

Study of Tencent's Development Strategy under Covid-19

Yixuan Sun

University of Manchester, Manchester, M13 9PL, United Kingdom

Abstract. Tencent has grown rapidly since its inception, becoming one of China's largest internet companies in the last two decades, with products and investments in a wide range of industries and a very promising future. This paper focuses on Tencent's development strategies in the media and entertainment industry in recent years, analyzing the strengths and weaknesses the company possesses and its major competitors through SWOT and POTER'S Five Forces, and exploring the reasons for its continuous profitability in an unpromising environment. This study is dedicated to providing guidance on strategic development for other Internet companies in the (Covid-19) epidemic environment.

Keywords: Tencent; Development Strategy; Entertainment Industry.

1. Introduction

With the emergence of more and more Internet companies, new forms of social media and entertainment have led to a constant renewal of the media and entertainment industry. Coupled with the severe impact of COVID-19 on the world economy in recent years, more and more Internet companies are facing many unprecedented crises. In the face of multiple severe tests, there are still many companies that have withstood the pressure from many competitors and the epidemic while continuing to make profits. The main objective of this paper is to study Tencent's growth strategy in the media and entertainment industry in recent years. It analyses the company's strengths and weaknesses through SWOT and POTER'S Five Forces and explores the reasons for its continued profitability in an unpromising environment.

2. Literature Review

As the leading Internet company in China, Tencent's continuous development has been accompanied by the rapid development of the Internet in China, and the needs of Internet users are also changing. Therefore, the development strategy of Internet companies also needs to constantly meet the needs of Internet users in order to move towards a healthier development path.

Many scholars have done research on Tencent, mainly divided into a series of studies related to corporate products and technological innovation and corporate strategy.

Zhang Yunchuan (2005) and Zhou Jianjun (2006) analysed the problems faced by instant messaging technology in the corporate market sector and pointed out that solving the problems of office automation is the directional development of instant messaging technology. cheJingjing (2018) analysed the revenue situation and stock market direction of Tencent's main businesses in recent years and concluded that the gaming industry has brought Tencent more profit potential and advantages for future market occupation. Zhang Junjie (2011) studied Tencent's development model from monolithic to diversified and attributed Tencent's success to its core business of instant messaging, rapid growth in opportunity orientation, flexibility in marketing strategy, and strategic and forward-looking drive. Other scholars have summarised Tencent's successful experience in using business model innovation to enhance its competitive advantage by analysing the unique evolutionary paths exhibited by Tencent at different stages of development, including the start-up, growth and maturity phases.

In summary, many scholars have analysed and summarised Tencent's outstanding strategic deployment and transformation capabilities, but most studies have mainly analysed Tencent's overall business development strategy and mainstream businesses. But few scholars have analyzed how Tencent's strategic deployment should be adjusted in light of the epidemic and the role its entertainment business will play in Tencent's future corporate development. This article aims to fill

this gap and analyze the relationship between Tencent's media and entertainment businesses and Tencent's development strategy.

3. Methodology

(1) Case study: Taking Tencent's media and entertainment business development strategy as a case study, the paper examines how Tencent can enhance its core competitiveness through its media and entertainment business.

(2) Qualitative analysis: This paper adopts qualitative analysis methods such as induction and logical reasoning.

(3) Literature research: This paper collects and collates existing literature on Tencent's corporate development strategy and other topics to summarise and conclude the theories relevant to this paper.

4. Company Background

Tencent Holdings Limited, or Tencent for short, is a Chinese multinational holding company and one of the largest Internet companies in China. Over the past 20 years, Tencent has expanded its business to include social, financial, investment, information, tools and platforms, and its business involves global Internet-related services and products, entertainment, artificial intelligence and technology. Listed on the Hong Kong Stock Exchange in 2004, Tencent was ranked 478th on the Fortune 500 list in 2017 (Fortune, 2017) and became the first technology company in Asia to be valued at US\$500 billion in the same year (Rains, 2017). Tencent currently owns two of the most used social networking software in China: Tencent QQ and WeChat, as well as Tencent Games, the largest online gaming community. Tencent has released a new corporate vision in 2019: "Value for Users, Tech for Good", and the mission is hoping that everything will be based on user value, integrating social responsibility into its products and services; promoting technological innovation and cultural heritage, helping to upgrade all industries and promoting sustainable development of society (Tencent, 2019).

