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# China's social and mobile companies set to shake the tech world

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**Abstract** The days of China simply being a country that copies, pirates and counterfeits US and European technology is coming to end. Platforms like social and mobile are at the forefront of China's current technological revolution. We are truly living in an interconnected world and this interconnectedness is creating a whole host of ways to market a product and/or a service. Chinese blogs, micro-blogs, content communities, social networking sites, virtual game worlds and virtual social worlds are leading this new technological revolution. Companies like WeChat, QQ, Weibo, Hexun, Youku, Jiepan, Qieke, Ushi, Taobao and Ku6 are all experiencing exponential growth. In China, the competition for consumers is incredibly fierce, especially in the social media space. This competition, however, does have a dark side: many companies regularly employ 'artificial writers' to seed positive content about themselves online and attack competitors with negative news they hope will go viral. On the e-commerce front, Taobao has formed a synergistic partnership in which store owners on Taobao create accounts on Weibo and utilise it as a channel to market their products and communicate with customers. On the virtual social world front, China might also be leading the world with sites like yy.com, which have figured out a way to monetise karaoke. Technology has always moved at the speed of light, but today the barriers of culture, language and communication are falling by the wayside and China is finding itself at the forefront of this new technological revolution.

**KEYWORDS:** Chinese social media, social shopping, WeChat, instant messaging, location based services, e-commerce, mobile affiliate sales, WeChat, Taobao, virtual social worlds, Singles Day

## INTRODUCTION

Before he became emperor, Napoleon Bonaparte apparently once pointed at a map of China and stated, 'here lies a sleeping lion, let him sleep, for when he

wakes up, he will shake the world'. It has been over two centuries since those prophetic words were uttered but, today, China is more than awakening from her slumber. China is nowhere near ready to

challenge the USA for economic supremacy, but the days of China simply being a country that copies, pirates and counterfeits US and European technology is quickly coming to an end. The social and mobile platforms are at the forefront of China's current technological revolution. Companies like Alibaba, Baidu, WeChat, Sina Weibo and Xiaomi might not be household names in the West, but they are in China and most of them are traded on US stock exchanges and followed by analysts and users alike almost as much as Amazon and Yahoo are.

China is the biggest social media market in the world and whereas Facebook might be the biggest social network in the world, its penetration in China is minimal (at least compared with WeChat) and will probably remain so for a long time to come, not only because China censors Facebook but also because Facebook's Chinese competitors are actually creating some very technologically savvy products. The Global Web Index (<http://www.globalwebindex.net/>), six of the ten most widely used social systems are Chinese, including Qzone (19 per cent), Sina Weibo (18 per cent), Tencent Weibo (16 per cent), RenRen (11 per cent), Kaixin (8 per cent) and 51.com (6 per cent). In March 2012, China's mobile subscriber count topped 1 billion mobile connections,<sup>1</sup> and this number included 356 million mobile internet users.<sup>2</sup> It is almost mind-boggling to think that China has close to 30 cities with populations greater than 8 million people.<sup>3</sup> Like their counterparts in other countries, Chinese mobile subscribers do everything from making phone calls, sending texts, e-mailing messages, tweeting and blogging. On their mobile devices, they also like to watch videos, listen to music, read and share books, play mobile games, shop at online stores, connect and check in at bricks-and-mortar stores (sometimes through geofencing applications), as well

as access a multitude of social networking sites and services. Basically, whatever other worldwide mobile users are doing, the Chinese are doing it too. Chinese mobile users are very much on the cutting-edge of mobile and social media technology and driving a whole new blogging, gaming, buying and marketing revolution.

In China, users spend more than 40 per cent of their time online on social media websites, a figure that is expected to continue its rapid rise over the next few years.<sup>4</sup> 'This appetite for all things social has spawned a dizzying array of companies, many with tools that are more advanced than those in the West: for example, Chinese users were able to embed multimedia content in social media more than 18 months before Twitter users could do so in the United States'.<sup>4</sup> Companies like WeChat are revolutionising social networks, adding malls as part of their platforms, while Taobao has teamed up with Weibo to allow instant commentary and blogging on purchased items. yy.com has inverted the concept of reality television, by taking a singing competition and broadcasting it over the internet, while allowing viewers to directly remunerate the contestants.

'Social media began in China in 1994 with online forums and communities and migrated to instant messaging in 1999. User review sites such as Dianping emerged around 2003. Blogging took off in 2004, followed a year later by social-networking sites with chatting capabilities such as RenRen. Sina Weibo launched in 2009, offering microblogging with multimedia. Location-based player Jiebang appeared in 2010, offering services similar to Foursquare's'.<sup>4</sup>

This explosive growth should continue into the foreseeable future, 'a trend that's at least partially attributable to the fact that it's harder for the government to censor social media than other information

channels'.<sup>4</sup> The Chinese government puts the onus of censorship on the internet providers, but it is very hard for them to keep up with China's technologically savvy users, who are constantly on the lookout for the latest technology and newest internet access work-arounds. Mobile apps pop up on a daily basis and remote access software allows Chinese users to easily evade what has been dubbed 'the great firewall of China'.

One of the most important elements of mobile and social media is its interconnectedness. An upload to YouTube can go viral through Twitter, Facebook, LinkedIn, WeChat, Weibo, WhatsApp, Youku and a whole host of other social media and mobile media platforms. Within seconds, something uploaded onto social media in the USA can end up on a mobile application in China or Japan or Korea or almost anywhere else in the world that has mobile and/or internet access. We are truly living in an interconnected world and this interconnectedness is creating a whole host of ways to market a product and/or a service.

