What the War Between Alibaba and Tencent Says About Strategy

By Guoli Chen , INSEAD

In emerging markets or nascent industries, plan-as-you-go has proved to be a winner many times over.

Cross the river by feeling the rocks. – Chinese proverb

When Alibaba Group went public on the New York Stock Exchange (NYSE) on 18 September 2014, CEO Jack Ma said of the record-setting US$25 billion IPO: “What we raised today is not money, it's trust.” Six years on, investors remain loyal to the e-commerce giant – Alibaba’s stock is trading at four times its opening price on the NYSE. But the company’s faith in its future in the United States has been shaken by recent heightened tension between Washington and Beijing.

This sets the stage for the listing of Ant Group, an Alibaba spin-off that has evolved into the world’s largest fintech company. What is shaping up to be the mother of all stock market debuts, eclipsing even Alibaba’s, will take place in October in Hong Kong and Shanghai, not Wall Street.

In eschewing the established NYSE for the HKSE and Shanghai Stock Exchange's fledgling, Nasdaq-like STAR market, Ant Group – which **changed its name** from Ant Financial Services Group in July – is sticking to a strategy that has served Alibaba well. That is, adapt like hell to a dynamic environment with many moving parts instead of following a game plan that worked in the past or elsewhere but may not be fit for current purpose.

Such an **emergent strategy** – compared to planned or deliberate – is key to the meteoric rise in China of Alibaba and Tencent and the ecosystem they have built, as **Tony Tong**, **Kuangzhen Wu** and I show in our case study, **Ant Financial and Tencent: A Tale of Two Fintech Unicorns in China**. We look at how an emergent strategy helped Chinese companies prevail over more established, foreign entrants the likes of eBay, and will remain key to their hold over an increasingly competitive ecosystem of platform apps.

Jack the giant slayer

In a market of rapid technology changes, shifting consumer expectations and regulatory uncertainties, the traditional analyse-plan-execute approach is not good enough. Strategy becomes more dynamic and needs to be constantly tweaked based on new information. Ideas and processes must be tested through experimentation and adjusted to each new reality and opportunity – in other words, through the emergent approach. Especially if you're going into a market of vastly different culture and social norms.

The tussle between eBay and Alibaba in China provides a classic example of how critical an emergent strategy is for MNCs entering a culturally alien market. In 2003, eBay acquired EachNet, then the dominant player in China's C2C e-commerce market with an 85-percent market share. Alibaba, then a relatively unknown B2B e-commerce platform for small businesses, met the competitor head-on. It set up a separate business unit and launched Taobao ("Dig for Treasure"). Within three years, Taobao had turned the tables on eBay EachNet, becoming the market leader.

What went wrong for eBay? It tried to replicate in China a model that worked in the US, despite these countries' vast differences in terms of culture and financial infrastructure. Cash was still king, credit card and internet penetration was low, and few Chinese consumers were confident about buying things sight unseen. Yet eBay stuck to a planned strategy and rolled out its US business model. It charged fees on listings and commissions on transactions, but did not encourage direct communication between buyers and sellers, who didn't trust each other. Payment could only be done through cheques, credit cards or PayPal, none of which was familiar to Chinese customers.

In contrast, Taobao offered free listings and enabled buyers and sellers to communicate directly. It also launched Alipay, a free platform which held the payment in a secure account until buyers received their purchase and were satisfied with the quality. Alipay would go on to become the foundation of Ant Group.

Other foreign big names that are struggling in China or have bowed out after failing to adopt an emergent strategy include **Airbnb** (its Chinese brand Aibiying trails homegrown market leader Tujia, which provides third-party services like cleaning, after four years in the market) and Expedia (which **sold its stake** in a Chinese venture to main local rival Ctrip in 2015 after a 10-year foray).

No doubt preferential treatment and certain regulations decreed by the Chinese government haven't helped foreign entrants, but strategic rigidity and inability to adapt to local conditions have been the much bigger factor behind Western MNCs' lacklustre showing.

Clash of the Mas

Alibaba has perfected a strategy comprising both planned and emergent components. It identifies unmet consumer needs (such as collateral-free microloans for farmers, individuals and small businesses), collaborates with other service providers like state banks to meet those needs, and does all this while complying with regulations as they emerge.

Strategy-making takes place at every level of the company. Senior managers convene "co-creation meeting" of employees and customers whenever new opportunities arise. They dream up new business models, which are then run as a separate unit before the most promising is scaled up.

