

Is Kuaishou an Exceptional Investing Opportunity? A Comprehensive Analysis of the Fundamentals Using the POCD Framework

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ABSTRACT

The rapid development of the short-video sharing platform and live-streaming business recently brought a lot of attention to one of the industry titans – the Kuaishou company. To evaluate if the firm is a potential investment opportunity and its risk, this paper used the POCD framework from the Harvard Business School to access three essential fundamentals of the company, that are the individuals putting the most effect on the company, the general market opportunity, and its characteristic, and the regulatory changes and trends the company will undertake. After investigating the strengths and weaknesses of these aspects, the paper concluded that the company will be a promising investing chance for the investor who can tolerate a moderate level of risks. This paper also provides some understandings, insights, opinions on the short-video sharing business.

Keywords: Kuaishou, POCD framework, Investing opportunity, Live-streaming, Short-video sharing platform, Chinese rural market.

1. INTRODUCTION

The expected COVID-19 pandemic was a hit in the eye for the global economy. Nonetheless, it turns out to be a huge opportunity for the short-video sharing business, giving a considerable number of investors the motivation to peek into this burgeoning business, all wish for a desirable timing to invest in the promising future of the industry. Therefore, a company with a solid foundation and the potential that allows the company to grow continuously is yet to be found.

The Kuaishou company recently drew a lot of attention from its Initial Public Offer at HKEX. Despite going to the public and being financially transparent, looking at the company from a more substantial and fundamental perspective will be able to provide the investors with a comprehensive understanding of the company. Besides detailed financial analysis imposed on the financial report and balance sheet of the company that already exist, investors also want to know more about the essentials, business model, future potential combine with a solid knowledge of the fundamentals of the firm. Thus, the given paper will be using the

“POCD” framework as the main structure, combine with the financial investigation, to help the investor assess the venture’s future potential and risks.

Utilizing the POCD framework, three essential aspects, People, Opportunity, Context, will be elevated. An answer to the question “Is Kuaishou a company that worth investing in?” will be given as the conclusion of the paper. The readers will be able to know and understand the company from the fundamentals through a multi-dimensional view, looking at the individuals and groups that are impacting the company, the overall market potential, and features that the business is facing, and also the trends and regulatory policy that is facilitating or sapping the Kuaishou company.

The investor with some valuable insights about the whole red-hot video-sharing platform business, with a clearer understanding of the live-streaming services, and a general idea of how to enhance and promote the company and the business even further. The given paper will also help the readers with realizing some of the merits and demerits that the video-sharing business is facing while foreseeing the potentials and risks, the direction regulatory trends. Get to know and understand

this framework and the thinking of how to evaluate short-sharing platforms will also enable the readers the capability of access similar ventures.

2. METHODOLOGY

The POCD framework brought out by Professor William A. Sahlman from the Harvard Business School will be used in the given paper as the main tool to assess the feasibility of investing in the short-video sharing platform, Kuaishou [1].

The POCD framework consists of four dynamic components of a common entrepreneurial process or venture: the people, the opportunity, the external context, and the deal. It was mainly being used to evaluate firms on an earlier stage, and it was being chosen its perspective to assess the company with more fundamental factors that allow the reader to gain a more solid and incisive understanding of the whole company, including its business model, leadership team, etc.

Since the research focus of this article is the evaluation of the investment in the Kuaishou company, the deal is not involved in the analysis structure. The following assessments will be included in the paper: individuals or groups who perform services or provide resources for the venture and their impacts (People), the general market potential and its characteristics (Opportunity), and the overall macroeconomic and regulations environment the firm is facing (Context). The reader will first build up a clear understanding of each sector through the introduction, strengths, and weaknesses of each part will then be summarized, evaluated and compared, to assess if the company is trustworthy to invest in.

3. POCD FRAMEWORK ANALYSIS: CASE OF KUAISHOU

3.1. People

3.1.1. Solid connections of the leadership team

One of the biggest advantages of the Kuaishou company is the stability of the relationship of its founders.

They have a deep friendship that is hard to collapse. The first founder of the company is Yixiao Cheng and the others all have some connections with him. Yuanxi Yang is a colleague of him and Xin Yin is Yixiao Cheng's roommate in the university. They had worked together for some time which made them know each other's working habits.

