



Paris, January 31, 2019

## **FABERNOVEL's Annual Study Focuses on WeChat**

Since 2006, FABERNOVEL has been producing annual studies which are available to all, thus completing one of its missions: to contribute to the understanding and accessibility of the digital revolution. Writing these studies – which takes on average 3 months with 2 to 5 analysts – is the opportunity to go further and deeper in the exploration of the growth trajectories of the champions of the digital age.

By developing clear frameworks, they help in deciphering the success factors behind the rise of the GAFA, unicorns and Chinese tech giants. The aim is to analyze all the competitive dynamics of this new economy, its performance levers and its development strategy.

After Uber in 2017 and Tesla in 2018, we've decided to dedicate this year's annual study to the analysis of the WeChat phenomenon. More than ever, the model's applicability and exportability raises questions – while a slowed-down Chinese growth in 2018's third trimester (6.5%!), and a trade war with the US, have got some observers worried.

### **WECHAT, SHAPING THE CONNECTED CHINA**

Impressive, intriguing China is all too often dismissed as a source of inspiration for being "too different". Yet over the past decade, China has undergone unprecedented change as a result of the implementation of protectionist economic policies. No longer the world's sweatshop, the country is now the international epicenter of technological research & development. This new identity has been helped along by superstars of technology headquartered in vibrant and dynamic cities such as Beijing, home to 40

unicorns and venture capital funds, Shanghai and its financial services, Shenzhen, the Silicon Valley of hardware, and Hangzhou, home to Alibaba's headquarters.

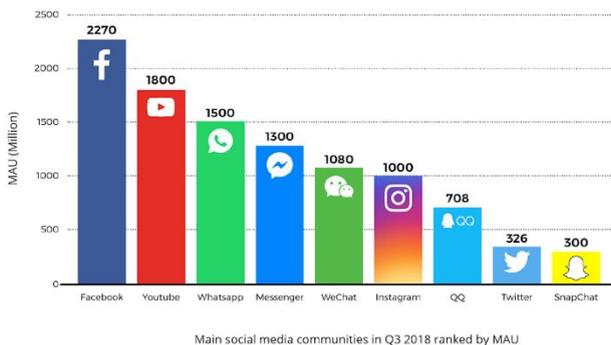
## The Dizzying Rise of WeChat.

Among the giants responsible for this new driving force, one in particular has done more than any other to turn China into a connected country: WeChat, Tencent's flagship product and backbone. The application snowballed at lightning speed, amassing 100 million users after just 433 days on the market (compared with 1,650 days for Facebook) and helping to create 20.3 million jobs along the way. <sup>1</sup>

We estimate that the platform, with its one billion users, now accounts for over half of Tencent's total value, bearing in mind the company is listed at over \$400 billion in market capitalization on the Hong Kong stock market.

### WeChat figures cause vertigo

WeChat is the largest community of users and consumers in Asia.  
**In only 7 years, WeChat has become a key player on the global tech scene:**



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**433 Days**

To reach 100 Millions users vs. 1,650 days for Facebook

**34%**

Of total mobile network traffic in China vs. 14% for Facebook in the US.

**92%**

Penetration rate in its first domestic market - China vs. 63% for Facebook in the US

