
When Monopolies Collide: Winning Mobile IM in China

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“The mobile instant-messaging market is a winner-takes-all market,” Guotai Junan Securities' Dundas Deng said. “And users tend to go for the service that their friends are using.”¹

With over 721 million active PC IM users at year-end 2011, Tencent's (SEHK 700) QQ instant messaging (“IM”) software dominated the market.² Yet, the revenue growth of this cash cow had started to decline. Could its leading mobile IM platform be its savior?

661 million customers made China Mobile the largest telecommunications company in the world.³ It was the sole operator of China's exclusive 3G and 4G technologies. It was practically a monopoly in China.⁴ Despite making inroads with its own IM software Fetion, QQ remained dominant in PC and mobile IM. Frustrated, China Mobile resorted to extorting ever larger fees from captive QQ's mobile sales and attempting to force it off its network. It resented QQ's IM programs cannibalizing its important text message revenue, so it made Tencent pay. With the stakes even higher in the smartphone era, could China Mobile finally challenge Tencent for mobile IM leadership?

Tencent Seizes the Lead Early...

In 1996, ICQ became the first free, widely available IM software on PCs. It introduced text-based communication that allowed Internet users to communicate in real time around the world regardless of their Internet service provider.⁵ Unlike with telephones, it was possible to manage multiple conversation threads on IM with clients or friends. Conversations were fluid, dropped and picked up whenever there were new topics to discuss. Users could only communicate to people on the same IM software that they were using. Some people worked around this restriction by using special third party software or by using separate IM accounts for different contact groups of friends or clients.⁶

Ma Huateng founded QQ in Shenzhen in 1998, releasing his version of ICQ called OICQ in 1999 followed by a mobile version in 2000 (see **Figure 1** for IM product by company).⁷ OICQ became QQ in 2001 because of an intellectual property rights dispute with ICQ owner America Online.⁸ Tencent's introduction of its IM software signaled the rise of PC-based IM in China.⁹ It quickly grew dominant by appealing to local aesthetics and adding innovative and convenient features that appealed to the China market. By including online gaming and other value-added services (“VAS”) options, it encouraged its users to embrace virtual QQ lifestyles. Its addicted users brought their friends to QQ allowing Tencent to profit off low margin, high volume VAS sales to its

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growing user base.

QQ offered text messaging, video and voice chat and also cross-platform communication between PCs and wireless devices. It had online and offline file transmission.¹⁰ QQ users could break off a large download and restart it later because files were kept on Tencent's servers during the transfer. Due to privacy concerns, rival Microsoft Network ("MSN") from Microsoft Corp. did not offer this service for many years. Downloads that failed at 99% had to be started from scratch. Chinese users were not impressed. They liked QQ's more colorful aesthetic, easier to use platform and convenience.¹¹

As Microsoft Struggles and China Mobile Fights Back

Microsoft introduced MSN (now called Windows Live Messenger) in 1999.¹² It entered China the same year and became the choice of white collar workers around China.¹³ However, it soon lagged behind domestic rival QQ as it struggled to localize, innovate and generate revenue from VAS. It remained dependent on display advertising as it had back in the United States.

Unlike MSN, QQ traditionally attracted more students and migrant workers with lower disposable incomes. Interviewed by the *Shanghai Daily*, one migrant worker named Ms. Wang said "her colleagues are very familiar with the service, and that she has been using it since she was in school." Another migrant worker named Mr. Zhao said, "I have a QQ number and a blog, but I can't afford a computer. Migrant workers like myself usually own low-end mobile phones, which do not allow us to record or upload video clips." Such workers were much more likely to QQ on computers at Internet cafes.¹⁴

By 2004, Tencent had a successful mobile phone product called 161 Mobile Chat. At the height of its market dominance that year, Tencent went public on the Hong Kong Stock Exchange.¹⁵ Around that time, most of its revenue came from wireless services of which 45% were derived from China Mobile's Monternet platform.¹⁶

By the end of the year, China Mobile began to play tough. It ended its fee sharing agreement with the Shenzhen-based group in favor of a fixed monthly maintenance fee. Tencent said that "the reduction in the net profit derived from the business of 161 Mobile Chat could have a material impact on the Group's future results of operations." It expected a decline of about RMB4 million in profits.¹⁷

MSN was unable to capitalize on QQ's setback to gain market share from it. In 2005, MSN formed a joint venture with Shanghai Alliance Investment Ltd. ("SAIL") to further develop MSN China. The JV was called Shanghai MSN Network Communications Technology Company Ltd. SAIL was an investment business backed by Shanghai's State-owned Assets Supervision and Administration Commission. At that time, MSN strove to remain competitive in the mobile market by partnering with a Chinese mobile software and services company, TSSX, to develop additional assets for its MSN Mobile platform.¹⁸

As MSN struggled to compete with QQ, China Mobile decided it didn't have to in 2006. In June, it announced plans to begin development of its own mobile IM software. Eventually, it would be called Fetion. China Mobile would preinstall the program on its customized mobile phones and would not allow use of QQ or MSN by the end of the year. This followed a muscular move to take a larger cut of shared revenue from mobile value added service ("MVAS") providers like QQ. In the past, it only demanded 15% of revenues from mobile sales of third party operators letting them keep 85%. Now, it wanted to increase its share to 30-50% at their expense.¹⁹

Tencent was in trouble. It couldn't fight a monopoly when MVAS were 25.3% of its revenues. By year-end 2006, it capitulated and agreed to develop a joint QQ/Fetion mobile IM product with China Mobile. The new program would allow interoperability between QQ and Fetion combining Tencent and China

Mobile's massive user bases. There would be a RMB5 monthly service fee. That was the low end of the RMB5-RMB8 it had charged mobile users before. And now it had to share it with China Mobile.²⁰ VIP service Super QQ still had interoperability with Fetion in 2011. However, its RMB10 minimum monthly fee made it more attractive for many users to simply use the free version of mobile QQ and a RMB5 20 megabyte 2G data plan from China Mobile.²¹

By December 2007, CCID Consulting said there were 60 million PC IM users out of China's 210 million strong Internet population. With China Mobile new to the PC IM space, QQ had a 79.6% market share with 315 million active accounts including users who opened multiple accounts. MSN had 16.5 million active accounts. From third quarter 2008 to third quarter 2010, China's total active IM accounts grew by nearly 400 million to 858 million accounts (see **Figure 2**).²²

MSN's 2008 income was RMB185 million, but its net profit declined to RMB30 million. Some MSN users expressed frustration with MSN's comparative lack of quality features and stability. There were problems with offline file transmission, dropped downloads, screenshot features and group applications.

