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**A Study of Social Media Profit Model Based on WeChat**

Bachelor's Thesis

International Business Administration, Finance and Accounting

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I hereby declare that I have compiled the thesis independently and all works, important standpoints and data by other authors have been properly referenced and the same paper has not been previously presented for grading.

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## **ABSTRACT**

Social media has turned to be an important part of people's life, and thanks to its multiple functions, many businesses treat social media as a competitive tool for profit. The purpose of this study is to propose profit models for social media by investigating the business model of WeChat, together with financial data analysis, which is the most popular social media platform in mainland China. In-depth interviews and comparative study have been conducted to investigate the following questions: (1) What are the types of WeChat profit models? (2) What are the distinctive features of WeChat profit models compared to those of Facebook profit models? (3) What are the possible limitations or problems of WeChat profit models? The result of the study shows that advertising, third party services, financial services and online games are the main types of profit models for WeChat; there are some similarities between the profit model of WeChat and that of Facebook, however, big differences exist, including the types of profit models, the link level of consumption process and the strategical business focus; the distinctive features of WeChat model is diversity built under an ecosystem with three-dimensional information interaction services, comprehensive financial services and diversified third party services. The study also reveals that there are limitations and problems in the profit models of WeChat. The study concludes that mature business innovation under a healthy system contributes WeChat as a social media profitable proved by its' profitability, and problems such as risks of personal information disclosure and possible fraud from illegal doers need to be eliminated by the joint efforts from service providers, the industry and even the government to order to achieve profitability and sustainability.

**Keywords:** social media, WeChat, profit model

## INTRODUCTION

Social media is increasingly popular for its diversified social functions and affects business models of enterprises. Traditional marketing strategies have lost steam as social networking and social media provide companies with more options for engaging directly with potential and current customers(Gan 2017, 30-39). More and more businesses use social media as a new marketing channel for greater benefits. WeChat ( or WeiXin in Chinese), developed and launched in 2011 by Tencent, the largest Internet company in China, operates with the main functions such as Official Accounts, Mini Programs, WeChat Pay, WeChat Work and the search function. The platform's Official Account is a distinctive feature that enables enterprises and organizations to interact with potential users(Che, Barry 2016). Tencent has injected the core value of almost all its products into WeChat, which has transformed the definition of WeChat from an instant messaging tool to a giant mobile Internet platform, carrying many of its product functions, and also has the potential to continue to develop profits. After nearly ten years development, it has become the leader of the social media industry in China, with the highest market efficiency. About 80% of China's top 500 enterprises have become registered users of WeChat. WeChat payment can currently be used in 49 markets outside the mainland of China, supporting cross-border payment transactions in 16 currencies, and providing real-time tax refund services for WeChat payment users at more than 80 airports<sup>1</sup>. According to the 2019 financial report of Tencent, as of December 31, 2019, the number of monthly active accounts of WeChat was 1164.8 million, compared with 1.097.6 billion in the same period last year, an increase of 6.1% year on year and 1.2% month on month<sup>2</sup>. On average, more than 750 million WeChat users read the posts of friends circle every day. It has evolved into a connector and open

<sup>1</sup> *Weixin* (2020). Retrieved from: <https://baike.baidu.com/item/weixin/3905974?fr=aladdin>, 20 February 2020.

<sup>2</sup> *Tencent Announcement* (2019). Retrieved from:[https://mp.weixin.qq.com/s/ROIQoT7Sisl\\_zBZUKNHeAw](https://mp.weixin.qq.com/s/ROIQoT7Sisl_zBZUKNHeAw), 18 March 2020.

platform across industries, connecting users with one another, with smart devices and with business services.

Thank to the shocking development with the tremendous number of active users and great potential economical profits of WeChat, it draws the interests of both enterprises and scholars. They would like either building up new business models for revenue or investigating reasons for the rise of the new giant of social media in China. And whether WeChat would be or has been an ideal platform for profit becomes the concerns of the two sides.

The author searches “WeChat” and “profit model” on Elsevier ScienceDirect and has retrieved only five English research articles published from the year of 2015 to the year of 2020, and the topics are about a supply chain, advertising, users’ intention and publication attention on or with WeChat channels. None of them is on profit model. With the same search key words and period of dates, 15 journal articles have been retrieved on China National Knowledge Infrastructure (a data base for academic journals and dissertation). Most of them are relative to such issues as new business opportunities brought by WeChat, innovations of WeChat platform, and risk control. Although the profit model of WeChat as a social medium has become the deep concern of companies and researchers, few studies relative has been done. Therefore, the author hopes to be able to study the business model of WeChat as a social media platform which has been rarely investigated by previous researchers.

WeChat business is an emerging way of doing business in China, which can be considered as a combination between traditional e-business and social networking communications (Yang 2016, 174-187). In WeChat business, companies have built up customer relationships along two distinct ways: business relationships and friendships. However, research on how to make profit basing on active users of WeChat is rare.

By investigating the following questions, the paper is aimed at understanding how social media businesses earn revenue and make profits, based on a case study of WeChat, identifying the

limitations and problems existed, and then finding out the solutions for the possible problems faced by the industry and enterprises relative as well.

(1)What are the types of WeChat profit models?

(2)What are the distinctive features of WeChat profit models compared to those of Facebook profit model?

(3)What are the possible limitations or problems of WeChat profit models?

This paper presents a study which investigates how social media can be used as a marketing tool to gain profit based on community economy. In-depth interviews on selected samples of nine interviewees are conducted to investigate the types of WeChat profit models. By means of interview, this study could provide a text description of the complex situations that involve people and their experiences which is considered as an effective method by Keegan (2009). In addition, financial data on WeChat revenue are collected from Tencent's annual financial reports and analysis relative has been done to demonstrate the profit contributions of each segment models to the total revenue of WeChat. Furthermore, comparison has been made between WeChat and Facebook in terms of profit models employed by each of them to find out the advantages and disadvantages existed respectively.

The main part of the paper consists of three sections. Section One presents the theoretical and empirical background of the research. Section Two describes the research methodology employed in this paper. Section three illustrates and discusses the study results based on the financial data collected from the annual financial report of Tencent, the interview conducted, and the comparison between the profit model WeChat and that of Facebook. And finally, the conclusion is drawn.

Special thanks to my supervisor, Ms Mari-Liis Kukk who has given me consistent and helpful advice on completing this dissertation.

# **1.THEORETICAL AND EMPIRICAL BACKGROUND**

## **1.1 Social media and its functions**

With wide use of social media in all walks of life, extensive research relative has been done. Some scholars summed up the concept and the functions of social media in their researches. Kietzmann and Hermkens (2011) define social media as interactive computer-mediated technologies that facilitate the creation or sharing of information, ideas, career interests and other forms of expression via virtual communities and networks(241-251). Safko et al. (2009) regard social media as a set of tools and technology that allow people connect with others and build relationships more efficiently. They gave higher account to the nature of content sharing rather than the technology side of social media. Social media is actually becoming a new source of consumer creativity, influence and empowerment. Constantinides et al. (2008) argue that social media brings a visible shift in consumer attitudes. There are growing needs for online service, customer interaction with both marketers and peer communities. Boyd (2011, 39) thinks that “they[social media] allow people to gather for social, cultural, and civic purposes and they help people connect with a world beyond their close friends and family.” At the mean time, with such kind of social media platforms , business enterprises are able to identify what is being said about their brands and communicate directly with consumers (Reyneke et al. 2011, 21-35). Scott Stratton (2012), in his book *Unmarketing*, strongly states how to stop marketing and start unmarketing to make friends, attract new business and retain current customers. He further points out that one of the effective ways to building relationships is through Facebook, Twitter, LinkedIn, and Google, and concludes that relationships build business profit model.

