrate their products design with local cultural, allowing consumers to touch, feel the local cultural with their products and services.

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