

Business Model Innovation (Fast fact series)

Management Theories and Business Models

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From social networking to social commerce: Growth paths of Facebook and WeChat

December 2018

Key Highlights

The top 10 most popular social networking sites worldwide are dominated by companies from the US and China. Facebook from the US and WeChat from China are the most famous players, in terms of the number of active users.

Facebook has evolved from a social networking platform in the US to a worldwide social commerce site.

WeChat positions itself as a “super APP” serving its users with “all” digital social aspects. It achieves profit generation by exploring social commerce via mini-programs.

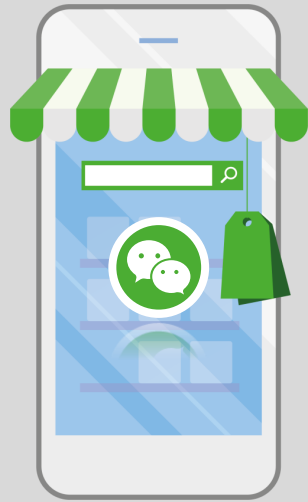
Both Facebook and WeChat are tapping into the global social commerce market. However, they are facing quite a lot of challenges, including rapid changes in user behaviors and competitive market landscapes.

An interesting fact is that more and more Chinese exporters post Ads on Amazon/ eBay/ Facebook/ etc. to reach their global buyers; while overseas players position Tmall Global/ JD Worldwide as their first step in entering China.

To a certain extent, it is easier for some overseas sellers to use China’s e-commerce marketplaces, than having to familiarize themselves with the “super APP”, WeChat.

Looking forward, Facebook is targeting at global opportunities and betting on the next technological breakthrough.

Unlike Facebook, Tencent has a vision of diversification by building a global business ecosystem. Tencent has invested heavily not only in technology, but also in commerce, media and entertainment.



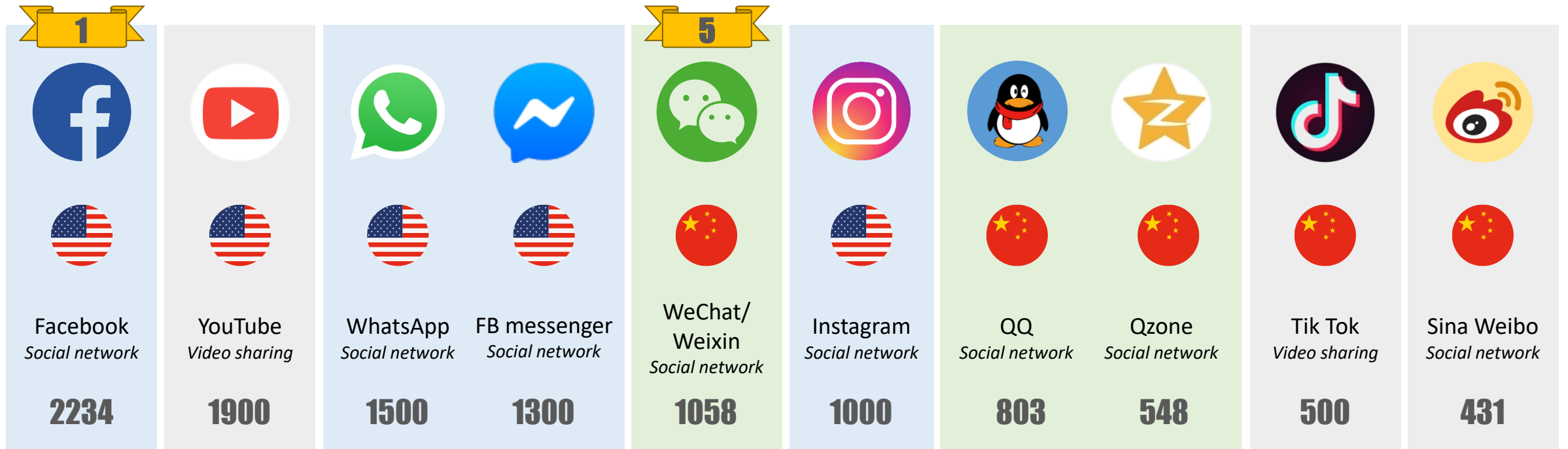
Background

Online behaviors of the US and Chinese social media users are almost identical, while the number of users in China is three times more than that in the US



*Note: data as of January 2018
 Icon source: Internet
 Source: we are social, Hootsuite, compiled by Fung Business Intelligence

Top 10 most popular social networking sites worldwide are dominated by companies from the US and China *(by active users, millions)*



Camp of Facebook Inc.

