

## The Next Big Thing

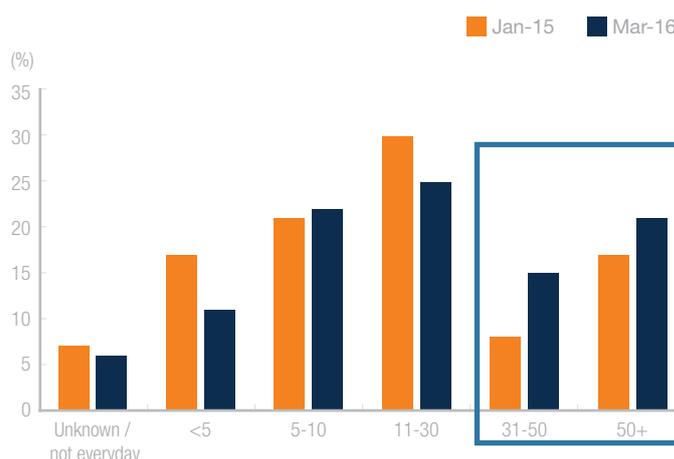
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June 2017

As investors we are always on the hunt for the next big idea or company which will revolutionize its industry and change the world. More often than not it is hiding right under our eyes. This revelation came to light on a recent trip to Paris. While navigating to Notre Dame with the help of Google Maps, I had my first introduction to contextual advertisements: “Did I wish to visit a Geox store on the way?” How did Google know I liked Geox? Were they able to make an intelligent match simply from all the data they have collecting from my phone over the years? This was disconcerting, it gave me a feeling not quite to the level of being stalked, but a clear sense that I was definitely always trailed and profiled.

Separately, the meteoric rise of the technology companies such as Facebook, Amazon, Google, Tencent and Alibaba has pushed their stock prices up almost 30-40% in 2017, after a strong 2016. An innocuous query by a friend on how much of my wealth was in technology names made me question the obvious : what is in these companies that help them command a market capitalization way above their brick and mortar peers? Firstly, a subscriber base of 400 mn for Alibaba or 800 mn for Tencent was simply unheard of, even for the likes of Unilever and Nestle, as the question persisted of how to stay relevant for a disparate mass of consumer base across countries and continents.<sup>1</sup> Secondly, how to “know” the consumer better and extract more value from the same consumer? Clearly these technology companies realized way earlier than their brick and mortar peers that future winners of corporate battles would be determined by who controls and knows the consumer data best. Indeed data is the next big thing.

**Number of Daily Opens by Wechatusers**



Source: WeChat Economics Social Influence Analytical Report, CAICT, Mirae Asset (September 2016)

### Experiment and Control

For a company like Tencent, the challenge is to ensure the attractiveness of its platforms – Weixin/WeChat and Qzone – so that user engagement doesn’t falter while also carefully exploring opportunities in the spaces of advertisements, lai see (red packet transfers), taxi booking, or e-commerce. The underlying message is that the consumer/user comes first; don’t dilute their experience to risk that they turn away from the platform. This is a textbook way of treating customers, but instead of basing

<sup>1</sup> Company disclosures, Mirae Asset Global Investments (2017)

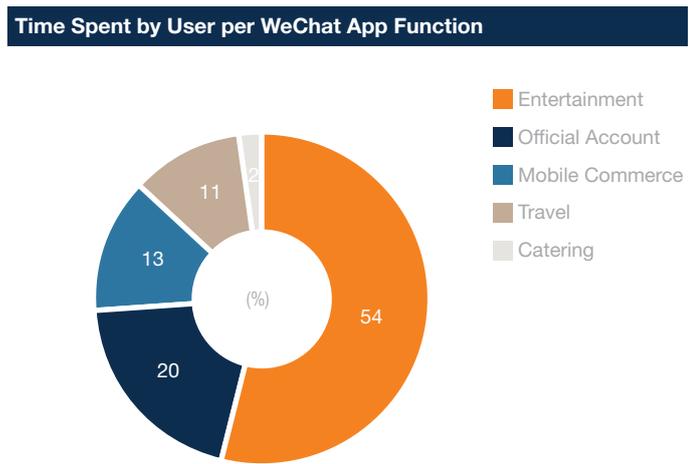
decisions on gut feelings, the companies sift through tons and tons of data. Along the way, if the incumbents are sleepy like the state-owned enterprise (SOE) banks in China, there is a windfall of opportunity for these big data companies like Lufax, Ant Financial and WeBank as they access risk profiles better and tap an untouched segment of retail and small-medium enterprise & channel financing. Alipay has nearly 450 mn active users with 160 mn daily transactions while Lufax has ramped up to 3.5 mn active customers with retail transaction volume of RMB 650 bn (USD 95 bn) in 2015.<sup>2</sup> Equally impressive has been the progress made by Tencent in broad-basing the appeal of its payments platform. Compared to the average transaction fees of 100-125 bps by established credit card companies, Tencent charges large commercial merchants like Starbucks, Yum China merely 60 bps for Tenpay. The double advantage of mobile wallet convenience and competitive charges backed by a large user base has boosted WeChat pay's share of Starbucks China sales to nearly 30%. Similarly, Yum China draws nearly one-third of its sales from mobile payments largely driven by WeChat pay.<sup>3</sup>

### Big Data Battleground

Big data has taken the battle to the next level. After having collected so much information about their humongous database, these companies are launching bespoke promotions to their users, a strategy of delighting the consumer by making him feel special.

The million dollar question is what happens next to the other incumbent businesses? An easy option would be to partner with technology companies, e.g. Suning and Intime with Alibaba, Yonghui with JD.com. A tougher but more sustainable way would be to invest in technology, reinvent processes and systems with the focus on the consumer. This has been well achieved by private sector banks like ICICI Bank and HDFC bank in India where more than 70% of the transactions are made online.<sup>4</sup> These banks having refreshed internet banking solutions, launched online wallets and other novel mobile based payment solutions and have successfully withstood the challenge from Alibaba-funded financial technology companies like Paytm. However, such examples remain far and few.

A bigger question from a medium term to long term perspective is should these technology companies continue to emerge bigger and stronger, do we then face a bigger risk of having a significant part of daily life being accessed and controlled by a few large companies?



Source: Tencent Tech Channel CTAR 2015/2016

<sup>2</sup> Company disclosures, Mirae Asset Global Investments (2017)

<sup>3</sup> Company disclosures, Mirae Asset Global Investments (2017)

<sup>4</sup> Company disclosures, Mirae Asset Global Investments (2017)

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