

Web 2.0 in China

“China’s use of the new Internet paradigm is similar to the West’s. True to its ageless character, however, the Asian giant gives it its own unique twist.”

When we talk about Web 2.0, a series of names pop into our heads: YouTube, Twitter, Facebook, Google, etc. These are some of the most popular companies in certain Web 2.0 disciplines, but are they really worldwide Internet?

As is the case with many research studies, we cannot leave out the third largest economy in the world: China.

Even though it is home to one-fifth of the world’s population, there are still many things about China that are major unknowns. In a country where most of the population is rural, the level of Internet dissemination is surprising. The number of Internet users grew by 40% in 2008 (to 298 million users) and the market penetration rate has already reached 22.6% (versus a worldwide average of 21.9%).

Figures show that China is the leader with regard to certain Web 2.0 applications and technologies such as instant messaging (IM), community development and multi-platform services. Also, software developed locally is more popular than software used worldwide and often offers superior functionality.

This behavior by Chinese Internet

users has been brought about by a series of economic, historic and social realities. On the one hand, the ability to express oneself using Web 2.0 fills the gap created by the Government’s attitude and its uniform information channels. On the other hand, the habit of using Internet as a leisure activity has been caused by low salary levels, a shortage of leisure venues (cinemas, theaters, etc.) and a shortage of specific devices (such as consoles) in the market. It should also be kept in mind that piracy and its low prices have generated a profound sense of skepticism about the possibility of making money in Chinese digital markets. Lastly, a lack of confidence in currently available security measures has caused a certain lag in merchandise purchasing activities using the Internet.

In this context, everis has carried out a research project that analyzes both Internet and Web 2.0 use in China.

We have subdivided this study into five common types of websites. We have analyzed the general and inherent characteristics of each site category, as well as business volume and traffic. The following is a brief summary of the information provided by the aforementioned analysis.

Instant Messaging

One clear example of the worldwide impact of the Chinese market is the use of instant messaging applications. This type of application is achieving high levels of penetration in the Chinese market, something which is shown by the fact that the most used application (Tencent QQ) has some 355 million active users, many of whom spend more than three hours per day connected to this application. This figure makes this application the third most widely used application of this type in the world.

The following is a detail of instant messaging use percentages:

Chinese market: Distribution of IM platform by percentage of active user accounts in 2Q2008.
% Market
Tencent QQ
Fetion (China Mobile)
MSN Messenger
AliWangWang (Alibaba)
Sina UC
Skype
NetEase PoPo

The size of QQ is so important that the use of the tool is often the top (and in some cases the only) contact Chinese users have with Internet.

Tencent, which invoiced more than \$1 billion, with profits of over \$400 million, in 2008, is evolving similarly to MSN Messenger. It began as an instant messaging application, then evolved into a file transfer tool, mobile telephone ringtone download platform, games, video and audio conferencing, blogs and virtual pet service. It currently offers P2P Online television, music playback and even its own virtual currency, the Q-coin. The latter allows users to acquire QQ VIP value-added services and make their own avatars with QQ Show. It is even used for close deals, provide support to

clients and other business-related activities.

Search Engines

The use of search engines is not an exception to the rule with regard to Chinese consumer Internet trends. This is because the most-used search engine in China is one produced locally.

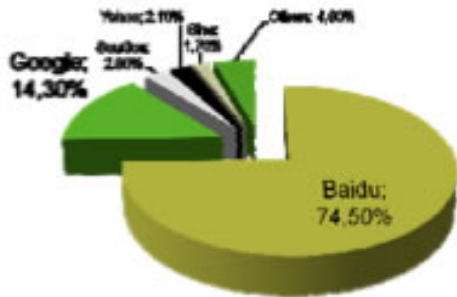


Baidu is a website that offers a variety of services such as a search engine, news, maps, discussion forums, etc. Its large-scale use in China is due to the fact that all of the content it offers is in Chinese and popular opinion dictates that this makes it the most appropriate way to search for information.

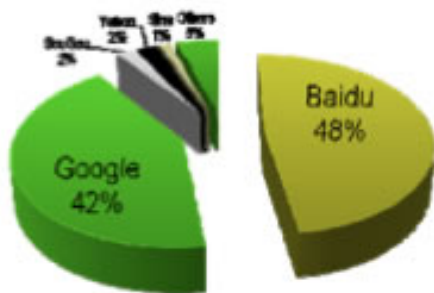
With annual income of more than \$400 million, mainly derived from advertising revenue, Baidu posted profits of more than \$150 million in 2008.

