



## **EMERGING FROM THE SHADOWS: THE NEW CHINESE GIANTS AIMING TO UNSEAT ALIBABA AND TENCENT**

THE NEW KIDS ON THE BLOCK ARE GROWING UP QUICKLY

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It is impossible to talk about digital business in China without focusing on either Alibaba, Tencent, or both. The business ecosystems built by the two Mr. Mas cannot easily be avoided, either by consumers, businesses, investors, or competitors. They have expanded from different starting points – ecommerce and social communication respectively – to build up massively diversified and powerful business empires. Just consider the reach of mobile payments to see how they have penetrated an ever-expanding array of marketplaces: financial services, gaming, entertainment, transportation, retail, public welfare, healthcare, and education. They have also become the largest tech investors in China, snapping up many of the most promising start-ups.

Given Alibaba and Tencent's market power and reach, it is hard to imagine competitors beating them. Indeed, the B in the oft-mentioned BAT, Baidu, has struggled to keep pace with its larger rivals. Is there life beyond Alibaba and Tencent? Can a new generation of entrepreneurs convince Chinese consumers to utilize new services and platforms?

The answer is yes. And the key, in our view, is for competitors to use Alibaba and Tencent's size against them. As these giants have grown – and today they are massive companies – they have steadily lost two critical elements that formed the foundation of their success. First, they have become less agile, as is it harder to maintain agility with fifty thousand employees than it is with, say five thousand. Second, their ability to understand and respond to niche groups of consumers has diminished with size and scale.

Let's look at Alibaba's approach to ecommerce. The company has four main trading platforms, consisting of a combined 500 million registered users in the domestic and cross-border ecommerce space. Powerful indeed, however, they are seeing significant competition from niche players like Mogujie, a social ecommerce platform focusing exclusively on young female fashion. The company merged with competitor Meilishuo in 2016 and is now a stock listed fashion retailer with a market cap of over \$20 billion. Another example is XiaoHongShu, or "Little red book". This is not the book written by Mao Zedong, but a social ecommerce platform aimed at the 18 to 35 year-old urban Chinese woman seeking to find and buy luxury products from overseas. With more than 150 million registered users, an impressive 50 million of whom are active every month, the company is attracting foreign brands and serious capital investment, with a current valuation of over \$3 billion.

Beyond ecommerce we see players like Meituan competing with location-based services ranging from food delivery, taxi hailing, and movie tickets to travel services. With a valuation of over \$50 billion according to the latest investment round, Meituan is quickly on the way to becoming a new 'superapp'. Another strong competitor is ByteDance. Founder Zhang Yiming's first product, Toutiao, quickly became China's largest news aggregation service, surpassing traditional media and internet giants within five years of launch. Bytedance's other venture is the short video sharing service TikTok, currently the world's highest valued startup with 20% of their 500 million users based outside of China. ByteDance launched services such as Duoshan, gogokid and Wukong in 2018, all directly competing with Alibaba and Tencent. ByteDance leverages its industry-leading recommendation algorithm to provide an unparalleled level of personalization.

And, there's more. Cheng Wei's Didi Chuxing car-hailing service is younger than Uber but has three times the daily orders of its U.S. rival. Zhang Xuhaohao founded food delivery service Ele.me from his university dorm room. After multibillion-dollar investments, it has grown into China's largest online marketplace for food delivery, taking in more than 5 million orders a day. Tubatu is a B2C e-commerce platform that aims to provide interior design and home decoration services by linking customers to local professionals. The company is estimated to be worth US\$2 billion.

It is no secret that Alibaba and Tencent have struggled to replicate their domestic success overseas. Some of these emerging giants have found more success. [TikTok](#), for instance has become a global phenomenon after merging with U.S. based, but Chinese founded, competitor musical.ly. Didi

Chuxing has not only out-competed Uber in China but is also rapidly expanding in south-east Asia through investments in local ride-hailing companies like Ola and Grab.

How do these emerging giants find market opportunities in a landscape dominated by Alibaba and Tencent? The answer is simple. They build a competitive beachhead by serving a niche group of consumers or businesses much better than their larger competitors. Then, they expand from there to other segments.

Tomorrow's challenges are no longer met only by Alibaba and Tencent. The new kids on the block are growing up quickly. If the global success of ByteDance foreshadows what is coming, we are going to see many interesting battles ahead.

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