

Analysis of Tencent's current business model and Why will it continue to Succeed in the Future

Yining Pu

Abstract

Tencent, a global technology giant headquartered in China, has emerged as a key player in the digital landscape, with a diverse portfolio ranging from social media and gaming to financial services. This paper provides a comprehensive analysis of Tencent's current dominance and the market's reasons through its business model, examining the key components that lead to its success in the future.

The study begins by delving into Tencent's core business and exploring how its massive user base has contributed to its success. Furthermore, the analysis underscores Tencent's investment, including the importance of high technology and big data.

Looking ahead, this paper proposes strategic pathways for Tencent's future development. Recommendations include enhancing global partnerships--Tencent's global expansion strategy and impact on the company's growth, diversifying cooperation areas, and strengthening content innovation. Additionally, the study emphasizes the significance of investing in emerging technologies such as artificial intelligence and virtual reality in Tencent's corporate strategy.

By synthesizing current research and market trends, this paper aims to provide valuable insights for business leaders, analysts, and stakeholders interested in understanding Tencent's business model and the potential future directions the company may take.

Keywords: business, market, AI, development

1. Introduction

In recent years, the global entertainment industry has witnessed a profound transformation driven by technological advancements and changing consumer preferences. Among the key players shaping this dynamic landscape, Tencent, a Chinese multinational conglomerate, has emerged as a frontrunner in the entertainment sector. This paper seeks to delve into Tencent's business model, its current success, and why it will continue to be successful, with a particular focus on its diverse development strategies.

2. Company profile

Tencent, a leading Chinese technology conglomerate, initially notorious for its instant messaging service QQ, turned into a multinational conglomerate with an all-in-one internet platform serving entertainment, artificial intelligence, and technology products around the globe.[1] Tencent boasts an impressive employee scale and industrial presence. As of 2023, the company has a staggering workforce of over 100,000 employees worldwide, comprising a diverse talent pool of experts in various fields. This extensive employee scale allows Tencent to manage its vast range of businesses effectively and ensure seamless operations across different industries. In terms of industrial scale, Tencent has established itself as a

formidable player in the technology and entertainment sectors. The company operates multiple platforms and services, including social media, gaming, e-commerce, and digital content. Tencent's WeChat (WeiXin in Chinese) is now the most popular messaging app, with over 1.2 billion monthly active users.[2] The company has made significant investments in developing and distributing various forms of entertainment, including music, films, and television shows. In addition, Tencent has developed a substantial market share in China's gaming industry and social networking [3]. Its music streaming platform, Tencent Music Entertainment, boasts a massive user base and has become one of the largest music platforms in China. Additionally, Tencent's gaming division has achieved remarkable success with popular titles such as Honor of Kings and PlayerUnknown's Battlegrounds (PUBG), captivating millions of players worldwide. From the 2021 financial report, compared with the first three quarters, Tencent's game business revenue was nearly three times that of NetEase in terms of absolute amount, and its dominance in the game area was unshakable. This diversified and successful portfolio of entertainment products has contributed to Tencent's ongoing prosperity and is expected to drive its future growth.

3. Tencent's mission, aim area, and financial analysis

With the mission "Value for Users, Tech for Good", Tencent strives to incorporate social responsibility into their products

and services, promote technology innovation and cultural vitality, help industries digitally upgrade, and collaborate for the sustainable development of society.[4] Owing to a clear long-term vision and ambitious goals, Tencent's marketing approach includes forward orientation, independent innovation, and national brand creation.[5]

Aiming to become a global leader in the digital entertainment industry, Tencent constantly provides innovative and interactive experiences to its users and invests heavily in research and development, particularly in emerging technologies such as artificial intelligence and cloud computing, to stay at the forefront of innovation. Recently, at the 2023 China Internet Conference, Tencent brought its latest AI product, showing its remarkable achievements in artificial intelligence during this period.

A diversified business model enables Tencent to generate revenue from multiple sources, reducing its reliance on any single product or service. Tencent has consistently demonstrated strong profit margins and revenue growth. As of August 2023, Tencent's digital real economic income has reached 6.7 billion.

4. The main reasons why Tencent currently dominates the market

4.1 Tencent's massive user base

Tencent's success can be largely attributed to its massive user base, which serves as a solid foundation for its various business endeavors, whether in the past or future. Through this past decade of development, Tencent has been unwavering in its effort to reinforce its core competencies of innovation, management efficiency, and responsiveness to customers. [6] Compared with its longtime rival, Baidu, Tencent has a huge social user base, especially on social platforms such as WeChat and Tencent QQ. With its search engine as its core, Baidu has a large number of search users but a more limited user base in the social field. As of 2020, Tencent had over 1.2 billion monthly active users on its WeChat platform alone, making it one of the world's largest social media and messaging apps. This extensive user base will continue to provide Tencent with a significant advantage in data collection, market insights, and user behavior analysis.

