

# Multi-Platform Strategy: Tencent Case Study

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**Abstract:** *Two-sides platform is hot topic in the new networked economy, and it is applied in many areas. Network effect is always appearing with two-sides platform. This paper use case study method to figure out how the platforms and services of Tencent contribute to each other and what results these interactions bring under the effect of economies of scope and economies of density theory. This thesis shows that 14 platforms of Tencent belong to four types and six secondary classifications of two-sides platform. The complex interactions between them result the decrease of costs and increase of users and traffics.*

**Keywords:** two-sides platform, network effect, economies of scope, case study, Tencent

## 1. Introduction

As a theoretical concept, the notion of platform is initially known as “two-sided markets” or “two-sides platform”, and there are many researches about it in different directions, such as two-sides platform’s conceptual and empirical aspects, platforms’ pricing structure, platforms’ influence factors and platform competition, etc. However, there is no research about multi-platform strategy, moreover, a company case study of multi-platform strategy, hence, this thesis will bring a new research direction to find out how the platforms and services of a company contribute to each other.

Tencent was founded in November 1998 as Tencent Inc in China. It’s the one of the largest Internet comprehensive service providers in the world and the second largest internet companies in China. At the beginning, the first product provided by Tencent is an instant messenger named QQ, which was very successful when it launched, by the end of 1999, there are one million registered users of QQ in China [Tencent’s roadmap <http://www.tencent.com/en-us/at/roadmap.shtml>]. With the passing of time, Tencent has increasing number of services, including social network, web portals, e-commerce, and multiplayer online games and so on. In 21<sup>st</sup> Jan. 2011, another successful product, WeChat launched and had rapidly speed to occupy the market. By the end of first quarter of 2015, WeChat has covered more than 90% of China's smart phones, the monthly active users reached more than 549 million, users cover 200 countries and more than 20 languages [The latest data of WeChat <http://www.chinastor.org/GuoNeiXinWen/8697.html>]. By the end of 2015 third quarter, the total revenues of Tencent were USD 4181 million which is an increase of 34% over the third quarter of 2014, and the operating profit was USD1624 million, which is an increase of 37% at the same period of 2014 [Tencent Announces 2015 Third Quarter Results <http://www.tencent.com/en-us/content/at/2015/attachments/20151110.pdf>]. With the development of Tencent, in terms of one of products of Tencent, QQ is not only an instant messenger and WeChat is no more chat tool, both also have more functions to meet users’ demands.

## 2. Literature Survey

### a. The development of platform concept

Platforms around human have existed for centuries, for example, dating clubs enable men and women to meet each other, which is a platform that people is familiar. With the economic development, platforms are gaining prominence in the contemporary business landscape, many markets and industries, including payment card, video games, PC operating systems, digital PDAs, network television, newspapers and magazines, Web companies, etc., are organized around platforms. (CARMELO CENNAMO and JUAN SANTALO, 2013; David S. Evans, 2011).

As a theoretical concept, the notion of platform is initially known as “two-sided markets” or “two-sides platform”, which functions as a market with two distinct sides that benefit by interacting on a common platform (Rochet and Tirole, 2003). With the passing of time, the concept of multi-sides platforms, which means more than two different sides interact on a common platform, is built on the concept of two-sided markets. (Bakos and Katsamakas, 2008).

Comparing with two-sides platforms, multi-sides platforms are more complex. A variety of distinct entities are affiliated with platform and interact each other, in addition to consumers and providers, as well as producers (sometimes they are same with providers), intermediaries, advertisers, and complementors in a business network. (Adner and Kapoor, 2010; Cusumano and Gawer, 2002). The purpose of this theses is not only researching one platform of Tencent, but also the interaction of all the platforms, to make research simplification, in the next research, the study will focus on two sides (consumers and providers), and ignore other sides.

