

Tencent QQ

Manning Zhang
Econ 106T

Tencent QQ is a subsidiary of Tencent Technology; it's the biggest online instant messaging service provider in China.¹ The paper will examine the business plan and strategies involved in making QQ the most popular instant messenger. It will also discuss Tencent QQ's competition and the problems that could potentially threaten the company.

What is Tencent QQ?

The word QQ is very familiar to Chinese people. More than 800 million people are registered QQ users.² It has been so popular that it influenced millions of Chinese people's lifestyle. QQ is an internet-based instant messaging platform. It is the most popular product of Tencent Holding Ltd, a publicly-owned holding company whose subsidiaries provide internet and mobile phone value-added services and operate online advertising services in China.³ Tencent was founded in 1988 and has grown significantly over the past decade. On June 16, 2004, Tencent Holdings Limited went public on the main board of the Hong Kong Stock Exchange.⁴ Tencent is the biggest and most used internet service portal in China. It is the exclusive online service sponsor of Expo 2010 Shanghai, China.⁵

QQ was first developed by Tencent in February, 1999. Its original name was OICQ, which was based on already existing IMS (instant message service) "ICQ".⁶ Since its introduction to Chinese people QQ quickly became a popular cultural phenomenon. Besides QQ Instant Messenger, it offers a number of sub features complimenting the messaging platform. These features include QQ Games, Q Zone, Q coin, QQ Mail and so on (see Exhibit 1).⁷ With its clean appearance, easiness to use, and variant features, Tencent QQ became dominant in the instant messaging software market in China, with 76.2% market share.⁸ It was reported that at 17:52:58 on March 5th, 2010, there were more than 100 million users online simultaneously.⁹ Moreover, in the Alexa's internet rankings, QQ.com was ranked No.9 in October 2010, one ranking ahead of Twitter.¹⁰ QQ, along with its other online features, makes up a major part of Tencent's revenue(see Exhibit 2).

Tencent QQ's business strategy

Tencent's long term vision is to become the most respected internet enterprise.¹¹ Throughout time, the company has focused on developing a nationwide branding. In order to strengthen brand awareness, Tencent QQ has a very specific strategy. First, it provides many complementary products and services under QQ's name to increase network effect. In addition, it offers a paid membership to lock in the users. It even tried to take a step beyond its success in China; it has gone international.

QQ related products

Qzone

Qzone is a blog which users can access using their QQ account (see Exhibit 3). Users have absolute freedom to customize their blog. Some are free and some are paid and can be purchased with Q coin which will be discussed later. Qzone is similar to Facebook because they both focus on social interaction and customizability. However, Qzone took a step further in enabling people to fully express their personalities. To create a space where users can decorate it in every possible way they want, QQ developed many services such backgrounds, music players, banners, font options and so on. Tencent officially describes it as "next-generation personalized multimedia space".¹² Because of this aspect, it's the largest social networking site in China. Qzone is used by over a 100 million people and especially popular among the young.¹³ Even some Chinese celebrities have their Qzone pages. Qzone recorded 200 million unique account logins per month by January 31 2009, while Facebook's monthly record is 175 million. There are about 60 million photo uploads and 9.5 million blog entries daily on Qzone.¹⁴ To help with network effect, Qzone integrates nicely with other QQ products. For example, a QQ IM user can see when their friends update their Qzone. During the past few years, Qzone has focused on developing more applications. It's not hard to predict that its popularity will jump to a new level once the app function becomes complete.

QQ Games

QQ Games is another important product of Tencent QQ (see Exhibit 4). There are two main types, one being non-QQ platform online games, the other using QQ platform with mostly casual games.¹⁵ Tencent QQ Games is the world's largest independent R & D platform for casual games.¹⁶ Since 2003, there have been more than 70 models of game genres available and 350 million registered users; the highest number of users online simultaneously is more than 600 million.¹⁷ In order to attract players, QQ Games came up with many functions to make sure the players have a good time while playing games. QQ Games Character created a new in-game avatar system. Players can transform to a specific embodiment of the characters in the QQ games.¹⁸ In addition to the traditional avatar system of switching among costumes and to showing a unique personality, players can also take the initiative to play the animation in the games, expressing their emotions. The game automatically triggers a variety of dynamic interactive animations at different stages of the game so that the players' gaming experience can be more colorful. The new pet system closely integrates with the process of the game.¹⁹ The lovely QQ Games pets will not only accompany the players during the game, but also can launch a variety of skills to bring surprises to their owners. QQ Games is a nice platform where people can relax and have fun while enjoying the feeling of competing with other people.

There are many other products such as QQ Mail, 3g QQ and QQ show; QQ has its own anti-virus software, online TV, input software and so on, all under QQ's name for brand recognition.²⁰ Tencent QQ has developed these features to have a bigger network effect. Network effect means that an agent's value depends on number of other users. Tencent created almost every single possible instant messaging related peripheral feature to make sure different people with different needs can find something suitable within QQ. For QQ users, most of the time there is a same-side positive network effect, which means the more users there are the better because they can share their stories and show their personalities to a broader audience. With the complementary products QQ has ultimately become successful in attracting millions of users. Surprisingly, after adding so many features, QQ interface hasn't changed; it remained to be simple and clean. That's also one reason why so many people prefer QQ to other IMs.