The above opinions and discussions indicate that digital and information technology has helped the public realize the interconnection with global information and knowledge system, and thus



the public has been shown how to provide and share their own information, news and channels. Meanwhile, groups of users with common interests, cognition and values are gathered together on those social media platforms. The occurrence of swarm effect, together with interaction, communication, cooperation and infection, has a value relationship of feedback to the product brand itself. Businesses may build up business models by means of social media to gain profits.

## **1.2 Change of life and consumption habits**

In the new information age, ways of life and habits of consumption have changed greatly. There are many studies suggest the rate of using social media has been ever increasing and people have already adopted online social media as an integral part of their life. Woodcock and Green's study (2010) shows the tendency that consumers in the new information age are keen on not only online services, but also finding information through social media before making decisions. This trend indicates that consumers tend to trust their friends and contacts in social media over the ads displayed by business organizations, which supports the opinion of the most distinguished characteristics of social media user groups to some extent: groups of users gather together with the same values and interests, and they have formed a specific social relationship in the process of contacting each other on the platform (Ju, Zhang *et al.* 2017). The relationships among the perceived value of branded WeChat accounts, consumer engagement with the account, the quality of business-consumer relationships and purchase intention are essentials worthy of serious consideration (Chen 2017, 945-954).

Those findings are significant for the providers or operators of social media platforms to seek to build the cohesive force from the users so as to maximize the economical profits by making full use of the social media platform.

### 1.3 Social media as business platform for profit

The rise of the community economy based on social media has changed the existing business models. As to the profit model of social media, Trusov (2009, 90-102) believes that users can achieve one-to-one communication on social networking sites, which refers to a person, a group or even a community. Therefore, enterprises can use social media for brand marketing to attract users and receive user feedback in time. With its big users from all walks of life, WeChat official account operators can promote products or services through product recommendations published to their followers, thus providing a new channel for social commerce to earn revenues (Technode, 2015). It has been found that advertising, subscription and derivative services are the main profit models of many social media platform (Dasgupta 2013, 10-18).

Based on the financial data of Facebook company, Lin (2015) analyzes the sustainability and the profitability of Facebook and found that Facebook has good profitability(37-44). Facebook's early rapid development is inseparable from its large number of user base (Lim *et al.*2015). By building a network platform, Facebook attracts users to create communities, solicits firms to make profits. After more than ten years of development, Facebook has realized business expansion and scale expansion by relying on its profit model with platform advertising as the core, community operation and strategic investment as the support. It has gradually grown into the world's largest social network platform and the second largest online advertising company(Wan, He 2020, 99). From 2011 to 2018, Facebook's revenue increased exponentially. As its core revenue source, advertising accounted for 98.52% of the total revenue in 2018<sup>3</sup> . Except for Advertising, third party application sharing, value-added services, commission also generate revenues for Facebook. Wang (2015) stated that unmet social needs in our society generated a tremendous amount of demand for social platform services. Facebook, as a powerful social media, is well received because of its strong social features. It accumulates traffic through social network, attracts advertising merchants with ultra-high traffic, and then charges to share of extended and value added services so as to achieve profit(Liu *et al.* 2017).

<sup>3</sup> Statista (2019). Retrieved from: <https://www.statista.com/markets/417/media-advertising>, 11 May 2020.

The profit models of Facebook supported by the core functions, such as Events, Gifts, Marketplace, Application and Create An Ad. On the one hand, those functions improve either the social scope of users and the user stickiness of Facebook, or enable enterprises and brands to use Facebook's large-scale user base, or stimulate application developers to bring valuable services to users, and enable enterprises to improve the accuracy of advertising. On the other hand, a new model for profitability has been formed by Facebook.

#### **1.4 WeChat overview**

WeChat, the most popular social media App with such malfunctions as WeChat supports, WeChat store and WeChat payment in China, has been employed by more and more business organizations as a new marketing channel. WeChat launched by Tencent in 2011 provides free instant messaging service. It comes from the transformation of American mobile instant messaging product KIK. Users can send text, pictures, voice and video messages to their friends by using this free service application. Since its' launch, the number of WeChat users has ever been growing, including many users transferred from QQ, another popular instant messaging program created by Tencent Inc. Nowadays WeChat has been evolved into the most popular social media App with such malfunctions as WeChat supports, WeChat store and WeChat payment in China. It has evolved into a connector and open platform across industries, connecting users with one another, with smart devices and with business services.

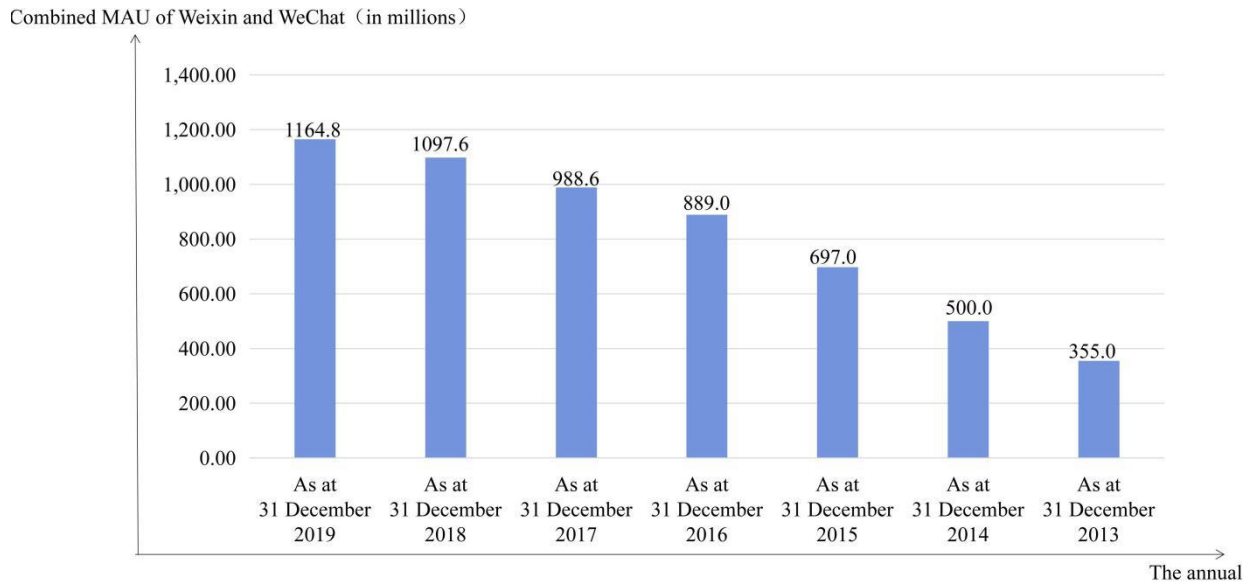


Figure 1. Combined Month Active User of Weixin and WeChat  
Source: Tencent Holdings Limited

Take December as the object, compare the number of active accounts of Weixin and WeChat in recent years. Data shows that: from 2013 to 2019, the number of Weixin and WeChat's monthly active accounts is generally increasing, with a significant increase trend. From 355 million consolidated monthly active accounts in 2013 to 1.16 billion in 2019, we can see that more and more people are active in WeChat platform and 'Wechat'(see Figure1).

