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Short Video Social Media AI

Brief #9: TikTok's rapid rise to 1.5B installs – and the global reaction

15 min read

What's Happening

Short-form video app TikTok has seen rapid success since its 2017 launch, reaching **1.5B downloads globally** so far (110M+ in the US) with 800M+ monthly active users (500M+ in China, 30M+ in the US). In 2018, it was downloaded more often than Facebook or Instagram, and in the most recent **Q3 2019 was the #2 or #3 non-gaming app downloaded worldwide** (depending on who's counting). TikTok's meteoric rise has generated admiration as well as controversy, spurring responses by tech firms, rival startups, consumer brands, and lawmakers globally. For instance, this month alone (Oct 2019) has seen a spate of competitive activity – Instagram launching a "Create" mode, Google in talks to acquire short-form video app Firework, and TikTok music-video rival Triller raising $28M and already working on a new $50M round. The global response is putting pressure on TikTok, which just saw global installs decline for the first time in Q3 2019, by 4%.

The "social entertainment" of short-form video is unlikely to go away anytime soon. More likely, it will become one type of social media among many available – in short, it will become normal.

Jump to **What It Means**

What is TikTok

TikTok is a social platform for short-form video (often 15 seconds) with a mission to "inspire creativity and bring joy." It offers an **addictive experience through a continuous feed of short user-created moments**, designed for pure entertainment. In a given day, on average TikTok users in the US open the app 8 times and use it for a total of 45 min, driven by an AI algorithm that predicts what users will like based on their in-app activity, improving as they use it. US users log into TikTok an average of 8 times per day. The emphasis is on creativity rather than life events or status-sharing.

TikTok's distinctive community and "positive vibe" have been shaped by certain factors and decisions:

- **Very short-form video:** The default 15-second video length keeps audiences engaged – even addicted – as they keep watching for the next dopamine hit.
- **Share with all:** By default, videos are shared with all TikTok users rather than just friends, giving any user the opportunity to "go viral."
- **Personalized feed**: ByteDance CEO Zhang Yiming, believing that users "don't always know what they want," has invested in AI that determines what videos a user sees, helping draw them in and keep them for extended periods.
- **DIY creation:** TikTok offers an extensive collection of special effects, editing tools, and music. This "democratization" of video production has engaged a wide range of creators, from the average user to celebrities and entertainers to consumer brands.
- **Remixing:** One of TikTok's differentiators from prior short-form video apps like Vine is its emphasis on enabling "remixes" of videos created by others, helping promote a sense of inclusion and participation.
- **No timestamping:** TikTok intentionally excludes timestamps on content, enabling older videos to go viral. It also covers up the clock on users' phones, making it easier to lose track of time.
- **"Silliness"**: TikTok's culture encourages creative "silliness" and positivity rather than the social pressure and competitive instinct typical of other social platforms.

TikTok is available in 75 languages and 155+ countries, reaching the top of app ranking charts across Asia. Its biggest market in terms of users is India (200M+ monthly active users) followed by the US. The company's HQ is nominally in Southern California – with "**separate apps, markets, users, content, teams, policies**," according to TikTok. However, only a few hundred employees are situated in California, in comparison to owner ByteDance's 50,000 employees. According to a former employee, **most of its features still come from China**, where the engineers are.

Parent company and Chinese AI giant **ByteDance** also operates TikTok's sister app Douyin domestically in China (as well as popular news app Toutiao and others). The Chinese version

Douyin launched first in 2016 and reached 100M daily active users in its first year, to now lead China's short-form video market with 390M+ monthly active users. In Nov 2017, ByteDance acquired successful US lip-syncing video platform Musical.ly for $1B, merging it (and its 200M existing users) with TikTok in Aug 2018. **TikTok's growth has also been driven by heavy advertising on rival social platforms** such as Snapchat, Instagram, Facebook and YouTube (some in collaboration with influencers). Its advertising spend in the US **surpassed $1B in 2018** and was as high a $3M a day at its peak (though it has pulled back of late).

