

 **FUNG BUSINESS INTELLIGENCE**

Asia Distribution and Retail

August 2018

While Alibaba and JD.com continue to dominate the e-commerce scene in China with 58.2% and 16.3% market share according to eMarketer, a number of relatively smaller specialist players have caught increasingly attention in China's e-commerce market recently. In today's rapidly evolving and highly competitive online marketplace, these fast-growing companies provide another option for businesses to market or sell their products. Fung Business Intelligence has identified some of these emerging players, each focusing on a specific area such as group-buying, O2O lifestyle services, social commerce, vertical online platforms and short videos. In this series of articles, we provide an overview of the key business and developments of these emerging player; we also identify their strengths, weakness, opportunities and threats.

In our first issue, we look at the business model and latest developments of Douyin (also known internationally as Tik Tok) – a fast-emerging short video platform which allows users to post and share their self-created short videos. Douyin mainly focuses on young adults who express themselves more on social media. Douyin has around 500 million monthly active users (MAUs) globally, and more than half of them are aged below 24. Douyin can be a powerful tool for brands to tap the new generation of Chinese consumers, particularly the Gen Z consumers.

Company background

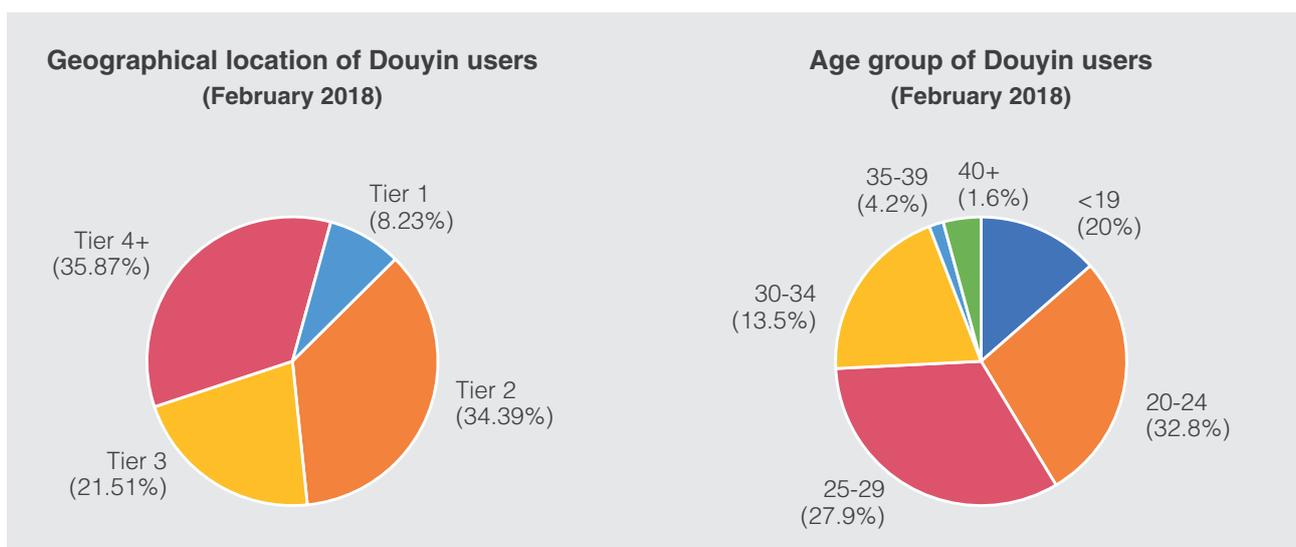
Founded in September 2016, Douyin (also known internationally as Tik Tok) is a fast-emerging short video social network – in the form of an app – for users to post and share their self-created short videos. Douyin was launched by Beijing Bytedance Technology, which also owns a number of other popular content and short video and platforms including Toutiao, Musical.ly, Topbuzz, ixigua and Huoshan Video.

Douyin has grown rapidly and gained much popularity ever since its establishment. It has started to tap the international market since August 2017, and successfully established a strong international presence. Douyin is now available in over 150 countries and regions; it has become one of the most popular short video apps globally especially in Asian countries such as Thailand, Japan, Indonesia, India and Vietnam. According to Sensor Tower, a mobile app store marketing intelligence company, Douyin was the fifth most downloaded non-game app in the world in 2Q18, combining iOS and Android app downloads¹.

As of July 2018, Douyin has around 500 million monthly active users (MAUs) globally. Meanwhile, in China, it has over 300 million MAUs and 150 million average daily active users (DAUs) as of June 2018, getting near to the 190 million DAUs of Sina Weibo.