Che and Barry (2016) argues the elements contributing to the popularity of WeChat are the minimalistic design of the user interface, the requirement for all users having mutual friends(protecting privacy), a strict spam control system (keeping users from unsolicited information) and official account(enabling enterprises and organizations to interact with potential users). Broadly, the operational mechanism of WeChat business is centered on social group, comprehensive service rather than advertising, single service (Ou 2019, 186). Xia (2017) conducted an in-depth interview on the profit model in terms of We media and summarizes that six profit models in total are applied by We media in mainland China, including advertising, paid reading, membership, profit-sharing model, e-commerce, and derivative service. And he points out further that the new orientation of media industry has been experiencing the rapid

development in mainland of China, while it is still an unanswered question whether We media is a sustainable business model in China since some of them are proved of low profits.

A healthy ecological environment is the key for WeChat business to develop for the long run. By providing three-dimensional information interaction services, comprehensive financial services and diversified third party services, WeChat has built up its' ecol-environment (Song, Ma 2019,111). And trust, security, and privacy may be the pivotal factors that determine if the users to adopt WeChat and use the WeChat application if the proposed predictors are considered. (Matemba, Li 2018,55-68).

The majority of the previous researches give an account to the important role of social media in marketing, but rather to the operational models for both high profit and sustainability. Therefore, the profit model of social media, WeChat in particular will be the focus of this paper.

## **2.RESEARCH METHODOLOGY**

### **2.1 Data analysis**

Through the analysis of the financial statements of Tencent, both the operating and financial performance of WeChat have been examined, along with the types of WeChat business model. The financial data on both the overall revenue and the segment revenue from the years of 2015 and 2019 have been selected from Tencent financial annual reports for the sake of the analysis.

### **2.2 Interview**

This study conducted in-depth interviews to further understand the types of WeChat profit model and to investigate if there is any possible limitations in those profit models. The interview was conducted from February 2020 to April 2020 on selected samples of nine interviewees, including three staff from Tencent (two of them are from D&R and the other from the technical support section), two universities scholars with academic background in social media management, and the rest the of four are WeChat users, either as a firm or as an individual. As it is shown in table1 that some of the interviews are achieved by means of WeChat and some via emails. The reason for selecting the interviewees are that they are from different walks of life, they are either involved in the development of WeChat or have interests in studying social media or active users of WeChat. Thus the data collected from them may be authentic and valid (see Table1).

Table 1. Information of the interviewees

Subject No.	Organization/Occupation	Method for the interview
A	Beijing Real Estate Agency Company	Interview by WeChat
B	Guantian Ad. Agency	Interview by WeChat
C	Housewife	Interview by WeChat
D	College student	Interview by WeChat
E	Shanghai Industrial and Commercial Polytechnic	Interview by WeChat
F	Beijing Technology and Business University	Interview by email
G	Tencent	Interview by email
H	Tencent	Interview by email
I	Tencent	Interview by email

The information extracted from the interviews is used to illustrate and analyze both the types and limitations of WeChat profit models.

### **2.3 Comparative study**

This study selects a typical case of social media platform, Facebook, to compare with WeChat in terms of profit model, nature of the platform and source of revenues. Comparison is made in terms of profit model, the nature and the source of revenue existed in the two most popular social media. The purpose is to investigate the distinctive features in each platform, WeChat in particular. Financial data analysis is also applied to examine the revenue sources and the financial performance of the two.

### 3. RESEARCH RESULTS AND DISCUSSIONS

In the context of mobile Internet, the dissemination of information has shifted from traditional media to social media. As a representative of social media, the start and development of WeChat coincides with the popularity of smart phones in China. Taking this opportunity, WeChat has rapidly become a representative social media platform in China. The 2019 financial report of Tencent shows that as of December 31, 2019, the number of monthly active accounts of WeChat was 1164.8 million, which has the largest user group in Asia and even in the world, and the number of users is still growing<sup>4</sup>. This study analyzes its profit model basing on the following research questions.

#### 3.1 Types of WeChat profit models

Profitability is the specific performance of business activities in all aspects of an enterprise. The efficiency of enterprise operation can be shown through profitability. Through the analysis of profitability, the types of WeChat profit models can be understood

Table 2. Revenues of Tencent in the years of 2018 and 2019 (RMB in millions)

Item	2019		2018	
	Amount	% of total revenues	Amount	% of total revenues
Value Added Service	199,991	53%	176,646	56%
FinTech & Business service	101,355	27%	73,138	23%
Online Advertising	68,377	18%	58,079	19%
others	7,566	2%	4,831	2%
Total revenues	377,289	100%	312,694	100%

Source:Tencent.

<sup>4</sup> Tencent(2020). Retrieved from: <https://cdc-tencent-com-1258344706.image.myqcloud.com> ,12.January. 2020.



As it indicates in Table 2, revenues from value added service (VAS) business increased by 13% year-on-year to RMB200 billion. Online games revenues grew by 10% to RMB114.7 billion. For the year of 2019, Tencent's game has deepened its leading position in China, and its overseas business has also made significant progress, which is largely due to the success of "PUBG mobile", "Call of Duty mobile" and "League of Legends". In 2019, the number of Tencent's paid value-added service accounts increased by 12% to 180 million on a year-on-year basis, the number of Tencent's paid video members increased to 106 million, and the annual operating loss of video business decreased to less than RMB 3 billion. The increase mainly reflected revenue growth from digital content services such as live broadcast services and video streaming subscriptions.

Table 2 also shows that revenues from FinTech and Business Services increased by 39% year-on-year to RMB101.4 billion. Mini programs in the e-commerce and retail industry have explosive growth compared with last year, and the most revenue of this part is not contributed by the Mini program business in the WeChat wallet entrance, which shows that more and more Internet players and Mini programs in the middle and long tail are accelerating commercialization.

In terms of online advertising, under the unfavorable situation of weak macro-economy and fluctuation of the industry, Tencent's advertising made steady growth against the trend, with annual revenue reaching RMB68.377 billion, up 18% year on year. Social and others advertising revenues grew by 33% to RMB52,897 million. By actively integrating the advertising technology team and sales team, improving the ability of advertising precision, optimizing the advertising form and so on, the core advertising revenue from "social and other" increased in the second half of the year, with a year-on-year growth of 33% to RMB52.897 billion, and thus became the main driving force for the growth of advertising business in 2019.

### **3.1.1 Advertising service**

WeChat's user group has a realistic relationship foundation. Combined with the user characteristics of strong relationship and social networking of acquaintances, the arrival rate and

conversion rate of WeChat advertising business are unmatched by other platforms. When enterprises or individuals publish advertisements through WeChat platform, WeChat will charge corresponding fees according to different advertising types and publishing frequencies. In January 2015, the first batch of friend circle ads was officially launched. The ‘friends circle’ advertising is integrated into the information flow of users. At the same time, the amount of exposure is increased rapidly, and the participation of target customers is improved.

