Strategic and financial analysis of Enterprises--Taking Tencent as an example

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Abstract. The birth of the Internet has brought great changes to people's production and life. China's Internet development has gone through more than 10 years, during which it experienced the initial stage of ignorance and rapid development. The subsequent economic bubble brought the Internet economy to a low level. After the baptism of the Internet economic bubble, the China Internet reopened its vitality and gradually moved toward the right track. Tencent and Chinese Internet companies have experienced the ups and downs of the Internet economy and become the leader of Chinese Internet enterprises after more than ten years of development. What on earth did Tencent achieve so much? What is the difference between its competitive strategy and other Internet companies? These are the problems that this paper attempts to study in depth.

Keywords: financial analysis; Strategic analysis; Tencent.

1. Introduction

1.1 Tencent background

Tencent, founded in 1998, has been in a steady and rapid development state for more than two decades. Tencent has built itself into the largest online community in China through real-time communication QQ, wechat, online game platform and other internet platforms to meet the needs of internet users in interactive communication, access to news and information, e-commerce and entertainment. In the development process of Tencent, Tencent’s most successful strategy is its brand building. A simple, honest and lovely penguin has been deeply rooted in the hearts of the people since Tencent started, which is a very valuable intangible resource of Tencent. For QQ users, it is not only an internet communication tool for interactive entertainment experience, but also a synonym for fashion. This value orientation has attracted more and more users for Tencent. Plenty of users make Tencent even more powerful in the development of value-added services. Relying on comprehensive internet services, Tencent has influenced and changed the living habits and communication methods of hundreds of millions of Chinese internet users, and led China’s internet economy to a broader development space.

1.2 Enterprises in the new era need strategic management

Since the 1970s, with the intensification of economic globalization, the penetration of information technology in economy, politics and culture and the increasing diversification of customer needs, the business environment of enterprises has diversification of customer needs, the business environment of enterprises has undergone earth shaking changes. The tide of knowledge economy caused by the promotion of the intangible resources represented by knowledge has changed the relatively stable environment in the past and created a new world and a changing future.

Enterprise competitors personally realize that the competitive environment is becoming more and more complex, the competitive content is changing faster, and the sustainability of competitive advantage is getting lower. Enterprises have to change according to the environment. Enterprise need to use more effective methods to further examine the formulation and implementation of enterprise strategy, so as to enhance the ability of enterprises to deal with complex environment, and ensure long-term, stable, sustainable and healthy development of enterprises. Enterprises strategic management is developed under the background of this era, which solves the problems that are eagerly concerned in the development of enterprises.
2. Strategic analysis

2.1 PEST analysis

2.1.1 Political environment

The Chinese government attaches great importance to the development of the internet economy. Especially since the third plenary session of the 18th national congress, it has issued a number of government documents conducive to the development of the internet economy. The state council issued several opinions on information consumption and expanding domestic demand. According to the opinions, by 2025, the scale of information consumption will exceed 6.2 trillion yuan, with an average annual growth of more than 20%, and drive the new output of relevant industries to exceed 1.2 trillion yuan, of which the scale of new information consumption based on the internet will reach 2.4 trillion yuan, with an annual growth of more than 30%. It can be seen that the new Chinese government attaches great importance to the internet economy.

In addition, the Chinese government has also gradually strengthened the control of internet services and applications, and launched online game addiction prevention system, green dam software, etc, the government’s increasingly strict requirements for internet enterprises have compressed the development space of irregular internet companies. Conversely, it is more conducive to the development of Tencent, a standardized internet company. As an internet company, especially Tencent, whose products and services are mostly instant messaging, its solid consumer base is not only an advantage resource, but also a certain crisis. Bad network behaviors such as hackers, human flesh search and spreading pornographic information are easy to produce network violence, and even evolve the violence in the virtual world into the violence in the real world. Even criminal behavior. Therefore, obtaining the support of government departments and establishing cooperative relations with relevant departments have become the inevitable choice for Tencent.