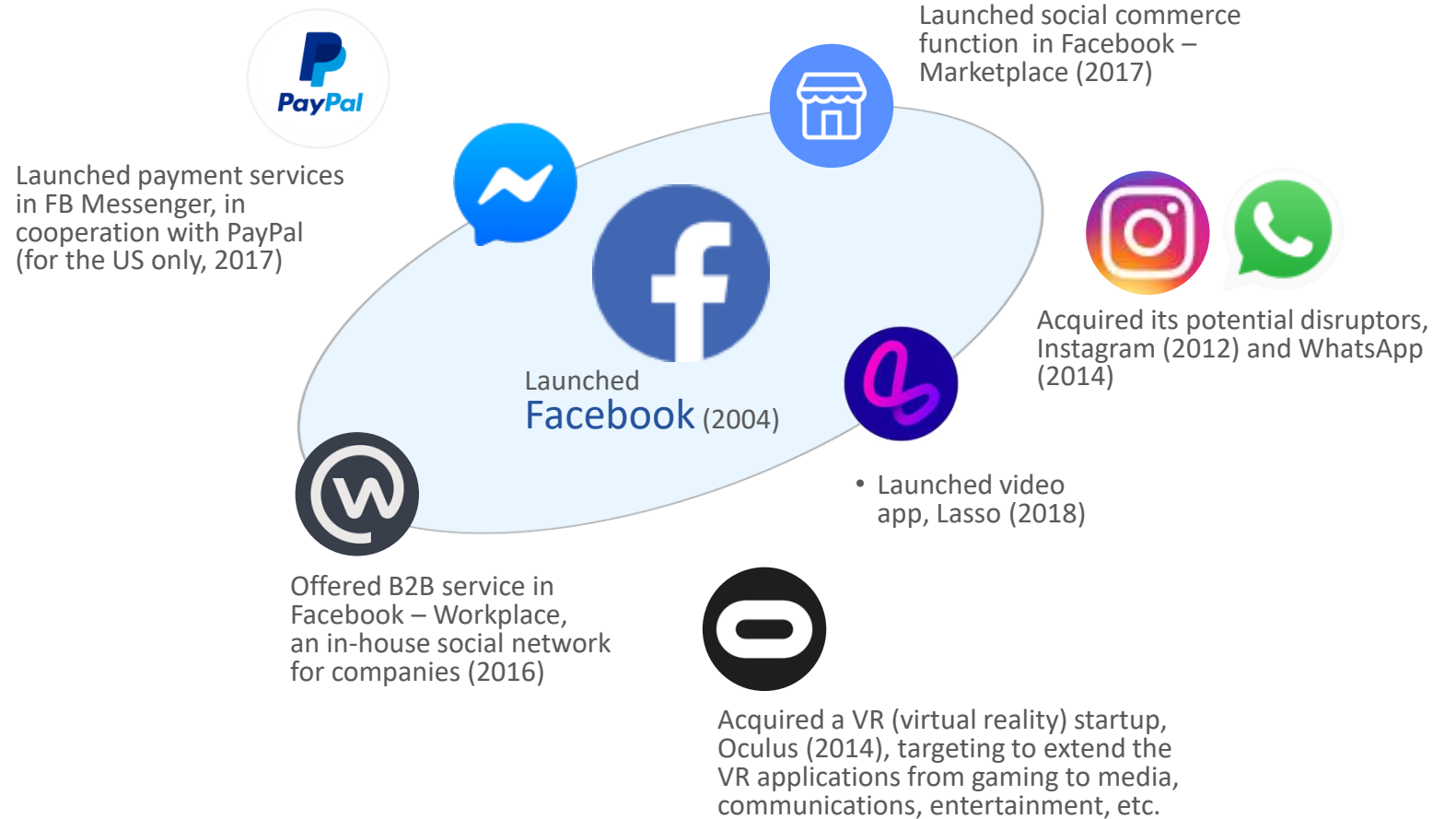
Camp of Tencent

*Note: data as of October, 2018
 Icon source: Internet
 Source: Statista, compiled by Fung Business Intelligence

