

Focus Topic: The Success of Tencent's Business Strategy Shows Results During the Middle Years of the Coronavirus Pandemic

Yanlong Sun^{1,a,*}

¹*Beijing International Bilingual Academy, Beijing Shunyi, China*

a. marksun0517@outlook.com

**corresponding author*

Abstract: This Paper will focus on the technological and multimedia company Tencent. Throughout the years since it's founding, Tencent have shown great success throughout the years. For a business to be successful, they need to have a successful business strategy. In this paper, there will be six major parts of research: Tencent's Background, Tencent's Business strategy and Model, Basis of their Successful Strategy, Tencent's Marketing Mix, Tencent Customer Loyalty Strategy, and Tencent Business Performances in Q1 2021 and Q1 2022. These factors will lay out what is Tencent's business strategy, how the differences between different markets and segments Tencent are in. This will also show Tencent's customer loyalty strategy and show how they keep customers from all groups to use their different products. Finally, there will be an analysis on the Q1 reports of 2021 and 2022 showing the current state of the company and showing how the company is performing through the past two years.

Keywords: customer loyalty, business strategy, business success

1. Introduction

Tencent Holding Ltd is a Chinese multinational technology and entertainment conglomerate holding company. Founded in 1998 and based in Shenzhen, it has become one of the highest-grossing multimedia around the world. It has developed products in multiple sectors, the most successful being its Gaming and Social networking products. This report will focus on Tencent's business strategy and its successes. As Tencent is one of the biggest multimedia companies in the world, this study allows us to understand the strategy that allowed for their success.

2. Tencent's Background

Tencent was founded by Pony Ma, Zhang Zhidong, Xu Chenye, Charles Chen, and Zeng Liqing in November 1998. Its first launched instant messaging service is known as QQ. The primary source of income back then was through advertisements and premium memberships for users of QQ. Premium membership gives the buyer some privileges and extra functions in their chats. Soon, QQ was released on mobile. However, Tencent could not make a profit in the first three years. In 2001, Tencent received investment from MIH. Allowing it to grow farther. In 2004, Tencent launched QQ games, currently one of the largest online game platforms in China. It also launched QQ mail and QQ Show.

Digital selling of in-app purchases, memberships, and digital items supplied an extra source of income for the company. The company released more products throughout the next eight years, each specializing in a different market. The most noticeable are QQ music, a music streaming service released in 2005; Tencent Video, a streaming service, Released in 2011; and WeChat, or Weixin, the world's largest standalone mobile app with one billion users daily currently. Providing through the next few years, Tencent made a lot of heavy investments in different companies. These include Funcom, turtle rock studios, supercell, and riot games, all which Tencent owns more than 80 percent of their stakes. Tencent has also been further developing its studios, such as Timi. Recently, Tencent has been moving into the Metaverse market [1].

Tencent's main Mission and Vision is "Value for Users, Tech for Good" [1]. User value is their guiding principle. They want to make the lives of their users simpler and more comfortable. They incorporated social responsibility into all their products. They want to help promote technological innovation and cultural vitality, create a larger and stronger digital industry, and help society develop sustainably and cleanly. These can be found throughout their products. Tencent's products, WeChat and QQ, all provide new innovative features never seen before. WeChat pay and Webank allowed users to have monetary transactions and saved users time from needing to go to banks or take cash with them. Tencent recently launched a nature protection project that uses Tencent cloud Ai recognition, allowing better locating and analyzing wildlife behaviors. This allows protection officers to recognize sickness easier and save more wild animals. Tencent also released a charity activity called ninety-nine giving day, which is the largest annual public philanthropy campaign in the world, where it raises awareness of social issues. All of these show the company's focus on consumer value and good clean uses of better technology to help protect our world.

3. Tencent's Business Strategy/Model

Tencent's business strategy is focused on providing for the customer's needs. "The easiest way to make money is to create something of such value that everybody wants and go out and give and create value;" (Belfort 2007) [2]. However, Tencent is not fully focused on creating more products. They tend to buy their competitors' shares and be able to own their products. This gives them a new product under their name and experience from the company they bought. Tencent mainly earns money from in-app transactions through its games and services. During the Covid pandemic, this has been increasingly relevant as fewer people can travel outdoors. Their strategy focuses on value-added services, FinTech and business services, and Online Advertising.

