

Tencent's Business Model and Business Strategy

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Abstract: In the competitive practice, a set of practical and unique corporate business models is the key to superiority in the market competition. Nevertheless, since the different perspectives of the researchers, resulting in the lack of unified understanding of the basic concept, structural system, and theoretical scope of business models, the research on enterprise business models has not formed a unified theoretical framework yet. Based on that, to better guide Chinese enterprises in successful enterprise business models, this paper explores the strategies for the design and innovation of enterprise business models, and attempts to provide ideas for the change of existing business models. Through the basic science research of Tencent's official, it could be found that the official operation model is roughly divided into three parts: Internet technology value-added services, mobile communication value-added services, and Internet advertising. The sales market began to be occupied by the official QQ of Tencent, and a large number of visitors were attracted, resulting in a fixed customer base. By maintaining a high number of hits and popularity, further development of other regions was carried out to gain profits. Tencent officials know their customer base well enough to provide them with a satisfactory service, no matter where the customer is. Most of Tencent's official business processes are aimed at the younger demographic. Taking advantage of customers' blind comparisons, curiosity, and other psychology, they deduct specific fees from various Unicom value-added services to gain profits.

Keywords: Tencent, Profit Model, Profitability.

1. Introduction

Both in the field of education and practical activities, the business operating model is considered a new term. It began in the 1950s, but did not become widespread until the 1990s, benefiting from the economic development of the Internet. Under the current network economy situation, the traditional way of business can be broken by the change of commodities, technology, and regulations. By relying on clever core ideas and unique business operation model, suddenly become rich not just a dream anymore. At that time, the business operation model could become the core competitiveness of IT enterprises. Therefore, experts, scholars, and entrepreneurs gradually focus on business operation models and create a standard business service operation model. As the application of business operation models becomes mature, it is found that an organization needs to build a suitable business operation model to develop long-term trends.

Nowadays, information content is greatly expanded, technology trends are changing rapidly, and environmental analysis is varied. All companies are forced to keep a keen sense of change at all times. For a long time, companies have encountered problems that go beyond production, manufacturing and marketing. At this time, the business operation model has become an effective way for companies to make profits. It is well known that although more and more experts and scholars are focusing on the scientific research of business operation model, the definition of business operation model has not yet reached a consensus, and the scientific research is still in the research stage. It can be seen that there are two critical aspects as follows: First, the business model is a new upgrade perspective of the company, which requires comprehensive management, organizational behaviour, economics, strategic management, and other theoretical systems and practical operations; second, it covers all aspects of business operations, almost everything in the enterprise is related to it----products, services, production, sales,

technology development, capital management, etc. The wide range of content often leaves researchers confused. The lack of uniformity in the definition and analysis framework of business models seriously affects the promotion of research results, making it challenging to provide managers with practical behavioural guidelines, and is not conducive to enterprise management innovation.

In the work, we focus on the internet economy, which has its unique characteristics, compared with traditional economy. One distinctive feature is that the average cost of promoting a customer is exceptionally cheap. As long as the profit at the border exceeds the cost at the border, the growth of users will produce a high increase in profitability, namely the "network effect." The value of an Internet platform depends on the total number of users applying the platform. When the number of customers increases, their commitment to the Internet increases, and the value of Internet use increases, thus attracting more and more customers, a cycle that generates good positive feedback [1]. This system, combined with the "high total cost of ownership and low cost of diffusion" characteristic of the Internet economy, usually results in strong economies of scale for leaders. Therefore, innovation is crucial in this area. The proliferation of Internet technologies makes it easy for companies to imitate technology and "good ideas," and the simplification of products and services is significant. Therefore, to win in a fierce market, companies need to first "lock in" their customers, build a competitive stronghold in the market, and capture market share. According to this logic, the financial and human capital investment of Internet companies in product development is enormous. Take Tencent as an example; the R&D staff alone accounts for half of the total staff. Identifying customer needs with keen judgment and providing better services to consumers is the goal of Internet companies.

2. Company Introduction

The Tencent Corporation was founded in November 1998. It is currently the largest comprehensive Internet service provider and the Internet company with the largest number of users in China. 2004 June, Tencent Holdings was officially listed on the Hong Kong Stock Exchange (code 0700. HK), becoming the first Chinese Internet company to be listed on the main board of Hong Kong [2].