Paid Membership

QQ's complementary products are not always free. For example, a plain QQ show costume could be free but a fancy one might cause money. That's why QQ offers an optional paid membership. The membership service is called "diamond". With the membership the members can enjoy some of QQ's sub features for free. In order to satisfy people with different need for each feature, QQ offers seven versions of colored diamond services with each color diamond membership targeting one specific feature.²¹ For example, members with red diamond can purchase all QQ show costumes for free; members with blue diamond can purchase all Qzone decorations for free (see Exhibit 5).²² This way people can purchase different color diamonds according to which products they like best and use most often. By charging the members, QQ is also able to lock them in. Since people pay for the services they would use them more often; and after they spend all the time dressing their avatars and decorating their Qzone there are locked in. QQ offers a monthly membership subscription and people either renew their memberships every month or pay for 3, 6, 12 months at once.²³ If some member purchases a new avatar look during a certain month and wants to purchase some accessories next month, he/she has two options: renew the membership or pay for all accessories. Most people will choose to renew the membership because they get free access to everything in the service for a whole month. In the person's case, he/she will most likely renew the membership and buy as many accessories as needed. Therefore, the monthly membership system further enables QQ to lock in their users.

Going international

In 2008 QQ launched its international version of the messenger in English, Japanese, and French.²⁴ Later it also released QQItaly, the Italian version of QQ messenger.²⁵ In addition to the messenger, QQ has been working with Asian countries and the U.S. to expand its services internationally.²⁶ The result of these attempts is not clear but it's a necessary step to take if QQ wants to achieve long term success worldwide.

Competition

In China, Tencent QQ's competitors are MSN, Sina UC, Baidu Hi in the instant messaging field.²⁷ However, since QQ offers so many relative online products, business such as anti-virus software, online TV, and online shopping sites could all be QQ's competition, directly

or indirectly. Recently, the lawsuit between Tencent QQ and Qihoo's 360 software has caught much public's attention.²⁸ Qihoo 360 is a security software developed by Beijing Qihoo Technology. On September 26th, 2010, Qihoo alleged in an article published that their new 360 Privacy Protector has detected that users' privacy was "tracked" by "certain instant messaging software", implying QQ.²⁹ QQ, in response, has filed a lawsuit under Article 14 of Anti Unfair Competition Law for Qihoo 360 "fabricating or spreading false facts, resulting in damaging their business reputation" followed by an action of making QQ instant messenger incompatible with 360 anti-virus software.³⁰ On Nov 4th, 2010, a lawyer filed a complaint against QQ under Anti-Monopoly law alleging that QQ has abused its dominance by "forcing" its users to uninstall Qihoo 360.³¹ The case is still under investigation. Despite the win and lose the lawsuit has proven that as Tencent QQ grows stronger it starts facing more threats from the competitors. In order to ensure its market dominance, QQ needs to strengthen its advantages and come up with strategies to deal with the threats.

Problems and Controversies

Being such an influential company Tencent faces many problems and controversies. Some have complained that QQ charges too much money for the services and others complain about the increasing number of advertisement. When users are unsatisfied sometimes they try to fix the problems on their own. That explains the add-on phenomenon.

The add-on problem

Since QQ's success there has been a number of add-on software developed in particular to deal with some of QQ's insufficient functions. The software makes some of QQ's paid services free and blocks advertisement to a certain extent.³² In fact, many people turned out to like the add-on version of QQ better because they were addicted with QQ but hated some aspects of it such as the ads and the paid services. They felt QQ was monopolizing the market and the emergence of add-on provided them alternatives.³³ Coral QQ was a typical add-on.³⁴ In addition to providing some of QQ's paid services for free, it blocked a lot of QQ's ads while adding some ads of the creator's choices to make profit. It was so liked that there were more than 40 million users.³⁵ QQ complained that Coral QQ violated the copy right and claimed its profit to be illegal.³⁶ In late 2007, the creator of Coral QQ Chen Shoufu was arrested for

“infringement of intellectual property”.³⁷ Even arrested, Chen Shoufu’s case still created some dispute about whether what he did was foul. Many web users supported him because they believed what he did was to the users’ benefits; some lawyer was even willing to defend him.³⁸ However, QQ argued that those add-ons were a “main cause of online safety problems for users”.³⁹ In China, there hasn’t been a complete system of regulations specifically governing add-ons and protecting intellectual property.⁴⁰ In the Coral QQ case, QQ might have a solid standing but it still faced controversies and criticisms from the public. What’s more, if QQ involves in more dispute like this one its reputation will be harmed no matter QQ was right or wrong. Therefore, to ensure its long term success Tencent needs to work on protecting its legal rights while providing satisfying services to the users.

