



*China's Internet users
— a marketer's dream come true*

It wasn't until the mid 1990s that China became the 71st country to join the Internet, making connections available to the general public.

As in so many other fields of economic development, however, China is now racing to catch up. Over the past decade, development has been explosive.

The number of Internet users in China reached 100 million in 2005 and continues to climb towards 150 million and beyond.⁶

In just a few years, China is expected to pass the US, which currently has the largest Internet population in the world.

Chinese is the third most common language in terms of blog posts, after English and Japanese. And blogs are not even the most popular form of consumer-generated media in China.

Of the eight million online gamers playing World of Warcraft, more than 3.5 million of them are Chinese, to take just one example.⁷ In terms of quantity, Chinese Internet users will soon be dominating the Internet.

Even though the numbers are astonishing, there are still only 1 in 10 Chinese people online. And they are by no means a cross section of the population. In China, the typical Internet user is much easier to identify and categorize — good news if you're into marketing.

They are young: 83% are under 36 years old and penetration among 18–24 year olds is almost 40%.

They are well educated: 83% have a high school education or higher and students make up a third of the total number of users.

They live in urban areas: Beijing, Shanghai and Tianjin all have Internet penetration of 25% or more, while inland provinces, such as Henan, Anhui and Guizhou have 5% or less.

They have a higher income than the average Chinese person: over 50% have a monthly income of RMB 1,000 or more.

China's Internet history might be much shorter than that of the US and Europe, but China is catching up fast. More and more people are using the Internet far more extensively, for information and entertainment.

Chinese online behavior We now know that Chinese Internet use has increased and that users are mainly well-educated young urban dwellers. But how do they use the Internet?

First of all, they go online a lot. One report shows that the amount of time Chinese netizens spend on the Internet has increased from 8.5 hours per week in 2001 to almost 17 hours in 2006.⁸ This can be compared to the European average of 11 hours per week and the US average of 14 hours per week.⁹

More than two hours a day is an astounding figure, and it is beginning to take its toll on other forms of media consumption. Estimates for 2007 show that Internet users in China may actually be spending more time online than watching television.¹⁰ And according to another study by the Chinese Academy of Social Sciences, they already are. This report claims that Internet users spend twice as much time on the Internet as they do watching TV.¹¹

In addition to time, they are also spending vast sums of money. China's online sales are expected to reach RMB 51 billion during 2007. That's a 63% increase since 2006. As online payment systems are beginning to take hold and gain credibility, the number of online shoppers is growing rapidly, from 43 million in 2006 to 55 million in 2007.¹²

Traditionally, Internet cafés have been key access points, and research shows that they still are. In 2005 more than 1 in 4 Chinese Internet users used Internet cafés to go online. In 2007, this number had increased to 32%.¹³

This is a result of the widening digital divide. Away from urban areas only a fraction are using the Internet. Also, a low level of home computer ownership means that those that do go online are totally dependent on Internet cafés. The six most underdeveloped provinces make up less than 1% of the whole of China's Internet population. Recent years' Internet café closures and the stiff complex maze of regulations that govern these cafés have therefore had a disproportionate impact on the Chinese that are not among the wealthy urban elite.¹⁴

Looking at language, there are lessons to be learned on the part of foreign companies with an Internet presence in China. Statistics show it is absolutely crucial to localize. Of the 4.5 billion Chinese web pages analyzed by CNNIC in January 2007, 99.9% are in Chinese, and their most recent statistics indicate that only one in ten Internet users had visited a website with English content, domestic or overseas.¹⁵

Another characteristic of Chinese Internet users is the time of day they go online — in the evenings. In Europe and the US, peak hours are from the start of the working day, building up to a lunch

time climax, then decreasing in the afternoon and dropping heavily as evening television begins. In China, this pattern is reversed, with a peak in the mid-to-late evening.

One obvious explanation has to do with the age profile of China's Internet users. On older Internet markets, office workers are online during the day. In China, students and teenagers make up the majority of Internet users and they go online in the evenings, after school.

This demographic profile also accounts for what Chinese Internet users are doing online. After finding information, entertainment is one of the biggest reasons for logging on. In China, people go online to watch movies, play games and have fun with their friends. Services such as e-banking, online reservations and e-governance come further down the list.

No advertising fatigue For most Westerners, commercial breaks are a chance to put the kettle on or go to the bathroom. For the Chinese, the attitude towards brands and commercial messages is much more positive. Chinese consumers have not yet experienced the same "ad-fatigue" that has affected consumers in the West. There are no "Buy Nothing Days" or *Adbuster* magazines.

When Western brands came to China, their ads were more creative and engaging than the actual programs they were interrupting. This is now changing thanks to better quality TV shows, but there is still an air of mystique and excitement about a well-crafted commercial message.

According to one study, almost 60% say they read online adverts and only 8% never click on one. These are encouraging results for an online marketer.

The internet influences purchasing decisions The Internet has become an important tool for Chinese consumers when deciding what to buy.

Take the vehicle industry, for instance. A Cap Gemini study shows how consumers shop for vehicles and what factors lead them to buy.²⁰ The study covers five countries in North America, Europe and Asia Pacific.

The automotive market in China is experiencing fierce competition, with about 125 new models introduced in 2005. In contrast to the more mature markets of Europe and North America, the number of consumers in China currently owning a car is relatively small and people planning on buying a car are expected to buy a new rather than a used one. Brand loyalty is low and price is a more important factor than in other markets (98% of Chinese participants named it as number one, compared to 82% in UK and 83% in the US).

