
TURBULENT TIMES FOR TIKTOK'S PLATFORM STRATEGY¹

Vivian Zhang wrote this case under the supervision of Professor Nicole Haggerty solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On April 15, 2021, stakeholders of the social media network TikTok were yet again carefully watching the US market. Republican Party lawmakers had resurrected the claim that TikTok should be banned from US government devices because it posed a serious cybersecurity threat to the United States by exposing sensitive data to a “hostile” foreign government.² The company had faced a similar threat in September 2020, when former US president Donald Trump had attempted to shut down TikTok’s US operations. Having already experienced a ban in July 2020 in India, the company’s largest market, TikTok understood the risks that such a political action posed.³

But serious strategic issues were in stark contrast to TikTok’s reputation for fun and frivolity among its users, who appreciated TikTok’s ability to facilitate an expanding and diverse array of entertainment. For example, since the beginning of 2021, it had catapulted a sea shanty-singing Scottish letter carrier to fame, enabled a composing duo to create and release “Bridgerton the Musical” based on their shared passion for the popular Netflix show, and spawned countless “tell me, without telling me” challenges.

TikTok was facing increasing geopolitical pressures from countries who cited security concerns due to TikTok’s Chinese origins. As well, it had to consider various new competitive threats from global social media powerhouses, increasing demands from its mainly young viewers and content creators, and a constant need to attract and satisfy new requirements by advertisers. Industry observers wondered how TikTok would face several concurrent challenges. How would it address emerging geopolitical pressures; mitigate competitive products from global technology giants; and capitalize on its successful, creative, and addictive short-form video platform to expand its reach?

TIKTOK IN 2021

TikTok was a video-sharing social networking application (app) that allowed users to create, edit, share, and view short videos on mobile devices. The videos, which ranged from five to 60 seconds in length, typically showed users in many different scenarios, including lip-synching to a song; dancing; acting out comedy sketches; cooking; giving advice; engaging in activism; delivering a supportive message; or telling a compelling anecdote, which was referred to as “storytime.” Originally, TikTok attracted mainly a young audience, but the app’s range was consistently expanding to include more and more millennials and older ages—sometimes to the chagrin of the younger users. TikTok prided itself on being “the leading destination for short-form mobile video” with a mission to inspire creativity, bring joy, and create and connect new communities of people.⁴

Aside from being a social media content creation network, TikTok had also grown as an advertising medium. It encouraged businesses to run short-video marketing campaigns, pitch takeovers, and launch hashtag challenges, among other promotional activities. TikTok offered a variety of lenses and filters for advertisers to use as an alternative to the marketing options available on other social media platforms, such as Facebook and Instagram. Compared to these more mature platforms, the competition to get coveted advertising spots on TikTok was less intense, and thus it was less costly to gain and maintain a desirable advertising position.⁵

By early January 2021, the TikTok app had been cumulatively downloaded more than 2.6 billion times globally from Apple Inc.'s App Store and from the Android platform's Google Play store,⁶ making TikTok the seventh-most downloaded app of the last decade⁷ (see Exhibit 1). It enjoyed an estimated 1.1 billion monthly active users, which was the sixth-highest global rate, making TikTok the only app in the top six that was not owned by either Facebook Inc. (Facebook) or Tencent Holdings Ltd. (Tencent). During the first quarter of 2020, the TikTok app was downloaded 315 million times, for stronger growth than any other app ever. Its success garnered increasing attention and concern by US technology giants, including Facebook and Google LLC (Google). Outside China, a social media threat from a Chinese technology firm had never been an issue.⁸

THE DAWN OF TIKTOK

The growth of TikTok was achieved through a series of geographic expansions and acquisitions. The Chinese version of TikTok, under the name Douyin, was launched in September 2016 by ByteDance Ltd. (ByteDance), a Chinese app developer. In 2017, ByteDance launched the international version of the app and renamed it TikTok. With the acquisition of the social media platform Musical.ly, a similar app that allowed users to create and share short lip-synch videos, TikTok became available across the world. Launched in 2014, Musical.ly attracted 200 million users. It was popular in the United States and Europe, mainly among users aged 13–20.⁹ Shortly after acquiring Musical.ly for US\$800 million,¹⁰ TikTok consolidated all user accounts and merged the two apps. The acquisition not only helped TikTok gain access to international users, but also provided important product innovation ideas based on international user preferences.¹¹

