Mobile Marketing in China: Can WeChat Turn Their New Advertising Strategy into a Sustainable Advantage?

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Abstract

WeChat is China’s equivalent of WhatsApp, Facebook, and Paypal all combined into one app. In this paper, we examine mobile marketing in China, and specifically focus on WeChat’s strategy in opening up its platform to advertising. There is profit potential and also risk potential for WeChat in adopting this strategy. We discuss aspects of this strategy along various dimensions, compare WeChat and Facebook where relevant, and stress how and why WeChat needs to be cautious as it goes forward, to avoid various pitfalls that were handled unsuccessfully by Weibo. Core issues that are discussed include differentiation, personalization, customer perception, and the uniqueness of China and the Chinese consumer.

Keywords: WeChat, mobile marketing, social media, marketing in China

1. Introduction

Mobile marketing is the latest acclaimed marketing strategy. At a time when other marketing channels are said to be losing effectiveness, “mobile” has become the best way to reach consumers. Executives from North America are flocking to mobile as the biggest new solution. “Your mobile device quickly has become the easiest portal into your digital self,” proclaims Phil Nickinson from Android Central. And Google’s Eric Schmidt believes that “Mobile is the future, and there’s no such thing as communication overload.” In sum, the marketing world currently loves mobile marketing!

Not only has there been a lot of interest in mobile marketing in the past few years, but, perhaps, nowhere has this interest been greater than in selected parts of Asia. In fact, the entire issue of how to market in Asia, and how it differs from general marketing practices in the U.S, has been a burning question for many U.S. companies, who have begun to consider how to enter the burgeoning Asian market (e.g., Harris & Berger, 2015). The interest in mobile marketing in Asia is also exemplified by a study of the mobile marketing field in Japan (Lynn & Berger, 2014).

Of course, China is much more populous than Japan, and has had more societal changes in the past decade than, perhaps, any other country in the world—not just in Asia. Among one of these changes is the quick adaptation of technology especially among China’s younger consumers, who have quickly become accustomed to conducting most of their business and social interactions with the help of smartphones and the Internet. The rapid growth of China’s young consumer market and technology acceptance makes the rise of mobile marketing particularly intriguing, especially at a time when WeChat (Wei Xin in Chinese), China’s equivalent of WhatsApp, Facebook, and Paypal all combined into one app, opened its platform for mobile marketing in early 2015.

Before getting carried away by wonderful quotes about mobile and its place in everyone’s future, however, one might reflect on the following phrase from Matt Haig, author of Mobile Marketing: The Message Revolution: “End users, not technologies, shape the market. Consequently, marketers need to stay abreast not only of technological developments, but also, of the way people respond to them” (Haig, 2002). In other words, while talking about mobile marketing, it is vital not to forget the users and the place they occupy in the mobile marketing world. In some ways, this mirrors the very long-standing concept usually applied to new products, but also to new services: the distinction between tech-push and demand-pull, and the recognition of both.
2. Wechat: The App That “Stole” Mobile in China

China’s digital e-commerce landscape is very different from the rest of the world. As Annemarieke Kostense, the Managing Director of Greater China at Digital Jungle, an Asia-Pacific digital agency put it: China is fascinating and hard for foreign companies to navigate, because it has no Facebook, no Instagram, and no Twitter. In fact, in recent years, all that China does have, it seems, is WeChat.

WeChat emerged in 2011, and started out as a purely text-messaging platform created by Tencent Holdings. By 2015, the platform boasted some 600 million daily-active users (Bao, 2015). Its tremendous growth over the last five years disrupted the telecommunications business, by replacing the need to send SMS, and even replaced the need for phone numbers, as people share their WeChat IDs, rather than phone numbers or e-mail addresses. Moreover, since its launch, WeChat has developed an array of applications within its own app. For example, it added a payments system connected to JD.com, one of China’s biggest online stores, ensuring that people increasingly shop on WeChat’s own platform. This, in turn, hurt China’s e-commerce giant, Alibaba, dominant on the e-commerce scene until then (Rein, 2015).

WeChat users can join the network by either giving their WeChat ID, by scanning a personalized QR code, or simply by shaking the phone and letting the device read the other people who have WeChat and are in the area. The massive number of users WeChat has attracted has not gone unnoticed by China’s commercial sector. There are QR codes everywhere: on tables, TVs, and billboards, so people can scan them and subscribe to their favorite (or at least moderately interesting) brands in an instant. Businesses have been known to successfully connect with their constituents using the platform by making their own profiles.