The strategic goal of Tencent is to "provide one-stop online services for users," based on this, Tencent complete business layout and building an organic-unified business structure consisting of 7 major business segments, including advertising, instant messaging, e-commerce, interactive entertainment, wireless, fixed-line value-added services, Internet value-added services, and online media. The company has formed the largest online community in China. To meet users' needs for information transfer and knowledge acquisition, it has launched QQ instant messenger, QQ.com portal, SOSO search, and QQ mailbox; to meet users' needs for communication and resource sharing, it has launched Qzone, China's most prominent personal blog, which works in tandem with chat rooms, forums, and QQ groups that have a large number of visitors. In terms of meeting users' needs for personalized display and entertainment, Tencent has successful virtual image products such as QQ pets, QQ shows, QQ music, QQ games, and QQLive, etc. At the same time, it also provides a variety of wireless value-added services for cell phone users. In terms of meeting users' transaction needs, the C2C e-commerce platform PaiPai has been operating and has completed the integration with the entire community platform. On June 30, 2007, Tencent's instant messenger QQ had over 647.1 million registered accounts, with more than 273.2 million active accounts, accounting for 79% of the instant messaging market, and more than 57 million active accounts in QQ personal space. The number of simultaneous online QQ games exceeded 3.17 million, and QQ has become the number one comprehensive portal in China in terms of browsing volume [3].

Insisting on independent innovation and establishing a national brand is Tencent's long-term development plan. More than 60% of Tencent's employees are R&D personnel. Tencent has many patent applications in e-commerce, instant messaging, search engine, online payment, information security, and gaming. In 2007, Tencent invested more than 100 million yuan in Beijing, Shanghai, and Shenzhen to set up the first research institute for the Internet in China, the Tencent Research Institute, and conducts independent research and development of essential core technologies. In addition, Tencent has been actively participating in public welfare undertakings, assuming corporate social responsibility and promoting Internet civilization. In 2006, it established the first charity foundation on the Internet in China, the Tencent Charity Foundation, and set up the Tencent Charity Network (gongiqq.com).

3. Revenue stream

3.1. Value-added Internet Technology Services

The main elements of Tencent's official Internet technology value-added services include membership benefits, community services, entertainment games, and service programs. Actual business includes email, game entertainment, news content service items, dating service

items, casual games, large-scale games, medium-sized multi-client cell phone online games, etc. Occupy the sales market with a completely free strategy to resist competitors and make profits with Unicom QQ membership, QQ clothing, QQ-ZONE game props, decorations, and other Unicom value-added business services, part of which has become the most important fixed income for Tencent now.

3.2. Mobile Communication Value-added Services

The content of mobile communication tower services includes cell phone chat, online games, cell phone chatting voice, cell phone photo ring tone download, and "mobile dream network." Customers download or apply value-added services online, and after the operator receives the fees, it will share the settlement with Tencent. Initially, with this mobile and telecom network value-added service project, Tencent is entering a new profitability journey.

3.3. Internet Advertising

The advertising business is mainly based on Internet advertising in the instant messaging client and advertising in the QQ.com portal. The portal developed and designed by Tencent's official QQ relies on QQ's massive consumer base. With a large number of website visitors, it has been maintaining a high click-through rate and popularity, attracting various enterprises to place advertisements on the Tencent portal. Hence, the revenue from Internet advertising is not low. Since the vast majority of Tencent's users belong to young people under 30 years old with low spending power, its online advertising revenue is far inferior to that of Sina [4].

4. Other Profit Models

4.1. C2C Platform - PaiPai

Tencent also entered into the C2C field and invested in the establishment of PaiPai.com. PaiPai profitable through advertising, information top, special recommendation, special display, and other special services.

4.2. Third-party Payment Tools - Tenpay

Tencent's Tenpay is mainly a payment service for PaiPai.com, being its strong backer. However, from another perspective, it is also the equivalent of a risk-free online bank, with buyers and sellers of Pai Pai injecting funds to a greater or lesser extent. With the growing number of users, the total money in Tenpay is not a tiny amount, and Tencent can use these funds to invest and not pay interest. So it is an excellent way to raise money and get some interest rebates through the time difference.

4.3. Brand Revenue

The outsourcing of QQ cartoon brands has become a unique source of revenue for Tencent. Tencent cooperated with apparel dealer Donglihang to launch QQ brand stores. This has become an innovative model for developing Chinese Internet culture offline. At the same time, Tencent also launched an independent derivative brand, "Q-GEN." By expanding QQ's brand outreach and developing the apparel industry in-depth, Tencent can not only expand its brand influence but also receive more than 10% of the commission.

5. Thoughts on Analyzing Tencent's Profit Model

5.1. Grabbing The Sales Market and Making Profits in Multiple Ways

Tencent's official profit-making business process can be successful thanks to its initial completely free measures, which help collect a large amount of customer information early. QQ accounts are not immediately profitable, even requiring the cost of buying web servers for so many customers. Without this foundation, other services cannot be expanded [5].