For example, Alibaba launched the B2C Taobao Mall following a successful experiment in 2006 but shut down the software-as-a-service initiative, AliSoft, in 2009 after the latter failed to launch. Today, the Alibaba ecosystem has burgeoned far beyond e-commerce platforms to encompass payment, finance and insurance (Ant Group), cloud computing (Alibaba

Cloud) and logistics (Cainiao Network).

While Alibaba dominates the e-commerce space, Tencent holds sway over social networking and gaming. Founded by Pony Ma (no relation to Jack) in 1998, Tencent launched its first product in 1999, a free online instant messaging service called QQ that also offered shopping, microblogging, gaming and other entertainment services. In 2005, Tencent introduced Qzone, a multimedia social networking service. It soon became the largest social networking platform in China thanks to its policy of accepting apps from third-party developers.

The now-ubiquitous WeChat super app that combines instant messaging, social networking, shopping and payments was released in 2011 to tap the growing ranks of smartphone users in China. By the end of 2019, WeChat had over 1.1 billion monthly active users (MAUs) and was among the world’s largest standalone mobile apps.

Increasingly, as the Chinese market develops and matures, and as more native start-ups blossom into unicorns, Alibaba and Tencent are competing with not only MNCs but each other.

The two began encroaching into each other’s turf early on, with varying degrees of success. Tencent had pushed out Paipai in 2005 to compete with Taobao in e-commerce. Alibaba launched **Laiwang** in 2012 in a bid to go one up on WeChat. The rivalry extends into ride-hailing and more recently, the food and grocery delivery service space. Alibaba’s US$9.5 billion acquisition of Ele.me in 2018 was seen as a declaration of war on Tencent-backed Meituan-Dianping.

Most memorably, WeChat’s launch of a virtual fund transfer service, dubbed Red Packet, on the eve of Chinese New Year in 2014, rankled Alibaba. Red Packet triggered millions of signups to WeChat Pay, the app’s mobile payment platform. By the end of 2014, WeChat had 500 million MAUs, up from 355 million in 2013. Its share of China’s mobile payment market – then under Alipay’s near monopoly – would surge from 10 percent in 2014 to 32 percent by 2016. Alipay’s share meanwhile plunged from 80 percent in 2014 to 55 percent in 2016.

Corporate social responsibility, gamified

Alibaba's Ant Group and Tencent's WeChat Pay effectively have a duopoly in China's digital and mobile payments market and the fintech industry. But their dominance is not assured. More state-owned banks and financial institutions are entering the fintech domain. Upstart tech companies such as ByteDance, parent of Douyin and its international clone **TikTok**, pose a looming threat. Companies need to find new ways to increase the number of new users, especially younger ones with the attention span of a fly. What's a tech giant to do?

Corporate social responsibility (CSR) may be one of the answers. Seen increasingly as a way for firms to fulfil their obligations to customers, workers, shareholders and the community, CSR can also help boost engagement and loyalty, especially among millennials. Tencent ventured into CSR as early as 2007, when it created the Tencent Foundation. In addition to direct funding for disaster relief, rural development and ecological conservation, Tencent built the first online public fundraising platform by leveraging its existing infrastructure. In 2019 alone, 98 million users gave a total of RMB2.8 billion.

Ant Group's innovative "Ant Forest" initiative is another example of a CSR attempt that is not **for show only**. Launched on Alipay in 2016, Ant Forest latches on to the gamification trend. It starts with a "carbon account" for registered users to accumulate "Green Energy" points by using public or green transportation, buying tickets online and so on. The points are used to "water" virtual saplings until they grow into virtual trees. Ant will then plant real trees in China's arid regions such as Inner Mongolia.

Users can see the direct impact of their actions by monitoring the trees' growth on their phones via AI, drones and remote sensing satellite. Alipay reported that, as of May 2020, Ant Forest had more than 550 million participants and had planted 200 million real trees, cutting daily carbon emission by 12 million tonnes.

Both Ant and Tencent appear to have successfully integrated CSR into their existing ecosystems. The story of Alibaba and Tencent is a continuing tale of two unicorns that have spun their respective solid ecosystems, ready to roll with the punches whenever and wherever they may fall. They show that in an emerging market, crossing the river by feeling the rocks is just as important as having a roadmap in hand.

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https://knowledge.insead.edu/strategy/what-war-between-alibaba-and-tencent-says-about-strategy

About the author(s)

Guoli Chen is a Professor of Strategy at INSEAD. His research focuses on the influence of CEOs, top executives, and boards of directors on firms' strategic choices and organisational outcomes, as well as the interaction and dynamics in the top management team and CEO-board relationships.

About the research

Ant Financial and Tencent: A Tale of Two Fintech Unicorns in China is published as an INSEAD case study.