3.1. Value Added Services

Most of Tencent's revenue comes from Value-added Services, making up 53% of their total revenue in 2019 [3]. Tencent's VAS segment has two sub-sections, gaming, and social networks. Both segments have shown growth throughout the year, only slowing down recently due to covid impacts and minor protection laws on the gaming sector. The main source of growth for the gaming sector is the success of major games like Honor of kings and Peacekeeper elite in domestic revenue and Valorant and League of Legends in foreign revenue. Tencent does not make a profit from selling these games. Rather, they profit from in-app purchases or transactions. The games are designed to be free to play to access a larger audience, and people buy in-game items for a better experience. The social networking sector is due to developments in their video sharing and streaming services, the live broadcast services provided in WeChat, and the live social chatting service in QQ.

3.2. FinTech and Business Services

The second largest contributor to Tencent's revenue is fintech and business services. These made up 28.9% of all the revenue earned in 2019. This is the fastest-growing segment of Tencent in 6 years, from 2013 to 2019. Increased revenue increased from RMB 622 million in 2013 to 108.9 billion in 2019 [3]. This segment includes three subsegments: Mobile payment services, including WeChat pay; Licitong, an app designed by Tencent in 2014 focusing on money management; and Webank, an online banking platform.

3.3. Online Advertising

Online advertising made up 18.9 percent of Tencent's revenue in 2019 [3]. It has shown large growth throughout the past few years, although from 2020 to 2022, it has shown a clear decline due to covid effects and a decrease in online demand. This includes subsegments like social and other advertising on Tencent's platforms, such as WeChat and QQ, and Media advertising. Media advertising has been declining yearly due to the unpredictable schedule of broadcasts on Tencent video and Tencent news. It has been further decreased by the Covid 19 pandemic, where multiple sports broadcasts are forced to shut down. Though it has recently mediated because of revenue from the 2022 Beijing Winter Olympics

4. Basis of a Successful Strategy

There are two major bases for Tencent's successful business strategy: Investments in other companies and their base location in China, with its huge population.

4.1. Investments

Most of the revenues from the abovementioned aspects came from the correct investments that Tencent has made before. Tencent's foreign gaming market is built on games developed by riot games, supercell, and others. Currently, they are still putting investments into different companies. A recent example is xiaohongshu, a growing social media and e-commerce platform where Tencent owns a minority of the shares but is investing more. Other small investments include the takeout service Meituan and the web forum Zhihu.

4.2. China and Its Population

Tencent's success in its business strategy is also connected to the huge Chinese population. As in Figure 1, a survey done in 2020 containing 200+ people showed that 63% of the people surveyed agreed that there is a correlation between Tencent's success and the Chinese population [4]. Tencent is a multi-sector company that provides services that make people's lives easier. This allows them to attract a high number of potential customers. Also, China has comparatively lower wages and labor costs than other countries, allowing Tencent to save more money on operations and focus on advertising or product development. Due to China's large international position and geographic location in the center of Asia next to the ocean, it is easier for Tencent to expand internationally. China's position in Asia allowed Tencent and other Chinese companies to reach foreign countries like Japan, Indonesia, India, Etc. The international position allowed Tencent to reach countries in Europe and the Americas more easily. This can be shown through Tencent's game PUBG, which has servers worldwide. All these allowed Tencent to have success.

3. Do you think there is a correlation between Tencent's success and the huge population of China?

214 Responses

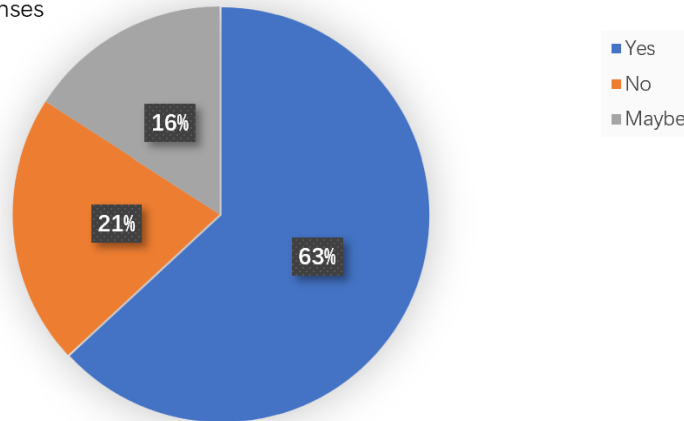


Figure 1: Survey Regarding Tencent's Success in Relation with the Huge Chinese Population.