*For the friends circle, WeChat has direct contact with advertisers and charges directly to them. For public platform advertisements, Official Account and Mini Program operators are directly related to advertisers, and WeChat mainly charges transaction fees. By 2018, WeChat friend circle advertising and public platform advertising have contributed more than 30 billion Yuan to Tencent's revenue (E, 2020).*

Advertising is an important way for social media to make profit. Just taking WeChat Official Accounts as an example, the number of advertising transaction grew much bigger. Some social media’s advertising earning has already exceeded traditional big media organizations.

*The first Official Account for advertising is 200 thousand Yuan. Then the WeChat advertising official reduced the threshold to 50000 Yuan. And then the friend circle advertising will provide you with a copy of the relevant statistics of your advertisement, which can see the click volume, exposure and other information(A, 2020).*

*As an advertiser, we have choices in the ad types and the way of promotion. Our marketing team staff often interact with advertisers by giving comments and so on. These activities will be spread in the circle of friends(B.2020). But we often update our items, WeChat official account should update its’ system accordingly so as to maintain long-term and stable cooperation with us. (B, 2020).*

Social platforms have been favored by advertisers and businesses, who gradually choose more social platforms for advertising. Like WeChat, many platforms include four advertising resources at the bottom of the Official Account, the middle of the article, the interactive advertisement and video stickers, and the content advertisement displayed on the mini program page.

*I found out in my research WeChat public platform incubates a large number of self media, and diversified segmentation fields attract different users, relying on a huge user base. The head users in different fields bring huge traffic to WeChat. (E, 2020)*

Advertising display is the most common, popular and direct model for profit. There are two main types in WeChat's advertising profit mode: one is WeChat friend circle advertising, the other is WeChat official account. As we can see, WeChat's advertising system is mainly aimed at brand enterprises, small and medium-sized enterprises and individual customers. It mainly focuses on information flow advertising, including two types of friend circle advertising and public platform advertising.

To do advertising via social media platform becomes the trend due to the huge number of users, flexible ways to do ads display and precise positioning and delivery. The application of new technology in WeChat provides a variety of choices for advertisers' marketing innovation. It not only meets the needs of advertisers, but also brings high profits through long-term cooperation between WeChat and advertisers.

### **3.1.2 Financial service**

The convenience of WeChat makes users used to use WeChat for capital circulation, which also brings benefits to WeChat.

*[.....]WeChat's service fee income comes from businesses such as withdrawing cash from individual users, paying back loans with credit cards, etc., on the other hand, it comes from transactions such as collection and payment services, transfer payment, refund, etc. provided to merchants or enterprises(G,2020).*

*When users use WeChat payment platform for consumption or transfer, due to the time difference of settlement cycle, there will be a certain scale of deposit funds in the provision account, and the interest income of this part of funds will form part of WeChat's income (G, 2020).*

As WeChat payment online and offline has gradually become popular, a certain percentage of each order, namely payment transaction fee, is the fee income.

*What I have observed is that WeChat has user information, aggregated transaction information and platform transaction scenarios. These information and platform transactions derive services such as Internet marketing, credit, financial management and insurance, which can provide financial services for individual and enterprise users. (F,2020).*

Three incomes produced from financial services are found in WeChat, including the service fee which is the most traditional source of income in the payment industry, mainly relying on the scale effect of enterprises. The second is the interest income of user's provision. And the third is income derived the platform.

### **3.1.3 Third party service**

WeChat's huge user base enables it to transfer this resource to a third party, and then share the revenue with the third party business firms.

*[.....], the third-party service of WeChat platform through strategic cooperation with third-party enterprises such as Jingdong[JD], Pinduoduo and Vipshop, WeChat provides access points for the third party, and both parties share the income in proportion. In this business model, WeChat is more of an entrance to a third-party enterprise, making use of its huge flow to bring profits to WeChat (G, 2020).*

According to the official announcement of Tencent in 2017, WeChat has sold the online payment business to JD in exchange for a certain share of JD. Jingdong background consumption data and WeChat user information are bound to make users more convenient<sup>5</sup>.

*Applet is also an important third-party service of WeChat platform. WeChat successfully uses online mini programs to guide users to offline stores by linking account information, LBS, mini programs and mobile payment, and completes transformation, creating a closed-loop profit model of O2O(G, 2020).*

Applet is a new open ability created by WeChat, which enables developers to develop an applet quickly. Mini programs can be easily obtained and spread in WeChat, and make its' users experience excellent. According to Huateng Ma, CEO of Tencent, WeChat applet is an innovative application that can be used without downloading. After nearly two years of development, a new WeChat applet development environment and developer ecology have been built up. Up to now, more than 1.5 million developers have joined in the development of WeChat applets. The number of WeChat applets exceeds one million, covering more than 200 industry segments, and the number of daily users reaches 200 million(Ma 2018) .

<sup>5</sup> Tencent (2018). Retrieved from: <https://www.tencent.com/zh-cn/investors/financial-reports.html>, 11 December, 2019.

Besides, WeChat provides enterprises with paid value-added services to obtain income, such as statistical analysis of applet industry data, applet information media, applet alliance, and applet consulting services. WeChat didn't adopt the cash method of direct charging to individual users, but gradually launched paid "expression packs" in Expression Stores, providing users with a more personalized way to convey information. For the enterprise users, WeChat gains revenue by charging users of its public platform. WeChat's public platform supports users of "subscription number" to conduct WeChat authentication, and charges users 300 RMB "audit cost" each time.

It is worth noting that different types of enterprise user groups will also have different needs, and WeChat platform can provide targeted value-added services to meet the different types of enterprises with different needs.

### **3.1.4 Games**

WeChat is a product of Tencent, and Tencent is also a game company. Tencent is a leader in the game industry in China. Whether making games or managing games as an agent, both can log in through WeChat. WeChat platform has also launched many games related to applets. Thanks to the emergence of smart phones, the development of mobile games has made rapid progress, coupled with the extremely strong gold absorption capacity of hand games, WeChat game platform has gradually become an important part of WeChat's commercial activities.

*Since WeChat games were officially launched, they have basically accounted for the largest proportion in the ranking of weekly apps. At present, there are more than 10 million open game platform revenue, which brings a great opportunity for small program developers. WeChat platform does not share, and small game developers can get higher profits. Due to the huge user group of small games, it is a controllable and high-quality source of user traffic(H,2020).*

*'WeChat game' is a game released on WeChat platform, and relies on the supply of game resources to obtain profits. Before WeChat invention, Tencent already had had rich experience in PC games, so mobile games are not new to them. However, early WeChat was very cautious in games, worrying about the loose of users. In July 2011, Tencent officially announced the new function of 'WeChat game' (I, 2020).*

WeChat's attempt to explore its own profit model in the game is marked by adding “game” service in WeChat 5.0. Based on its huge user base, WeChat works with more game developers and use WeChat as a channel for game developers to release games. Games on the game platform include games provided by third-party game developers and games independently developed by Tencent. Therefore, WeChat’s game revenue also includes two parts: The first part is that WeChat provides the publishing channel and payment channel for the third-party game developers, and WeChat collects profit share from the third-party game developers; The other part comes from Tencent’s independently developed games. That part of the revenue is mainly the cost of virtual props purchased by users in the game. For example, limit the number of games, interactive payment among friends(CINIC).