In stark contrast to more static MSN, QQ had expanded greatly beyond instant messaging services by 2008. It offered message boards, blog groups and virtual items bought with its virtual Q coin currency. These MVAS items included virtual furniture and clothing for users' virtual houses and online avatars. It made money by selling its virtual Q coin to its customers for real cash. Online gaming was its biggest single source of revenue.

Young Chinese grew up using QQ to manage their social networks in school and, later, in the business world.²³ "Managers use [IM] to manage their teams, and sales staff, for instance, will have a meeting with a prospective client, go back to the office, add them on QQ or MSN and then contact them and cultivate them as a contact or client after that," commented Kaiser Kuo, group director for digital strategy for Ogilvy & Mather in Beijing.²⁴

Overview of IM Today

By June 2011, the China Internet Network Information Center, a state agency, reported that China had 485 million Internet users. This represented a 15.5% annual growth rate versus 24.3% for the previous year and meant more users for PC IM.²⁵ MSN had lost significant market share in PC IM by this time. QQ had 72.97% of the market, Alibaba Group's online shopping IM product Aliwangwang had 12.15%, China Mobile's Fetion claimed 6.27% and MSN had 4.95%.²⁶

IM was a key part of many people's mobile Internet experiences in China and China Mobile's Fetion was closing the gap with QQ. In the second quarter of 2011, mobile QQ had 53.6% market share of mobile IM. Fetion was second with 30.8%, Mobile MSN was third with 9.5%, Alibaba's Aliwangwang was fourth with 4.2%, Xiaomi's Miliao multimedia smartphone IM service was fifth with 0.7%, Tencent's Weixin was sixth with 0.7% and other services had 0.7% (see **Figure 3** for market shares over time).

By June 30, 2011, mobile Internet users in China had increased 14.8% to 317.7 million. This growth rate declined from the previous year's growth rate of 78%, but still led to higher mobile IM usage.²⁷ Beijing-based Analysys International said using IM was the second most popular reason for surfing the web after accessing news (see **Figure 4**). China Mobile knew it needed to win mobile IM. Its Fetion program and Tencent's QQ earned revenue by directing their increasing number of mobile IM users to download their mobile games. The strategy worked. Mobile game users grew 352% in 2011 to 11.3 million.²⁸ China's Ministry of Culture said that national mobile gaming sales jumped 511.2% to RMB3.9 billion while online gaming revenue increased 33% to RMB4.0 billion.

In the third quarter of 2011, data fees and mobile application and services took the largest shares of revenue in the mobile Internet market. They represented 43.2% and 43.0% of total revenue, respectively. Mobile shopping had 10.1% of revenue and mobile ads only 3.8% (see **Figure 5**). This had implications for MSN which was dependent on advertising.

Mobile telecom operators like China Mobile made about RMB60 billion annually. However, mobile IM operators such as Tencent undercut their sales because it was often cheaper to send text IM or mobile audio IM as data usage was cheaper than text or voice usage said Sun Xiaofei, an analyst with Samsung Economic Research Institute Beijing Representative Office.^{29,30} In the latter half of 2011, voice over IP and IM traffic led data usage growth on mobile phones at 114% beating video streaming's 88% growth. However, video's 42% share of overall data usage significantly trumped the 5% share of VoIP and IM. While such programs presented challenges to China Mobile's short message service ("SMS") revenues and network load, Singapore-based Allot Communication executive Andrei Elefant said, "Intelligent, application-based data pricing is the way forward for operators, allowing them to maximize data revenues based on its true value to subscribers."³¹

China Mobile: Threats and Opportunities in Mobile IM

China Mobile was the largest mobile operator globally by subscriber base, but key revenues were under threat from IM. In 2011, China's Mobile's operating revenue rose 8.8% to RMB528.0 billion "benefiting from the solid customer base, continued remarkable addition of new customers, stable growth in voice usage volume and rapid growth of the data business."³² China Mobile's data business was made up of wireless data traffic, SMS and multimedia messaging service ("MMS") and applications and information services. 26.4% of the company's total revenue in 2011 came from data services' overall RMB139.3 billion contribution. This was 15.4% higher than 2010 compared to only 1.5% revenue growth for the whole business.³³ China Mobile's 2011 annual report happily stated, "Data businesses, in particular wireless data traffic business, have shown promising development momentum and made increasing contributions to revenue growth."³⁴

2011 China Mobile wireless data traffic grew 152.1% to 361.4 billion megabytes. This contributed RMB44.4 billion in revenue or 45.0% more than the previous year. Commenting on its 8.4% of group revenues, China Mobile said, "The growth of [our] wireless data traffic business provided a strong impetus to revenue, realizing a healthy growth in traffic and revenue." In 2011, wireless data traffic delivered 31.9% to division revenues compared to 25.4% a year before. This relative growth beat both application and information services and SMS and MMS (see **Figure 6**). The rising popularity of smartphones not only accelerated wireless data traffic growth, but also 3G customer base expansion of 147.3% to 51.2 million users.³⁵

2011 SMS and MMS turnover decreased 1.0% to RMB46.4 billion. It made up 33.3% of division revenues versus 38.8% the previous year (see **Figure 6**). China Mobile watched impotently on as QQ and Weixin enabled its customers to limit their SMS and voice usages with text and voice IM.