At the early stage of the startup, Yixiao Cheng was responsible for the IOS side, Yangyuan Xi was responsible for the Android side, and Yin Xin was responsible for the server. After the three people

established Kuaishou, they invited Hua Su to join them. The first one is Hua Su who graduated from Tsinghua University. He was the CEO of Kuaishou who owns 32.32% of the shares. He worked at Google and Baidu as an engineer for back-end technology research and development, which brings a lot of experience to him. The second one is Yixiao Cheng who graduated from Dongbei University with Yin Xin. He has 25.86% of the shares. Yixiao Cheng is the first one who had the idea and decided to establish Kuaishou. He used to Worked on the iPhone client development of Renren Network and started up the company to satisfy his dreams. He Participated in the subscription of Waterdrop Inc, which is a company that mainly does charity work.

3.1.2. The lack of capital

Another problem is that the founders are leading the company to stagnate by not investing too much capital. Although they have lots of money, they do not put much money on the company to serve the problem like the lack of internet celebrities. So they must get another round of investment and serve this problem.

3.1.3. Limited audiences

There is also a lot of problems from the web celebrity's aspect. One of the biggest problems is that the audiences are too limited. Compared to their biggest competitor TikTok, Kuaishou is more likely to be used by the poverty-stricken districts. They need efforts to attract new types of audiences.

Another problem is that Most Internet celebrities register on several platforms at the same time, so Kuaishou cannot use the particularity of Internet celebrities to attract people.

Nonetheless, Kuaishou is trying to increase their types of videos. Compared to other company that is similar to Kuaishou, the company's internet celebrities are now turning the videos they shot into a series on the platform. Many people who are attracted by a small part of the series will download Kuaishou to watch the next part.

3.2. Opportunity

Kuaishou company is one of the earliest companies that make the short video app, and soon it became the giant in the short time video app. Kuaishou company is worth the investment for its huge potential market in the Chinese short video industry. The example of TikTok can demonstrate that we can see how successful TikTok is, so if I am the investor, I will invest in the Kuaishou company for their development in their app.

3.2.1. Live streaming

Not only the short video app, but the live streaming is also an important part of their income. The Kuaishou live streaming made up about 68.5 % of the company’s annual revenue. The most important thing is that the rate of growth of the Kuaishou live streaming is 17 % [2]. This means that the Kuaishou company can have a huge profit if it keeps developing its live streaming service. This is a good situation for investors because it means that the profit of the investment has to rise and it can make sure that the investor won’t suffer from the loss at the same time. Although the Kuaishou live streaming has many competitors, the operation mode between the Kuaishou short video app and live streaming can attract and hold its users. For the investors, they don’t worry about that.

3.2.2. Wide range of users

Another advantage to investing in the Kuaishou company is that the market of the Kuaishou company is broader than that of other companies. Instead of focusing on the users in the first-tier cities, the users of the Kuaishou company mainly allocate in the second or third-tier cities. At the same time, the young users constitute the basic user group of the Kuaishou app. This can help the investor to have greater influence.

3.2.3. A lack of foreign market

Kuaishou company doesn’t have a foreign market, its largest competitors- TikTok already developed its foreign market in European countries and American countries. Kuaishou can develop its foreign market in South Asia, West Asia, and Africa. People in this region may not have the same consuming ability as those in the developed countries but the number of users in South Asia, West Asia, and Africa can be greater than that of the developed countries. Developing the mid or low-end foreign market can be the future investment orientation

The data shows that the income of the Kuaishou live broadcast accounted for 95.3%, 91.7%, and 80.4% total revenue from 2017 to 2019. In the first three quarters of 2020, live streaming revenue accounted for 53.8 percent. The income of the Kuaishou live streaming shows a downward trend. The analyst in iiMedia Research says: “We regard that the quick increase in the revenue of Kuaishou live streaming mainly depends on its rich variety of content and improving the ability of user participation. The decline of the revenue in the live streaming shows that the contents which only stimulate hormones are bad for monetization.”[3]

The future development of short videos will mainly focus on the recommendation, security, and scene. The short video platform can use the maturing AIT to solve the problem of non-personalized recommendations and

personalized recommendations. In terms of security, blockchain technology can achieve more convenient and low-cost protection of video copyrights. the development of the 5G technology can enrich the applying situation of a short video [3].

3.2.4. Discussion on exceptional investing possibility of Kuaishou

Through our analysis, we considered that the Kuaishou company would keep developing its business at a high pace. The live broadcast operation of Ks company had a substantial increase in their income from 2017-2020, but the proportion declined from 95.3% to 53.8% because of the business expansion of e-commerce. However, the new operating model between the e-commerce and the Kuaishou live broadcast has boosted the profit of the Kuaishou company.