Today, Tencent's official QQ has the most extensive consumer base of Internet technology applications registered in China. Tencent has officially become the most extensive instant messaging service system in China. Even to the point where many people now use QQ numbers as one of the primary contact methods for contacting phone numbers and email addresses. Tencent Official has thus created the most important competitive edge of Tencent Official - the industry monopoly influence of the mobile client model. Anytime Tencent expands into a new business, it does not need to innovate too much. There is no need to invest too much money to develop the market and push the factory. Relying solely on the industry monopoly advantage of the client model, it can reap lucrative profits that are the envy of its competitors.

5.2. Be Clear About Where Your Customers Are and What You Can Offer Them

The vast majority of business serves young people. Tencent officials can effectively study who their customers are and their requirements. Based on this, they can innovate their product features. At the same time, Tencent officials have also captured an essential characteristic of young consumers: being different. The virtual product QQ Show has become popular because it meets the needs of young people, and it has even become a fashion icon for young people, many of whom use it to show their personalities and lifestyles [6].

5.3. Interconnectedness and Mutual Carrying

Tencent QQ is good at integrating its various businesses, with one business driving the development of another. The QQ portal, which was later developed with QQ's unique advantages, ranked second in China after Baidu's search engine and surpassed professional portals such as NetEase and Sina. It is also a good use of existing customer resources, with the Tencent mini home page and instant news alerts for online status after customers log in. It has taken advantage of the vast user base of QQ software to promote the rapid development of Tencent's portal, which is a resource advantage that other portals do not have. After the website traffic reaches the second position, its advertising revenue and other income from the website cannot be inferior.

5.4. Profit Multiplier Model

Tencent has established the QQ brand, whose cute little penguin image is popular among young people. Tencent gives this brand to a series of other products, such as toys and clothes, which are also consumed by the young group, matching QQ's consumer group. Its brand effect is extended, and the cost of pushing the factory is meager, achieving profit multipliers.

5.5. Think Outside the Box to Find Profits

When other companies are still thinking about how to profit from Blog, arguing how to use network advertising, wireless value-added for Blog profit, Tencent's Blog - that is, QQzone, has long been profitable.

QQ zone's primary profit model is to sell zone decorations, props, including large head stickers, donations, music decorations, and more personalized flower functions. The flower's growth index is linked to the number of items purchased, stimulating consumers' desire to buy. Though the overall charging strategy is not perfect now, the potential should not be underestimated [7].

(6) Proficient in actively integrating, discovering, and utilizing favorable resources around

Based on user-based innovation, broaden user channels or platforms, facilitate user access efficiently, and improve user experience to operate effectively.

6. The Operation of Funds

6.1. The Idea of Unique Profitability

If Tencent is more of a follower in terms of technology, it is an innovator in the business model. The main logic of its business model is to use free essential services to expand the scale of users rapidly, and gradually increase the cost of user conversion through product and service upgrades. On the one hand, it attracts users with innovative value-added services. On the other hand, it satisfies users' emotional experience needs with various products, and finally, it achieves the purpose of charging while making its vast user base highly sticky.

In terms of business choices, to solve the financial worries, Tencent starts with mobile and telecom value-added services that can bring in a large cash flow. Through cooperation with mobile and telecom operators with solid capital, Tencent realizes the interconnection of various terminals such as computers and cell phones. With stable customer resources, we can obtain a stable income. Then, we will develop a value-added Internet business with high growth potential. By enhancing the user experience, we can successfully realize fees and cultivate another growth point. Finally, with the gradual establishment of its brand, its influence is growing. We are also working on online advertising and gaining customers' attention with our attractive products. At the same time, we sell the agency rights of the brand image and launch the QQ brand store. Based on the transfer fee and business commission of the agency, we expanded the influence of the brand. We successfully develop virtual products on the Internet into actual products offline.

After a decade of development, Tencent's revenue sources simply have been difficult to summarize, such as online advertising, membership fees, transaction fees, and game point cards. The most significant part still comes from the value-added business of the Internet, especially QQ Pets, QQ Show, and QQzone [8].

6.2. Corporate Financing and M&A

Tencent has spent most of its capital expanding its primary business, with most of its products and services developed by its team. Since its inception, Tencent has only made three small acquisitions, mainly of companies and technology teams that can bring value growth to the user experience platform. These include Joymax Technology, Boda, and Shenzhen NetVantage. Tencent founder Ma Huateng said that

although Tencent has always been concerned about worthy acquisition targets, the uniqueness of Tencent's business model makes post-merger integration no less complex than independent development. On the other hand, independent product development maintains Tencent's independence and the stability of its core competencies.