Facebook, Inc. is evolving from a social networking company to a social commerce company

facebook

- Facebook Inc., a social networking company, was founded by Mark Zuckerberg in 2004
- Headquartered in California, the US
- 30,275 employees as of June 30, 2018
- Enhanced the FB services experiences by acquiring companies from the sectors of technology, AI, software, etc.



Tencent, a social networking and gaming company, is building a business ecosystem



Tencent 腾讯

- Tencent, a social networking and gaming company, was founded by Pony Ma in 1998
- Headquartered in Shenzhen, China
- 48,684 employees as of June 30, 2018
- Formed a business ecosystem* by investments and acquisitions, covering its core businesses and various sectors, e.g. media, O2O commerce, fintech, utilities, medical, AI, etc.

*Note: See also
- Appendix 1: Milestones
- Appendix 2: Tencent's ecosystem in China

Icon source: Internet
Source: company website, Internet, compiled by Fung Business Intelligence

Differences in social networking functions offered by Facebook and WeChat



A worldwide social networking platform

Major functions

- Post feeds
- Feeds sharing can be viewed by friends' friends and even strangers → expand social network
- Support live streaming
- Connect with “sister” App: FB Messenger
 - Allow people to send messages privately or in groups
 - Allow users to make audio and video calls
 - Allow mobile peer-to-peer payments



A “super APP” serving its users with “all” digital social aspects

Major functions

- Post feeds on a wall, named “Moments”
- Allow people to send messages privately or in groups
- Allow users to make audio and video calls
- Feeds sharing on Moments can be viewed by friends only → subject to users' preference
- Group chat function: Max 500 persons in a group
- Third-party payment function: WeChat pay; users can order takeaways and taxis, make reservations, buy tickets, pay bills, give red pockets, etc.

Monetization of Facebook and WeChat



Transforming into a worldwide social commerce platform

Business use

- Allow companies to post Ads on users' social walls or FB Marketplace
- Allow companies to prompt Ads to targeted market segments, based on behavioural targeting studies and worldwide demographic information
- Provide in-house social network "Workplace" for companies
- Support multiple languages
- Allow users to browse for more company information on the official company Facebook pages

Revenues*

- Advertising fee
- Payments and other fee



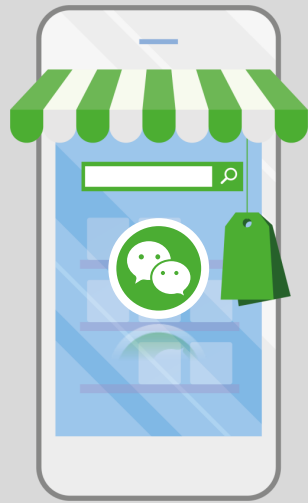
Exploring social commerce via mini-programs

Business use

- Allow companies to sell goods and services via mini-programs, which are not a standalone APP, do not require installation nor consume a lot of memory of smart phones
- Allow companies to post feeds/ give away e-coupons via official accounts, Banner Ads and Moments of targeted users, based on standard demographic information
- Provide in-house social network for companies

Revenues*

- Advertising fee
- Service fee for handling virtual payment, game payment, etc.
- Other value-added services fee



