

## Case II: Micro Platform, Major Innovation—WeChat-Based Ecosystem of Innovation

The end of 2010 welcomed the debut of several mobile instant messaging tools. Interactive Technology launched “iGexin” on November 7th, 2010. Tencent set up the project of “WeChat”<sup>1</sup> on November 20th. Xiaomi Technology introduced “Milio” on December 10th.

In the era of mobile Internet, it is necessary to “choose the right innovation at the right time” to make a success. During the past four years, by virtue of Tencent’s rich social network resources, WeChat carried out targeted innovation and rapid iteration, growing from an average messaging app to an omnipotent platform serving basic needs of everyday life. As a phenomenal product generating profound social and economic effects, WeChat has nurtured the largest ecology in the mobile Internet.

WeChat is now unlocking the potential of its official account platform in marketing and e-commerce, attracting numerous developers, traditional companies and startups to come and gain a foothold. WeChat is laying stepping stones for the grand vision of “mass entrepreneurship and innovation”.

### Precision Innovation and Rapid Iteration

Founded in 1998, Tencent Holdings Ltd. has long been dedicated to the development of social network, and introduced the first instant messenger in 1999. The company was listed in Hong Kong in 2004, when the majority of its profits derived from the value-added services of China Mobile and Telecom. It earned the revenue

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This case was prepared by Professor Zhu Xiaoming of CEIBS, part-time case research fellow Li Yang, research assistant Ren Yifan, and part-time research fellow Song Yanbo based on public materials. It is intended as a basis for class discussion rather than an illustration of an either effective or ineffective handling of a management situation.

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<sup>1</sup>Zhang [1].

of RMB 19.6 billion in 2010, most of which came from Internet value-added services (games). The instant messenger QQ run on PCs used to be the core product of Tencent.

At the end of 2010, the organic integration of Internet, mobile Internet and smart terminals intensified the competition in mobile instant messaging market. By that time, mobile Internet users had accounted for 66.2% of the total number of netizens in China.<sup>2</sup> The penetration and adoption rates of smart terminals continued to climb in China, and the habits of Internet users began to change, ushering in the new era of mobile Internet.

Ma Huateng, Chairman and CEO of Tencent, voiced his opinion of this new trend:

To gain an upper hand in the era of mobile Internet, we can't simply rely on any single product of any department. All departments should work to ensure that all their products can be run on both PCs and mobile terminals, so as to fully embrace mobile Internet... However strong you are, the overwhelming wave of mobile Internet can easily capsize your boat of business, should you have any negligence. Therefore, we should always hold industry evolution in awe and commit ourselves to providing better services.<sup>3</sup>

Tencent is like a super incubator that has given birth to over 1700 products.<sup>4</sup> When WeChat was set up as a new project, the QQ team was developing another mobile instant messenger QChat. Eventually, the development of WeChat left QChat in the dust and the QChat project was called off.<sup>5</sup>

Up to now, WeChat has eclipsed QQ and is valued at USD 64 billion.<sup>6</sup> WeChat has become an integral part of Chinese people's daily life. According to a survey in 2014, 69% of the interviewees used PC chat tools to communicate, while 80% used WeChat for communication.<sup>7</sup>

The story of WeChat started from a simple idea. On November 19th, 2010, Zhang Xiaolong, General Manager of the R&D Dept. of Tencent Guangzhou, wrote on Weibo:

My only expectation for iPhone5 is that it doesn't support phone call just like iPad (3G). In this way, I can save on phone bills while you can still text me through Kik, call me through Google Voice, and video chat with me through Facetime.<sup>8</sup>

The WeChat project was kicked off on the next day.

Mr. Zhang is a senior product manager who developed Foxmail in 1997 and then took charge of QQMail after Foxmail was acquired by Tencent. Since the launch of the WeChat project, rapid iteration has brought along many innovative features. By

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<sup>2</sup>CNNIC Report Analysis [2].

<sup>3</sup>Ma [3].

<sup>4</sup>Nan [4].

<sup>5</sup>Ma [5].

<sup>6</sup>WeChat Valued at USD 64 billion, Three Times the Value of WhatsApp, zol.com, March 13, 2014.

<sup>7</sup>Zhang [6].

<sup>8</sup>Zhang [1].

July 2012, Mr. Zhang's original ideas (functions of text, phone call and video chat) for the WeChat had been completely brought to life through the release of its version 4.2.

WeChat's major versions and their features are as follows:

**Version 1.0:** The slogan of “free SMS with photos” failed to attract customers due to the inexpensive monthly plans offered by mobile operators.

**Version 1.2:** The feature of sharing pictures was introduced.

**Version 2.0:** The feature of voice chat found favor with customers. WeChat-related posts popped up on Sina Weibo on a per-minute basis.

**Version 2.5:** The feature of “People Nearby” was introduced, enabling social interaction among strangers through voice service and LBS (Location Based Service).

**Version 3.0:** The feature of “Shake” was introduced. The number of users grew exponentially, establishing WeChat as a market leader.

**Version 3.5:** The feature of “Scan QR Code” was introduced.

**Version 4.0:** The feature of “Moments” enabled users to share texts, pictures, music and videos in an intimate circle. WeChat opened APIs in order to build a mobile social platform.

**Version 4.5:** Features of voice/video call, Web WeChat, following/subscribing official accounts were introduced.

**Version 5.0:** Features of WeChat payment, Sticker Gallery and Games were introduced to tap into business opportunities. The upgraded feature of Scan QR Code could provide useful information after scanning barcodes, English texts, book covers, and streetscape. The game “Plane Fight” soon became a hit upon its release.