According to big data service provider Jiguang², 43% of Douyin’s users live in tier-1 and tier-2 cities. Douyin users are generally very young – over half of them are aged below 24 (Exhibit 1). The predominantly young and upscale audience makes Douyin an effective platform for brands to tap the new generation of Chinese consumers, particularly the Gen Z consumers.

Exhibit 1: Demographics of Douyin users, February 2018



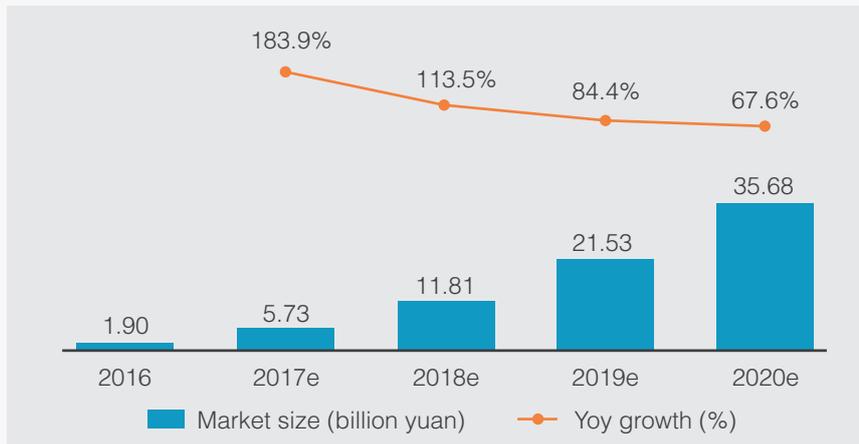
Source: Jiguang data, WalktheChat analysis, compiled by Fung Business Intelligence

Short video market in China

Short videos usually refer to videos of less than five minutes. Users do not have to be professional in video making, they can film anything and share on short video platforms. As the videos are short, they can be easily shared and spread on social platforms such as WeChat and Weibo. Viewers can interact with the host of the videos via the short video apps by giving comments and “likes”.

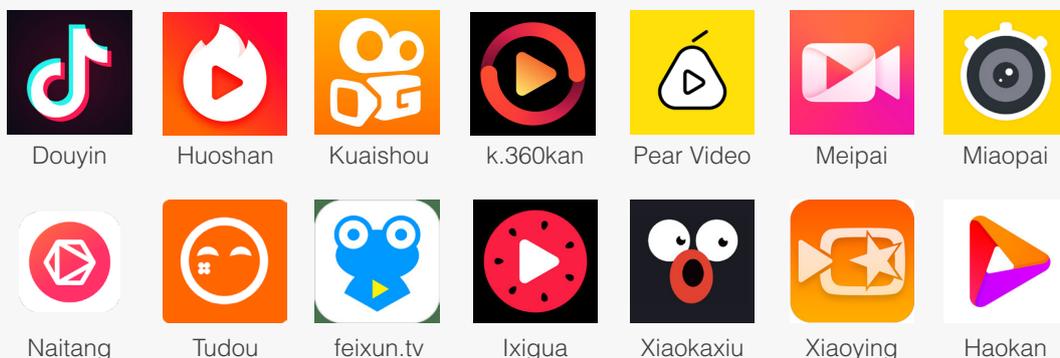
Short video market is driven by the high penetration of mobile Internet users in China as well as the changing form of entertainment audience like – youth now prefer pictures and videos to text for entertainments. According to iResearch, short video market is expected to reach 35.68 billion yuan in 2020, up from 1.9 billion yuan in 2016 (Exhibit 2). Increasing numbers of players have tapped the short video market in recent years. Some prominent short video platforms are shown in Exhibit 3.

Exhibit 2: Short video market in China, 2016 – 2020



Source: iResearch, compiled by Fung Business Intelligence

Exhibit 3: Selected players in the short video market in China, 2017



Source: iResearch, compiled by Fung Business Intelligence

The business – Douyin app

Videos on Douyin are limited to 15 seconds. The time limit allows Douyin users both to view and post videos faster than on other video sharing apps. Viewers can comment and give “likes” to the video clips, share them with their friends on other social media platforms, as well as follow hosts they are interested in. Douyin app features a number of built-in effects such as filters and stickers to assist users to film funny and high-quality videos. It also allows users to post videos with different hashtags – they can create their own hashtags, or use the existing popular hashtags available on Douyin’s homepage. Viewers can click a hashtag that they are interested in on the homepage of the app; alternatively, they can search for a certain host, hashtag or video that uses a certain background music.

