



## FROM SINGLES DAY TO WECHAT'S RED ENVELOPES – A PROTRACTED BATTLE BETWEEN THE TWO TITANS OF CHINA'S INTERNET

TENCENT VS. ALIBABA

By IMD Professor Dr. Winter Nie

This article was written with Yunfei Feng

**IMD**  
Chemin de Bellerive 23  
PO Box 915,  
CH-1001 Lausanne  
Switzerland

Tel: +41 21 618 01 11  
Fax: +41 21 618 07 07  
info@imd.org  
www.imd.org

In the first minutes of 12 November 2018, the final tally of the ecommerce site Tmall's Singles Day trading volume was in. At RMB 213.5 billion or approximately \$USD 31 billion, it was a healthy 27% increase over the previous year. To give an idea of the sheer volume, the amount of money was equivalent to one quarter of annual exports from the USA to China.

Dialing back the clock to the early morning of the very first Singles day – November 11th, 2009 – the event had its grand opening against the backdrop of a severe global financial crisis engulfing much of the developed world. China was not exactly immune to the economic challenges of the time. Alibaba, with its modest headquarters in the eastern city of Hangzhou staffed by a dozen people, selected November 11th as the date for the occasion. 11.11 signifies single status among young Chinese, and Alibaba had set its sights on them. It was a marketing gimmick and no one could guess how much success it might have. However, by midday many Alibaba merchants were reporting that they were out of stock. On that first Singles Day, aggregate sales were RMB 52 million (or about \$USD 7.5 million), an incredibly large amount compared to previous daily sales of a few thousand Yuan for better-known brands on Alibaba's Taobao platform.

When the second Singles Day rolled around, it obviously became the most important day of the year for Alibaba. That year's record-setting RMB 936 million in sales put not only enormous pressure on servers and logistics but also on payment methods. Online users had to rely on electronic payment systems provided by commercial banks that involve password generators, thumb drives and other rather elaborate steps. The success rate for online payment that year was only 80%. Subsequently, Alibaba quickly developed Alipay and locked in 550 million users by that December and became the undisputed leader in online payments.

At around the same time, the other Chinese internet titan Tencent also acquired a third-party payment license called "Fortune Pass" (Cai Fu Tong). Tencent was known as a leader in social media and not online payments. According to an iResearch report, Alipay commanded

82.3% of the Chinese online payment market and Tencent was a distant second at 10.6% in 2014.

Among the many traditions related to Chinese New Year, it is customary to give out red envelopes to relatives and friends (particularly to children) as part of the festivities. WeChat, Tencent's social platform, rolled out an online version of exchanging red envelopes among friends. It went so viral that five million users participated between New Year's Eve and New Year's Day alone. In 2015, there were 30 million users exchanging over 1 billion red envelopes on Chinese New Year. As the trend of explosive growth continued in 2016 and 2017, WeChat's own payment system gained millions of users.

To counter the Pearl Harbor style stealth attack by Tencent, Alibaba struck back with their own version of a red envelope exchange. But this time it wasn't able to match the success of its chief rival.

Although Tencent gained the clear upper hand in the red envelope war, Alipay doesn't necessarily play second fiddle in the overall game of online payments. The larger "payment war" has extended to all spheres of Chinese commercial life, both online and offline, one fruit stand and one hotel at a time. Scanning QR bar codes to pay for taxi rides and even to give money to beggars may be surprising scenes for foreign visitors, but they are very common parts of daily life in China. Many people shun wallets nowadays as a cashless society is increasingly becoming the reality.

The Alipay vs WeChat Pay rivalry has even spilled overseas. From face recognition to unmanned retail stores, both players are investing heavily in overseas markets, particularly in Japan and Southeast Asia.

The Chinese New Year creates the greatest human migration on earth. During this roughly one-month period, an estimated 3 billion trips are made by people in China. As migrant workers living in first- and second-tier cities go back to their hometowns in the countryside, they bring with them the newfound payment technology. As of Q3 in 2018, based on monthly

and daily active user counts, WeChat Pay remains the top dog in the large and evolving Chinese online payment market.

For Singles Day 2018, Alibaba continued to extend its reach into day-to-day Chinese life. Behind the RMB 213.5 billion trading volume were no longer purely online purchases on Tmall, Taobao and other platforms. A variety of brick and mortar businesses, either Alibaba wholly-owned subsidiaries or partners, became foot soldiers in the fierce battle to hold on to the pockets of Chinese consumers. Singles Day is an unmistakable emblem of this battlefield.

In July of 2018, Pinduoduo, independently-owned and China's third largest e-commerce player, was listed on the NASDAQ. It has the backing of Tencent and a unique business model targeting mainly the budget-conscious buyers of the vast Chinese countryside. As we enter the 2019 Chinese New Year (the Year of the Pigs), WeChat platforms are full of advertisements by Alibaba to engage in the festivities by exchanging red envelopes.

Tencent versus Alibaba. The war never ends.

*[Dr. Winter Nie](#) is Professor of Management at IMD. She is the regional director of IMD Southeast Asia and Oceania.*

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