Research on Financial Strategy and Prospect of Internet Company: Taking Tencent as Evidence

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Abstract. In the new economic era, business model innovations emerge endlessly, especially with the entry of the Internet, a variety of business models and companies associated with the Internet appear. By analyzing the overall situation of the industry, market, revenue and profit that Tencent has developed into finance, this paper discusses the comparability and effectiveness of Internet economy, and expounds the difficulties and deficiencies of Internet companies in the financial development strategy, and gives examples of Tencent's financial development strategy divided into several main fields or levels. Based on this analysis of the Internet economy for the company's development prospects and strategic basis. The data of Tencent were sorted out from five aspects of Tencent's development history, general situation, business categories, business models and valuation difficulties, and the background of the empirical study was introduced. As the Internet company with the highest market value in China, Tencent has abundant historical data from both financial and non-financial indexes. Empirical analysis is applicable to establish a good value evaluation system, which indicates that the valuation of Internet companies should pay more attention to non-financial indexes such as the size and business type of Internet companies.

Keywords: Tencent; Internet company; business model.

1. Introduction

Since the birth of the Internet in the 1960s, the Internet has changed the way of life profoundly from a decentralized military application to an integral part of people’s lives today. With the increasingly mature Internet technology, Internet companies have emerged and played a significant role in people’s lifestyles. Clothing, food, housing, transportation, and information exchange are directly connected with Taobao, Meituan, 58.com, Didi, Tencent, and other large enterprises. In terms of social and economic development, the proportion of Internet companies in the GDP has increased year by year. According to China Internet Development Report 2021, China's digital economy 2021 reached 45.6 trillion-yuan, accounting for 39.8% of the total GDP in 2021, and has an increasing trend year by year. With the increasing size of Internet companies, the problems they are facing are gradually revealed, such as lack of business model, lack of core competitiveness, lack of promotion channels, lack of publicity means, and lack of product content. Since the main business of Internet enterprises is generally information products or services, digital assets are closely related to the operation of Internet enterprises. Whether they can make full use of digital assets to create value has also become the key to the success of Internet companies. As a leading Internet company in China, Tencent is representative to a certain extent. Therefore, this paper takes Tencent as an example to analyze the development prospects and financial strategies of Internet companies.

2. Literature Review

Keynes proposed that the government of capitalist countries must comprehensively intervene in the economy before the economy can be saved. However, as Tencent’s shareholding structure is not common in foreign countries, there are few academic discussions or studies in this field [1]. Domestic researches on Tencent are relatively comprehensive and involve a wide range, including the meaning of Tencent’s economic system, development direction, and the impact of mixed reform on corporate performance. As for the meaning of equity structure reform, Frankfurter believes that from a macro perspective, the mixed ownership reform of state-owned enterprises in China is still in the stage of exploration and development [2]. Even if state-owned enterprises realize the mixed ownership reform by adjusting the equity structure, there are still great differences in effectiveness and performance. In terms of the concept of big data, Topalova put forward the concept of big data for the first time. According to the study, Data analysis is an important business tool and has been integrated into all walks of life [3]. Antweiler proposed that big data can help people's way of thinking, life and work [4]. Big data is a brand-new technology, and big data can also be a kind of productivity. Brown proposed that big data technology can obtain valuable information through continuous collection and analysis [5]. Wang proposed that the main function of establishing big data is collection and integration [6].

In terms of investment, Bollen believes that in order to adapt to social changes, major enterprises constantly adjust business structure and realize the transformation from a single to a three-dimensional model [7]. Many enterprises pay more and more attention to and promote “competition and cooperation” and realize the “diversified” development of enterprises in the market. This is the main reason Tencent keeps trying to invest. Tang and Musa also discussed the power relationship between buyers and suppliers in the value network, focusing on the structural sources among the participants and expanding the perspective from the binary buyer-seller relationship to a wide range of value networks [8].

As for payment platforms, Li believes that with the expansion of the e-commerce scale, the traditional payment mode is far from meeting the increasingly diversified settlement needs of small and medium-sized enterprises [9]. In order to solve this contradiction, today’s third-party payment platform enterprises emerged.