Another unique and interesting feature of the app is its “daily challenge program” – Douyin’s operation team or viewers can initiate “users challenge” such as dancing in a public area or singing in front of a crowd and make short videos to invite other viewers to take part in the challenge (by posting related video clips). This function is very popular among the young consumers as they can start a new trend in their community.

Douyin also has a powerful artificial intelligence-backed recommendation engine and customer database which enable the company to recommend videos to different users based on their profiles and preferences, as well as their previous viewing history.



Source: Douyin

To attract more viewers, Douyin has formed endorsement deals with hundreds of KOLs and celebrities including popular idols such as Huang Xiaoming, Angelababy and Zhou Dongyu. These KOLs and celebrities are able to attract millions of followers and viewers by posing videos of themselves on the app.



Source: Technode.com

Recent developments

Acquires Musical.ly and partners with other leading music labels

In November 2017, Douyin's parent company Beijing Bytedance Technology acquired Musical.ly, another popular Chinese short music video social platform in a deal reportedly worth up to US\$1 billion⁴. In August 2018, Musical.ly was merged with Douyin – existing Musical.ly user accounts, contents and followers were automatically moved to the Douyin platform.

In February 2018, Douyin announced a partnership with an indie music label Modern Sky Group to promote their artists, music and events on Douyin⁵.

Foreign brands launch marketing campaigns on Douyin

To reach out to more young consumers, more and more brands are collaborating with Douyin to promote and market their products. For instance, Michael Kors, Adidas neo and Dior have launched marketing campaigns on Douyin.



Source: Digitaling.com

Michael Kors launches “Hashtag challenge” campaign

In November 2017, Michael Kors initiated a “City catwalk” hashtag challenge by sharing videos of its brand ambassadors Yang Mi and Mark Chao, as well as three Douyin in-house KOLs doing a catwalk with Michael Kors products. At the same time, the challenge invited users to compete for the most popular video on Douyin. It was estimated that more than 30,000 users had posted their own 15-seconds catwalk videos using the hashtag, generating more than 200 million views and 85 million “likes” from the viewers.



Source: Adidas neo

Adidas neo sets up corporate account on Douyin to communicate with followers regularly

Adidas neo, a sub-brand of Adidas, opened its corporate account on Douyin in January 2018. Adidas Neo partners with celebrities and KOLs that appeal to the young audience such as Dili Reba and Yiyang Qianxi. They share videos of themselves featuring Adidas Neo’s products regularly. It is reported that Adidas neo account has attracted 1.21 million followers and 2.8 million interactions (including the number of followers, number of “likes” and comments received) in just once month after its official launch.



Source: Linkshop

Dior – the first luxury brand which set up corporate account on Douyin

French luxury brand Dior opened an account on Douyin in April 2018, becoming the first luxury brand to set up a corporate account on the app. As of August 2018, Dior has released a total of 13 short videos, and accumulated a total of 33,000 fans on Douyin. In July 2018, the brand released five short videos while launching the Dioramour handbag collection which is exclusively available in China. After viewing the videos, users can click the “New Products” button on the page and will be directed to relevant product page on the online platform for purchase. Dior is the first luxury brand to officially set up an account on Douyin, though there were other luxury brands advertised on Douyin previously.

Comments from Fung Business Intelligence

Fung Business Intelligence believes that Douyin is an effective channel to reach out to Chinese millennials. Brands can leverage Douyin's platform to interact with consumers in a fun and enjoyable way by sharing brand messages and stories with viewers through daily life videos and asking viewers to participate in interactive marketing campaign such as the "users challenge" program. This is particularly appealing to the young generation who generally love fun and entertaining content and like to influence their peers. Moreover, since Douyin works closely with many KOLs, it is a good chance for brands to experiment with KOL engagement.

Douyin's ease of posting short videos and huge fans base have attracted large numbers of users – both individual users and brands – to post videos on its platform on a regular basis. However, there remain some challenges and concerns. First, it is difficult to filter videos with inappropriate content. Currently, Douyin has not put in place any content filter to lock out any explicit or offensive content. It is reported that some non-ethical hosts posted videos to teach viewers how to make counterfeit cosmetics themselves and put them in packaging cases of famous cosmetics brands. Douyin should have stricter guidelines towards video posting if they want to attract more brands to launch corporate accounts on its platform.