WeChat, in particular, has proven to be highly successful and is growing rapidly both in China and throughout the rest of the world, but companies like QQ, Weibo, Hexun, Youku, Jiebang, Qieke, Ushi and Ku6 are all experiencing exponential growth. With a base of 1.3 billion people, it is not too hard for services that catch on in China to rapidly get to tens of millions of users within a year or even sooner. The sheer number of users also means that there is a lot of room for failure as well.

In their influential article 'Users of the world, unite! The challenge and opportunities of Social Media',<sup>5</sup> Kaplan and Haenlein show how all social media websites can be broken down into one of six different categories: collaborative projects; blogs and micro-blogs; content communities; social networking sites;

virtual game worlds; and virtual social worlds. For every one of Kaplan and Haenlein's US social media types, there is a corresponding Chinese social media type that includes sites that either mimic or supersede the capabilities of their US counterpart: for every Facebook in the USA, there is a RenRen in China; for every US microblogging site such as Twitter there is an equivalent such as Tencent Weibo (see Table 1).

China has almost half a billion social media users engaging with each other on mobile.<sup>2</sup> Mobile instant messaging is the most popular activity,

'accounting for 83.1 per cent of the total population of mobile users, followed by mobile search (62.1 per cent), mobile news (60.9 per cent), mobile music (45.7 per cent), mobile literature (44.2 per cent), mobile social networking sites (42.3 per cent), mobile microblogs (38.5 per cent), mobile games (30.2 per cent), mobile posts and reposts (29.7 per cent), mobile e-mails (24.1 per cent), mobile videos (22.5 per cent), mobile payment (8.6 per cent), mobile banking (8.2 per cent), mobile shopping (6.6 per cent), travel booking (4 per cent), and mobile daily deals (2.9 per cent)'.<sup>2</sup>

China's social media users are a savvy lot, delighted to trumpet a company's products when they like it or just as happy to tear one down when they do not. To understand the popularity and the potential that social media holds for China, it would be illustrative to look back at the country's long and tumultuous history.

## THE AWAKENING OF THE CHINESE MIND

Today, a visit to Eastern Chinese cities like Shenzhen, Guangzhou, Dongguan and Zhuhai is an eye-opening experience. The typical London taxicabs (painted a dull

**Table 1:** Chinese social media sites

Type	Social media site	Comparable Chinese site
Collaborative projects	Delicious	Baidu bookmarks QQ bookmarks Sina viv bookmarks
	Wikipedia	Hudong Soso baike Baidu baike MBAlib
Blog	Blogger	Weibo
	Instablogs	Hexum
	Livejournal	Sina blog
	Tumblr	Blogus
Micro-blogging	Wordpress	Bolaa
	Twitter	Sina Weibo Tencent Weibo Netease Weibo Souhu Weibo
Content communities	YouTube	Youku Ku6 Qiyi
Social network	Facebook	Renren
		WeChat
		Qzone
		Douban
	Foursquare	Pengyou Jiepang Qieke
	LinkedIn	Ushi Wealink
	Instagram	PaPa Meipai
Virtual game world	Warcraft III Defense of the Ancients	League of Legends, Heroes of Newerth, Archeage, Naruto
Virtual social world	Stageit*	YY <sup>†</sup>

Source: Intelligentsia.media.

Notes: \*Stageit is a web-based platform headquartered in Hollywood, CA. The service allows musical artists to sell their live performances via webcam. Artists choose when they want to perform, for how long and how much they want to charge (see <http://www.stageit.com>).

<sup>†</sup>YY 'is a revolutionary rich communication social platform that engages users in real-time online group activities through voice, text and video. With the capacity to support over one million participants concurrently, our platform allows users to create and organize groups of varying sizes to discover and participate in a wide range of online group activities, such as karaoke, online games, music concert, e-learning covering language, finance, software, and other subjects, live shows and conference calls' (see <http://www.yy.com/>).

blue rather than the standard London shiny black) are not quite as ubiquitous on the streets of Shenzhen as they are in London but, because of their uniqueness and seemingly out-of-place oddity, they certainly stand out as much. China is in the midst of a building boom and Frank Gehry-esque skyscrapers pierce the smoggy skylines of cities like Shenzhen, Shanghai, Chengdu and Guangzhou. These architectural splendours rise up amid the dirty and crumbling facades of Mao-era derelicts, which, in many cases,

still contain communist propaganda murals that are rich in bold reds and deep blacks and contain the smiling faces of the long-forgotten patriots of the Cultural Revolution.

