



WeChat, shape of the connected China

January 2019





 **GAFAnomics**®

// FABERNOVEL

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Why do we release this kind of work for free?

Our job is to help large organizations think and act like startups. We believe this can only be achieved by encouraging people to innovate and explore new business models. We aim to inspire you by giving you the keys to understanding new markets, new business drivers like APIs or successful companies like Apple, Amazon, Facebook or LinkedIn.

Foreword

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Stéphane Distinguin

Founder & CEO
of FABERNOVEL

Since 2006 FABERNOVEL has been producing annual studies which are accessible to all, thus completing one of its missions: to contribute to the understanding and accessibility of the digital revolution. They are an opportunity to go further and deeper in the exploration of the latest innovation topics, and give their readers the ability to take a step back and to really observe the digital age.

By developing clear frameworks, they help in deciphering today's biggest recipes for success which worked for the GAFA, unicorns and Chinese giants. The aim is to analyze all the competitive dynamics of this new economy, its performance factors and its development strategy.

After Uber in 2016 and Tesla in 2017, we've decided to dedicate this year's annual study to the analysis of the WeChat phenomenon. More than ever, the model's applicability and exportability raises questions – while a slowed-down Chinese growth in 2018's third trimester (6,5%!), and a trade war with the US, has got some observers worried.

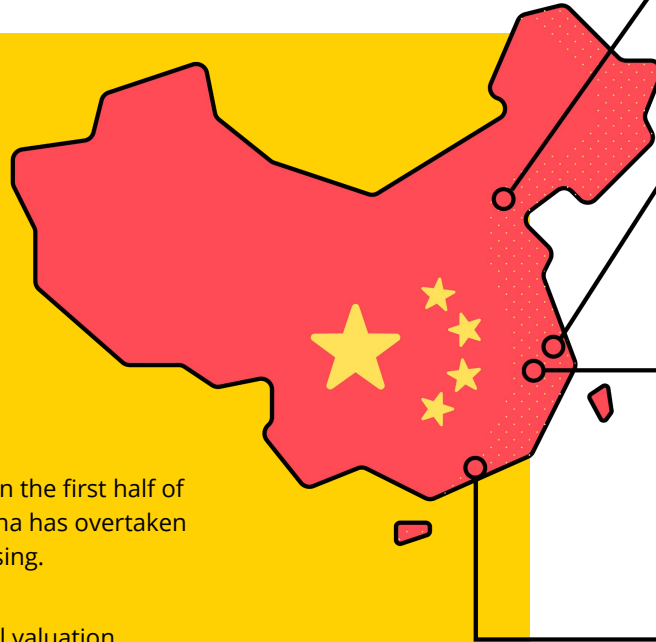
From “Made in China” to “Designed in China”

The Chinese powerhouse is driven by dynamic metropolitan hubs

2/3 of global patent applications in 2016

47% of the world's VC funding in the first half of 2018. For the first time, China has overtaken the U.S. in startups fundraising.

26% of the world's unicorns total valuation, behind the US (49% of the total). 3 chinese unicorns among the top 6.



Beijing: headquarter of 40 unicorns and said to be the “**best startup environment in China**” with numerous investors and VCs. **41% of the chinese unicorns are based here.**
Key players: Baidu / Didi / JD.com / Xiaomi / Lenovo / OFO / Toutiao

Shanghai: explicitly aims to become a global centre for both **financial services and technological innovation.** **22% of the chinese unicorns are based here.**
Key players: Mobike, Lufax, Pinduoduo

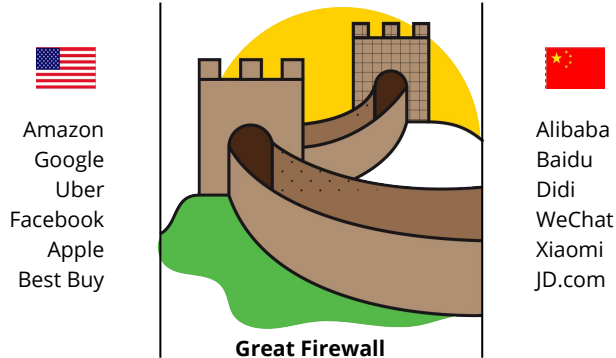
Hangzhou: symbol of China's ongoing transition from a manufacturing centre to a **technology and service-based economy.** **11% of the chinese unicorns are based here.**
Key player: Alibaba

Shenzhen: the “**Silicon Valley for hardware**” due to the proximity of tech firms in southern Guangdong province. **8% of the chinese unicorns are hosted here.**
Key players: Tencent / Huawei / DJI (drone)

China has nurtured homegrown digital champions...

The Great Firewall has allowed China to forge its own path in terms of technology

China has developed a “digital protectionism” policy to prevent foreign competitors from jumping into the Chinese market and preserve its Internet sovereignty.



A Master Plan to take leadership in design, software and production

In 2015, China launched a strategic 10-years plan called “**Made in China 2025**”, in order to target a leadership position in key technologies and industries of the future (from AI to biotech, new energy vehicles and advanced robotic).

China 2025 sets ambitious targets: **70% “self-sufficiency” in high-tech industries by 2025** and a dominant position in global markets by 2049.

Other major state initiative, the **The Thousand Talents**, aims to attract foreign researchers and provides an incentive for Chinese scientists living abroad to return home.



“ We should respect the right of individual countries to independently choose their own path of cyber-development”

Xi Jinping, president of the People's Republic of China
at the World Internet Conference (2015)

... and these champions are now deeply inspiring to the western leaders

-



**China:
Lab of the mobile
innovation**

The pace of innovation in China is faster than in any other part of the world.

Some of the most prominent American brands have started to copy what has been a success in China.

“

I look at some of the things we are innovating and doing here in China. **We are going to leverage those learnings* to apply them in other parts of the world, including the US.”**

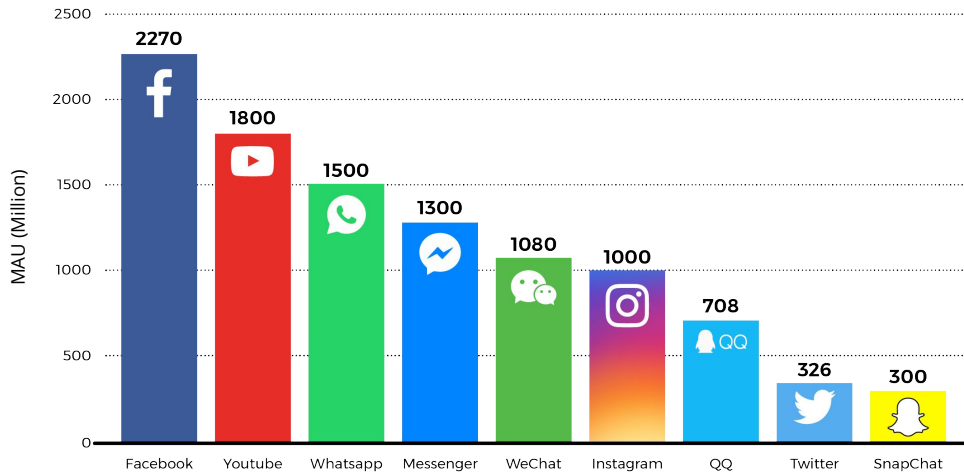


Kevin Johnson
Starbucks' CEO

WeChat figures cause vertigo

WeChat is the largest community of users and consumers in Asia.

In only 7 years, WeChat has become a key player on the global tech scene:



Main social media communities in Q3 2018 ranked by MAU

433 Days

To reach 100 Millions users
vs. 1,650 days for Facebook

34%

Of total mobile network
traffic in China
vs. 14% for Facebook
in the US.

83%

Penetration rate in its first
domestic market - China
vs. 63% for Facebook
in the US

+1M

Mini-programs since
the launch in 2017
vs. 2.1M for App Store

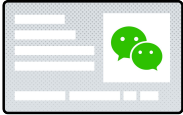
20.3M

jobs WeChat helped
to create in 2017

WeChat created Chinese digital society infrastructure

WeChat is not only a social media app. **It is a whole operating system for the connected China.**

Digital ID Card



Recognized by the Ministry of Public Security. It can be used where real-name authentication is required, such as hotel registration, ticketing, bank or delivery services.

Public Transportation



The system that works through a special WeChat mini program, called 'Tencent Ride Code', acts like a public transport card. Users scan a QR, even without an internet access.

Healthcare



Through WeChat public accounts, WeChat allows users to book appointments, make payments and offers a range of services at the hospitals and other medical facilities.



It's no exaggeration to say that life in modern China without WeChat is pretty much unthinkable.

Matthew Brennan

WeChat expert - Founder of China Channel

From a cash only society ...

65%

% of consumer transactions were made with cash in 2011

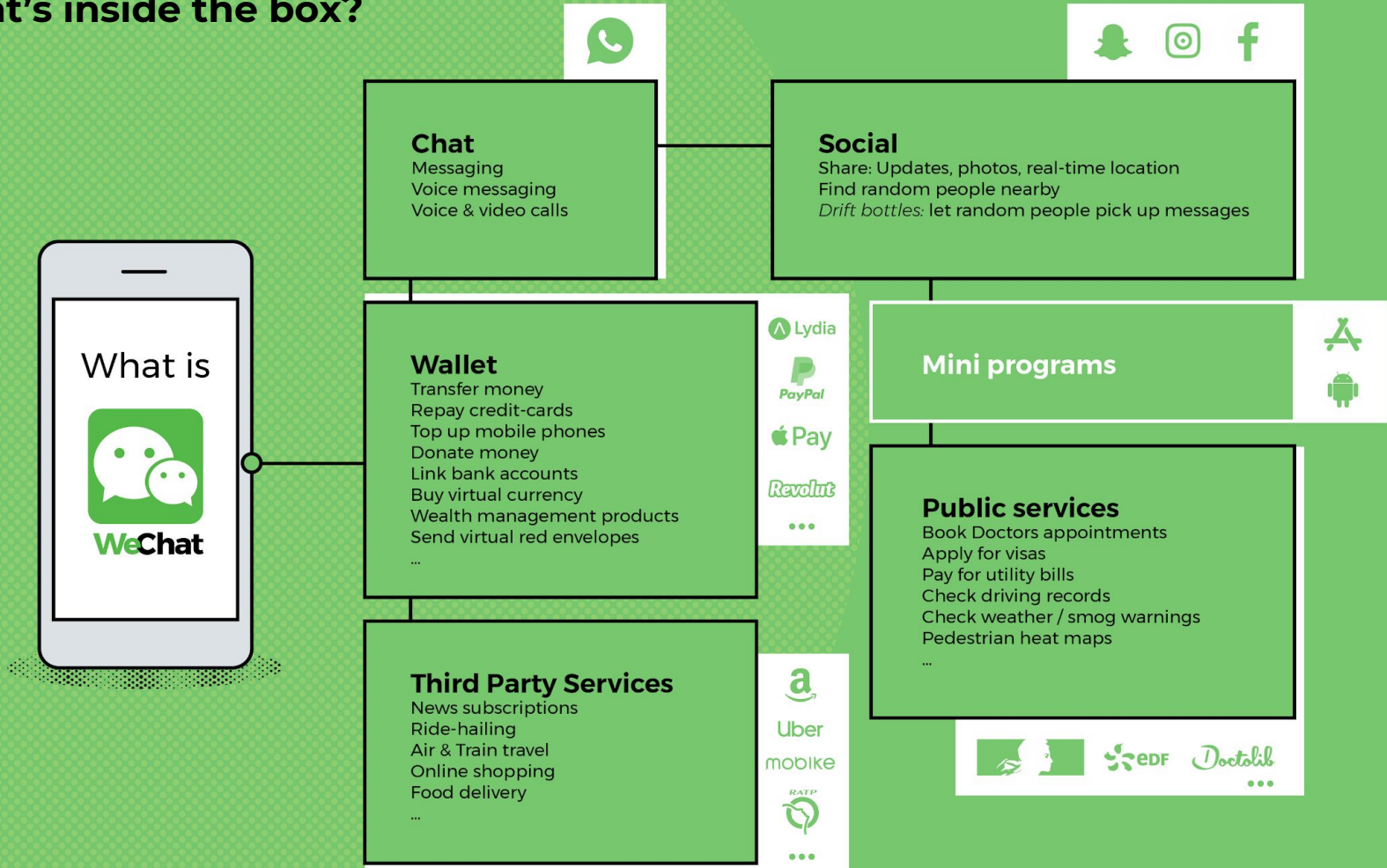


To a cash-free economy

\$6,000Bn

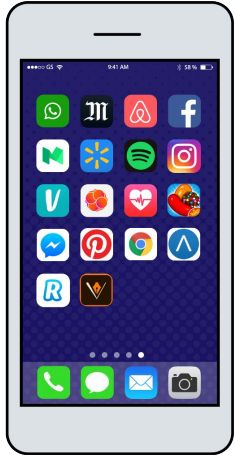
Mobile payments generated by WeChat Pay in 2017 vs. \$450Bn total payment volume generated by Paypal

What's inside the box?



