ENTER THE DRAGON

by Hannah Mirza

MINDSHARE

Travelling to China has been a career and personal ambition for longer than I can remember. As an avid explorer, 207 cities in 39 countries and counting, it's not often you feel such trepidation and excitement. Having admired from a far, the time is finally here, and in the year of the dragon no less!

I first wrote about China's search engine Baidu in 2008, wondering if it could be the Google-leveller many hoped would bring the market more competition. If only Baidu could export its product outside China, as it had begun to do at the time in Japan. This hasn't happened. Instead Baidu saw the benefits of a one player position once Google exited China in 2010. However, I have learned Baidu is finally thinking of going global, with roll out plans to 50% of the global market within the next two years.

Visiting China for the first time, I finally understand why Chinese companies don't worry about external markets. You can't quite grasp the size of the Chinese digital population until you realise every discussion is in millions, not thousands. A significant mental shift to get your head around. With 513 million online and growing, that is more than the digital populations of the USA, India, Brazil, Russia and Canada combined.

The Chinese know how to replicate like no one else and with limited copyright restrictions this has led to a lot of cookie cutter players reminiscent of big western players. One technology company told me SinaWeibo, the local Twitter equivalent, has such a perfect replica of Twitter's API, that they can easily take their analytics tool global. Another recent example is the growth of GroupOn and similar special offer/ voucher sites globally in the past 12 months, which has resulted in 40+ replicas popping up in China, including one called GroupOn.cn, which isn't the global brand's Chinese operation. This meant that by the time GroupOn wanted to enter the market they had to do so as a new brand, Gaopeng.com. China gets digital in a big way, but it's not just copying, there is innovation too.

Key China Stats:

- China has 513m internet users (CNNIC)
- At just 38% internet penetration so far, with low cost broadband rates, this is advancing at 5m+ new users per month
- Known as Netizens, in major cities they now spend more time online than TV, (36 hours per week) and even in smaller tier 3 cities they still spend more time online than their USA peers (CTR 1H 2011)
- 57% of users are under 30, educated, and wealthier compared to the China average (CNNIC, National Bureau of Statistics, GroupM)
- China's online ad market grew at 57% to reach RMB 51bn in 2011 and online ad spending surpassed print advertising (iResearch, GroupM)

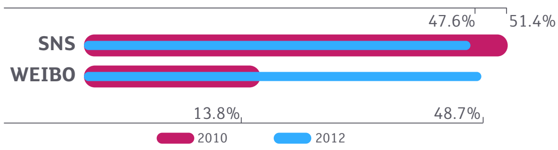
So who is who in the China digital media market? The old business adage - *stick to one thing and make sure you do it better than anyone else* - is one rule that China's internet giants don't seem to follow. In fact, they do the opposite. They have multiple routes to market. Many of the top ten players are portals, often with one dominant product - not dissimilar to Google's approach, leading with search, but with multiple secondary products to ensure a diverse portfolio.

Tencent famous for its QQ instant messaging product is a perfect example. This one portal has features similar to Yahoo!, MSN messenger, Tumblr, MySpace, Zynga, Gmail and Twitter, along with its own browser, which makes Tencent one very fierce company to compete with. Tencent's unique selling point is offering access to every digital and mobile service you could need from one point. A very interesting part of its business model involves the Q coin - a virtual currency that can be used both on and off the Tencent platform to purchase virtual and real world products. As Tencent is the second most popular site in China, government of China fear the Q coin could even have the power to destabilise the Yuan.

Both Tencent, and also main rival Sina, rely on social media heavily. Weibo, Sina's main product, is a micro-blogging tool and has given Sina momentum, along with instant messaging capabilities, to gain market share and keep pace with Baidu.

Interestingly, Chinese netizens have smaller social networks, on average 94 friends vs. 246 & 481 in USA and Brazil respectively (TNS Digital life). This is due to the cultural position that association to the wrong individual could land you in hot water. As a result many users have multiple accounts, making reported user bases from these sites hard to qualify. One industry expert's account stated that as many as 50% of the user accounts on Weibo could be fake. It's anticipated the government may gradually exert increased control over Weibo in the form of real-name registration if the platform continues to grow. Regardless of this fear, social media is the bedrock of activity happening online in China, with Sina Weibo activity outpacing Twitter usage.