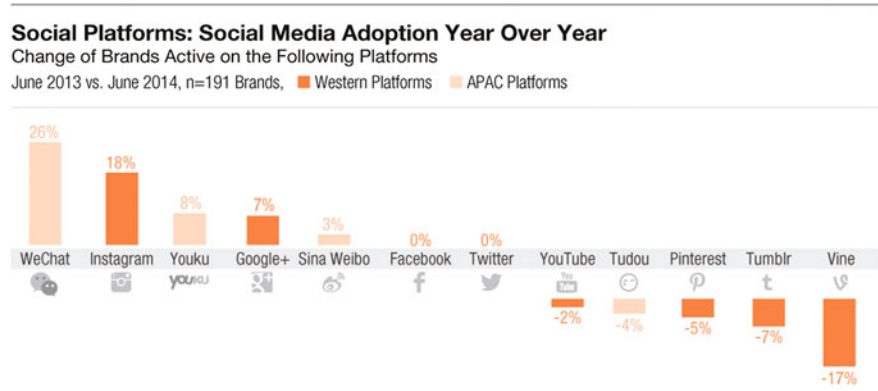
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WeChat released 45 versions for different terminals in 2011, updating almost once a week. It evolved from a provider of “free SMS with photos” to “the most favored mobile instant messenger”. Although its speed of updating slowed down after 2012, micro innovations have paved the way for structural platform innovation, which triggered powerful disruptive effects.

WeChat grew into one of the top social platforms in China in four years, tapping into the market outside the sphere of Tencent and establishing itself as a mobile Internet platform. The growth of WeChat outran global social platforms in 2014. From June 2013 to June 2014, the adoption rate of WeChat (overseas version) was up by 26%, leaving other social platforms far behind. In comparison, Instagram saw an increase of 18% in the adoption rate, Facebook and Twitter registered zero growth, while YouTube, Pinterest and Tumblr suffered negative growth<sup>9</sup> (see Fig. 1).

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<sup>9</sup>Zhang [7].



**Fig. 1** Changes in Social Media Adoption Rates (June 2013 to June 2014). *Source* L2 Intelligence Report, “Social Platforms: L2 Assesses The Social Investment And Performance of 382 Brands Across 17 Platforms”, <http://www.l2inc.com/social-platforms/>

Methodology of “Micro Innovation”

A small product can have a large market. With micro innovations cropping up one after another, WeChat serves as a typical example of disruptive innovation within a big company.

WeChat has integrated social interaction, e-commerce, payment, and O2O features into one platform. It offers various functions such as instant messaging, Moments, Contacts Sync, QQ Mail alert, Weibo message alert, Message in a Bottle, People Nearby, Voice Notes, Shake, Broadcast Messages, access to Weibo, mobile data check, game center, access to JD.com, official accounts, WeChat payment, intelligent hardware interface, and JS SDK.

Many of these features are not original. The WeChat team has applied others’ original ideas to its own product and strived to provide the best user experience. As Zhang Xiaolong explained:

After the release of WeChat 4.0, many industry critics accused us of plagiarizing Instagram or Path. However, few discovered the exquisite beauty of the feature Moments. They didn’t realize what a risky move it was to provide social networking service on the basis of QQ relation chain, and how we tried to avoid the potential harm to user experience by making regional improvement, let alone the possible structural change brought by the third-party content introduced through open interfaces. When they attempt to cover up their mediocre performance and refuse innovative ideas by accusing us of plagiarism, they are falling further behind.<sup>10</sup>

Examples of micro innovation abound during the iterative development. For instance, with the improved version of Voice Chat, you can hear voice messages

<sup>10</sup>Sun [8].

through the receiver when the proximity sensor is activated and the loudspeaker is only turned on when your ear is away from the phone. This is a considerate way to keep user privacy from being broadcast in the public.

The WeChat team has formed its own methodology to achieve precision innovation and rapid iteration.

### ***A Decentralized Organizational Structure***

Innovative ideas often stem from the lower level of an organization. In many companies, it's the profit-making department that has the biggest say, and this is of no help to their long-term development. In Tencent, new departments are independent of those cash-cow departments, namely, wireless business and interactive entertainment systems. The WeChat team has little to do with the core businesses of the company. Most important, WeChat, as a project of disruptive innovation, was not screened out or stashed away by the frustrating evaluation process.

### ***Small Teams Led by Project Managers***

Different from the standardized manufacturing process, micro innovations cannot be carried out on the assembly line. Small capable teams and breakthroughs of the conventional process are the defining features of micro innovations. Mr. Zhang persists in the mode of small teams by fully empowering each team and streamlining the cooperation process, so as to motivate team members.

### ***Innovate and Rapidly Iterate by Keeping Abreast of the Times***

The technologies used by WeChat are simple but not original. WeChat bases its features on structural functions built in smart phones. For example, Voice Chat relies on microphone and loudspeaker, People Nearby on GPS module, and Shake on gravity sensor module. These innovations have everything to do with the recombination of underlying technologies and function modules for the sake of better user experience. While upholding the principle of “Simplicity is Beauty”, the WeChat team attends to user demands and works on details to improve the product. These practices seem easy to copy, but the fact is that none of the similar applications can keep up with the rapid iteration of WeChat.