### b. The features of two-sides platform

Andrei Hagiu and Julian Wright (2015) propose two key features beyond any other requirement, which is (1) they enable direct interactions between two or more distinct sides. (2) Each side is affiliated with the platform. There are two distinct sides depends on one platform and they work by the direct iterations. Generally, two distinct sides are consumers and providers, for example, for Tencent game platform, one side is the user who plays games on

Tencent Game, another side is game providers who create and display games on Tencent Game.

Barney Tan, Shan L. Pan, Xianghua Lu and Lihua Huang (2011) summarizes a review of published and working papers about platforms (both two-sides and multi-sides platform) from 2002 to 2011, there are 20 literatures that research platforms from conceptual and empirical aspects, and many papers study them from other directions, including platforms' pricing structure, platforms' influence factors, membership costs and so on. The growing interest in the field of platforms means it plays a more important role in today's economy.

**c. The classification of two-sides platform**

Andrei Hagiu (2004) proposes to divide two-sides platform into four categories. Intermediation markets, audience-making markets, shared input markets and transaction-based markets.

**3. Problem Definition**

Tencent is the one of the largest internet company in China; it has many of products and services involving many aspects in Chinese people's life. To meet the demands of users, lots of products and services become diversification and have more functions; hence, some of them turn into a platform to make more sides profits. The thesis addresses the following research questions.

**a. Main research problems**

How do the platforms and services contribute to each other?

**b. Sub-questions**

- What are the differences of services and platforms?
- How to characterize these services and platforms?
- What are the functions of these platforms?
- What are the functions provided between the different platforms?
- How coherent is the bundle of platform?

**Methodology**

In this thesis, the research methodology is case study, according to the article of Pamela Baxter and Susan Jack (2008), there are seven types of case study, including explanatory, exploratory, descriptive, multiple-case studies, intrinsic, instrumental and collective. For this thesis, explanatory case study is the best choice. First, a main purpose of this thesis is answering the main question: How do the platforms and services contribute to each other? It meets the definition of explanatory case study, which is used to answer a question that survey and explanations couldn't do. Then, the only objective in my thesis is Tencent, so it's not necessary to use multiple-case studies and collective case study. Finally, depending on the rest of case study's definition, especially for exploratory case study, which main mission is exploring an unknown result, explanatory case study is a better choice.

Because of research methodology, there is an analytical framework to guide to answer sub-questions and analyzethem until figuring out the final main question step by step.

**Table 1: Analytical Framework**

<i>Step</i>	<i>Content</i>
Map the company	History of company developments, change of strategy, the way of Tencent presents its activities, etc.
Decompose different platforms and services	Depending on literature, decomposing all the platforms and services of Tencent and defining a set of criteria to analyze each element.
Analyze the functions of each platform	According to literature which is some relevant concepts of platform, analyze the functions of each platform.
Figure out the functions between different platforms	Under the foundation of above chapter, figuring out the functions between different platforms.
Find how these platforms contribute to each other	Arranging the relationships between each platform and drawing a relation chart to show it. Finally, analyzing how these platforms bring benefits for Tencent.

**4. Results and Discussion**

**a) The classification of platforms**

After mapping the development of Tencent, it can be known thatTencent owns 27 kinds of main productsnowadays, depending on classification method of e-business model by Weill and Vitale (2001),Tencent's products will be classified into 5 types. See the table below.

**Table 2: The classification of Tencent's products**

<i>E-business model types</i>	<i>Products</i>
Direct to customer	RTX, TM, QQ Pinyin, QQ player, QQ Browser, Weishi, QQ mail, Foxmail, QQ Download, Tencent PC Manager, Tencent Mobile Manager, Tencent Map
Full-service Provider	QQ, WeChat
Intermediary	QQ Game platform, QQ Music, Tencent Video, Tencent Comic, Tencent Literature, Myapp, Tenpay
Shared infrastructure	Open platform, Tencent Cloud, Tencent social Ads
Value net integrators	QQ.Com, QQ Game.Com
Virtual community	Q-zone, Tencent Weibo

After this, according to the concept of two-sides platform and its classification which classified by Andrei Hagiu (2004), The final Catalogue of Tencent's platforms is listed in the table below.