By February 2021, TikTok was available in 154 countries in 75 languages. Its largest active user base was in India, with 119 million users, before that country shut down the app in 2020. The United States, with 100 million users, was the app's second-largest group.¹² In the United States, the average age of TikTok users was rapidly rising. The percentage of users in the younger 18–24 age group had dropped from 47.0 per cent to 35.5 per cent within one year, while the more adult 25–34 age group had increased to 27.4 per cent and the more mature 35–44 age group had increased to 17 per cent.¹³

Although TikTok (internationally) and Douyin (in China) were almost identical in terms of functionality and user interface, they were two completely separate entities. Douyin was only available for download from China's app store, while TikTok was available from various global app stores. An online search for the two apps would give completely different results because user accounts and content were not shared by the two platforms. China strictly controlled its online environment. Social media networks operating in China had to follow Chinese policies regarding restrictions on user-generated platforms. Therefore, content on Douyin was strictly monitored and regulated, and only disseminated within China, but content on TikTok was less closely monitored.¹⁴ In addition, Douyin was powered by servers in China, while TikTok user data was stored on cloud servers in the United States or in Singapore, depending on the geographic location of the user.¹⁵ Although the two apps' servers were located in different countries, the software code that provided basic functions had some source code shared among different ByteDance products.

THE PARENT: BYTE DANCE

ByteDance, the parent company of TikTok, was headquartered in Beijing. The Chinese multinational technology company, with world class and innovative artificial intelligence (AI) technologies, was founded in 2012 by Zhang Yiming. In May 2020, it was valued at \$100 billion, making it the world's most valuable start-up.¹⁶ In August 2020, some indications from secondary markets suggested that the company could be worth as much as \$150 billion.¹⁷ In the first quarter of 2021, there were signs suggesting that ByteDance was planning to launch an initial public offering in Hong Kong, and that trading in privately-held shares suggested a valuation for the company of \$300 billion.¹⁸

ByteDance was the developer and owner of TikTok, which was the world's largest short-video platform. ByteDance also owned other products in different parts of the world, including Toutiao, another flagship product for the company (see Exhibit 2). Toutiao was an AI-powered news and content discovery platform that offered its users a personalized experience. Toutiao used AI to create new content. It was able to offer a high level of customization based on the user's viewing patterns and history, without the need for any user inputs (e.g., demographics). Readership and views of AI-created news articles approximated the quality of content created by humans.¹⁹ Toutiao boasted 120 million daily active users, with each user spending an average of 74 minutes on the app every day, which was a higher rate than on Facebook and twice the average time compared to Instagram or Snapchat. With such a large user base, Toutiao was able to create and continuously improve its algorithms that interacted with users and provided content recommendations.²⁰

In addition to TikTok and Toutiao, ByteDance also managed various other short-video platforms similar to TikTok but with different positioning. The company had added these apps to its portfolio through acquisitions and direct investments.²¹ In 2019, ByteDance earned approximately \$17 billion in revenue and \$3 billion in net profit. TikTok alone brought in \$3 billion in revenue.²²

THE COMPETITIVE LANDSCAPE

The global short-form video industry was fairly new, with a seemingly huge potential for growth. The market was more mature in China, but other countries were also experiencing strong growth. According to Deloitte's Digital Media Trends Survey, "the proportion of US consumers watching short-form video (15 minutes or less) grew to 74 percent in 2018. The numbers were even higher for Gen Z (84 percent) and millennials (81 percent)."²³