In short, there are four types profit models of WeChat, they are advertising, financial service, third party service and game. WeChat and third-party participants are mutually beneficial and symbiotic, forming a complete business logic, producing a wide range of value connections, reaching an unprecedented level in information content and service types, greatly improving user scale and user viscosity. Based on their specific needs, WeChat users realize their own personalized needs in the use of WeChat platform, which contributes WeChat’s business model to be profitable.

WeChat has established a symbiotic ecosystem through the implementation of ecological strategy. As one of the most potential social media brands in China, WeChat needs further expanding its business ecosystem. More users may benefit from WeChat platform; The third party application developers and e-commerce operators may promote their applications on WeChat apps; public organizations such as government and institutions might build information platforms and functional windows through WeChat’s Official Account.

## **3.2 Distinctive features of WeChat profit models**

### **3.2.1 Features of WeChat profit model Compared to those of Facebook profit model**

Each profit model has its own characteristics. No matter which profit model the enterprise chooses, it can find the profit point. If the enterprise wants to achieve long-term profit, it must adjust the profit model in time with the change of market demand(Slywotzky *et al.*1999). Starting from the campus social platform, Facebook has experienced many innovative changes in capital operations and competitive mergers and acquisitions, with the core value concept of connecting the world. Driven by capital and technology, Facebook has become the largest social network service platform in the world. In recent years, with the rapid development of Internet technology and the rise of e-commerce, Facebook has begun to use its huge user base to develop other functions together with its original function of providing social services. With the main income from advertising, derivative services like third party application sharing, social business services paid survey services and commission become new profit points. From 2015 to 2017, Facebook's revenue from derivative service was respectively US \$849 million, \$753 million and \$711 million(He *et al.* 2019, 20). Facebook's social business combines promotion with sales. Brand businesses can not only provide privileged services for loyal fans through Facebook's social business platform to improve the brand loyalty of users, but also use the digital technology of Facebook platform to transfer product information to potential consumers and expand brand influence.

It can be seen that the success of Facebook is largely due to its innovation of its profit model. With the update of Internet technology and the diversification of user needs, Facebook has been innovating its profit mode. For example, when users buy virtual products or services on Facebook, the credit currency service can provide users with a more convenient payment method, and Facebook extracts about 30% of the commission from it, laying the foundation for Facebook to develop into a business platform based on social networks.

As to WeChat, the product updates and changes in the early stage of WeChat are the continuous improvement of instant messaging functions. Subsequently, WeChat team has developed the functions of ‘friend circle’, and gradually made the transition to social platform. With the continuous improvement of social platform, it has attracted a large number of users. WeChat platform began to provide marketing services to enterprise user groups after obtaining large-scale users.

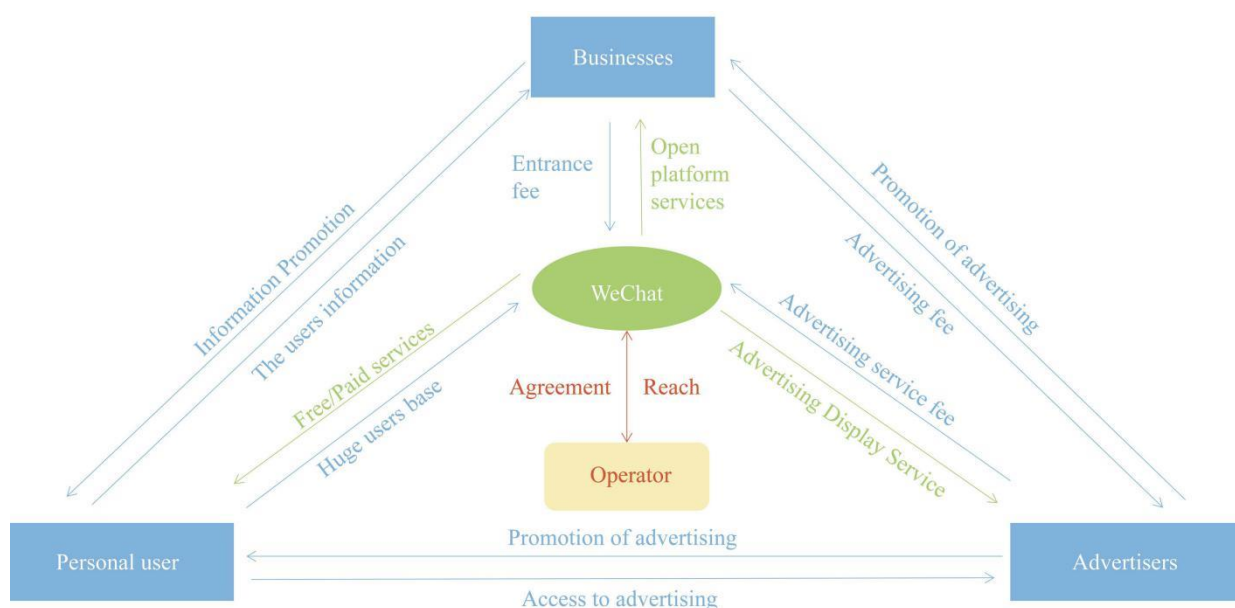


Figure 2. Profit models of WeChat

Through WeChat public platform, targeted and accurate personalized information is directly delivered to WeChat users. In the process of interaction with its target users, businesses achieve the effect of product and brand promotion, from which WeChat obtains cooperation share. From the above, it indicates that WeChat is not a pure social platform, but a social business platform based on social networks(see Figure 2).

What WeChat and Facebook have in common is that their early rapid development relies on the innovation success of their core products, a large number of user bases and stable profit channels; However, Table 3 shows differences exist in the two business models, including the following three points:



(1)The types of profit models are different. Facebook focuses on marketing, while WeChat's profit model is more diversified. In addition, the main source of Facebook's revenue is advertising fees. This kind of profit model does not give full play to the effect of Web 2.0, and the profit model remains traditional. While WeChat's profit model is diversified with the increase of value-added services such as WeChat "subscription number", the proportion of its value-added service fee is increasing.

(2)The link level of consumption process is different. On the Facebook platform, only F-commerce realizes one click consumption, while other types of stores only serve as a foil for other B2C platforms and import the traffic of their own platforms to other B2C platforms to achieve consumption. While the diversified profit model WeChat mostly realizes the one key consumption of platform users, and improves the convenience of consumers while meeting the changing needs of users.

(3) The focus of the two platform is different. Facebook does not have its own brand and supply chain system. Facebook still emphasizes the nature as a platform and does not really involve in the business behaviors aimed at users. However, in the long run, Facebook wastes a huge amount of user resources and fails to give full play to its social business functions. WeChat, on the other hand, makes full use of its huge user base, and derives a profit model based on value-added services, mobile marketing and games, which is more in line with the local development needs of the Chinese market.

