



SIT794 - REPORT ON TENCENT

Assignment 1

Abstract

Service strategy report on Tencent Holdings

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Service concept

Tencent is a Chinese company, founded in 1998. Tencent provides various internet-based services and products in different sectors worldwide through its subsidiaries (Tencent.com, 2020). The Chinese giant, Tencent, is headquartered in Shenzhen, China. Tencent is the world's largest video game company (Newzoo.com, 2019) and one of the biggest investment firm. Tencent offers its products and services in the following areas:

- **Social network**

Tencent has Wechat, QQChat, Weixen applications available globally for social networking and has its large share of users in China. These applications have enabled Tencent to use social media not only as chatting platform but also to provide value-added services (VAS) such as facilitation of online and offline education, merchants' mini-programs, e-commerce etc through them.
- **Online Gaming**

Tencent is a global leader in Esports. Popular mobile gaming titles PUBG Mobile, Call of Duty and League of Legends were largely successful globally helping Tencent expand its business overseas. In 2019, several top smartphone games were developed by Tencent and its subsidiaries (Tencent.com, 2020). Tencent organized Esports competitions as well and has a stranglehold in the industry. It is well above its competitors Sony and Google in the gaming industry in terms of revenue and market share globally (Newzoo.com, 2019). The games generate revenue through in-app purchases of VAS and advertising.
- **Digital Content**

Tencent proceeds to investigate diversified social entertainment fusions. Through a cross-screen, multi-platform, and multi-form model, it provides Internet users with diversified and multi-dimensional content to meet users' varying entertainment needs. Tencent provides several subscription-based services in the entertainment industry. These include Tencent video subscriptions, music subscriptions, Weixen reading application, Weishi video app for short video creation and sharing etc. Tencent also has Tencent Pictures, Tencent Animation, Tencent news, Tencent sports as its subsidiaries. They create TV series, movies and provide live broadcasting services through these subsidiaries and continue to increase its market share.
- **Online Advertising**

Tencent Advertising is a leading Chinese marketing platform that provides integrated digital marketing solutions based on massive commercial data, big data technology and expert service capabilities. Ad services are provided for users, brands, applications, products etc. Through data and technology, they have enhanced user-targeted advertising capabilities to provide a better return on investment for its advertisers. They have also provided different subscriptions options for its customers through WeChat to deepen their relations with retailers.
- **Financial Technology and Services (FinTech)**

In FinTech, Tencent offers wealth management, online payment applications, credit card payments, e-wallets and blockchain services for its customers. WeChat Pay, QQ Wallet,

Licanitong (wealth management application), Tencent blockchain are different products in this area that are provided by Tencent to enable users to access its services.

- Cloud and Business Services

Tencent also has created an impression in cloud solutions and has a presence in different verticals. Tencent is the second-largest cloud service provider after Alibaba. Tencent Meeting, Tencent Health, Tencent Medipedia, WeChat Work Mini-programs etc. are few products available in the market in this sector. These services were proven effective during the pandemic as well to aid in restart business activities in China and enable remote working.

Operating strategy

Tencent being a conglomerate company, its subsidiaries offer different services globally. Their strategic focus is building deeper connections between users via digital content, online and offline services. They plan to leverage Mini Programs, Weixin Pay and WeChat Work to build a strong connection with enterprises. Through to use of AI and Big data, they substantially improve its services resulting in better customer experience. This helped them in expanding their business locally and globally. In 2019, Weixin presented users with easy access to public and healthcare services. QQ was provided with enhanced chat features and AI along with mini games increasing its popularity in the younger audience. More than 120 million users used QQ School-plus-home groups. Its features were optimized to facilitate online and offline education. For enterprises, Mini programs were introduced to strengthen the connection with industries.

Tencent established its IP (Intellectual property) franchise and developed partnerships with external entertainment companies through several investments to increase its footprint in the digital content industry. Its gaming subsidiaries, Riot Games, Supercell, Timi & Lightspeed, Quantum studios have enhanced its R&D capabilities. These studios continue to provide high-quality games and Tencent aims to bank on them and its flagship game franchise to build on its global leadership in Esports industry. Popular gaming application help them increase their revenue through in-app purchases and paid VAS. Tencent is growing through commissioning and creating in-house content, especially in areas such as TV series, anime and variety shows. Pay-for-streaming model was implied by Tencent music to increase its subscriber base. Analyzing the time spent by customers on short video sharing applications, Tencent increased its investment in this space. Weishi app was provided with advanced video content recognition technology to improve user content creation increasing its Daily Active Users (DAU) by 80% and video uploads by 70% (Tencent.com, 2020).