2.1.2 Economic environment

After the world financial crisis, although there are hidden dangers in China’s economic performance, it still develops stably. With the recession of the world economy, China’s economy has also undergone certain changes, and the driving force of the troika of investment, consumption and net export has also changed accordingly. In the face of China’s huge savings capacity, how to stimulate people’s consumption demand has become the focus of the country. The internet economy such as online shopping plays a very important role in stimulating domestic demand. The internet economy in China is huge and developing rapidly. The original lack of rules and regulations and the support policies of the state have changed. They are no longer a nihilistic economy, and become a virtual economy in the real sense.

2.1.3 Social environment

China has a large population. With the rapid popularization and development of the internet in China, the role of the internet in people’s work and life is increasing day by day, and there is still a lot of room for the continuous increase of internet users. The number of internet users continues to rise and the market potential is huge, which is a favorable support for the development of Tencent. China enterprise know more about Chinese culture. Chinese people have more respect for authority, stronger spiritual depression, and more implicit face-to-face expression and communication. The behavior of Chinese people on the internet is different from that of western Europe and American countries. Compared with the wide application of e-mail in Europe and America, instant messaging tools are more popular in China. Chinese people are self-centered and care about the collective with which they are related and learn, which enables Tencent to quickly accumulate a large number of users.

2.1.4 Technology environment

With the development of smart phone technology, mobile internet access is becoming more and more popular. Mobile phones have become a treasure ground for internet enterprises, and various mobile applications have emerged. Tencent’s WeChat is an important tool to occupy the mobile client.
With the continuous progress of smart phone technology, the competition of applications is more intense. The development of internet technology has spawned many new business models. Products relying on new technologies such as cloud and big data still do not form an effective business model. If Tencent can take the lead in the subversion of business model, it will obtain unlimited development opportunities.

2.2 Porter’s five forces

This section will use Porter’s five forces model to analyze Tencent’s industry environment, that is, analyze Tencent’s current industry environment from the perspectives of the threat of potential entrants, the threat of substitute producers, the bargaining power of suppliers, the bargaining power of buyers and the competition among enterprises in the industry, and focus on the discussion from the perspective of competition among enterprises in the industry.

2.2.1 The threat of potential entrants

For those fields with low barriers to entry and exit, low technical requirements and large profit space, potential entrants will be attracted. With the development and popularization of smart phones, the application of APP technology based on Android and Apple reduces the entry threshold of the game market and provides opportunities for mobile game developers and groups with product development technical expertise to enter the market and participate in the competition. In addition, the existing huge user base of mobile terminals, good growth space and the opportunities brought by the gradual refinement of the market are attracting the attention of potential entrants. According to the performance report of Tencent, among Tencent’s main businesses, online chat services account for about 60% of Tencent’s total revenue. Therefore, Tencent needs to pay special attention to the threat of potential entrants in this field.

2.2.2 The threat of alternative producers

In Tencent’s main business, the communication and social services represented by QQ and WeChat are vulnerable to the threat of alternative producers. At present, with the popularity of mobile terminal community services, various popular mobile phone software on the market are trying to integrate group buying, leisure, tourism and other life social services into existing products and services. Taking Baidu CLOUD, Mi-chat, SOGOU telephone, etc. As examples, they are providing one-stop platform services to increase user stickiness. Facing the competition from all aspects, how to improve the stability, security and aspects of Tencent’s existing products, and how to create star products that can increase user’s viscosity and loyalty have become an urgent problem for enterprises managers.