An extremely successful example is a campaign by Uniqlo, the Japanese clothing company. As part of their “Style your Life” campaign, they asked people to take pictures of the clothes they tried on in-store and post them online—subscribing to the company in the process. During the campaign, they increased their WeChat followers from 400,000 to 1 million. Sales of key clothing items increased by 30 percent (Doland, 2015). That is clearly a highly positive result for a company that did not spend any money whatsoever on using WeChat’s advertising platform and had not previously relied on social advertising. With a little bit of effort, WeChat lead to great success for that business, without there being an actual integrated ad-platform.

In fact, there was no official way to advertise on WeChat until 2015. In 2015, WeChat began testing an advertising model, reminiscent of Facebook’s native advertising, but with very notable differences. It would allow businesses to target users and post messages onto their “Moments” page, which is, like Facebook’s Newsfeed page, a series of posts collected from the user’s network. However, unlike Facebook’s advertising, where businesses pay per impression or click, WeChat’s advertising is based purely on impressions—where clicks are considered impressions. The advertising also comes with limited features. Ads can appear only on the Memories page and links could at first point only to the company’s WeChat profile (Bao, 2015).

WeChat’s payment structure is also different from that of Facebook. While WeChat still uses the CPM (cost-per-impression) and CPC (cost-per-click) models, a campaign must start at around $10,000 (Bao, 2015). Based on the price, WeChat is essentially selling “premium” access to China’s mainly young and affluent population: the majority of the people on their network are 22-35 years old, and 24.2% are white collar workers (WeChat Advertising Guide, 2015). Despite WeChat’s users being much more independent and forward thinking than other parts of the Chinese society, they are still cautious about their personal data and generally averse to advertising (Olson, 2015).

Thus far, WeChat has been doing very well without the need for direct advertising within its news feeds. While the prospects of native advertising are promising, is WeChat actually at risk of losing its user base by allowing personalized advertising? Many applications before it, such as WeiBo, have tried the direct marketing route—and ultimately failed because of over-advertising that triggered its users to move on to another app. Is personalized, mobile marketing going to work for WeChat in the long-run?

Mobile marketing has very good growth prospects at the moment. However, as with many marketing channels, it is likely that mobile will become oversaturated and much less effective with time. At that time, marketers may flock back to direct mail or e-mail as a way to reach consumers. Mobile marketing is just another type of marketing that will possibly “get on people’s nerves” at some point. In light of this view of the mobile marketing market, WeChat’s investment raises concerns for its long-term viability.

The investment in advertisements will very likely pay off in the short-term, but will be highly volatile and risky in the long-term. That is because net revenues from advertising are projected to decline as mobile marketers are forced to differentiate, provide relevant, personalized content and utility, as well as respect data privacy.
WeChat’s marketing strategy will be successful only if they continue to provide utility to their users. If they are able to continually innovate for their market, then the mobile ads entry is likely to be profitable.

3. Differentiation and Revenue

According to Juniper Research, it will be a struggle for mobile messaging companies to sustain revenue, despite growing traffic (Juniper Research, 2015). Many predictions have been made that argue that just because traffic is going to increase, so will the revenue (e.g., Su-fang et al., 2016). Juniper shows, however, that this is not necessarily the case. According to their research, the revenue generated from each message sent over apps similar to those of WeChat will be less than 1% of what will be generated from SMS and MMS (Juniper Research, 2015). They predict that, despite the doubling of mobile traffic, free-messaging platforms will struggle to turn that traffic into revenue, even for advertising-enabled platforms. In light of possible stagnation of revenue from mobile messaging platforms, will a mobile marketing strategy hurt WeChat’s revenue by weakening its focus on users? First, let’s examine other companies which have been successful with native advertising, and their future strategies.

3.1 Facebook: Why Mobile Needs to Differentiate

Facebook started out as a single social website based in the United States and has since expanded its universe to include a variety of apps such as WhatsApp, a text communications app, Instagram, a photo sharing app, and Messenger, Facebook’s own text messaging app. Facebook’s biggest challenge in an immensely competitive space is to ensure that their users stay engaged with their universe. Acquisition of apps such as WhatsApp and Instagram was a way to ensure that Facebook gets access to a variety of user data, even when users are not directly connected to Facebook (Johnson, 2016).