As Boye Lafayette de Mente explains in his book, 'The Chinese Mind: Understanding Traditional Chinese Beliefs and Their Influence on Contemporary Culture':

'For over three thousand years the vast majority of Chinese did not have the

political or social freedom to make decisions on their own. They were culturally conditioned to suppress their own personal needs and ambitions and to think and behave in terms of the collective responsibility — first for their family, then for their community, next for their clan, and ultimately for the nation at large.<sup>6</sup>

Early Chinese society was built upon a strong foundation of Confucian philosophy, which was ‘based on the already old Chinese idea that social stability was far more important than allowing people to make decisions on their own’.<sup>6</sup> Over the ensuing centuries, ‘the concept and practice of collective behavior rather than personal actions became so deeply embedded in Chinese culture that individualism virtually disappeared’.<sup>6</sup>

When Mao Zedong rose to power in 1949, he systematically attempted to remould the Chinese into paragons of communism, but the effort was a complete disaster.<sup>6</sup> In 1966, desperate to destroy all vestiges of traditional Chinese thought and behaviour, Mao set in motion a violent ‘Cultural Revolution’, the intention of which was to enforce communism in the country by removing capitalist, traditional and cultural elements from Chinese society, and to impose Maoist orthodoxy within the party.<sup>6</sup>

Mao died in 1976 and, thankfully, the Cultural Revolution died with him. However, ‘the damage inflicted upon the Confucian-oriented culture was profound and set the stage for a second but peaceful and entirely different kind of revolution inaugurated in the early 1970s by his successor, his former but disillusioned Communist ally Deng Xiaoping’.<sup>6</sup> Deng ushered in a new era that was euphemistically referred to as ‘socialistic capitalism’. Some would almost call that an oxymoron but, in a strange way, the system does seem to be working.

Whether or not Deng did — as is commonly said — assert that ‘to get rich is glorious’, is immaterial; the statement embodies a philosophy he would have embraced wholeheartedly. In the decade after he came to power, Deng made it possible for ordinary Chinese people ‘to utilize their long suppressed ambitions and skills, to begin thinking and acting as individuals, and to help themselves for the first time in the long history of the country’.<sup>6</sup> Incredibly, less than two decades after they went into effect, Deng’s policies ‘freed over one billion people from a kind of cultural and political enslavement that had often treated them more like objects rather than human beings throughout their existence’.<sup>6</sup> There was not one area or one aspect of Chinese life in the large eastern urban areas of the country that was not fundamentally changed by the economic and social revolution initiated by Deng.<sup>6</sup>

Once Deng rose to power, many restrictions in China that had prevented people from changing jobs and moving away from their birthplaces were lifted. Virtually everyone in the country, from teenagers upwards, tried to figure out how they could get a piece of the action. Although communist by name, China has some of the most capitalistic people around — hard workers by nature and with an ability to look at things for the long term rather than a short-term vision that hampers many other entrepreneurs. Adam Smith’s invisible hand of the market is alive and well in Shanghai, Beijing, Shenzhen, Chengdu, Yiwu, and almost every other city in China. After Deng’s reformation policies took hold, literally for the first time in the history of the country, individual Chinese people were free to look out for number one, and millions of them began doing just that with a vengeance. In fact, the remaking of the Chinese mindset required almost no time at all.<sup>6</sup> The intelligence and skills the

Chinese needed to start remaking their country had always been there. It had just been locked down at the point of a gun, literally.

The appearance of computers and the internet in China had an equally pervasive influence on the thinking and behaviour of the Chinese — further weaning them away from the traditional culture as well as the communist culture of the Mao era.<sup>6</sup> One of the key elements in the cultural changes brought on by computers was the fact that the computer itself is culturally neutral; that is, unlike human beings it does not come with any culture hardwired into it. Like Americans, Japanese, Koreans, and other computer users before them, large numbers of Chinese were freed for the first time in the history of the country to think like and act like individuals, without any thought of their social status, gender or relationships with others, including with the government.<sup>6</sup>

Digital video games have also had a profound effect on the attitudes and behaviours of the young Chinese mind. Millions of children in families whose income had risen above subsistence levels began spending countless hours playing video games that had both an obvious and subtle influence on their ways of thinking and acting.<sup>6</sup> The role models of these games were not the selfless, self-sacrificing, well-mannered heroes of Confucian China. They were the individualistic, independent, self-serving, fashion-oriented, sensual-minded characters embellished by the imagination and creativity of Japanese *anime* and *manga* (comic) masters.<sup>6</sup> Today, *League of Legends* — a multiplayer online battle arena game distributed by Tencent in China — contains characters who would be more comfortable in a Machiavellian drawing room plotting the untimely and painful death of an enemy rather than taking solace at a monk's temple.

It is not just a case of the players in

China evolving, but also of the developers and producers of these games getting up to speed, with not just a little helping hand from the government. 'Since the mid 2000s, there has been a global shift in the geography of production in the creative industry. While established centers of creative industry production in the United States, Japan, and Europe remain strong in creative industries, new regions have focused on the opportunities in newly emerging creative sectors',<sup>7</sup> China, in particular, has become a dominant player in this market, with the online game industry leading the way:

'With the growth of the knowledge economy and related services, the creative and cultural industry is seen as a sector of potential growth both in terms of employment and economic contribution, and it is seen as a way for China to transform its material productivity, mainly from manufacturing into innovative productivity in knowledge-intensive sectors.'<sup>7</sup>

Today, companies like Alibaba, Taobao, Tencent, Weibo, WeChat, yy.com and a plethora of others are taking the tech world by storm. Because these companies have such a massive home-grown audience, the numbers they attain in terms of revenue and sales far outweigh any comparable US sites. For example, in 2013, Alibaba celebrated what it has dubbed 'Singles Day' or the 'Double Eleven' (named after the date, 11/11) — 'a 24-hour discount festival dreamed up to encourage spending at a dead time in China's retail sales calendar'.<sup>8</sup> Alibaba logged US\$5.8bn in sales in 24 hours, which made it way bigger than Black Friday and Cyber Monday combined (just under US\$3bn in online sales, according to comScore). In 2014, the Singles Day Festival did more than US\$2bn in its first hour of business.<sup>8</sup>