TikTok was not the first short video app to become successful. In 2012, the short-video app Vine gathered a considerable following and was acquired by Twitter even before its official launch. Users on Vine were able to record, edit, and share looped videos about six or seven seconds in length. Vine experienced enough exponential growth to attract 200 million users by December 2015. However, it was competing against more mature platforms, such as Instagram and Snapchat, for a share of the short-video app market. In comparison, Instagram had grown to 400 million users during that same time.²⁴ Unfortunately, Vine failed to keep up with the advanced features and extensions of competitors such as Instagram, which launched a 15-second video clip function and promoted influencers on its Follow page. Vine's lack of differentiation and inability to monetize, and high-profile influencers moving to more attractive competing platforms led to Twitter shutting down Vine in January 2017.²⁵

As TikTok grew, it captured the attention of US technology giants including Netflix, YouTube, Facebook, Instagram, and WhatsApp. Noting TikTok's increasing growth rate, high daily viewership, and addictive user activity, these media powerhouses acknowledged the imminent market threat and sought innovations to compete directly with the new entrant. In late 2018, Facebook piloted its own short-video app called

Lasso, which was very similar to TikTok. The app was aimed at teens and was accessible through Facebook and Instagram. It was launched in the summer of 2018 only in US and South American markets²⁶ and recorded 70,000 US downloads within the first four months. In comparison, however, TikTok recorded nearly 40 million users during the same period, according to the app analytics firm SensorTower.²⁷ Interestingly, Facebook decided to shut down Lasso in July 2020, claiming that a great deal had been learned about the format and needs of content creators and viewers, and opted instead to support its Instagram-focused short video app Reels.²⁸

In early 2020, Google entered the short-video app market with Tangi. At the same time, Dom Hofmann, co-founder of the original Vine app, launched an improved version of Vine named Byte, which some industry observers called “Vine 2.0.” Byte, which was similar to Vine in functionality and video length but provided better monetization capability, surpassed TikTok in number of downloads in its first week.²⁹ On July 9, 2020, as Trump uttered threats of banning TikTok in the United States, Byte achieved 622,000 downloads, compared to only 126,000 the day before. It appeared that users were seeing it as a viable alternative to TikTok, if Trump managed to succeed in banning TikTok from the United States.³⁰ In the fall of 2020, Snap Inc. launched an in-app short-form video service called Spotlight that enjoyed quick success, with creators being rewarded through a \$1 million per-day budget for uploading videos.³¹ In Asia, the Tencent app Kuaishou was gaining popularity, while its sister app Kwai was gaining popularity in Brazil.

MAKING TIKTOK TICK

ByteDance was a technology company with core competency in machine learning and AI capabilities, based on previous success in China with the news service Toutiao. ByteDance used technology effectively to learn about the interests and viewing habits of its users and provide accurate recommendations and AI-generated content. With growth, ByteDance’s capabilities developed further.

TikTok was able to leverage AI and machine learning resources from ByteDance, along with natural language processing and computer vision technology, to study video content and user viewing habits and then create its own algorithms with recommended personalized feeds. Upon first opening the app, a user would see the default For You page with feeds tailored for that user based on geography or other available information, as well as currently popular content on TikTok. As the user pressed Like for specific videos or followed various video creators (which would be listed on the user’s Following page), TikTok would begin making other recommendations, which appeared on the user’s For You page. These recommendations were based on what the user watched, liked, and followed. Content that did not fit the user’s interests would be excluded. The app’s successful customization was generally assumed to have contributed to high average usage by TikTok viewers, who were thus encouraged to explore new content and spend more time on the app.³²

Although TikTok was both creative and entertaining, several concerns were emerging. The first concern was regarding age. Although an average user opened the app eight times per day and spent 52 minutes on it, younger viewers (aged 4–15) reportedly spent an average of 80 minutes per day on the app. Both the addictive quality of TikTok and the high user base of young people was cause for concern.³³