Table 3. Comparison of profit models between Facebook and WeChat

Platform	Profit model	Nature	Source of revenue
Facebook	mobile e-commerce	B2B	commission fee
	value-added services	B2C	value-added service fee
	marketing	B2B	advertising fee
WeChat	value-added services	B2C	value-added service fee
	mobile marketing	B2B	advertising fee
	mobile game	B2C/B2B	service fee/commission fee
	mobile e-commerce	B2B	commission fee

To sum up, both Facebook and WeChat are all pioneers of social business. They are still trying and exploring new models and technologies in this field. But regarding its platform as a way earning revenue is the core of WeChat profit model, in which an ecosystem connecting different user groups has been set up. This ecosystem provides interaction mechanism for different user groups, and WeChat has derived corresponding profit for each user group linked by the social platform. As a result, customers one-stop services, differentiated membership levels to all users are provided so as to meet users' needs and follow social media market trends.

### 3.2.2 Financial analysis of WeChat profit models

With the establishment and application of sustainable business model, WeChat has gradually become the main source of Tencent's income. From 2015 to 2019, revenues of WeChat sees a steady upward trend. It is worth noticing that revenues reached a maximum of RMB 3772.89 million in the year of 2019. As WeChat's revenue increases year by year, the proportion of its segment revenues has also undergone certain changes.

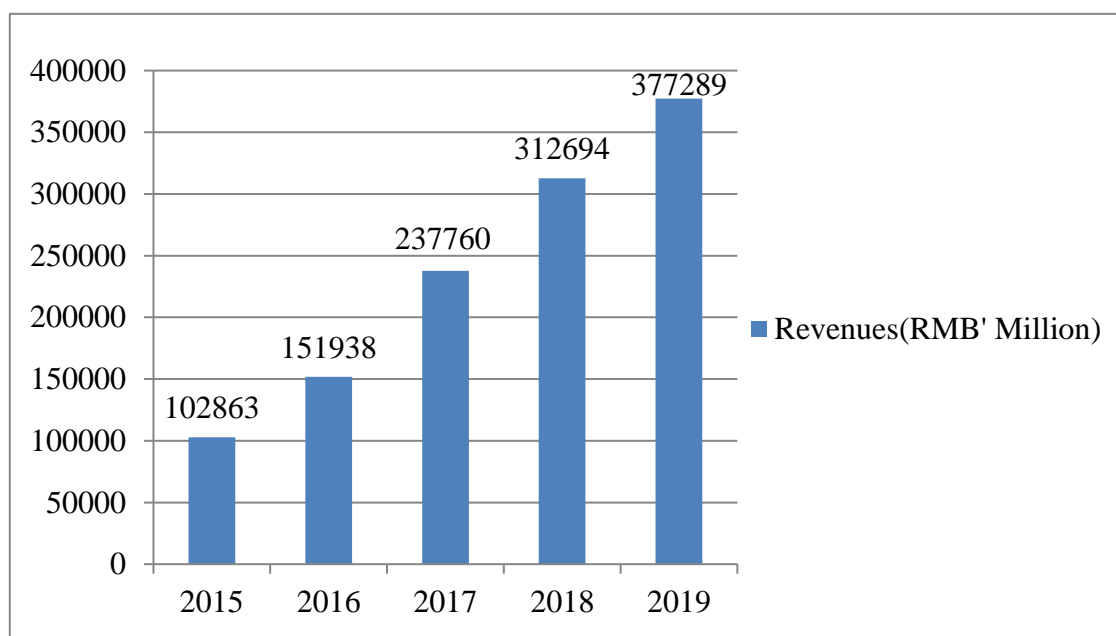


Figure 3. The revenues of WeChat(Weixin) (2015-2019)

Source: Tencent Financial Annual Reports

As we shall see Figure 4 shows that the proportion of value-added service revenues from 2015 to 2019 declined slightly, with an average annual decline of 5%. At the same time, the proportion of online advertising revenues fluctuated; however, the proportion of other items' revenues increased steadily thanks to innovative new programme added ( such as Mini Programme), with an average annual growth rate of 4.8%, which is close to the growth rate of value-added services.

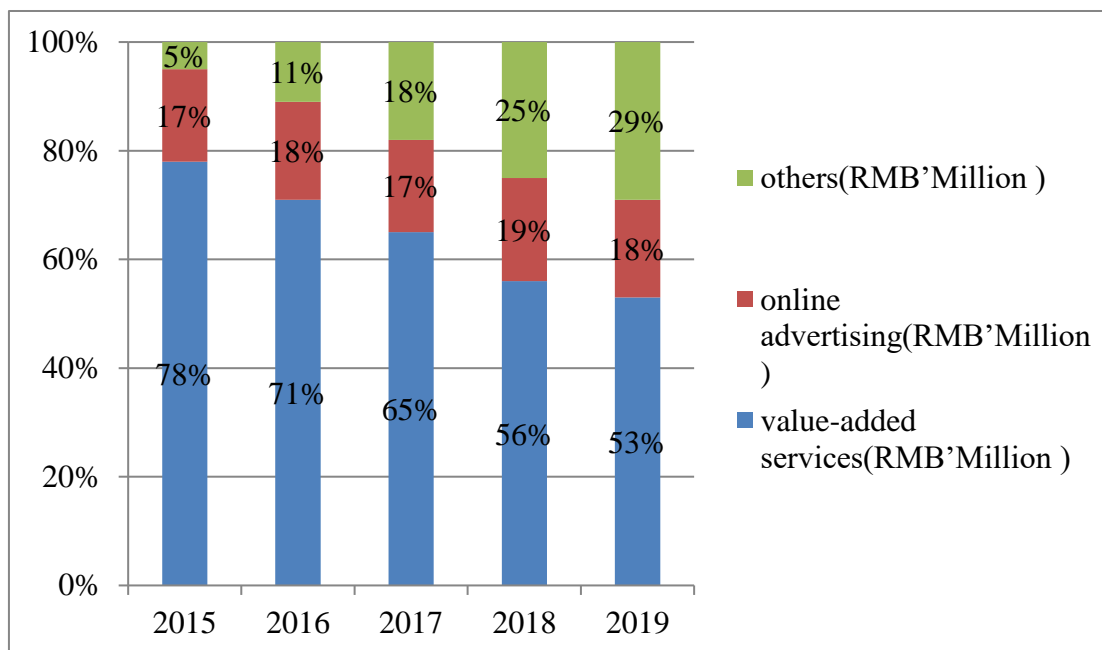


Figure 4. The proportion of segment revenues (2015-2019)  
Source: Tencent Financial Annual Reports

Compared to WeChat's financial performance, advertising revenue has always been an important source of revenue in the total income of Facebook. Facebook's revenue increased exponentially from 2011 to 2018. As its core revenue source, advertising accounted for 98.52% of the total revenue in 2018. The main forms of Facebook ads are information flow ads and display ads. Figure 5 shows that advertising is absolutely the core profit source. From 2016 to 2018, Facebook's digital advertising revenues accounted for 56% of advertising revenues. As the proportion of video advertising revenues increase gradually, the proportion of desktop video advertising revenues declines steadily, while the proportion of mobile video advertising revenues gradually increases.

We should see that the revenue of Facebook is still generated traditionally from advertising compared to WeChat profit models with value-added services as the most profitable means. To give better services to right customers, Facebook exploits and analyzes customer information, shares information with third party and provides ads to targeted ones. Facebook is facing the challenge of single profit channel. Its market value has declined to a large extent in 2018. How Facebook will continue to innovate and develop to meet the challenges is a hot topic for the investors (Wan, He 2020, 99).