## A BLOGGING AND E-COMMERCE SYNERGY

Sina's Weibo is another highly successful Chinese social media platform and it is a 'mashup of Twitter and Facebook that makes money selling marketing services to business customers and offering paid memberships to individual VIPs'.<sup>9</sup> Users post 140-character messages, which in Chinese conveys considerably more information than it does in English.<sup>9</sup> Images and video can also be included as well as comments on post threads. 'With an educated, urban audience of 368 million, Sina Weibo has become the top platform for breaking news and adding editorial commentary.'<sup>9</sup> For example, when WalMart-backed retailer 360buy.com wanted to publicise a 10 per cent drop in prices on big home appliances, its CEO first announced it on Weibo, a sign of Weibo's growing importance to advertisers.<sup>9</sup>

Tencent is Sina's biggest competitor. Its platform — called QQ — today boasts 784 million accounts and it 'helps Tencent attract users for its other services, such as Tencent Weibo, which has some 469 million users'.<sup>9</sup> Tencent also owns WeChat and offers Qzone, the country's largest straight-up Facebook clone, which is 'especially popular among teens, who post photos and videos, keep journal entries, and play games on it'.<sup>9</sup>

In China, the competition for consumers is incredibly fierce, especially in the social media space. 'Many companies regularly employ "artificial writers" to seed positive content about themselves online and attack competitors with negative news they hope will go viral.'<sup>4</sup> 'In several instances, negative publicity about companies — such as allegations of product contamination — has prompted waves of microblog posts from competitors and disguised users.'<sup>4</sup> Businesses trying to manage social media crises in China should 'carefully identify

the source of negative posts and base countermeasures on whether they came from competitors or real consumers'.<sup>4</sup> Companies should also be aware of the impact of artificial writers when mining for social media consumer insights and analytics. They should compare 'the performance of their brands against those of their competitors. Otherwise, they risk drawing the wrong conclusions about consumer behavior and brand preferences'.<sup>4</sup>

China's social media sector is very fragmented and local, with each social media and e-commerce platform having at least two major local players; both have different strengths, areas of focus and, often, geographic priorities. For marketers, this fragmentation increases the complexity of the social media landscape in China and requires significant resources and expertise, including a network of partners to help guide the way.

In China, Weibo and the e-commerce site Taobao have formed a synergistic partnership in which storeowners on Taobao create accounts on Weibo and utilise it as a channel to market their products and communicate with customers. It is reported that Taobao and Sina Weibo share 75 per cent of overlapping users among the 500 million users that they have.<sup>10</sup> 'A linking of each of their accounts will allow Weibo users to log onto Taobao to make purchase[s] and payment[s] and Taobao users to log onto Weibo to view news and release products. Hundreds of millions of user will be able to perform the functions of social media, online shopping and making payment[s] on two platforms without switching account[s].'<sup>9</sup> A comparable situation in the USA would be for users to be able to access and purchase products on eBay from their Twitter account with a PayPal account that was integrated into their Twitter account — all in all some pretty powerful stuff.

'A deep integration of Sina Weibo and Taobao is about taking advantage of the four elements: account, marketing, data and mobile', according to Advangent.<sup>10</sup> Since the partnership in April 2013, user-centric product recommendations have started to appear on Weibo; these allow users to see Taobao products that might interest them. Weibo and Taobao have also considered other measures to keep their social shopping experience robust and engaging. On the one hand, they have launched discount promotions targeting the seller's Weibo fans through a series of 'fan festivals' that happen to coincide with important events; on the other hand, Taobao and Weibo are tracking users' comments very closely — too many negative reviews and complaints will get sellers blacklisted and punished.<sup>10</sup>

This is almost a perfect scenario for sellers as it gives them a far-ranging platform not only to sell their wares on but also to gain instant social media feedback — it is like word-of-mouth marketing on steroids.

### **SOCIAL NETWORKS AND THE Pervasiveness OF COMMERCE**

Unfortunately, for US companies trying to do business in China, they have been hampered by strict censorship laws. Google has left the search space to Baidu and, in the eyes of the Chinese government, Facebook has probably committed a cardinal sin — helping foment a revolution. 'Given Facebook's high-profile role in mobilizing people and facilitating protests, such as those that helped topple the Egyptian government in 2011, it seems unlikely that the Chinese government would be interested in granting Facebook a license to operate locally.'<sup>9</sup> This has left a social network hole, a hole that was quickly filled by the likes of Kaixin, Qzone, Douban, Penyou and WeChat, among others.

WeChat, in particular, has grown by leaps and bounds. One example from WeChat reveals just how interconnected today's world is: according to the April 2014 article, 'New York real-estate agent scores \$13 million deal on WeChat',<sup>11</sup> Ms Yue Hao, a broker for Douglas Elliman, received an unsolicited WeChat message from a Chinese entrepreneur who wanted to know more about the Baccarat Residences, a 50-storey glass condo tower under construction across from New York's Museum of Modern Art.

