



## China: 350 Million 'Netizens' and Rising - But How Many Consumers?

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Mention the word 'China' in marketing circles and you can almost see the numbers flashing through the air: 1.3 billion people, 350 million of them actively online, the fastest growing middle class consumer demographic the world has ever seen. All well and good, but why is it proving so hard to tap into those stellar numbers? It's a conundrum that has been furrowing the brows of international marketing gurus for years - but is the rapid growth of broadband Internet use now making it easier to access and do business with all those potential customers?

According to the CNNIC's (the China International Network Information Centre's) latest "Statistical Survey Report on the Internet Development in China", published in January 2009, the number of online shoppers in China reached 74 million during 2008 – an increase of 60% in one year.

However, China's usage rate for online shopping, at 22% of all online users, is still very low on a global scale. What's more, only two thirds of those shoppers are prepared to trust in an online payment transaction. Figures for total Internet usage are far more positive. BDA of Beijing predicts that Internet users, or 'netizens, will reach just short of 400 million by the end of 2009. In terms of population percentage this is already higher than the global average. In Beijing and Shanghai penetrations rates will soon reach 70%, on a par with the USA.

Drilling down into the CNNIC figures, we find that some 30% of office workers go online shopping, as do nearly 40% of university students. In the USA and South Korea, the equivalent rates are 71% and 60% online respectively. In the meantime, online payment systems in China have been developing extremely rapidly, with the total number of users reaching 52 million in 2008, up 57.6% from the previous year.

One potential catalyst to the growth of Chinese online shopping is the current economic recession, which is likely to lead price-sensitive shoppers to go online to B2C and C2C websites to compare prices. Online shopping is also creating more job opportunities for the growing number of unemployed who can set up online stores on sites such as Taobao. The number of users selling goods online has already reached 11 million, although this number includes selling second-hand goods online.

Taobao.com, a subsidiary of Yahoo-invested online portal Alibaba.com, is by far China's dominant Internet retailer, accounting for 80 percent of the country's e-commerce turnover with sales of RMB 43.3 billion in 2007. Overall, though, the level of online spending remains modest: only RMB 1,000 (app. US\$ 120) per consumer per annum on average, or a paltry 0.64% of total retail spending in China.

One of the principal reasons growth in e-commerce continues to lag is ongoing consumer concern about reliable online payment methods and the risk of receiving counterfeit or no goods at all for their money: residual mistrust of online vendors is still high. According to research published by the China Internet Research Centre in 2008, "The purchasing of fake goods, credit card theft and other related problems emerge in an endless stream". This reticence to commit to online purchasing is born out by additional research, which found that only 60% of Internet business users submitted accurate and truthful online information about themselves, while only 53.5% considered online transactions to be safe.

An additional factor is the relatively low number of Chinese citizens with credit cards, currently estimated at only 11%. This ratio is now growing quite rapidly, yet many businesses still lack the systems needed to accept credit cards, and in the absence of a national credit rating system consumers frequently encounter considerable obstacles to obtaining them.

Online banking is not yet very popular, with concerns over security of the systems in place still deeply entrenched. Less than 20% of the online population goes online for banking, with users, not surprisingly, concentrated among university students and white collar workers. However, even these users do not on balance fully trust the security of the online banking systems in place, meaning growth in this sector is likely to be slow at best.

On the positive side for marketers, the so-called 'heavy users' of the Internet, (where there is a high concentration of students and white-collar/well-educated users), use e-commerce, online trading and travel booking applications more than they do search engines, instant messaging, email and other basic applications.

Moreover, despite the relatively low levels of pure e-commerce activity in China, the huge numbers accessing the Internet regularly for information, entertainment and exchange are attracting increasing volumes of advertising away from traditional media. According to the China Association of National Advertisers, 600,000 advertisers invested in online advertising in China in 2008, and the number is expected to rise to 900,000 in 2009.

There is also no doubt that the economic downturn has stimulated advertisers to consider online marketing as a way of saving costs. A 30-second slot on primetime CCTV costs over RMB 450,000; by contrast, a full day's banner on the Sina.com homepage comes in at a relatively economical 350,000. One automotive company contacted by BDA reported that it intended to reduce its overall 2009 advertising budget by 15% while increasing its budget for online advertising by 30%; its rationale is that it now regards the online media as a more cost-effective way of

marketing its products - by 30%. The company plans to drop several expensive outdoor adverts, saving it tens of millions RMB per year.

That said, analysts expect traditional media to continue their dominance of the advertising market. Mainstream media organizations like CCTV and the Xinhua News Agency come directly under the supervision of government and still have the strongest impact on public opinion. As China's only national TV station, CCTV enjoys a virtual monopoly in terms of broadcasting coverage; it beams more than 10 channels to virtually the entire Chinese population every day. Conversely, there are only 0.3 billion internet users, over 70% of whom believe that only half of the information retrieved on the internet is reliable, according to a recently published World Internet Project report.

So what to do when tackling China as a marketer?

Firstly, just because it's a new kind of challenge, don't forget the basics: know your consumer; understand where they spend their time and how they prefer to engage with brands, products and services. Take time to assimilate the true complexities of the Chinese multi-channel consumer and all the media touch points they interact with on a daily basis - both their benefits and limitations. You must know intimately every step leading up to the decision to buy, where the transaction will finally take place and the impact your conversation can have on driving the consumer through the many paths that lead to that goal.

China still lacks a mature e-Commerce environment but has a rapidly growing, young, dynamic and truly connected population eager to learn more and to engage with new products and services. Whether the transaction takes place online or not, the reality is that every one of China's growing army of Netizens is a consumer, and virtually all of them go online to help them reach their buying decisions. ■