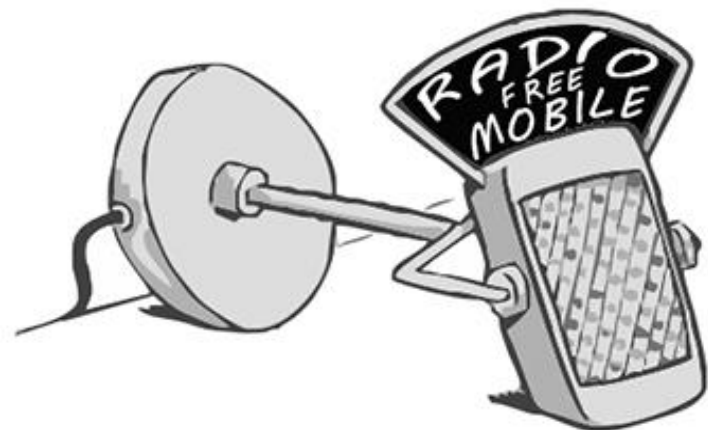


China Ecosystems

BATmen



- China is a mobile first market...
- ...dominated by Baidu, Alibaba and Tencent (BATmen)...
- ...where services are highly developed but the ecosystem is not.
- BATmen have one or two single services but are not yet ecosystems.
- This the battle that will be fought and where the long-term growth will be.
- RFM sees real upside in Baidu, some in Tencent but downside in Alibaba and Xiaomi.
- China Mobile is a sleeping giant.

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China Ecosystems

BATmen

13th June 2016

Baidu, Alibaba and Tencent (BATmen) dominate the scene in China. Almost every smartphone user in China has an active relationship with all three of these companies. This means that none of them have yet developed fully-fledged ecosystems but remain focused on one or two services only. This is where the big battle will be fought and while Tencent has best armoury, Baidu demonstrates the best understanding of how to use it.

- **China** has grown up as a mobile first market. In many ways it is more advanced than its counterparts in the West and the usual rules do not apply. Internet control has meant that China is a huge market offering Chinese services for Chinese users almost exclusively by Chinese companies.
- **Services** are highly developed but the ecosystem is not. Between them the BATmen dominate the Digital Life pie but unlike Google and Apple, none of them outright control the Digital Lives of Chinese users.
- **Ecosystem.** Consequently, all of the BATmen need to expand beyond their areas of strength. This will lead them to start competing fiercely with each other as long term growth depends on them developing a thriving ecosystem where users spend almost all their time with one player rather than bits and pieces with all three.
- **Baidu** is the smallest of the BATmen but RFM thinks it has the most potential to surprise. It is not a leader in Digital Life but critically it demonstrates understanding of exactly what it needs to do to evolve into a thriving ecosystem. Even with serious shortcomings in corporate governance, the ADR is very attractive.
- **Alibaba** is the weakest of all the BATmen when it comes to the ecosystem. It is an e-commerce powerhouse but beyond that its understanding of the ecosystem appears limited. There is no sign of this changing which, combined with poor corporate governance and an expensive ADR, leads to potential downside.
- **Tencent** is in pole position with a dominant position in Digital Life and the greatest resources to invest. Unfortunately, Tencent does not demonstrate deep understanding of the ecosystem and RFM fears that much of its potential may go unrealised. There is a lot of upside should things change, but of this there is no sign.
- **Xiaomi and China Mobile** are also rans as Xiaomi's ecosystem has not seen real development for 18 months while China Mobile appears to be more interested in providing capacity. The BATmen are fortunate, as China Mobile is a heavy weight that could cause them real problems if it decided to get serious on the ecosystem.

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