

# Study of a Video-sharing Platform: The Global Rise of TikTok

by

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## **Abstract**

TikTok, also called Douyin in China, has been the fastest growing social media platform around the world. To understand why TikTok became so successful, this thesis focuses on studying the strategic choices of TikTok. First, this thesis analyzes how TikTok was born and then expanded, mainly in the Chinese and the U.S. market, its two largest markets. Then it introduces the platform strategies and competitive strategies of TikTok and summarizes TikTok's existing business models. This thesis also examines the threats and opportunities that TikTok is facing and how TikTok responds to them. Finally, this thesis suggests that the case of TikTok as a Chinese company that has successfully dominated overseas markets can be instructive to other companies seeking to expand into foreign contexts.

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# Chapter 1

## Introduction

### 1.1 Motivation

Nowadays, there are many applications in the market. Some of them made a sensation for a while but later withdrew from the public's attention. For example, Vine, a 6-second video-sharing application, one of the most popular applications in 2013 and hitting 13 million downloads, withdrew from the market after 4 years [15]. And many applications are rarely known by people even though they have similar functions to successful products. For example, Slingshot, an instant messaging application that allowed users to share photos and videos like Snap shut down after three months from its launch [30].

However, in this highly competitive market, TikTok, a video-sharing platform that was established in 2016, has taken the world by storm quickly, alongside giants such as Facebook and Wechat, which have been established for more than 10 years. TikTok has been the fastest growing social platform in history and is expected to continue to be successful in the future [21]. What makes TikTok so successful and stand out in the highly competitive market? What keeps TikTok growing at a high speed since its inception? What makes TikTok successful across cultures, from China to the world? To answer these questions, this thesis focuses on studying the platform strategies and competitive strategies of TikTok and analyzing its threats and opportunities. Through this thesis, readers can better understand how TikTok has grown step by

step and further anticipate the future development of TikTok. Moreover, this thesis could be a good case study for other tech companies to run globally. This thesis is organized as follows. Chapter 1 introduces the background information of the video-sharing industry and gives a brief overview of TikTok and its parent company Bytedance. Chapter 2 presents how TikTok was born and developed in China - its main market, and also describes its platform strategies. Chapter 3 describes how TikTok expanded globally and how it competed with others, mainly focusing on the U.S. market, which is the second-largest market of TikTok. Chapter 4 mainly discusses the threats and opportunities that TikTok is facing. Finally, Chapter 5 concludes the lessons that we could learn from TikTok.

## 1.2 Introduction of Video-sharing Industry

With the development of internet technology and the popularization of terminal equipment, Internet content has evolved from text and pictures to videos, becoming more and more interactive. Early internet video content was mainly held in a few media organizations that owned content copyrights. As the video production tools gradually popularized and the network bandwidth continuously grew, users began to produce, upload and share video content on the internet.

In 1997, the first video-sharing platform - shareyourworld.com was launched in the U.S. It allowed users to upload video files and share them on its site. However, it was not popular because of bandwidth constraints. It was closed in 2001 due to budget and internet tech problems [25].

It was not until the birth of Youtube that user-generated video sharing became popular. Founded by Chad Hurley, Jawed Karim, and Steve Chen in 2005, Youtube changed the way videos were hosted on the Web. The technology Youtube adopted allows users to upload various video coding formats and then transcode them into a form that can be quickly loaded on the internet. In the age of Youtube, the videos that users share are mostly shot by video cassette recorders and last for more than 5 minutes.

The release of the iPhone 4s in October 2011 allowed the world to accelerate its entry into the era of mobile Internet. Relying on mobile smart terminals, the threshold for users to produce videos has become lower. The trend of video sharing has evolved from long videos that are shot by VCR to short videos that are shot by mobile phones. Short videos are mainly less than 5 minutes and can be shared in real-time on social networking platforms.

The first short video application is Viddy, which was founded in 2010. It can help users to shoot instantly and share easily on social media platforms such as Facebook, Twitter, and YouTube. The app was once popular and was called "the Instagram for video" [28]. But it was closed in December 2014 due to poor business operation. Entering the 2010s, more and more similar applications for short video-sharing emerged in the market, for example, Vine, Keek, and Mixbit, but none of them could achieve success as TikTok did in the following years.

### 1.3 Introduction of ByteDance

ByteDance, founded by Yiming Zhang at a four-bedroom apartment in Beijing in March 2012, is the most valuable tech startup around the world over the past 10 years. As of March 2021, ByteDance is valued over US\$250 billion [13]. With a mission of "inspire creativity, enrich life", ByteDance has launched products in the digital content area in over 150 markets, including Xigua video, Helo, Lark, Faceu, Ulike Cam, and etc.

The first and the core product of ByteDance is Toutiao, a content discovery platform founded in August 2012. In the beginning, Toutiao mainly focused on news content recommendations in the China market. Unlike other news applications, Toutiao has a strong algorithm engineering team. It uses AI technology to optimize its recommendation. The more users read, the more specific content Toutiao can deliver. It offers users personalized and complex content experiences. Gradually, it evolved into a platform providing all kinds of information such as microblogs and videos. As of December 2015, Toutiao has accumulated 350 million active users and more than 35

million of them are daily active. The number of accounts on the "Toutiao" platform has exceeded 41,000 and more than 11,000 of them are from media, governments, and institutions [35].

Because of the success of Toutiao, ByteDance was known as Toutiao as a brand in the first years. As the business system grows larger, Toutiao can no longer represent the overall brand. Therefore, ByteDance has replaced Toutiao as the overall brand name since April, 2018 [5].

## 1.4 Introduction of TikTok

TikTok, launched in China in September 2016 known as Douyin and pushed out globally named TikTok in May 2017, is a short video social platform owned by China's young tech giant ByteDance. It allows users to create and share their own videos, usually between 15 seconds to one minute, as well as create livestreams. A unique feature of TikTok is the abundance of filters, music, animation, and camera effects that can enhance users' uploads. Focused on young audiences, TikTok has been the world's fastest-growing social media application. Up to December 2020, total downloads of TikTok has reached 1.5 billion over 150 countries around the world in 39 languages, making it the seventh-most downloaded app of the 2010s [20].