The second major concern was that algorithm and suggestions could act as potential filter bubbles and provide biased feedback loops. Essentially, TikTok could make users view only a small subset of all TikTok content through the user’s For You page, rather than providing users with a wide range of content options, as other platforms did. In fact, the app had repeatedly been accused of racial bias and censorship. For example, in February 2020, an article in *Wired* magazine suggested that TikTok’s collaborative filtering

and personalization tended to recommend content from people who physically resembled the user, thus exacerbating bias.³⁴ Content creators were also frequently posting videos that criticized TikTok for unilaterally removing content that it deemed unfit based on community guidelines. For example, Black Lives Matters content creators and interested viewers raised an alarm about the lack of content availability on TikTok, fearing that censorship³⁵ and ongoing suppression were taking place.³⁶

Another main concern was related to the ongoing challenge of managing hate speech. In August 2020, TikTok announced that it was removing 380,000 videos from US users to combat white supremacy.³⁷ To assist with this challenge, TikTok created and expanded its Content Advisory Council and invited experts and community members to help develop and carry out moderation policies that would suit the community context outside China.³⁸

Despite these rising social challenges, the app's potential for creative self-expression and community creation were formidable. For creators, there was almost zero barrier to entry on TikTok. The app allowed people with no video editing background to film and edit videos through its simple user interface, which contributed to its appeal across generations—even older users who were not technology-savvy could figure out how to use the app. Tik Tok provided a large variety of background music and filters for creating videos and encouraged people to be authentic. The app's high growth rate seemed to suggest that users appreciated TikTok's ease of use and enablement of self-expression.

Anyone could upload a video to TikTok and see it potentially go viral, which could result in a following, or even a career for some users. For example, Lauren Godwin (with the social media handle @laurengodwin) was a 20-year-old content creator who turned the app into a career move after some initial success on the Musical.ly short-video app. Godwin traded her local high school community for a social media circle of friends and realized her talent for comedy after producing a series of short videos on Musical.ly, which was later merged with TikTok. Godwin's niche prank videos were soon featured on numerous users' For You page, generating more and more followers. By early 2021, she had built up an audience of 21 million fans and had received over 1.9 billion likes on her TikTok page, to become one of the most followed influencers on TikTok.³⁹ Her income comprised in-app contributions from followers plus revenue for representing brands such as Forever 21 and Fashion Nova.⁴⁰ Reportedly, brands paid \$5,000–\$8,000 for a single sponsored post to influencers that had a fan base of approximately five million followers. Some influencers posted content more than 10 times per day.⁴¹

An older, but equally successful TikTok user was millennial Sonny Hurrell (with the social media handle @thatdudecancook). Thirty-two-year-old Hurrell had generated a following of 3.8 million users and 38.7 million likes for his video portfolio of cooking tips and recipes. In April 2020, after the COVID-19 pandemic resulted in shutdowns and stay at home orders, Hurrell found himself at home without work prospects. From having a background as a novice social media user, he soon developed into a TikTok star, garnering 3.8 million followers and opportunities to represent food brands such as HelloFresh, Kroger, and Dole. He even created his own line of merchandise under the brand Let's Go! and entertained television offers for specialty cooking events and other opportunities.⁴²

Cutting new ground on potential financial payoffs, Nathan Apodaca (@420dogface208) was reportedly auctioning his original hit video created while skateboarding to work, drinking cranberry juice, and rocking to the Fleetwood Mac hit "Dreams" as a non-fungible token (commonly known as NFT).⁴³ Apodaca was impoverished and living in a trailer when he first uploaded the video. By March 2021, the 23 second video had garnered him 6.7 million followers, a new truck from Ocean Spray, participation in President Joe Biden's inaugural parade in 2021, and a chance to offer the original video on the Raribles online collectibles platform, with a starting bid of \$500,000 (minus the music).⁴⁴

For contributing to the platform, TikTok offered top influencers special treatment and rewards, such as funding through the TikTok Creator Fund and the Creative Learning Fund.⁴⁵ TikTok was also planning to pay content creators.⁴⁶ The company launched a \$2 billion fund to help support ambitious creators who were seeking opportunities to foster a livelihood through their innovative content.⁴⁷

In July 2020, in an effort to maintain growth, manage community needs, and support innovation, TikTok announced that it was intending to expand its US workforce to 10,000 employees from the current 1,400 workers. The company frequently drew talent away from Facebook and Google with offers of above normal compensation.