Growth paths of Facebook and WeChat

Both Facebook and WeChat are facing quite a lot of challenges



Both are dealing with rapid changes in user behaviors



Both are facing keen competition

To retain their positioning as market leaders, both are striving for expansions



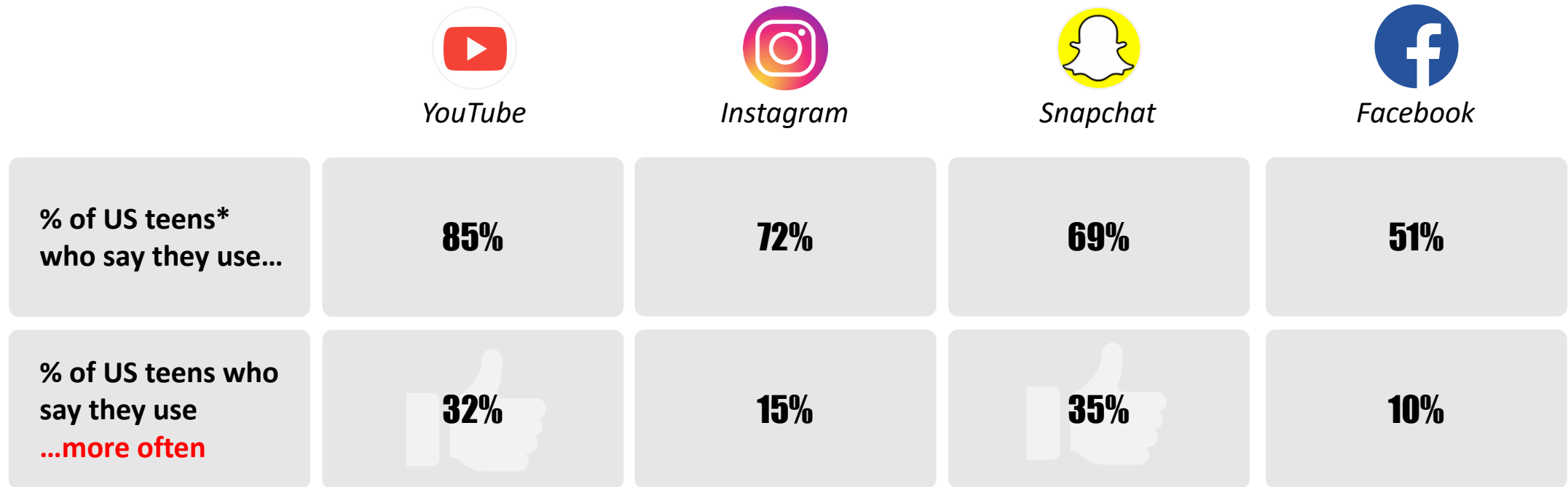
Both are targeting on global opportunities



Both are betting on the next technological breakthrough



1. US teens still use Facebook, but they have a number of alternatives



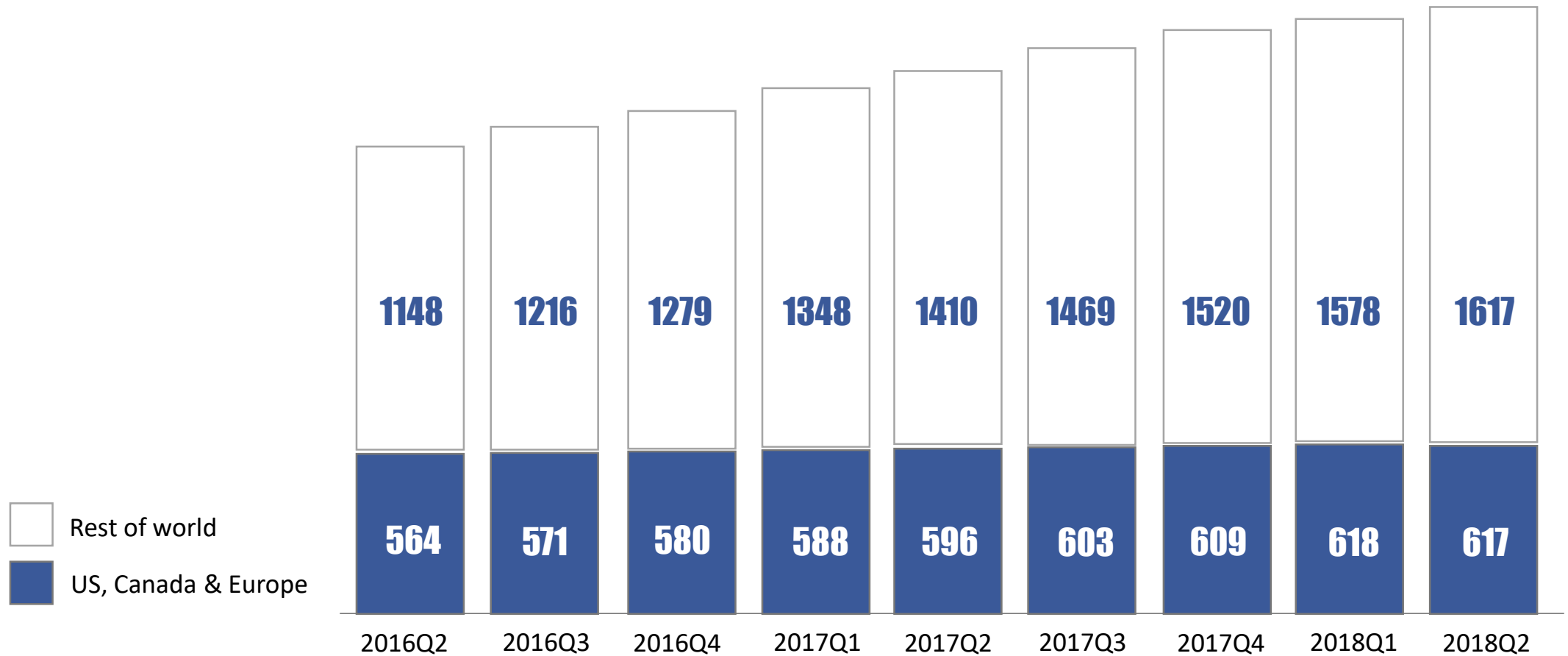
* Note: Survey conducted March 7 – April 10, 2018. Multiple responses were allowed.
Teens refer to aged 13 - 17