It would be promising to invest in the Kuaishou company because the basement of its income is solid. The profit of the Kuaishou live streaming stayed at a high level, and the combination of the e-commerce and the live broadcast provided the Kuaishou company with a new space to develop their business. The operation model of the Kuaishou live broadcast (as we illustrated in the “Opportunity”) confirmed that the new operating model has a certain number of customers.

3.3. Context

3.3.1. Exponential growth of live-streaming and e-commerce business

In China, tipping your favorite live streaming host has become as common as tipping a waiter. Cash spent on virtual gifts on video platforms has surged during the pandemic. And Kuaishou is also riding this wave.

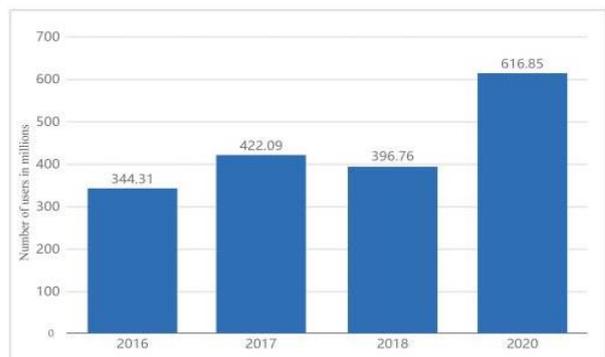


Figure 1 The number of online streaming users in China from 2016 to 2020.

Due to the COVID-19 pandemic, the whole industry of online streaming and e-commerce largely expanded in 2020 [4]. Shoppers are increasingly buying products in real-time as they watch their favorite Livestream performer try on an outfit or the latest make-up colors.

Even though the pandemic won't last forever, no doubt this trend will be burgeoning in the coming decades with the gradually matured Internet business models. More and more users start searching for commerce and entertainment online. And Kuaishou is a great example of a combination of both features.

3.3.2. Cooperation with mature e-commerce platform

The e-commerce giants Alibaba and JD.com are also riding on the trend of the fast-growing online streaming business, they have started to rely on live-streaming for growth on sale in 2020. As a part of JD's 2020 618 initiatives, on May 27th, JD and Kuaishou signed a strategic partnership with a focus on the supply chain. Kuaishou users will be able to purchase products provided by JD without leaving the Kuaishou app [5] and enjoy fast delivery and after-sales service provided by JD, which are the two functions that have been speaking highly about by the customers of JD. With the promotions and boosts from a mature platform like JD, a considerable amount of potential is hiding under Kuaishou's e-commerce business.

3.3.3. The rise of the rural area

According to the 2020 report, Kuaishou consolidated its dominance in the rural and lower-tier cities, further penetrating the "Xiachen" market, which is referring to the economy of tier-3 and below cities [4]. As we know China is currently going through rural areas reforms and developments with the slogan of "Get rid of poverty and become rich". A lot more focus was put on the construction of the rural areas.

Promoting their local distinguishing products and their tourist industry through video-sharing platforms like Kuaishou is now one of the most popular ways for these regions to boost their economic developments. The total retail sales of consumer goods are expected to reach 41.1 trillion yuan (5.92 trillion U.S. dollars) in 2020, up 8 percent on a year-on-year basis [6].

The consumption growth rate in the rural areas is also leading with a nine percent increase in the first 11 months in 2020, year on year. The figure is 1.1 percentage points higher than in urban areas [6].

3.3.4. More restrictions put on live-streaming top-up

"Given that the internet business is highly regulated in China, intensified government regulation of the short video, live streaming and e-commerce industries in China could also restrict our ability to maintain or increase our user base or the user traffic to our platform, which will materially and negatively impact

our business operations and financial results," Kuaishou warned in its IPO prospectus [7].

This red-hot trend of internet business is now facing intensified pressure from Chinese regulators. Livestreaming rules announced in November ban minors from making virtual gifts on video-streaming platforms, as well as limiting spending by any single user.

Nearly half of the users of the platform are teenagers. And most of its total revenue, more than two-thirds, is from live streaming. Most of that comes from virtual gift sales. Advertising and e-commerce are much smaller portions of sales, leaving Kuaishou the most exposed to the fallout [8].

3.3.5. Single in business model and region

Take its main competitor as an example, Douyin does not have the same concerns. It gains most — more than two-thirds — of its sales from ads. On Douyin. It is also geographically diversified, thanks to TikTok's popularity in more than 100 countries which brought TikTok a lot more chances outside the nation; However, Kuaishou has yet to build a presence outside China. So as China's tech giants like Kuaishou reassess business models, investors should do the same with their expectations, realizing the potential risks and pressure from the future [9].