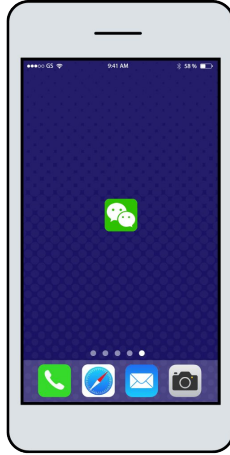
WeChat is leading the “super app revolution” in Asia

Our phone



VS

A Chinese one



3 main ingredients of a Super App:

1. A unique access point
2. Seamlessly integrated ecosystem
3. Its own payment solution

The promise of a Super App is clear:
One tap away from everything

“

Super apps mix and match a **bunch** of seemingly **unrelated services** together in **one** application”

Connie Chan

General Partner at Andreessen Horowitz

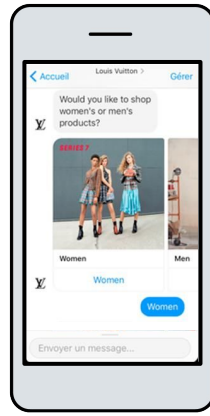
SUPER APP
SUMMIT



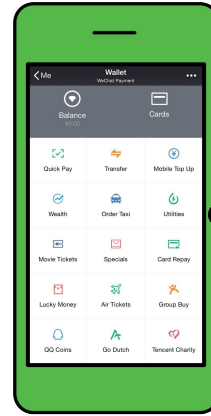
Western tech leaders have started to copy it



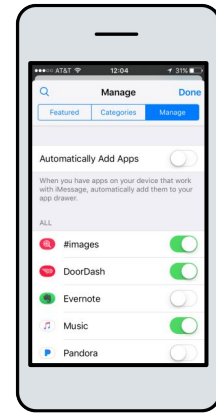
WeChat's official accounts
Launched in 2013.
3,5M active accounts in 2017
for 20M registered



Messenger's bots
Launched in 2014.
300k monthly active
bots in 2018



WeChat's Wallet
Launched in 2014



iMessage's Apps
Launched in 2016



Everyone in the Western world has experienced WeChat's work, as the service has inspired a new category of "messaging as a platform." You don't have to look hard to see hints of WeChat in other messaging platforms such as Apple's iMessage or Facebook's Messenger platform"

Anu Hariharan
Partner at Y Combinator (2017)

One app, 5 strategies

-



- 1 Pivoting at scale
- 2 Smartphone is not a channel, it's a lifestyle
- 3 Value is a dynamic balancing
- 4 Network size is the new chic
- 5 WeChat is eating the world



Pivoting at scale

Back to 2010, Tencent was a well-established company

Tencent's activities were thriving:

The overall economic environment in China was very promising:

10 million

new internet users in China every month

+10.6%

GDP growth of China in 2010

Tencent overall results were outstanding:



Tencent revenues evolution between 2007 and 2010

3rd

biggest internet firm by market cap (\$36bn) after Google and Amazon

Tencent was dominating the instant messaging Chinese market:

650 million

active users on QQ Messenger

QQ's penguin was an integral part of **Chinese popular culture**



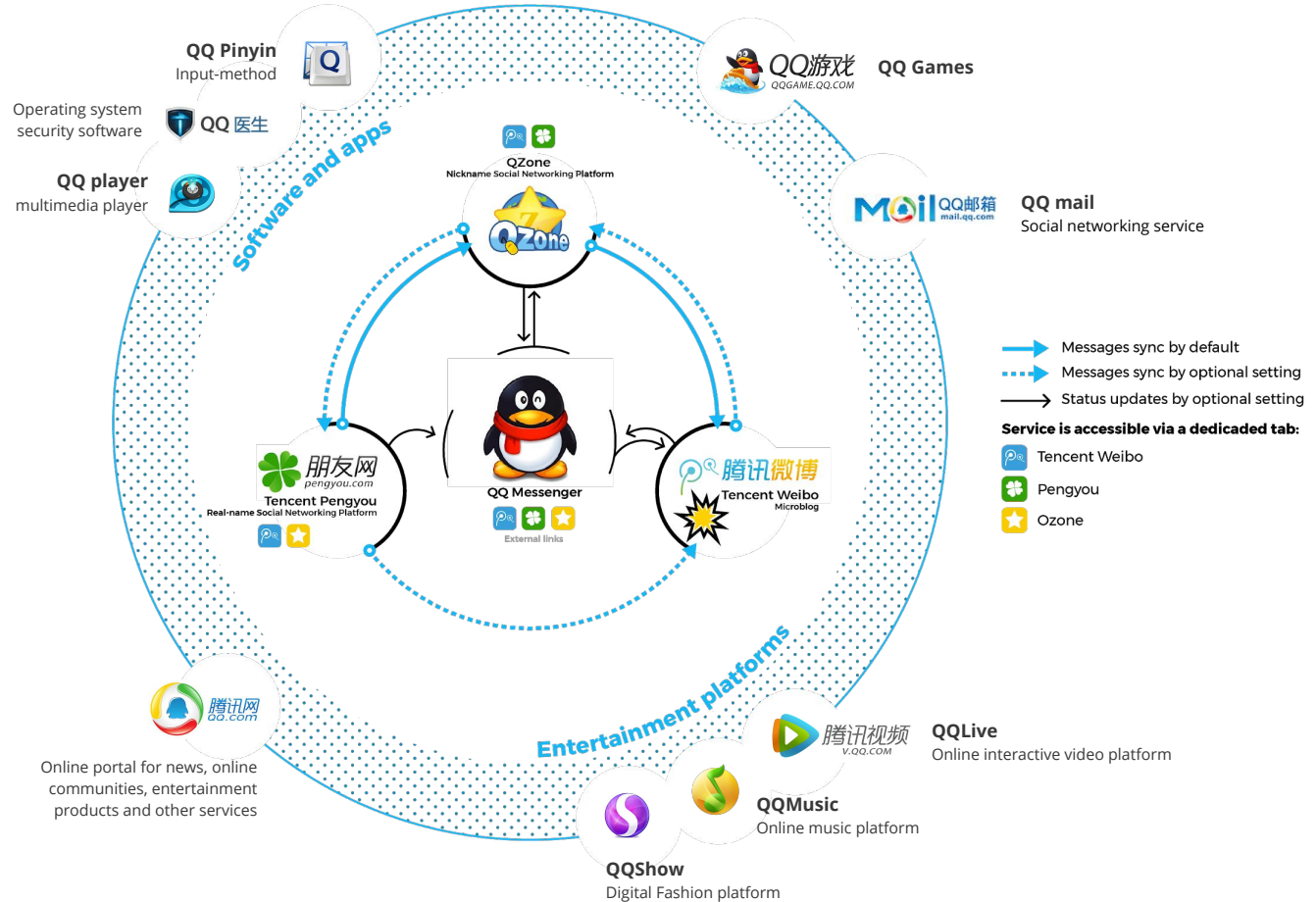
And Tencent's focus was on its existing product portfolio

The QQ ecosystem:

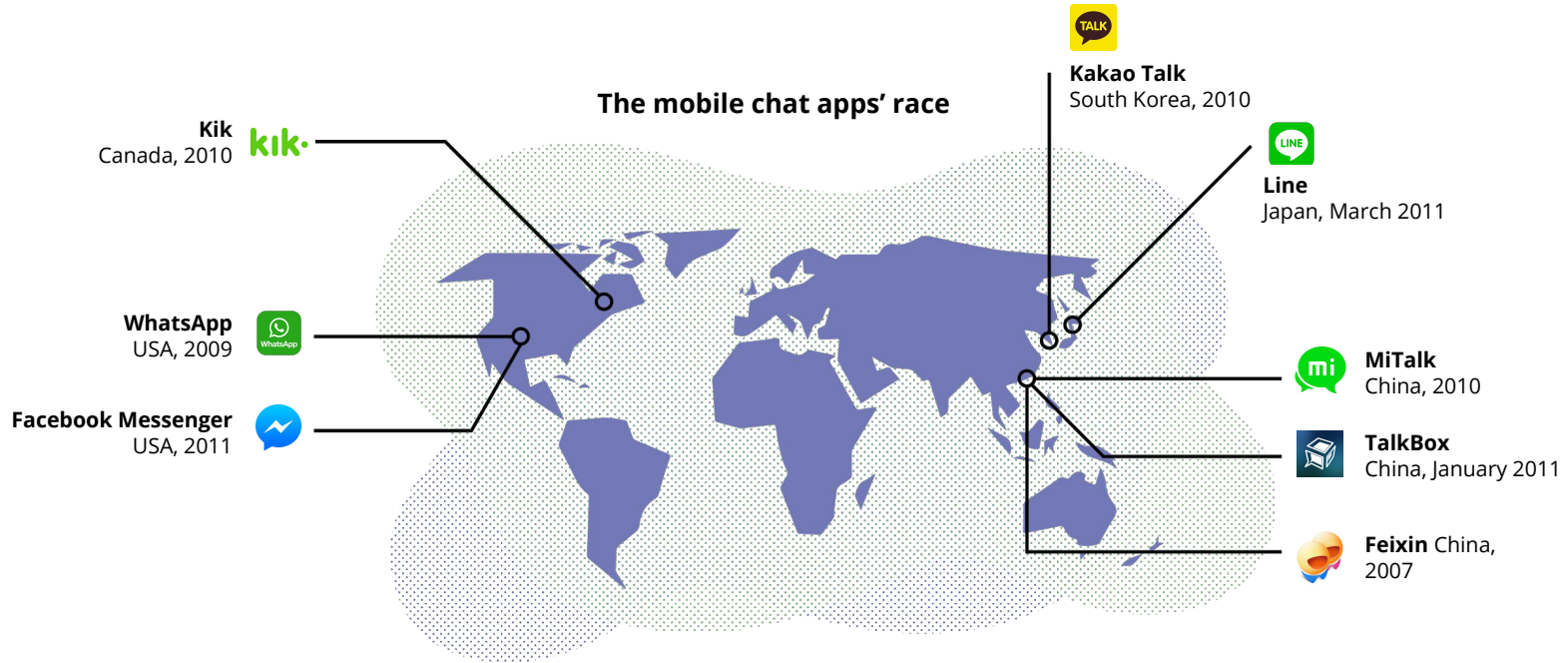
It took Tencent more than 10 years to build a very complete and integrated **desktop ecosystem around QQ Messenger** (an equivalent of MSN Live Messenger). This open platform strategy was the core of Tencent's business.

Tencent Weibo:

In 2010, Sina Weibo was Tencent's biggest social network contender and perceived as the most urgent threat to deal with. Most of Tencent resources were allocated to win this "weibo war".



Tencent understood the inevitable rise of a new world



New contenders were entering the game, both outside and inside China. **Tencent was a latecomer in this race.**

At the very beginning, all these instant messaging apps had the same value proposition. It would be a winner-takes-all battle as messaging apps are all about timing and network effect.

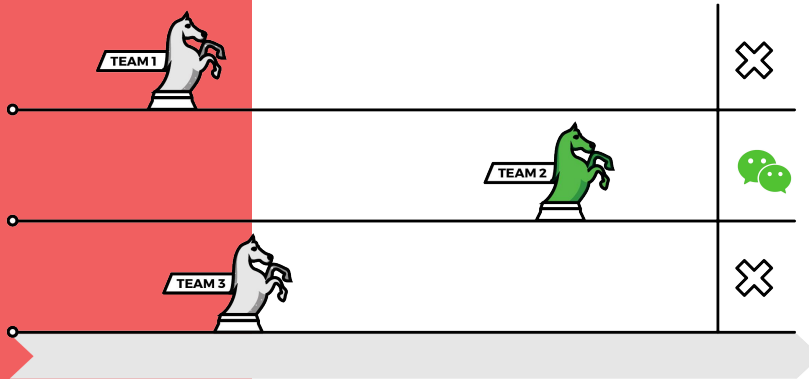


**How did they
manage this
strategic dilemma?**

What did Tencent do? Basic design thinking & horizontal diversification

Pick your champion after an internal tournament...

Faithful to the 'horse race culture' or *saima* (putting several teams to attack the same challenge), Tencent executives organized an internal competition to develop their own innovative smartphone messaging app.



The winning project was granted generous financing to continue its project

... while looking closely at alternatives

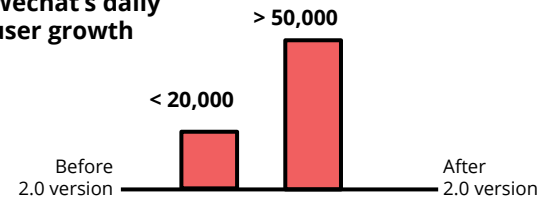
In early 2011, when WeChat was struggling among the Top 100, its major competitor Talkbox was listed #1 on the social network app chart thanks to its push-to-talk feature.

This feature enabled users to record a short audio message with a single push on a button and send it through text message: way easier than texting with chinese characters.