### ***Less Is More and Reverse Iteration***

WeChat has never blindly added the features recommended by users. Instead, it has cut certain features to make the product more user-friendly. For instance, iPhone's iMessage can send read receipts to users. The WeChat team didn't follow suit because they didn't want to disturb users with a feature that may force the receiver to reply immediately. They put much emphasis on reverse iteration, as they are aware that a product is not welcomed for its numerous features, but for its convenience to use.

### ***Dynamic Management and Targets for Different Stages***

Good ideas sprout up all the time and users tend to abandon old products for new ones. With the ever-changing market, advantages in resources today may soon be rendered obsolete. Moreover, the high turnover of the WeChat team members necessitates dynamic management and formulation of targets for different stages.

### ***Open Interfaces and Set up the Platform***

Tencent used to copy competitors' products and grabbed market shares from many SMEs whose products were eventually forced out of the market. In recent years, Tencent has adjusted its strategy and gradually set up an open platform on <http://open.qq.com/> and released Internet Open Platform White Paper, offering access to third-party applications. WeChat is now dedicated to establishing a platform by opening API and introducing commercial opportunities.

### ***Innovation of Platform Service***

WeChat has become the new soul of Tencent. As the part and parcel of Tencent's strategic layout, it explored international business, stood against the expansion of Baidu and Alibaba Group, and acquired shares in Dianping and JD.com. On May 6th, 2014, Tencent announced the establishment of WeChat Business Group and appointed Zhang Xiaolong as its president, signaling WeChat's transition from a mobile social networking product to a business system of strategic importance.

Openness serves as the prerequisite for a mobile Internet platform like WeChat. Ma Huateng, Chairman and CEO of Tencent, explained why WeChat was positioned as a platform.

We put more focus on the economic system (than the product alone), so we want to build a platform and invite partners to join and develop it... Sustained growth

**Table 1** Nine open APIs offered by WeChat

Open Access	Description
Speech Recognition	Recognize and translate users' voice messages into text
Customer Service Interface	Official accounts can reply users within 12 h after receiving users' messages
OAuth 2.0 Authorization	Official accounts can request user authorization
Parametric QR Code	Official accounts can get QR codes with different parameters and analyze their effects through parameters after users scan codes to follow accounts
Users' Location	Official accounts can access the location of users when they open accounts (upon user approval)
Users' Basic Information	Official accounts can obtain users' basic information including profile photo, name, gender and region through encrypted OpenID
Followers' OpenID	Official accounts can obtain the OpenID of all its followers
User Group	Official accounts can group users, create and edit groups in the backstage
Upload or Download Multi-Media Files	Official accounts can upload and download multi-media files through the WeChat server when needed

can only be achieved when you are able to bring new business opportunities onto the platform and bring mutual benefits to your partners and yourself.<sup>11</sup>

Take the nine open APIs offered for free for service accounts for example. Companies like China Southern Airlines, China Merchants Bank, Guangdong Unicom have used these open interfaces to provide customized service and even “intelligent customer service”. The official account of “Haier Intelligent Air Conditioner” offers the feature of speech recognition, through which WeChat receives instructions from the user and then sets the temperature, fan speed and mode of the air conditioner. The official account of iCNTV also adopts this feature and allows users to switch TV channels through speech recognition, which is more convenient than the remote control (see Table 1).

WeChat also optimized the way of online communication. The WeChat team refined the model of Path to provide better user experience through the feature of Moments. User relations fall into several categories and only friends on the strong relation chain can see and comment each other's posts. Contents in different relation chains are separated from one another under precise control.

These refined innovative features dealt a blow to such competitors as Miliao and Sina Weibo. The user activity rate of Sina Weibo plummeted by at least 30% in 2012, and meanwhile, more than 60% of the 300 million WeChat users were active in the Moments.<sup>12</sup>

<sup>11</sup>Ma [3].

<sup>12</sup>Sun [8].

WeChat's innovation is carried out in four categories:

**Service Integration:** O2O service innovation in the business sector;

**Ecosystem:** Opportunities for entrepreneurship and innovation born from the official account platform;

**Rapid Iteration:** Product innovation such as Shake and Moments;

**Progressive Innovation:** Innovation with underlying technologies such as Intelligent Recognition and data application.

Based on the social network, WeChat has set up a platform providing services for everyday life, which is closely related with traditional industries. Its official account platform has created a wealth of opportunities for entrepreneurship and innovation. And it also supports O2O service innovation to promote businesses.

Similar to Weibo, WeChat plays a role of medium. According to the survey, more than 60% of users open WeChat over 10 times each day. User loyalty has made WeChat the main channel for users to obtain information. 73.4% of users follow official accounts while 40% get information from official accounts, WeChat groups and Moments.<sup>13</sup> The official account platform has drawn the authors who had faded away with the era of blog back to contribute original articles.

From July 2013 to June 2014, the volume of information consumption driven by WeChat stood at RMB 95.2 billion, equivalent to 4.24% of the national total in 2013. Apart from data consumption, which is the biggest share of WeChat's contribution to information consumption, games and official accounts on WeChat have also seen the rise in consumption.<sup>14</sup>

WeChat has taken gradual steps to cash in on its features. Game distribution, IP traffic export, financial products, paid stickers, and ads on mobile terminals were introduced to make profits. WeChat 5.0 classified official accounts into subscription accounts and enterprise accounts. More and more businesses have opened up official accounts to attract users and provide rich user experience. Since WeChat can help companies establish proprietary communication channels, it's reasonable to collect service fees (see Fig. 2).

WeChat has carried out service innovation in such areas as multi-customer-service system, WeChat stores, WeChat ads, Wechat logon, intelligent platform and hardware.