In the following chapters, I specifically analyze Douyin and TikTok's growth, mainly in China and the U.S. market, including examining its competitors and providing details on how the application has grown to be a leader in social media.

# Chapter 2

## Douyin in China

### 2.1 The Birth of Douyin

Douyin was launched in 2016. The macro environment of the few years before the start of Douyin created strong business conditions that were particularly ideal for the development of user-generated content(UGC) video platforms in China. In this section, I first describe characteristics of the macro-environment that paved the way for Douyin's entrance into the UGC video industry, then I present an overview of Douyin's competitors, and finally discuss Douyin's positional strategy. I do this by integrating my analysis, and drawing from sources from within Douyin, as well as media reports.

#### *Political*

In 2016, the Chinese government deeply promoted the "Internet +" initiative and the national big data strategy, supported the innovation and progress of the technology industry, providing a good political environment for the short video industry. At the same time, the government has made great efforts to promote the development of tourism, culture, health, pension and other industries, improve the quality of consumer products, and improve the consumption environment. These efforts have played an important role in releasing consumption potential, boosting consumer confidence, and promoting consumption upgrading.

#### *Economic*

From 2014 to 2016, the content creation in the short video field became a hot investment direction. As of July 2016, 43 creators had received huge investments [2]. Among them, the largest investment recipient was the Chinese viral idol Papi Jiang, who raised \$1.84 million in financing [33], becoming a benchmark for the fundraising possibilities in creation of short video content. The influx of capital encouraged more people to create content and also brought more audiences to the short video industry.

### ***Social***

As of December 2015, the number of Chinese internet users reached 68.82 million, accounting for 50.3% of the national population. Among them, mobile Internet users accounted for 90.1% of the total internet users [3].

The popularity of the mobile Internet has evoked an era of fragmentation. Previously, people used applications while sitting statically in front of the PC. However, users now can consume mobile applications anytime and anywhere. People fill their time with mobile social networking, games and videos. Arguably, videos that are less than 1 minute satisfy the needs of users for fragmented entertainment.

### ***Technology***

By 2013, 4G networks became commercialized in China. Since October 2014, the number of 4G users in China has risen sharply. As of the end of 2016, China's 4G user coverage has reached 58% [34]. At the same time, the costs for using mobile internet dropped soon after. In mid-April 2015, Premier Li Keqiang publicly stated that the information and communications industry should "raise network speeds and reduce network fees." In May 2015, the three major mobile operators in China – China Mobile, China Unicom and China Telecom– began tariff reforms, reducing the fees sharply [1]. Furthermore, many mobile phone companies have launched large-screen smartphones, greatly improving the viewing experience of pictures and videos on the mobile terminal. Meanwhile, the improvement of mobile phone pixels greatly improves the quality of shooting mobile pictures and videos.

The favorable macro environment created strong conditions for China's short video industry. It can be seen that 2016 is a great time for Douyin to enter this industry. However, there were already many strong competitors in the market. Below, I present

some of the competitors, along with my analysis of their market orientation during the period of 2013-2016 based on their product features and media comments.

### *Kuaishou*

Founded in March 2011, Kuaishou was originally a mobile application for sharing GIFs, called GIF Kuaishou. In July 2013, it transformed itself from a tool to a short video community, and changed its name to Kuaishou. Its slogan is “to record life and record you.” Based on Kuaishou’s early features, it appears that the users it targeted were mainly young and middle-aged people in third and fourth tier cities and rural areas in China with lower education levels and income. Among Chinese technologists, there has been a common perspective that this market is ignored by many application developers. However, these audiences also need a platform to show themselves. The emergence of Kuaishou has just given the vast majority of Chinese people at the bottom an opportunity to show their life and communicate with others. Many of the content creators on Kuaishou involve settings in rural areas or focus on topics that are relevant to rural life. For example, a popular creator whose account name is “Liu Mama’s Everyday Life”, is a middle-age farmer from the rural area in northern China. Her videos mainly show how she makes her dinner and talks about some jokes in her daily life. This show of ordinary life allows Liu Mama to have fourteen million followers on Kuaishou. Kuaishou has been a platform for people to communicate their daily life.

### *Meipai*

Launched on May 8, 2014, Meipai is a fast-growing short video and live streaming application released by Meitu. With the help of its brother product Meitu Xiuxiu, Meipai became the non-game champion of Apple’s download list in the first month of its launch. Its main 10-second MV function has attracted a large number of female users from 20 to 45 years old with a higher education level through high picture quality and filters. Position on fashion and female, it is especially popular among fashion influencers and stars. Fashion stars like Bingbing Fan use Meipai to livestreaming Paris fashion shows. After 9 months of its release, the number of users of Meipai has exceeded 100 million [19].

### *Miaopai*

Established by Xuanyi (Beijing) Technology Co.Ltd. in 2013, Miaopai is a ten-second short video shooting and editing platform which has a strategic partnership with Sina Weibo (the so-called “Chinese Twitter”). As an official exclusive short video application on Weibo, Miaopai targets young literary and artistic youth in first and second tier cities. Its slogan is "Making a blockbuster in ten seconds" and its style is biased towards culture and trends. Relying on Sina Weibo’s huge user base and celebrity resources, Miaopai has acquired a large number of users and has formed a high degree of stickiness. Due to the presence of many celebrities, it appears that Miaopai is inclined to attract creators from the media industry. Most of the popular videos, including ones recommended by the platform, are highly professional content with strong production. As one example of attracting media industry professionals, there are many accounts from CCTV hosts. At the same time, relying on the social network of Sina Weibo (Chinese Twitter), Miaopai is strong in social attributes. The audience of Miaopai has already formed a social community thanks to Sina Weibo. Additionally, the parent company of Miaopai – Xuanyi– has two popular applications, Xiaokaxiu and Yizhibo, which together form a one-stop service scene for video creation, distribution, interaction and social interaction [22].

To enter the market, Douyin wisely chose music as its differentiation strategy, targeting what in China is understood as the “ well-educated” young population. That is, those who typically have greater educational resources and are financially secure. Additionally, this target mostly consists of young people under the age of 24 in first- and second-tier cities. Douyin allows users to select a 15-second piece of music, add special effects, switch filters and scenes to create videos with a strong sense of rhythm and magic.