3. Analytical Framework and Discussion

3.1 Overview of the Internet Industry

The definition of the Internet industry can be divided into broad and narrow senses. In a broad sense, an Internet company is defined as a company that provides users with the services they need through network platforms and makes use of big data technology to obtain revenue. In the narrow sense, Internet industry refers to the enterprises that register, establish or utilize Internet communication technology. The main characteristics of the Internet industry are as follows: (1) Intangible assets account for a large proportion. In the financial balance sheet of Internet companies, the main form of asset realization is asset-light, which is reflected in the number of users and intangible assets. This is mainly determined by the unique profit model of Internet companies. (2) High risk and large investment in the initial start-up period. Internet companies need a lot of capital investment in the initial stage of establishment, such as patent research and development, new advertising, platform building, etc. In addition, Internet companies have a long product research and development cycle and need a lot of capital support. Meanwhile, customers’ demands are constantly changing, which increases the risk in the initial stage. (3) High customer cost and unique profit way. Internet company customers are the cornerstone of profit, but generally speaking, the cost of customer acquisition is very high, the company needs to constantly innovate and use novel ways to attract customers, and after it has a certain order of magnitude of users, it also needs a reasonable way to cash out.

3.2 Introduction of Tencent

Tencent Holdings Limited (“Tencent Holdings” or the “Company” or the “Tencent”) was established in November 1998 and listed on the Hong Kong Stock Exchange in 2004. Tencent started out as a social network. Its QQ and WeChat are national newsletters. Since its inception, Tencent has expanded its business into games, content, advertising, finance, enterprise services, investment, and many other areas.

By the end of 2021, Tencent’s revenue was 482.1 billion-yuan, year-on-year 28 percent in 2020; Net profit was 159.8 billion yuan, up 71% year-on-year; The total assets of the listed company were

1,333.4 billion yuan, and the total liabilities were 555.4 billion yuan. The net assets were 778 billion yuan, and the net assets of the shareholders of the listed company were 704 billion yuan. According to the business division in Tencent's 2021 annual report, its business can be roughly divided into four parts: value-added service, online advertising, fintech and enterprise service, and others. Among various businesses, value-added services are the main source of revenue. By the end of 2021, the revenue of value-added services was 264.2 billion yuan, up 32% year-on-year in 2021, accounting for 55% of the total revenue. The revenue from online games was 156.1 billion yuan, up 36% year on year. The revenue of social networks (including music membership, video membership, literature, live streaming of tiger teeth, etc.) was 108.1 billion yuan, up 27% year-on-year in 2020. By the end of 2021, the revenue of online advertising business was 82.3 billion yuan, up 20% year on year in 2020, accounting for 17% of the revenue.

Social and other advertising was 68 billion yuan, up 29% year-on-year; Media advertising revenue was 14.3 billion yuan, down 8 percent year-on-year in 2020. By the end of 2021, the revenue of fintech and enterprise services, including wechat payment, wealth management, and cloud services, was 128.1 billion yuan, up 26% year on year and accounting for 27% of the revenue.

3.3 Analysis of Tencent Holdings' Main Business Segments

3.3.1 Instant messaging service

Instant messaging is a technology where people can identify online users and exchange information with them in real-time. Instant messaging is the basic business of Tencent, which almost monopolizes the domestic acquaintance social networking business with QQ and WeChat as the carrier.

By comparing WeChat's daily active users (DAU) with those of its competitors Dingding and Momo (see Figure 1), Dingding and Momo have around 50 million daily active users (compared with less than 20 million before the 2020 pandemic), while WeChat has 1 billion daily active users.

