

**The 2<sup>nd</sup> International Conference on Business and Banking Innovations (ICOBBI)**  
**“Nurturing Business and Banking Sustainability”**  
Surabaya, 14<sup>th</sup> - 15<sup>th</sup> August 2020

**Proceeding Book of**  
**The 2<sup>nd</sup> International Conference on Business and Banking Innovations**  
**(ICOBBI) 2020**  
**“Nurturing Business and Banking Sustainability”**  
Surabaya, 14 - 15<sup>th</sup> August 2020

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### FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 2<sup>nd</sup> International Conference on Business and Banking Innovations (ICOBBI) with the topic “*Nurturing Business and Banking Sustainability*”. This proceeding contains several researches articles from many fields in Marketing, Management Technology, Finance, Banking, Human Resources Management, Information System Management, and Islamic Economics.

The 2<sup>nd</sup> International Conference on Business and Banking Innovations was held on 14<sup>th</sup> – 15<sup>th</sup> August 2020 by virtual (online) meeting and organized by the Master Management Study Program of STIE PERBANAS Surabaya in Collaboration with six Higher Education Institutions in Indonesia and five Universities from Asia countries. Keynote speakers in this conference were: Prof. Angelica M..Baylon, Ph.D (Director of the Maritime Academy of Asia and the Pacific, Philippines), Chonlatis Darawong, Ph.D. (Head of the Master of Business Program Sripatum Chonburi University - SPU Graduate School Bangkok, Thailand), Prof. Madya Dr. Reevany Bustami (Director of Centre for Policy Research and International Studies Universiti Sains Malaysia), Associate Prof. Dr. Ellisha Nasruddin (Graduate School of Business Universiti Sains Malaysia), Associate Prof. Pallavi Pathak Ph.D. (School of Management Sciences, Varanasi, India) and Prof. Dr. Tatik Suryani (Head of the Master of Management Study Program of STIE Perbanas Surabaya, Indonesia).

I would like to give high appreciation to the Rector of STIE Perbanas Surabaya for his support at this event. Acknowledgments and thank you to all the steering and organizing committees of the ICOBBI for the extra ordinary effort during the conference until this proceeding published. Thank you very much to all presenter and delegates from various Universities. Beside it, I would like to express our gratitude to the six universities, namely Universitas 17 Agustus Surabaya, Universitas Surabaya, Universitas Dr. Soetemo Universitas Dian Nuswantoro Semarang, STIE 66 Kendari, Institut Institut Bisnis dan Keuangan Nitro Makassar which has been the co-host of this event.

Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website <https://pascasarjana.perbanas.ac.id>.

Chair of the Master Management Study Program  
STIE Perbanas Surabaya

**Prof. Dr. Tatik Suryani, M.M.**

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# What Makes Tencent Becomes A Successful Business? A Case Study Analysis of Tencent

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## ABSTRACT

This paper is a comprehensive study of Tencent Holding business strategies. Tencent starts its business in China, and they succeed in utilizing a huge china market. Recently, Tencent has become more valuable than other technology companies in the world. Moreover, the detail regarding the Tencent success strategies also will be discussed in this paper. Competitor analysis also will be done in order to know in-depth about the differentiation between Tencent's business strategy compared with its competitor. This paper includes the Tencent SWOT analysis to analyze their strength, weakness, opportunity, and threat. Tencent company policy also will be discussed in this paper in order to know the impact of the policies implemented by Tencent could affect their successes in their business. The objective of this paper is to know more in-depth regarding every single detail of Tencent's marketing and promotion strategy, how they could beat their competitors with geographical and demographical advantage, how they become one of the largest technology companies in the world with a very efficient production and operational cost, and how they could maintain their position in the global market using all the potentials that they have.