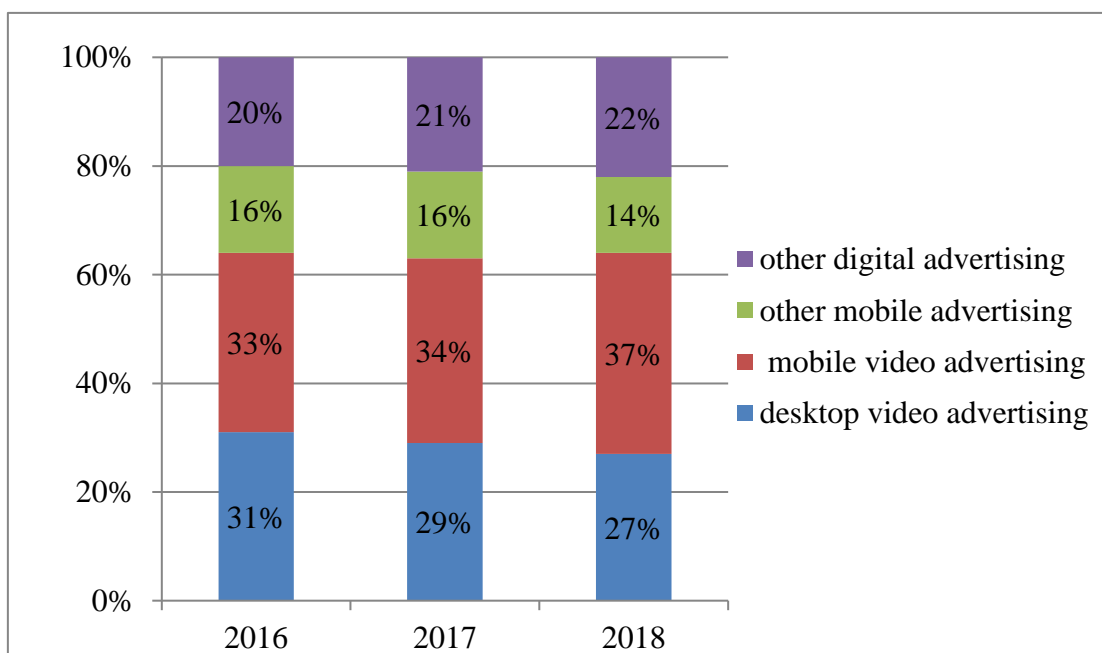


Figure 5. The proportion of Facebook's advertising segment revenues (2016-2018)  
Source: Wan, He (2020, 100)

As the world largest Internet technology company, Facebook has a broad market base and a large user base. But in the increasingly competitive internet environment, Facebook mainly relies on the profit model of advertising revenue, which brings certain risks for its future development. In order to reduce its risk and implement the strategic concept of connecting the world, the improvement of both the enterprise ecosystem synergy and the profit model the may be the focus of Facebook in future development.

### 3.3 Limitations and problems of WeChat profit models

The birth of WeChat has brought new opportunities to the development of all walks of life, and it has developed into a rather mature profit model . However, from the perspectives of its users who use it with different purposes, WeChat still has limitations and problems proved by the feedback and responses from the interviewees.

*[.....]there are still some shortcomings in WeChat. It is not easy for more and more people in WeChat to start “WeChat business”. I noticed that there are reports on illegal elements mixed in WeChat business groups to gather and cheat, but the result of WeChat reporting function is always unsatisfactory, so this is a problem that needs to be improved or protected (B,2020).*

*WeChat involves personal data and privacy information of users. If it is not properly saved and managed, there is a possibility of disclosure. For example, there are no security settings or safekeeping for the phone book and mobile phone backup data.[.....], when users use LBS function to expand their interpersonal relationship, they also have the problem of personal information disclosure(G,2020).*

*As a social tool derived from the network, WeChat may be abused. Strangers chat up people using WeChat by checking nearby people, shaking and other functions, and even have vulgar and obscene conversation content. And I was really annoyed by that because I feel upset if my son makes friends with strangers or bad people (C, 2020).*

On the business platform based on social media, enterprises want to provide more accurate and personalized services for their users. They must collect user information, and mine and analyze the collected data. However, most social media platforms are social relationship systems interwoven by strong relationship chains of acquaintances and weak relationship chains of strangers. When users enjoy the convenience services brought by social business platforms, they usually have no awareness of the disclosure of personal information, geographical location and other private information, which is likely to give criminals a chance.

*They[users] use WeChat dating platform to increase the number of friends, and then use WeChat's ‘friend circle’ function to release product information for the promotion of their products. [.....], gradually there are some illegal elements which mix with WeChat groups to gather and cheat. But the result of WeChat reporting function is always unsatisfactory, so this is a problem that needs to be improved and strengthened(A, 2020).*

WeChat is a powerful platform, which can bring many benefits to users and businesses registered. However, such main problems as malicious use, information overload, privacy disclosure may exist. The development of new network technology will inevitably bring new social problems. When necessary, both the government and the industry should strengthen the regulation or self-discipline. Any new technology may be abused, WeChat is no exception. Therefore, as a business firm, WeChat also faces the problem of how to regulate. From the perspective of the development trend of the regulatory system in China, the regulatory mechanism is accelerating adjustment, including the improvement or strengthen of industry legislation, competition supervision, service quality

### 3.4 Implications

The above results and discussions implied that WeChat has developed from an initial basic communication tool for sending text and pictures to an open WeChat system of profit business model covering information interaction services, financial services and third-party services during the process of development.

The elements of ecosystem can be summarized into the following three aspects which is presented in Figure 6.