ByteDance, founded in Mar 2012, was called the **world's most valuable private company** when it raised a $3B SoftBank-led funding round in Oct 2018 at a $75B valuation. It has built a massive business largely serving up addictive content personalized using AI algorithms. **ByteDance's portfolio of apps and tools, which have a reported 1.5B monthly active users in total, puts emphasis on consumer offerings such as short-form video, news aggregation, and chat messaging**: Douyin (short-form video in China), TikTok (short-form video outside China), Xigua Video (2-5 min video channels in China), Huoshan Video (live-streamed short video in China), Vigo Video (formerly Hypstar, Flipagram; live-streamed short video outside China), Toutiao (news and search in China), TopBuzz (news outside China), News Republic (global news), BaBe (news in Indonesia), investment in Dailyhunt (news in India), Helo (news in India), Duoshan (video chat in China), Feiliao/Flipchat (WeChat-like in China), Lark (enterprise collaboration outside China), Baike (Wikipedia-like in China), Faceu (global "beauty camera" app), Jukedeck (AI-generated music), and a paid music-streaming app and branded smartphone with pre-installed apps in the works.

In the first half of 2019, ByteDance generated an estimated $7B to $8.4B in revenue (mostly advertising and in-app purchases), exceeding the $7.4B for all of 2018. Only a fraction of that comes from TikTok and Douyin, however – less than 15% in 2018, and most of that from Douyin. Most of ByteDance's revenue comes from offerings within China (including Douyin). **TikTok itself is still in the "early stages of making money."** Its primary source of revenue is virtual currency and in-app purchases, from which it made an estimated $12M in one recent month (though it also added ads this year). ByteDance is reportedly on track to be profitable by the end of 2019.

Reaction from US tech firms

TikTok is unusual in being among the first Chinese-owned tech firms to make significant inroads amongst Western users. The initial reaction among US tech firms has been to compare it to features in existing US apps (e.g. Instagram's Explore tab) or point to ByteDance's copying of innovations created elsewhere. The rise of TikTok, and short-form video in general, however, has become impossible to ignore.

- **Google**'s potential acquisition of Firework would put it squarely in competition with TikTok. Firework's short-form video platform is, however, slightly different in its longer typical

length of 30 seconds and greater orientation toward educational/instructional video. Users are also a little older on average than TikTok users with 80% over 18 (vs. 70% for TikTok users). Firework has gained 3M downloads since launching 5 months ago in May 2019, with an average session length of 7 min. Google may be viewing **Firework as complementary to YouTube**, which, despite being typically longer-form, has become a popular destination for sharing TikTok videos. YouTube remains incredibly popular with teens, generates 20% of Google's ad revenue, and unlike TikTok, offers creators an established platform for monetizing video content. Firework was valued at $100M+ in its latest funding round.

- In Nov 2018, **Facebook** launched **Lasso, a TikTok clone** with emphasis on user creation, typical video length of 15 seconds, and fun editing tools to create new videos and remix other users' videos. Despite its efforts to partner with local creators, Lasso's 425,000 downloads across both its active markets – the US and Mexico – pale in comparison to TikTok's 640M globally during the same period. Facebook's **Instagram** has also borrowed from the short-form video paradigm, launching in Oct 2019 a new Create mode that enables users to repurpose old videos into "fresh" ones through new editing features, as well as focusing Instagram's Explore feature more on Stories.
- **Snap**, which TikTok has expressed interest in acquiring if it gets closer to profitability, served as a major advertising platform for TikTok during its rise. Given its advertising and developer partnerships with TikTok, CEO Evan Spiegel in Oct 2019 **referred to TikTok as a "friend"** rather than a competitor, describing TikTok driving people to spend more time on their phones as good for Snap. That hasn't kept Snapchat from borrowing features from TikTok, adding a Lens Challenges feature in Dec 2018 that allows users to create content along themes (e.g. sing-a-longs, holiday videos) and build on other users' content. Snap has also been exploring ways to **expand its music offerings**, seeking rights to catalogs from music labels to enable more music to be incorporated into content.
- Dom Hoffman, the former co-founder of Vine (which was shut down in 2017), is working on a short-form video app called **Byte**, which is currently in beta. Few details have been released, though it appears the app will incorporate camera recordings without uploads, timestamps (which TikTok does not), and less focus on lip-syncing and teen-oriented functionality and content than TikTok.
- TikTok music-video rival **Triller**, founded in 2015, has 60M downloads and 13M monthly active users so far. It is **backed by big music labels** – Universal Music Group, Sony Music Entertainment, and Warner Music Group – which each have a small stake in Triller as well as **long-term music licensing deals**. This is in contrast with TikTok, which has been engaged in negotiations for 6+ months as its Musical.ly music-label deals (negotiated before TikTok's rise) near expiration. Triller just raised $28M in funding and is working on a new $50M round at a $250M valuation.