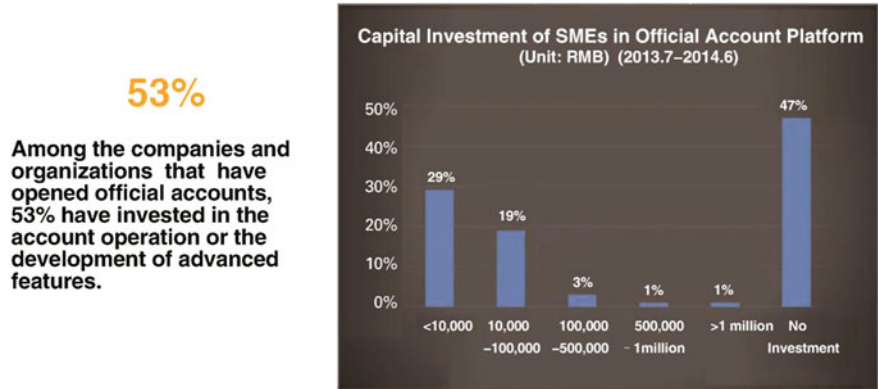
As the fast track for small businesses to open up stores, WeChat stores provide native support for store keepers. Presently, 95% of the businesses that have enabled WeChat payment have set up WeChat stores. WeChat has cooperated with the advertising platform Guang Dian Tong to sell WeChat ads, attracting over 10,000 advertisers. Targeted promotion for advertisers is made possible via WeChat's big data.

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<sup>13</sup>“Report on the Social and Economic Impacts of WeChat”, 199it.com, January 27, 2015.

<sup>14</sup>“Report on the Social and Economic Impacts of WeChat”, 199it.com, January 27, 2015.





**Fig. 2** The Impact of WeChat Official Account Platform. *Source* “Report on the Social and Economic Impacts of WeChat”, 199it.com, January 27th, 2015

## An O2O Closed Loop Formed by WeChat Payment

The survey shows that 20% of the brands that choose to cooperate with WeChat are attracted by the brand loyalty this platform can help build.

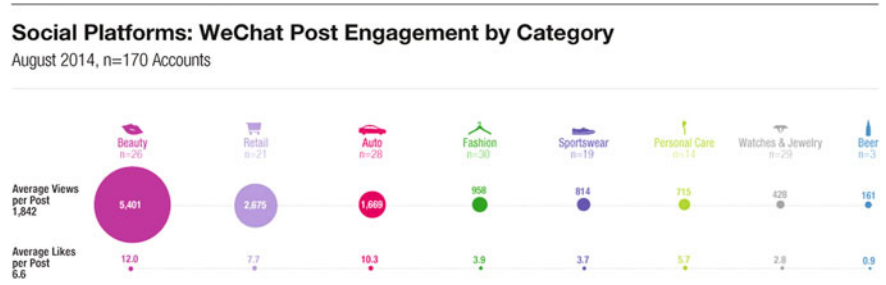
Different from their digital marketing approaches on other social media such as Facebook and YouTube, luxury brands put much focus on how to make full use of the highly interactive feature of WeChat. The setting of two-way following and privacy of individual information have increased the reach and effectiveness of promotion on WeChat. Louis Vuitton opened up an official account to provide one-on-one customer service. Cartier official account can offer users immediate information about the nearest store, its map, contact and navigation by means of Location-Based Service. Consumers can also use the function of “translation” to check product information and communicate with shop assistants while shopping overseas.<sup>15</sup>

The steady commercialization of WeChat has something to do with the growth of its infrastructure, WeChat payment.

Since the launch of WeChat 5.0, the team has been committed to the strategy of building a platform. WeChat payment allows users to pay bills by scanning QR codes, and it also can be used for in-app purchase and payment in official accounts. WeChat has introduced third party operators such as Dangdang, Youku, Dianping, and JD.com, and enabled users to top up phones, buy movie tickets, lottery, and coffee through the platform. On November 28th, 2013, WeChat jointed hands with Xiaomi in launching a flash sale, during which 150,000 Xiaomi phones were snapped up in less than 10 min.<sup>16</sup>

<sup>15</sup>Zhang [7].

<sup>16</sup>Flash Sale of Xiaomi on WeChat [9].



**Fig. 3** WeChat Post Engagement by Category. *Source* L2 Intelligence Report, “Social Platforms: L2 Assesses The Social Investment And Performance of 382 Brands Across 17 Platforms”, <http://www.l2inc.com/social-platforms/>

All the functional features of WeChat platform, namely, WeChat payment, LBS, membership service, sample display, voice chat, and live chat, can generate profits. For instance, thanks to product display and membership service offered through the WeChat platform, beauty brands have earned the most views and “likes” per post (see Fig. 3).

WeChat payment is the corner stone for its path of commercialization. WeChat has focused on “one-click payment” and formed an O2O closed loop, posing a direct challenge to Alipay. In 2013, it took three months for WeChat payment to obtain 10 million users from scratch. Today, it’s still growing by attracting over 100,000 new users per day.<sup>17</sup>

The growing influence of WeChat payment was evidenced by Taobao’s attempt to block it. Since many Taobao stores have official accounts on WeChat, as long as they link bank cards to WeChat, they can easily execute transaction and payment by scanning QR codes on WeChat without paying extra fees. Moreover, Tencent’s E-commerce Department provided tens of thousands of offline stores with QR codes for WeChat payment, forcing Alibaba to fight back by blocking visits from WeChat under the pretext of security concern.