**+1M**

Mini-programs since the launch in 2017 vs. 2.1M for App Store

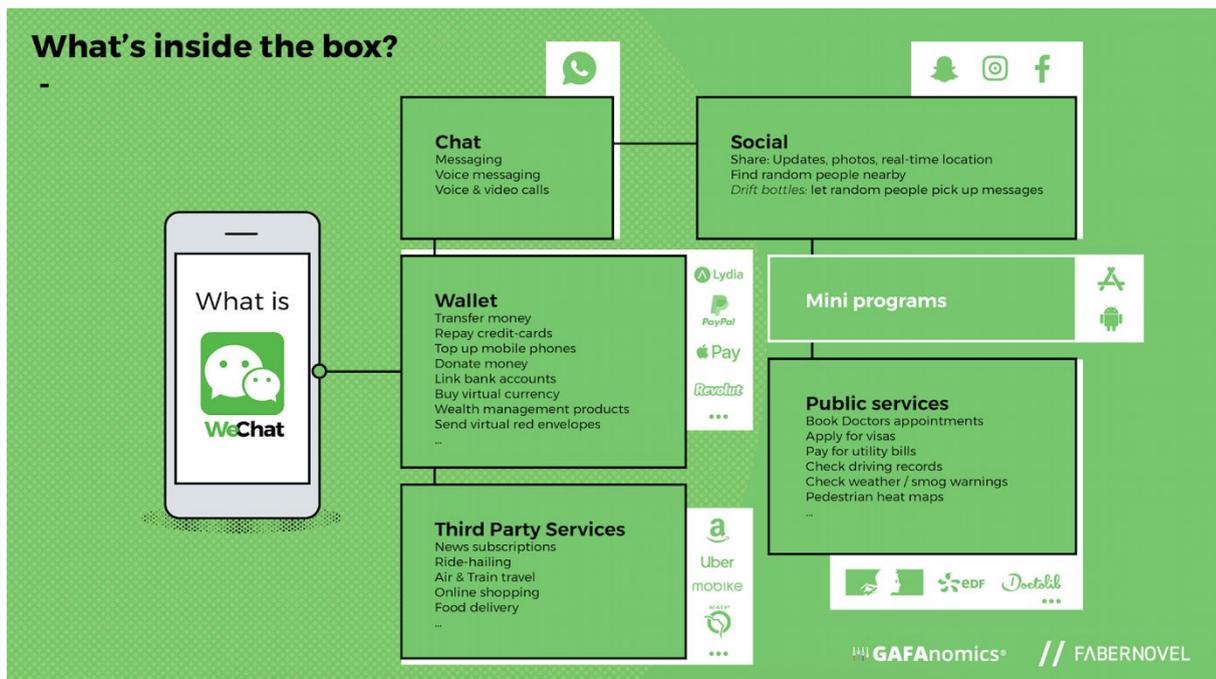
**20.3M**

jobs WeChat helped to create in 2017

Sources: CAICT, WalkTheChat

The application is shattering records, with a penetration rate on the Chinese market estimated at 92%. The company is on the brink of fulfilling the super-app dream of connecting users to a wide ecosystem of suppliers offering commercial, public services and a unified payment solution, thus upholding its promise to bring users "one tap away from everything". And the dream is rubbing off on similar applications that are being developed in South-East Asia, such as Grab in Singapore and Go-Jek in Indonesia.

*"Making a doctor's appointment, ordering a taxi, booking flights, sending money to your loved ones, divorcing, paying your electricity bills and taxes, sharing photos with friends – anything's possible when you're a WeChat user."*



Looking back, the secret to its success becomes clear in the five key strategies that WeChat's founders were able to roll out.

### 1. WeChat is the result of a successful pivot strategy.

In 2010, as Apple's iPhone celebrated its third anniversary, Tencent was a household-name player dominating China's social media market thanks to its QQ Messenger platform (650 million users). QQ went even further, providing an ecosystem of services accessible online. Aware that new mobile applications would be emerging, that QQ risked losing its place as the market leader, and that instant messaging applications were booming across Asia and the West, Tencent was faced with the innovator's dilemma described by Clayton Christensen, in which established players hesitate in the face of groundbreaking innovations. And this hesitation can prove fatal. Tencent resolved this dilemma by launching an internal innovation competition, among other things. Future WeChat founder and QQ Mobile's Research Director, Allen Zhang, won the competition along with his team. After a few months of development, and once Tencent was confident the new product's features met market standards, QQ's user base was connected to WeChat. WeChat came into being on January 21, 2011, with a ready-made pool of 650 million potential users.

### 2. More than just a distribution channel, WeChat is a turnkey solution to everyday inconveniences.

In order to get the app into Chinese households, WeChat put resolving everyday annoyances and inconveniences experienced by Chinese users at the very heart of its product and user experience. In 2014, it digitalized the ancient Chinese 'little red envelopes' tradition, in which people gift money to loved ones for special occasions. In