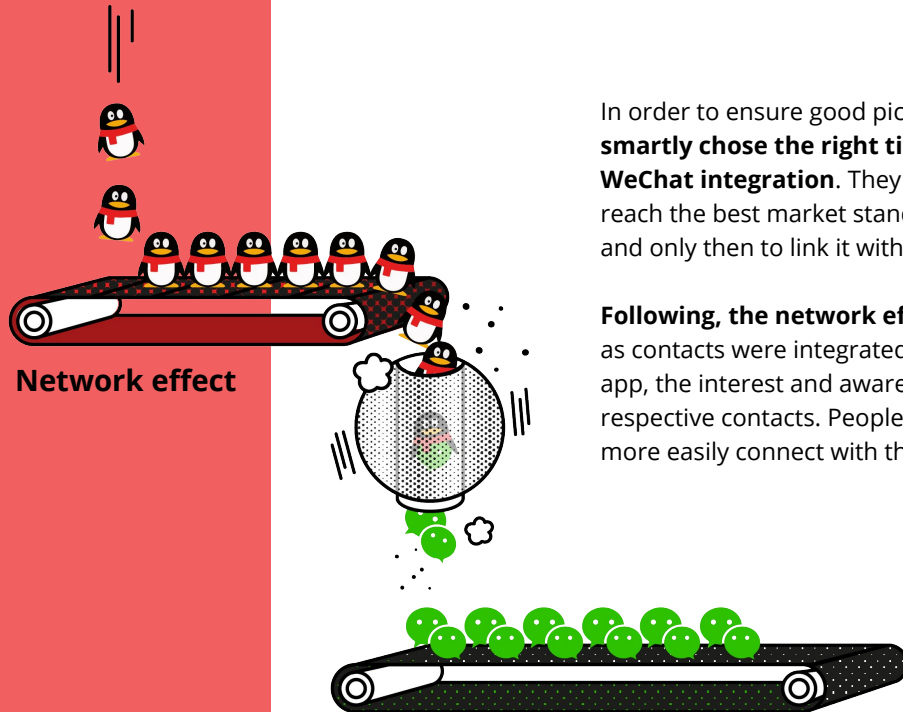
Tencent's executives made an offer to buy Talkbox as they did not want to bet solely on WeChat's uncertain success. Talkbox took the risk to turn down the offer.

With the WeChat 2.0 version of May 2011 and the release of the same push-to-talk feature, WeChat jumped from top 100 to top 5 within a single day.

Wechat's daily user growth



Leveraging existing assets to accelerate momentum



In May 2011, WeChat started to leverage its massive QQ user base: **account creation was made possible through a QQ ID**. Having a single login ID was much more convenient than creating a new account and filling a form with all of your personal details.

With the 2.1 version of July 2011, WeChat users were able to **automatically import their QQ contacts into WeChat**. This importing feature was only available for users who were already using both products.

In order to ensure good pick-up rates, **WeChat smartly chose the right timing to carry the QQ and WeChat integration**. They first awaited for WeChat to reach the best market standards as a product itself and only then to link it with the QQ user base.

Following, the network effects took their lead: as contacts were integrated and new users joined the app, the interest and awareness raised amongst their respective contacts. People joined it as a platform to more easily connect with their friends and family.



Endgame

In November 2011, WeChat reached **50 million users and overtook Xiaomi's MiTalk as the first instant messaging app in China.**

Differentiating QQ to avoid inside competition

WeChat's incredible expansion did not kill QQ.

It was adapted to serve different needs

QQ has repositioned itself to be a colorful "one-stop entertainment portal" and fills-in WeChat's gaps: you don't need a mobile number to sign up for a QQ account, a good option for young students without any mobile phone.

QQ is also still used to transfer files over 25Mb, as WeChat cannot handle such files.

Addressing specific users

In 2018, QQ's demographic is still very young: 60% of all QQ users were born after 1990, 40% are students. Hence, QQ has teen-friendly features like avatars, stickers, animations and cartoon characters.

With two strategic levers:



Video

In 2016, launch of a very popular short-video service called Riji (or "Daily Footprint") to let users upload video clips less than 10 seconds long. They disappear after 24 hours since their upload time.



Gaming

In 2017, launch of QQ Light Application: a mini program-like platform, focusing on casual games and e-books.

The need for Tencent to restructure and change old recipes

On September 30th 2018, Tencent announced its biggest restructuring: a **“new beginning for the next 20 years”**.

Tencent’s executives operated a 180-degree switch on multiple aspects of their organization:

Before

Now

Horse race mindset

More cooperation between teams

Silo culture

More data and information sharing

Geographically-distant teams

Regroup some teams together

Focus almost only on B2C

Great expansion of B2B activities (cloud, IOT, AI)

First half of the Internet

Second half of the Internet: the “industrial Internet”

“

In fields such as data and artificial intelligence research, it is not ideal to have excessively fragmented teams and overlapping directions which result in waste and internal friction in hot areas”

Allen Zhang

CEO and founder of WeChat

“

We have to make technology collaboration a [new] company culture”

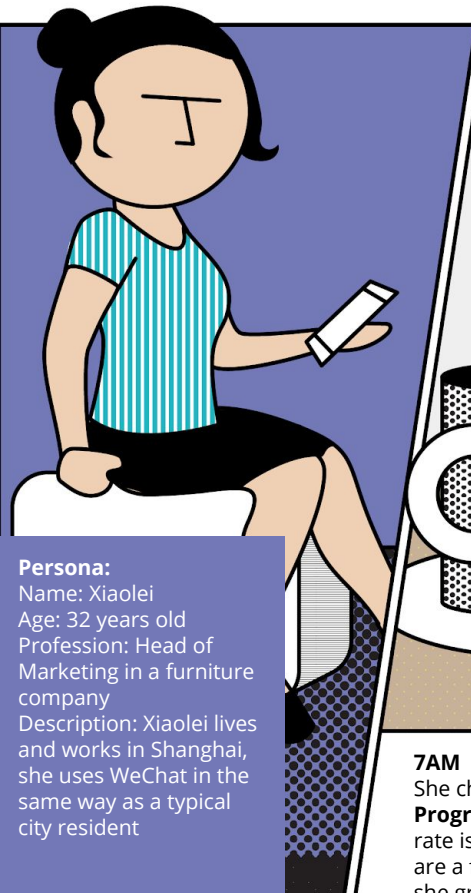
Dowson Tong

President of Tencent’s Cloud and Smart Industries Group



**Smartphone
is not a channel,
it's a lifestyle**

A day in the life of Xiaolei, powered by WeChat



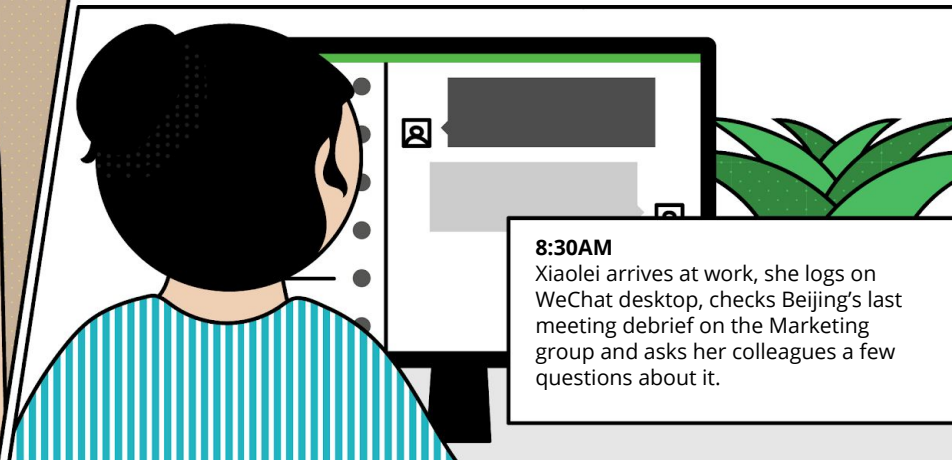
Persona:
Name: Xiaolei
Age: 32 years old
Profession: Head of Marketing in a furniture company
Description: Xiaolei lives and works in Shanghai, she uses WeChat in the same way as a typical city resident



7AM
She checks the weather on a **Mini Program** and sees that the pollution rate is quite low today. Thankfully, there are a few bikes in front of her house, so she grabs one thanks to **Mobike's** integrated feature.



8AM
She needs her usual morning coffee, so she stops by Starbucks. The waiter invites her to subscribe to their new **Official Account** and use the **'Shake' feature** to get a free cupcake. She scans the **QR code** to immediately follow it, and pays at the same time thanks to **WeChat Pay**.



8:30AM
Xiaolei arrives at work, she logs on WeChat desktop, checks Beijing's last meeting debrief on the Marketing group and asks her colleagues a few questions about it.



11AM

Her client has just informed her by **private message** that he could not be present for their lunch. So she suggests to a **group of friends** to have lunch in the French restaurant they all like. She sends them the link through Meituan Dianping's **Mini Program** so they can directly order from the menu before they arrive.

12PM
Xiaolei is a little bit late and won't have time to go the restaurant by bike, so she books a **taxi** directly from WeChat thanks to **Didi's** native feature.



1PM
She arrives at the restaurant and gets her meal 5 min after her arrival. She pays the bill for everybody and **asks her friends** through a voice message **to reimburse her via WeChat Pay**. She directly receives the money on her **Wallet**.

5PM

She buys hiking clothes on **JD.com's Official Account** before buying her **flight ticket** to Taiwan. Unfortunately, her visa isn't up to date anymore, so she goes on the **Public Service native feature** to get a new one.

Mini Program



Wallet

Rail & Flights

From Shanghai-Pudong

To Taiwan-Taoyuan

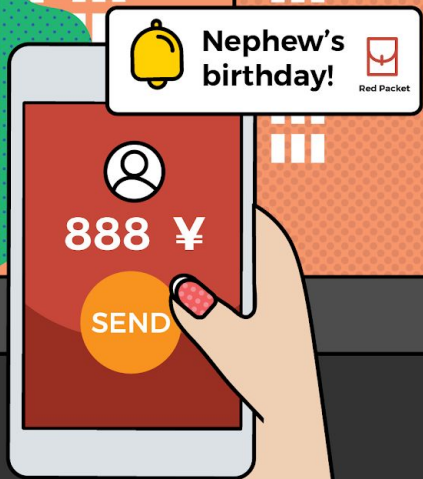
BOOK

Public service

GET A NEW VISA

7PM

An alert informs her that today is her nephew's birthday. Xiaolei sends him a **red envelope** as a gift. She also takes this opportunity to also send one to her grandmother to thank her for the last weekend's lunch.



9PM

Coming back home, Xiaolei posts pictures of her diner on **Moments**, restricting access only to her **close friends**.

WeRun's notification informs her that she won the daily contest by having done 23,000 steps. It automatically donates 2 yuans to charity.





**How did WeChat
become a way of life
in China?**

WeChat's customer obsession: find users' "inner desires"

The WeChat team put a lot of effort into understanding their users' needs, **analysing their inner motivation and decoding their cultural behaviors**. Wechat's founder Allen Zhang is passionate about finding the appropriate design nuance for every WeChat's key feature.

By reaching a great level of understanding of their users, WeChat had all the keys in hand to develop features that "fit naturally into users' world":



Moments is not a Facebook wall

When WeChat launched *Moments* (photo-sharing feature) after 4 months of work and 30 different versions, it was a deliberately design that comments and likes could only be seen by mutual friends and not friends of friends.

→ This small design tweak is linked to **the chinese "circle cultures"**: the strongest ties are within network of people at the core of the connection; the further you go from this "core", the weaker the tie gets.



Features optimized for "face saving" cultural phenomenon

WeChat did not integrate "typing indicators" or "presence indicators" like iMessage or Facebook. Such indicators could create embarrassing situations if you see the message but forget to answer...

→ This concept of **"face saving"** and **"losing face"** is a key component of a daily life in China and an important element to take into account when designing a social platform.

From customer
centricity to
customer
obsession



“ Being a product creator is like **being in a relationship with the users.** Otherwise, it’s only a business transaction. Product managers must have big hearts.



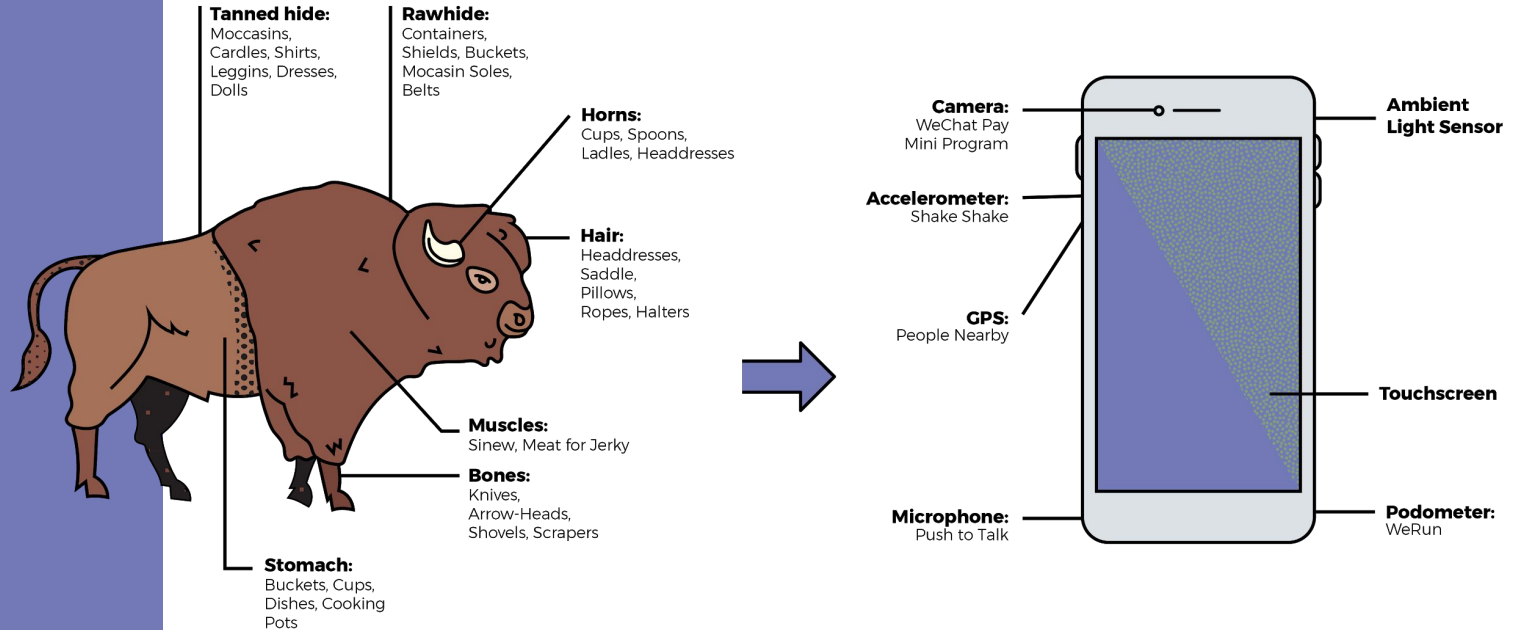
Allen Zhang
founder and CEO of WeChat
Weibo post 2011

WeChat used every part of the buffalo

“Smartphone is the third hand for humans”

Allen Zhang

WeChat completely went away from the desktop development mode and exploited all possibilities offered by smartphones to build the first massive mobile-only app. This means that the mobile is not an equivalent channel to perform actions, **it is the only channel.**



Native American hunters maximized the buffalo's Potential. There was no waste as all the parts of the animal was either used as nutrition or reused.