2.2.3 Bargaining power of suppliers

Tencent’s suppliers are divided into communication service providers represented by telecom mobile value-added operators, hardware server providers represented by Cisco and emerging suppliers dominated by game, web page, picture, audio and video content producers. For a long time, Tencent has made profits by providing users with value-added services based on communication and social networking. In this process, Tencent will share and settle with information providers such as mobile and Telecom. The specific share proportion is based on long-term cooperation and strength competition. In terms of hardware server demand, Tencent began to increase its investment in hardware cost and labor cost as early as the initial stage of operation. There are many suppliers competing for the market with low price strategy in the server market, so there is little bargaining space for suppliers in this regard. In terms of content, because Tencent has become an industry giant for many years and has a strong voice, coupled with the competition among content suppliers, suppliers still do not occupy a dominant position in this regard. To sum up, in the face of internet giant Tencent, suppliers have weak bargaining power.

2.2.4 Buyer’s bargaining power

Tencent mainly faces young, middle-aged consumers, who are more sensitive to the fashion of products and services than to the price. Moreover, after years of operation, Tencent has established a
huge network service community with QQ and Wechat as the main product platforms. In this basis, Tencent deeply excavates users' needs, increases product diversification services, and continuously improves the difference and uniqueness of products, so as to enhance user loyalty. A feature of social networking platform is that once users establish their friendship on the platform, there is basically no possibility of being replaced by other platforms. Tencent’s QQ and Wechat provide such a platform. As ordinary platform users, their bargaining power is weak. However, as a buyer of internet advertising business, it has strong bargaining power because of other options, such as advertising on portal websites and keyword advertising on search engines.

2.2.5 Competition among enterprises in the industry

The following are analyzed from the perspective of online games, social networks and e-commerce. BAT - the abbreviation of Baidu, Alibaba and Tencent, the internet giants in China today. As the world’s largest Chinese search engine website, Baidu occupies 80% of China’s search engine service market, which is subdivided into web search, vertical search, community products and e-commerce. In terms of Alibaba, as a Chinese online retail platform, has just successfully landed on the New York Stock Exchange, becoming the second largest internet after Google. It has trading platforms such as Taobao, Tmall, as well as technical backends such as payment system, cloud computing and intelligent logistics system, and is striving to build a more open and prosperous business ecosystem. Thus, the competition is fierce.

3. Financing strategy analysis

3.1 The initial stage of Tencent

In this period, Tencent focused on self-raised funds, developed core products, explored the field of instant messaging and the business prototype was beginning to appear. In 1996, the rise of communication software ICQ in Israel opened up the precedent of network instant messaging. However, ICQ has not been ideal in the Chinese market due to its English interface, inconvenient operation and cultural differences. Ma Huateng improved it and developed the Chinese version of ICQ, namely OICQ. In 1998, he and his team registered and established Shenzhen Tencent Computer System Co., Ltd. With a registered capital of 500 thousand yuan, of which Ma invested 47.5% of the shares. Tencent’s main investment direction in the initial stage of entrepreneurship is to develop wireless network paging system, and carry out software development according to the needs of enterprises, such as Tencent’s OICQ instant messaging software. However, during this period, the Internet has just begun to enter the public, and the prospect of OICQ is uncertain.

3.2 The company’s embryonic stage- introduced venture capital, increase daily investment and upgrade core products

Tencent’s products have gradually entered the sight of consumers and attracted their attention after experiencing the transformation process from technology to samples and from samples to commodities in the early stage. Tencent is a technology-based Internet enterprise with high R & D costs in the early stage. In addition, it needs to buy a large number of fixed assets such as servers, carry out product promotion and company operation and maintenance in the later stage, which gradually increases the demand for funds. In April 2000, Tencent introduced US $2.2 million venture capital from IDG (American International Data Group) and Hong Kong Yingke Digital. The two venture capital institutions hold 20% shares of Tencent respectively. This capital has laid the foundation for the rapid rise of Tencent. Relying on the injection of funds, Tencent purchased 200000 megabytes of IBM servers to solve the problem of unable to connect to the server caused by the increasing number of users, and began to focus on improving QQ functions and developing new versions to meet the needs of users. Because it is impossible to rely on venture capital all the time, it is necessary to speed up the strategic process and make quick profits. Therefore, Tencent took QQ business as the core model during this period, grasped the needs of consumers and extended three
charging businesses: providing online advertising through instant messaging platform and charging Advertising Commission; Collect membership fees by providing membership services; Through cooperation with telecom operators to provide mobile and telecom value-added services and collect wireless value-added fees. Among them, the cooperation with telecom operators became the main source of Tencent's revenue in this period. Tencent keenly grasped business opportunities during this period and defined the value proposition, value network and value realization mode of the company's business during this period.