WeChat Red Packet was introduced with much fanfare as a way to boost WeChat payment. Red packets that are sent to each other based on users’ social relation chain encourage users to link bank cards to WeChat payment, thus making this feature a secret weapon in the battle of mobile payment. The popularity of red packets can tell a lot about the growth prospect and business potential of WeChat payment.

Tencent has set up a team composed of staff from nearly 20 departments to ensure smooth operation of red packets. Another feature “Shake” is also pivoting to commerce. Apart from “shaking” to find people, users can now opt for “Nearby” to shake for red packets, coupons offered by nearby stores and their indoor navigation.

WeChat jointed hands with businesses to deliver random red packets to users through “Shake” during festivals. On the New Year’s Eve of 2014, WeChat users

<sup>17</sup>War of Payment [10].

shook 4.82 million times to receive more than 20 million red packets, which was 9412 packets per minute. In the Spring Festival of 2015, “Shaking for Red Packets” turned into a national carnival, which saw 7.2 billion times of shakes (810 million times per minute during the peak) and 120 million red packets given away.<sup>18</sup>

## Global Positioning and Globalization

Tencent’s WeChat (overseas version), America’s WhatsApp, and Japan’s Line are recognized as the three giants in the field of mobile instant messaging. These products share the features of free messages, voice chat, social networking based on LBS, and contacts sync, but differ in product ideas, business models and cultural backgrounds (see Table 2).

WhatsApp, an application famed for clean design and dedicated to communications service, has positioned itself as a SMS alternative since its inception. With the slogan of “No Ads, No Games, No Gimmicks”, WhatsApp promises never to introduce ads or fashionable features like emoji, but to serve group or private chats only and keep users always online.

Users can enjoy the first year of WhatsApp service for free, and pay USD 0.99 per year after that. In Taiwan, however, the free app Line posed a challenge to WhatsApp. The co-founder of WhatsApp Brian said, “We changed the business model in Taiwan by making it free, but we’ve already lost the chance there.”<sup>19</sup>

Facebook, Tencent’s major rival in global instant messaging market, announced on February 19th, 2014 that it would acquire WhatsApp for USD 19 billion. WhatsApp suffered a deficit of USD 230 million over the first half of 2014 and slowed down its process of commercialization after acquisition.

Compared with WhatsApp, Line is more like WeChat, boasting rich functions such as free calls, free messages, status of always online, stickers and emoji, change of background pictures and group chat, with interesting stickers as its most prominent feature. By October 2014, Line had attracted 560 million users worldwide with 170 million active user accounts. Apart from Japan, Line has made its way into markets of Thailand, Indonesia, Spain and Taiwan.

Line has also produced dozens of derivative products which run independently, including postcard, camera and picture editing, painting, location sharing, interest group, three social games, anti-virus protection, private social network, weather forecast, manga reading, etc. According to statistics, Line users, on average, send a sticker every six sentences in chat sessions. Line pockets over USD 10 million per month by selling stickers. Opening official accounts for companies and stars and

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<sup>18</sup>810 Million “Shakes” per Minute for Red Packets During the Spring Festival Gala, Beijing Times, February 19, 2015.

<sup>19</sup>Nan [11].

**Table 2** Comparison of Mobile Instant Messaging Products

App	Country	Number of Users	Active Users	Services	Business Model	Cultural Background
WeChat	China	About 700 million	438 million	Integration of social networking, e-commerce, payment, and O2O features	Ads and game distribution	Profound Chinese Culture
WhatsApp	US	Nearly 1 billion	700 million	Confine to group or private chat, featuring voice chat, text, photo, video, and location sharing	Annual fees of USD 0.99	American Puritanism
Line	Japan	560 million	170 million	Develop Line as the core product while introducing derivative products	Games, stickers and ads	Manga Culture

All data came from the latest official data release of these apps. The user numbers of WeChat and WhatsApp were the estimation by referring to survey agencies' data

*Source* Nan Qidao, "Three Giants of Social Networking: What are the Differences Among WeChat, WhatsApp and Line?", Tech 163, January 29th, 2015

selling ads are also important sources of its revenue. As its major cash cow, the game business contributes more than half of Line's total revenue.

WeChat functions more like a platform than WhatsApp and Line.

It's easier for mobile communications service to cross borders and reach global users than search engines and e-commerce. WeChat has been translated into over 20 languages and attracted more than 40 million overseas users. It topped the rankings of App Store's most popular social networking apps in 15 international markets in 2012. Tencent is vigorously expanding its international business by tapping into Southeast Asia, Latin America, South Africa, Europe and the US. To promote the product in Europe and the US, WeChat promised to reward the user with a 25-dollar gift card if he or she could invite five friends to log in WeChat.<sup>20</sup>

The advertising revenue of Facebook was over USD 5.5 billion in 2014, more than 66% of which came from its mobile advertising. According to Tencent's financial statement, its advertising revenue in Q3 2014 was RMB 2.44 billion, only 12% of the total revenue. These figures show the great potential of mobile advertising.

## Mass Innovation Inspired by the Official Account Platform

"WeChat is a life style," claimed its official website.

<sup>20</sup>Nan [11].

The Internet has restructured the life style of Chinese consumers. For instance, 60% of consumers went to theaters for movies a decade ago. Fast forward to 2014, 69% people watched movies online or after downloading and 49% used mobile terminals to enjoy movies. The Spring Festival Gala, once a must-see TV show on the eve of the Lunar New Year, is now losing its attraction and even reduced to the background music during the festival, which couldn't have been imagined in the past.