China Mobile's applications and information services made RMB48.4 billion in sales in 2011 rising 12.0% year-on-year. Compared to 2010, they made up 1.0% less of division revenues in 2011 or 34.8% (see **Figure 6**). Wireless Music was the single biggest contributor with RMB22.1 billion in revenue. According to the company, LBS and mobile gaming "demonstrated robust development momentum." Its open platform Mobile Market application store became the biggest Chinese-language application store globally with 630 million total application downloads and 158 million registered customers.³⁶

Fetion and Feiliao were China Mobile's key mobile IM applications. Fetion competed head on with Mobile QQ. "Launched on June 5, 2007, Fetion was a PC and mobile IM application. The mobile version

had 80.43 million users in the first quarter of 2011.”³⁷ China Mobile had pre-installed Fetion on its mobile phones to lift value-added service revenue. This helped boost Fetion to the third most popular IM program after early entrants QQ and MSN.³⁸ In 2010, Fetion delivered revenue of RMB642 million.³⁹

China Mobile Leverages its Monopoly Power to Squeeze Tencent

At the end of 2010, China Mobile went on the attack against Tencent again. Its Chairman noted that QQ users consumed large amounts of data on its networks including 40% of all data traffic in Guangdong province. The model where China Mobile received 20% of MVAS revenue while Tencent made 80% was no longer sufficient. Faced with such strain on its network, China Mobile sought to change its revenue sharing agreement with QQ. It eventually changed its cooperation model for all 2.5G products. The telecom giant then introduced a new “cancellation before verification policy” that brought volatility to Tencent’s revenue realization rates and lowered top line growth.⁴⁰ With 15% of its MVAS sales coming from China Mobile, Tencent needed to find another cash cow to keep growth up in the face of these aggressive tactics.⁴¹

Tencent Keeps IM Leadership, But Growth Slowing

PC-based IM in China was still dominated by Tencent in 2011. In the third quarter of 2011, QQ had 711.7 million active accounts with 145.4 million peak concurrent users. That represented quarter-on-quarter growth of 1% and 6% respectively. Q+ directed its hundreds of millions of users to online games and fee-based VAS. In 2011, Tencent’s total revenue numbered RMB28.5 billion and it derived 80.8% of it from Internet value-added services (“IVAS”), 11.5% from MVAS, 7.0% from online advertising and 0.7% from other sources. Included in VAS, online gaming sales comprised 55.5% of total revenues.⁴² Tencent’s IVAS revenue jumped 48.8% to RMB23.0 billion. Online advertising revenue grew 45.2% to RMB2.0 billion. In 2011, its mobile value-added services (“MVAS”) sales increased 20.4% to RMB3.3 billion.⁴³

Tencent needed to expand in the mobile market because it expected its PC revenue and profit growth rates to decline. In June 2011, Tencent CEO Ma said, “There is a ceiling in Internet value-added services, so that is giving us a sense of urgency.” For example, in 2011, online gaming revenue grew by more than twenty percent, but this was expected to drop below twenty percent in the future. Tencent’s popular games included monster-battling game *Dungeon & Fighter* and *Three Kingdoms* where swordsmen fight each other during Three Kingdoms-era China, but it didn’t expect their success to last forever.⁴⁴ In the fourth quarter of 2011, Tencent had the biggest share of the online game market at 31.0%. Its nearest competitor, NetEase, had 17.8% (see **Figure 7**).

According to China Websites Ranking, QQ.com was China’s most popular website. Despite having so many users and great popularity, Tencent captured only 4.1% of the RMB26.4 billion^a in online advertising revenue in China in 2011 according to Analysys International. Baidu, Alibaba Group Holding Ltd., Google, Sohu.com Inc. and Sina all did better. With this advertising spend expected to grow to RMB62.9 billion^b by 2015, Tencent needed to grab more market share. One problem was that it had traditionally focused on PC-based users even as the mobile market grew in importance. Moreover, many of its users were students and rural residents with low incomes. “Advertisers have regarded their users as low-end,” said Dick Wei, a JPMorgan research analyst. “Tencent’s websites carry fewer ads for luxury cars and prime real estate compared with Sina.” Tencent CEO Ma hoped to address both of these issues by focusing on higher income iPhone and Google Android smartphone owners.⁴⁵

In the past, QQ developed proprietary software or imitated successful software for its platform. In June

^aRMB6.29 to \$1 on December 31, 2011.

^bRMB6.29 to \$1 on December 31, 2011.

2011, it opened its platform to other software developers in hopes of increasing its revenue with better offerings as China Mobile continued to squeeze its margins. The key product of the open strategy was called Q+ and included IM among many other applications. "On the previously opened Qzone platform, the most profitable third-party developer is making 10 million Yuan a month," Ma Huateng commented. "We want the developers to be successful, even before we are."⁴⁶

In 2011, QQ stayed focused on extracting additional revenue from its large user base. In its interim report, it stated, "For QQ Membership, user base expanded along with the growth of the active user accounts of our IM service. Throughout the year, we focused on enhancing user value by enriching online and offline lifestyle privileges. User stickiness and loyalty improved as a result."⁴⁷

Tencent's revenue and net profit increased seven times in the five years to June 2011 and it averaged sixty percent growth, but this was expected to decrease to thirty percent in the next couple of years. "Tencent needs to look for other gold mines to counter slowing online gaming growth. Otherwise, they won't be able to maintain the strong growth they've had over the past few years," said Hover Xiao, an analyst at the technology research firm IDC. Tencent hoped social networking, e-commerce and mobile search-engine markets could help it diversify its revenue streams. Could it mitigate China Mobile's control of revenue sharing, though?⁴⁸

Smartphones: The New Warzone

Smartphones with faster internet speeds and more multimedia functionality provided the foundation for future growth in mobile IM and a new battlefield for Tencent and China Mobile. Using smartphones' GPS technology, mobile IM operators were expected to differentiate themselves with location-based services ("LBS"). In 2011, JP Morgan estimated that there were 50-60 million smartphone owners. With this expected to reach 120-150 million and include more sub-1000 RMB smartphones by year-end 2012, smartphone consumers were expected to be a growing revenue source to dotcoms and telecom companies (see **Figure 8**).⁴⁹ With more powerful processors and faster Internet connections, smartphones drove increasing number of users to migrate their IM accounts to next generation IM software like China Mobile's Feiliao and Tencent's Weixin. More affordable smartphones were expected help Tencent bring its lower income user base to the mobile Internet.⁵⁰

JP Morgan's Wei said, "Exponential growth of contact-list-based multi-media instant messenger is making it the killer app in the 3G/smartphone mobile Internet age, similar to what SMS has done in the 2G era."⁵¹ He noticed that mobile Internet users' attention had become increasingly fragmented. "People tend to consume more 'fast-food' content such as instant message, micro-blog and social games than traditional full-length, time-consuming literatures, articles and [Massive Multiplayer Online Roleplaying Games]." Especially with smartphones, people could access multiple applications simultaneously, so their attention was split between many different data streams. IM applications were on longer than any other, staying active for about 80% of the time users were online (see **Figure 9**).