'Ms Hao left a message with the person on WeChat, telling her she'd inquire. After visiting the Baccarat's sales center, she sent the Chinese entrepreneur, whom she declined to name, pictures of what the condos would look like and the neighborhood's amenities. The next day, after speaking with the woman by phone, Ms. Hao hammered out the deal: a \$10.25 million three-bedroom apartment on the 39th floor and a one-bedroom unit on the 21st floor for about \$3 million.'<sup>11</sup>

Ms Hao then set up a private WeChat group for herself, the buyer and the attorneys to help everyone navigate the tricky US real estate purchasing process.<sup>11</sup> Although the Baccarat deal is by far the biggest WeChat transaction Ms Hao has had, 'she often posts new listings and pictures from open houses on her timeline and leaves voice messages for prospective buyers'.<sup>11</sup>

As shown above, WeChat is more than just an instant messaging communication platform. It is made up of what it has dubbed 'The four pillars' — instant messaging, location based services, moments and official accounts.<sup>12</sup> Similar to WhatsApp's IM capabilities, WeChat's 'instant messaging' section is pretty straightforward and it allows users to message other users via text, which has become most people's communication channel of choice these days.<sup>12</sup> The



'location-based services' section allows users to find information that is relevant in their area. Beyond just finding the nearest ATM, the radar feature launched in March 2014 allows users to find friends around them without revealing their cell phone number.

In the 'moments' section, users can post pictures, make comments and 'like' or share their pictures or videos with the general public or simply share them with a select few. Small business owners can also use this feature to showcase their products to anyone and everyone in their address book.

The 'official accounts' section is where brands come in. Official accounts allow companies to send out either blanket messages to multiple users or connect with an individual in a private conversation. 'This means that WeChat can be used to resolve issues in a private forum, unlike other platforms such as Twitter.'<sup>12</sup>

Companies such as the Galaxy Macau allow users to sign into their patron accounts through a Galaxy Macau WeChat app, giving them access to patron point balances as well as other features.

'Brands have taken advantage of WeChat's "public accounts" to create awareness and spread messages virally by teaming up with influencers, celebrities and key opinion leaders.'<sup>13</sup> 'While WeChat's social functions are not as open as Weibo's and the structure makes it harder to create massive followings, features like "look around" (people can add each other based on proximity), "Shake" and "Message Bottle" (for random connections), and "QR Codes" (a path to the user's account from wherever they share the code) have all helped to create more growth in the number of connections.'<sup>13</sup>

There are four e-commerce avenues inside WeChat that brands can exploit as well: subscription accounts, online-to-offline sales channels, WeChat shops and affiliate sales.

With subscription accounts, brands can create content and present new products and offers to followers. This content can be linked to an e-commerce store built inside or outside the WeChat application.<sup>13</sup> A subscription account is simple to build by using the tools provided by WeChat's [www.Fengling.me](http://www.Fengling.me). The only catch is the obligation to use a company registered in China. For companies without a China registered office, there are other ways to access the market, but they do not allow for the same control over presentation and process.

As a mobile application with the GPS features of a smartphone, WeChat allows for some promising location-based opportunities for brands. The app allows for location-based messaging from retailers or casinos or any number of other industries who have a one-to-one connection with their customers. Brands can take advantage of the location-based abilities of the app by creating a loyalty card and/or by encouraging users at a specific location (a retail shop) to add (follow) the brand account. 'The "Loyalty Card" account inside of WeChat is basically a CRM tool which audiences can opt-in for and find locations nearby (of retail shops), receive discounts, promotions, points, and rewards.'<sup>13</sup>

Retailers, restaurants, casinos, consumer staples and a whole host of other industries are using QR codes and other invitations to encourage customers to sign up for WeChat accounts. 'They typically do this on-location, taking customers from offline to online, and thereby collecting contacts within the CRM accounts of the brand. Moving from online to offline, brands are starting to experiment with creating promotions online that drive users to a retail location.'<sup>13</sup>

'For a restaurant or café this could mean sending out a "flash" alert to followers about a promotion taking place "in the next hour" for a free trial or a

discount. For a fashion company it could allow them to activate a pop-up shop within a short timeframe for a launch or product demo/trial.<sup>13</sup> Once a user is in a restaurant, café, pop-up shop or on a casino floor, he or she can pay on location, provided the payments function has been set up on their WeChat account. This makes the retail process much more flexible as brands can take pre-payments or set up small sales without cash registers at WeChat shops.

Currently, there are 'a growing number of shops, malls, group-buy (TuanGou), and flash-sales (MianGou) channels being built into WeChat'.<sup>13</sup> 'Brands such as Xiaomi, ONLY, and Sephora have created branded stores (as 'Service Accounts') where they sell products directly.'<sup>13</sup> WeChat only allows access to this channel to brands that have 'a plan for building awareness (traffic to their store) and to have a logistics/fulfillment capability'.<sup>13</sup> Most products sold on WeChat are moving through 'malls' of one type or another — many of which are controlled by Tencent.<sup>13</sup> 'Tencent has done a good job of implementing its most important companies, applications, and investments into WeChat. Grouped together inside the payments section, key WeChat/Tencent owned/invested channels are highlighted, including; "Specials" (linked to its ecommerce mall yixun.com), Weituangou (linked to its group buy site gaopeng.cn) and Dianping for restaurants.'<sup>13</sup>

'Tencent also has accounts for other invested companies, including eLong, JD.com, OKBuy, Tongcheng, and Sougou.'<sup>13</sup> There are also 'malls' for Dangdang, Amazon, VIP.com, Lefeng, Mougujie, Meilishou, Suning, Guomei, No1Shop, and Qunar, to name just a few. The biggest challenge in selling through these channels is first to gain enough visibility in a very crowded channel and, secondly, to manage the presentation of the brand. These are not insignificant

challenges either, especially with the former. To get worthwhile visibility in these channels, 'brands often have to pay hefty fees to the "malls" to get priority listings. Ultimately, the "malls" control which products get sold and so there is a real loss of control for brand owners.'<sup>13</sup>