Designing a mobile-only service means making the most of all the sensors and capabilities that a smartphone can offer.

Creating new useful usages thanks to smartphone's capabilities

The WeChat team is focused on designing a true mobile first experience:

They use features that are specific to mobile hardware.

All these features benefit both users' and WeChat's growth strategy.

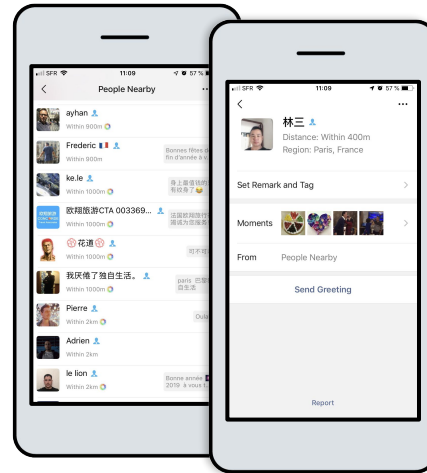
Connect with people around you



People Nearby
GPS

It aims to help you connect with people around you. At the beginning, one of Facebook's biggest difficulty was to link users between each other.

WeChat bypassed this issue by creating an innovative functionality, boosting the sense of community and enabling users to create their own network.



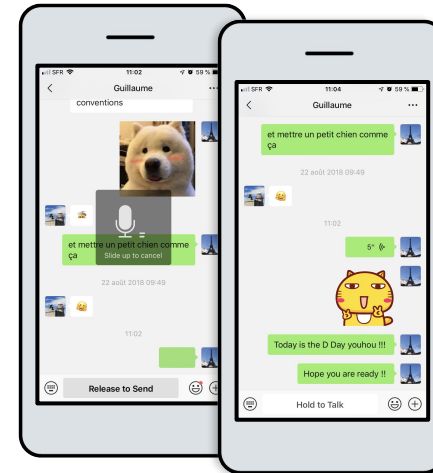
Communicate with more intimacy and simplicity



Push to Talk
Microphone

Particularly adapted to Chinese users, as typing with chinese characters can be quite time consuming.

Voice chatting is fast, simple to use and conveys more emotions (tone of voice, speed). It had a huge success for older generations, less familiar with using a smartphone's keypad.



Shaping new national experience standards:

QR code

80 million

QR codes scanned every day with WeChat

\$6,000Bn

Mobile payments generated by WeChat Pay in 2017
Vs. \$450Bn for Paypal



The Quick Response system (QR code) became popular outside the automotive industry in Japan in 1994, due to its fast readability and greater storage capacity, compared to standard UPC barcodes. Massively promoted by WeChat from 2012, the QR code truly became the tipping point for China's online-to-offline frenzy: scanning became an intuitive gesture for nearly everything and QR code a national obsession.

For Tencent's CEO Pony Ma, a QR code is a "label of abundant online information, attached to the offline world". It has reshaped many aspects of the Chinese society:



Social interaction

People no longer have business cards, they directly scan their QR Code to connect



Payment

Simplification of payment transactions for both customers and sellers: a cashless society



Marketing

Good way for brands to interact with their customers, promote official accounts and collect relevant data



Access to information

Sending web links or making online searches have been replaced by QR codes

“

The entry point for PC internet is the search box.
The entry point for mobile internet is the QR code”

Allen Zhang

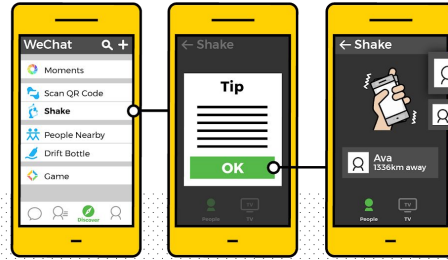
founder and CEO of WeChat, 2012



Shaping new national experience standards: 'Shake'

'Shake' is one of WeChat's early features that has become a characteristic of the app. The *Shake* functionality enabled people to use WeChat in a totally new and fun way: the movement itself became a signature of WeChat's presence in the offline world.

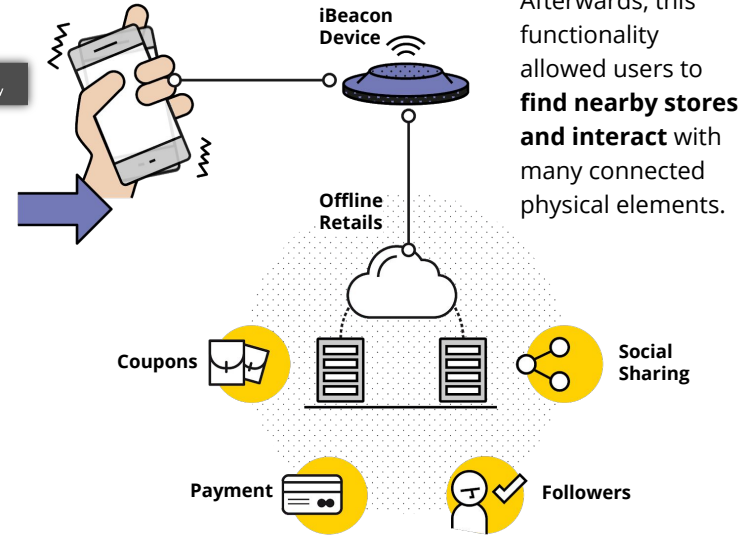
'Shake' GPS + Accelerometer + Bluetooth



At first, it was made for people to **randomly find a person** to chat with.



Woman using WeChat Shake functionality in Metro shop in Shanghai

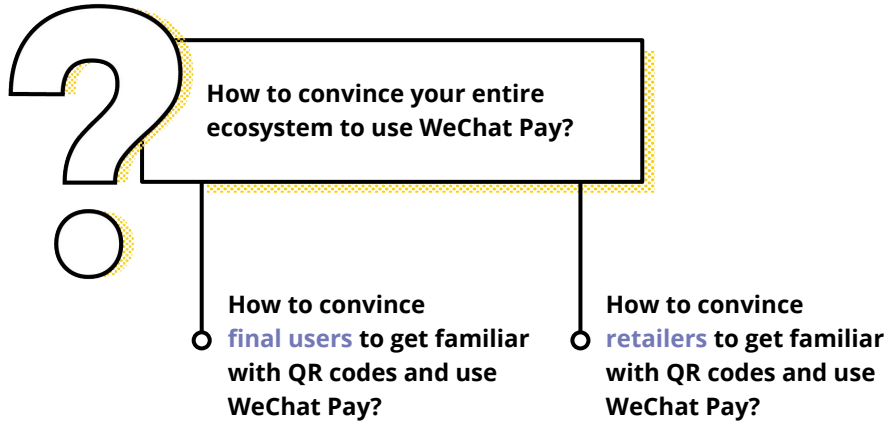


→ The shake function is so successful that it has been completely integrated in the Chinese society as a whole. People shake to get information, coupons, special offers or free samples.

Some TV shows are using it to **interact with their audience at home**: red envelopes are given to those who are shaking their phones at the right time!

**WeChat gave
its entire
ecosystem
good reasons
to switch for
WeChat Pay**

The WeChat Pay example



In order to fulfill their initial goal, WeChat's executives understood that they had to simultaneously set up two strategies to **impose WeChat Pay as a new experience standard.**

Red envelopes: more than a feature. A tradition reinvented.

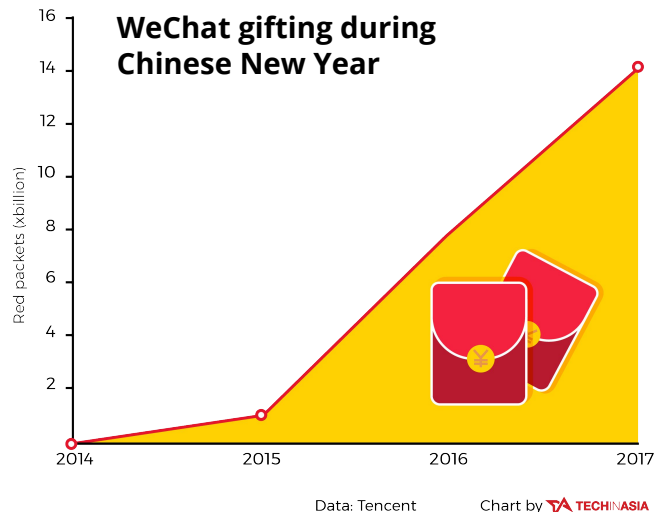
In 2012, WeChat update came with a built-in QR code scanner that supports all types of QR codes: it enabled endless possibilities to interact between online and offline world.

For WeChat users, the scanner largely lowered the behavioral barrier of scanning but there was still one brick missing:
convincing users to link WeChat with their bank account



In 2014, WeChat digitalized the **Red packets** and shook up an old tradition deeply rooted in the Chinese culture where people give each other red envelopes with money inside for anniversaries or other festive occasions.

It all started with WeChat offering its own employees a possibility to distribute the red envelopes for Chinese New Year holidays through the app.



A few elements greatly boosted the user pick-up of this new feature:

1/ Attaching a feature to a **preexisting usage** (giving envelope with money inside) and cultural context (numerology, red = lucky color)

2/ The **lottery red packet and the chain game** are betting on gamification, variable reward and group effect to create a strong psychological hook, establish new habits and enhance the feature's virality

3/ Promoting the feature among tight knit social circles (friends and family) and then extend the use to more distant circles like street merchants and online stores

“It was really impressive! This year's pearl harbor attack was indeed beautifully planned and executed”

Jack Ma
Chairman of Alibaba Group

How to convince retailers to get familiar with QR codes and use WeChat Pay?

Convincing users to link their bank account in WeChat and get the habit to transfer money to each other was only half of the job. In March 2014, WeChat Pay was opened to businesses: it was time to address third party needs.

The situation before 2014



Cash is king
Unsolved counterfeit
money issues



Low penetration of
credit cards and point
of sale terminals



Alipay is the indisputable
leader for online payments
(desktop and mobile)



For retailers:
very limited consumer data,
brand communication is
difficult

WeChat's answer: positive-sum game strategy

August 2014 Smart Life Solutions

Specific industry solutions offering online to offline (O2O) tools that cover over 30 industries, including restaurants, hotels, transport, schools, delivery, tourism or brick-and-mortar stores

April 2016 Spark Program

A \$15m investment plan to incentivize third party developers, service providers and physical shops adopt the solution



A game changing experience for third parties: easy, secure and fast

1/ Increase revenue

- Instill trust with clients
- Improve customer service through data collection
- Communicate with clients: special sales and coupons, notifications

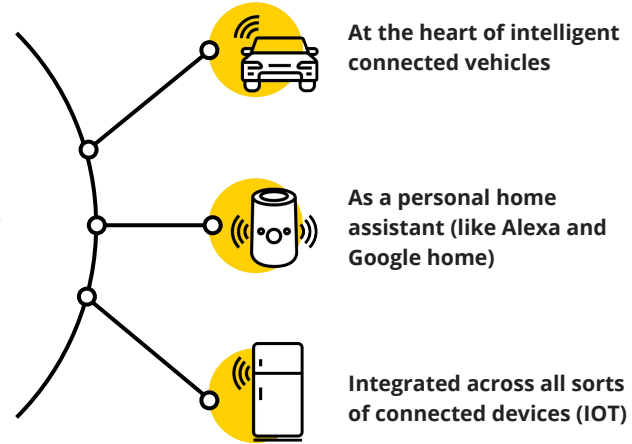
2/ Reduce Costs

- Reduce operational costs thanks to WeChat's management system
- No investment in payment infrastructure

WeChat keeps shaping tomorrow's lifestyle

In the same way, Tencent moved from the PC-world to the mobile world, the future of WeChat is likely to turn into an intelligent interaction medium. This move is part of the Tencent strategy to expand into the industrial internet.