Icon source: internet
Source: Pew Research Center, compiled by Fung Business Intelligence



2. The number of Facebook users in the US, Canada and Europe has reached the peak; Facebook is striving for global expansion

Monthly active users (in millions)





3. To cope with the challenges, Facebook bets on new technology breakthrough to enhance its service quality

Investments in the US

Sector	Company name	Year	Funding
Artificial Intelligence	Ozlo	2017	Not disclosed
Artificial Intelligence	Dreambit	2018	Not disclosed
Broadcasting	Vidpresso	2018	Not disclosed
E-commerce	Wheel the World	2018	Grant (US\$50K)
Enterprise Software	RedKix	2018	Not disclosed
Identity Management	Confirm.io	2018	Not disclosed
Information Technology	Xpresso	2017	Non-Equity Assistance (not disclosed)
Intellectual Property	Source3	2017	Not disclosed
Mobile Apps	tbh	2017	Not disclosed

Investments in other countries

Country	Sector	Company name	Year	Funding
Germany	Video Softwear	Fayteq AG	2017	Not disclosed
United Kingdom	Artificial Intelligence	Bloomsbury	2018	Not disclosed

* Note: Acquisition/ Investment from Jan 2017 to Nov 2018
 Source: Company websites, Internet, compiled by Fung Business Intelligence

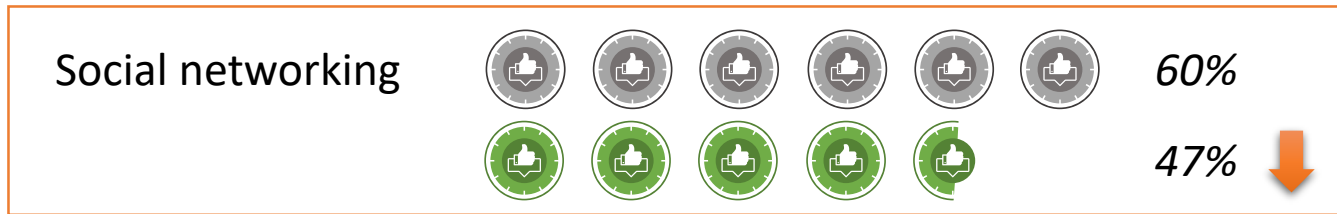


1. Changing user behaviors –

% of average time spent on social networking has reduced;
time spent on watching video has risen

Average daily time spent on social networking by Chinese users

(3.2 billion hours in 2018 March vs. 2 billion hours in 2016 March, +22% year-on-year)