TIKTOK REVENUE GENERATION

TikTok offered many of the same revenue generating options as other social media platforms. Much like YouTube and Instagram, TikTok offered marketing packages to corporations and allowed brands to promote their products and services through in-feed video advertisements, although they had to conform to the short format and inherent informality of the app. Brands were encouraged to produce advertisements that were natural in style and consistent with the creativity, humour, and informality of the medium.⁴⁸

Marketers soon noticed the increasing numbers of consumers spending time on TikTok and took advantage of its novel advertising possibilities, which were changing the way brands interacted with their audiences. One notable example was a promotional video campaign by the Mexican-style fast food franchise Chipotle Mexican Grill, using the hashtag #ChipotleLidFlip. In May 2020, the company posted on TikTok a short video of an employee closing a burrito bowl with an acrobatic flip of its lid and encouraged viewers to post their own version of the skillful feat. By June 2020, the promotional hashtag had received more than 230 million views. The next month, Chipotle Mexican Grill issued another challenge under the hashtag #GuacDance, which generated 250,000 video submissions and 430 million views within six days. By July 31, 2020 (dubbed “national avocado day”), the company’s sales of guacamole side orders had grown by 800,000 units and avocado sales had increased by 68 per cent.⁴⁹

The cosmetics company Estée Lauder Companies Inc. also launched a successful marketing campaign on TikTok, for its brand Too Faced Cosmetics. The company’s Lip Injection Extreme Lip Plumper saw a sudden sales boost in April 2020 as a result of a TikTok video challenge, where users demonstrated before and after videos using the Too Faced Cosmetics lip gloss. These and other success stories inspired TikTok to cultivate more brands to try out similar promotional events and activities, including short-video campaigns, hashtag challenges, and influencer sponsorships to capture new users and inspire content creation.⁵⁰

TikTok was also successful in accurately reaching specific target audiences thanks to its strong AI engine, which the company used to justify charging higher prices than competitors such as Facebook and Instagram for certain advertising campaigns. TikTok offered various pricing models including cost per click, cost per view, and cost per action.⁵¹ For example, TikTok advertisements were priced starting at a CPM (cost per 1,000 views) of \$10.00,⁵² compared to only \$7.19 at Facebook and \$7.91 at Instagram.⁵³

In addition to traditional advertising income, TikTok earned revenue from its in-app digital currency, called “coins.” Users could purchase TikTok coins in various denominations directly within the app, which could be used for gifting to friends or their preferred content creators. Users who received coins were also able to convert them into TikTok “diamonds” and then cash them in, but at a lower rate than the original purchase price of the coins. The difference netted a profit for TikTok.⁵⁴

THE BELL TOLLS FOR TIKTOK: SURVIVAL AND GROWTH

As the app expanded, TikTok followed a strategy of keeping the core product consistent while customizing local content based on geography and demographics. The company's head office was located in Los Angeles, with satellite offices in New York, London, Paris, Berlin, Dubai, Mumbai, Singapore, Jakarta, Seoul, and Tokyo.⁵⁵ In each new market, TikTok invested capital to attract influencers to the platform as a way of increasing its user base. When TikTok entered the North American market, the company collaborated with major US celebrities including Justin Bieber, Will Smith, and Selina Gomez to create content that would attract viewers to the platform. In addition to working with influencers on its own platform, TikTok also spent a considerable amount of its marketing budget on other social media platforms, such as an average of \$3 million per day on Snapchat alone, to promote its product and attract new users.⁵⁶

To sustain a high international expansion rate, TikTok also pursued global investment opportunities on related technology start-ups. TikTok's parent company ByteDance purchased the US apps Flipagram and Live.me and the French news app News Republic to fuel its growth. However, its 2019 ambitious attempt to acquire a major stake in the online news platform Reddit proved unsuccessful.⁵⁷

However, despite acquiring talent and new markets successfully, by April 2021, several forces besides Renegade and Savage Love dance challenges were rocking TikTok. Faced with geopolitical pressures, competitive threats, and users' and advertisers' rising expectations, TikTok knew it needed a strategy that would allow it to survive and thrive in the next few years.