## 1. INTRODUCTION

Tencent is one of the largest technology companies in China, "Tencent, one of the world's biggest video and online gaming companies by revenue" (Lunden, 2020). They had \$47.248B annual revenue in 2018, and they have the potential to be the largest technology company in the world Even though Tencent is one of the big companies in the world, most of the people in the world still do not realize their existence. For example, people think that PlayerUnknown's Battlegrounds is the one and only Tencent's game. However, the fact is Tencent owns a 100% share of Riot Games (League of Legends), a 40% share of Epic Games (Fortnite), 5% share of Ubisoft (Assasins Creed), and 5% share of Activision Blizzard (Call of Duty). "Fortnite is one of several massive games that Tencent owns a stake in" (Gilbert, 2019). This paper is a comprehensive study of Tencent Group to know more in-depth about their business strategy and capabilities. Tencent also has the potential to become China's most significant company replacing Alibaba. This phenomenon is so important since China is the number one country based on the population; conquering China market is the first step for conquering the world market. Tencent's success strategy is so essential for people who involve in the business sector. Furthermore, this paper can be useful for people who want to start their own startup company or any other existing startup companies to develop their business by knowing the Tencent business strategy.

This paper aims to discuss more in-depth regarding several factors that make Tencent becomes one of the largest technology company in China. This paper also discusses how Tencent could maximize all the opportunities that they have and what strategy which Tencent use in order to compete with the competitors. Tencent promotion strategy which they use to promote their products and services also will be discussed in order to know how Tencent could maintain their branding and image as the lead technology company in China.

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### 2. THEORETICAL FRAMEWORK AND HYPOTHESES

#### *Tencent Strategy*

Tencent always focuses on providing its customers' needs since "the easiest way to make money is -create something of such value that everybody wants and go out and give and create value; the money comes automatically" (Belfort, 2007). On the other hand, another journal article also stated that "the industrial organizations should be interested in applying the best practices in designing a new Product" (LUCA, 2017). In this case, Tencent not always creates a new fresh product, and they prefer to buy their competitor shares than developing a new product. "The acquiring company is interested in the experience and expertise of the target company, not just its existing products" (Amiryany, 2014). Besides their competitor products, Tencent also interested in their experiences and expertise.

#### *Tencent Profit*

Tencent's much money is their microtransaction system. "Microtransactions might be beneficial for those working on multiplayer or freemium games where they need the funding to churn out new content periodically to keep players interested but indeed not AAA single-player titles" (Tan, 2019). Most of Tencent games are free to play, so Tencent does not make money from game sales, but they earn much money from the in-game transaction.

#### *Tencent Potential*

"The heart of the strategy is the answer to two fundamental questions: where will you play, and how will you win there?" (Alan G. Lafley, 2013). Tencent knows the answer to all those questions precisely. "The decisive factor is to supply the customer with a clear advantage when compared with the competition" (Simon, 2009). Tencent also knows how to maximize their advantage to bear their competitors. "A business model reflects management's hypothesis about what customers want, how they want it and what they will pay, and how an enterprise can organize to best meet customer needs, and get paid well for doing so" (Teece, 2010).

### 3. RESEARCH METHOD

#### *Business Strategy Analysis*

The methodology to reveal the Tencent success strategy is by analyzing the detail of Tencent's marketing and promotion strategy, Tencent's competitive advantages, its cost strategy, Tencent company policies, and also their price and revenue strategies are going to be explained in this paper.

#### *Survey*

The writer also will provide the survey result about people's opinions and thoughts regarding Tencent's business strategies and try to compare the result with the real condition on the field. The survey participants limited to people who have technological or gaming background, and there are about 200 participants will be involved in this research.

#### *SWOT Analysis*

Furthermore, this paper also did the SWOT analysis of Tencent Company in order to know the Tencent position in the current market, "SWOT analysis is a vital process that helps a business to evaluate its internal and external environment by identifying strengths, weaknesses, opportunities and threats" (Reading, 2019). Based on Tencent's position, competitor analysis could be done, and this paper could explain how Tencent can beat their competitors and become number one in the game and technology industry.



#### 4. DATA ANALYSIS AND DISCUSSION

##### *Geographical and Demographical Advantage*

From Geographical and demographical perspective the result showed at Figure 1.

