

# Connecting with China

A report on the business opportunity provided  
by China's 100m online consumers

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INTELLIGENT DIGITAL MARKETING

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# executive summary

## Ever since signing up to the WTO in the '90s, China has been open for international business.

For Western brands it represents an unprecedented opportunity to reach a market totalling 1.3bn of which 100m people, according to the latest figures from Nielsen (up from the 90m figure released by the government earlier in the year) are already online. This report will uncover the nature of this market and reveal the opportunities it offers due to it being;

**Young** – 90% are under 40

**Affluent** – two thirds earn or exceed the average urban wage of £50 (\$85us) per month, a third earn double.

**Buying online** – two in three net users expect to buy online in 2005.

**Positive towards online advertising** – More than two thirds of web users 'sometimes' or 'often' buy goods that are advertised online. Nearly four in five consumers 'sometimes' or 'often' use online advertising as research for purchases.

**Positive towards Western brands** – 85% of Chinese people believe Western brands are a positive step that has forced domestic brands to improve.

**Willing to buy online** - Only 4% of those online do not expect to buy online during 2005.

**Boom and bust over** – While one cannot predict the future, the major portals in China are already listed on Nasdaq and have already experienced huge drops in share prices. Now recovered, the market place is settled with leading players that reach millions of Chinese consumers every day for a fraction of the cost of television advertising.

**Huge online ad growth** – Today, online advertising is in its infancy at \$120m in 2003, around 1% of the total ad market (and around a fifth of the UK's online ad spend). However, it is growing at a compound rate of 40% and between 2002 and 2008 Goldman Sachs predict it will have increased ten fold and ensure online accounts for 3% of total ad spend in China, roughly the same proportion as in the UK during 2004.

**Huge paid-for search growth** - Expected growth is 60% each year between 2004-07, hence Google and Yahoo have investments in incumbents baidu.com and 3271.com respectively.

**As with any emerging market, there are factors holding back the market.**

Credit card penetration in China is very low and payment mechanisms are not unified. Rampant piracy has furthermore put consumers off paying for goods in advance – hence around one in three online purchases are made with cards, the rest are by cash on delivery or post office transfer. This is set to change as Western banks are being encouraged to enter the Chinese market.

Spam has meant consumers are reluctant to sign up for marketing email and, despite the market clearly being ripe for viral marketing, it has yet to take off.

However, these problems are common to emerging economies developing online and, of course, are being tackled for the simple reasons that they present an opportunity, as well as a problem, and because e-commerce is already starting to take off and China is keen to see this continue.

**E-commerce about to explode** – Already 40% of the online market has bought online. In 2005 two in three users expect to make online purchases.

**Books and computers lead** – Two thirds of shoppers have bought books online, a third computer equipment. Hence a familiar pattern following the West's experience seems to be unfolding.

**In summary, the market is not just huge and willing to buy online, there are additional factors that make it open to Western marketing influence**

**Information and entertainment** – These dominating motivators for going online account for a significant spike in traffic during peak time tv hours. So there is a huge, young audience shunning tv to go online to seek (48%) news and information and (33%) entertainment.

**Marketers dream** – With one in three going online to be entertained there is obviously a huge opportunity for viral marketers and with the market in the early stages of moving beyond conventional online advertising towards sponsorship and permission email marketing, there is plenty of opportunity to bring Western experience to this huge market.

**Ripe for branding** – Whereas the UK and America latched on to the direct sales attribute of the Net in its early days and are now starting to promote its branding ability, the opposite has happened in China.

As e-commerce has been nascent, brands have been quick to see the medium as a method of exposing their message to a young, affluent audience.

The good news for Western companies is that this same audience is open to branding from international names that it sees as demonstrating modern China has moved on from its communist past and that, by wearing and buying these brands, consumers can show they are both rich and 'with it'.

**Net is the right Channel** – With the 18-35 year old key consumer found increasingly online rather than the tv seeking entertainment and with 'tv inflation' meaning adverts were at least a third more expensive in 2004 than 2003, the net remains the perfect channel to cost-effectively reach the young, urban affluent market place without geographic barriers. Unlike television, radio and print – which have reputations for being controlled by the state – the net is seen as modern and more trustworthy.

Mobile phone marketing and advertising is currently illegal, unless it forms branding on a service a consumer has specifically requested. Hence the web will dominate for the foreseeable future.

**NB. Currency Chinese currency is the Renmimbi Yuan which is most often shortened to RMB or Yuan. One Yuan equals 6 pence, 9 cents (euro) or 12 cents (US dollar)**

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