Why did TikTok choose music as a position strategy? When examining Douyin’s strategy, there are clear advantages to choosing music for their position. These include:

#### *Avoid competitors*

Focusing on music prevents Douyin from competing with its competitors directly.



The sensory impact of video is mainly picture and sound, that is, visual and auditory impact. There is already a successful competitor - Meipai that has positioned itself as a leader in image processing. And Kuaishou has a long reputation for editing videos as a powerful tool. At the time of Douyin's development, it would have been difficult for Douyin to compete in the field of image processing. However, as for sound, there was no relatively successful product focusing on this particular area in the Chinese market. Douyin's entry just filled this gap in the market.

### ***Cater to the targeted users***

Focusing on music helps Douyin cater to the preference of its targeted users. As I mentioned in the previous section, Kuaishou does a great job covering the users from rural areas; Meipai is popular among young females; Miaopai targets the young literacy. Douyin needs to find its distinct market segment to position itself, and that is young people that received a good education and most of them are from first or second tier cities. Young educated people love popular music and show themselves. They regard music as a fashionable medium to express their thoughts. They are eager to discover and spread popular music and content. Using popular music as a position, Douyin can attract a bunch of young audiences and creators.

### ***Strong communication ability***

Using music as a selling point can help Douyin spread fastly. Music is a powerful tool to convey emotion. It knows no boundaries and ages. It can inspire a lot of content with communication power. People who speak different languages around the world could share the same emotion when they listen to a familiar song. Music reminds the listener of a specific scene or a particular feeling. It varies among people but the general feeling is common. Rhythmic music is even more memorable. The creators and the audiences can find resonance through music easily. With memorable music, it was much easier for Douyin to diffuse.

### ***The possibility of future monetization***

Music could be a good source for Douyin to monetize its service in the future. Since 2015, the global music market has begun to recover from 15 years of industry regression, thanks to digital music. Nowadays, users can use the Internet and mobile

phones to enjoy digital music anytime and anywhere. The shift of users to streaming media platforms has become a general trend. As a media platform, TikTok could use music copyright as a means of commercial profitability in the future. By attracting emerging original musicians, Douyin can realize future advertising and commercial revenue.

Entering the market with a music position has been proved to be a successful choice of Douyin. With a standout position strategy, Douyin is able to grow quickly in the following days and compete with others. In the next section, I will examine how Douyin insists on this position strategy and how it expands its market.

## 2.2 The Expansion of Douyin

At the very beginning, it was not obvious that Douyin, a trial program run by less than 10 young professionals, would acquire such success in the following days. Douyin was firstly named as A.me. Three months later, it changed its name to Douyin, a much more memorable name, which means “shaking music” in Chinese, correctly conveying its position - music. And the logo changed from a normal red music symbol to a shaking red and blue music symbol, making the whole product more fashionable and close to the taste of teenagers. To expand its market share, Douyin did a lot of things to attract both sides of the platform (i.e. users and creators) in the beginning. These includes:

### *Inviting celebrities to spread the word*

Celebrities have played an important role in Douyin’s marketing strategy. They help Douyin enlarge its influence and attract more audiences. It can be seen from the Baidu Search Index that before March 2017, Douyin received little attention, with an average Baidu Search Index of only 100. The Baidu Search Index is based on an algorithm that includes, among other inputs, the number of times a word is searched and the unique users that search a word. Overall, a higher number on the index indicates a more popular search. But after March 2017, Douyin’s Baidu Search Index began to rise to 1,700. Based on this dramatic increase, it suggests that this is the

first time that Douyin entered the public's attention. This is likely because on March 13, 2017, Yue Yunpeng (a famous Chinese comedian) reposted a funny video with the Douyin watermark on his Weibo account with 14.71 million followers. Up to March 20, 2021, this Weibo post was reposted 4,416 times, received 15,199 comments, and got 82,252 likes. Given such numbers, it's clear that Yunpeng Yue's post had a great impact helping Douyin gain public attention. There is no clear evidence that Douyin officially reached out to Yunpeng Yue for their platform, but subsequently, in a short time, a number of celebrities that are favored by young people began to use Douyin at the same time. Specifically, in July 2017, Li Xiaolu, Yang Mi, Angelababy, Lu Han, Zhou Bichang and others began to make posts on the platform. Thanks to the growth in celebrity content creation, Douyin's Baidu Index continued on the upswing, exceeding 11,000 points, and the number of users began to rise sharply.

#### *Cooperating with variety shows and using IP to attract users*

Variety shows and IPs are another way that helps Douyin reach out to the masses. In August 2017, Douyin cooperated with the music variety show "The Rap of China", bringing a large number of users to Douyin through the shows' promotion. Additionally, the show's music sharing, imitating hip-hop songs have provided the platform with much high-quality content. The Baidu Search Index of Douyin reached 13,000 points that month. On March 19th, 2017, Douyin cooperated with "Happy Camp" - a well-known variety show that set the Guinness World Record for the "most watched variety show single episode (recorded by live audience)" in July 2017 with 48,692,200 viewers. On September, 15th, 2017, Douyin cooperated with Hunan Satellite TV's "Day Day up". On December, 30th, 2017, Douyin sponsored Jiangsu Satellite TV, Zhejiang Satellite TV and Hunan Satellite TV New Year's Eve concerts. With the continuous exposure of variety shows, Douyin's Baidu Search Index has continued to rise, reaching 40,000 points on January 1, 2018. It can be seen that the partnership with variety shows has become a big boost to Douyin's growth.

#### *Use challenges to inspire creation*

Challenge is a useful tool to encourage creation in Douyin. Unlike other short video platforms such as Kuaishou, in which the design features suggest they are

more inclined to encourage users to create independently, Douyin uses hashtags to categorize videos and encourage people to create content with its hashtags, and calls these “challenges.” Challenges can be initiated by users, and they are ranked and displayed according to the degree of participation and popularity. The Challenge feature is a good way to achieve a more accurate and orderly video content. It helps users to explore the subject matter and place their creative activities within the activity framework of the entire platform. Furthermore, it is convenient for users to participate in a video just lasting 15 seconds with Douyin’s tool. Douyin officially created many challenges that are simple, fun and easy to participate in , such as "#seaweed dance”, which has been viewed 640 million times.(up to March 22, 2021) People intercepted clips from the infectious seaweed dance music, and created many creative videos with the help of Douyin’s built-in filters and video processing tools. For example, girls used their kittens to make different actions according to the music, or boys imitating seaweed and dancing in front of the camera. Challenges are just like games, inspiring people’s desire to participate and bringing a lot of creators to the Douyin platform.