6.3. Analysis of Revenue Structure

Mobile and telecom's value-added services account for a decreasing share of Tencent's total revenue year by year, 77.4% in 2020 and 21.1% in 2021. This figure indicates that the transformation of Tencent's business and its reliance on telecoms and mobile operators are gradually weakening, and the company's operational risk has been reduced. At the same time, the growth rate of this business is slowing down year by year, mainly due to mobile and telecom operators reorganizing the market and eliminating non-active users. We can also see that this part of the business is very dependent on the role of partners. On the other hand, in recent years, mobile and telecom operators have been developing their instant messaging products, which have also had a particular impact on Tencent's business.

Value-added services of the Internet, on the other hand, are rapidly increasing as a proportion of total revenue, and their contribution to total revenue is rising year by year. It rose from 1.9% in 2021 to 65.8% in 2020 and showed a good growth trend. It has become the main business of Tencent. This has a lot to do with the company's product innovation and renewal in recent years. Various value-added services have enriched user experience and increased user stickiness. In contrast, product diversification has expanded the company's business scope, and reduced the risk of the impact of a single product from competitors to a certain extent.

Revenue from online advertising is relatively small but proliferating. With the increasing attention of various enterprises to online media, Internet advertising is in hot demand. Tencent's unique user base is the most significant advantage in attracting advertisers, and the diversity of advertising forms also gives Tencent the possibility to find differentiation amidst fierce competition. In 2021, Tencent launched the "Big Brand, Big Response" campaign, indicating that Tencent is ready to invest more in marketing and advertising to build a good brand. It can be expected that online advertising will become one of Tencent's business priorities. Tencent is gradually restructuring its z-business, and total revenue has been growing at a good pace, but the pace of growth in 2021 is slower than in 2020.

7. Analysis of Tencent's market performance and financial performance

7.1. Market Performance

Tencent's market performance is slightly better than major domestic Internet companies. It has maintained a continuous and stable growth trend, indicating that the market is generally optimistic about Tencent's long-term growth.

7.2. Financial Performance

Tencent has generally maintained an excellent operating position, with high profitability, stable operating profit margin and net profit from operations, and a high return on total assets and shareholders' equity.

In 2020, due to the rapid development of value-added

services of mobile and telecom and various types of Internet, there was confusion and disorderly competition in the market. Some Internet companies infringed on users' interests and were condemned by society. Starting from 2020, China Mobile increased rectification and regulation, resulting in. The market for value-added services once slowed down, and some weak SPs were eliminated. In response, Tencent participated in maintaining market order and establishing a good SP image. After the transformation in 2020, Tencent presented new weather in 2021.

From the balance sheet ratio, we can see that Tencent is a typical "lightly indebted" company. However, the debt ratio has increased in recent years, indicating that Tencent has started to use financial leverage to adjust its ownership structure. Tencent's high current ratio indicates good payment capacity and short-term debt servicing ability. However, the ratio is higher than usual, indicating that the company has some problems in capital allocation, which was improved in 2007. The turnover of accounts receivable remains above 40 days, which indicates a high speed of fund recovery and high efficiency of fund usage. The fixed-assets turnover rate is high, mainly because there are fewer fixed assets. Cash flow from operating activities per share has improved year by year, maintaining a more stable cash flow.

8. Conclusion

This paper establishes a value chain-based business model framework and selects Tencent for in-depth analysis. While verifying the applicability of the framework, it also proposes indicators for examining Tencent's business performance.

In terms of business performance assessment, from two aspects. One is to observe the market performance of listed companies and compare them with their major competitors to understand the market's judgment on business growth. On the other hand, it is judged by the corresponding financial indicators, sales volume, profitability, and capital utilization rate.

In addition to financial indicators, qualitative indicators such as customer satisfaction, brand recognition, target market penetration, and new product development cycle should be introduced when evaluating a company's business model. Tencent's business model includes strict management of each business, substantial investment in R&D technology, exploration of establishing expansion models, and attempts to establish long-term partnerships. These are all outside of the financial metrics but have a significant impact on the effectiveness of Tencent's business model.

Since the study of business models from the perspective of value creation is a frontier topic, there are few research results in previous works. The value-driving elements of business models have not been defined. In the absence of a sound theoretical system, the research in this paper is incomplete and needs to be further explored and improved. As the business model is an efficient business activity of enterprises, the viewpoints in this paper must be tested by practice to illustrate the problem.

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