Geopolitical Pressure

Bans in several countries and security concerns in several others, related to TikTok's Chinese ownership, were threatening the company's existence in some of the largest and most profitable markets. In June 2020, India banned TikTok and 58 other Chinese apps, citing security and privacy threats to its citizens. In reality, border politics were implicated in the decision. Earlier that same month, increasing tensions between China and India regarding a disputed portion of the China–India border near Kashmir had led to a military clash that resulted in the death of soldiers on both sides. Increasing tensions and geopolitical conflicts forced India to adopt protectionist economic strategies and ban Chinese goods and services as a form of protest.⁵⁸ By August 2020, however, news had emerged that the Indian multinational conglomerate Reliance Industries Limited was interested in TikTok's India operations. This symbiotic relationship could help TikTok regain a very large and profitable Indian market. The conglomerate's owner Mukesh Ambani was a political ally of Narendra Modi, the country's prime minister, which could help ByteDance resolve the Indian government's apparent security concerns with TikTok.⁵⁹

Concurrently, a ban was also brewing in the United States. The government cited concerns about TikTok's Chinese ownership leading to potential surveillance by China on US customers—who were mostly teens and pre-teens—and seemingly unfettered access to US citizen data. Ironically, the United States was one of few Western countries without a comprehensive national law on data privacy and tended to be lenient with the collection of user data by US technology companies.⁶⁰ Observers believed that a political matter was the real issue here, as it had been in India. In this case, Trump's motivations were suspected to be retaliation for failed trade negotiations, the Coronavirus pandemic outbreak (which Trump had repeatedly blamed on China), and payback for a coordinated strategy by young TikTok users to hack and sabotage Trump's June 2020 return to campaign rallies in Tulsa, Oklahoma.⁶¹ With increasing geopolitical tensions between China and the United States, TikTok found itself caught in the crossfire. It fought back in August 2020 with a lawsuit against the US government, arguing that Trump's executive order robbed the app of due process and was improperly characterizing the app as a security threat.⁶²

Nevertheless, TikTok's market dominance extended far beyond these two countries. Although India and the United States held great opportunities in both viewership and content creation, more than 60 per cent of TikTok downloads were located outside these two countries. High growth in other areas included Indonesia and Korea.⁶³ Indeed, in developing countries with limited access to alternative entertainment media but with massive populations of young people eager for entertainment—particularly in sub-Saharan Africa—TikTok promised to fill a large gap with content creation opportunities.⁶⁴

The 37 countries that composed sub-Saharan Africa were very diverse, with a population of approximately one billion people and a median age of 18–20 years.⁶⁵ As of 2018, expansion of network technology coverage meant that 70 per cent of the population was covered by at least third-generation (3G) network infrastructure, with fourth-generation (4G) deployment expanding rapidly. The rate of smart phone penetration and access to mobile Internet varied by country but was expected to rise from 45 per cent in 2019 to 67 per cent by 2025.⁶⁶ TikTok had already made some forays in this region, deploying its usual expansion strategy during 2019 and 2020. It had attracted cohorts of influencers in several focal countries including Nigeria, Kenya, and South Africa. In May 2020, TikTok hosted a meeting in Nigeria with influencers from Instagram, Facebook, and Snapchat that attracted the popular Nigerian actress Maraji (@maraji_) and her followers to the platform. In Nairobi, Colombian native Javier “Kamau” Felipe Aranzales (@Afrobeatswithkamau), who was living in Nairobi, gained 230,000 followers on TikTok with videos in Swahili and English, joining Azzad Nasenya (@azz_iad) as a leading TikTok influencer in East Africa.⁶⁷ During 2020, TikTok was the second-most downloaded app in South Africa.⁶⁸