The final e-commerce option inside WeChat is their affiliate sales network.<sup>13</sup> Similar to Amway and other direct sales models, NuSkin and other pyramid sales systems, WeChat's affiliate sales system links a user's social connections together in order to create sales by word of mouth. 'There are a growing number of affiliate sales channels, including Weidian and OKWei, where links (pictures and basic details) are shared through user networks, and proceeds of sales are split between people who shared through to the final purchaser.'<sup>13</sup>

The products OKWei currently offers are not great and the process has the potential to become very complicated, very quickly, but the affiliate sales networks are resilient; the invisible hand of profit is just too seductive a motivator to bet against. 'Despite these hurdles, "affiliate networks" built inside/around WeChat hold a lot of potential. It is this type of link between social and e-commerce which makes WeChat very powerful for brands.'<sup>13</sup>

The mobile wallet has become an important tool that most of the large tech companies are trying to develop. The one who creates an all-encompassing mobile wallet payment system should be enriched accordingly, but any companies developing a solution would be wise to keep an eye on things out East. For example, during the 2014 Chinese New Year, WeChat launched a feature that let users based in China send money to friends and family via a virtual red pocket, which is a traditional gift of money shared during this important Chinese holiday. The feature went viral and on 4th February,

2014, WeChat reported that during the first two days of the Spring Festival, over 5 million users participated in the offering, exchanging over 20 million envelopes.<sup>14</sup> This is how it worked: after connecting one's bank card to the app, users were able to send cash-filled virtual red envelopes in one of two ways, either directly to an individual or, if he or she wanted to spice things up, senders could put up a set sum of cash that would then be distributed randomly among a specified group of friends.<sup>14</sup>

The brilliance behind the Red Pocket plan was that WeChat got users to bind their bank cards to WeChat:

While the app originated as a messaging app and social network, it's quickly evolving into a catch-all solution for e-commerce, gaming, and even consumer banking. WeChat might have hundreds of millions of users texting friends every day, but once those users clip their bank account to the app, they've opened their pocketbook to Tencent.<sup>14</sup>

### **VIRTUAL GAME WORLDS: 500 MILLION TURNED-ON AND ENGAGED BUYERS**

There are two different types of online games: (i) massively multiplayer online games (MMOG), like 'League of Legends' and 'Warcraft III'; and (ii) casual online games, like 'Candy Crush' and 'Temple Runner'. 'In MMOG, which initially dominated the market, thousands of people can play a game simultaneously in virtual worlds on computer servers, often over the course of many months. Usually, casual online games are less complex than MMOG and are played on social networks, browsers, and mobile phones.'<sup>7</sup>

In the online gaming space, upstart players from Korea and China are now eclipsing the Japanese stalwart gaming companies.<sup>7</sup> The size of the Chinese gaming market 'increased to 83.17bn

RMB in 2013 (US\$13.4bn). Online games dominated the market, with the largest segment being PC online games (53.66bn RMB), followed by browser-based games (12.77bn RMB), mobile phone games (11.29bn RMB), social network games (5.41bn RMB), and single player games (0.9bn RMB).<sup>15</sup> In total, an estimated 338 million users were accessing online games through personal computers and 225 million users were accessing online games through mobile phones.<sup>16</sup>

Initially, Chinese gaming companies were simply service operators for foreign-produced online games.<sup>7</sup> Today, however, 'the revenue share of Chinese-developed games in the domestic market has increased, from around 15 percent in the early stages of the industry in 2003<sup>17</sup> to a level of 60 to 65 per cent'.<sup>7</sup> This is an important ingredient for long-term success, as game development is usually a complex and time-consuming process that results in success for a small few.<sup>7</sup> The life cycle of a successful game can play out over several years and revenues are typically derived from business models that are based on time or virtual items.<sup>7</sup>

'With time-based business models, revenues are either derived through monthly, flat-fee subscriptions or through fees based on the amount of time users spend playing the game. With business models based on virtual items, the basic functions of the game are free for the players, but revenues are derived from the sales of virtual items and services within the game.'<sup>7</sup>

For a game like 'League of Legends', players can purchase additional game options through 'riot points' (RP) and 'influence points' (IP). RP must be bought using real money, while IP are earned by playing the game.<sup>18</sup>

Breaking into the virtual gaming market in China is not easy, however, as any revenue generated by a game requires

an extensive on-the-ground network of internet cafés.<sup>7</sup> The most common way to collect individual game fees in China is still the use of physical game point cards that players purchase, although credit card payments have increased over time. Many of the largest Chinese online game companies have created their own distribution networks for game point cards, which have increasingly relied on electronic sales systems at internet cafés and other distribution points to sell electronic game point cards at higher margins. It has been estimated that the game companies' distribution costs for physical game point cards are 30 per cent of revenues, compared with about 12 per cent for electronic sales system and 5 per cent for sales directly to the customer through credit card payments.<sup>7</sup> Foreign companies looking to break into the Chinese virtual gaming market might look to emulate what smaller Chinese game companies are doing by partnering with external game point card distributors in exchange for a share of the revenues.<sup>7</sup>