Growth of Weibo vs decline of SNS



Source: CNNIC 2012.1 report

What is unique by western standards is how comfortable the Chinese are with advertising. Login to Sina and you will see just how saturated the page is with adverts. Foreigners just can't handle this level of exposure I am told. Therefore Chinese users follow lots of brands online, a massive 17 on average. The Chinese government has such concerns about the level of advertising exposure, that since the middle of 2011 no adverts have been allowed to be aired in the middle of TV programmes, leading to 15-20 minute ad breaks between programmes as a result (this length changes throughout the day, sometimes longer, sometimes shorter).

China Rank	Eastern Giant	Western Equivalent
1	Baidu 百度	Predominantly Google / Bing but also has Portal features like Yahoo, AOL & MSN
2	Tencent 腾讯	Hybrid of Yahoo/ MSN Messenger / Tumbler/ MySpace/ Chrome or IE/ Zynga/ Gmail / Twitter +++
3	淘宝网 Taobao.com	Amazon, Ebay & Kelkoo
4	sina 新浪网	Hybrid of Yahoo/ MSN/ Twitter
5	Google.com HK	Google.com HK
6	新浪微博 weibo.com	Main product of Sina above, Sina Weibo is their Twitter equivalent
7	網易 NetEase www.163.com	Hybrid of Yahoo / MSN / Gmail
8	Google.com	Google.com
9	搜狐 SOHU.com	Hybrid of Yahoo / MSN / Gmail
10	YOUKU 优酷 .com	Hybrid of Youtube, Hulu & Netflicks

Key Social Stats:

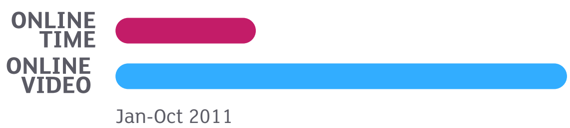
- China has 250m Weibo users, up from 63m in 2010; user numbers and activity rates are still increasing with 66% of Weibo users posting more than once per day (CNNIC, Nielsen)
- Non-Weibo Social Networking System (SNS) penetration rates showed a slight drop in 2011 with major SNS players like Renren moving into video and e-commerce. Social sites based on interest graphs and user ratings like Douban, Diandian, and Dianping are gaining traction, especially in major cities

It's not surprising therefore that digital is becoming the advertising medium of choice, with inflation and tune-out preferences driving advertisers online.

	SINA	TWITTER
Registered users (Q4)	250m	300m
User issues over 1 message per day	66%	41%
Share information on daily lives	86%	64%

Source: Nielsen

Youku brings together the business models of YouTube, Netflicks and Hulu under one umbrella and it's no wonder that video sites like Youku are on the rise as bespoke programming produced for the web alone has overtaken TV in terms of time spent viewing. Time spent watching online video in China has nearly doubled in each of the past 2 years (iResearch, GroupM), with online video ad spend rising alongside to reach RMB 4.25bn, nearly double the 2010 figure of RMB 2.15bn (iResearch).



Source: iUserTracker

Also on the rise is eCommerce, where Taobao is the dominant player in China. Owned by the Alibaba group, which has a 40% stake owned by Yahoo!, the site was founded in 2003. Established while Ebay was a growing, but significant, player in the market Taobao created a business model to break through and overtake its rival. Mirroring features of the site, including setting up Alipay, a PayPal equivalent, Taobao made consumer-to-consumer shopping more user friendly by breaking the Ebay revenue model. Sellers can list for free, and buyers can buy commission free. While remaining completely neutral from the logistics, all Taobao provides is a platform for the transactions to take place upon, along with paid advertising similar to the contextual advertising Google runs on its display network.