Competitive Threats from Technology Giants

TikTok was facing emerging competitive threats from various full service social media platforms providing short videos. Facebook (together with its photo sharing platform Instagram) was launching its second attempt at breaking into the market with Reels, after a failed attempt with Lasso. Facebook was the world's sixth-largest company by market capital.⁶⁹ The company's social media platform was the world's largest, with 2.45 billion active users per month around the world. Facebook had taken an aggressive acquisition strategy for expansion. As of August 2020, it had acquired 72 companies including global social media network Instagram (for \$1 billion in April 2012) and WhatsApp (for \$19 billion in February 2015).⁷⁰ Some observers believed that Facebook's chief executive officer, Mark Zuckerberg, had been playing a critical role in TikTok's conflict with the US government. As early as October 2019, Zuckerberg had been aggressively lobbying US government agencies to raise concerns about the threats of Chinese-owned technology companies in the United States, possibly to divert attention from Facebook's own antitrust difficulties and content concerns.⁷¹

In early 2020, Internet giant Google launched Tangi to break into the short-video market. Alphabet Inc., Google's parent company, was the world's fifth-largest company by market size. It had also expanded through acquisitions of more than 200 companies in the previous 10 years. Tangi would compete directly against TikTok, although with slightly different positioning. Tangi users would focus on do-it-yourself technology and creative content, with the aim to inspire other content creators.⁷²

Twitter was a multinational conglomerate platform that operated the world's sixth-largest social media platform. Twitter had entered the short-video industry back in 2012 with its acquisition of the Vine app. Twitter was still actively looking for potential acquisitions in the industry and had approached TikTok for discussions. Most of Twitter's acquisitions were intended to boost user experience, increase advertising revenue, and innovate product offerings.⁷³

The Chinese multinational conglomerate Tencent had invested \$2 billion in the apps Kuaishou and Kwai to compete against Douyin, TikTok's offering in China.⁷⁴ Tencent subsidiaries specialized in various

Internet-based services and products including social networking, entertainment, information, software, and digital tools. Some of the company's core products included WeChat, a social media messaging platform with 1.2 billion active monthly users worldwide,⁷⁵ and PUBG Mobile, the world's highest grossing mobile game.⁷⁶ Tencent was also one of the world's largest venture capital firms and investment corporations, and was commonly referred to as "the Softbank of China" (in reference to the Japanese multinational technology, energy, and financial conglomerate SoftBank Group Corp.). It had invested in 46 unicorn firms by 2019—four more than Softbank Group Corp.⁷⁷ Tencent's app Kuaishou allowed users to create and share small static or animated images using the Graphics Interchange Format (or GIF). In 2012, the app was transformed into a short-video app,⁷⁸ and by 2019 it had reached more than 200 million daily active users.⁷⁹ In comparison, however, TikTok's Chinese app Douyin had 400 million daily active users.⁸⁰

Chinese multinational e-commerce and technology company Alibaba Group Holding Limited (Alibaba) planned to invest \$100 million in its three-year-old short-video app Vmate to gain international market share.⁸¹ Alibaba was a giant online retailer on three different marketplaces catering to consumers and businesses alike. It was also active in logistics, financial services, and cloud computing industries as the world's seventh-largest investor in global unicorn firms.⁸² Vmate was launched in 2016 as a video streaming and short-video sharing application in India. It had 30 million users globally by 2019.⁸³

New Products and Features Expectations

To sustain its future, TikTok had to consider how to grow and diversify revenue streams, while eluding competitors. Some industry observers were excited about possibilities in the gaming and music industries,⁸⁴ although marketplaces, advertising, and new platform variations also offered opportunities. TikTok could build on its marketplace efforts with Shopify and expand into something similar to Instagram's "shoppable" posts, where content creators and brands could tag items for users to tap and view (or buy). In this way, TikTok could leverage the engagement relationship with followers and turned it into an e-commerce platform, where content creators could go further to monetize their content. Users could view, browse, and shop conveniently inside the app, which would allow TikTok to widely expand its current service offering.⁸⁵

TikTok could also expand its current revenue stream by adding additional marketing solutions. With influencer marketing becoming more and more popular, TikTok could capitalize on data and act as an agency to connect brands with aligned influencers. TikTok could use its data to recommend the best brand influencer to represent a specific brand based on demographics and on information about followers' previous video preferences. TikTok could then charge a premium for this service and possibly also charge a commission to the content creators. TikTok could thus leverage its data and algorithms to more effectively expand its marketing platform. Monetizing data in creative and profitable ways could be a logical step given TikTok's AI and machine learning capabilities.