Of course, Facebook needs a lot of data to sustain their main source of revenue: native advertising. Facebook began using native advertising in 2011. While it did not exactly invent the practice, Facebook is the one that perfected it, by giving businesses access to an unprecedented product—a social-media platform that revolutionized communication, and thus, became ingrained and entrenched in the world’s mind.

Facebook ads work on a pay-per-click or pay-per-impression basis, and vary in price, depending on the type of audience being targeted. Many businesses jumped on the opportunity to not only connect with customers using their social profiles or “pages,” but also to directly impress upon a tailored audience. Indeed, Facebook remains one of the platforms with the most detailed targeting options available.

Despite Facebook’s using their community as their main product, they have been very successful in remaining the number one social-media platform and have steadily begun their migration to mobile. In 2014, Facebook’s Messenger was the number one messenger accessed per month in the USA, followed by Google+, then SnapChat, and fourth being Facebook-owned Instagram (Kokalitcheva, 2015). However, there are more changes coming. In the fast world of mobile advertising, it is no longer effective to rely on users simply logging in onto a network. People have to be engaged; otherwise there is no utility for them in using an application. That is why, in recent years, Facebook has put a lot of focus on developing its messaging platform into an all-around communications platform. Its latest challenge is to integrate services and eventually, payments, to ensure that users can derive continued benefit (Gottfried, 2013).

While diversification of its product may seem natural, it also comes at a time when Facebook posted drops in advertising revenues (Johnson, 2016). The revenue drop suggests that monetizing ads might no longer be enough to sustain growth in the long run, and that other business models might be necessary. The drop in revenues and differentiations supports Juniper Research’s findings that user growth does not always equal revenue growth, despite the disbelief it has received in the literature.

3.2 Revenue from New Markets

Even if Juniper Research is wrong and the text messaging business will continue to grow at the current pace, turning traffic into revenue, it is not apparent how WeChat could replicate the same success as Facebook. Recently, Facebook’s ad revenue came mainly from foreign countries, rather than from inside its “home” country, the United States (Gottfried, 2013). That is primarily because people in the U.S. have likely become desensitized to social ads, if not leaving the platform altogether.

If WeChat’s user base becomes similarly desensitized, expansion into foreign markets will prove very difficult, because 93% of its operations is concentrated in the Chinese Mainland. They have a small presence in the U.S., Hong Kong, Europe and other locations, but as noted, these markets account for only about 7% of their influence (Marketline, 2013). While WeChat can spend resources at dominating other local markets, it is unlikely that they will be able to replace the competition already within those countries. In fact, WeChat owes its beginning...
success to its own innovation in its local market. For example, by adding a voice note it became a very useful tool, taking into account how the Chinese language is structured (Rein, 2015). Its entry into foreign markets would have to replicate the same vigor and localization they showed in their home market, which could be difficult and expensive, and may even require help from a local partner.

4. Customer Perception and Personalization

There is another reason for the need for mobile platforms to differentiate, other than just securing a position in the marketplace in the future: the continued use of WeChat’s platform is vital if they are to survive at all. And to ensure that it has users, WeChat must remain useful to them.

WeChat has done well thus far because it has focused and created a product directly for the needs of the Chinese consumer. The invention of the voice note, for example, gave it an immense advantage over other local text messaging apps because it solved a uniquely Chinese problem—a language of characters that may be written the same way, yet pronounced differently (Rein, 2015). Moreover, WeChat benefitted from a very unique aspect of the Chinese society: the fact that work and play are virtually inseparable (Kostense, 2015). Because the society does not have a major separation, it is possible for one application to dominate all realms of a person’s life. The same is unimaginable in North America. In the U.S. especially, people tend to keep their private and professional lives as separate as possible, giving rise to multiple social networks, each with its own specific purpose, such as LinkedIn, Snapchat and Instagram.

Despite WeChat’s successes, if users become dissatisfied en masse, they will move on to another application. It is incredibly important for a social platform, therefore, to stay relevant. Differentiation into diverse types of services makes a lot of sense for companies such as Facebook, who began their companies as advertisers and now have to remain relevant. WeChat began relevant, and is moving into an area where it is risking the satisfaction of their user base. The risks can be minimized by sustaining the utility of their platform, but it’s a difficult balance to keep. The main question here is, how can WeChat satisfy its Chinese user base?