Interestingly, the success of these creative endeavours is now having a spillover effect into China's physical construction industry. At Hengqin Island, a stone's throw away from Macau, the Hong Kong based developer Lai Fung Group is building a 15,000-seat arena specifically designed to host e-gaming tournaments, the first of its kind in the world.<sup>19</sup> Within the Middle Kingdom — as China likes to call itself (and certainly a name that would not be out-of-place in a Tencent video game — over 500 million people play video games, and about 145 million of them play games for more than an hour each day.<sup>19</sup> e-Gaming is now a growing spectator sport, with live-streamed gaming competitions topping content community sites like YouTube and Youku. This is a trend that Microsoft and Sony acknowledged when they built streaming capabilities right into their latest

consoles.<sup>19</sup> Live gaming competitions draw huge online audiences that number in the millions; a late 2013 'League of Legends' tournament drew over 32 million viewers, while a 2014 'Call of Duty' competition had prizes topping US\$1m.<sup>19</sup>

## VIRTUAL SOCIAL WORLDS: NOT SO VIRTUAL MONEY MACHINES

On the virtual social world front, China might also be taking the lead. Second Life used to be a major player in this space, but it has now fallen on hard times. While Second Life's Linden dollar valuations continue to plunge, the harbinger of capitalism — the US stock market — values Chinese virtual social world provider yy.com at a price more than seven times higher than it was when it went public in November 2012. YY has created a very successful business model by catering to a niche audience of online karaoke singers. According to David Goldenberg's article, 'Virtual roses and the rise of yy.com':

'YY started in 2005 as a place for hardcore online gamers to communicate while playing games like *World of Warcraft*. If a group of players were planning a raid, its members would all hop on YY to talk strategy. But eventually YY administrators found that people were using the chat rooms for other reasons. Many sang karaoke. To enter certain chat rooms, you needed access codes, which YY users were selling for cash on Chinese e-commerce sites. In 2009, YY decided to keep the sales in-house by creating YY Music.<sup>20</sup>

Today, visitors to YY Music can choose from thousands of live performances and each performer (and there are, literally, thousands of them) has his — or, more often, her — own theatre,

'in which fans' avatars cluster in seats around the main stage. A live video feed of

the performer rises from the middle ... Users can chat with the performer and buy all sorts of virtual gifts for her; their avatars hurl the favors onto the stage. (The performer gets pretty much the same view, along with some administrative controls.) The performances can seem something like a combination of a pop concert and a peep show.<sup>20</sup>

There is a revenue split between yy.com and the artists: 'For every sixteen-dollar bouquet of virtual roses that a fan throws on stage, the performer keeps about five dollars; YY gets almost all of the rest.'<sup>20</sup> 'A couple of artists on YY make fifty thousand dollars a month from the platform, according to Hany Nada, a partner at GGV Capital, which invested in YY before its IPO.'<sup>20</sup> Unsurprisingly, it has to do with how pretty the artists are, and 'how much their fan bases want to impress them,' said Nada.<sup>20</sup>

Some of YY Music's paying users are members of the '*diaosi*' — a once-insulting term meaning, roughly, 'losers'.<sup>20</sup> It is a term that China's underclass has embraced. Rachel Lu, the cofounder of Tea Leaf Nation, a company that analyses Chinese social media, believes these users are too poor to go to real concerts so they go to virtual ones on YY, where they bestow virtual gifts to real singers who appreciate their offerings.<sup>20</sup> Paying users are about 1 per cent of the total and each user spends an average of US\$200 on the site annually.<sup>20</sup>

In June 2013, yy.com announced an exclusive partnership with Hunan TV and EE Media to bring China's widely watched singing talent television show, *Happy Boy Show*, to YY's interactive internet platform.<sup>21</sup> As per the yy.com press release:

'The 2013 Happy Boy Show will leverage YY's unique platform to debut a live TV talent show in an unprecedented interactive format simultaneously across TV, online and

mobile platforms. Once contestants complete their preliminary selection rounds and generate a large fan-base, YY will broadcast the contestants' training and rehearsal sessions live across PC and mobile platforms beginning in late June. In July, during the final rounds of the competition, YY will establish a designated channel on YY Music for each finalist, documenting their real-life stories and offering live, behind-the-scenes viewer interaction. Moreover, the show's unique interactive functionality will allow YY users to show their support for their favorite performers through a variety of both paid and free features on the YY platform such as sending virtual gifts and casting votes, thereby enhancing the appeal and intimacy of the show with its audience members and raising YY user participation levels.'<sup>21</sup>

In addition, David Xueling Li, chief executive officer of YY, added, 'this partnership represents one of our most innovative forays into creating new monetization methods such as virtual gifts for television performances, paid votes, entitlement rights, sponsorship advertising and online advertising'.<sup>21</sup>

## CONCLUSIONS

Treading carefully in China is probably the best way to approach Napoleon's awakening 'lion' right now. Its new president, Xi Jinping, whose father was a contemporary of Mao, has been consolidating his power by launching crackdowns on corruption that have imprisoned everyone from those who were once considered untouchable — fellow members of the Politburo Standing Committee<sup>22</sup> — to a relation of the retired 'King of Gambling', Stanley Ho, in neighbouring Macau.<sup>23</sup>

James McGregor, China chairman for consulting firm APCO and a former head of the US Chamber of Commerce in Beijing, says Xi is "using the tactics of Mao to be Deng 2.0." He is still largely

surrounded by reform-minded advisers and has given no sign that he will retreat from his agenda.<sup>22</sup> Xi has another five years to implement his reforms, which include 'key areas like financial reform and a host of other issues, such as allowing private companies to move into sectors now dominated by state-owned firms'.<sup>22</sup> Moreover, the reforms needed today are considerably more complicated than the ones Deng initiated over 35 years ago.<sup>22</sup> Even with this latest crackdown, however, opportunities in China abound.