5. Tencent Marketing Mix Description

5.1. Product

In this area, Tencent focuses on entering many new markets and releasing products that cover various markets. They also function as an umbrella brand to several sub-businesses in different markets. This provides them with new products and better development of products for their customers [5].

5.2. Price

Since Tencent's company covers a very wide range of different markets and different markets operate differently and are targeted at different people, Tencent prices its products to fit the market best. For example. In the Gaming market, Tencent prices their games to be free to attract a wide range of users. The in-game or in-app purchases are all set to the standard of the mobile or pc games. They also offer discounts and bundles to make more profit [5].

5.3. Place

Tencent's products are all online apps or services. The high majority of Tencent's products or sold or used online. This requires the user to use apps or websites to see their products. An example is Tencent's Webank. It is an online bank and can only be accessed through its website <https://www.webank.com/> or its app. Online products and services made it easier for customers to access them, as it removes much offline work and traveling needed to buy something. This also allowed the services to cost less as there is no need for offline costs like stores or packaging [5].

5.4. Promotion

Tencent focuses a lot on promotion. They achieve this through their public relations. They will often market their product discounts on various applications through the applications themselves. They also use social networking websites, software, games, and apps to promote their products. Tencent gives each company's subbranch complete freedom in how they advertise and promote their products. For example, Riot games have a different promotion strategy than WeChat or QQ. This allows each sector to adapt to changes in its market and target and reach the correct audiences. Increasing the odds of the viewers of the advertisement using their product. Another way Tencent promotes its product is

through the support of content creators and influencers on all services. This creates a positive brand image and is better at persuading more people to buy the product or service or play their games [5].

6. Tencent Customer Loyalty Strategy

A major part of Tencent's business strategy focus is customer loyalty. Getting customers to use their product and spend money on it. Tencent has released products in multiple markets, including gaming, social media, medical, Artificial Intelligence, E-Commerce, and utilities. Customer loyalty is important as there are several competitors in China, like Alibaba Group and Baidu, who are competing in the same markets. Tencent has different strategies for each market in terms of customer loyalty.

6.1. E-commerce/Fintech

Technology leadership is proposed to affect customer loyalty through brand equity. Brand equity is defined as "a consumer's personal identification with the brand and the brand's relevance to a consumer's situation, which goes beyond the effects of performance/instrumental values of the product/service" (Xu et al. 2014, p.715) This means that if two brands provide a similar product, whichever the consumer considered to be favorable to themselves, they will believe it is more valuable. This is not related to the overall functions of the product or the usage, but the branding done by the company. All this can be simplified to a connection between the brand and the consumer. It has been shown that there is a positive correlation between brand equity and consumer loyalty. Customer loyalty is defined as consumers' preference toward the brand in terms of cumulatively satisfying usage experiences. As brand equity describes the consistency between a consumer's self-identity and the product or service they purchase (Johnson et al. 2006). Studies have shown that the consistency mentioned above can also create a positive affiliation with the customers leading to a better attitude towards the brand. First, Tencent's E-commerce services link the monetary transaction back to the customer's daily life. WeChat provides a function where the customers can send money to their friends and family as a red packet, a way of giving people money for gratitude as a tradition during the new year. Tencent also has begun to incorporate digital stores into their mini-programs function in WeChat, allowing an overall better and easier online shopping experience. This allowed them to quickly catch up to their competitor Taobao and Tmall, owned by Alibaba. Studies have shown that 35% of all mobile users in China are spent on WeChat, and 55% is on Tencent products (Wang, Jan 9, 2017) [6]. This allows Tencent to build up customer loyalty. Tencent also provides discounts and other benefits for users shopping online on their platform, creating more motivation for customers to stay loyal.

6.2. Utilities/Streaming

Tencent's main customer loyalty strategy regarding its music and video streaming services is a subscription program. Tencent provides most of their online video and music streaming for free, but the customers must get a subscription to access some other products. To compete with the other services that provide similar subscriptions, Tencent provides extra benefits other more video. First, Tencent sells its subscriptions in packets. This allows customers to get other benefits like coupons or free memberships in other services they provide. Tencent also incentivizes their consumers to continue using their services by setting their prices cheaper for first-time buyers to attract more customers and providing discounts for customers who buy monthly or yearly subscriptions to incentivize customers to pay more for longer service use. Subscriptions have shown to be a high motivational factor for people to use a service; thus, the actions Tencent has taken increase customer loyalty. Also, Tencent only provides shows or music to their platform and creates original shows not

available on other competitors 'competitors' streaming services. This motivates people to use Tencent over others to at least keep on using Tencent's service in addition to another service. Whether Tencent's services are solely used by customers or used in addition to other competitors' products, it still generates customer loyalty for the brand.

