



Playing China's internet market

Forget the massively popular Facebook. In China, it's all about Qzone and QQ and a host of other internet and mobile value added services that's caught the attention of China's Internet users.

Bring up a social networking service with 500 million members and you'd likely think of the massively popular Facebook. But not so in China where it's all about Qzone, a multimedia social networking site with, reportedly, some 458 million members, which allows users to send messages, create blogs, share photos and listen to music, among many other features.

There's more. One click can take you to QQ, an instant messaging (IM) service, or to QQ Games, an online gaming portal, or to paipai.com, an e-commerce consumer to consumer site. The numbers are staggering – in June, QQ reported 612 million active users accounts and claimed 78 per cent of the IM market share in the country.

Qzone, QQ, QQ.com, paipai.com, QQ mail, all come under the service portfolio of Tencent, China's largest internet player, operating under the mantra of providing a 'one-stop online life experience.'

"The key is that you make all of (these) services well connected and well integrated and also make sure that each service is very easy to use and has an optimal user experience, compared with our competitors," Julian Ma, Tencent's General Manager for Strategy and Corporate Development, told INSEAD Knowledge. "The thing we focus on primarily is to look at each product or service to see

if our users are satisfied."

In 2009, the Shenzhen-based company that started up in 1998 recorded \$1.8 billion in revenues and then posted revenues of \$1.3 billion in the first half of 2010. The drivers are a variety of internet and mobile value-added services, offered at a premium of about 10 renminbi per month. QQ Show, for instance, allows IM users to create online personas or avatars and purchase accessories that add oomph to their avatars. Super QQ offers customisation features for mobile phone users and a free music player. At the end of June, Tencent boasted 63.2 million paying subscriptions of internet value-added services and 24.1 million subscriptions of mobile value-added services.

Local players dominate

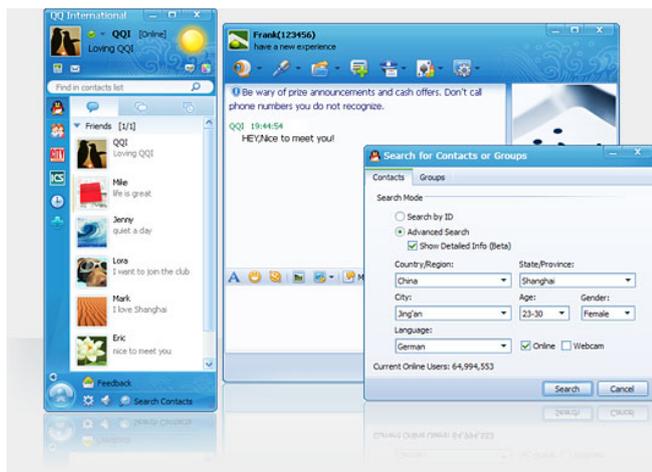
Where Tencent dominates in instant messaging and social networking services, it trails local players like Baidu and Alibaba's Taobao in search and e-commerce businesses. However, the absence or low profile of foreign players is palpable. "The major local companies know local users better and can react to the local market better because we have a fairly localised decision-process and fairly localised organization here," says Ma. eBay was an early entrant in the Chinese e-commerce market but was quickly dwarfed by Taobao whose success has been

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attributed to smart strategies designed specifically for the Chinese consumer. For instance, no listing fee or transactions fees for cost-conscious consumers which eBay dropped only much later - Taobao generates revenues from ads and preferred listing fees. It also designed specific tools to help users haggle over prices in real time to match local shopping behaviour. But this could well change with foreign companies focusing and investing more in China, Ma says.

But government regulation and censorship in China continue to be contentious issues and may deter foreign internet players. Google, for instance, shut down its local Chinese search site earlier this year following a censorship dispute with the Chinese government. Users are now redirected to the Google search page via servers in Hong Kong but its defiance has cost a decline in market share. Popular sites like Twitter, Facebook and YouTube also face limited or no access in China - some reports claim more than 3,000 internet police in China regulate content and restrict sites that might be politically offensive.

Growing the pie



In the meanwhile, Tencent which lags behind only Google and Amazon in terms of market capitalisation among internet companies is forging ahead with growth and development plans. “The internet in terms of commercial value today in China is still very small,” says Ma, referring to China’s penetration rate of around 31 per cent compared with rates around 75 per cent in the United States and Japan. “Today we compete for a market with around 420 million active Internet users,” he elaborates. “In the future, we want to serve and compete for a market of 840 million users.”

The rapidly-growing mobile market is high on the company’s radar following the explosion of affordable smartphones that also benefits transient users like students and migrant workers who are less likely to have access to personal computers. It is an area that is also fraught with challenges, says

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Ma, given the multitude of handsets and work required to ensure compatibility with each of the models. Lifestyle-related services, in the vein of websites providing restaurant reviews, online book reading and such are also promising areas for growth. Online retail business and sales activity is also starting to pick up, says Ma, although not an immediate area of focus for Tencent.

The company has begun to make strategic alliances and investments in foreign markets - a \$300 million investment in Russian Digital Sky Technologies in April and smaller investments in India, Vietnam and Thailand. “In the near future, the primary source of growth will come from China,” says Ma. “But looking at the longer term, we better have a more balanced portfolio.”

Julian Ma of Tencent spoke to INSEAD MBA students in Singapore taking part in the China Strategy elective.

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