### *AI algorithm recommendation*

The recommendation algorithm is believed to be one of Douyin’s core competitiveness [16]. ByteDance has a strong engineering team, and its AI recommendation algorithm has been proven successful in Toutiao. Douyin adopts Toutiao’s AI algorithm system and makes good use of it. Once users open Douyin, the video would start to play in full-screen immersive mode. Users do not need to make any choices. The algorithm will recommend content to minimize the user’s choosing cost and the audience just needs to slide the video up or down. According to the book Nudge, there are two kinds of agents. One is “Econs”, who are perfectly rational and can choose the optimal option dealing with infinite amounts of information. Another one is “Humans”, who are cognitively lazy and like simplicity. In reality, most people are just Humans. Perfectly Econs just live in Economic Textbooks [31]. By reducing the choice overload, Douyin allows its users to become “Humans” instead of “Econs”. This design and algorithm makes Douyin attractive to its audience. And this is why

people spent lots of time on Douyin.

## 2.3 Competing with Kuaishou

Kuaishou is Douyin’s biggest competitor in the short video market in China. Relying on their respective positioning differences, Kuaishou and Douyin have gradually formed as two giants standing side by side in the short video market. According to official data, as of June 2020, the scale of active users of Douyin and Kuaishou accounted for 56.7% of the overall short video user scale, ranking Douyin and Kuaishou first tier in the industry.

During the competition between Douyin and Kuaishou, the markets of these two applications have gradually penetrated into each other. Unlike Kuaishou, which targets third, fourth and fifth tier citizens and countryside residency in the beginning, Douyin acquired a large number of users in first and second tier cities in the first few years. In August 2019, with the intention of attracting audiences from third, fourth and fifth tier cities, Douyin released the fast version which adopted the same user interface display method as Kuaishou. It used red envelope subsidies to encourage people to invite their friends to use the application. “Red envelopes” are traditional small gifts of money, which have now been popularly digitized and transferred through web platforms. This action has achieved obvious results. According to QuestMobile’s statistics, in March 2020, Douyin had 37.62 million new users, of which users in third, fourth and fifth tier cities accounted for 70.5% [23]. Furthermore, Douyin merged with Volcano Video, a product launched by ByteDance in 2016 as a product that is benchmarked against Kuaishou. At the end of 2019, Volcano Video had become the third largest short video platform in the industry, with more than 50 million DAU. After the merger, the Volcano Video became Douyin (“Huoshan Version”), juxtaposed with the Douyin (“Fast Version”). With three versions in the market - Douyin, Douyin (Fast Version), and Douyin (Huoshan Version), Douyin brand is able to cover broader audiences. [Although they share the same brand, they are independent applications and available in the app store as separate applications.]

In order to lower the threshold of creation and help creators improve their creative efficiency, Kuaishou has launched its official editing application: Kuaiying as early as October 2018. Aware of the importance of creating tools in the competition, Douyin also launched its own official editing application Jianying in May, 2019, to compete for more creators.

## 2.4 Competing with Other Social Giants

The ultimate competition for internet products is the competition for user time. The occupation of user time will directly affect the revenue of the product, affecting the fundamental interests of the tech company. Looking on the distribution of global hours spent on mobile from 2016 to 2019, the time occupied by users on social and communication across the world declined year by year, from 56% in 2016 to 50% in 2019, while the time occupied by users on video and entertainment increased from 13% in 2016 to 21% in 2019 [24]. The rise of the short video industry has brought tremendous pressure to major social giants. Tencent (representative product: WeChat) and Sina (representative product: Weibo), have regarded ByteDance (representative product: Douyin) as a threatening competitor.

In the early stage of Douyin's development, most of Douyin's videos were disseminated through Weibo, such as the video of imitating Yunpeng Yue that brought Douyin into the public attention. A large number of videos with Douyin watermarks were reposted and commented on the Weibo platform. However, after March 10, 2018, users were unable to share videos from Douyin. Weibo has blocked the distribution of Douyin videos on its platform. In addition, Weibo has launched an independent application - Aidong Video - which is very similar to Douyin in the form and allows users to migrate Weibo fans to the community of Aidong Video. This product was rated as a defensive product for Weibo to respond to the competition with Douyin by the media. However, Aidong Video hasn't received much market attention. Weibo successively launched Pufferfish Small Videos and Planetary Videos, both of which performed poorly.

As for Tencent, in order to restrict the development of other short video platforms, WeChat and QQ successively banned the distribution of Douyin, Huoshan Video, Xigua Video, Kuaishou and Weishi in April 2018. If users share the video link of these five products to WeChat or QQ, it would display an error page suggesting "During the period of internet short video rectification, the video play function is unable to work." However, Miaopai, which has a relatively small market share, could still be shared and played on WeChat and QQ.

Moreover, Tencent resurrected Weishi, an 8-second short video sharing community officially launched in September 2013. In the early stage, Weishi failed to find the correct product direction and monetization method, performing poorly compared to Miao Pai and Mei Pai. Therefore, it was gradually marginalized by Tencent's strategy and only maintained simple technical problems. In March 2017, Weishi was officially announced closed. However, in response to the rapid rise of Douyin, Tencent has brought Weishi back to the market in April 2018 and announced \$400 million to subsidize creators in Weishi, in an attempt to promote the platform. However, even with high incentive compensation, In February 2020, WeChat launched a new function called Channel that allowed users to share short videos on its platform. Relying on WeChat's powerful social network, Channel acquired users quickly. In June 2020, just after four months of the release of Channel, WeChat officially announced that the DAU of Channel has exceeded 200 million, which is much higher than that of Weishi. WeChat's Channel is regarded as the most potential product that can compete with Douyin and Kuaishou in the short video market, winning back users' time for Tencent.