3. Do you think there is a correlation between the Tencent successful and the huge population of China?  
 214 responses

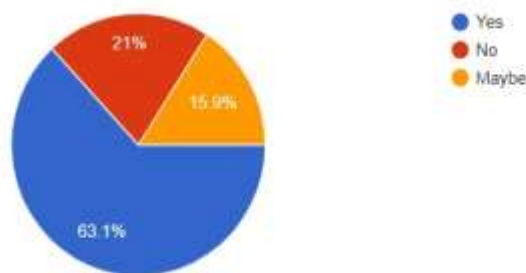


Figure 1: Survey Result 1

The survey result shows that 63% of the participants already know about the massive number of the Chinese population, and they are pretty sure that Tencent's success must have something to do with that. Tencent started its business in China, a country with 1.435 billion population, and this considerable population gives Tencent a great benefit, "China's giant population is reshaping the global economy" (Butt, 2016). The large population means great demand in many areas, and Tencent succeeds in utilizing all the potential by providing every single need needed by people of China (communications, digital content, fintech service, and tools). Besides taking advantage of China's vast market, Tencent also takes a benefit from the low wage rates in China, so they could minimize their production and operation cost since they do not have to pay their labour and employees that high. "China's abundant supply of cheap labour has played an important role in its remarkable economic and social development" (Cui, 2018).

Moreover, in terms of geographical, China's position is very strategic, Tencent could quickly expand its market to other Asia countries such as Japan, Thailand, Malaysia, Singapore, and Indonesia. Those countries also have a large population; for instance, the Indonesia population is 264 million. Furthermore, China's position also allows Tencent to expand its business to Europe and the United States. This succeeds expansion could be seen from one of their game Player Unknown Battlegrounds, which has server services in many areas all over the world (Europe, North America, South America, Korea, Japan, Southeast Asia, Oceania, and China). "Internet giant Tencent plans to broaden the scope of its international investments" (Chen, 2020).

##### *Cost Analysis*

4. Do you think Tencent spends a lot of money to develop their own games and apps?

214 responses

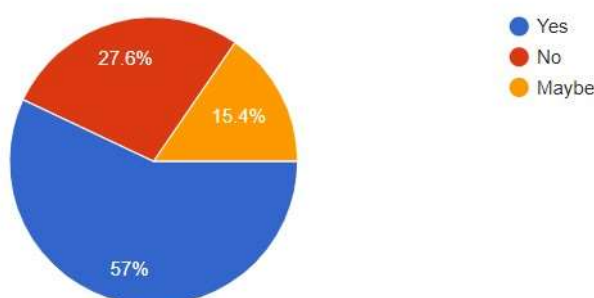


Figure 2: Survey Result 2



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57% of the participants think that Tencent spends much money to develop their games and apps because Tencent provides so many products and services (automatically need big money), 27% of the participants think that Tencent does not spend that much money because Tencent never produces AAA-rated game. Tencent's largest market is in China, their home country. Since most of their services are based and released on the Internet, all of the services, games, and apps could be made and finished in China. With a low rate of wages, Tencent could minimize their operational cost. Besides, Tencent does not need to worry about logistic or transportation cost since most of their product is digital. So, compared with their earnings from their social media apps and games, the cost used to develop those apps and games is very low and effective.

On the other hand, Tencent does spend much money to invest or buy other companies and licenses. For example, Tencent spends more than \$400 million to buy Riot Games and invest \$330 million in Epic Games. Tencent only buys or invests in companies that have masterpieces games or have the potential to become Tencent competitors. Basically, in terms of cost, Tencent prefers to buy or invest significant money on proved and succeed games or companies then develop their own apps or games to compete with similar services. "Tencent is taking a decidedly different tactic: Investing in, and/or buying up, major game makers" (Gilbert, 2019).

### Branding Strategy

6. Could Tencent makes your life become easier with their products/services?  
214 responses

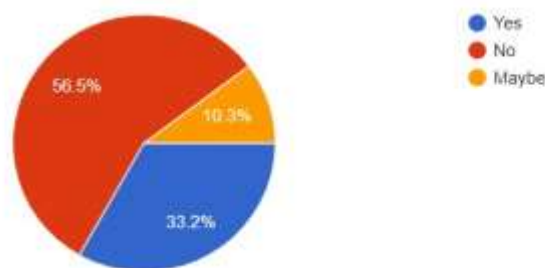


Figure 3: Survey Result 3

It is clear that 56% of the participants with "No" answers do not come from China since Tencent products and services, which could make people's life easier such as the QQ wallet and Tencent Maps are only available in China until now.