Tencent's entry into the battle for control of multimedia IM on smartphones was Weixin. It was designed for 3G smartphone users with a focus on communication and LBS (see **Figure 10** for comparison). Launched in January 2011, Weixin reached 100 million users by March 2012.⁵²

Mobile IM first movers like Xiaomi's Miliiao couldn't compete when Tencent entered the market because of Tencent's integration of Weixin with its existing QQ platform. For example, Weixin users could stay in contact with their hundreds of millions of Tencent Weibo and QQ friends by using Weibo messaging, QQ offline messaging and QQ mail.⁵³

Weixin became a leader in mobile IM because it facilitated new social connections. LBS applications enabled users to connect with friends or strangers around them. “Shake-shake” was popular at Chinese parties because users could connect with strangers who indicated they were interesting in meeting new people by shaking their phone at the same time. With “Message in a Bottle,” Weixin users could propose a question or start a topic in a virtual bottle and then throw it into a virtual ocean where all QQ users had a small chance to pick it up and respond to it (see **Figure 11** for screenshots).⁵⁴ Another fun feature was a chat room that used walkie-talkie voice chat and group chat.

Weixin users liked its money saving features, too. The application used data compression technology to limit monthly data usage to 20-30MB, which did not exceed most mobile plans data limits. Some people used Weixin voice chat to save money on long-distance calls.⁵⁵ Weixin’s use of real names encouraged people with closer relationships to connect and make more meaningful exchanges. QQ used ID numbers making it usable by people with weaker social connections, which also meant that social interaction was perhaps less meaningful to users.⁵⁶

Weixin’s intuitive user interface was a competitive advantage. JP Morgan noted that it was helping to cause “transformational changes in people’s daily communication. Multi-media messaging could help people manage either “strong tie” or “weak tie” types of relationships with its simplicity, instantaneity, and flexibility.” Strong ties were “the stronger links corresponding to friends” while weak ties were “the weaker links, corresponding to acquaintances.” (See **Figure 12**)⁵⁷ Dick Wei said, “With multiple features combined, it will marginalize traditional IM, text messages and voice mail to become the backbone application on smartphones.”⁵⁸ He thought that Weixin would help keep Tencent’s many PC users loyal to its platform as 3G and smartphone usage expanded. He estimated that one third of Tencent’s clients would use its paid services through smartphones. “With the adoption by smartphone users with 3G data plans, Weixin is then helping Tencent to sign up a more high-end mobile user base,” Tencent spokeswoman Catherine Chan explained. Vivek Couto, executive director at Media Partners Asia in Singapore, thought that these wealthier smartphone users would help Tencent attract more advertising revenue.⁵⁹

Weixin offered more social networking tools than Mobile QQ. QQ account holders had to log on to access text, voice and video message alerts while Weixin automatically notified users. “All the operators are trying to enhance the social- networking features of their service because that will help make them more sticky,” Guotai Junan Securities’ Deng said.⁶⁰ Analysys International noted that Mobile QQ and Weixin ranked one and two respectively as the most popular social-networking applications in China. “The location-based technology of Weixin gives it a lot of potential in mobile commerce,” said PingAn Securities analyst Qin Weijie.

JP Morgan wrote that Weixin had more users than rival applications from WhatsApp Inc. and Xiaomi Corp. Could it keep its lead as China Mobile put more resources into the competition? Jiong Shao, analyst at Macquarie Group Ltd. in Hong Kong did not expect Weixin to earn revenue for Tencent “anytime soon.”

Still, Dick Wei’s research team bet that Weixin would win the mobile IM competition. “Among all the multi-media instant messaging applications available on the market, we believe Tencent’s Weixin stands the best chance to gain dominance, further substantiating its existing franchise and customer stickiness.”⁶¹ Weixin was expected to play a key role in driving revenue growth at Tencent in the future. JP Morgan expected mobile games to join targeted advertising and eCommerce to make the most impact. Weixin would direct users to all of these revenue streams.^{62,63}

In September 2011, China Mobile released the public beta of Feiliao which was the updated version of Fetion and a near clone of Weixin. Feiliao meant “flying chat” in English and it had its sites set squarely

on the rich smartphone market and Weixin. Feiliao users could automatically add their friends from the 500 million user-strong Fetion network. Its success was vital to China Mobile's 3G/4G strategy. "Feiliao is a critical part of China Mobile's 'Fetion plus' converged communication platform," said Hang Guoqiang, a data business general manager at China Mobile (see **Figure 13** for a screenshots).⁶⁴ Tencent beware.