Response by Chinese tech firms

In China, the dominance of Douyin in short-form video and the growing influence of ByteDance across its universe of apps have caused alarm among China's BAT tech giants, drawing a response:

- **Tencent** (which houses messaging apps WeChat and QQ, WeChat Pay/TenPay payments services, mobile games, etc.), among the BAT firms, is the most threatened by ByteDance given its position in entertainment, gaming, messaging and social media. Tencent at one point reportedly had a stake in ByteDance but it has since been divested. For Tencent, ByteDance's short-video ad inventory has caused **pricing pressure and competition for advertising budgets**, causing it to miss revenue targets earlier this year. In response, WeChat has launched its own video-streaming feature, **blocked WeChat users** from sharing Douyin content directly on its app, and also kept users from logging into Douyin through WeChat. Tencent has backed **Kuaishou** (Kwai outside China) – Douyin's biggest rival in China – along with Baidu and Alibaba. Kuaishou had 400M+ monthly active users as of Jul 2019 – a strong #2 behind Douyin. Tencent also has short-form video app Hotspot Video (formerly Yoo) and Weishi, as well as jokes app Hapi.
- Search giant **Baidu** has seen impingement in its realm from ByteDance's Aug 2019 announcement of its own search engine called Toutiao Search (accessed through the Toutiao portal), though it claims it does not consider ByteDance a threat in search. In addition to backing Kuaishou, Baidu launched in 2018 a short-form video app called **Haokan**, which began with 15-second videos and earlier this year extended the maximum length to 5 minutes. **Haokan has also been banned by Tencent's WeChat** from direct posting on the app. Baidu, under its IQiyi (China's YouTube/Netflix), is reportedly working on a short-form video app to be released in 2020. Among the BAT group, Baidu is considered the most vulnerable with respect to future growth, given its dependence on advertising.
- **Alibaba**, which has 230M+ daily active users across its 160,000+ "mini programs," has the least amount of overlap with ByteDance. Alibaba has a partnership with Douyin, which integrates Alibaba's online shopping links into its platform as part of its monetization strategy. Alibaba's closest competitors to Douyin are the Indian short-video app VMate (in which Alibaba invested $100M earlier this year) and Aliwood, a short video creator launched Apr 2018 for its ecommerce merchants to create promotional content. Alibaba reportedly expressed interest in investing in or acquiring ByteDance earlier this year but was rejected.
- **Weibo**, one of the larger non-BAT tech players in China and considered "China's Twitter," has also expressed interest in acquiring Firework to compete in the short-form video market. It has an investment and partnership with Yixia Tech, the developer behind short-video app Miaopai and lip-synch app Xiaokaxiu, with rumors of an acquisition last year.

Engagement by consumer brands

Brands have recognized an opportunity to **drive engagement in a more creative and intimate way** by taking advantage of TikTok's distinctive features. The Washington Post, for instance, has become a popular brand account (185K fans) in the US with emphasis on more behind-the-scenes and "silly" videos featuring journalists rather than serious news posts. Other brands with a prominent presence on the platform include the NBA, United Nations, Guess, and NBC. Chipotle has used TikTok's challenges feature extensively, driving highly engaged user creation around focused tasks/topics – e.g. the #ChipotleLidFlip (based on a viral video in which an employee closing a to-go container flipped the lid on top) or the #GuacDance (at the time the most successful branded challenge in the US with **250K submissions and 430M views**). The latter triggered Chipotle's most popular "guacamole day" ever, resulting in **800,000+ items purchased** and a 68% spike in Chipotle's avocado usage on National Avocado day.