4.1 Tencent's Current Strategy

Tencent has grown from a single social media company, QQ, to a world-leading Internet technology company with a range of products and services, including communications and social networking, digital applications, cloud computing, finance, and advertising, over the past 20 years. Tencent's business structure is currently divided into six business groups: Corporate Development Group (CDG), Cloud & Smart Industries Group (CSIG), Interactive Entertainment Group (IEG), Platform & Content Group (PCG), and the Internet Development Group (IDG). Content Group (PCG), Technology Engineering Group (TEG), and Weixin Group (WXG). Tencent currently launched its latest core strategy in April 2021, with the strategic goal of achieving "sustainable social value innovation". Tencent's current corporate strategy is gradually transitioning to globalization, and Tencent CEO Ma Huateng said he will spend more energy optimizing Tencent's global management team, lead Tencent's global strategy and digital platform development, and focus more on the exploration and development of long-term major issues (Cui et al., 2022).

5. The Analysis of Tencent

Today, Tencent's businesses have involved communication and social networking, digital entertainment applications such as video games, financial technology, cloud computing, artificial intelligence, and many other aspects. This article focuses on the media and entertainment-related businesses of Tencent's three business groups: IEG, PCG and WXG.

Facing the vast number of Internet users, in terms of communication and social networking, Tencent started from connecting people, with the aim of developing and providing feature-rich and

easy-to-use instant communication and social platforms, making communication, sharing and exchange more convenient, vivid and personalized in an innovative way, and enriching people's lives, launching two major social media, QQ and WeChat, and reaching the number of monthly active accounts globally in 2018 to 1 billion.

In addition, in order to enrich the functional diversity of social media, the WeChat video number function was launched in 2020 to compete with short video applications such as Jitterbug. In terms of digital content, Tencent continues to explore diversified social entertainment fusions that are more suitable for future trends, and Tencent's digital products cover almost all entertainment items in people's daily lives. Tencent's digital content products mainly include games, videos, live streaming, music, and literature.

(1) Tencent has launched two games, Honor of King and Peace Elite, which have brought it huge profits, and in addition to developing its own games, Tencent has invested in game companies such as Supercell, a Finnish game developer, and Frontier Developments, a British game developer.

(2) In addition to TV series and movies, Tencent has a variety of channels, such as the talent show series "Produce 101", as well as animation and sports channels, and Tencent has also invested in the exclusive live streaming rights of the NBA for the next five seasons.

(3) In terms of live streaming, Tencent has invested in two of the largest live streaming platforms in China.

(4) In 2016, Tencent established Tencent Music Entertainment Group, which owns QQ Music, one of the largest music platforms in mainland China, with a market share of 60% of online music in mainland China.

(5) In terms of e-books, Tencent owns QQ Reading and WeChat Reading, which are operated by the Read&Write Group.

The purpose of this paper is to analyze how Tencent has been expanding its media and entertainment business and enhancing its core competencies step by step, and therefore analyzes the specific situation of Tencent's media and entertainment business through the following two analysis methods.

5.1 SWOT Analysis of Tencent

Table 1. SWOT Analysis of Tencent

STRENGTHS	WEAKNESS
<p>1. It has a large number of active social media users and national popularity, and Tencent's QQ and WeChat are essential communication and social software in China, with strong user stickiness.</p> <p>2. It has a very comprehensive product and business group.</p> <p>3. It has mature Internet service experience.</p> <p>4. Tencent has top talent and R&D team.</p> <p>5. Tencent has stable and substantial cash flow as well as financial statements that have been profitable for years.</p>	<p>1. The business scope is too broad, and efforts are scattered. Tencent's business lines are involved in many areas, but in some areas the products are not competitive and easily suppressed by competitors, such as the launch of the short video application "Weishi" and rival TikTok.</p> <p>2. QQ and WeChat are both experiencing slow growth in new users, with WeChat having 1</p>