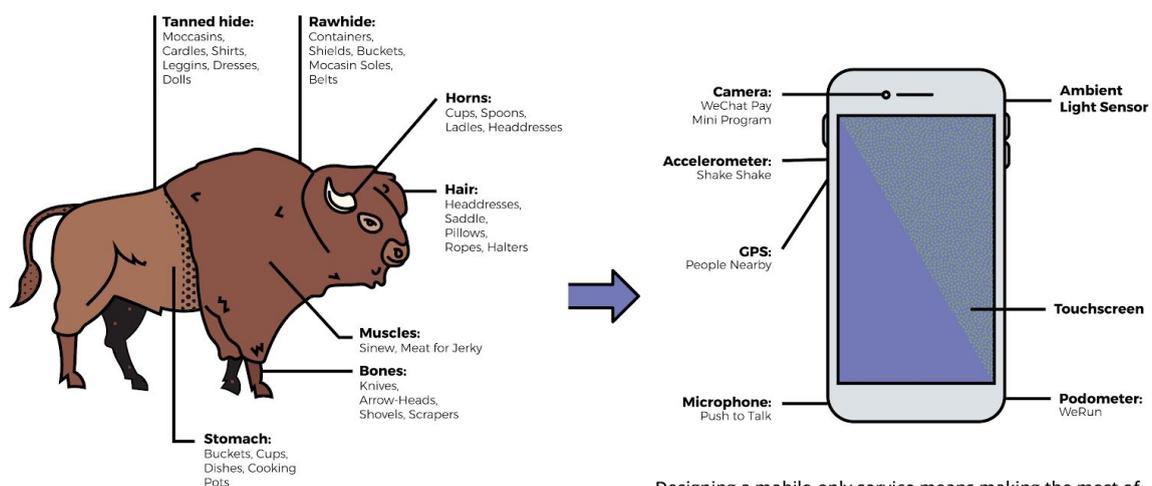
doing so, WeChat secured its lasting position as an indispensable feature in its Chinese users' lives.

*"Being a product creator is like being in a relationship with the users. Otherwise, it's only a business transaction. Product managers must have big hearts."*

Allen Zhang, founder & CEO of WeChat

Just as Native Americans used every last part of a buffalo, WeChat managed to take advantage of every single smartphone function, from cameras, accelerometers and GPS to screens, pedometers and microphones, to meet users' hunger for mobile features, while creating new uses that are now standard, such as 'Shake', by propagating the use of QR codes on a mass scale, and by investing in the voice-based features of the future.

### WeChat used every part of the buffalo



Designing a mobile-only service means making the most of all the sensors and capabilities that a smartphone can offer.

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### 3. WeChat developed an ecosystem in which value is dynamically balanced.

Designed like a digital Swiss Army knife, WeChat provides seamless access to an array of different services, connected through a fluid user experience. This emphasis on service quality is mirrored in its business model: unlike Facebook, WeChat doesn't rely on algorithms aimed at capturing users in its app as long as possible. Above all, advertising is not of the key to the app's profitability. WeChat draws the bulk of its revenue from the transactions generated by its partners. Finally, it is a campaign's creativity and tendency to go viral that determine a brand's visibility, rather than the size of its budget.

### 4. Tencent uses WeChat as its secret weapon in expanding and diversifying to compete with Alibaba.

To do so, WeChat has rallied around allies such as Didi, JD.com, Mobike, etc., which the company picks and then promotes on its platform. Its partnership strategy takes things one step further: it identifies its ecosystem's rising stars, plucks them out of the network and gives them a leg-up, as was the case with Pinduoduo (a *social/shopping app*) founded in 2015 and now worth an estimated \$24 billion.

## **5. Originally intended for the Chinese market, the question of whether or not WeChat can be exported remains to be seen.**

After an initial failed attempt in 2012, WeChat hasn't given up. With its penetration rate of 92% for the Chinese market, the key to its financial growth lies in whether or not it can expand internationally. And to do so, WeChat has two options. It can try increasing its value per existing user by rolling out services for Chinese tourists and the diaspora. It can increase its user base by tackling well-established giants head-on on their own turf (GAFA and unicorns), or it could venture into new regions, such as South-East Asia. In this area, recent statements regarding Africa made by Jack Ma, founder of Alibaba (Tencent's main competitor), may well be a harbinger of the next tech battles.

<sup>1</sup> Figures 2017

### **Content:**

- [Infographics and cartoon for the study](#)
- [Presentation of the study](#)

### **About FABERNOVEL:**

Founded in 2003 by Stéphane Distinguin, FABERNOVEL is a full-stack consulting and creation group for digital products and services that has been working for 15 years with major international groups, including more than ¾ of the French CAC 40 in their cultural and digital transformation and innovation trajectory. FABERNOVEL currently gathers 450 employees on 3 continents (US, Europe and Asia). Its Designers, Engineers, Developers, Data Scientists and Analysts all enact their values and solutions to develop their clients' business and offer users, customers and collaborators simple, high-tech and engaging experiences that respect their personal data. FABERNOVEL also creates and supports start-ups such as Digitick, KissKissBankBank, Bureaux à Partager and, more recently, Urban Campus. In a world that is changing ever-faster and a "winner takes all" attitude is the default setting, FABERNOVEL's mission is simple: distribute the future in the most open and equitable way.

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