In response to the suppression of WeChat and Weibo, Douyin decided to develop its own social network. On January 15th, 2019, Douyin officially launched a social application, Duoshan, which allows users to chat with cool videos and transfer payments. This application is designed to prevent Douyin's users from transferring their chatting to WeChat, and facilitate the conversion of Douyin's e-commerce service. On the launch day, Duoshan's Baidu search index reached 42,620, suggesting much attention. It was reported by the media that Duoshan was a challenger to WeChat. However, Duoshan did not succeed with such a high reputation. One week later,

Duoshan's Baidu search index dropped rapidly. One month later, Duoshan's Baidu search index had fallen below 1,000 and has since faded out of the public's field of vision.

As a latecomer, Duoshan has no advantage over WeChat. Unlike WeChat that can meet the social demand of connecting acquaintances, Douyin relies on satisfying entertainment needs. For the general public, social media platforms are a kind of experience goods to some extent. The cost of migrating social networks is too great for users. People have already developed their social network in WeChat and there is no high incentive for them to change to another platform. Moreover, people who don't play Douyin are unlikely to use Duoshan, making it difficult for users to reach out to their friends. For the communication software, this is a winner take all market. As a latecomer, Duoshan has no advantage over WeChat.

Although Duoshan has failed, Douyin keeps making its platform more social. In April 2020, Douyin released an internally tested function called "Connect", which can randomly match users for video chat. In September, Douyin launched social functions such as "Diary Mode" and "Friends", hoping to help its users socialize with both strangers and acquaintances. Apparent from Douyin's efforts, it's clear that it wants to continue making its own social community to increase the user royalty. In my opinion, it is unlikely that Douyin could replace Wechat for social connection and Duoshan is hard to succeed. However, it is necessary for Douyin to enhance its social attributes as an improvement of user experience and also as a defensive strategy.



# Chapter 3

## The Expansion of TikTok

### 3.1 The Birth of TikTok

It is believed that TikTok is bound to be born according to ByteDance's corporate strategy. At the press conference of the Third World Internet Conference in November 2016, Yiming Zhang made it clear that one of the core strategies of ByteDance in 2017 was globalization. Yiming Zhang believed that since China's Internet population then accounted for only one-fifth of the global Internet population, new user growth needed to be tapped from a global perspective. Only products with global allocation of resources and pursuing scale effects can be competitive [26]. Therefore, in May 2017, Douyin launched its global version, named TikTok. In the initial stage, it mainly focused on the Asian market, which shares some common cultural features with China, for example, Japan and Korea.

For the American and European market, however, Douyin was unable to conquer Musical.ly, which had gained absolute market share in a short period of time. Musical.ly, officially launched in July 2014, is a video application created by Alex Zhu, Yang Luyu, and their team in Shanghai, China. The main function of the application is to allow users to lip-sync to their favorite tunes and share the short videos (from 15 seconds to 1 minute) to the community. Although Musical.ly was created by a Chinese startup, in the beginning, it focused on the U.S market. It is popular among teenagers around 14 years old in the United States and Europe, perhaps because teenagers are

eager to express themselves and have a lot of time to socialize with others. On July 6, 2015, almost one year after its release, Musical.ly topped the list of the US in the Apple App Store. In December 2016, Musical.ly announced that it reached 40 million daily active users. In May 2017, Musical.ly claimed over 200 million registered users [4]. Musical.ly was a hit in the U.S and European market. However, it could not copy its success in its hometown, China. On June 6, 2017, Musical.ly returned to the Chinese market under the name of Muse. At this time, Douyin and Kuaishou had already occupied a large market share in the Chinese market. Musical.ly had lost the ideal timing to enter Chinese market.

## 3.2 The Development of TikTok

Facing strong competitors and unfamiliar foreign culture, it is demanding for TikTok to expand the market. However, TikTok magically conquered the market in a short time and became the fastest growing application in the 2010s. In this section, I will introduce what TikTok has done to grow its platform in the U.S. market, these included:

### *Acquire competitors*

The acquisition of Musical.ly is believed to be the most important step in expanding the U.S. market. Facing the strong competitor Musical.ly, TikTok did not compete directly with it. Instead, it used capital to turn competitors into alliances. On November 10, 2017, TikTok's parent company – ByteDance – officially signed an acquisition agreement with Musical.ly for US\$1 billion. Although many media comments that ByteDance overpaid for this acquisition, the long term value for TikTok is invaluable. It paved the way for TikTok to open up overseas markets. On August 1, 2018, it was announced that Musical.ly would be closed and integrated with TikTok. The user, content, and function of the two were combined, and the new application name was still "TikTok". Users can update their application in the App Store and Google Play directly. The original creator's account, content and fans were automatically transferred to the new version. After this merger, 100 million Musical.ly

users have become TikTok's users. Without this strong competitor, TikTok has seen explosive growth. In January 2018, the global MAU of TikTok was 54,793,729 while in December 2018, the number was 271,188,301, or four times more than the previous data [29].

### ***Localize operation***

Localizing operations is a key strategy that TikTok adopts when managing the oversea market. On one hand, simple and imitative content that is easy to understand even in foreign culture such as "seaweed dance" - a dance in which users imitate the flow of seaweed with their arms - is introduced to the US market. Such challenges caught a lot of attention for their humor and had appeal across markets. On the other hand, for each market, Tiktok explores its local cultural characteristics and develops different online activities and challenges suitable for local users. Just like in the Chinese market, TikTok also invited local celebrities to spread the word in the U.S. market. For example, November 2018, TikTok collaborated with the famous American host Jimmy Fallon to launch "#TumbleweedChallenge" on his "Tonight Show" which, being broadcasted by NBC, brought huge exposure to TikTok. "TumbleweedChallenge" produced 8,000 videos with more than 10.4 million participants. Thanks to this challenge, the downloads of TikTok in the United States grew rapidly, from 3.8 million in the previous month to nearly 80 million in November [18].

In addition, TikTok launches different versions of applications for users in different countries. If one uses the Singapore AppStore, they cannot download the American version of TikTok. The content of different versions is isolated from each other. Users of the Japanese version can access videos submitted in the Tokyo area while the American users can not. This structure of operation and design is culturally uniform for each version and thus minimizes the perception of TikTok as a foreign product.

