

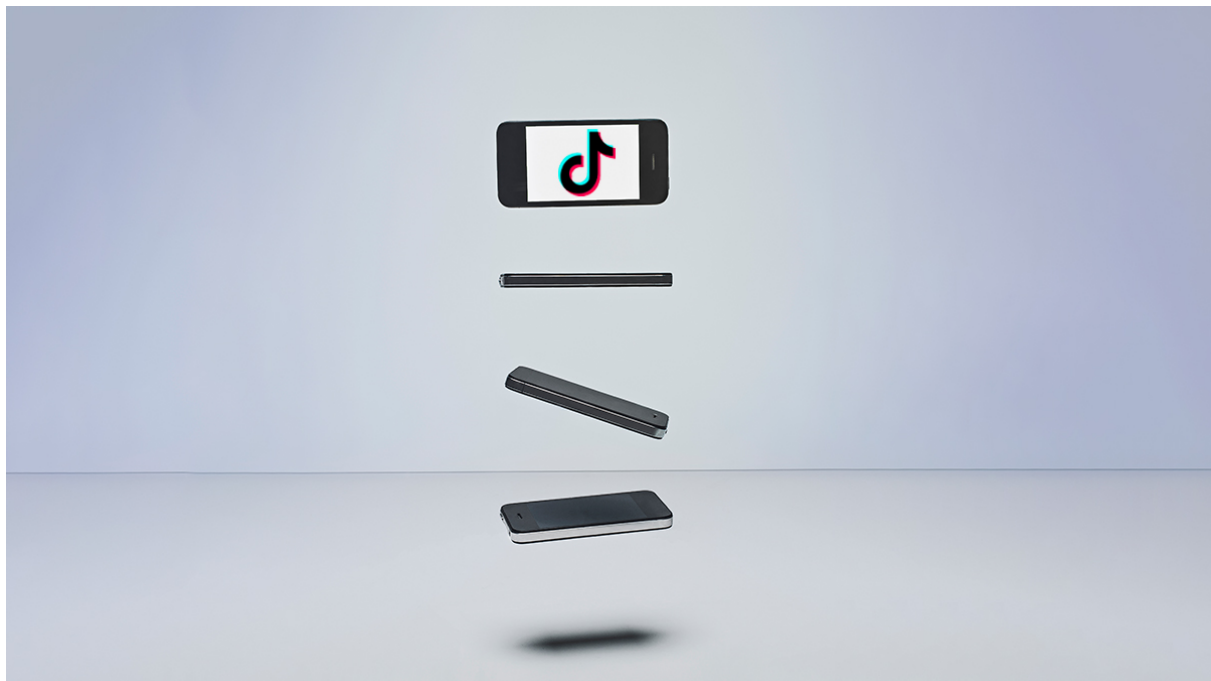


Global Strategy

The Strategy Behind TikTok's Global Rise

by Rebecca Fannin

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Daniel Grizelj/Getty Images

Summary. Few tech startups have taken off as quickly as Beijing-based ByteDance, the creator of the highly popular 15-second video app, TikTok. In just two years, TikTok has emerged to rival companies like Netflix, YouTube, Snapchat, and Facebook... [more](#)

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like Netflix, YouTube, Snapchat, and Facebook with more than one billion downloads in 150 markets worldwide and 75 languages. On the app, homemade videos showcase everything from comedy to lip syncs to dog grooming tips that users create and share on their phones. The scrappy, goofy, fast-moving content has hooked young audiences around the world.

Since little translation is required, TikTok reaches well beyond other successful Chinese apps such as Tencent's messaging app WeChat, which is ubiquitous in China but mostly used elsewhere among Chinese communities keeping in touch with people back home. Chinese entrepreneurs such as ByteDance founder Zhang Yiming are showing that they can succeed in an openly competitive market internationally rather than only in China where the [Great Firewall](#) regulates the internet and blocks access to several U.S. social media sites. His strategy of dual versions of Tik Tok — one for China's internet censored market and another for the rest of the world — could be a new model for other digital content companies aiming for such global reach — including China-based digital startups with new ambitions to venture out beyond the home market. Their story may also hold lessons for American companies who have watched similar ventures [into China](#) meet serious constraints.

From the start, Zhang, a former Microsoft engineer and Chinese serial entrepreneur, had the goal of running a [borderless company](#). Zhang, 36, is among a new generation of home-grown Chinese tech leaders with an international vision inspired by the early success of China's tech pioneers of the late 1990s such as Robin Li of Baidu, Jack Ma of Alibaba, and Pony Ma of Tencent. ByteDance has a valuation of \$78 billion — one of China's 86 “unicorns” in 2018. Its backers span top-notch venture capitalist firm Sequoia Capital China, Japanese tech conglomerate Softbank

from Sequoia Capital China, Japanese tech conglomerate Softbank Group, U.S. private equity investor KKR, Chinese investment firm Hillhouse Capital and corporate venture unit SIG Asia. As a privately financed digital content startup founded by a tech entrepreneur, ByteDance has a different relationship with the Chinese government and its grip on state-owned conglomerates. But in going global, the China-originated ByteDance could encounter heightened distrust and scrutiny especially as security concerns have enveloped Chinese telecom giant Huawei in readying the launch of its fifth generation, high-speed networks internationally.