<p>6. Tencent has absolute market share or even market monopoly in communications, games, music, live streaming, etc.</p>	<p>billion+ users but struggling to get new users from overseas.</p>
<p>OPPORTUNITIES</p>	<p>THREATS</p>
<p>1. Small programs on WeChat have lower R&D and traffic costs, with more than 400 million daily active users. Small programs can provide users with more functions and reduce waiting time and difficulty in using them.</p> <p>2. The pan-entertainment business will bring sustained business revenue growth for Tencent. Tencent has already achieved market dominance in digital entertainment tracks such as music, video, live streaming and games, and these entertainment methods will hardly be affected by COVID-19 due to recent years, so the revenue of these businesses in the coming years is very optimistic.</p>	<p>1. WeChat and QQ have many competitors, new social media that are constantly emerging, and the constant impact of international social media such as Facebook and Instagram.</p> <p>2. A large number of users are dissatisfied with certain features on WeChat, but WeChat has not made timely optimizations.</p> <p>3. The globalization process has slowed down, and Tencent's social products have low overseas user growth, but competitor TikTok has gained more than 300 million monthly active users in several overseas countries in a short period of time.</p>

5.2 Porter's Five Forces Analysis

5.2.1 Competition in the Industry

In the media and entertainment sector, competition is fierce, and Tencent has a high market share and dominant position in many areas. However, there are many strong competitors in other areas such as Aiqiyi, TikTok and other Internet companies competing with Tencent's video business, but these markets have matured.

5.2.2 Potential of New Entrants into the Industry

As one of the fast-growing Internet companies in recent years, TikTok's parent company ByteDance has absolute dominance in the short-video track. Two years after its launch, TikTok beat many short-video apps in mainland China to become No. 1 in terms of active users in December 2018, while Tencent's short-video app had only one-fifth of TikTok's monthly active users in December. Jitterbug explored overseas markets in the next few years and successfully attracted Internet users from many overseas countries, reaching 1 billion monthly active users in 2021 and becoming the most popular short video app platform in the world. Therefore, Tencent is not very competitive in the short video track; however, in terms of video games, Tencent not only has the two games "Honor of King" and "Peace Elite", which are always in the top of the mobile game list in terms of revenue

(Che, 2018), but also acquired League of Legends and launched the League of Legends mobile game version, which has a large number of highly sticky game users and holds a dominant position in China's mobile game market. In addition to games, Tencent's QQ music and Tencent video products also occupy the majority of the market and have a high market competitiveness.

5.2.3 Power of Suppliers

QQ and WeChat, the communication products developed by Tencent Enterprises, are the most essential daily social software in China, with 1 billion users and absolute dominance in the social media market, with no alternative to other communication applications. In addition, Tencent has exclusive rights to broadcast the NBA for the next five seasons in 2015 and exclusive rights to many movies and TV shows, so the switching costs for many of Tencent's products are very high, indicating Tencent's higher bargaining power as a supplier.

5.2.4 Power of Customers

As one of the largest Internet companies in China, Tencent has more than 1 billion users for its various products, so its customer base is large and its customers' power is small.

5.2.5 Threat of Substitute Products

Except for short video applications and e-book applications, Tencent's products in media and entertainment have higher switching costs, and customers are more sticky and less likely to churn.

6. Conclusion

Tencent, a large and successful Internet company that now has a mature corporate business structure, has grown its sales revenue at a positive rate every year for the past five years from 2017-2021(Tencent Annual Report, 2021), amidst the COVID-19 adverse effect on other companies, thanks to its media and entertainment business. This is due to its strategic deployment of its media and entertainment business. As Che has mentioned "game industry will bring more profit potential for this company and bring it more advantage in the future", Tencent should continue to focus more on its pan-entertainment business, such as mobile games, in an effort to be consistently profitable in the future. At the same time, Tencent needs to optimize and innovate the functions of WeChat and QQ, which already have a large number of users, to attract overseas users and break the existing bottlenecks to create more opportunities for the company in the future.

7. Limitation

This paper only studied one large Internet company, Tencent, and did not investigate and compare it with other Internet companies at home and abroad, so the findings may not be suitable for other Internet companies. Secondly, this paper did not compare the profitability of Tencent's entertainment business with other major businesses, so there are some limitations and shortcomings in this study.

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