4.1 Chinese Consumers and Mobile Marketing

The Chinese consumer perception of mobile marketing has changed over time. While blanket marketing no longer works, personalized, timely ads, can still be effective. Utility is the key. Research conducted in Taiwan in 2006 suggested that users very much disliked the idea of mobile advertising; the majority perceived mobile ads as “annoying, excessive and offensive” (Su-fang et al., 2016). In fact, when people received mobile advertisements, most put it aside to read later. Mobile was not an effective communications channel. Since then, however, both practices and perceptions of mobile marketing have changed significantly, and mobile marketing has become much more targeted, localized and optimized.

When mobile ads are optimized, consumers tend to tolerate them much better. What does “optimized” entail? It could mean security, localization for the market, delivering ease of use, or serving a specific purpose, such as communication or payment, or any combination of these. Adaptation to a certain market plays a limited role, in that there are specific features that Chinese consumers will appreciate, such as the ability to easily compare products and prices when shopping. Yet, that’s not the most influential characteristic when it comes to Chinese consumers’ desire to spend time and money on mobile. In fact, what had the most positive effect on mobile purchase behavior is perceived usefulness (Gong et al., 2013). Therefore, the more uniquely useful the app, the more people will continue to use it. Services, again, play the central role in customer satisfaction. How is WeChat going to grow its revenue through ads, without compromising the current utility it has made for itself?

4.2 Dangers of Over-Advertising

WeChat knows that there is a potential risk of losing some of its user base. Thus, it began implementing mobile ads very cautiously. Asians, on average, are less receptive to ads imbedded in mobile, as compared to Europeans and Americans (Olson, 2015). So, WeChat restricted access to its users. Indeed, at first, only vendors who talked directly to the platform could launch a campaign.

There is a reason WeChat was aware that it needed to be cautious when implementing ads. It learned from Weibo’s experience only a few years before, when Weibo did the same thing with mobile marketing. Weibo is China’s Twitter-like microblogging platform that saw a rapid decline in its user base after it overwhelmed its users with a nonstop myriad of ads (Olson, 2015). Weibo ended up losing a lot of market share (to WeChat) because users were dissatisfied. Using Weibo’s service simply became less useful to (former) users, because of the effort of getting past the ads. Restricting access to its audience was one of the best things that WeChat could do in order to get access to potential revenue from ads, and yet keep its users’ faith. As the program grows, however, the protection of users is likely to become de-emphasized, and more and more ads will appear in user
Data Protection

Another layer of app usability is concern for data protection. All over the world, people connected to the Internet discuss issues concerning data privacy. Uniquely, China’s issue with data privacy is mostly related to censorship. Recently, the Chinese government passed a series of new privacy-protection laws. The new laws, however, are aimed mostly at ensuring what kind of information can be passed through social media platforms (Kontense, 2015). In fact, since WeChat has so much of the citizen’s data collected, the Chinese government is being extra helpful in trying to help WeChat protect it. As a result of the government’s indirect aid, WeChat is unlikely to face the problems Facebook did. Facebook has faced privacy issues in European and American courts for misuse of user data (Fleisher, 2015). It also faced claims that its privacy controls were too complicated and that they needed to be simplified (The Economist, 2010). WeChat simply does not have to face the same court system, because it is a lot harder to bring civil cases through China’s legal system (China Law & Practice, 2016).

The government’s pseudo-protection that WeChat receives is supplemented by the fact that a recent study of Chinese consumers found that their concerns about data security have no positive or negative effects on their online shopping habits (Gong et al., 2016). That is not to say that WeChat should not handle its user data with care, but data privacy is clearly not the main problem on its users’ minds.

Data security could become a problem in the future, however. With the increased need for information about target audiences, many social-media platforms are now turning to mining images that are found on people’s profiles as a source of information (Macmillan, 2016). Given WeChat’s fairly basic targeting-scheme, it seems unlikely that they will employ this technology soon; but, if they are to compete with the likes of Facebook, it is only a matter of time until they also have to adopt similar technologies to provide the most transparent view of their audience. All this does is to guarantee that the users are no longer at the center of the product; rather, the users become the product.