What's also beyond expectation is the innovation capacity of Chinese enterprises. Chinese Internet products used to be considered as knock-offs of Silicon Valleys' innovative products. Tencent's QQ, for example, learned a great deal from the pioneer product ICQ. However, Chinese companies often come up with more interactive and interesting innovative services to knock over the "masters" at Silicon Valley.

Tencent reigns in the Chinese market, functioning like an empire composed of AOL, Facebook, Skype, Yahoo, Gmail, Norton and Twitter. WeChat offers more powerful features than WhatsApp in the field of mobile communications. Compared with Microsoft's Skype, users of WeChat can choose whether to reply or when to reply a message. WeChat users can also communicate with strangers through "People Nearby" and share photos with friends through "Moments", a feature like Instagram.

WeChat is evolving into an ecosystem of mobile Internet. Zhang Xiaolong described his vision of this ecosystem:

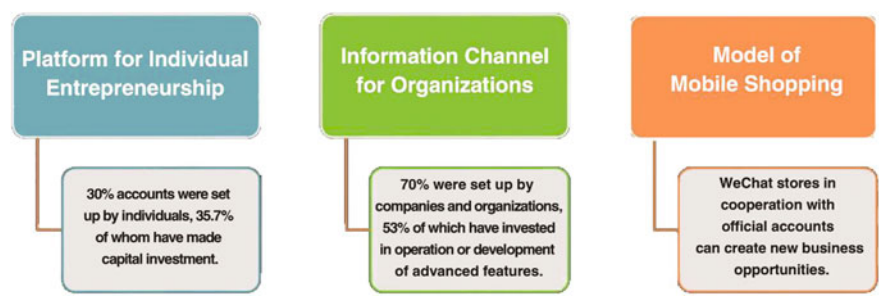
We hope to nurture a forest, an environment where animals and plants can grow freely... We hope this official account platform is a dynamic system. We don't think a system with rigid fixed rules is a good one. A dynamic system is more likely to achieve dynamic stability. Therefore, instead of doing everything by our own, we invite third parties to build this system with us. WeChat official account platform will see constant changes because this system is always improving itself. It's these changes that help our system obtain dynamic stability... All our concerns are based on one prerequisite, user value first.<sup>21</sup>

Varied features and service innovation of WeChat have brought about abundant opportunities for entrepreneurship and innovation. Consumers can do shopping in different scenarios such as booking hotels and plane tickets, and buying financial products... Each scenario is associated with a traditional or innovative industry. WeChat is like the West during the time of American Frontier, where chances for gold rush abound (see Fig. 4: Entrepreneurial Opportunities Brought by WeChat).

Why this platform can encourage innovation? This should be attributed to Zhang Xiaolong's ideas of "decentralization and disintermediation". WeChat is delegating the power of connecting customers to companies, instead of having everything to itself and charging others for using the platform. Companies need to take the initiative in establishing new models of connecting customers. Having nothing to

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<sup>21</sup>Zhang [12].



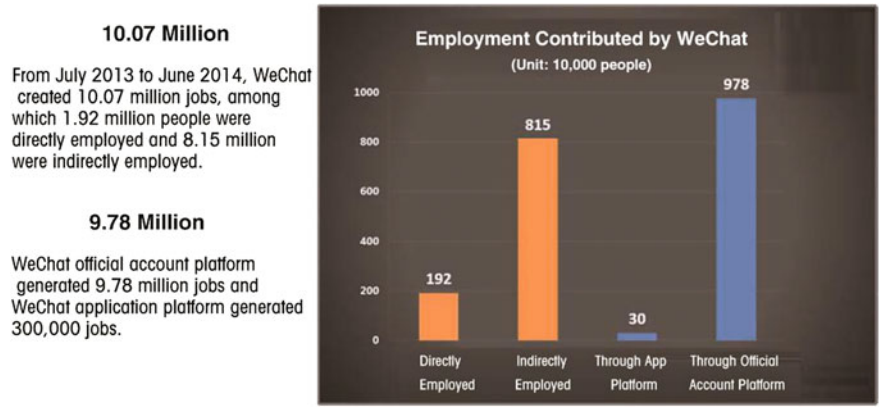
**Fig. 4** Entrepreneurial Opportunities Brought by WeChat. *Source* “Report on the Social and Economic Impacts of WeChat”, 199it.com, January 27th, 2015

do with scheme or calculation, this design speaks of profound expectation for this fledgling platform.

Mr. Zhang’s dream has just taken off. Being a platform for entrepreneurship and innovation, WeChat has generated social effects unparalleled by any other similar product in China.

According to statistics, from July 2013 to June 2014, WeChat provided 10.07 million jobs, among which the official account platform contributed 9.78 million jobs and the application platform 300,000 jobs; 1.92 million people were directly employed and 8.15 million were indirectly employed (see Fig. 5). Apart from Taobao.com, WeChat has become another major stage for small startups and entrepreneurs.

The trend of mobile Internet is reaching out to every nook and corner of China’s social life. In the fast-changing business world that’s always reforming itself with new ideas, more efficient and effective models are successively being proposed and practiced. WeChat is not doubt the masterpiece born from this trend of innovation.



**Fig. 5** WeChat’s Impact on Employment. *Source* “Report on the Social and Economic Impacts of WeChat”, 199it.com, January 27th, 2015

The relation chain and ecosystem of WeChat have aroused the passion for exploration and creation among the general public.