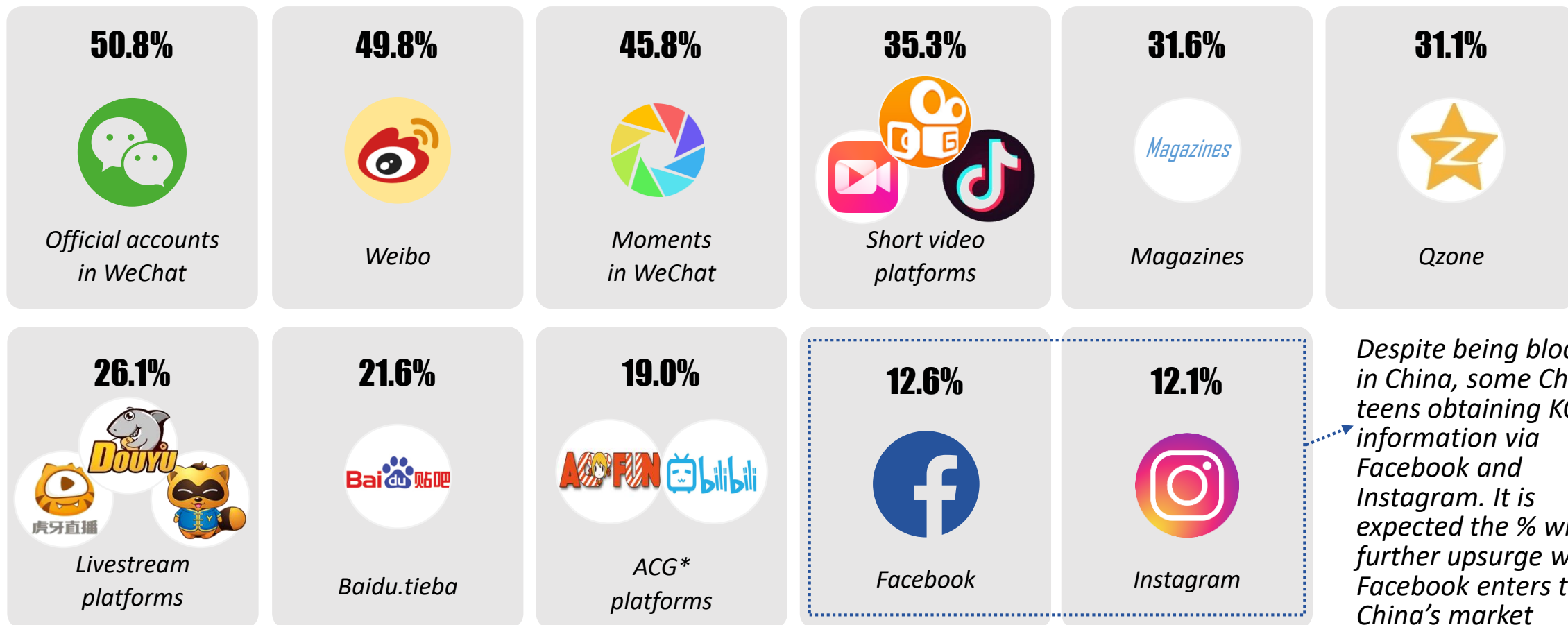
2016 March

2018 March



2. In China, the market landscape of social networking is highly competitive

% of Chinese teens* obtaining KOL information by



Despite being blocked in China, some Chinese teens obtaining KOL information via Facebook and Instagram. It is expected the % will further upsurge when Facebook enters to China's market