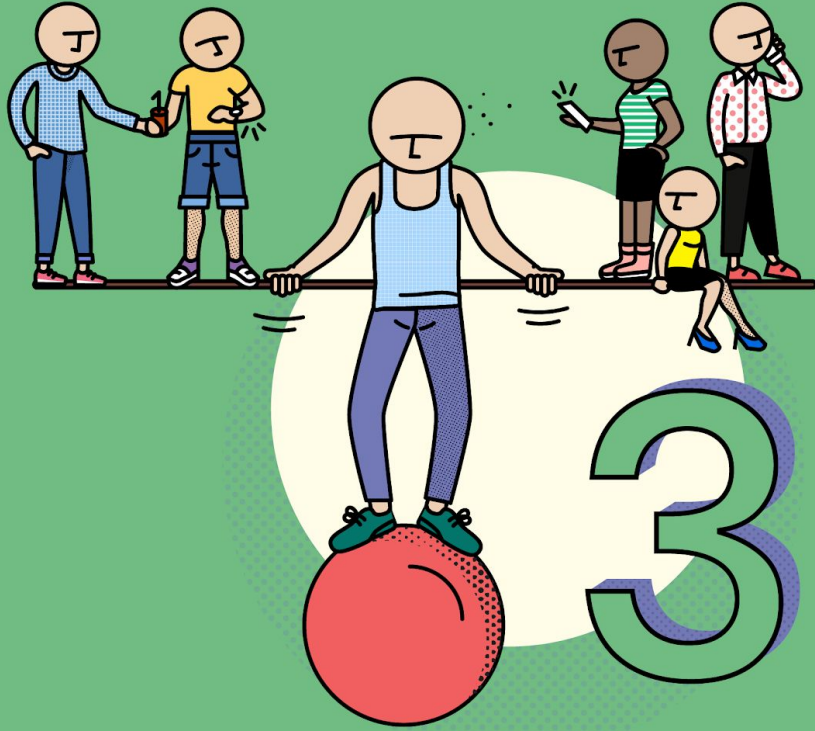
WeChat has just launched a **Siri-like digital assistant named "Xiaowei"** that will be linked to a myriad of Tencent's services like QQ Music, as well as mini-programs run by third parties like Didi, Mobike or Meituan.



“

It's undeniable that at some point in the future we will stop looking at this small screen in our pockets”

Matthew Brennan
China Channel



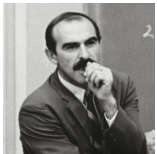
**Value is a
dynamic
balancing**

A customer hires a product to do a job

In essence, WeChat is a digital Swiss Army knife, a personal life assistant

As a lifestyle tool, WeChat is here to help **users improve efficiency, rather than waste time in its ecosystem.**

WeChat has adopted a designer approach by reducing the time required to complete an action.

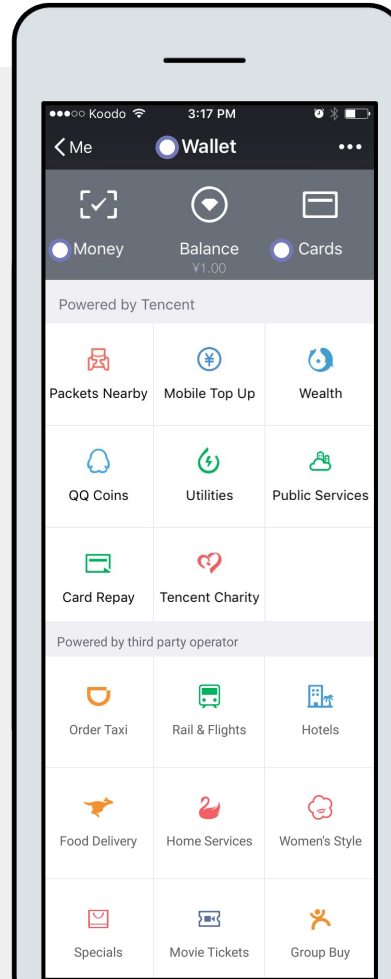


“People do not want a quarter-inch drill, they want a quarter inch hole”

Theodore Levitt
Marketing professor
at Harvard Business School

Source: Ben Thompson

Wallet is the
key feature
to build a
'super app'
model



A unique
access point

One-click payment
solution

Seamlessly
integrated
ecosystem
of services

Source: Ben Thompson



**How did WeChat
succeed in addressing
every problem while
remaining consistent?**

A use-and-go approach to master the chain of needs

“To protect user values, the real challenge is to avoid things, instead of doing things”

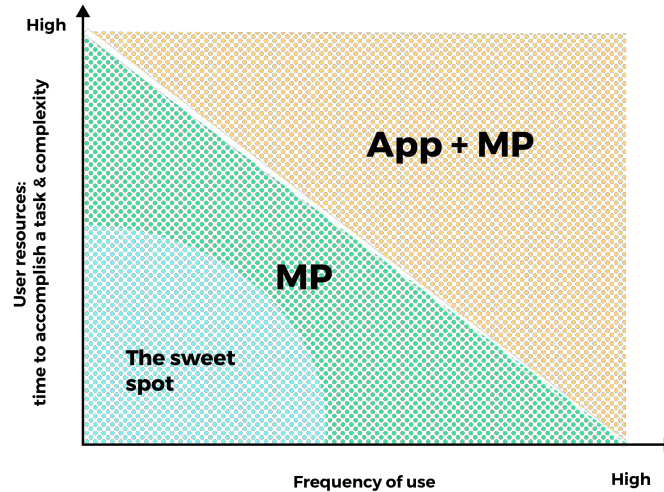
Allen Zhang



“One of the reasons why WeChat shifted from service account to mini-programs was because marketers were focusing on stickiness; producing more content and have people spend more time in the app and kind of wasting time.”

Matthew Brennan
China Channel

As Allen Zhang explains, a good tool is one that users ‘use and leave’:
When to use a mini-program instead of a native app?



It is not about using people's attention or keeping people using MPs all the time, or not even about stickiness.

On the contrary, WeChat developers want people to get things done efficiently within WeChat and set time aside for other things.

Enabling seamless experiences by shortening path to services

Mini-programs are a **game changer** in WeChat's mobile strategy: it is basically an app-store within an app **which transforms WeChat into a mobile operating system.**

x4 faster

It took Apple 6 years to get 1 millions apps, WeChat only needed 1,5 years

200M

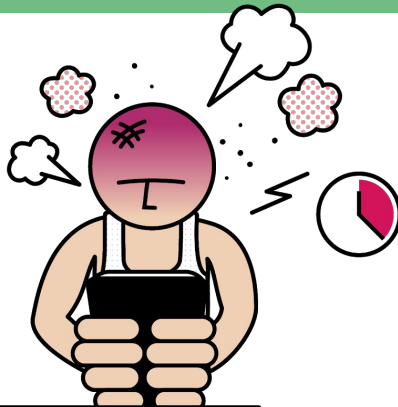
DAU of mini-programs as of October 2018

95%

of ecommerce brands have their own mini-program

20-30%

of the user traffic coming from mini-programs, mostly through P2P sharing



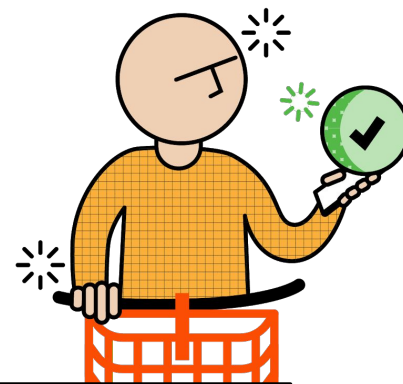
In the West

10 min

- Go to an app store
- Download Mobike's app (cross fingers for internet connection)
- Delete apps or contents to have more space
- Open Mobike's app
- Create a user account
- Login
- Add your credit card
- Scan the bike's QR code

Use the service

- Enjoy your ride
- Be billed



Meanwhile in China

10 sec

- Open WeChat
- Launch the mini-program (or scan a QR code)
- Scan the bike's QR code

Use the service

- Enjoy your ride
- Be billed

Trying to prevent any misuses of WeChat



“ For example, you won’t continue to sit in your car and enjoy the AC in a car after you have already reached your destination, since that’s **not the core function of a car**”

Allen Zhang
Founder and CEO of WeChat




Advertising is not the only way to be profitable

Efficiency is more than a marketing positioning; it is at **the core of WeChat KPIs**.

“The WeChat staff can probably be more kind than AI when the technology becomes more clever than human beings.”

Allen Zhang

Platforms like Facebook or Toutiao **monitor the time spent** on their services: the more users spend time on the service, the more money they get through ads. As a consequence, their newsfeeds are **AI-driven to optimize the content and user retention**.

		Mean	Metrics / KPI	Lever for growth
What I do on 	Scroll, scroll, scroll...	Artificial intelligence	Maximize attention and time spent	Not yet connected individuals or companies. Launch of new sticky features
What I do on  TOUTIAO	Scroll, scroll, scroll...	Artificial intelligence	Maximize attention and time spent	Not yet connected individuals or companies. Launch of new sticky features
What I do on 	Use and go	UGC and sharing	Jobs done	Not solved pain points for individuals and companies. Answer to new JTBD

WeChat thrives to stay a productivity tool with a **unusual approach**: newsfeed is a pure experience of **peer-to-peer sharing and recommendations** (messages, pictures, official accounts, mini-programmes).

A certain generosity towards users



“Tencent has spent more energy thinking through its customers' needs and desires, in order to offer better features before converting them to premium paying users”

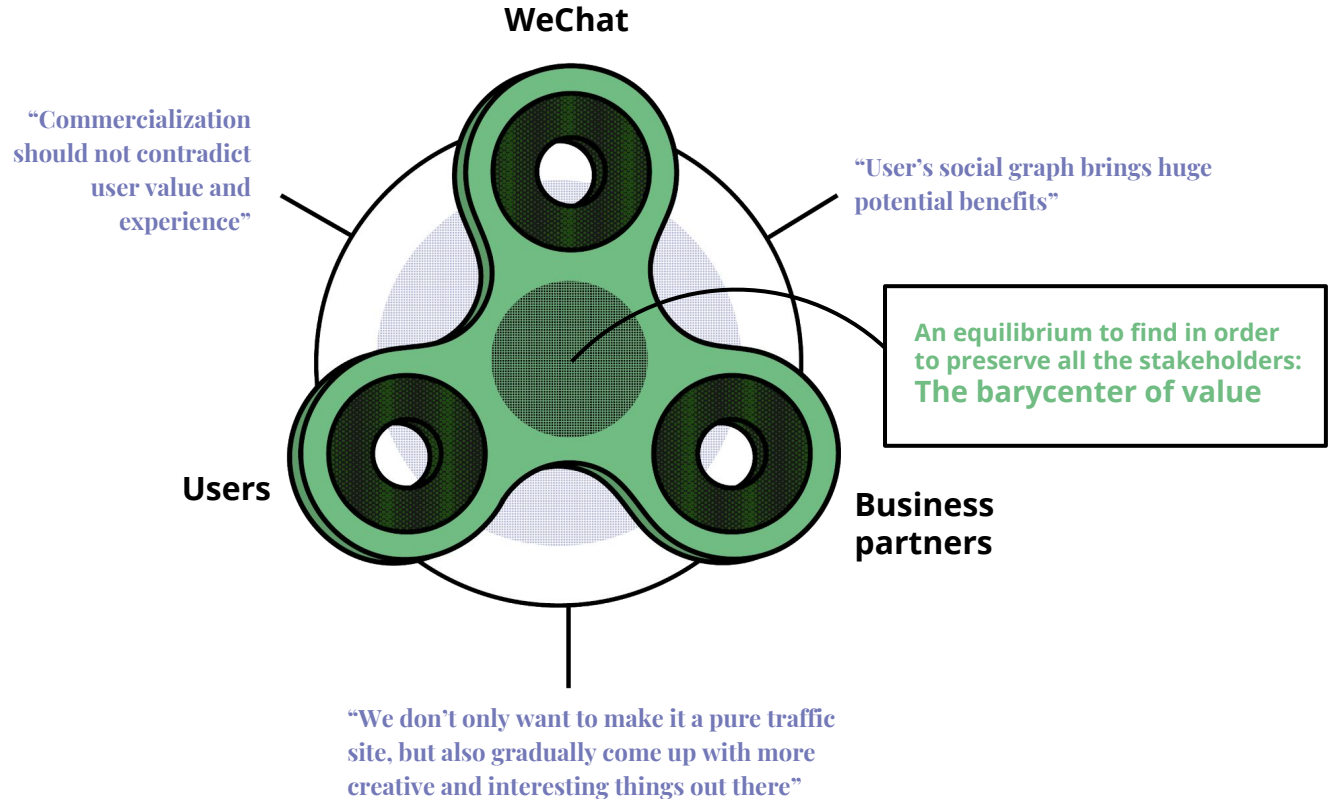
Isaac Pino

Investment Advisor at Huckleberry Capital Management

Within WeChat, value created is equally distributed

WeChat is paying great attention to its users and incentivizes the ecosystem to follow design rules established by Allen Zhang himself.