3.3 Rapid growth stage 2002-2003: continue to introduce venture capital, enrich product types, expand internet value-added services and broaden profit channels

At the stage of rapid growth, the development prospect of enterprises is clear, and the growing market demand and income can attract the attention of venture capital. In terms of financing, Tecnet’s shareholders went through the process of changing ownership. In June 2001, MIH invested 32 million in tecnet, including 12.6 million to purchase 20% of the equity of tecnet held by it from PCCW digital in Hong Kong. MIH also acquired 13.5% of the shares of Tecent from IDG; in June 2002, MIH purchased another 13.5% shares from other shareholders of tecent. Tecent’s equity structure changed to MIH holding 46.5%, entrepreneurs accounting for 46.3%, IDG accounting for 7.2%, and MIH became the largest shareholder.

During this period, tecnet began to consider refining the market and providing users with more lasting services. In 2002, tecnet began to develop a series of popular community value-added services around its core products, resulting in a rapid growth in the number of users. In addition, tecnet also provides online games through the game portal to increase revenue. After business expansion during this period, tecnet’s internet value-added services increased from 15.5% of its total revenue in 2002 to 31.3% in 2003. The revenue of internet value-added services increased from 40.81 million yuan in 2002 to 229.7 million yuan in 2003, reducing the dependence on mobile and telecom value-added services and increasing the stability of revenue.

3.4 Analysis on financing strategy in mature period (2002-2009)

Tencent enterprises found their own profit model in the growth period, promoted the rapid growth of operating revenue, and continuously accumulated retained earnings, making Tencent realize the strategy of endogenous financing. Since Tencent's listing in 2004, equity and equity premium have occupied a dominant position in capital allocation. Until 2006, capital allocation began to focus on retaining profits. This is mainly due to Tencent seizing the opportunity, seizing the opportunity, constantly improving and updating product technology and finding a suitable profit model.

In this period, tecnet profit model including: Mobile and telecom value-added services; Internet value-added services QQ show and QQ space; network game; online advertising.

3.5 Listing

In June 2002, MIH provided more support for Tencent's registered capital through convertible bond investment, and the share power of Tencent's five founders decreased accordingly. Before listing, Tencent's ownership structure was that the founders accounted for 46.50%, MIH accounted for 46.3% and IDG accounted for 7.2%. In 2003, Tencent redeemed the remaining shares from IDG. So far, the ownership structure has changed to 50% held by Tencent team and MIH. Goldman Sachs is responsible for Tencent's listing. Liu Chiping, executive director of its Asian investment banking department, put forward a proposal to list on the Hong Kong stock exchange when choosing whether to list in the United States or Hong Kong. First, Tencent's business model has no precedent in North America. The United States is not an independent enterprise from ICQ to Yahoo and MSN. Therefore, Americans may not be willing to buy Tencent's shares because they don't understand it. Second, from a regional perspective, Hong Kong is close to the mainland of China, so local analysts and investors know more about Tencent. Moreover, compared with the ups and downs of the stock price in the Nasdaq market, Tencent's listing in Hong Kong is more stable for its pursuit of sustained growth.
Third, I hope Tencent will have the opportunity to return to China’s mainland securities market as a red chip in the future. In addition, Ma Huateng believes that listing in Hong Kong is conducive to fulfilling the promise of employee options.