6.3. Gaming

Tencent's gaming sector is its biggest sector. As mentioned above, Tencent owns some of the biggest games in the decade and many famous gaming companies. Tencent's game revenue has been increasing each year. In 2018, it was ranked first among the top five companies in total gaming revenue (Table 1) [7]. Tencent's customer loyalty strategy varies depending on the game type, as Tencent owns games from all categories. One example is Player Unknown's Battleground, better known as PUBG. This game attracts and retains users through constant updates and new gameplay. Each game is designed to feel different, creating an addictive feeling and an urge to experience something new [8]. There have also been lots of streaming and media popularity for these games, creating a popular social image and linking playing this game with social acceptance, which attracts and keeps users. The game also uses an in-game reward system to reward the player for playing the game. This also leads to more consistent spending in-game. Another example is Tencent's MOBA Honor of kings. Their way of attracting and retaining users is done in six ways [9]:

1. Use of Famous influencers or streamers to expand popularity and create a positive image
2. Network interactions through WeChat or QQ to create connection
3. Launch a pattern for a fragmented time
4. Use Star Effect to increase popularity
5. Create in-game accessories and skins
6. Bring out derivative products and culture

The main parts that keep users are one and six. Tencent first used social media, influencers, and other offline events to set up the popularity of the games. This allows new customers to join. This also creates a trend-like feeling. New skins will then be released for the game at a cheap price. Players will feel like they need to get this to stay within the trend. New skins and characters are always being released; thus, players want to continue laying. Of course, The gameplay itself is also important. There are a lot of different characters, each with unique skills in the game for the players to use, creating new experiences and increasing options for the player to take during their games. This all leads to stronger customer loyalty. Tencent focuses on improving the experience quality of its games, which what led to the success in the gaming sector [10]

Table 1: Top 5 highest Earning Gaming Companies in 2018 [7].

Rank	Company	Q1	Q2	Q3	Q4	Total
1	Tencent	\$5,502M	\$4,687M	\$4,903M	\$4,641M	\$19,733M
2	Sony	\$3,079M	\$3,117M	\$3,612M	\$4,410M	\$14,218M
3	Microsoft	\$2,019M	\$2,033M	\$2,311M	\$3,391M	\$9,754M
4	Apple	\$2,091M	\$2,303M	\$2,524M	\$2,535M	\$9,453M
5	Activision Blizzard	\$1,872M	\$1,537M	\$1,352M	\$2,131M	\$6,892M

7. Tencent Customer Results

In video streaming services, Tencent video will be the second most used Video streaming service in 2022, with 66% of internet adults, only 2% less than Iqiyi, a streaming service owned by Baidu. (Figure 2)

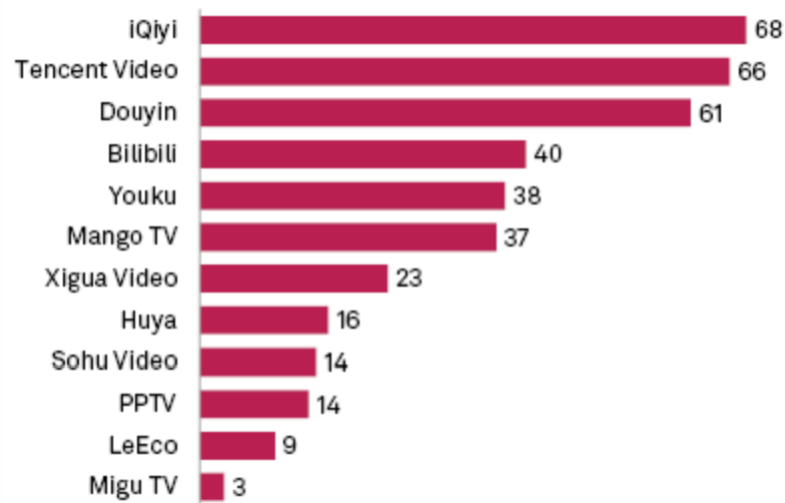


Figure 2: Most Used Video Streaming Service in China 2022.