EXHIBITS

Figure 1: IM Product by Company and Platform

	Tencent	China Mobile	Microsoft
PC Product	QQ	Fetion	MSN/Windows Live Messenger
Mobile Product	Mobile QQ	Mobile Fetion	Mobile MSN/Windows Live Messenger
Smartphone Product	Weixin	Feiliao	N/A

Figure 2 Active Accounts of China IM Market, Third Quarter 2008-Third Quarter 2010⁶⁵

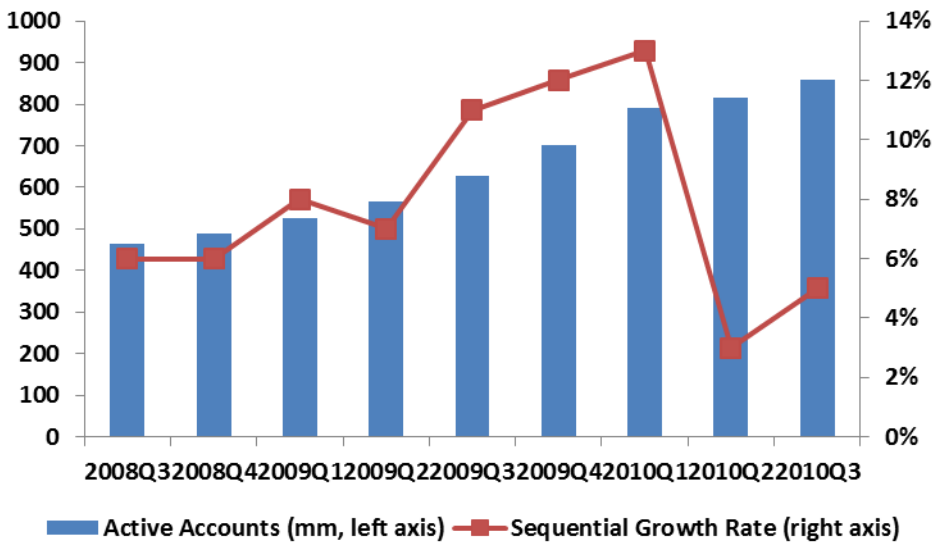
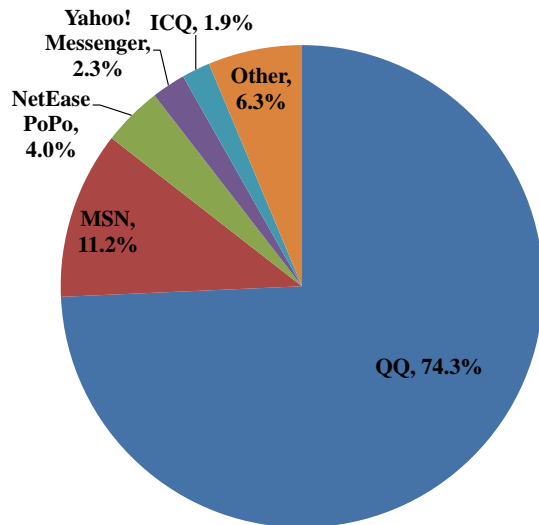


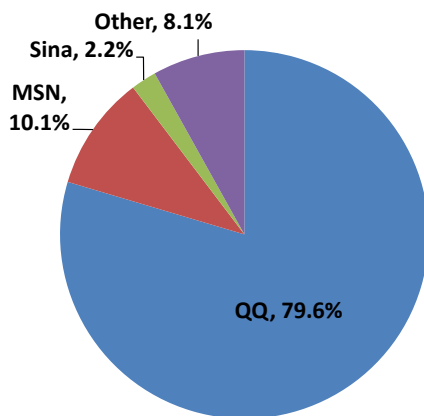
Figure 3 PC & Mobile IM Market Shares Over Time

PC IM Market Share:

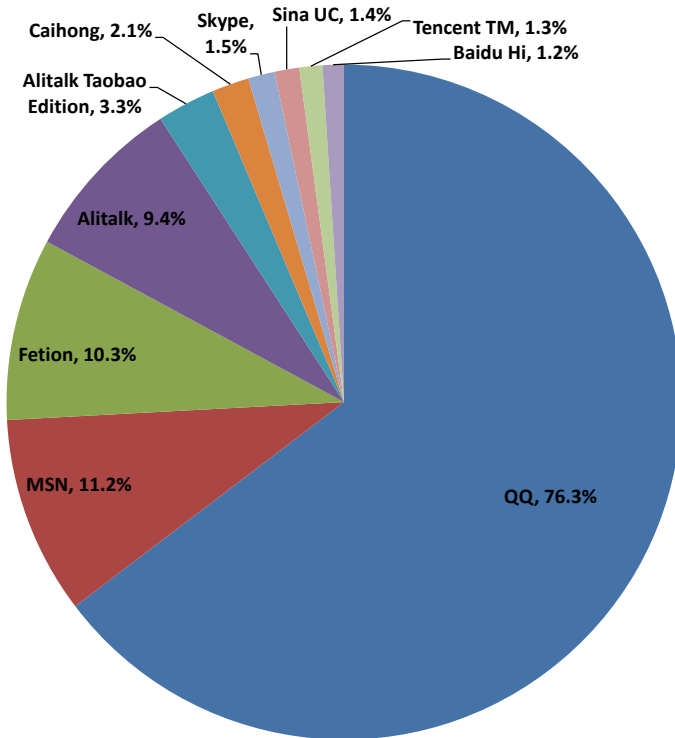
Market Share of PC IM September 2003 (by active accounts)⁶⁶



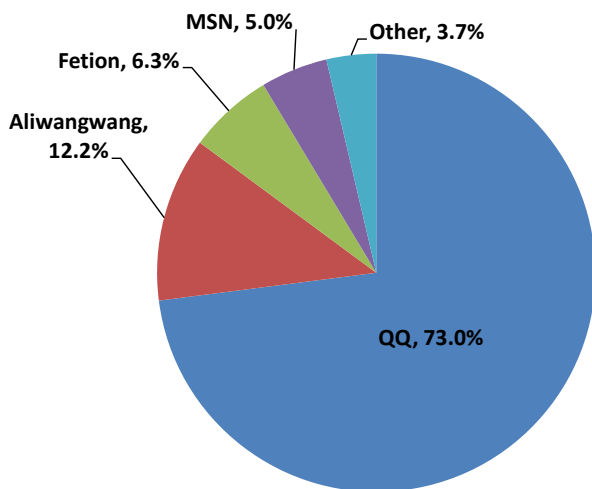
Market Share of PC IM September 2006 (by active accounts)⁶⁷



Market Share of PC IM September 2009 (by average daily user number including users who have multiple IM services.)⁶⁸