Influencers and celebrities can be pivotal in getting a challenge or other brand presence on TikTok to go viral – one reason why TikTok is used heavily by entertainers like Jimmy Fallon. Chipotle's challenge, for instance, was kicked off by a major influencer. Some brands – like Universal Pictures – are investing in influencer marketing on TikTok, building relationships with creators that have millions of fans. TikTok has also been testing a Creator Marketplace to connect brands/agencies and influencers, in addition to building out its ad team, self-serve advertising platform, and ad targeting capabilities. The **ad platform and measurement tools are still nascent and buggy** but costs are still relatively low – $1.50 for a thousand impressions. Campaigns such as a hashtag challenge, "brand takeover," top-view video, or branded lenses are more expensive and can run $150,000 per day. Currently for brands, it operates as more of an "**awareness play**" rather than an avenue to direct conversions.

Pushback from lawmakers

ByteDance's popular first app Neihan Duanzi, which launched in 2012, focused on jokes and memes but was later shut down in 2018 by the government's media regulator. **It has since actively sought to stay clear of clashes with regulatory bodies** – hiring thousands of "local content moderators," banning certain users, situating TikTok's servers outside China, and responding quickly to regulatory concerns. Despite this, it has been bombarded with criticism on all sides – ironically, both for too much "content moderation" (i.e. censorship) as well as too little (to protect children and take down hate content).

In the US, TikTok's rapid rise is generating scrutiny. In Feb 2019, the US FTC fined TikTok $5.7M for violating the US Child Online Privacy Protection Act (COPPA) in capturing personal information from young users without parental consent. In response, TikTok implemented a feature requiring users to verify their age and restricting those under 13 from posting videos. In Aug 2019, alleged censorship of videos showcasing the Hong Kong protests (which TikTok has denied) raised concerns that TikTok may be a "new front" in China's battle to control information. A Sep 2019 report from The Guardian detailed leaked **moderation guidelines that restricted mentions of hot-button China issues** like Tiananmen Square,

Tibetan independence, or Falun Gong (TikTok's response described those guidelines as "retired" since May 2019). Subsequently in Oct 2019, US Senator Marco Rubio called for a CFIUS national-security review of TikTok's 2017 acquisition of US-based Musical.ly, and then Senators Tom Cotton and Chuck Schumer followed with a bipartisan request that the Intelligence Community assess the national-security risks posed by TikTok and other Chinese content platforms.

TikTok's younger user base has also resulted in **challenges in other countries**. In Apr 2019, TikTok faced a 2-week ban in India – its biggest market – based on accusations that the app exposed youth to sexual predators, porn and cyber-bullying. (It has also been previously banned in Indonesia and rumors of a potential ban in Pakistan have hung over TikTok through most of 2019.) More recently in Oct 2019, recruiting videos targeting teens from Islamic State extremists were discovered on the platform (and taken down). The UK is also conducting an investigation into how TikTok handles the personal data and safety of children.

TikTok has defended itself, denying that it has received content-moderation requests from China and insisting it would not comply if it had. It also highlighted that its **data centers are not in China** and are therefore not subject to Chinese law. It has emphasized a **new localized approach** – local moderators, policies, and advisory committees. In addition to hiring thousands of local content moderators, TikTok also uses AI to flag or remove content. In Oct 2019, it hired US law firm K&L Gates LLP and tasked it with pulling together an external team (which will include two former US congressmen) to advise on content moderation policies globally. TikTok has also been hiring lobbyists and outside consultants as it seeks to build closer relationships with regulators. It recently rolled out TikTok Tips videos highlighting safety features such as privacy controls, and instituted a ban on political ads (a move just copied by Twitter).

TikTok is also taking steps to broaden its scope (and reputation) beyond pure entertainment. In mid-Oct 2019, it launched **EduTok** – an initiative in India to build a library of educational videos with partners such as local tutoring platforms Toppr, GradeUp and Vedantu (and more to come). Users can add to this base using the #EduTok hashtag. Many of the initial videos focus on teaching English but the library also includes content on math, science, and fitness. To date, 10M+ pieces of content have been created and shared 1.8B+ times.

What It Means

TikTok's rise in many respects mirrors the rise of other social media platforms – from Facebook to YouTube to Reddit to Twitter to WhatsApp to Snapchat. It represents a new paradigm for social media and, as such, has experienced extraordinary growth. The dynamic it

represents – **short-form video – and its particular approach to "social entertainment" is unlikely to go away anytime soon**. More likely, this will become one type of social media among many available to consumers – in short, it will become normal. Whether TikTok specifically will win out among all the short-form video competitors vying for position is still an open question.