WeChat redefines interactions on both B2C and B2B side and controls the UX provided by third party players, in order to ensure long term growth of the whole ecosystem.



Commercialization should not contradict user value and experience

“ Ads in the messaging window was never a viable option for us, unlike our friends at Google or other companies.

David Wallerstein
Tencent CXO

WeChat is highly conscious of the challenge to **balance its monetisation efforts with the tolerance** of its user base for advertisements (disengagement, less time spent due to a spam feed).

Not pushing too much ads is a **strategic decision** to ensure WeChat is about usefulness and task completion, and **not another advertising platform**.

A relatively ad-free model to preserve user experience: WeChat is the backbone of Tencent



18%*
Ad

WeChat shows only **2 ads per day** vs 1 ad every 10 posts on Facebook. Ads from WeChat feed generate **93% less** revenue than Facebook's daily active user.



17%*
Payment
and cloud

WeChat accounts for **70% of these revenues**, through mini-programs and WeChat Pay.



65%*
In-app services

WeChat is like a **distribution platform** giving access to a range of Tencent services.

* Split of Tencent's revenues

User's social graph brings huge potential benefits

WeChat aims at making business partners **better at delivering their user experience** so that end-customers feel happy to stay in WeChat's ecosystem. As an example, WeChat helps retailers turn the leading chat platform in China into a **mobile commercial marketplace**.

A Spark Program to support third parties A \$15 million fund launched in 2016

The Spark Program will support service providers in terms of operating, material and technical expenses.

The incentive plan covers a wide variety of industries including catering, retail, tourism, or transportation.



\$1,500 gift packages given to boost growth of small service providers.

Efficient tools to manage communities on WeChat A social CRM based on official accounts & mini programs

WeChat is a **very complete CRM tool**. It offers countless possibilities for brands to manage communities and enhance engagement.

User data can be collected and synchronised easily on **WeChat Analytics platform**.

Xiangqi Youxuan

Xiangqi Youxuan's e-commerce mini program is operated by a small team of only 22 people. On their first participation to Single Day (11/11), and thanks to WeChat's CRM tools, they reached 1.5 billion RMB sales (around \$220M)!

A creativity-centric model that has changed the language of product marketing

“Always put the user value first. Think about, what can I really give to users? Many merchants fall into the trap of zihai (自嗨)”

Zihai, roughly translated as “self-entertaining”, means for marketing’s sake (...)
We are reminded that marketing was once done putting customer at the centre.

WeChat works on virality.

To emerge, a brand, a service or a product must be shared with friends.

Due to the fierce competition and the restrictive amount of ads on WeChat, brands must show **high level of creativity to create engagement**, especially in retail and luxury.

“Show, don’t tell” is the magic formula.

On WeChat, users are part of brand marketing strategies and games play a great role in it;



Coffee box

Consumers could design and operate their own online coffee shop and sell coffee to their friends. The coffee was then delivered right to the friend’s doorstep.



Breitling

In a gamified H5 environment, users could receive a phone call from Daniel Wu, which led them to explore the new brand message and signature products. This generated a high social buzz with more core fans and engagements about Breitling.

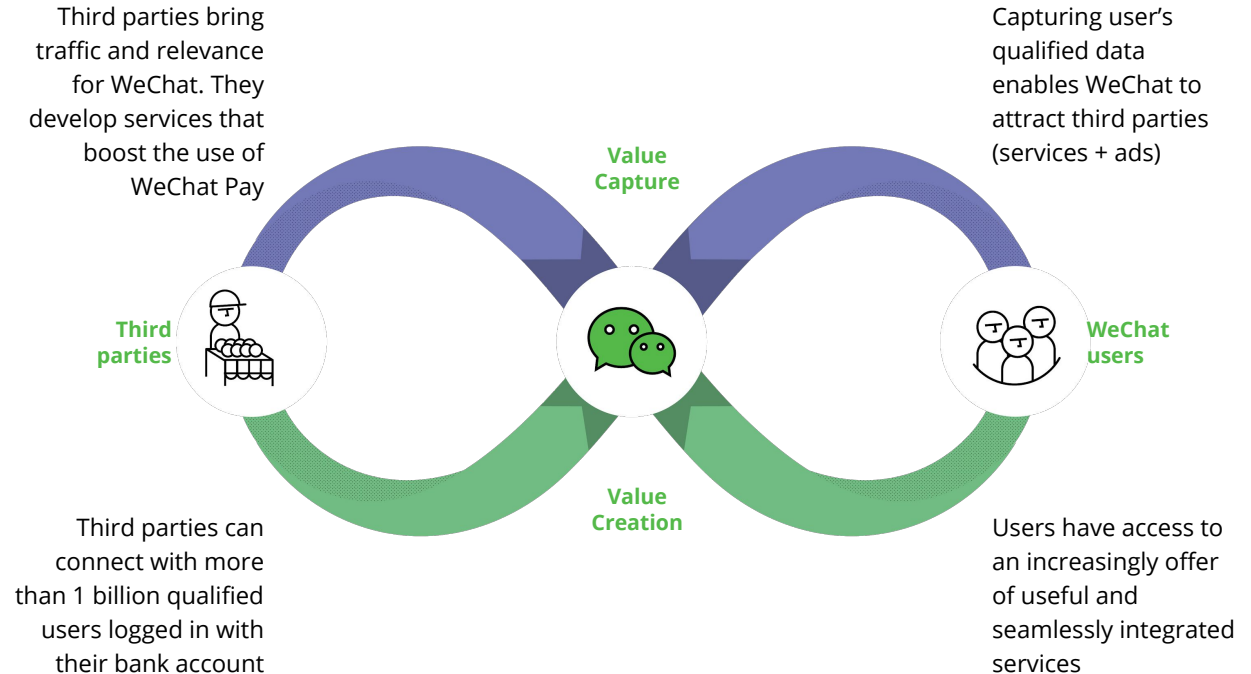
WeChat captures value where it creates it

“We are in this explosive stage where having built the usage and the user base, they’re ready to press the pedal”

Bhavtosh Vajpayee
Specialist of Tencent
at Bernstein Research

Tencent has set in place a sustainable business model to increase user base, as well as business acquisitions and retentions:

WeChat is the place where the ecosystem can meet and create value

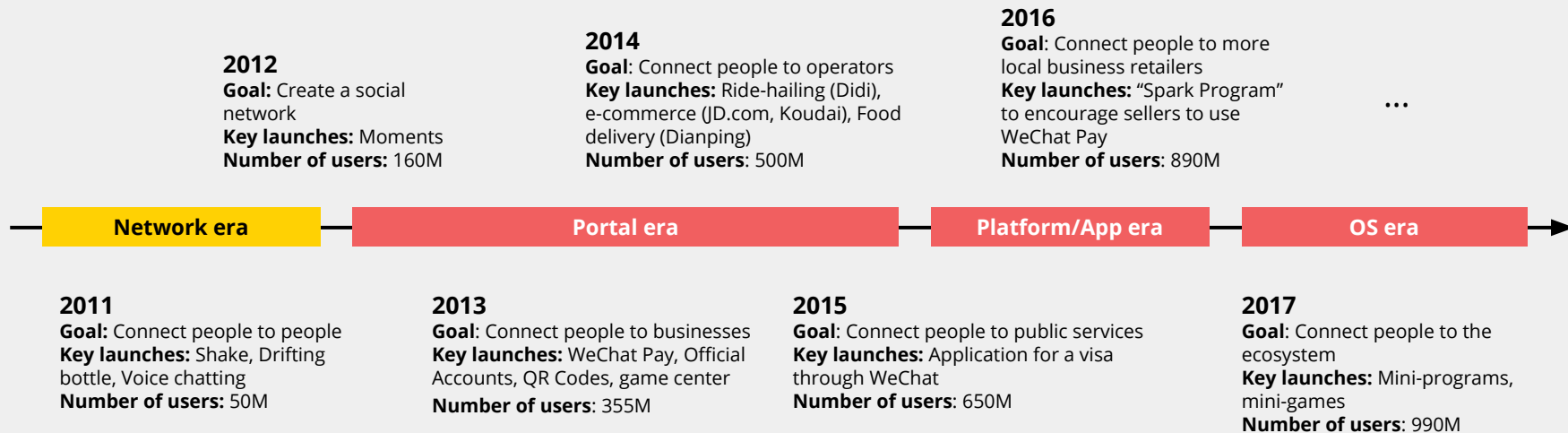




**Network size
is the new chic**

A brief history of connections... and openness to ecosystems

Since the beginning, Pony Ma's obsession is to **connect people to the largest possible ecosystem through WeChat**. WeChat has progressed step-by-step to become the connector of the connected China. WeChat first focused on acquiring a critical mass of end-users (demand-side) and then started to build a strong supply-side.



Our ambition is to connect everything. When you buy, you think of Alibaba.
We want you to think of WeChat when you connect”

A member of the WeChat product team

WeChat, the perfect business springboard

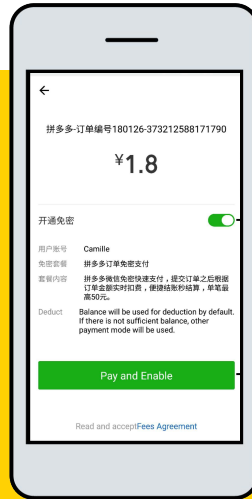
Chinese group-buying platform Pinduoduo uses **WeChat's traction to grow**. It's the **fastest growing e-commerce business** in a highly competitive sector **thanks to mini-programs**: between March 2017 and August 2018, **Pinduoduo MAU have increased from 3% to 31% of Alibaba MAU**.



Users can invite friends to use **Pinduoduo** in exchange for cash.



Pink is the price to buy directly, red is the price to group buy, i.e. if you find a friend to buy with you over WeChat.



Pinduoduo activates by default “automatic payments”

Once enabled, payments can be done without password



“By rolling so many functions into one single app, **WeChat has changed the definition of virality**. It's no longer images or tweets, or videos that can go viral, **it can be a business**.”

The aligned incentives of Tencent mean all businesses get the potential benefits of a user's social graph.”

Viktor Makarsky
Entrepreneur, CEO of Menu3 “

The company was founded in September 2015 and went public at a **\$24B valuation**. **Pinduoduo** is a member of WeChat's holding company (18,5% of PDD's stakes).



**How did Tencent
use WeChat as a
playground to set its
domination?**

Share your audience

Through APIs, companies can give external businesses access to dedicated functionalities and assets. But **WeChat goes beyond: it shares its existing user base** with brands and businesses.



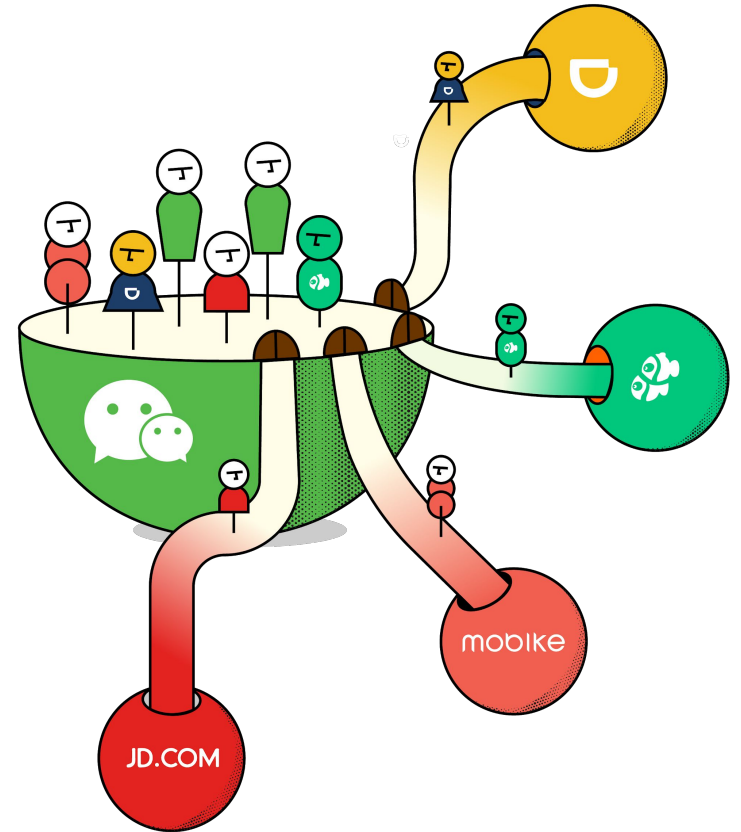
In the internet economy, what matters is **direct customer connections**.

The objective of Tencent is not to take control over companies but to **take control of the distribution of the service**.

This strategy is a way to **aggregate even more traffic within** its app, in order to become a one-stop shop for any service.

“ This is the secret of so many **chinese companies:** sharing their user base and sharing their traffic to **retain mind share and relevance**”

Connie Chan
Partner at a16z



The greatest innovation playground

“We believe we have become the partner of choice for application developers in China, offering access to our large logged-in user base”

Pony Ma

Founder and CEO of Tencent
Tencent's annual report (2013)

WeChat's power is user acquisition for businesses.

As a consequence, it acts like an **unavoidable accelerator for business**:



An offer you can't refuse as a brand

One click to a 1-billion-logged-in user base

WeChat has become a connection platform and entrance point for traffic

An opportunity you can't refuse as an end-user



The entry point to any service

Users are logged into everything and their payment credentials are already stored, so they don't have to fill in all the details every time they try a new service.