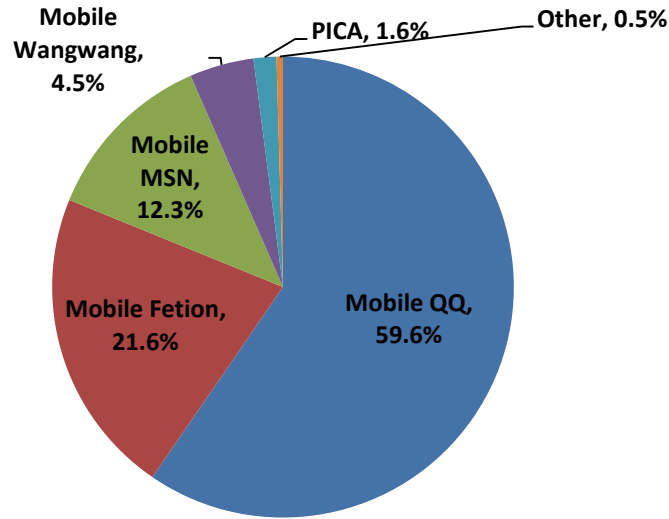


Market Share of PC IM June 2011 (by active accounts)

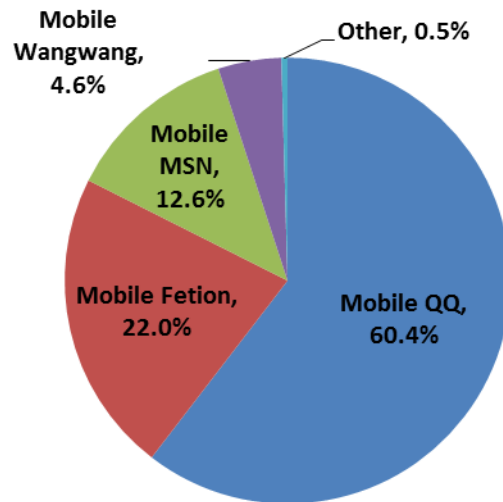


Mobile IM Market Share:

Market Share of Mobile IM Active Accounts Fourth Quarter 2009⁶⁹



Market Share of Mobile IM Active Accounts Second Quarter 2010⁷⁰



Market Share of Mobile IM Active Accounts Second Quarter 2011⁷¹

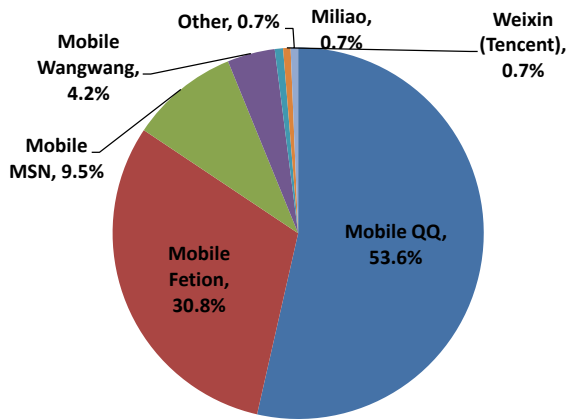


Figure 4 Reason(s) for Accessing Mobile Internet, First Half 2011⁷²

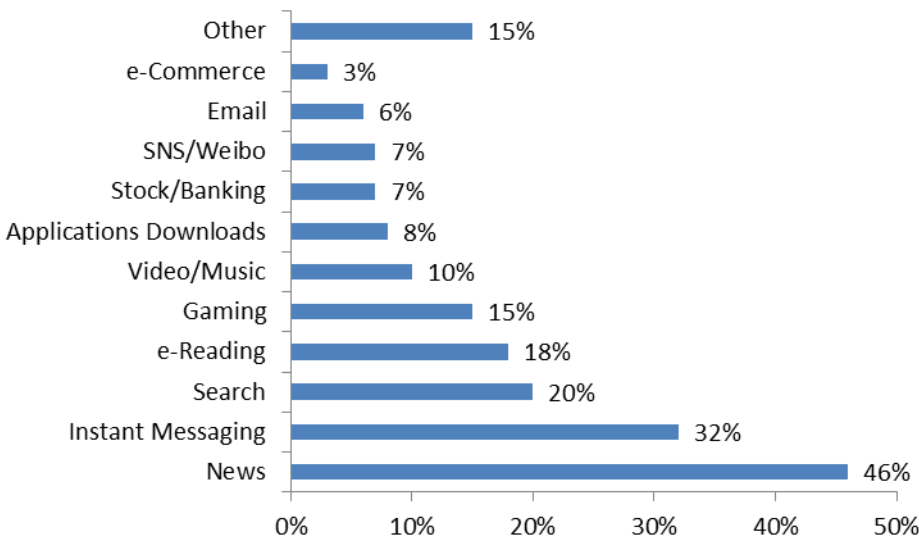


Figure 5 Revenue Structure of Mobile Internet Third Quarter 2011⁷³

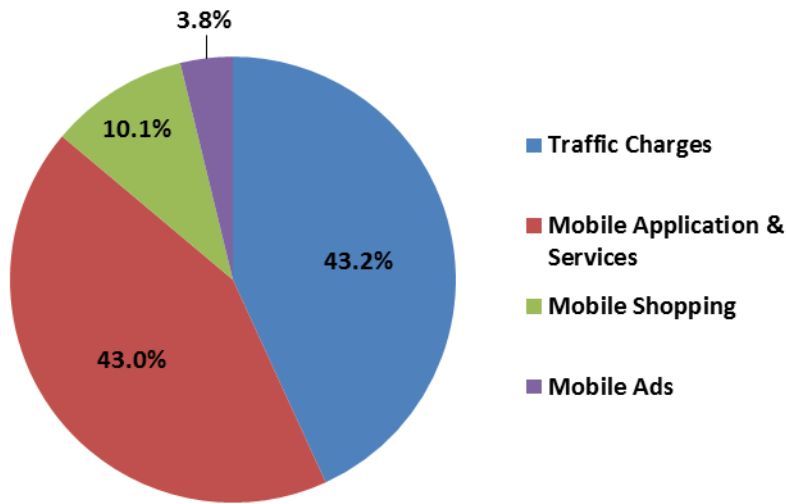


Figure 6 China Mobile Data Services Revenue (RMB)⁷⁴

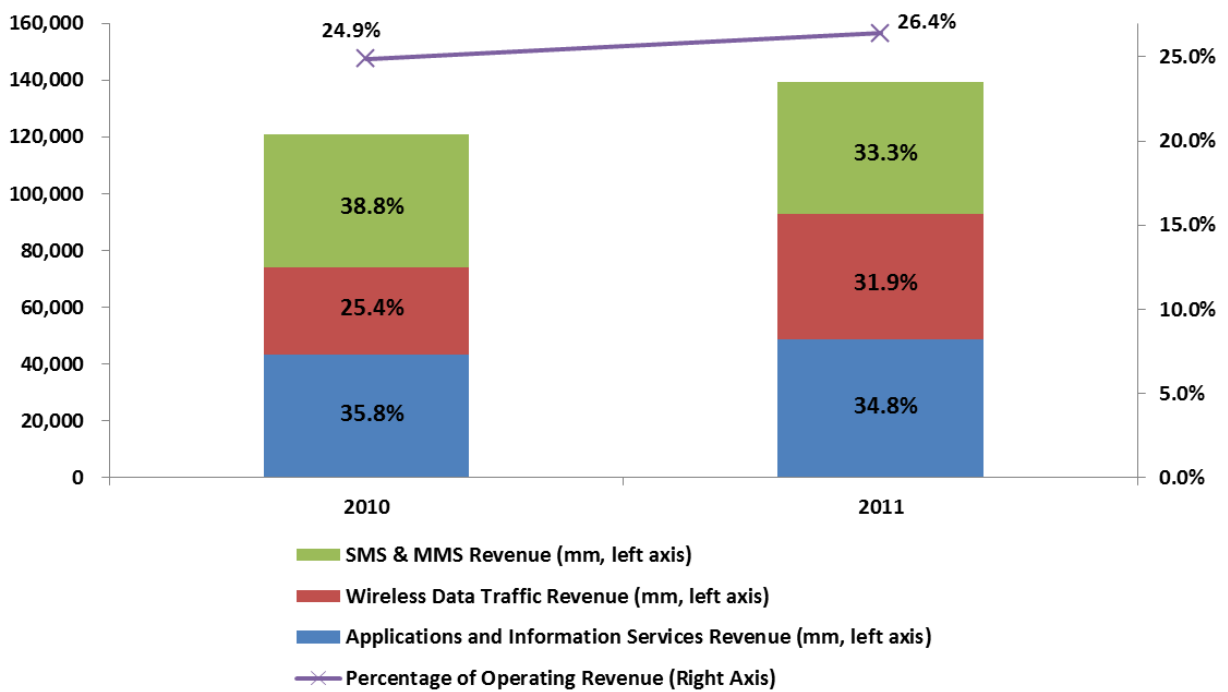


Figure 7 China Online Game Market Share Fourth Quarter 2011⁷⁵

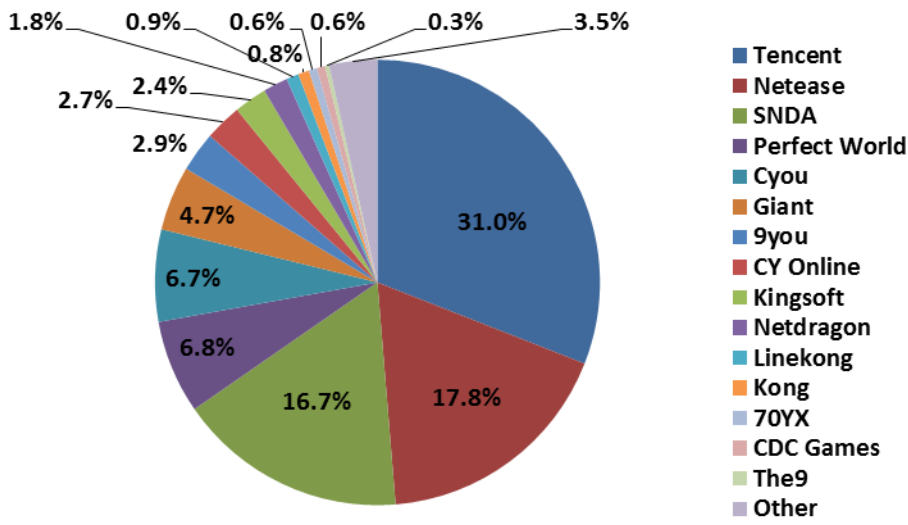


Figure 8 Rise in Smartphone Shipments, 2009-2012E⁷⁶

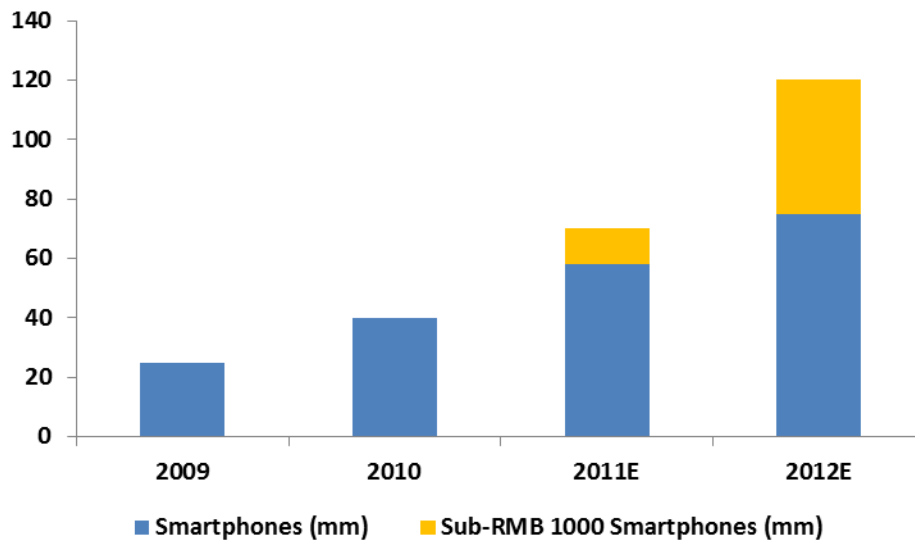


Figure 9 Percentage of Application Uptime on Smartphones, June 2010-June 2011⁷⁷

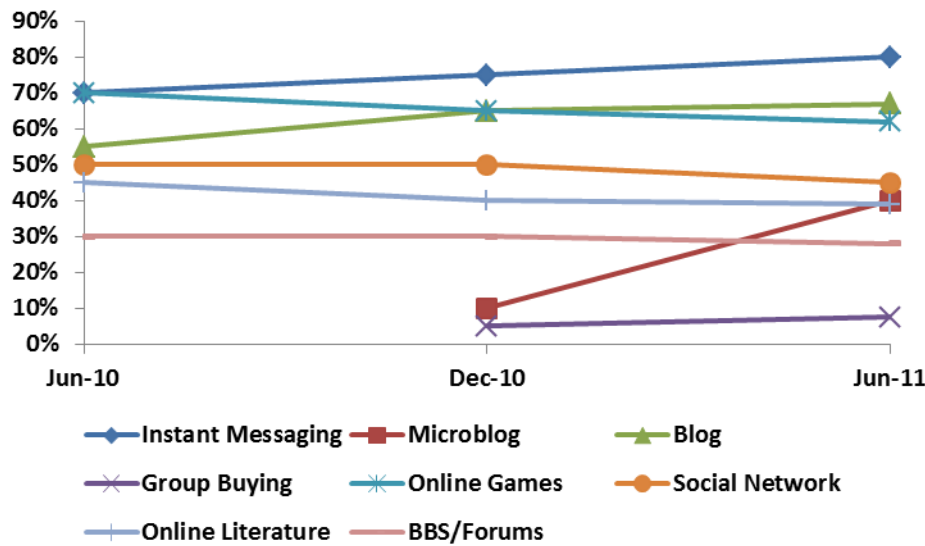


Figure 10 Differences in Tencent's Mobile Offerings⁷⁸

Differences in Tencent's Mobile Offerings	Weixin	QQ Mobile	Tencent Weibo
Complexity	Light	Comprehensive	Light
Identity	Contact list, real name	QQ ID, virtual	QQ ID, flexible
Relationship Strength	Strong tie	Strong/weak tie	Weak tie
Message Delivery	Real-time push-based	On/Off-line status, informed	Real-time push-based

Figure 11 Weixin's Special Features⁷⁹





Source: Tencent, JP Morgan, China Mobile Mobile Market

Figure 12 Multi-media Messaging Versus Other Communication Methods⁸⁰