**Table 3:** The classification of Tencent's platforms

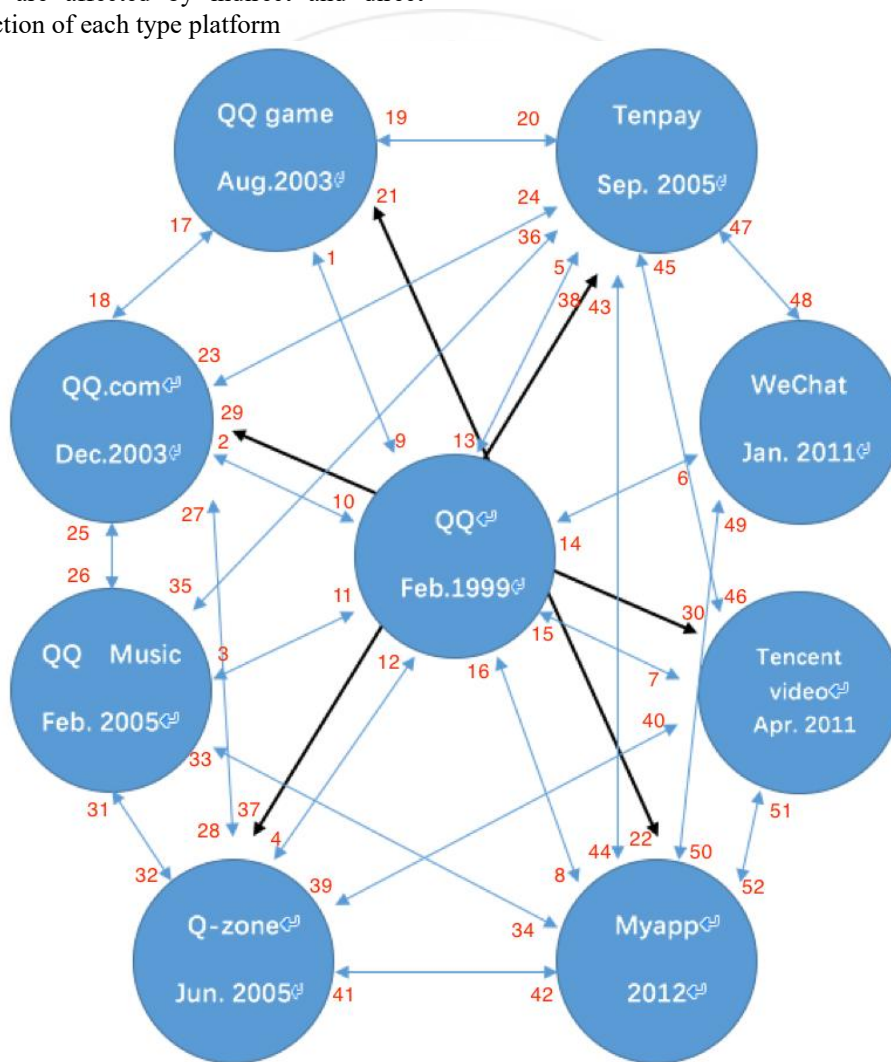
Classification of platform	Secondary classification (online only)	Platforms of Tencent
Intermediation markets	SNS (Social Network Site and Social Network Software)	Q-zone, Tencent Weibo, QQ, WeChat
Audience-making markets	Portals	QQ.Com, QQ Game.Com
	Video and digital content	QQ Music, Tencent Video, Tencent Comic, Tencent Literature
Shared input markets	Game platform	QQ game platform
	App store	Myapp
Transaction-based markets	The third party payment platform	Tenpay

network externalities, which mean that increase of numbers of one side will affect and make numbers of other side rise (indirect), and growth of number of each side will increase the value of platform (direct).