In August 2012, five months after founding ByteDance, Zhang launched his first mobile app, Toutiao or Today's Headlines, an AI-powered daily curated feed of news content personalized to users. In 2016, Zhang added to his product lineup by introducing a video sharing app, Douyin, for the Chinese market. He rolled out an overseas equivalent of the Douyin video app, dubbed TikTok, in 2017. That same year, ByteDance paid an estimated \$900 million to acquire Musical.ly, a social video app based in Shanghai with more than 200 million users worldwide and a large following in the U.S. The deal combined TikTok's AI-fed streams and monetization track record with Musical.ly's product innovation and grasp of users' needs and tastes in the West.

After ByteDance folded the four-year-old Musical.ly into TikTok, and rebranded it to a single application under the TikTok name in August 2018, the combined app immediately gained some 30

million new users within three months. The app makes money

million new users within three months. The app makes money through ads and from the sale of virtual goods such as emojis and stickers to fans. An easy-to-use interface combining click-baity news and entertainment with powerful AI to precisely match users rather than recommend content based on their viewing habits and “likes” have fueled the app’s success. The homegrown content has become prevalent, particularly among rural and poorer residents in China, [India](#), and other emerging markets where access to other digital entertainment options has been limited. In China’s smaller cities and the countryside, where state-owned, stodgy media has dominated, the new ByteDance content apps are [especially popular](#).

Zhang has also built upon China’s desire to make AI a priority in the race for global tech dominance. He describes a mission to “combine the power of AI with the growth of mobile internet to revolutionize the way people consume and receive information.”

Venture partner Connie Chan at Andreessen Horowitz in San Francisco wrote in her [blog](#) that the AI-powered apps at ByteDance go to an extreme not common yet in the West. TikTok uses the app’s algorithms to decide which videos to show users, dictates their feed entirely, and learns their preferences the more one uses it. This is different from Facebook, Netflix, Spotify, and YouTube, which use AI to recommend posts rather than send feeds to users directly, she notes.

The company actively scouts for international content trends from an office in Los Angeles. Over the past few years, ByteDance snapped up Los Angeles-based Flipagram, a video and photo creation app set to music clips, and invested \$50 million in Live.me, a livestreaming app in Los Angeles that is majority owned by Chinese mobile app developer Cheetah Mobile.

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Additionally, ByteDance acquired News Republic, a global mobile news aggregation service based in France, from Cheetah Mobile for \$86.6 million. ByteDance attempted to buy a major stake in U.S. social news aggregator Reddit from Si Newhouse's Advance Publications but lost that deal to Tencent, which swept in with a \$300 million co-investment in early 2019.

Facebook faces a serious global rival from China in TikTok. In 2018, TikTok ranked fourth worldwide as the top non-game app downloaded, at 663 million behind only Facebook at 711 million and its related apps WhatsApp and Messenger, SensorTower data shows. TikTok's inroads in India and its young, mobile-savvy population is a big reason it's soaring. About one-quarter of TikTok's downloads come from India. TikTok added 188 million downloads in the first quarter of 2019, surpassing Facebook at 176 million, but trailing WhatsApp at 224 million and Messenger at 209 million.

In late 2018, Facebook launched its own short-format video version, Lasso, which is widely considered a knockoff of TikTok. Aimed at teens, Lasso can only be accessed through Facebook or Instagram, and so far is limited to U.S. access. Lasso was downloaded by 70,000 U.S. users within four months of its launch in November compared with nearly 40 million users for TikTok in the same time period, according to app analytics firm SensorTower.

TikTok's rise has also brought a string of regulatory problems. The U.S. Federal Trade Commission slapped TikTok with a \$5.7 million fine for failing to get parental consent before collecting names, email addresses, and personal information about children users

under the age of 13. In India, lawmakers briefly banned the app

under the age of 13. In India, lawmakers briefly banned the app this past April from being downloaded on Apple and Android, for encouraging “cultural degradation” among youth. The ban was lifted a few weeks later when ByteDance lawyers successfully argued that its system screens offensive content and prevents nude videos to be shown, and is continually being upgraded to identify troublesome videos and develop more personalized content recommendations.

Despite regulatory and other challenges, ByteDance is building an empire of apps for a new generation and challenging the borders drawn around traditional digital content. If ByteDance can continue to fulfill its mission of becoming a borderless company with game changing technology, it may lead to the creation of other borderless companies and will influence other tech innovators from emerging markets to venture out too. Ultimately, this trend will create a fuller range of digital offerings globally for consumers and businesses.

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Rebecca Fannin is a journalist and columnist who writes about China's entrepreneurial boom and is the author of three forward-looking books about global innovation trends, including *Tech Titans of China* (Hachette's Nicolas Brealey Publishing, 2019).



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