Tencent strengthened its hold in the FinTech market by improving its connectivity with offline merchants. They plan to expand their wealth management portfolio and add payment use cases. This was enabled through its applications such as WeChat providing integration of different services in a single application (WeChat Pay). Tencent improved integration between Weixin and WeChat Work to enable management of customers and conversion of sales. WeChat work was used by millions of enterprises to resume work after the coronavirus outbreak. Millions of Weixin users have utilized Tencent Health to access the latest data on the pandemic, online consultation and AI-based self-diagnosis services.

The earnings of Q2 2020 were published by Tencent recently providing insight on its growth and revenue share of different services

2Q2020

Total Revenue



Non-IFRS



Net Profit attributable to Shareholders



Diluted EPS



Key Platforms Update



Weixin and WeChat

1,206 million

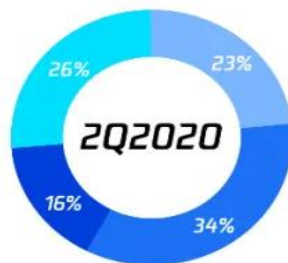


QQ Smart Devices

648 million

*Monthly Active Users as of Jun 30, 2020

Revenue Mix



- Social Networks
- Online Games
- Online Advertising
- FinTech and Business Services

* Excluding Others revenue

(TencentGlobal, 2020)

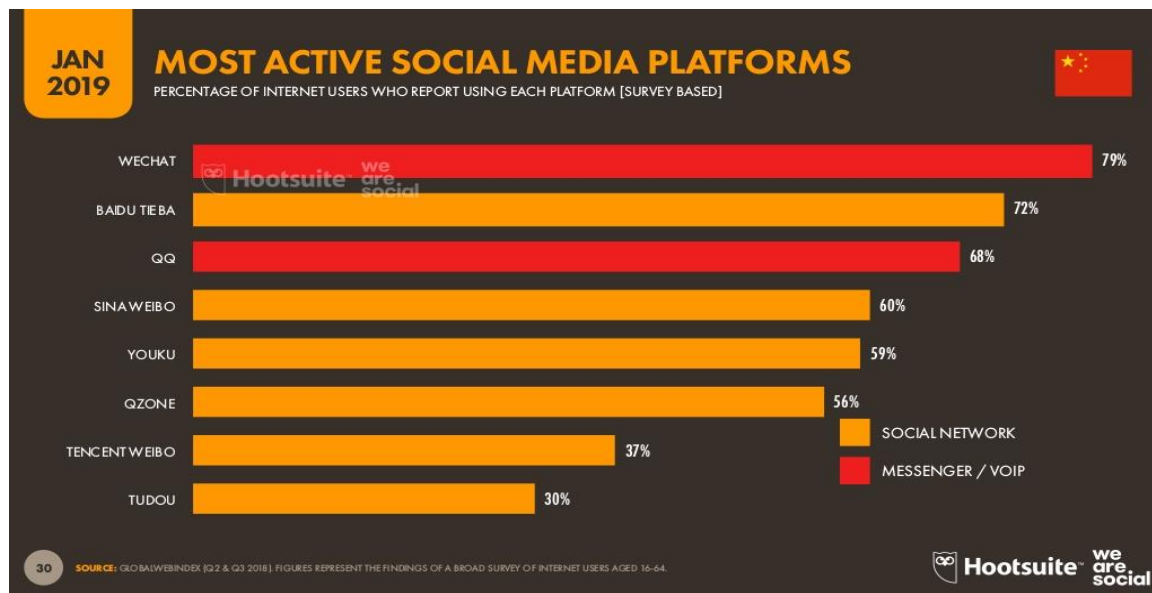
Competitive strategy

Tencent competes with some of the biggest organizations in China and the world. Baidu and Alibaba are the biggest competitors in China, while Google, Facebook, Sony etc. are competing in different industries such as social media, gaming, advertising, E-commerce, payment services etc. ByteDance emerged as its strongest competitor through Tiktok in short video creation space. Tencent maintains its stronghold on these sectors through aggressive investments and adopting customer needs through the integration of data and technology. Tencent understands the Chinese market better than its overseas competitors and executes strategic plans aggressively to gain a competitive advantage. Being the wealthiest company in Asia certainly aids Tencent in taking over different subsidiaries to expand its business.

Tencent provides more services than its competitors. While Baidu, Alibaba are operating in several sectors and still hold a strong position in the Chinese market, they do not offer as many services as Tencent. Tencent has its search engine (Sogou), QQ as text messaging app, WeChat for social media, WePay and QQ Wallet for a payment system (Alibaba has Alipay), B2B trading, cloud services, maps etc.

While Baidu is a leading search engine in China, it is sharing its market with Sogou, backed by Tencent. Similarly in other sectors, Alibaba and Baidu services share its market with Tencent.