### ***Leverage other platforms***

TikTok has invested a lot of advertising expenditure in the US market, leveraging the existing platform with overlapping user groups to eliminate the gap between it and the user group. TikTok's advertising expenditure in the United States in 2018

was 1 billion U.S. dollars; in 2019, its advertising expenditure in the United States was 4 times that of 2018 [12]. TikTok wisely chose Snapchat, Instagram, Facebook and other social platforms that are favoured by young people to launch a large number of advertisements, harvesting a group of target users. TikTok's expenditure on advertising on other platforms is notable in comparison to other social media platforms. This may be related to the fact that TikTok's expansion occurred with other social media platforms that were already mature, and so TikTok could leverage the power of existing social networks. At the same time, TikTok works with many bloggers and influencers on YouTube and Instagram to place ads in front of their videos to increase exposure. Moreover, TikTok invited many of them to migrate their content to TikTok, enriching the content of the platform.

### **3.3 Competing with Other Social Giants**

In February 2018, when TikTok landed in the U.S. market, there were no other strong competitors in the short video market, except for Musical.ly. After acquiring Musical.ly, without the threat of competitive similar products in the market, TikTok grew rapidly in the U.S. In just 7 months after its launching, TikTok has surpassed Facebook, Instagram, Snapchat and Youtube in downloads. Although these social giants had built-in short video functions for a long time, their functions were hidden so deep, and overshadowed by too many other functions, that they did not have a direct impact on users as TikTok did. For example, since June 2013, Instagram had added 15-second video sharing in its application. Snapchat could share 10-second videos since December 2012. And YouTube since 2014 has a GIF creator tool that allows up to six seconds of any supported YouTube video to be converted to a GIF. However, these functions did not make a splash. Users regarded these functions just as additional tools and used them on occasion.

The viral growth of TikTok has attracted the attention of major social giants. In response to TikTok, Facebook launched its first short video application Lasso in November ,2018. Lasso allowed users to share 15 second videos and was regarded as

a clone of TikTok. However, Lasso did not gain much attention in the U.S. According to CNBC, Lasso downloads were approximately 70,000 from its release to February 2019 [27] while TikTok downloads were approximately 39,600,000 in the same time, or 565 times of Lasso's downloads. Lasso was shut down in July 2020, less than two years since its launching. Learning from Lasso's failure, Facebook launched the new video feature called Reels on Instagram in August, 2020. Reels is a built in feature that allows users to record and edit 15-second videos and share with the Instagram community. As for SnapChat, it launched a new feature called Spotlight that allows users to submit and explore videos in the community in November, 2020. The hub will present the content that is personalized to people's individual interest, just like the "for you" pages in TikTok. To entice creators, SnapChat distributed \$1 million each day to those who make the most popular Spotlight Snaps.

In order to keep the hyper growth and win the competition, TikTok has made great efforts in constantly attracting more creators to its platform.

### ***Strengthen innovation***

TikTok keeps launching unique filters and easy to use functions to inspire people creating more fun and interactive videos. For example, the Stitch function launching on September 3, 2020 enables users to clip and integrate scenes from another user's video into their own under the permission of the original creator. This feature makes it much easier for users to create new videos and interact with others.

### ***Partner with third party to provide better creating experience***

In order to provide a better creating experience to its creator, TikTok partners with other companies to support its creator.

First, TikTok launched a program called "TikTok for Developers" to expand its influence on creators. Partnering with well known third party advanced tools like Adobe, TikTok allows users to create more high quality videos and push content from the partner apps to TikTok directly. This is good news for professional video creators who are unsatisfied with TikTok's own editing functions. Creators can not only edit their videos on the cell phone and use limited functions from TikTok's built-in tools but also use many extended professional tools provided by partnership

companies. With the integration, people who are already familiar with other tools could reduce their learning cost since they do not need to learn a new tool. Further, TikTok can take advantage of what partnership companies like Adobe have already developed and does not need to expend resources to further develop its own tools. It is also good for the audience since it would be much more likely that they can find well - made videos on the platform.

Second, in order to provide more creating content to the creators, TikTok has cooperated with Merlin, Sony Music Entertainment, and Universal Music Group to authorize users their music clips. With abundant music copyrights, TikTok further consolidated its position as the dominant music video community, providing creators with a wealth of creative content and supporting users to create more high-quality videos.

In addition to attracting the side of creators, TikTok has also made some efforts to attract the audience side. It enables its video to be embedded in the web, increasing the number of scenes that users can access TikTok and expanding the user base.

There is no doubt that by far TikTok has done a great job in growing and competing with others. According to the downloads data, TikTok was the most downloaded non-game application globally in 2020. Moreover, among the top 10 most downloaded iOS apps in the United States during 2020, TikTok received the most positive rated views [17]. However, TikTok is still a newcomer in the market; Facebook and Instagram still have a larger audience than TikTok. The penetration of TikTok is lower than Facebook, Instagram, and Snapchat. (By 2021) TikTok still has a long way to go to surpass other social giants.

### **3.4 The Business Model of TikTok**

According to the estimation of Sensor Tower, the global revenue of TikTok in December 2020 reached \$142 million, 86% coming from China. And the US is the second largest market, which contributes 7% revenue. (iOS and Google Play revenue only, excludes Chinese third-party revenue) [10]. There are two parallel reasons for the

huge revenue difference between the U.S. and China. One reason is that the user base for Douyin in China is much bigger than that for TikTok in the U.S. As Douyin hit 600 million daily active users in August 2020 [14], TikTok had about 100 million quarterly active users at the same time [29]. Another reason is that the monetization business in China is far deeper than that in the U.S.

The main business models of TikTok are advertising and transaction fee.

### *Advertising*

As a social media platform, advertising is the main revenue source of TikTok. In order to better support advertisers, TikTok has come up with 7 kinds of advertisement services.