Tencent's gaming industry has remained the first top-grossing game for the past few years. This year, Honor of kings was ranked first in overall and app store revenue, just above Genshin Impact, a game developed by MiHoYo. Tencent's PUBG Mobile has also ranked third in overall rankings and second in mobile rankings (Figure 3) [11]. Both games have been developed for a long time, with Honor of Kings having seven years of history and PUBG having four. This showed us that Tencent Game's customer loyalty strategy is functioning and can attract and keep users to make lots of revenue for the company.



Figure 3: Top Mobile Games by Worldwide Revenue June 2022 [11].

8. Tencent's Business Performance in Q1 2022

In the first quarter of 2022, Tencent's business performance has still been stable. They earned a total Revenue of 135.5 billion, stable compared to 2021.

Value-added services totaled RMB72.7 billion in revenue during the first quarter. Domestic Games revenue decreased to RMB 33 billion compared to 2021 due to minor protection measures implemented in recent years by the Chinese government. International games revenue has grown to RMB 10.6 billion, showing an increase in games like Valorant and Clash of Clans compared to a decrease in revenue from games like PUBG mobile. This is due to normalizing user spendings post covid. Social networks revenue grew to 29.1 billion, showing growth in revenue for the video accounts streaming service, though music and game-related streaming services have decreased.

Due to decreased demand, advertising revenues decreased to RMB 18 billion during the first quarter. This led to a decrease of 15% in social and other advertising revenues and 30% in media advertising revenues, although the 2022 Beijing winter Olympic revenue offset some losses.

On a year-on-year basis. Fintech and business services revenues have increased by 10% during the first quarter. Fintech Services revenue moderated due to the COVID surge in March 2022 [12].

9. Tencent's Business Performance in Q1 2021

During the first quarter of 2021, Tencent made a total revenue of RMB135.3 billion, an increase of 25% compared to the first quarter of 2020. This shows significant growth.

Revenue from value-added services has grown to RMB72.4 billion. Games revenue has grown to RMB 43.6 billion. This is due to the worldwide popularity of their games, including Honor of Kings, PUBG mobile, and a newly released game from that year Moonlight Blade Mobile. Social networking revenues have grown to RMB 28.8 billion due to growth in digital content subscriptions and in-game or in-app purchases [13].

Advertising revenue has increased to RMB 21.8 billion, showing more demand from eCommerce platforms, education, and fast-moving consumer goods. Social and other revenues have grown to 18.5 billion due to increased demand in advertising on WeChat moments, a function on WeChat. Media advertising revenues increased to RMB 3.3 billion from ads revenue on QQ music.

FinTech and Business services faced an increase to RMB 39 billion in revenue yearly. It is seen due to the stay-at-home measures taken and increased online payment usage. [14]

10. Comparison of Revenue and Impact from Covid

Tencent have successfully attracted and built a loyal customer base through the past year with their business and customer loyalty strategies. This resulted in stable economic progress between two years during the middle of the pandemic and no major losses. As Tencent mainly earns revenue through online services, the Covid pandemic didn't result in huge damages. Rather, the company experienced steady economic growth. Although there are some factors that made a loss. The most noticeable is earning on Online advertising. It has shown a significant decrease over the past two years. It is mainly due to an increase in demand during the first quarter of 2021 and a steady decrease throughout the year and into 2022. This shows direct market change and the decrease of interest in this sector. More regulatory changes had been set in the advertising industry, also contributing to the decrease in revenue [15].

Another example is the gaming market, mainly in domestic games. It have shown a decrease in revenue from 2021 to 2022. This is due to the Minor protection measures the government has set after September 2021.

Factors that made noticeable growth include the, foreign game industry, as their revenue has continued to increase steadily during these two years. Mainly due to new game releases and online gaming becoming more popular through the pandemic.

FinTech and Business Revenues continued to increase through the past two years as more businesses are operated online, and more online monetary transactions are made. This is happening as the Covid pandemic continues and companies adapt to online work. Online Economic and Financial Technology are projected to continue increasing as the world shifts towards online technology.

11. Conclusion

Throughout the years, Tencent as a company has developed more and more. Their company has grown in size from the new developments and the other companies being bought into Tencent. Their business strategy has always been a success. Successful business strategy and good base of customer loyalty allowed Tencent to go through the pandemic experiencing more growth than loss. Tencent is projected to continue to succeed in the future and grow more in size and products.

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