Pick your champions

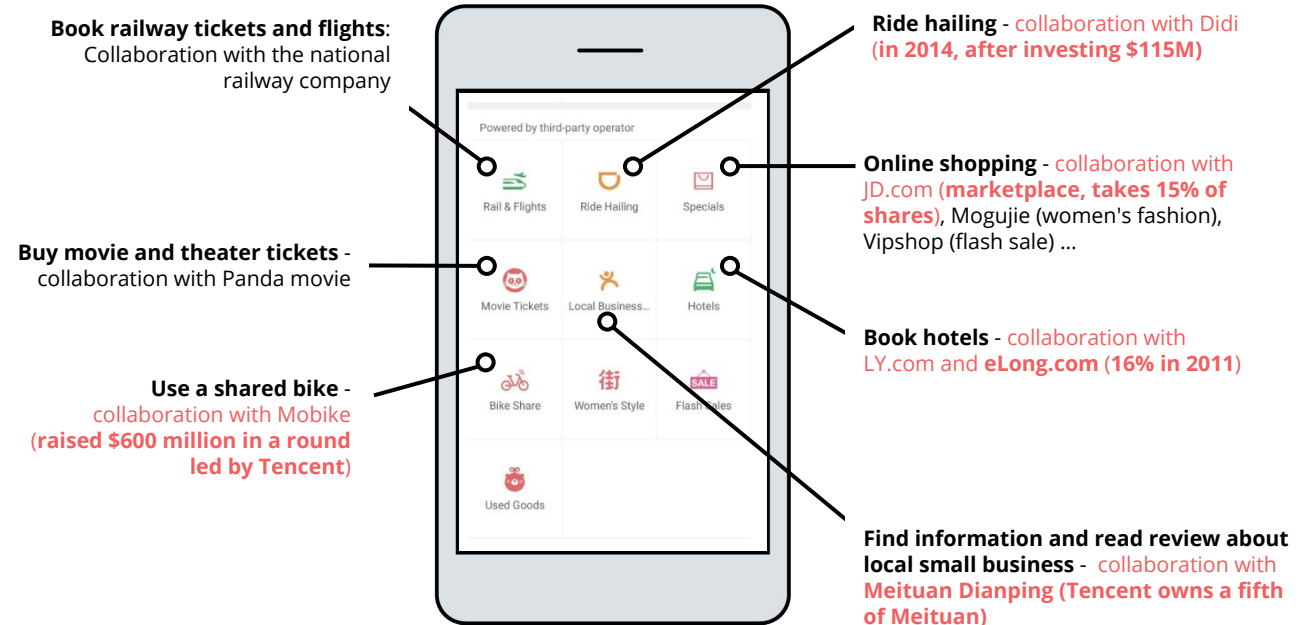
Due to its position – meeting point between users and suppliers – **WeChat is in a privileged position to spot promising business** and make the best of them succeed.

“Without availability on the Wallet, people may not even think of gifting a Starbucks coffee”

Saul Gitlin
Gitlin Global Consulting

WeChat is a framework in which businesses can grow and prosper

WeChat has defined different type of solutions to **extend its offer vertically and grow its user base**. Then, **WeChat picks up the best service providers** and adds them into available slots on its wallet. Being directly available on WeChat's wallet is like being featured on the front page of a magazine: there are Wallet's featured services... and the others.



Ecosystem growth is the measure of real leaders... and their best weapons

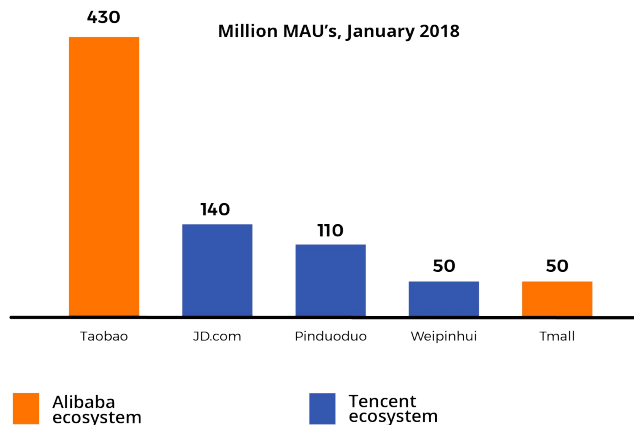
The Softbank of China

65B\$ have been invested by Tencent in 350 companies since 2012.

Thanks to these investments, WeChat is able to **better fight competitors**, such as Alibaba, which wages war against **WeChat for traffic and customer acquisition**.

Source: Bernstein Research
*Quote: Yingzi Yuan

Tencent is not only service provider, it is an ecosystem builder that re-organises competition: Tencent **picks out excellent startups and fosters these companies as its 'descendants'*** to ensure its long-term domination over competition.*



Source: Jiguang data (jiguang.cn) WalktheChat Analysis

“Tencent creates value by connecting to its ecosystem the startups that it backs.”

Nicolas Du Cray
Partner at Cathay Innovation

of unicorns backed

Tencent 腾讯	28
G	25
Alibaba.com	11
amazon	0
f	1
Apple	1
Microsoft	5

Source: CB insights

GAFA defend their castle whereas **BATX** expand on many verticals



The purpose of Chinese investments is to **build a system of allegiance to the group.**

After receiving investment, the company will have to ingrate with the ecosystem of the group and reject the competing ecosystem.

“ Chinese and Western companies tend to have a dramatically different **approach to expansion.** In a few words: Western companies build products, while **Chinese companies build ecosystems.**”

Thomas Graziani
Co-founder, WalktheChat

Your ecosystem is your value

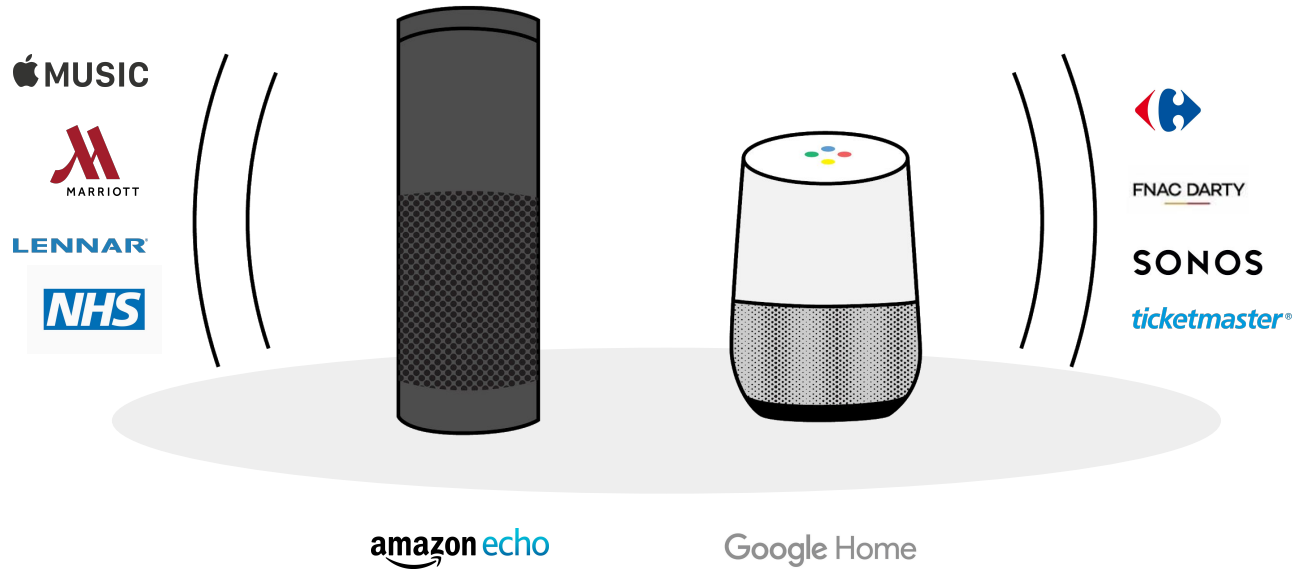
“Digital China is mostly a team sport”

Jeffrey Towson

Expert on Digital China and Digital Competition

Voice assistants are killer devices for many brands, particularly for retailers.

If the technology is important to attract users and developers, **the main difference lies on the integrated ecosystem that the users will have access to.**



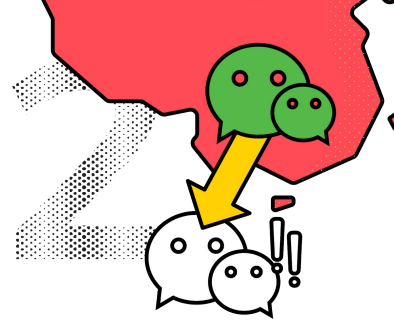


WeChat is eating
the world

Foreign expansion is a hard nut to crack

In 2012 Justin Sun, Tencent's director of international WeChat operations expressed a firm ambition saying that WeChat had "great potential to be popular internationally". A global marketing campaign was launched in 2013, introducing a lighter version of Wechat in 15 countries.

It failed for 3 reasons:

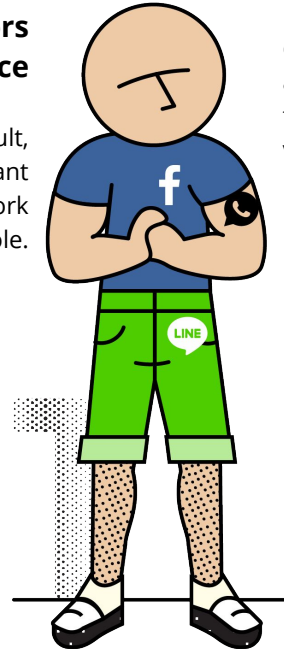


Weakened value proposition abroad

Introducing new markets without building the ecosystem upstream, leads to a decrease in the attractiveness of the app. Users didn't have access to the Wallet and all functionalities that make the value of the Super App.

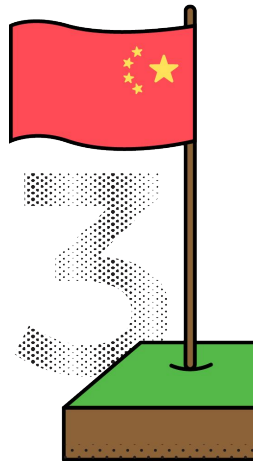
Strong competitors already in place

Entering mature markets is difficult, especially in the case of an instant messaging app, where the network effect plays a major role.



Different Culture

WeChat is very Chinese-centric product. Efforts to adapt to local cultures have not been sufficient, creating a discrepancy between users' expectations and Wechat offer.



“As American companies have learned in China, products that work well at home sometimes get lost in translation.”

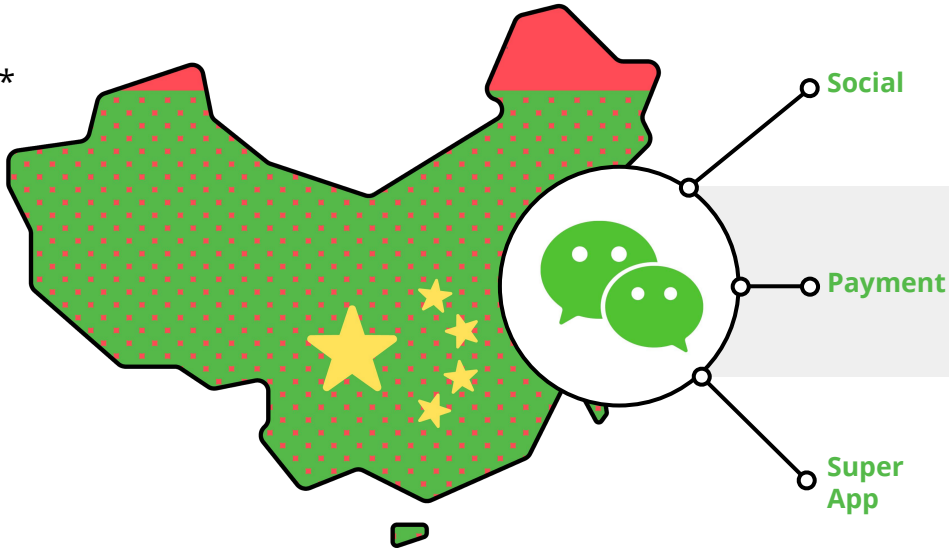
Emily Parker- MIT

WeChat has reached a growth cap in China and competitors are emerging

WeChat growth in China is going to slow down as Chinese market is close to be saturated. New players are competing with WeChat on different verticals, threatening the popularity and sustainability of the super app. In order to continue to grow, WeChat has two possibilities: increase the value per user or expand into new international markets to acquire new ones.