Based on Tencent vision and mission "Value for Users, Tech for Good", Tencent wants their customers to think that Tencent is a company which develops technology to make life easier and give the best value for the customers. Especially in China, Tencent already well-known as a successful technology company and make life easier, people in China could send messages through QQ and WeChat, watch a video in Tencent Video, watch a movie produced by Tencent Pictures, play games produced by Tencent Games, get updated news from Tencent News, or even pay the daily needs and transportation using WeChat pay and QQ Wallet. "There are numerous examples through which technology has made life simpler" (Khan, 2018).

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### Marketing and Promotion Strategy

8. How do you know Tencent products/services in the first place?

214 responses

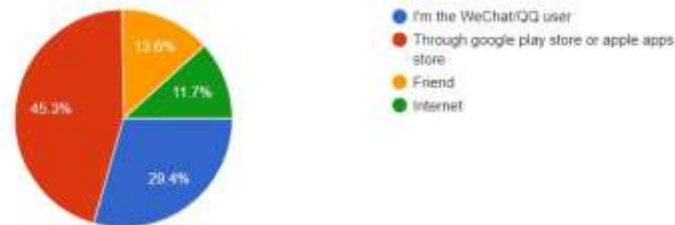


Figure 4: Survey Result 4

45% of the participants know Tencent directly from their device platforms (Android and IOS), and the other 30% claim that they know Tencent products and services through their social media platform (QQ and WeChat), which also owned by Tencent. "Beyond messaging, WeChat is also a source of news and promotional information for its users" (Weinswig, 2017).

Tencent market its services using its website, apple store, and google play store, so it is easy for their user to download and use their apps or play their game. Since Tencent already considered as a big technology company in China (WeChat has more than 1 billion users), Tencent marketing and promotion strategy is straightforward, they use their well-known apps such as QQ and WeChat to promote and advertise their brand new services, this strategy is very cheap and effective since Tencent could reach all of their current users with this kind of marketing and promotion strategy.

### SWOT Analysis

#### Strengths

##### Research and Development

Tencent spends much of its money on the research and development area. "Therefore to reap the benefits of innovation and knowledge, public support for higher education and R&D can be effective tool" (Khan, 2015). Tencent's R&D team always research what the essential service that people need and they could provide to the market. For instance, Tencent R&D team recently are focusing on virtual reality technology (VR), they believe that VR is the future of the game, entertainment, and technology industry. "Millions of people around the world today spend portions of their lives in online virtual worlds" (Boellstorff, 2015), and Tencent has the urge to utilize the potential of virtual reality technology.

##### Diversified Businesses

Tencent has diversified business areas. As explained in the previous section, Tencent owns so many different kinds of businesses (entertainment, game, fintech, social media, and tools). "Diversification also allows companies to compete in an array of different businesses that may or may not be related" (Mashiri Eukeria, 2014). This point might become the most influential factor in Tencent's success strategy. When one of their business face difficulties, Tencent could still gain profit from the other business sectors that they have, so the company financial will not be affected that much. For instance, in order to compete with Alibaba (the biggest e-commerce in China), "Tencent has diversified into e-commerce that allows WeChat users to purchase goods using WeChat Pay and online advertising" (Hsu, 2018).

#### Weaknesses

##### China Market Oriented

Most of Tencent's loyal customers are Chinese, and this means that Tencent's market is vulnerable. When something unpredictable things happen in China (e.g., natural disaster and economic crisis), Tencent do not have a secure backup plan to deal with it since almost all of their business are also affected.

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### Low-Quality Labelling

Many people around the world still think that products and services from China have cheap price due to the low quality. This labelling is happening because of the many imitation goods which have deficient quality are produced in China. Big companies in China, such as Alibaba and Tencent, also get affected by this labelling. When they come to the global market, they need to give more effort in order to gain trust for their customer that their products are not similar to other Chinese products. Even though in several developed countries, China products are starting to gain trust from the people, "The respectable Chinese brand has emerged" (Shepard, 2016).