TikTok could also consider segmenting its app to create a separate platform tailored to the younger demographic (e.g., TikTok Kids), featuring screened and filtered content. Such a service could ease youth privacy and parental concerns, helping young users enjoy the platform's content without worry. This version could operate on a subscription model to avoid underage users purchasing coins for content creators and to control and protect underage viewers from being gifted coins by unknown followers.

By April 2021, time was running out for TikTok to make a decision on its future path. Vanessa Papas, who was given control of the company's new direction,⁸⁶ promoted the app's strong commitment to prioritizing the needs and opportunities of both content creators and consumers. With many strategic issues to consider, TikTok needed a strong, evidenced-based action plan to manage immediate and long-term disruptions and to ensure that the company would endure and thrive.

EXHIBIT 1: TOP 10 APPS BY ALL TIME DOWNLOADS WORLDWIDE, 2010 TO FALL 2019

Rank	App	Parent Company	Headquarters
1	Facebook	Facebook Inc.	United States
2	Facebook Messenger	Facebook Inc.	United States
3	WhatsApp Messenger	Facebook Inc.	United States
4	Instagram	Facebook Inc.	United States
5	Snapchat	Snap Inc.	United States
6	Skype	Microsoft Corporation	United States
7	TikTok	ByteDance Ltd.	China
8	UC Browser	Alibaba Group Holding Limited	United States
9	YouTube	Google LLC	United States
10	Twitter	Twitter Inc.	United States

Note: App = digital application; ranking based on App Store downloads to end of 2011, combined downloads from App Store and Google Play starting in January 2012, and January to November downloads for 2019.

Source: Sarah Perez, "The Top Apps and Games of the 2010s," TechCrunch, December 16, 2019, <https://techcrunch.com/2019/12/16/the-top-apps-and-games-of-the-2010s>.

EXHIBIT 2: MAJOR PRODUCTS OWNED BY BYTEDANCE LTD.

Product	Description
Douyin	Douyin is China's leading destination for short-form mobile videos. Powered by easy-to-use video creation tools, Douyin quickly became a highly popular app across the country. It empowers everyone to capture and present the world's creativity, knowledge, and moments that matter in everyday life, presenting a wide and diverse range of content on the platform.
Toutiao	Toutiao is one of the most popular content discovery platforms in China. It offers users a unique, personalized, and comprehensive content experience, enabling them to discover and explore topics of interest, ranging from sports and entertainment to agriculture and history.
TikTok	TikTok is the leading destination for short-form mobile video. Its mission is to inspire creativity and bring joy. TikTok has offices across the globe, including Los Angeles, New York, London, Paris, Berlin, Dubai, Mumbai, Singapore, Jakarta, Seoul, and Tokyo.
Xigua Video	Xigua Video is one of China's most popular video applications. It enables users to discover, enjoy, and share a wide range of video stories, both short-form and long-form.
Helo	Available in 15 languages including Hindi, Telugu, Tamil, Malayalam, and more, Helo is one of India's leading social media platforms. Helo's mission is to bring people together, and to allow them to create and share content in their own language, and connect with a wider community.
Lark	Currently available in Japan and Singapore, Lark combines a multitude of essential collaboration tools in a single interconnected platform, including chat, calendar, content creation, cloud storage, and app management. Lark makes it easy to stay in sync and access these tools from one to the next.
BaBe	BaBe is Indonesia's leading news and content app. It offers personalized news and entertainment content from more than 1,000 publisher partners across over 20 categories. It aims to provide a comprehensive and trustworthy source of news and information in an app that is reliable, engaging, and easy to use.

Note: app = digital application.

Source: "Our Products," ByteDance, accessed August 21, 2020, www.bytedance.com/en/products.

ENDNOTES

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