Right now, tomorrow's social media ideas might be playing out on a mobile app in China or Hong Kong or Macau or half a dozen other Asian countries. Technology has always moved at the speed of light, but today the barriers of culture, language and communication are falling by the wayside. Looking at the social media landscape through Kaplan and Haelein's six different types of media,<sup>5</sup> European and US companies can easily enter the Chinese market via the Chinese social media platforms.

Even though the Chinese government censored it after the Hong Kong Central demonstrations, Instagram was not the best platform for marketing in China anyway. European and/or US businesses looking for ways to gain a foothold in China should look to Weibo and WeChat to market to potential consumers. With a monthly active user base of 156.5 million, Weibo has been the blogging platform of choice for marketers, while WeChat, with 438 million worldwide monthly users, is the chosen social network.<sup>24</sup> Local apps like PaPa (an Instagram clone that offers photo filters as well as sound effects) and Meipai (an app that turns video clips into videos) can also be used to market quite effectively. European and US companies should set up their own public accounts on WeChat to tap into the massive pool of potential followers. Like the official Galaxy Macau WeChat account,

companies can use WeChat as a portal where users can tap into and utilise their customer data. Storefronts can also be set up to sell directly to customers, who can use WeChat's mobile wallet to pay for things. These transactions should be seamless, completed within a closed ecosystem that will ease users' security concerns. Retailers wanting to venture into China should not see language as a huge barrier. Sites such as Taobao and jd.com allow users to upload their items in English.

Unfortunately for Facebook, its time to make deep inroads and grow in China have probably already come and gone. The local market is dominated by competitors with diversified business models that have helped them achieve deep mobile and social engagement.<sup>9</sup> Robust start-ups are sprouting up in cities across China, from Shenzhen to Shanghai to Beijing and Chengdu, and many points in between. Those aforementioned cities have populations of over 10 million people, and their tech workforce are all keyed in and turned on to mobile and social.

Should a social media crisis flare up, businesses working in China:

'should carefully identify the source of negative posts and base countermeasures on whether they came from competitors or real consumers. Companies must also factor in the impact of artificial writers when mining for social-media consumer insights and comparing the performance of their brands against that of competitors. Otherwise, they risk drawing the wrong conclusions about consumer behavior and brand preferences.'<sup>4</sup>

In China, cable companies are teaming up with the likes of Alibaba and yy.com to distribute content and there is no reason why deals cannot be struck up with Europe and US content delivery companies. New monetisation methods include virtual gifts for internet and

television performances, entitlement rights, sponsorship advertising and online advertising.

When Dove China's 'Real Beauty' social media campaign hit the airwaves in China, which attempted to promote beauty among women of all ages and body types, Chinese consumers viewed the 'real women' as overweight and unattractive.<sup>4</sup> Dove moved swiftly, partnering with

'*Ugly Wudi*, the Chinese adaptation of the US television show *Ugly Betty*, to weave the Real Beauty message into story lines and mount a number of initiatives, including a blog by Wudi and live online chats ... The effort generated millions of searches and blog entries, increased uptake of Dove body wash by 21 per cent year over year after the show's first season, and increased unaided awareness of Dove's Real Beauty by 44 per cent among target consumers.'<sup>4</sup>

Because of strict government industry controls, non-Chinese video game developers that want to expand into China have limited options, but teaming up with a Chinese mobile game distributor is key. Many of Google's services, including Google Play, are blocked or highly regulated in China, making it difficult for non-Chinese mobile game developers to access the market through normal channels. Alternative apps stores are flourishing, however, and non-Chinese mobile app developers should target the following stores to sell things through:

- Biadu App Store
- Tencent App Gem
- Qihoo 360 Mobile Assistant
- Wandoujia
- 91 Mobile Assistant
- HiMarket
- Taobao Mobile Assistant
- Xiaomi App Store
- D.cn Games Center
- AppChina

In America, there is a saying, 'If you're not cheating, you're not trying' and sometimes it seems as though Chinese businessmen are taking this notion to an absurd degree. Almost every city in China has stores filled with counterfeit goods and many of them come with inauthentic 'authenticity tags' attached to them. Stories of fake eggs, tainted milk and rat meat being passed off as lamb are quite common in the press. Imitation might be the highest form of flattery, but in China it can also be a quick avenue to success. Xiaomi, China's largest mobile phone maker, blatantly rips off Apple's designs, a problem so systemic within the company that the CEO of Xiaomi, Lei Jun, even wears Steve Jobs' clothing of choice — blue jeans and a black mock turtleneck<sup>25</sup> — at company press events. Xiaomi's success in the mobile handset market, however, might be a pyrrhic victory, as margins are a paltry 2 per cent, far below Samsung's 18.7 per cent and Apple's 28.7 per cent.<sup>26</sup> Creativity, it seems, does count for something.

Over two centuries ago, Napoleon made his famous statement about China being a sleeping lion that would one day shake the world. Today, China is roaring and ready to shake up the world, and the colours of this revolution will be in WeChat's white and green, Ushi's dark, modern blue, and Weibo's red, white and black.

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