- **Brand takeovers:** Brand takeovers are full-screen ads that display pictures or videos for 3 to 5 seconds when users enter the application. After pictures or videos play, users will enter the "recommendation" page and start their TikTok journey. The exposure of brand takeovers is huge since they could be seen on the entire network. Advertisers can target their customers according to the time of delivery, region and gender.
- **In-feed video ads:** In-feed video ads appear on the "recommendation" page in a format just like other video content that audiences consume with a small ad icon. When users keep watching new videos, in-feeds video ads are inserted from time to time based on their interest.
- **Banner ads:** Banner ads are pictures that appear on top of the "discover" page of TikTok. Compared to other formats, it is less interactive but still a good choice for advertisers since it is obvious.
- **Search ads:** Search ads appear after users search for a specific theme within TikTok. It costs less and targets the users who have interest in the brand or the goods.
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- **Branded hashtag challenge:** Branded hashtag challenges are the combination of in-feed video ads, search ads and influencer marketing. Brands can sponsor a hashtag and invite all users to participate and create content around the campaign theme, with all user generated content aggregating in the hashtag challenge page. It is interactive and far-reaching, thus very helpful for brand image building.
- **Influencer marketing:** In addition to direct advertising services that help advertisers to put produced content on the platform, TikTok also provides services that allow advertisers to embed native customized advertisements in influencers' videos. In China, Douyin has launched the influencer marketing and customization platform called Juliangxingtu and the video creation trading platform called Jihe Platform. Creators can settle on these two platforms to receive advertising promotion demands. Douyin will analyze the advertiser's product characteristics and demand goals, and cooperate with the historical database to intelligently match suitable influencers for advertising production and placement.

### *Transaction fee*

Beyond its video business, TikTok has extended its business to live-streaming and e-commerce, which allow it to monetize revenue by transaction fee. There are mainly two kinds of transaction fee revenue.

- **Gift commission:** Gift commission is the fee that TikTok charges when creators receive virtual gifts in the application. These virtual gifts are exchanged for virtual coins that users top up on TikTok. Audiences can send the gifts to their favored creators during the live-streaming. When the creator receives the gift, they can exchange the virtual gift for real currency, and TikTok will receive a commission from this process.
- **Live-streaming commerce service fee:** Live-streaming commerce service fee



is charged when users sell their product during the live-streaming in TikTok. It has been a mature business model for Douyin in China, while it is still undergoing testing in the U.S.

In February 2020, Douyin launched its own shopping platform - Douyin Store. Users can apply to open their Douyin store to sell their products on Douyin and Douyin charges sellers a certain platform service fee. In the beginning, Douyin supported both third-party platforms and self-operated Douyin stores. After August 20, 2020, Douyin began to treat the goods from third-party platforms with a higher service rate. Douyin charged a 20% service fee for product links for third-party e-commerce platforms, while it charged only 5% links for product links for Douyin stores. On October 9, Douyin closed the channel for third-party products to show in the live-streaming. Since then, Douyin has formed a closed e-commerce system.

In the U.S., this business model is still being tested. In December 2020, TikTok cooperated with Walmart, allowing users to buy Walmart's products directly on its live streams. It is the attempt of TikTok to promote this business model overseas and it still has a long way to go.



# Chapter 4

## The Present and the Future

### 4.1 The Threat of Regulation

As a social media platform owned by a Chinese company achieving such a success globally, TikTok is facing the threat of regulation from governments overseas, especially the U.S. government. It is accused of collecting the user data improperly and harming national safety. In February 2019, The U.S. Federal Trade Commission fined TikTok \$5.7 million dollars for obtaining children's personal information without parental permission. Nine months later, the Committee on Foreign Investment in the United States launched a national security probe into TikTok. Moreover, in August 2020, the U.S president Donald Trump required TikTok to be acquired by American companies or stop its business in the United States. He issued two executive orders against TikTok. The first order was divided into two steps: first, TikTok's downloads and updates were banned in the United States from September 27, 2020 according to the International Emergency Economic Rights Act. Second, from November 12, 2020, U.S. Internet operators were prohibited from providing services for TikTok. The second executive order made it clear that ByteDance had to divest from TikTok within 90 days [11].

In order to keep its business running normally in the U.S, TikTok actively sought action from many areas. For the privacy and security concern, TikTok released Community Guidelines and Transparency reports to the public, helping the community

feel safe; it also expanded its Trust & Safety hubs in the U.S. and hired a Global General Counsel from Microsoft, with the hope that it could shape a more localized content policy approach across the region. For the executive orders, TikTok filed several lawsuits to challenge the executive order, receiving a court injunction in favor of itself; It also started to promote the sale of its business in the United States, successively contacting Microsoft, Oracle, and Walmart, and made an initial deal with Oracle and Walmart.

After the effort of multiple parties, TikTok's fate in the U.S. has taken a turn for the better. The U.S. District Court blocked the ban on downloads and updates of TikTok in the U.S. Furthermore, the U.S. Department of Commerce stated that it would temporarily not implement the ban on Internet operators providing services to TikTok. As for the divestiture in the U.S., the deal with Oracle and Walmart has been delayed since it was not permitted by the Committee on Foreign Investment in the United States before the deadline of the ban. With President Trump's departure in January 2021, his executive order was indefinitely shelved. There is no need for TikTok to sell its business anymore. It is definitely good news for TikTok.

Although with the new government coming to power, the regulatory turmoil of TikTok in the U.S. has slowly subsided, the fundamental threat has not been eliminated. In the digital age, personal information has become the most valuable intelligence. The more information an organization has, the greater the power. As a foreign technology giant, TikTok will inevitably become the target of government supervision.

## **4.2 The Opportunity of the Pandemic**

The outbreak of COVID-19 in the winter of 2019 has changed the whole world. Home isolation has become the norm. The pandemic has cut off normal social relations, suspended international travel, severely damaging the economy and social life. However, this is a great opportunity for the video-sharing industry.

### **4.2.1 The Expansion of Audience**

The pandemic has brought more people to TikTok. As the epidemic hinders the physical dissemination of information, the Internet has become the main channel for people to obtain information. Benefiting from its large user base and media format, TikTok has become one of the major sources from which people obtain public health information. According to the Data Report of Douyin 2020, the views of Covid-19 prevention and control videos on Douyin reached 42.3 billion and the number of viewers reached 16 million [6].