Ecommerce Key Trends:

- 190m online shoppers
- China's e-commerce market will grow exponentially to RMB 2 trillion by 2015, possibly surpassing the US market.
- In 2011 Taobao daily transactions peaked at RMB 3.3bn with peak sales of RMB100m in just 8 minutes (BCG, Taobao)
- The number of online shoppers grew 21% in 2011 and represents 38% of internet users (CNNIC)
- China's B2C market is rapidly taking share from C2C stores as B2C players make huge investments, including T-mall, 360buy, Group Buy sites, traditional retailers, and manufacturers
- Consumers have opened 650m accounts on Taobao's leading online payment service Alipay and in 2011 completed daily transactions worth RMB 4bn, a 60% increase over 2010 and nearly double Paypal

Described as 'the fun way to shop', buyers can negotiate with sellers on price, and with nominal delivery charges, a greater range and low prices, Taobao quickly won the penetration game. Now with 70% market share Taobao has a growth rate that makes it the second largest search engine in terms of numbers vs. Baidu, with predictions it may surpass Baidu in the next 12 months.

A unique and advanced feature of Taobao is the detailed buyer and seller rating system. Beyond the standard rating a buyer gives the seller: 1-5 stars for delivery, product quality, ease of purchase, price etc. Taobao also grades sellers by the volume of products they have sold. This complex system creates a points table as shown (see right). Taobao has told me four sellers have been so successful they have already gained the 4 crown status. This advanced system helps consumers work out who to buy from on a multitude of socially curated and factual criteria.

4分- 10分	❤
11分- 40分	❤❤
41分- 90分	❤❤❤
91分- 150分	❤❤❤❤
151分- 150分	❤❤❤❤❤
251分- 500分	💎
501分- 1000分	💎💎
1001分- 2000分	💎💎💎
2001分- 5000分	💎💎💎💎
5001分- 10000分	💎💎💎💎💎
10001分- 20000分	👑
20001分- 50000分	👑👑
50001分- 100000分	👑👑👑
100001分- 200000分	👑👑👑👑
200001分- 500000分	👑👑👑👑👑
500001分- 1000000分	👑
1000001分- 2000000分	👑👑
2000001分- 5000000分	👑👑👑
5000001分- 10000000分	👑👑👑👑
10000001分 以上	👑👑👑👑👑

Taobao however faces challenges with the free market platform it creates. Many goods for purchase are brand name copies, with limited control for the brand owners to restrict this. One company trying to stop this practice is Louis Vuitton, which has managed to stop Taobao from allowing anyone but legitimate sellers in the main results, as well as using the term 'Louis Vuitton' in ad copy. However, a search on this brand still shows a number of fake goods sellers in the contextual listings, which although compliant in the copy side, still show photographs of fake merchandise. Taobao's defence is that every minute thousands of new products are uploaded, so logistically Taobao cannot control it.

Some brands accept this as something they cannot control and instead build out their own stores on Taobao to sit alongside the fake stores, in the hope to win out on quality. Additionally you can take the functionality of Taobao into your own site, allowing brands to set up ecommerce functionality, a common benefit to legitimate brands who have not already built their own ecommerce sites.

Taobao is a C2C site. The Alibaba group also has two alternative sites that are gaining traction. The first is eTao, a shopping engine pulling feeds from all other ecommerce platforms into one place, similar to the functionality of Google Shopping,Kelkoo or other comparison sites. The second site is Tmall, a site for legitimate brand owners to set up an ecommerce channel in an environment similar to a shopping mall. These two sites account for just 10% of Taobao's revenue streams at present, but this is the area in which the company expects to grow most of its future revenues. For example, Coach, the US luxury accessories company, has launched its official store on Tmall, and with China's growing wealth many are looking for online stores that sell legitimate, qualified brands, without fear they are buying fake merchandise, especially those that don't live in the major cities with stores readily available. For luxury brands, Tmall is proving an attractive proposition as a result.