Communication Channel	Examples	Users' Relationships
In person	Party, meeting, eat-out	Strong tie
Video conference/chat	Teleconference, Facetime	Strong tie
Phone calls	Landline, cell phone, Skype, Viber	Strong tie
Letters	Mail	Strong tie
Contact list-based multimedia message	Weixin, Miliao, Kik, WhatsApp, Kakao Talk	Strong/weak tie
Instant message	QQ, MSN/Yahoo Messenger, G-Talk, IB Chat	Strong/weak tie
Text message	SMS, BBM	Strong/weak tie
Emails/voice mails	Gmail, Hotmail	Strong/weak tie
SNS private message	Facebook, Weibo, Qzone, Pengyou, Renren, Kaixin	Strong/weak tie
SNS/IM status update	Facebook, Weibo, Qzone, Pengyou, Renren, Kaixin	Weak tie
Microblog	Twitter, Sina Weibo, Tencent Weibo, Tumblr	Weak tie

Figure 13 Feiliao Screenshots



Source: iTunes and China Mobile Mobile Market

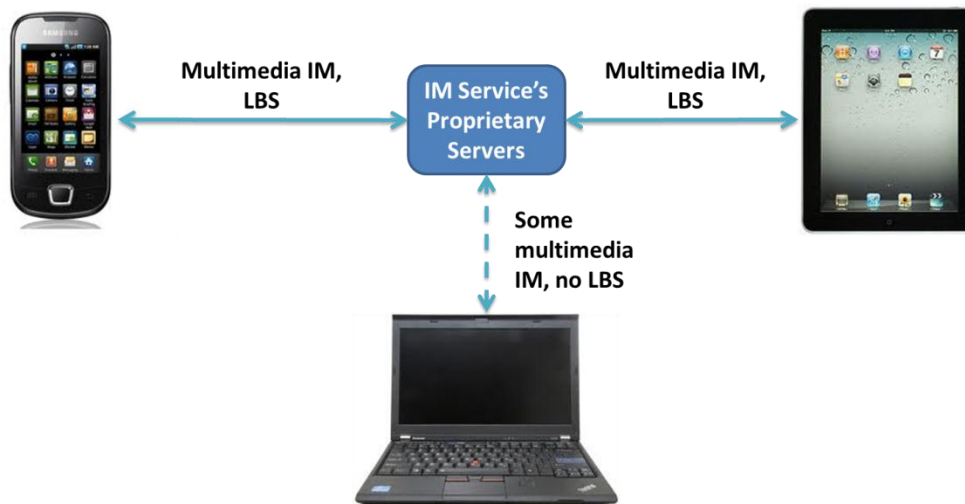
Figure 14 Chart Comparing Features on Mobile IM Services

As of May 2012

	PCs and Most Mobile Phones			Smartphone Required	
	QQ	Fetion	MSN	Weixin	Feiliao
Access to Large Domestic User Base	x	x		x	x
Group Chat	x			x	x
LBS				x	x
Stranger Locator (Shake Shake)				x	x
Microblog Updates	x	x	x	x	x
Multimedia Messages	x	x	x	x	x
Photo Sharing				x	x
Video Chat	x	x	x	x	x
Voice IM (walkie-talkie)				x	x

Source: Company Websites

Figure 15 How Mobile IM Works



Source: Company Websites

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