Video and live-streaming services have become more and more important in people's daily lives. In June 2020, the number of short video users in China reached 81.78 million, with a utilization rate of 87%. The use time of short videos in 2020 reached 17.3%, increasing by 5.5% year on year, surpassing mobile games and ranking second [8]. As the leader of the short video industry, TikTok reached 315 million downloads in the first quarter of 2020, surpassing Facebook and Instagram. TikTok's download volume is even twice as much as Instagram's download volume. As of August 2020, the number of daily active users of TikTok has exceeded 600 million [20].

### **4.2.2 The Extension of Platform Content**

The pandemic has made a large amount of offline demand shift to online, enriching the content of TikTok. The major two areas are movie streaming/promotion and online education.

Under the pandemic, people have more spare time and less entertainment. Home isolation has a huge impact on people's mental health, making people more eager to consume entertainment content. In the beginning of the pandemic, it was the time that Chinese people gathered together to celebrate the Spring Festival and also a good time for the new year movie to launch in the theater. However, due to the public health action, all public places were closed and movies were not able to be shown in the theater. Realizing the demand of the audience, TikTok cooperated with the movie industry to provide better content for its users, attracting more people to

its platform. It bought the exclusive network broadcasting rights of the movie "Lost in Russia,": the most popular movie at that time in China, and offered it for free in Douyin. It has been a huge success for both the movie and Douyin. The movie industry has seen the potential of cooperating with Douyin. In 2020, the top 20 Chinese-language movies released in mainland China have all opened official Douyin accounts. Among the films with a box office of over 100 million Renminbi, 99.4% of them have Douyin participate in the promotion and distribution [9].

The second major area is online education. Due to the pandemic, most schools are locked down. Online learning has become a major demand for people. It is a good time for TikTok to carry out online education and attract more audiences to its platform. To encourage creators in the education field, TikTok announced a \$50 million Creative Learning Fund for educators, professional experts, and nonprofits that are working to provide distance learning resources. Under the #LearnOnTikTok hashtag, users can see professional educational videos from over 800 public figures, media publishers, educational institutions, and real-world professional experts [32]. In China, Douyin has joined forces with universities and major educational institutions to carry out the "Suspension of Classes without Suspension of Learning " project. This project covers free courses from primary school to university, attracting many young audiences and also building up a good reputation for TikTok. As of February 21, 2020, the cumulative number of participants of this project has exceeded 41million.

Besides these two major fields, there are still many emerging creating areas on TikTok, for example, online travelling and virtual exercise. TikTok has become an all-inclusive platform.

### **4.2.3 The Formation of Ecosystem**

With the rapid growth of TikTok, an ecosystem around TikTok emerged gradually. The pandemic has accelerated and better developed this ecosystem. More than a separate platform, TikTok has developed a mature industry chain. As a big social video-sharing and also e-commerce platform, TikTok provides many opportunities for entrepreneurship and employment. During the economic stagnation and the difficult

employment period of the pandemic, more and more people have started their career around TikTok, forming a large and orderly employment system. From August 2019 to August 2020, a total of 20.97 million people directly earned income through the creation, live-streaming, and e-commerce work on TikTok. TikTok has created a total of 35.61 million direct jobs. More than 20 professions are engaging in this ecosystem, including operation management, live-streaming services, video services, field control, quality control, customer service, etc. Many of them are Internet marketers and live-streaming salesmen. In order to meet the needs of the job market for new occupations, TikTok has launched Toutiao Academy, which provides talent training programs for TikTok creators. As of August 2020, Toutiao Academy has trained more than 40,000 students. At the same time, the production of live-streaming equipment such as mobile phones, cameras, microphones, tripods, lightings, and live studio scenery has indirectly promoted employment in related industries. Combining the number of direct and indirect employment opportunities, TikTok has created and driven a total of 36 million jobs.

In addition to providing direct and indirect employment above, Douyin also serves as an employment service platform to provide employment assistance to college students and young professionals. Douyin has become a partner of online recruitment activities of the Chinese Ministry of Human Resources and Social Security, receiving strong policy guidance and support in China. More than 10 million viewers have watched the recruitment live-streaming in Douyin and a large number of jobs have been provided [7].





# Chapter 5

## Conclusion

The success of TikTok is the result of both the era and TikTok's strategic choices. The development of technology has allowed video-sharing platforms to explode. As economic development has improved, people across the world have more time for leisure and entertainment. TikTok stands a chance to fly when there is a favorable tailwind. Targeting young people, TikTok successfully differentiates itself from other competitors. Using music as its differentiated positioning strategy, TikTok quickly opened up the Chinese market. By inviting celebrities to spread the word and cooperating with variety shows and using IP to attract users, TikTok accumulated its first group of users. Moreover, TikTok uses challenges to inspire creation and adopts AI algorithm recommendations to keep users interested in the platform. To compete with its competitors such as Kuaishou and WeChat, TikTok chose to expand its business scope and focused its efforts on not only creating its ecosystem, but also solidifying it.

As a technology company originating from China and spreading to the world, TikTok's global operation strategy is worthy of reference for the majority of technology companies. On one hand, how TikTok dominates the overseas market is a model for other companies to follow. By acquiring strong rivals in the overseas market, TikTok has paved the way for its long-term development. TikTok is not only replicating its successful path from China but also localizing its operation strategy to cater to the overseas audience, trying its best to reduce the friction as a foreign cultural product.

At the same time, TikTok smartly leverages other social platforms and uses their advertising channels to appeal to a wider audience. On the other hand, the regulations on TikTok in the U.S. and TikTok's response are also cases worthy of attention by foreign tech companies when operating in overseas markets. Privacy and data security are concerns that cannot be avoided by tech companies. Multinational companies should pay attention to the policy supervision of different countries and take precautions at the beginning of operations.

Nowadays, the world has been changed by COVID-19. TikTok seized the opportunity brought by the pandemic and expanded its business and audience in response to the needs that emerged in the new era, successfully building its ecosystem and stabilizing its status in the market. There is no doubt that the future belongs to TikTok as TikTok's global expansion continues. The one that can surpass TikTok will not be another TikTok. It should be the one who can seize the opportunities in the new field and make a difference in the market.

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