The figure below shows the interaction of each platform. These circles present platform products that chosen from each type of platform and show their launched date. The arrow demonstrates their interaction, and the number marks all directions of each relationship. Black arrows have the same meaning with blue arrows; it is convenient to see them.

**b) How each type of platform interacts each other**

Different platform has some differences between their sides, but they all are affected by indirect and direct. The figure of interaction of each type platform



(1) It can be found that from No1 to No8, the meaning is that QQ provides large installed base of customers to other platforms; No1, No3 and No4 show QQ provides a spread channel for QQ game, QQ music and Q-zone; No5 and No13 present that QQ bring payment business for Tenpay and Tenpay returns for payment system and services. No9,

No10, No11, No12, No14, No15 and No16 mean that these products bring QQ traffic and more users.

When WeChat launched, one way to get users is from QQ, and another way is from users' address book, hence, WeChat's users come from QQ, but not all of them. In fact, all the platform of Tencent share the users base all the time,

because a QQ account number could login in all the products of Tencent.

QQ offers various services for users, users could check Q-zone, enjoy digital contents and access QQ game platform by using QQ, hence, QQ provides channels to make users connect more contents on other platform, for exchange, more services in QQ makes more users using QQ to increase the traffic of QQ.

(2) No10, No2; No17, No18; No24, No23; No26, No25; No28, No27 and No30, No29, these arrows connect QQ, Com with other products, QQ. Com brings these products a spread channel and they return traffic for QQ. Com, because in PC, all platform products could be downloaded from QQ patrol.

(3) No19, No20; NO23, No14; NO35, No36; No13, No5; No37, No38; No44, No43; NO46, No45 and No48, No47, these arrows show the connection of Tenpay and the rest of products. Tenpay as a basic tool platform provides payment services for every platform on which users need to pay for value-added services. Tenpay bring payment system and services for these products and they offer payment business and entrance for Tenpay.

(4) No32, No31 and No39, No40 demonstrate the relationship between Q-zone and QQ Music, Q-zone and Tencent video, respectively. QQ Music and Tencent video bring content services and traffic to Q-zone; as return, Q-zone bring traffic and more users to them, because Q-zone offers channel to get music, video (also comic and literature) services, and then, they could bring much more traffic.

(5) No41, No42; No33, No34; No16, No8; No43, No44; No21, No22; No49, No50 and No 51, No52 show the interaction between Myapp and the rest of products. In Android mobile system, all platform applications could be downloaded from app store, so Myapp brings a spread and download channel for these products, they bring a lot of traffic for Myapp.

## 5. Conclusion

There are two results of interaction for each platform, one is decreasing costs, and another is increasing users and traffic.

### a) The decrease of costs.

(1) Because of economies of scope, platform like QQ and WeChat that are full- services providers could decrease costs which will be shared among all different services. Using Tenpay as payment system for all platform products and services, the payment cost will be shared.

(2) All Tencent's platform products share users base, the cost will be shared in distribution channel for different products and services, economies of density theory also turn out it. Because sharing users base all the time, the

number of users is increasing, when products and services are not increasing, the population density will be higher, the lower the likely costs of infrastructure required to provide a service.

To sum up, the costs decreased are costs of getting users, costs of providing services and costs of payment.

QQ provides entrance to other platforms and one QQ number logins to almost all platforms, these services and functions make user access one platform, and flow from one platform to other platform easier, moreover, keep them in Tencent system, which means Tencent do not have to pay more money to get users on one platform, such as a large of advertising and general publicity expenses. The cost of many services provided in one platform is lower than each service provided in different platform, such as services and products' production costs, use costs and maintenance costs. All products sharing one payment channel could decrease costs of payment, such as, payment system's use costs and maintenance costs.

### b) The increase of users and traffic

These interactions could increase users and traffic, because new users access one platform and interaction increase the probability of users accessing other platforms, and then, the traffic will increase in among platforms.

There are two similar results of interaction for whole platform strategy, decreasing the costs of company and bringing more users and traffics to make profits for Tencent.

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