4. Accounting analysis

4.1 Operational capacity analysis

![Fig 1. Line chart of operational capacity evaluation indicators from 2014 to 2018](image)

From 2014 to 2018, the change range of the turnover rate of accounts receivable is generally not high, and the overall trend is a typical smile curve, that is, it decreases first and then increases, which shows that the recovery of accounts receivable is unfavorable, the liquidity of accounts receivable is not high, and the risk of bad debts is high. However, with the continuous improvement of the operation and management ability of enterprises, the turnover rate of working capital of enterprises has increased significantly. In addition, although the overall turnover rate of total assets of enterprises is relatively stable, it is also declining slowly, which suggests that enterprises should pay more attention to investment benefits rather than blindly expanding investment territory while increasing investment scale. The working capital turnover rate has decreased significantly since 2017, which shows that enterprises still have potential to be tapped.

![Fig 2. Tencent accounts receivable turnover horizontal comparison line chart](image)

From the perspective of horizontal comparison, Tencent's account receivable rate is significantly higher than the industry average, indicating that Tencent has strong short-term solvency, which can reduce the loss of bad debts and make the enterprise have strong current assets. Tencent's total asset ratio is relatively low, lower than the industry average, mainly because Tencent's fixed assets are mainly servers and equipment. Under the growth path driven by capital, such total asset turnover does not affect the operating capacity of the enterprise. The working capital turnover rate is always high, indicating that the daily working capital of the enterprise is sufficient, and the overall income of cash
flow is greater than the expenditure, which is mainly due to the efficiency of enterprise accounts receivable management, the high recovery efficiency of accounts receivable, and the obvious enhancement of enterprise capital liquidity. Sufficient cash flow is an important guarantee for the normal operation of the enterprise.

4.2 Profitability analysis

![Fig 3. Horizontal comparison line chart of Tencent sales net interest rate](image)

In terms of net sales interest rate, Tencent has always been better than the industry average and has a large gap with the industry average. The change trend of cost profit margin and net sales interest rate show two different directions, showing an overall upward trend, indicating that the results brought by enterprise operation consumption are significant, the economic benefits are increasing day by day, and have been far higher than the industry level. In the five years from 2014 to 2018, Tencent’s net profit margin on sales has been declining, falling all the way from 30.26% to 25.58%, indicating that Tencent's profitability has been weakening in the past five years, suggesting that Tencent needs to pay attention to the improvement of profitability, and it is necessary to further strengthen cost control and price management. In terms of cost profit margin, its trend is basically consistent with the trend of net sales interest rate. Both financial indicators show the shortcomings of Tencent in cost management. The enterprise cost has increased significantly, and the growth of profit can not make up for the gap caused by the rise of cost, so that the enterprise profit level has decreased year after year.

5. Conclusion

The growth of Tencent is closely related to the development of the Internet industry. The two interact. Tencent's profit model is formed in the gradual development of the Internet, and Tencent's communication tools promote the development of the Internet and the emergence of profit model. Tencent's success is mainly based on the establishment of a large number of QQ users to evolve a series of value-added services to create value and profits through the multi-level stratification of user experience and product price system. In the early stage, Tencent took the lead in the development of Tencent with the help of strategic layout and market insight, and established a solid foundation for Tencent to become a leader in the Internet industry. From the change of Tencent's profit model, it can be seen that even though Tencent has been in the leading position of the Internet, it is still innovating, mining products and developing new businesses. It can be seen that it is important to keep pace with the times and follow the changes of the market in the Internet industry. Although Tencent has made a lot of profits in the mobile Internet through mobile games and online advertising, it is not a long-term plan for Tencent to copy the computer business to the mobile end. It also needs to invest in R & D talents and resources to innovate new business according to the characteristics of the mobile Internet, so as to meet the new needs of mobile end users. Looking at the changes of Tencent in the
past ten years, there are many glories and many difficulties. It is Tencent that faces difficulties and continues to overcome them head-on, which makes Tencent stronger and farther.

References