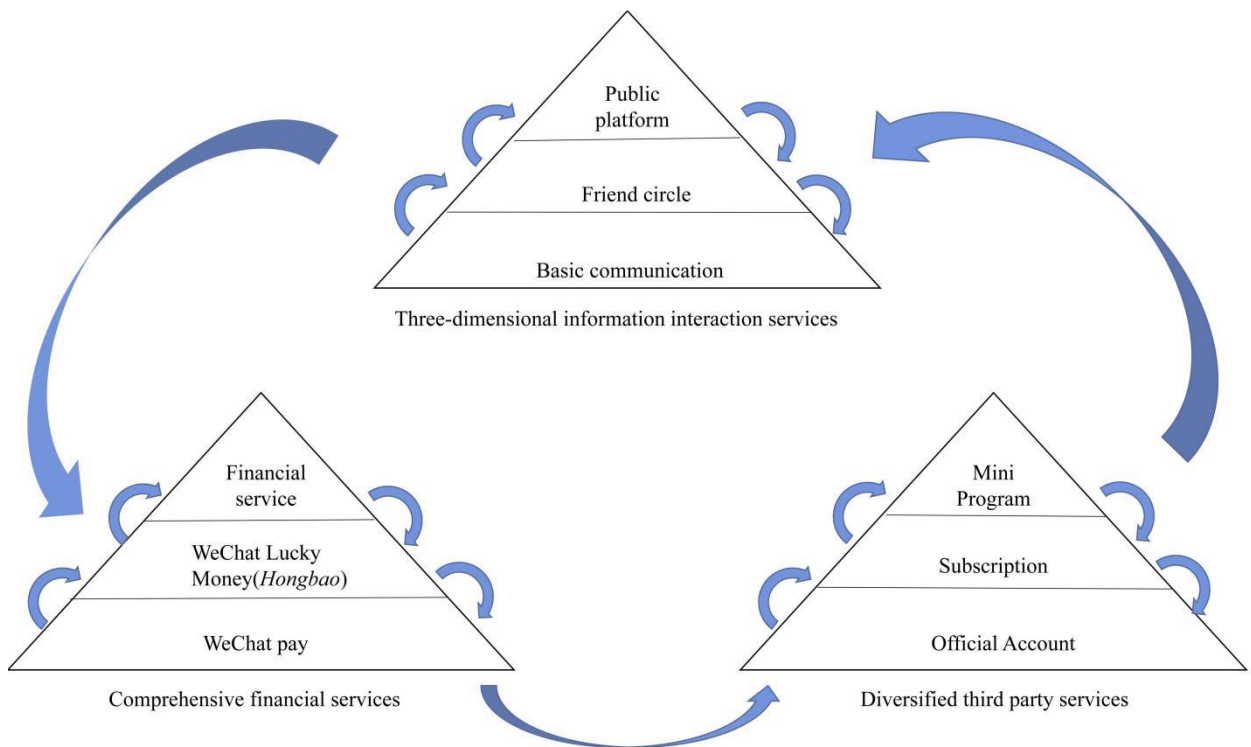


Figure 6. Eco-system of WeChat

To begin with, WeChat creates a three-dimensional information interaction service composed of basic communication, friend circle and WeChat public platform. The three levels of information interaction functions are not only independent, but also related to each other, so as to meet the user's one-to-one, one to many information interaction needs. What's more, it is very important

for a relationship social platform like WeChat to establish and maintain relationship with other users; thus, WeChat public platform came into being. The public platform is a new service platform for individuals, enterprises, media, governments and other organizations to provide business services and user management capabilities, which meets the needs of users in WeChat one-stop access to diversified information. The three-dimensional information interaction services has been set up, and WeChat has gradually evolved from a simple communication tool into China's leading social media platform.

In addition to the three dimensional information interaction services, WeChat also provides comprehensive financial services to its users. With the help of three-dimensional information service matrix, users on WeChat platform have close relationship chain and high-frequency information interaction behavior, which provides a good customer base for WeChat to implement comprehensive financial service. WeChat's comprehensive financial services mainly consist of payment, financial management, loan and insurance.

And finally, WeChat offers diversified third party services to its cooperative business partners. WeChat public platform and third-party service are the main channels for WeChat to provide diversified third-party services. Three forms of services are included in WeChat public platform mainly: service number, subscription number and applet. The three service types have clear division of labor, among which service number tends to service interaction, targeting at enterprises and organizations; subscription number tends to information communication, facing individuals, enterprises and organizations; applet is similar to WeChat's built-in app, which can be easily obtained and spread within WeChat platform.

All in all, WeChat provides basic communication services and financial services in the social scene with the establishment of a huge user base and forms a huge data flow. In addition, it creates an open service platform by launching WeChat public platform and providing third-party service interface. Its own business and third-party service jointly build a WeChat efficient system for marketing and profit.



## CONCLUSION

This paper is designed to examine different kinds of business models for earning profit used by social media, WeChat in particular. The findings of the study are: firstly, the major types of WeChat profit model are advertising, financial services, third party services and games. Secondly, WeChat has its own unique functions and business value, although similar to Facebook, to some extent. Diversified business channels for profit have been well developed. WeChat develops functions such as WeChat marketing on the basis of social functions, which meet the diversification of user groups and user needs to the greatest extent. As WeChat combines social media platform with a variety of business models, its profitability is growing steadily, which provides a reference for the sustainable development of social media platforms in China. *Tencent Financial Annual Reports* demonstrates the revenue earned by WeChat profit models has ever been increasing. Value added services are the main source of income. At the same time, newly developed projects have turning into new profit growth points. And thirdly, as a successful business model, WeChat has its problems and limitations, namely, deception activities by illegal merchants, information overload and privacy disclosure. Furthermore, implications has been drawn to bring reference to other social media aiming at developing business models alike.

Based on the findings and discussions, the conclusions are reached as the followings three points:

Firstly of all, sustainable ecosystem has been constructed. WeChat is fully aware of the change of people's concept of time and space, and has constructed its ecosystem strategy in electronic information industry with prosperity. When edge-cutting technology, strong finance and powerful market share have been achieved, a healthy environment is formed to trigger the creation of WeChat, and WeChat emerges as the times require. Fulfilling the three essential requirements, WeChat's businesses start to make profits. If one of them is missing, WeChat will no longer have a complete profit model. What's more, under the ecosystem, WeChat and

third-party participants interact with each other, formed a complete business logic in terms of win-win policy by producing a wide range of value connections, information content and service.

Secondly, mature profit models have been developed. During the past ten years, the business model of WeChat has been well developed with the main functions of platform service of finance and third-party payment, advertising of different kinds with different display channels, several applets of game. Among them, platform services are of the most advantageous profit model through cooperation with big e-commerce companies and value-added service of special programs provided in WeChat. Service fees collected from different services contribute the major proportion of the income. As to the profit model of advertising, the most important profit model for both traditional media and new media, it is approved to be the most mature and direct model to realize profit. The advertising profit of WeChat's friend circle is even more ingenious. It not only has a precise advertising mode, but also presents the advertising in the form of friend circle status, and users can interact with the advertisers. As a result, users' antipathy has been aroused and advertising has been effectively promoted.

And finally, Problems existed in WeChat profit models. Although it has a bright market prospect, the four business models play an immeasurable role in promoting profits; WeChat's profit model has limitations and problems. WeChat software requires reading personal information files, such as mobile phone address book and SMS, with functions of positioning, therefore, private information is easy to be used without the awareness of users. The risk of making friends with strangers, privacy disclosure and business fraud may happen. Innovative solutions to maximizing profit and guaranteeing security of users account in particular are regarded as positive elements for users' decision on the constant use of the media. Thus, if WeChat wants to gain more lasting vitality in the cruel market competition, problems must be solved. What is more, when the rights and interests of users are threatened or exploited by lawbreakers, the self-discipline and measures of service providers may not be able to eliminate the problems, thus joint effort should be taken to fight against illegal activities. On the one hand, the industry and service providers still need to strengthen self-discipline. On the other hand, it is still necessary for the government to conduct joint supervision from different sectors involved.

A few limitations exist in this study. First of all, some results and analysis of this study come mainly from a source of in-depth interviews of nine subjects, which may lead biased and incomplete results because of the interviewees' subjective opinions and thus can't be generalized, therefore, a quantitative research as an complementary method with larger sampling should be more appropriate. Second, all the interviews are carried out either via e-mail or WeChat rather than face to face due to the epidemic situation of COVID-19 between February and April when the interview is planned and has to be completed. Those two methods won't allow the researcher to improve or adapt the questions when necessary, clarify doubt, and therefore some of the feedback are invalid because of the ambiguity, the researcher has difficulties in understanding them. flow-up enquire often end up in either no responses or simple explanations.

As to the profit models of social media, future study may move to wider range of social media worldwide, such as micro-blogging service provider Twitter, video sharing provider Youtube and so on. And the theoretical framework relative to profit models of social media should be constructed with strong evidence of big data collected from empirical methods.

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