Luxury is unique in China,

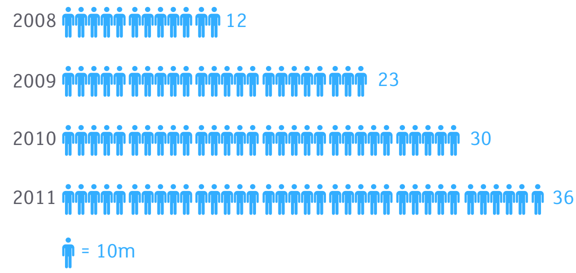
with many everyday brands in the west classified as luxury in China. Ikea, Zara, H&M and many similar imports are all subject to a 20% luxury tax, which means buying these brands inside China is very expensive. It's no wonder then that, during the recent Chinese New Year break, 7.2 billion U.S. dollars was spent on high end luxury goods by Chinese travellers outside of China. Targeting these consumers before they travel should be fundamental to any luxury brands China strategy.

Search is one route to achieve this and Baidu offers a richer creative environment for branding campaigns than Google does with its simplistic 25/35/35 text experience. If you have the right money, results pages on Baidu can be visually appealing, with no end to what they will allow you to create as a page response to a search on your brand terms. The most common execution is an interstitial format before the search results page loads. Another format is header banners and side units on results pages as per this example:

The heavily commercial nature of Baidu can be at odds with a fair representation of the right results, however Baidu is acutely aware that a large number of listings drive no revenue. Unlike Google, which favours keeping paid and organic search listings separate, Baidu allows multiple ad formats, at multiple places on a page, allowing you to gain multiple positions through price alone. It will be interesting to see if Baidu sticks to this model in the global roll out.

No China digital review would be complete without reference to mobile. With 356 million mobile users in 2011, mobile internet usage is expected to surpass PC usage in the next two years. Consumers are also confident using the mobile platform for transactions. China's m-commerce market grew at over 400% in 2011, with Tmall averaging 500,000 mobile transactions daily, with a daily peak of 1.7m (iResearch, Taobao).

China Mobile Internet Users hit 356m



Source: CNNIC Jan 2012

Data is a challenge in China. Not purely due to the restrictions implemented by the government, but also from a market transparency and cost perspective. Third-party adserving is not widely accepted in China, and where it is, the costs of serving at such large scale can make it prohibitive to do so. Therefore it is common knowledge data reports are often faked. Click fraud, fake impression numbers and serving in different places to where the buy was made, are common practices in China. Media owners have no incentive to be opened up to be optimised and even many of the largest players refuse to accept tracking.

Several work arounds are emerging. Admaster a local leading ad verification company is gaining traction through education of both agencies and clients to put pressure on media owners to open up to tracking. Admaster is doing this through creating test cases using its verification software, as well as creating bespoke networks to improve quality control, and supporting this through an analytics platforms that feeds back to allow optimisation of the buy. In addition, historical buying models of cost per day buys are shifting to the more robust cost per thousand model.

Key Mobile Stats:

- China has nearly 1bn mobile users, 1/3 of whom already use their phones to go online, and over 120m 3G users (MIIT, CNNIC)
- By year-end 2012, expect the forecast 250m smartphones in China to drive the shift from WAP protocol to HTML5, and unleash a wave of innovation similar to the PC revolution (GroupM)
- 90%of China smartphone users use apps, 66% use search, 72% use video sharing, and 59% use maps and directions (Ipsos)
- China Mobile Internet users will surpass PC Internet users in 2013

Clients are always asking for more transparency. However, some report that more data will mean more trouble for them with the boss if the buy has not run where it should have. A common request is as long as the boss can see the ad, I don't want to know about the wastage. In other words, as long as I don't know, I don't care. A deep education process is taking place to try and shift this mentality, including looking at portions of the media plan to be adserved for testing. Whilst Mindshare and GroupM are driving for this change, an industry wide effort is required.

Doing business in China means acting like the Chinese. The dominant players have gained market share by providing a service over and above their Western rivals, not just to consumers but also to advertisers. Google is noted as not being successful in China as it provides tools alone, without a service infrastructure to back them up. Having just launched its ad exchange, it will be interesting to see the market adoption rates and how many intermediaries start to provide the service layer as well as start to replicate the software.

China is a fascinating marketplace and digital is at the forefront of growth. Having been so successful with the export of Chinese goods globally, the new frontier is exporting Chinese services. Baidu's foray into global markets will determine the path for the rest and both Silicon Valley and the global advertising community will be paying close attention.