* Note: Survey conducted March, 2018. Multiple responses were allowed. N = 852

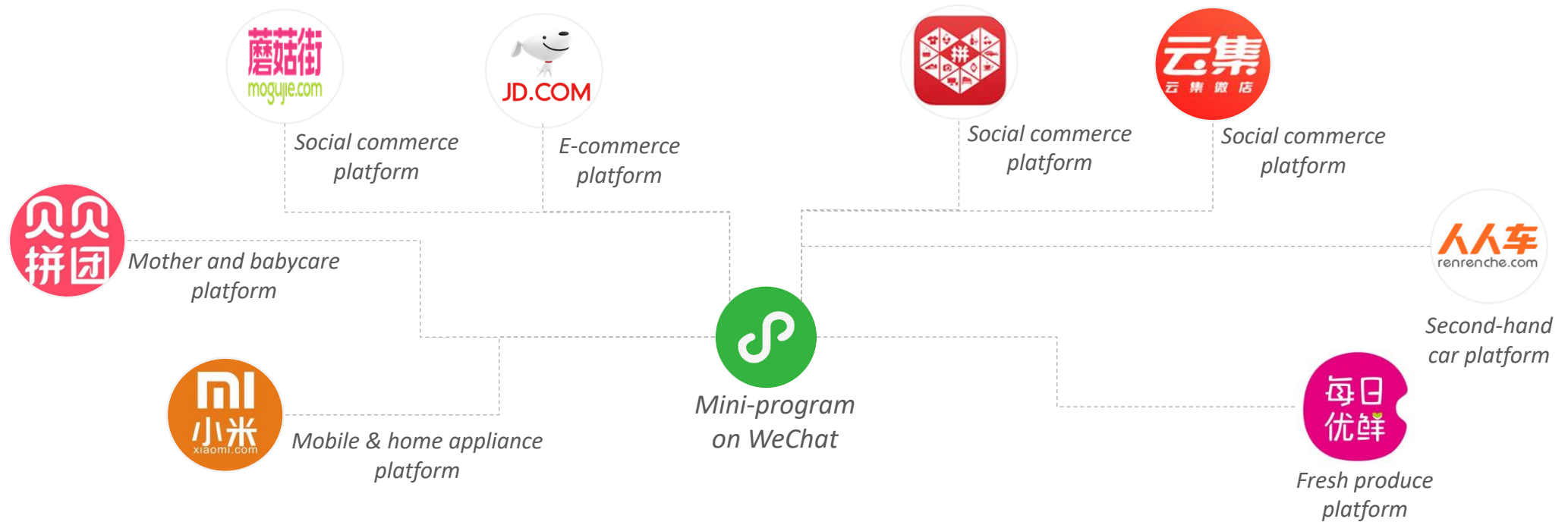
Teens refer to post-95s generation, ACG refers to anime, comic and game

Icon source: internet

Source: iResearch, compiled by Fung Business Intelligence



3. To avoid losing the battle of social networking, WeChat tried to upgrade its positioning as a domestic social commerce connector via mini-programs



Mini-program was launched in January 2017. It helps WeChat's users make direct purchases more easily, and share commerce-related content and shopping experiences with their friends and family, without leaving WeChat APP

*Note: The figure includes only selected business partners of WeChat within China

Icon source: internet

Source: compiled by Fung Business Intelligence



4. An interesting fact is that more and more Chinese exporters post Ads on Amazon/ eBay/ Facebook/ etc. to reach their global buyers; while overseas players position Tmall Global/ JD Worldwide as their first step in entering China.

To a certain extent, it is easier for some overseas sellers to use China's e-commerce marketplaces, than having to familiarize themselves with the "super APP", WeChat.





5. Unlike Facebook, Tencent has invested heavily not only in technology, but also in commerce, media and entertainment. Tencent has a vision of diversification by building a global business ecosystem

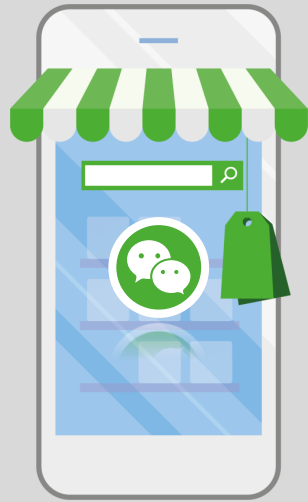
Investments in China

Sector	# of company	Selected examples
Artificial Intelligence (AI)	9	Enflame, Element AI, Stratifyd
Data Analytics	3	TransWarp
Fintech	4	Sunline, Airwallex, Nubank
Hardware	4	Leynew
Robotics	4	GJS Robot
Commerce/ e-commerce/ s-commerce	20	SOIREE (Xiaoheiqun), Pinhaohuo
Live streaming/ short video	7	DaSheng.tv, Yinghuochong Video
Media and entertainment	64	Haoliners, Gaana, Ookbee
Others	118	JC Live (Gaming), WeIntell (SaaS), Innovega (VR/AR)