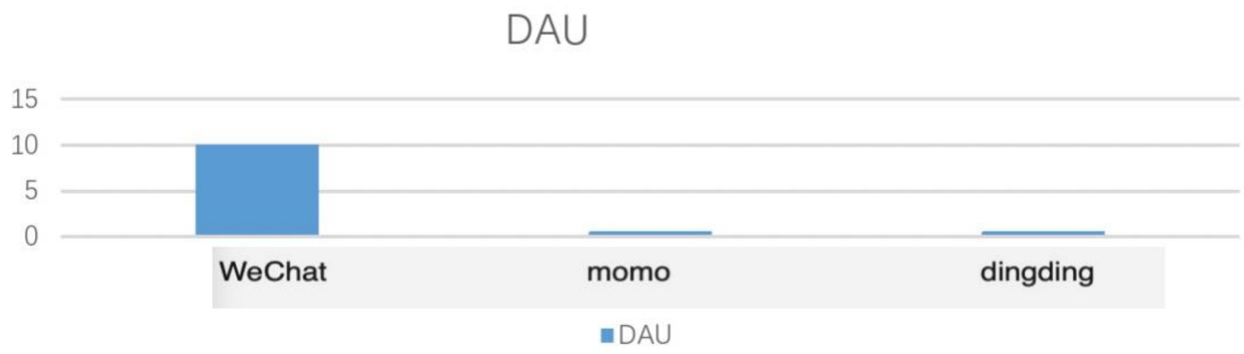

Fig. 1 DAU comparison of social software

The most important feature of instant messaging is its natural monopoly. The essence of instant messaging service is address book service, connecting communication between acquaintances. Humans, as social animals, are naturally social. Instant messaging is a business for everyone. As instant messaging software, it has a strong network effect, that is, the more people use it, the better it is, and the better it is, the more people use it. When there is only one user on a communication software, the software is of no value, when the number of users on the software is increasing, its value will be greater and greater. The main value of WeChat to Tencent is traffic value. With 1 billion daily users, WeChat has the largest number of messaging apps in China, and the average user time is more than 90 minutes. So that WeChat accumulated huge traffic on the Internet, and this traffic can provide a strong push for other cash businesses, but also for their partners to create huge value. Tencent's other profitable business plate and successful investments are from WeChat and QQ strong traffic.

3.3.2 Game business

Game business is the company's main source of revenue. By the end of 2020, Tencent's online game revenue was 156.1 billion-yuan, accounting for 32% of its total revenue. In 2020, the global gaming market is worth $174.9 billion, up 20% from 2019, of which the mobile gaming market is worth about $86 billion, accounting for about 50%. The market size is shown in Figure 2.

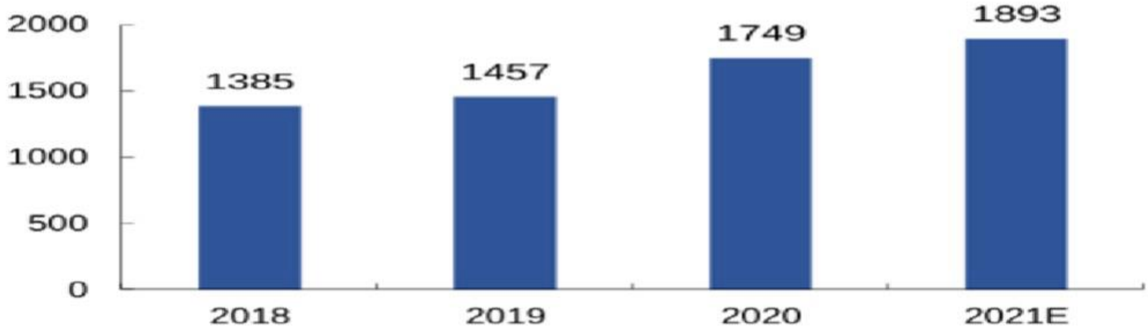

Fig. 2 Global game market size

The growth of the game industry is coming from two sources: an increase in the number of players and an increase in the amount of money spent per person. Chinese gamers have long been younger, and gaming has long been the preserve of teenagers. As the post-80s and post-90s become parents, middle-aged people will gradually become game users, and their tolerance of children playing games will increase. In the long run, mobile phone penetration is increasing and the post-80s and post-90s generation is growing up, and the number of players is on the rise for a long time. On the other hand, with the improvement in living standards, people's material demand is decreasing, and spiritual demand is increasing. As an important spiritual demand, consumers' spending on games will also gradually increase.