The most likely scenario is that TikTok will remain a leader in this space, barring some major regulatory action or scandal. For one, it is a front-runner in mobile-first social entertainment, at a time when short videos on smaller screens are promising to become a leading form of entertainment (e.g. Jeffrey Katzenberg's Quibi). Its current areas of focus – an addictive and positive user experience, building out an advertising platform, and local content moderation and regulator relationships – will help forestall some of the potential threats it is facing.

There are also plenty of reasons why **TikTok could be a passing fad**. Its early reliance on advertising on other social networks to achieve its monumental growth represents a significant vulnerability as it pulls back on ad spend. It is perhaps **not a coincidence that its recent slowdown in installs is occurring simultaneously with a reduction in advertising spend**. It is not clear whether TikTok can even be profitable at the level of spend it has been incurring – $1B in 2018. The platforms it has been advertising on – many of which are competitors for consumer attention and ad dollars – also have the ability to turn off the tap, as has happened with WeChat.

Critical focus areas for TikTok to sustain success include:

- **Retaining users:** A significant number of new users leave TikTok within 30 days of download. A new social app can have much in common with a fad or "fashion business." Particularly with a younger audience, there is the omnipresent risk of "going out of style." TikTok can't stay still – it will have to evolve itself to remain relevant, perhaps into a "super app," an influencer network, a franchise (as in gaming), a utility, or something else altogether. Its foray into educational content may be an experiment along one of these lines. TikTok will also need to figure out how to place ads without negatively affecting the user experience in a meaningful way. A big part of the TikTok experience is "getting lost" in your feed, which could be impacted by ads.
- **Enabling creators to monetize their content:** Content creators on TikTok currently monetize their content via links to other platforms, through brand sponsorships, or audience "tipping," rather than from views directly or advertising. While creators have been drawn to the platform by its emphasis on fun, creativity, community, or exposure, they may not stay long without a path to monetization – especially when other platforms like YouTube offer a more lucrative alternative. For TikTok, diversifying its base of creators (which Vine failed to do effectively) is one aspect of this, so that if popular influencers switch platforms, the rest of the community doesn't go with them.
- **Building a sustainable business model**: TikTok is not yet profitable – and unlikely to be if it continues to pour hundreds of millions into advertising without a more robust business

model. Its sizable user base suggests an obvious path to revenue from advertising, though it has yet to fully build out and scale its ad business.

- **Expanding its demographic**: Currently 66% of TikTok users are under the age of 30 and 30% are under 18. TikTok, which has been watching Instagram closely, is working to broaden its audience and attract older users through design choices and social sharing.
- **Staying on the right side of regulators:** Apps such as ByteDance's Neihan Duanzi and Miaopai, or TikTok itself in India back in Apr 2019, have incurred enormous costs from government bans. TikTok understands well the risks associated with a regulatory clash – ergo, its efforts to keep TikTok and Douyin separate, position TikTok as a US company with servers outside China, and invest in a "localized approach" and regulatory relationships. It may not be possible, however, to separate TikTok from ByteDance in the public square and political sphere. ByteDance's center of gravity in China and growing prominence, paired with its ties to the Chinese government and demonstrated willingness to comply with its strictures, will weigh upon the assessments by national regulators outside China.

TikTok is attempting to be a new type of "borderless company" – though it is not obvious whether that will be possible. In achieving massive traction among US consumers, it has already accomplished something few other Chinese-owned firms have been able to do. In so doing – and in an environment already rife with geopolitical tensions between the US and China – it is elevating a rising fear in the West of China's technological leadership and what it implies about the shift of power. The public fear about TikTok's ties to China is illustrative of a broader dynamic, where legislators are concerned about China growing its sphere of influence over information outside of the Chinese firewall – in this case, information about hundreds of millions of non-Chinese citizens. The US, for instance, earlier this year forced Chinese company Kunlun to relinquish its acquisition of US LGBTQ dating app Grindr, amid national security concerns about blackmail. **The future of TikTok will be shaped by the ongoing battle for technological and information superiority between the US and China.**

Disclosure: Google is a vendor of 6Pages.

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