Thanks to WeChat, we are a step closer to the day of “mass innovation”.

## Case Analysis I

### A Successful Example in the Prosumer Age

#### Ye Weiling

There is a slogan on the official WeChat website which reads “WeChat is a lifestyle”. If you consider this slogan to be dull and not very creative, you may not fully understand the notion of “lifestyle”. In short, a lifestyle refers to a person’s behavioural pattern, which from a business perspective, determines how they allocate time and money. The success of WeChat and WeChat-inspired technologies, as described in the case study, shows how companies can succeed in the Internet age by revising their understanding of consumers.

When the Industrial Revolution began over 200 years ago, as machines began to replace manpower, producers and consumers were divided into two separate categories with distinct roles and functions. However, this clear boundary has become blurred over time. In 1980, the futurist Alvin Toffler created the word “prosumer” in his book *The Third Wave*, to describe the merging of producers and consumers.<sup>22</sup> Over the next 20 years, this concept was not a hot topic for research or practical operations.

Yet as we entered the 21st century with ever-expanding Internet use, Alvin and Heidi Toffler relaunched a discussion on this topic, with a specific section focusing on the “coming prosumer explosion” in their new book.<sup>23</sup> Then over the last decade, the concept went viral. Marketing experts went beyond the notion of “consumer”, developing new concepts such as “post-consumer”, “value co-creator”, “working consumer”, “playbor”, “digital labor”, and “cosumactor” based on Actor Network Theory (ANT), all reflecting the deep insight of theorists into practice and experience.

In fact, consumers have been engaged in production (supply) activities for a long time. When researchers contemporary with the Tofflers studied self-service, they were surprised to discover that rather than resenting the additional labour, consumers actually found it liberating, in particular many “poor” consumers who believed self-service would protect them from the disapproval of store owners or

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Ye Weiling, Associate Professor, School of International Business Administration, Shanghai University of Finance and Economics.

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<sup>22</sup>Toffler [13].

<sup>23</sup>Toffler and Toffler [14].

staff. So self-service could make store owners and customers more independent and even promote harmony in the community. For the same reason, consumers were also happy to use self-service equipment, which was then further developed and improved. The most typical example is supermarket trolleys.

Nowadays, self-service shopping with trolleys is unremarkable. But store owners in the 1940s didn't like self-service equipment, as their understanding of stores and shoppers was very different from today. Although the promoters said this equipment would save labour costs, the owners still considered service as an investment in customer loyalty, rather than a cost. They were so attached to helping customers choose products, and controlling the supply side, that they considered service levels to be their unique selling point. But in fact there were more and more customers willing to use shopping trolleys, who enjoyed having an open and free shopping environment. They were happy to browse and select products themselves, rather than relying on the 'controllers'.

Using shopping trolleys in grocery stores was considered to be revolutionary. No campaigns were held to introduce them yet consumers were willing to take on some of the labour involved in the shopping process and sales volumes even increased. Then as trolleys were used by more and more consumers, they were continuously improved, and a range of new self-service equipment was developed, such as trolleys with child seats and devices for collecting shopping data. This meant retailers could offer a more diverse shopping experience and acquire valuable information to improve their management.

These days, shopping trolleys have been replaced by mobile phones and websites. The growing number of users has led to the continuous improvement of self-service equipment; and users are willing to take more responsibility on the supply side without feeling like they are working. This unconscious joint value creation ensures more revenue for Internet companies. Now prosumers use various platforms such as Google, Wikipedia, Baidu, Sina, Facebook, Taobao, Amazon, Twitter and WeChat, as well as food delivery, taxi booking and radio applications. Without their contribution, such products would not even be possible.

Although many traditional companies are still reluctant to give control over supply to consumers, just like the store owners who rejected shopping trolleys, as computers and the Internet become more and more popular, the prosumer age seems to be quite unstoppable, just like the Industrial Revolution.<sup>24</sup>

As well as new-generation prosumers, older consumers also want to get in on the act. Indeed, some of them are rewarded for their contribution to production, such as those who work on the Amazon Mechanical Turk (MTurk), a crowdsourcing Internet marketplace. However, even more people are acting as both consumers and producers without receiving any payment, they simply enjoy it. Prosumer characteristics can be summed up as follows: (1) they are not aware of (or don't care about) their participation in supplying products or services; (2) when buying products or services, they are also creating value through labour; (3) they have a

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<sup>24</sup>Ritzer [15].



conscious positive attitude rather than deliberate resistance towards the whole process of prosumption, for example they enjoy being involved in production.<sup>25</sup>

There is no doubt that the success of WeChat, as well as various innovations by WeChat users, is based on these conscious positive attitudes. However you describe WeChat users, given their wide range of innovations, considering consumers to be independent from producers has become outdated. A traditional mindset tends to put producers and consumers into opposing and separate positions. Whether for practical operations or theoretical research, this mindset contributes nothing to the debate.<sup>26</sup>

In short, WeChat-enabled prosumption can be considered to be the best way of combining production and consumption. During this process, prosumers not only have a certain control over production, they also enjoy the pleasure of consumption. In addition, they may feel less manipulated and can avoid the effects of advertising.<sup>27</sup> Whether online or offline, prosumers get both physical and spiritual benefits from the process of prosumption. For companies that promote the concept of prosumption (such as WeChat and various innovators on the platform), they can benefit by selling relevant products or offering abundant and accurate data.