### Opportunity

#### Globalization

"Globalization encourages companies to internationalize" (Ristovska Katerina, 2014). Tencent could take benefits from globalization since it means that many more Chinese are going to work and live overseas. Globalization helps Tencent to expand its business internationally since the potential customers outside China are also growing. There is also an opportunity that Chinese people overseas could influence their foreign relatives about using Tencent products and services. Furthermore, globalization also has a critical role in minimizing the trade barriers between countries.

#### Population

China's population and the world population are expected to keep increasing in the next following years. Tencent could see this as their opportunity, because of the increasing population, it automatically affects the number of their potential customers, "a growing population means greater demand, but it also means greater supply" (Ozimek, 2016).

### Threat

#### Political Issues

China does not have a stable relationship with other developed countries such as the United States and other countries located in Europe. When China has a problem with those big countries, this could be a threat to Tencent. For example, "Google has suspended one of Android's biggest phone manufacturers, Huawei, from Android updates after the Trump administration barred the Chinese organization from trading with US companies" (McGregor, 2019). Moreover, it affects Huawei sales since Android is the popular operating system for the smartphone.

#### Exchange Rate

Tencent is not only focusing on its business in China, but they also focus on expanding its business overseas. The fluctuating exchange rate could be a threat to Tencent since they have to deal with other currencies (except China Yuan) depending on their business location. For instance, Euro in European countries, Pound sterling in the United Kingdom, and the US Dollar in the United States. "Change in the exchange rate would affect the value of international revenues" (Simakova, 2017).

### How Tencent Affected by 2020 COVID-19 Outbreak

#### 4.6.1 A Slowdown of Tencent's Advertising, Cloud, and Fintech Business

Due to the outbreak of COVID-19, "Tencent could face slowing online advertising growth given an overall slowdown in the China market" (Kharpal, 2020). Tencent cloud and fintech businesses also affected by this outbreak since fewer people that want to spend their money on un-primary things due to this situation. Because of this, based on the Tencent fourth-quarter report, they did not manage to fulfil the profit expectation. However, they did beat the expectation in terms of revenue.

#### Tencent Revenue Get Boosted From the Game Sector

"Online gaming represents over 28% of Tencent's gaming revenue and is a crucial part of its business at home and internationally" (Kharpal, 2020). This lockdown situation in many areas in the world makes people spend most of their time for gaming and watching movies. So Tencent maximizes this opportunity by creating exclusive in-game events and rewards in order to compete with other games in the same category. Tencent succeeds in utilizing its gaming business sector to act as their saviour in the middle of this



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COVID-19 outbreak.

### 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Based on the detailed discussion on the previous sections and the survey results. Tencent could become one of the largest technology company in China because they have the geographical and demographical advantage, efficient cost strategy, and also well-organized branding, price, marketing, and promotion strategy. All of those detailed success strategies have been explained in the previous sections. Moreover, by implementing those strategies, Tencent succeeds in maximizing all of its potentials and opportunities. SWOT analysis also has been done in this paper in order to examine the current situation of Tencent Holdings.

In the Tencent success strategy analysis, the writer also includes detailed information regarding the branding and promotion strategies implemented by Tencent. About the branding strategy, Tencent well-known as a successful technology company and make life easier, especially in China. Regarding the promotion strategy, Tencent mostly promotes its products and services through its social media platforms, which have millions of users (WeChat and QQ).

In the end, the writer believes that in the future, Tencent has the potential to become the number one technology company in the world. However, before competing with other gigantic tech companies in the world such as Google and Facebook, Tencent has to deal with Alibaba, their real competitor from China. "Tencent's Ma Huateng overtook Jack Ma of Alibaba to become the richest person in China" (Wang, 2020). After Tencent succeeds in taking over Alibaba's domination in China, big technology companies such as Google and Facebook need to worry about the threat of Tencent.

There are a lot of journal articles, literature, and information about Tencent on the internet, but most of them are in Chinese. So, it is hard to find a relevant article and information about Tencent in English. On the other hand, this paper might be beneficial for Chinese people because they could adapt Tencent success strategies in their own business since the business environment is the same.

Nobody can predict the future. Tencent might be collapse and bankrupt due to uncontrolled factors in the future. For instance, the significant currencies exchanges, trade ban policy, natural disaster, or even war between countries. If that happens, this paper would no longer be relevant since this paper discusses Tencent's success strategy.

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