The sheer size of Tencent's user base also enables the company to leverage economies of scale. With such a vast audience, Tencent can offer a wide range of services and products, attracting users and businesses. This diversification helps Tencent mitigate risks associated with any particular industry or sector, as its user base is not solely reliant on one product or service. Furthermore, Tencent's user base is a powerful network effect, drawing in more users and creating a virtuous growth cycle. QQ IM has accumulated 400 million customers with strong brand loyalty, which has further evolved into an intricate

interpersonal relationship with millions of Chinese.[7]

Additionally, Tencent's user base provides a valuable platform for monetization. By leveraging its extensive user data, Tencent can effectively target advertisements and provide personalized services to its users. This enhances the user experience and generates substantial revenue for the company.

4.2 Investment in high technology and big data analysis

Tencent has been investing significantly in high technology to bolster its business model. By leveraging its vast resources and expertise, Tencent has been able to stay at the forefront of technological advancements and utilize big data analysis to enhance its operations. One of the key areas where Tencent has made substantial investments is artificial intelligence (AI). Through strategic partnerships and acquisitions, Tencent has acquired cutting-edge AI technologies and talent, allowing it to develop innovative products and services that cater to the evolving needs of its customers. As written on Tencent's official website, Tencent is applying our diverse technological assets, including computing power, massive data sets, and a broad range of use cases, to improve our AI capabilities in understanding, decision-making, and creation and to help bring benefits of AI to everyone, everywhere.[8]

In addition to AI, Tencent has also focused on developing its capabilities in cloud computing. With the increasing demand for cloud services, Tencent has invested substantially in building data centers and expanding its cloud infrastructure. Moreover, Tencent's investment in cloud computing has allowed it to collect vast amounts of data, which it can analyze to gain valuable insights and optimize its operations.

Furthermore, Tencent has made notable investments in the Internet of Things (IoT) field. By integrating IoT technologies into its existing platforms and services, Tencent has created a more interconnected ecosystem. This has enhanced user experience and provided Tencent with valuable data from various IoT devices. Through advanced data analysis techniques, Tencent can extract meaningful information from this data and tailor its offerings to better meet the needs of its users.

5. Tencent future strategy analysis path suggestions

5.1 Implementing the globalization strategy and expanding cross-border cooperation

Tencent's globalization strategy and cross-border cooperation have been instrumental in its success. The company has strategically expanded its operations beyond China and established a strong presence in various international markets. This expansion has allowed Tencent

to tap into new customer bases and provided opportunities for collaboration with global partners, fostering innovation and driving growth. Its aggressive international expansion has further strengthened its position as the largest IM platform in China, with a global market ambition.[9]

One key aspect of Tencent's globalization strategy is its focus on strategic investments and partnerships. The company has actively sought opportunities to invest in and collaborate with promising technology companies worldwide. "The company continues to enjoy its prospects for exponential growth through continued expansion within China and opportunistic international acquisition." [10] By doing so, Tencent has been able to leverage the expertise and resources of these partners, gaining access to new markets, technologies, and talent. Furthermore, Tencent has successfully adapted its business model to suit different markets' cultural and regulatory nuances. The company has shown a deep understanding of local consumer preferences and has tailored its products and services accordingly. Tencent's international ambitions are largely based on online games and its instant messaging site, WeChat.[11] For instance, in Southeast Asia, Tencent has made significant investments in popular gaming companies and messaging apps, aligning its offerings with the preferences of the local population. This localization strategy has helped Tencent gain a competitive edge and fostered strong relationships with local partners, facilitating cross-border cooperation and expanding its global footprint.

In conclusion, Tencent's implementation of a globalization strategy and its commitment to cross-border cooperation have played a vital role in its ongoing success. By strategically expanding its operations, forming partnerships, and adapting its business model to suit different markets, Tencent has been able and will unlock new growth opportunities and stay at the forefront of the global tech industry.

5.2 Expanding cooperation areas, realizing resource sharing and win-win results

Tencent's success can be attributed to its ability to expand cooperation areas and realize resource sharing, contributing to its continuous growth and dominance in the market. The company has strategically formed partnerships with various industries, including gaming, entertainment, e-commerce, and social media, to name a few. By collaborating with other companies, Tencent can leverage its expertise and resources, creating synergies that benefit all parties involved.