3.3.3 Analysis of competitiveness

From the perspective of industry chain, the game industry is generally divided into three links, namely development, operation and channel. A game is first produced by a developer, and then a publisher is found to publish and operate the game. The publisher finds a suitable channel to promote the game, and then operates the game after players download the game. Companies can choose one or more of these three steps according to their competitive advantages. Tencent, for example, not only has its own research and development team, but also can operate games for other developers. At the same time, due to its strong traffic, it can also promote other games as a channel. In the three links, the share ratio is roughly like this: if it is promoted on iOS platform, Apple will take 30%; in the remaining 70%, the share ratio of R&D and operation will be 3:7; if it is promoted on overseas Android platform, Google Store will take 30%, and the share ratio of R&D and operation will be 3:7. If it is promoted on the domestic Android platform, each app store (such as Huawei Store, Xiaomi Store, Tencent App Store, etc.) will be divided into 50%, and the R&D and operation of the remaining part will be divided into 3:7 [10].

Tencent is operating for the long term, not killing the goose that lays the golden egg. Some game operators want to extract profits from players as much as possible for the sake of financial data after getting a good game. As a result, the balance of the game is broken, the playability is reduced, and it is difficult for beginners to pick up the game, which eventually accelerates the decline of the game. In a popular card game, the operator released a large number of powerful cards at the later stage of the game, which required users to pay to draw (it was called "treasure box" in the industry, that is, users could not buy specific cards, but had to open treasure boxes to draw, increasing the randomness and difficulty of acquisition). As a result, the balance of the later game was greatly damaged, and non-paying players could not compete with paying players. Eventually the game went into decline. On the other hand, Honor of Kings is not a card game, but the principle is the same. If Honor of Kings constantly introduces new and more powerful heroes that need to be paid to draw, the balance of the game will be destroyed, the free players' experience will be compromised, and the game will eventually fall. King of Glory only allows skin pumping, changes in the hero's appearance, and uses social relationships and show-off psychology to induce players to spend money, rather than directly through enhanced combat power. This is Tencent in the operation of restraint and fine long flow of water.

3.3.4 Content service

The content business of Tencent is mainly in the “social network income” of its subdivision business segment “value-added services”, which includes the membership fee of music, video, literature, live streaming and other applications, as well as other value-added services such as live streaming rewards. By the end of 2020, Tencent’s value-added service revenue totaled 264.2 billion yuan, including 156.1 billion yuan from online games and 108.1 billion yuan from social networks. Another $35.1 billion in games revenue is included in social network revenue, giving content revenue of $73 billion.

4. Conclusion

Taking Tencent as the case, this paper explores the basic characteristics and development trend of the Internet industry where Tencent is located. The study sorts out the business of each sub-sector of Tencent, and analyzes the development space of each sub-sector, the industry pattern and the competitiveness of Tencent in the industry, and then makes a basic judgment on the development prospect of Tencent. (1) Chinese mobile Internet industry has a good momentum of development, and the scale of the digital economy has been increasing year by year, and the growth rate is higher than GDP. With the development of the economy, people’s demand for materials is limited, while the pursuit of spirit and efficiency is unlimited. Mobile Internet has greatly improved people’s work and life efficiency, and at the same time can bring great spiritual enjoyment. Therefore, the Internet and even the whole service industry will continue to flourish. (2) Tencent has strong competitiveness in line with the corporate mission of being “user-oriented, technology-oriented”. Tencent takes products and users as the center, and carefully polishes products to serve users. Specific to the business sectors, Tencent’s instant messaging business is the foundation of all its business development, Tencent is in an absolute monopoly position in the instant messaging business industry; It is an oligopoly in games, audio and video, and payment services; Tencent is still playing catch-up in financial planning, cloud computing, and enterprise services.

The paper has some limitations, which are reflected in the following aspects: the specific case enterprises are few, which applies to domestic large listed enterprises, so the universality of the value network case application is low, and the corresponding data comparison display may have errors in the actual application of other enterprises in the market. In addition, the business models of different enterprises are different. The specific data prospect studies using Tencent as the case are too few, the detailed degree of data acquisition is biased, the data of enterprises with different nodes is difficult to be collected and the measurement methods are too few, and the accuracy needs to be improved in the future. Therefore, in terms of future research process, company data should be collected as much as possible, with detailed data acquisition and complete method calculation.

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