Second, the profit model of Douyin is unclear at the moment. Currently it focuses mainly on building viewership. The question of how to monetize the traffic is still unknown. Other similar video platforms or streaming platforms usually allow viewers to send virtual gifts to hosts which can be exchanged to money, or allow companies to insert advertisements into the videos. Douyin, however, has not started to provide any of such services. It does not engage in any social selling by itself. To retain viewers, KOLs and hosts, it is imperative for Douyin to keep users interested in its hashtags and videos by always offering something new and exciting so that people would share with others.

Third, some brands may find it difficult to generate more video views when Douyin does not push their videos on the front page. It is rather difficult for them to reach their target consumers as most viewers would prefer not to search for the brands intentionally. Also, viewers may not have the incentives to follow corporate accounts as brands could not give out discounts and coupons via the Douyin app.

Externally, Douyin is facing fierce market competition. There are quite a lot of short video platforms in the country; the business model of Douyin can be easily copied and adopted by others. Douyin may lose audience if other platforms can offer better functions and more exciting content and elements. Indeed, many Internet players have started to tap the short video market recently by launching their own app. For instance, Suning launched its short video streaming platform "Touhao maijia" in August 2018. The new platform is an exclusive channel for customized products; different themes are set for different buyers. By integrating resources of brands and retailers, media, and veterans into one single platform, Internet KOLs can introduce and recommend products through video streaming while viewers can share the videos among their friends. They can also post product links to Suning.com to generate sales. At the same time, Taobao is reportedly launching a short video platform "Du Ke" which works similar to Douyin, but details have not been revealed yet.

Exhibit 4: SWOT analysis of Douyin

| Strengths | Weaknesses |
|---|--|
| <ul style="list-style-type: none"> • Having a clear target market; focuses mainly on young adults who express themselves more on social media, and have more time to spend on video sharing. • The social nature of Douyin can draw users that have similar interests together. • Equipped with a powerful AI-backed recommendation engine and customer database which enable the company to recommend videos to different users based on their profiles and preferences. • Allows brands to set up corporate accounts to launch media campaigns, share videos, and engage directly with followers/viewers; provides an effective channel for them to build brand affinity and customer engagement. | <ul style="list-style-type: none"> • Unclear profit model; Douyin has yet to provide services that can monetize the traffic. • Difficult to filter videos with inappropriate content. • Some brands may find it difficult to generate more video views and reach their target consumers when Douyin does not push their videos on the front page; viewers may not have the incentives to follow corporate accounts as brands could not give out discounts and coupons via the Douyin app. |
| Opportunities | Threats |
| <ul style="list-style-type: none"> • Huge potential of the short video market, driven by high penetration of mobile Internet users and the fact that young generation craves for funny and interesting video clips. • Going global presents tremendous growth opportunities. Douyin has launched an English-language version of the app and gained popularity around Asia, especially in Indonesia, Thailand, Japan, India and Vietnam. | <ul style="list-style-type: none"> • Fierce competition from many existing short video platforms in China. • Many Internet players have started to tap the short video market recently by launching their own app, e.g. Suning and Taobao. • Douyin's business model can be easily copied and adopted by others. • May lose audience if other platforms can offer better functions and more exciting content and elements. |

Source: Fung Business Intelligence

References

¹ "The Top Mobile Apps, games, and publishers of Q2 2018: Sensor Tower's Data Digest", 27 July 2018. SensorTower.

<https://sensortower.com/blog/top-apps-games-publishers-q2-2018>

² "Jiguang: The market share of Douyin in the short video market", 14 March 2018. Afenxi.com

<https://www.afenxi.com/50452.html>

³ "Toutiao-owner Beijing Bytedance eyes HK IPO at \$45b valuation: Report", 11 July 2018. Deal Street Asia.

<https://www.dealstreetasia.com/stories/bytedance-toutiao-hk-ipo-101686/>

⁴ "Musical.ly is going away: Users to be shifted to Bytedance's TikTok Video App", 8 February 2018. MSN.

<https://www.msn.com/en-us/music/news/musically-is-going-away-users-to-be-shifted-to-bytedance-e2-80-99s-tiktok-video-app/ar-BBLovl1>

⁵ "Douyin launches partnership with Modern Sky to monetize music", 6 February 2018. Music Business China.

<http://chinamusicbusinessnews.com/?p=1843>

Contacts

Asia Distribution and Retail

Teresa Lam
Vice President
E: teresalam@fung1937.com

Christy Li
Senior Research Manager
Email: christyli@fung1937.com

Fung Business Intelligence

10/F LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong
T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com



© Copyright 2018 The Fung Business Intelligence. All rights reserved. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Though the Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence is prohibited.