When making purchasing decisions, Chinese consumers are increasingly turning to the Internet for help. Seventy-eight percent use the web to research vehicles, compared with the overall average of 61 percent for all five markets surveyed.

Car companies should really look after their Chinese websites, because compared to the overall average of 65%, nearly 80% of respondent claimed they were likely to purchase a car from a particular manufacture if the right website features were offered.

While manufacturer sites are often the first stop for consumers, even more consumers tend to visit third-party websites as they are considered to be a trusted and independent source for sharing questions and reading other car owner reviews. Again, China stands out among the markets in the study: 88% of Chinese online consumers claim to visit third-party websites, compared to the 66% total average.

Online Gaming

In 2005, Chinese gamers spent a cool USD 500 million on online gaming. The numbers are increasing all the time, at the beginning of 2007 China had over 20 million online gamers.

With the exception of Macao, gaming for profit is generally forbidden in China, offline or online. Instead, most online gamers prefer to lose themselves in the virtual worlds of the so-called massive multiplayer online role-playing games (MMORPGs).

In 1997, Origin Systems released the first MMORPG, Ultima Online, which spread to more than a quarter of a million users. Since then, a lot more games have followed, including China's number one MMORPG, World of Warcraft, operated in China by The9. MMORPG players create their own virtual characters — a.k.a. avatars — by choosing from a variety of species, races and specializations.

These avatars exist in a large, complex virtual world where they gain experience and power by performing different actions. Players interact via voice and text messaging systems, and get together to trade skills, defeat powerful creatures or fight each other.

Creating a character takes time and effort, and virtual items such as skills, weapons and even entire characters have therefore become a trading commodity in the real world. As the games are global, so is the market; and China, being the factory of the world, has of course set up special companies where young Chinese gamers — a.k.a. Gold Farmers — are paid to produce virtual gaming items that can be sold on eBay to kids in Europe and the US.

Elsewhere, virtual disputes create real problems. In June 2005, China Daily reported that a Shanghai resident had received a suspended death sentence for murder — committed during a dispute over a virtual sword valued at over RMB 7,000.¹⁶

Such incidents have sparked a debate over whether gamers are genuine addicts. The first government-run clinic treating "Internet addiction" opened in Beijing in March 2005. Most of its patients are young and have spent hours and hours playing MMORPGs.¹⁷

To prevent more people from developing such addictions, the Chinese government has started taking measures to limit the number of hours players spend on MMORPGS. People that spend more than five continuous hours playing, will be forced to leave the game for at least five hours, or their character will suffer reduced abilities.¹⁸

This means that taking care of one's own company website is not enough. Companies also need to figure out how to capture the attention of influential third-party websites such as blogs and BBSes.

Dealers and manufacturers tend to underestimate the power of the Internet and overestimate traditional information sources, particularly TV advertising. Cap Gemini has said that although some consumers see TV as an influential form of media, they tend not to use it as a source of information during the research process leading up to a purchase.

There is definitely money to be made by adjusting marketing strategies to this usage pattern. America's National Automotive Dealers Association calculated that franchise dealers spent \$8.3 billion on advertising in 2004, which is an average of close to \$500 per new vehicle sold. The acquisition cost of using the Internet, according to another report, is only \$200.

It would not be a wild guess to assume the same holds true in China and for other product categories as well.

Journalists becoming more and more internet savvy What about Chinese journalists — do they use the Internet in their job and, if so, how do they use it? Two years ago, Eastwei Relations observed more than 100 journalists and their Internet habits, as part of a wider study of Fortune 500 companies' online presence in China (see *Making the most of your own online channels* for more).

According to the survey, most Chinese journalists regularly use the Internet as an information source in their work. Journalists actively visit corporate websites for information for their articles and most of them try to contact PR departments via email, as this was seen as the fastest way to get answers.

In October 2006, a follow-up survey was carried out. We wanted to track the changes that had occurred since 2004, but we also wanted to dig a bit deeper. We interviewed 20 journalists who represented a variety of leading newspapers and publications, including *Modern Weekly* and *China Youth Daily*, spanning four different areas of business: IT, pharmaceuticals, consumers and automotives.

Like most other Internet users, our respondents tended to start out on search engines, but also visited the influential major portals of China's online media scene on a regular basis. These findings were further underlined by the websites these journalists spontaneously named as their (work-related) favorites: Sina, Sohu, Yahoo and Google were clear winners, and Sina was the absolute favorite among all interviewed. In special situations, some in the industry media turned to specialized websites to find information.

For more focused research, as opposed to general surfing, the journalists in our survey were asked to name the type of websites they usually visit. They still named search engines as their No.1 choice (60%), but what is interesting is that corporate websites became a clear No.2 (28%). Also, as we will look at more closely later in this book, there is reason to believe that a substantial proportion of these search engine visits lead to corporate websites, making the actual number higher than 28%.

Slightly surprising is how little the respondents said they used blogs and BBSes when researching articles. Only 12% regularly used such sources, mainly within consumer areas like fashion and interior design. Remarkably, none of the IT and auto journalists in our survey said they used BBSes or blogs for researching stories, even though they are the most active Chinese online communities, generating millions of consumer messages every month.

Our guess is, if we do this survey again in a couple of years, this is one area where we will see very different answers. As a matter of fact, we might already be seeing an indication of that, as the auto journalist in our survey particularly highlighted the rising importance of BBSes as the most important Internet trend in China today.

Companies should also note that, while a couple of IT journalists said they regularly visited foreign language websites for the latest industry gossip, 3 out of 4 said they only or mostly visited Chinese websites. As we will see in the section about online press rooms, companies have been slow to respond to this demand for Chinese language information.