WeChat has been excellent thus far in guessing its user needs, and has seen great growth because of that. By entering into the world of mobile marketing, it may have endangered its position simply by switching their main user-base from the people using the app, to the companies who will pay for their ads.

Me-Marketing

Alongside short-term revenue, WeChat’s entry into mobile advertising is meant to push the envelope and immediately begin with personalized marketing. WeChat already showed that its advertising is going to be completely different, by raising demand for its “premium” users. Yet, it’s unclear how this model will evolve in the future. Will WeChat lower its prices and become China’s equivalent of Facebook advertising? If so, why not start out with low prices from the beginning, as Facebook did? The strategy is especially unclear, because the first ever campaign it conducted raised a few eyebrows and bruised some egos.

The first campaign was signed with BMW. BMW wanted to target only affluent, educated people in the so-called first and second tier cities (Beijing, Shanghai and other large cities). People who did not fit the targeting criteria saw ads for soda and smartphones instead. People who did fit the category saw BMW ads pop up on their Moments page. The highly-anticipated opening to WeChat’s own platform was noticed by many, and many also noticed the blatant targeting. While the BMW’s brand soared immediately after the campaign, it soon received a backlash, as people who did not see BMW’s ad appear in their newsfeeds began referring to themselves as diào, a polite term for loser (Loras, 2015). WeChat came away happy with the additional press the campaign received; yet, it managed to alienate some of its community in return for securing a bold entry into the world of mobile marketing. Alienation, obviously, is not useful to engendering success.

In Summary—Focus On Utility

WeChat grew into a huge, successful application, as a result of a combination of fortunate events and Chinese socio-cultural needs and characteristics. It began its successful rein as an innovator for the Chinese market, creating new app features specifically useful for the Chinese speaking population. Moreover, as noted earlier, little separation between private and professional life in China aided WeChat’s journey to becoming the one app that dominates the Chinese ecommerce, social media and telecom space. Tencent, WeChat’s parent company, also had an easier time than similar global companies such as Facebook, in terms of data-privacy issues, as it strongly cooperates with the Chinese government. It also indirectly benefits from the fact that it is difficult to carry a civil case through the Chinese court system.

From the beginning, Tencent’s WeChat put the customer at the center of its platform; thanks to that, it reaped huge benefits. Interestingly, this is not a “rocket science” idea. For many years, the biggest change in the field of
marketing, accompanied by the use of the internet, has been the movement from a transaction-based approach to a customer-centric approach. WeChat's approach can be thought of as yet another extension of this very prevalent principle.

WeChat first dominated Chinese communications, then payments, and now it is moving into becoming a full-fledged mobile social-platform, including mobile advertisements. Its success with this will depend on two vital factors. The first is that mobile ad revenue may actually decrease in the long run, despite increasing traffic. The evidence of this potential decline is exemplified by Facebook’s attempt to differentiate their offering the way WeChat already has, by incorporating payments and other services within its own application.

The second vital factor is to remain relevant to its users. WeChat’s platform cannot work if all its users decide to leave. Are people actually going to be receptive to seeing ads among their Moments? Historically, Chinese users have not been too friendly to over-advertising, as the case of WeiBo’s decline suggests. Plus, WeChat may have already started off on the wrong foot with its first campaign featuring BMW that targeted only WeChat’s affluent users. Furthermore, there may be growing privacy issues that the Chinese government and society have yet to tackle—for example, issues such as image mining. At what point will brands actually be infringing on user privacy?

The good news for WeChat is the fact that Chinese consumers seem to care mostly about the usefulness of their apps. Security and ease-of-use concerns do not influence their online behavior positively or negatively. The users who are already online understand the implications of engaging with online platforms, and giving up some private data does not discourage them from engaging and shopping online. As a result, WeChat must focus specifically on remaining useful to its user base—exactly how it was when it started out.

Mobile advertising is a potentially huge source of revenue, especially in the short term. To be sustainable in the long-run, however, WeChat must remember that mobile interaction is not just about the technology and the revenue. Rather, it’s also about the user and the utility the users are able to derive. Users are the ones who shape the market, by choosing to log-on to a given social or mobile platform. Since it is their choice, mobile platforms must keep in mind that their users’ needs and their experience on the platform is what matters most, or else they risk that their users may log-off forever.

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