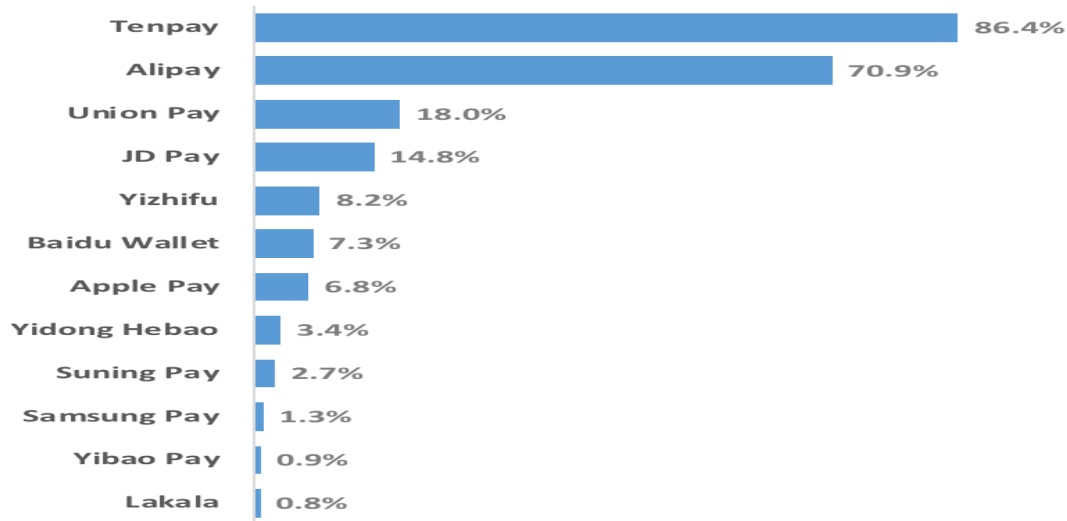
Tencent's social media applications have deep penetration in the Chinese market, they share a large number of users in China. These social media applications are providing multiple services to the users and industries, making them very convenient and highly efficient to use. These all one applications and continuous improvement to them through the use of technology and its resources, Tencent remains a clear leader in the market. Tencent uses these numbers to provide its advertising services for clients. Using data and technology to enhance user targeting capabilities, Tencent emerged as the market leader in the online advertising industry. The fig. below provides a survey of applications used in China indicating usage of Tencent apps against other applications.



(We are social, 2019)

In the mobile payment application market, Tencent pay (TenPay) is being utilized by a large number of users and its closest competitor is Alipay by Alibaba. According to the local survey, TenPay was used by 86% of the users while Alipay was preferred by 70%.

Payment Method User Penetration % 2018 Q4



Source: Ipsos 2018 Q4 Third-Party Mobile Payment User Report; sample population 13,148

WALKTHECHAT

(WalkTheChat, 2019)

Tencent has also invested heavily in the digital content industry. In online literature, they are providing high quality paid content to the users of Weixen reading application. To improve its market share, after analyzing short video space and success of Tiktok like applications, Weishi video app was enhanced with advanced video content recognition technology to improve user experience. In gaming, Tencent is way ahead of Sony currently. Tencent has also invested in the gaming industry. They hold shares in the gaming giant Supercell and invested in many popular gaming studios (Riot games, SEA to name a few).

Service differentiation

Tencent utilizes advanced technology and big data to provide exceptional user services. Artificial intelligence is used by Tencent in all big business sectors to improve user experience and strengthen the business development of corporate partners. They use the technology to provide users with personalized content recommendations and deliver a new service experience; to create a more natural, interesting, and entertaining human-computer interaction experience; to transcend the boundary between the virtual and real-world, upgrading the game experience. Tencent is a Chinese company and understands its local market. Through this knowledge and application of technology to its products, it continues to provide better services.

Due to free subscription provided by competitors, Tencent literature subscription growth was slower than expected, although they aim to provide high quality paid content to its subscribers for increasing its market share through better quality. With the usage of enhanced video recognition techniques, Tencent improved recommendations provided to the users. They provide different advertising and broadcasting services through their applications. Wechat provides official accounts for business to advertise and connect with customers. WeChat pay is also integrated to facilitate e-commerce.

Amid wake of coronavirus pandemic, they provided a wide range of cloud and business services to enable access to remote work services, online education and healthcare services. Tencent Medipedia provides trustworthy and professional medical information to its users. Tencent Health Code was utilized by more than 300 cities and countries as ePass to verify health and travel history. In FinTech, Tencent provides WeChat Pay and QQ Wallet to facilitate open financial ecosystem. WeChat pay allows users to pay directly through its wallet in compliance with regulations in China. Tencent systems are continuously integrated to enable their growth and help business development. WeChat can be used for business, advertising, E-store, Mini Program and Official account, making it unique its own. Enterprises can use WeChat for marketing their products and through the large user base and targeted marketing capabilities, Tencent remains leaders in the market. (Tencent.com, 2020)

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