Q coin

To make the payment easier, safer and faster, Tencent invented its own commodity Q coin. Q coin is a virtual currency to purchase QQ related products and services online.⁴¹ Users can buy Q coins from the bank, one Q coin equivalent to one Yuan, or using their mobile phone services.⁴² Because of QQ’s popularity, Q coin as a matter of payment has become more broadly accepted by online stores and gaming sites. It even acts as a medium of exchange for real world goods sometimes because people can spend Q coin at an online gaming site and receive gifts in real.⁴³ The People’s Bank of China, China’s central bank, expressed their concern about the impact Q coin might have on the value of Chinese Yuan. According to the bank, Tencent could use the money they get from selling Q coins to invest in real estate or stock markets.⁴⁴ Although Tencent insists that Q coin is merely a commodity not currency, The People's Bank of China is considering investigating the possibility of cracking down on Q coin.⁴⁵ “We will firmly crack down on virtual money if it is used to launder money,” says Li Chao, spokesman of the People's Bank of China.⁴⁶ Could QQ prove to the bank that Q coin has no impact on Yuan? If Q coin gets banned then Tencent is to face a difficult situation. With millions of paid members how is QQ going to develop an effective, yet harmless method of payment? What should QQ do to keep the existing members who are used to Q coin and are not happy with its vanish?

Conclusion

Tencent wants to be the most respected internet enterprise. The word “respected” implies that Tencent not only needs to become a market giant but also has to have positive social influences. QQ already fully took its advantage of being in a dominant position in the market and expanded the company in an almost aggressive manner, reaching into every corner of the internet service industry. Throughout the process, it also had to face many controversies and criticisms. Now Tencent QQ’s biggest problem is to maintain a good reputation and to show that the company also cares about the community its customers, employees and stockholders live in.

Exhibit 1

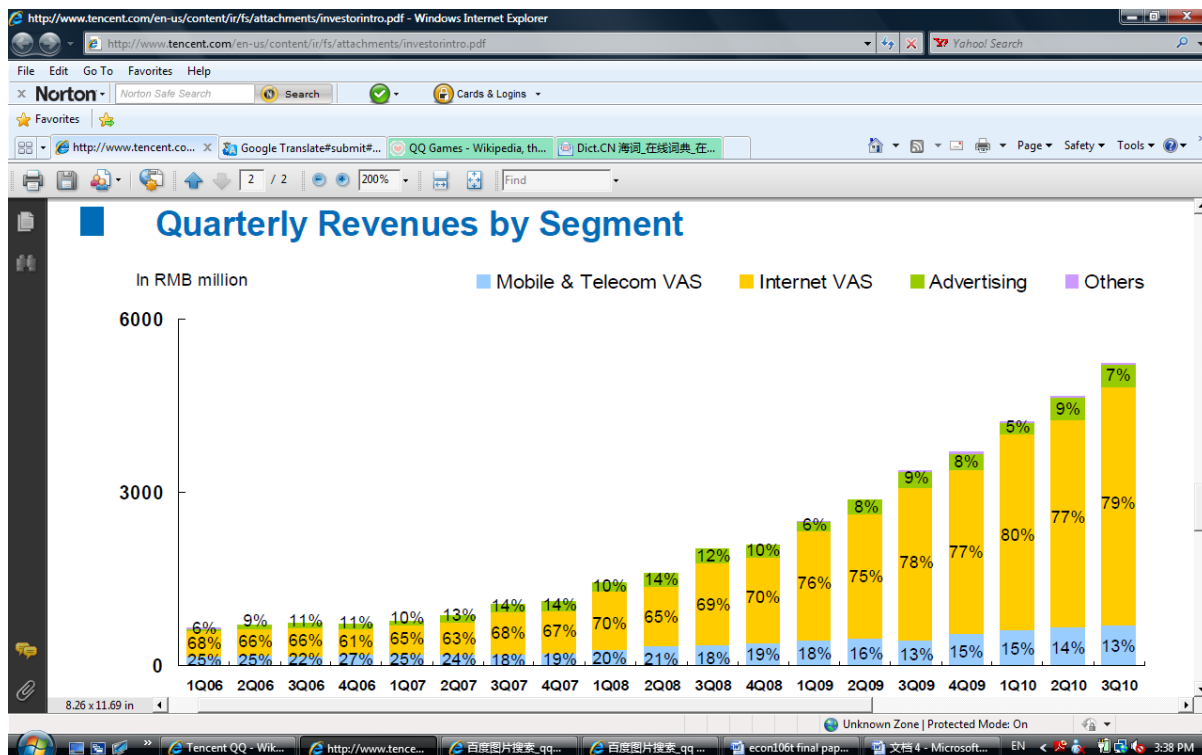


QQ Messenger conversation window with users avatars



Tencent QQ's logo

Exhibit2



Source: Tencent Holdings Ltd. Investor Fact Sheet

Exhibit3



Qzone



Example of Qzone background

Exhibit4



Example of QQ Games—Chinese Chess

Exhibit5



A stats display window with all services (icons) turned on and leveling info included

Endnotes

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