3.3.6. Discussion on exceptional investing possibility of Kuaishou

Kuaishou's short video app is undoubtedly facing a considerable number of hardships as Beijing is rolling out more and more limitations and restrictions for live-streaming services, one of the most significant businesses of the platform. Nonetheless, the rapid development of the Chinese rural area and its dramatic increase in consumption greatly signified Kuaishou's significance in dominating the "Xiachen" market. The trend of the burgeoning online entertainment business should also continue promoting the platform's business.

Through our analysis, we considered that the Kuaishou company would keep developing its business at a high pace. The live broadcast operation of Kuaishou company had a substantial increase in their income from 2017-2020, but the proportion declined from 95.3% to 53.8% because of the business expansion of e-commerce. [10] However, the new operating model between the e-commerce and the Kuaishou live broadcast has boosted the profit of the Kuaishou company.

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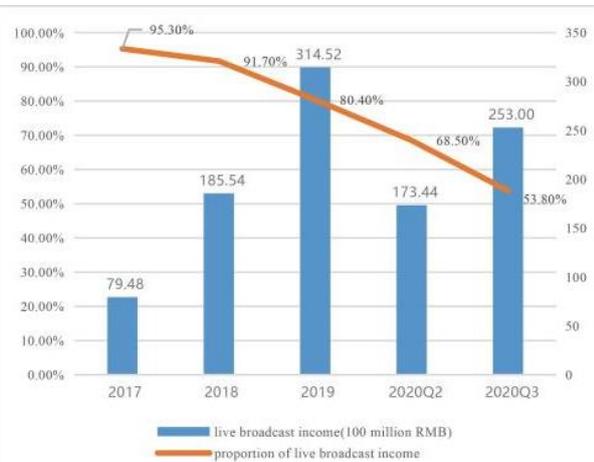


Figure 2 2017-2020Q3 Operating income and proportion of live broadcast business in Kuaishou.

The data in figure 1 shows that the income of the Kuaishou live broadcast accounted for 95.3%, 91.7%, and 80.4% total revenue from 2017 to 2019. In the first three quarters of 2020, live streaming revenue accounted for 53.8 percent. The income of the Kuaishou live streaming shows a downward trend. The analyst in iiMedia Research says: “We regard that the quick increase in the revenue of Kuaishou live-streaming mainly depends on its rich variety of content and improving the ability of user participation. The decline of the revenue in the live streaming shows that the contents which only stimulate hormones are bad for monetization.”[11]

4. CONCLUSION

To briefly summarize, we investigated three different aspects of the Kuaishou company and conclude them with various strengths and weaknesses.

Firstly, the solid connections of the founders add more a lot more unity and synergy to the leadership team, with the same ideas on how to further expand and enhance the company, and their professional experiences on operating media-sharing platform ensured a reliable development direction of the company. Secondly, despite all the potential risks the firm is facing right now, no doubt there are lots of opportunities hiding under the dominance of the rural market of Kuaishou especially for their economic development and consumption growth which outweighs the drawback of lack of presence of diversified area. Thirdly, its solid live-streaming service combines with burgeoning e-commerce business while also cooperating with mature internet companies help Kuaishou diversify

the business model, mitigate the fallout of restrictions being put on the live-streaming market, while also attracting more users. Additionally, the market of online shopping and entertainment will continue to grow after the pandemic, the future of the whole business is promising.

Secondly, the future development of short videos will mainly focus on recommendation, security, and scene. The short video platform can use the maturing AIT to solve the problem of non-personalized recommendations and personalized recommendations. In terms of security, blockchain technology can achieve more convenient and low-cost protection of video copyrights. the development of the 5G technology can enrich the applying situation of a short video.

Thirdly, the investor should continue to pay attention to the regulatory changes and movements inside China, to evaluate its potential risk and impacts on the live-streaming services of the platform, and be aware of the continuing recessive competition that is happening between Kuaishou and Douyin. And for the venture itself, more attention should be put on the opportunities that are laying in the rural market inside the nation, additionally with the areas that haven’t been developed by its competitors.

Finally, it will also be suggested that the company reinforce and promote its e-commerce business to outweigh the fallout of the gradually restricting policy on the live-streaming business in China. More diversified and various ways of monetizing should be added to the company.

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