The dominance of Baidu over Google in China is due to a variety of factors. The most important of these is the language issue, but Baidu's ability to adapt to both the local culture and local user demands must also be highlighted

(including a Chinese literature search tool, encyclopedias, FAQ forums on local topics, a channel for following the 2008 Olympic Games, etc).



Studies show that people with high level of education in China use Google and Baidu about the same. This is because this type of users use the search engine to find content related to their professional career, university study areas, etc., content which is normally posted in English.



Video Sharing

In China, there are a variety of YouTube-type video sharing websites. The preference for using locally-based video sharing portals instead of YouTube is based on several factors. On one hand there is a technical factor.

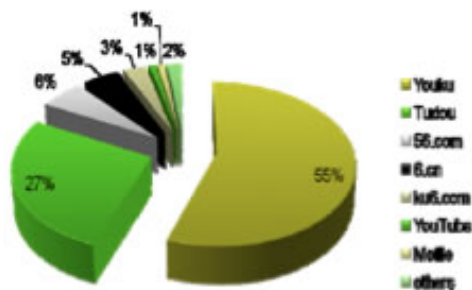
The video download and upload speed is better thanks to the servers being in the same country. On the other hand, there is a social component, because since websites are operated by local companies, their ability to understand both the culture and the language act as service enablers. Furthermore, these local companies are well-received by the Chinese Government.



Youku is the leader in this website category. It streams more than 150 million videos per day, which is for a website that has only been in existence since December of 2006.

The Chinese audiovisual industry is entrenched throughout the country. It includes hundreds of TV channels and thousands of TV and film production companies. This has allowed Youku, which is available nationwide and can even be accessed using mobile devices, to become a natural distribution channel. It not only provides access to amateur contents but also to a variety of professional video and TV channels.

Marketing share of Chinese video sharing web sites 2008Q3



淘宝网
Taobao.com



e-Commerce

With regard to the sale and auction of items via Internet, the Chinese way of using this type of service is similar the West.

Taobao is a Customer to Customer (C2C) and Business to Customer (B2C) platform similar to eBay. It is the most used website of its kind in Asia.

TaoBao was founded in 2003 and is part of the Alibaba Group (partially controlled by Yahoo). This business group also includes Alibaba.com (platform leader in the B2B commerce segment), Yahoo Koubai (search engine), AliPay (online payment platform) and Alisoft (SaaS software services for small and medium companies).

TaoBao has more than 80 million registered users and an average of 9 million users buy and sell on any given day. TaoBao partnered with Alimama (the online advertising leader in China) in 2008 in order to gain market share.

This website works much like eBay. Companies or users promote their wares at a fixed price or at auction for other users to purchase them or make bids. Prior to closing the deal, an instant messaging service is often used in order to arrange all the details.

All conversations carried out using this application are saved for security reasons as proof of the conditions agreed to.



Payments are made through Alipay (Zhi Fu Bao), a secure platform similar to PayPal. This platform is sponsored by the biggest banks in China (The Industrial and Commercial Bank of China, China Construction Bank and the Agricultural Bank of China).

One characteristic factor in the Chinese market, however, is that users do not trust this type of transactions or the quality of the products on display. Users tend to use the Internet for comparison shopping, choosing to make the actual purchases in

traditional stores.

Social Networks:

Social networks are nothing new in China, although their impact there is not as great as in the rest of the world.



The main social network in China is Xiaonei. Its functions are similar to those offered by Facebook: personal profile, photo album, blog, friend network, discussion groups and instant messaging.

Due to the tremendous proliferation of piracy in China, Internet companies have had to become creative to earn revenue. Income is mainly generated by ads and the sale of virtual presents sent to friends and relatives.

Currently, given the size of the population, there are not many social network users in China, but it must be remembered that this type of website

is has just begun to appear in China.

Conclusions:

The evolution experienced by both the Internet and Web 2.0 in China is similar to what is happening in the rest of the world.

Internet use habits in China show that it is an exclusive market, guided mainly by adaptation to and the exclusive use of the Chinese language. It should also be noted that local websites receive better treatment from the Chinese Government than do their Western counterparts.

Furthermore, although Chinese websites are able to compete on a technological and functional level with their counterparts based in other countries, their presence outside of China remains relatively weak for a variety of reasons.

Beyond the language barrier, the younger generation, and its local positioning, is very possibly slowing growth outside of China due to the huge number of potential internal users.

As with many other economic segments, however, it shouldn't be too much of a surprise if within a few short years market-leading Internet companies move their headquarters to China.

More information on this research study is available from:
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