## Case Analysis II

### The Vitality of Micro Innovation by WeChat

#### Xu Qiang

After its launch in 2010, WeChat become the leading Chinese mobile Internet platform in less than four years. This great success could not have been achieved without Tencent's corporate culture that encourages internal innovation. Although Tencent already had QQ, a successful interactive product, they showed great daring and vision when they followed the mobile Internet trend and developed WeChat. The WeChat development team was led by Allen Zhang in the Tencent R&D Centre in Guangzhou, rather than the QQ team, a further indication of the open environment for innovation projects at Tencent. The company spares no effort in supporting each innovation team and project and has been a super incubator for about 1700 products, making Tencent into an undisputed Internet business empire. This shows that internal innovation is of great importance to company development

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Xu Qiang, 2013 EMBA student of CEIBS, Chair of Shanghai Qiao & Yun Construction and Engineering Co., Ltd.

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<sup>25</sup>Cochoy [16].

<sup>26</sup>Ritzer and Jurgenson [17].

<sup>27</sup>Chia [18].

and survival, in particular Internet companies who have to achieve innovation against the clock.

WeChat is typical in the current “Internet Plus” age of mass innovation. At first, WeChat built their success on services and user experience, which were valued by the product team for achieving “micro innovation” throughout the entire R&D process. Then their open and inclusive attitude towards development allowed them to turn their simple mobile messaging app into a platform product that could support the whole mobile Internet ecosystem.

The concept of “micro innovation” was first introduced by Zhou Hongyi, Chairman of Qihoo 360, for Internet product innovation. As new technologies continued to emerge and mobile Internet became more and more popular, the user base expanded from certain specific groups to the entire population of China. This also made Internet developers shift their focus from technology to user experience. With an accurate understanding of user needs and more improved services, a product can easily go viral. Unlike product development based on platform construction, “micro innovation” focuses on specific user groups and delivers the best user experience with meticulous attention to detail and continuous trial and error, in an effort to meet their specific needs.

“Micro innovation” is often considered to be the best methodology for Internet entrepreneurship in the age of mass innovation. A new product doesn’t have to come from a new idea. With a single-minded focus on target user needs, and continuous improvement of the user experience, an entrepreneur can create an excellent product from scratch or based on existing products. WeChat is a typical “micro innovation” product. Before the WeChat project was launched, instant messaging apps for mobile had already swept the market. WeChat was inspired by Kik, an instant messenger app that was once top of the App Store. There were many imitators such as iGexin and MiTalk at the time. So how was WeChat able to stand out from so many competitors? First, its long standing presence in social media meant Tencent had an existing customer base that could easily be converted into Wechat users. Second and most importantly, the WeChat team’s accurate understanding of user needs offered more streamlined and user-friendly messaging and social experiences.

WeChat has the following major “micro innovations”:

Voice messaging. Although voice messaging is now widespread in mobile instant messengers, WeChat has been developing this function since the early versions, which clearly provides a better user experience than text messages, bringing WeChat a large number of new users.

Communicating with strangers. Location-based services (LBS) are one of the greatest advantages of mobile Internet. By integrating messaging and LBS for the first time in China, WeChat developed a feature called “People Nearby”, so that users could communicate with strangers. They then launched another “micro innovation”, a feature called “Shake”, based on the gravity-sensing function of

smartphones, ensuring easier and more interesting communication with strangers. With this new feature, WeChat experienced explosive user growth.

Clear social boundaries Instagram, a social media app based on photo sharing, has been amazingly successful. WeChat also integrated photo sharing into its 4.0 version and launched a new feature called “Moments”. This thoughtful feature helps users create a clear boundary between strangers and their social circles. With “Moments” users and their friends can share photos, videos and text information if they belong to the same social circle. You can also contact strangers with the “People Nearby” and “Shake” features. This means it’s great for communicating with friends and with strangers.

Protecting user privacy. WeChat protects user privacy in several ways, for example, “Moments” comments are only visible to mutual friends; user status such as “Online” or “Invisible” has been removed; and voice messages can be played in two different ways, depending on the distance of the phone from your ears. Users are bound to appreciate such careful design.

As the WeChat app was being developed, instead of creating original technologies or ideas, the company focused on improving user experience as much as possible with “micro innovations”, continuously drilling down into user needs data and learning from existing technologies and products. They followed the principle of “Simple is Beautiful” and only offered the most user-friendly and practical features. They paid attention to every detail and applied iterative updates to enhance user experience. That’s how WeChat managed to take the market by storm in such a short time.

With “micro innovation”, it has grown into an unrivalled mobile instant messaging app; yet there is another reason it has become China’s largest mobile Internet platform: the shift in Tencent’s business development philosophy. Their previous development strategy took a rather aggressive approach, constraining the development of emerging companies by copying their products with extensive technological resources, and a large pool of loyal users. However, with WeChat, Tencent switched to an open and inclusive approach based on cooperation and mutual benefit, to build it into a platform for consuming information. A large number of creative features were launched after the WeChat Official Account Admin Platform was opened to the public. By investing in and opening up a second-level API to dianping.com, Tencent has made great progress in the area of lifestyle services. They also developed their e-commerce market after investing in and opening up a first-level API to JD.com. With the help of WeChat Pay, Tencent has expanded into the final phase of O2O business, making the WeChat ecosystem complete.

It has now become a strategic platform product of Tencent, with a strong competitive edge over Alibaba and Baidu. Their “micro innovation” approach to early development and their open and inclusive attitude after achieving success are valuable lessons for entrepreneurs.

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