WeChat already have most of Chinese users

92%
penetration*



Competitors are coming from everywhere



Tik Tok



多闪

Byte Dance

Content platform launched in 2016, it now has more than 500m users worldwide



Alipay

Alipay

54% market share in China, vs. 40% for WeChat Pay



大众点评 dianping.com

美团 meituan.com

Meituan-Dianping

Launched as a food-delivery platform, the firm is now diversifying on a super-app model

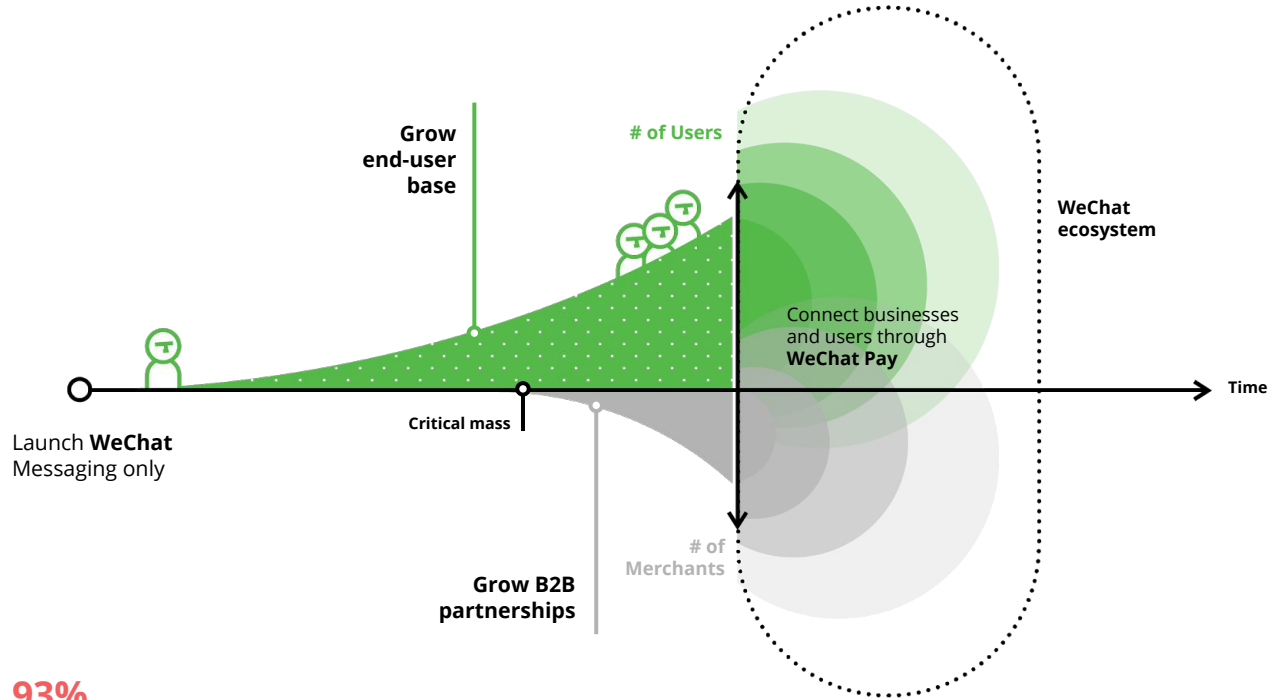


**What strategies
WeChat chose to
expand globally?**

Replicating the entire model in relevant markets

South-East Asian countries are particularly WeChat-compatible markets due to cultural similarities with China. Also, the infrastructure is less developed and competitors less mature than in the Western World.

By conquering new markets this way, WeChat is able to extend its user base:



93%
of penetration rate in Malaysia*

WeChat has been launched in 2012 as an Instant Messaging app. Since the activation of WeChat Pay in 2018, the service is similar than in China.

*WeChat active users/ total internet users

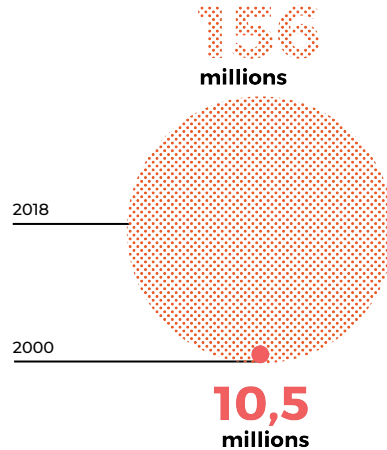
Capitalizing on the Chinese diaspora to increase revenue through WeChat Pay

WeChat is not looking to replicate the same business model in the West.



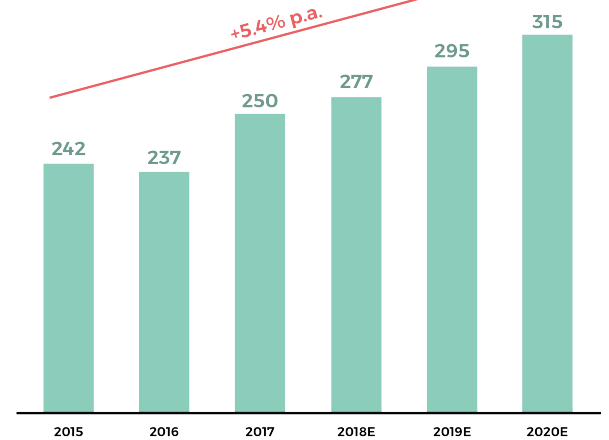
Instead, its focus will be on bringing international brands to its platform to sell more to the Chinese users, alongside services for Chinese travellers abroad.

Annual overseas visits



Total outbound trip expenditure

Billion, \$



“

WeChat has already reached the threshold of 1 billion users. WeChat's goal is not to expand the number of users now, we have to think about providing services for existing users.

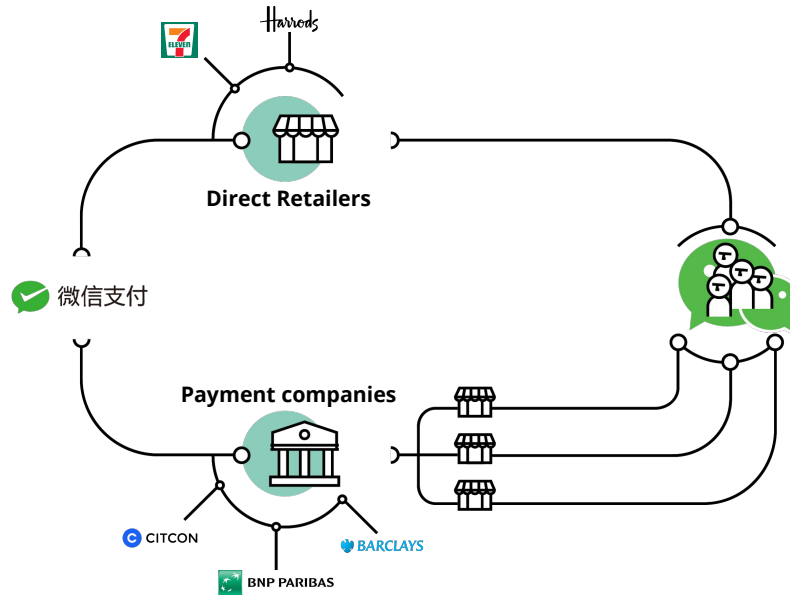
Allen Zhang
Founder and CEO of WeChat

Implementing WeChat Pay everywhere

Sellers get involved at each step of the customer lifecycle, from brand awareness through WeChat social sharing and user segmentation, to customer service through invoicing and personalized service.

90%
Chinese tourists would use mobile payment overseas given the option.

WeChat cooperates directly with foreign retailers, or conclude strategic agreements with Payment Companies. They therefore integrate WeChat Pay as an alternative payment method for their merchants.



Chinese customers pay transactions in CNY

The local currency will be converted into CNY based on real-time rate.
No more worries about currency conversion.

“

We are currently educating brands on the power of WeChat with the Chinese consumer.”

Jeff Fish

Co-founder of WeChat marketing agency TMG Worldwide

“

If you don't have WeChat Pay and their credit card doesn't work, then you lose the sale.”

Evelyn Yang

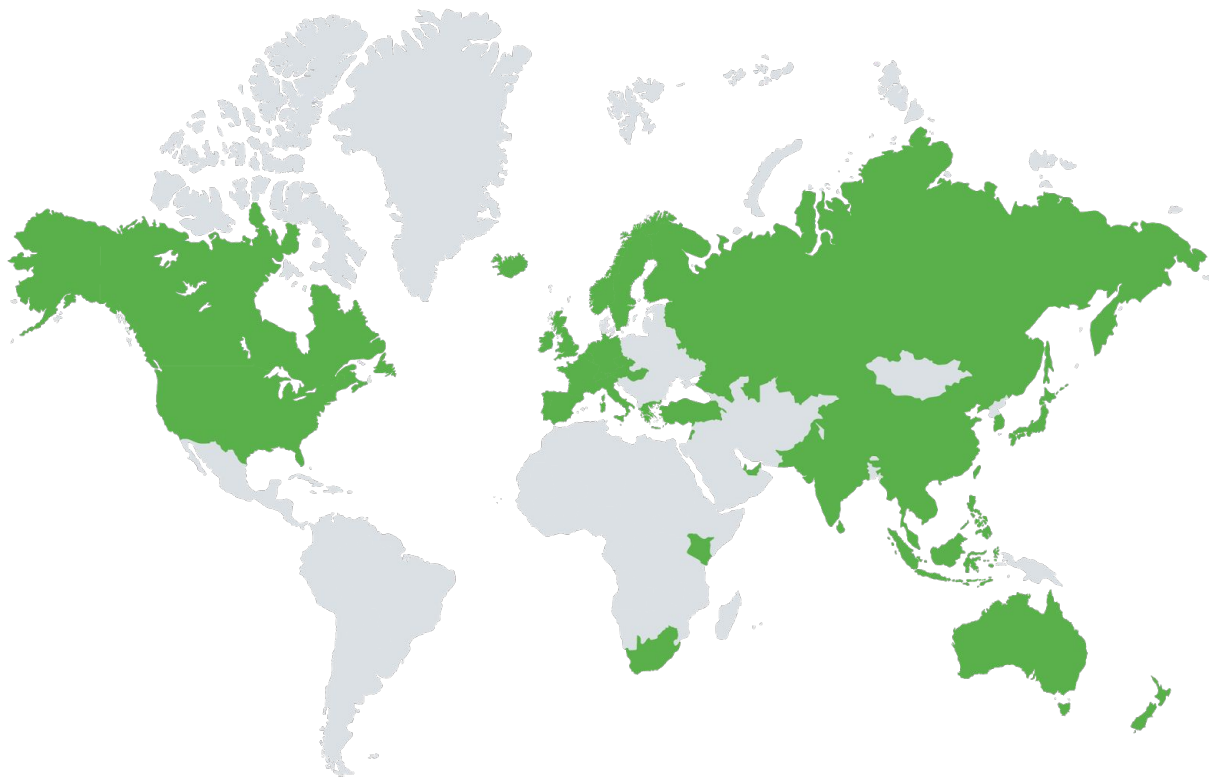
Head of marketing and communications at [Citicon](#)

**WeChat Pay
is WeChat's
beachhead**

49 countries
where WeChat Pay is available

18 currencies

Where can you pay with WeChat Pay in 2018?





What are you waiting for?

For a private presentation, please contact: client_office@fabernovel.com

For media inquiries, please contact: medias@fabernovel.com



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Benoît Talabot

Special thanks to industry experts

Matthew Brennan

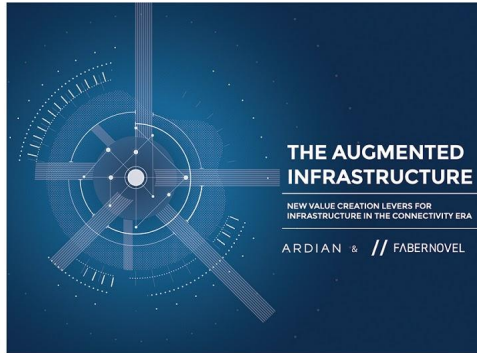
Founder of China Channel

Nicolas Du Cray

Partner at Cathay Capital

See also...

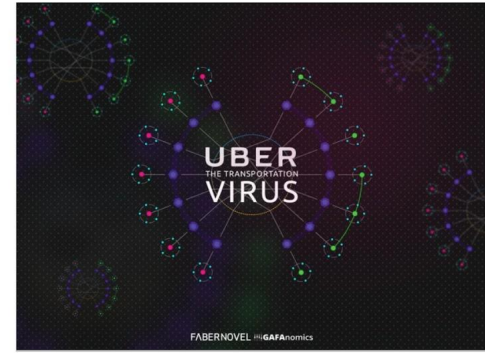
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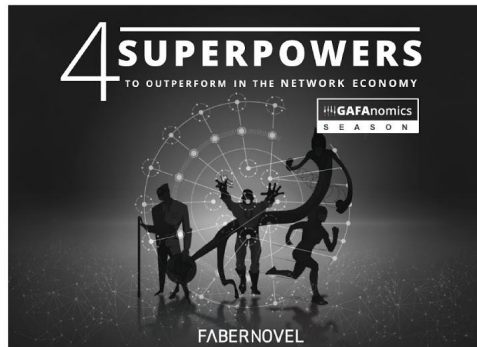
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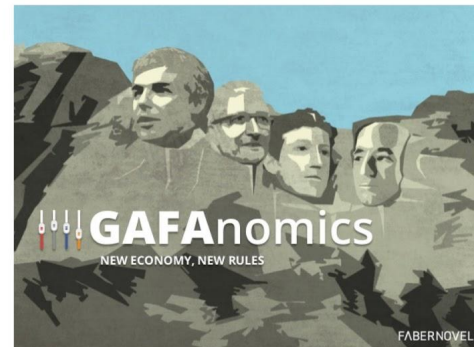
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