Investments in other countries

Country	# of company	Country	# of company	Country	# of company
Australia	2 (incl. 1 Fintech Company)	India	7 (incl. 1 e-commerce & 2 Media and Entertainment companies)	S. Korea	2 (Gaming Companies)
Brazil	1 (Fintech Company)	Indonesia	1 (Car Hailing Company)	Sweden	1 (Media and Entertainment Company)
Canada	2 (incl. 1 AI & 1 Media and Entertainment Companies)	New Zealand	1 (Gaming Company)	Thailand	1 (Media and Entertainment Company)
France	1 (Media and Entertainment Company)	Nigeria	1 (Payment Company)	The UK	3 (incl. 2 Gaming Companies)
Germany	2 (incl. 1 Mobile Payment Company)	Philippines	1 (Innovation Management Company)	The US	18 (incl. 4 AI, 1 Fintech, 1 Robotics & 2 Media and Entertainment Companies)

* Note: Acquisition/ Investment from Jan 2017 to Nov 2018
 Source: Company websites, Internet, compiled by Fung Business Intelligence



Appendices

Appendix 1: Milestones

facebook

- 2004** Launched the Facebook Wall
- 2005** *thefacebook.com* officially dropped the “the” and becomes Facebook
- 2006** Launched Facebook for Mobile; Introduced the first version of the Facebook Application Programming Interface (API); Expanded registration for everyone
- 2007** Launched Facebook Platform; Platform for Mobile; Self-service Ads Platform and Pages
- 2008** Launched Facebook Platform (non-English); Facebook Chat; Facebook for iPhone
- 2009** Introduced the Like button; Launched new home page
- 2011** Opened Prineville Data Center; Launched Video Calling with Skype
- 2012** Acquired Instagram; Listed on NASDAQ under “FB”
- 2013** Announced new data center in Altoona, Iowa (the US)
- 2014** Acquired WhatsApp and Oculus
- 2015** Opened Facebook AI Research Paris; Construction of data center in Fort Worth, TX (the US) began
- 2016** Introduced Telecom Infra Project; Marketplace; Workplace by Facebook
- 2017** Introduced Messenger Kids
- 2018** Launched video app, Lasso

Tencent 腾讯

- 1998** Founded by Pony Ma
- 1999** Launched instant messaging service, QQ
- 2000** Launched mobile & telecommunication value-added services
- 2001** Launched Internet value-added services
- 2003** Launched QQ Game Platform; web portal, www.QQ.com
- 2004** Listed on the main board of HKSE
- 2005** Launched multi-media social networking service, Qzone
- 2006** Launched online payment platform, Tenpay
- 2010** Invested in Russia and Thailand (DST/Mail.ru & Sanook)
- 2011** Launched mobile social communication APP, WeChat (Weixin); Invested in Riot Games in the US
- 2012** Strategic investment in Kakao; Epic Games
- 2013** Launched game centers on Mobile QQ and WeChat (Weixin); Invested and formed strategic cooperation in search area with Sogou; launched WeChat pay in WeChat APP
- 2014** Strategic partnership with Dianping; JD.com; Netmarble Games; 58.com; DXY; We Doctor Group, etc.
- 2015** Strategic partnership with BitAuto; Established Tencent Penguin Pictures and Tencent Pictures
- 2017** Launched Mini Programs in WeChat (Weixin)

Appendix 3: Financial Results, 2017

facebook

	2017 (US\$ million)	+/- (%)
Revenue	40,653	+47
- Advertising	39,942	+49
- Payments and other fees	711	-6
Costs and expenses		
- Cost of revenue	5,454	+44
- Research and development	7,754	+31
- Marketing and sales	4,725	+25
- General and administrative	2,517	+45
Income from operations	20,203	+63

Tencent 腾讯

	2017* (US\$ million)	+/- (%)
Revenue	36,578	+56
- Value-added services	23,690	+43
- Online advertising	6,221	+50
- Others	6,667	+153
Costs and expenses		
- Cost of revenue	18,590	+79
- Selling and marketing	2,716	+45
- Research and development	2,686	+47
- General and administrative	5,085	+47
Operating profit	13,893	+61

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