One notable example of Tencent's expanding cooperation areas is its collaboration with traditional industries such as finance and healthcare. Tencent has partnered with leading financial institutions to provide innovative fintech solutions, including mobile payment services and online banking. Additionally,

Tencent has ventured into the healthcare sector by establishing partnerships with hospitals and pharmaceutical companies to develop digital health platforms and telemedicine services. In 2023, Tencent launched the "Silver Hair Safety Guard" intelligent overall solution for helping the elderly in terms of aging—Huang Xiangqi, chief algorithm expert of Tencent Silver Science and Technology Lab, said, "Through the chip and product upgrade, the 'invisible nurse' can take the initiative to find the fall of the elderly and identify the voice of the elderly." The recognition accuracy rate is above 90 percent." [12] These strategic alliances enable Tencent to access new customer segments and drive innovation in traditionally conservative industries, leading to improved efficiency and customer experience.

Moreover, Tencent's commitment to realizing win-win results through resource sharing will be instrumental in its continued success. The company actively engages in cross-industry collaborations, sharing its technological expertise, user base, and distribution channels with its partners. For instance, Tencent's WeChat platform has become an essential marketing tool for businesses, allowing them to reach a vast user base and drive customer engagement. In return, Tencent will gain valuable insights and user data, further enhancing its understanding of consumer behavior and preferences. This mutually beneficial relationship strengthens Tencent's competitive advantage and solidifies its position as a leader in the digital ecosystem.

In conclusion, Tencent's ability to expand cooperation areas and achieve resource sharing has been a key factor in its ongoing success. By forming strategic partnerships with various industries and promoting win-win results, Tencent has been able to tap into new markets, drive innovation, and strengthen its competitive advantage. As the company continues to evolve and adapt to changing market dynamics, its commitment to collaboration and resource sharing will undoubtedly fuel its future growth and sustainability.

5.3 Strengthening content innovation and IP incubation

Tencent has been at the forefront of content innovation and IP incubation, which has played a significant role in its success and will continue to do so. However, some of Tencent's products, such as WeChat and QQ, which contribute a lot to the company's revenue, make Tencent's brand image too dependent on these products and lack diversity. The company should consistently invest in developing and acquiring content that resonates with its massive user base, catering to diverse interests and preferences. Through strategic partnerships and collaborations with domestic and international content creators, Tencent could offer a wide range of high-quality entertainment options across its various platforms.

“Innovation efforts have penetrated deeply into its development, operation, sales, and other processes, helping to drive its leadership in its core businesses.”[13] One key aspect of Tencent’s content innovation strategy is its focus on nurturing and incubating intellectual properties (IPs). By identifying promising IPs and providing the necessary resources and support, Tencent could cultivate successful franchises that could capture the attention of millions of users. This approach will not only result in blockbuster games and popular television shows. Still, it will also allow Tencent to create a strong ecosystem of interconnected IPs, driving user engagement and loyalty.

5.4 accelerating technological innovation and deeply integrating AI and VR technology

Tencent’s commitment to content innovation extends beyond traditional entertainment mediums. The company has been actively exploring emerging areas such as virtual reality (VR), augmented reality (AR), artificial intelligence (AI), and esports. By investing in cutting-edge technologies and collaborating with industry leaders, Tencent has delivered immersive and interactive experiences to its users. This forward-thinking approach positions Tencent at the forefront of the ever-evolving digital entertainment landscape, ensuring its continued success in the future.

In terms of AI, Tencent should develop innovative solutions by harnessing AI algorithms and machine learning techniques. For instance, the company should integrate AI into its popular social media platforms, such as WeChat, to provide personalized recommendations, automated customer service, and advanced data analytics capabilities. Besides, it can also collaborate with hospitals, for instance, to develop diagnostic imaging solutions powered by artificial intelligence (AI).[14]

Moreover, Tencent has recognized the potential of VR technology and is actively exploring its applications across different industries. Meanwhile, Tencent should invest more in VR content creation, gaming, and virtual experiences to provide users with immersive and interactive experiences.

In conclusion, Tencent’s dedication to accelerating technological innovation and its focus on integrating AI and VR technologies position it for continued success in the future. By staying at the forefront of technological advancements, Tencent can continually enhance its products and services, meeting its users’ evolving needs and expectations. Furthermore, the company’s investments in AI and VR open up new avenues for growth and expansion, allowing Tencent to tap into emerging markets and create innovative solutions to shape the digital landscape.

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Michael Keane and Huan Wu² CURTIN UNIVERSITY
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