



Marketing to Chinese consumers on the internet

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Abstract

Purpose – To provide an objective assessment of the current and future potential of China as an environment for the practice of internet marketing.

Design/methodology/approach – The findings of a series of biennial longitudinal studies, published by a research centre operating under the auspices of the Chinese government, were analysed and interpreted. Key variables and future trends were inferred from the re-assembled data.

Findings – The online market in China is growing rapidly and has a strong potential, despite many real obstacles and many others based on superficial interpretation of received wisdom now substantially out of date. Although the majority of Chinese consumers are still internet novices, the only concrete concerns among the experimenting minority are product quality and online security. The indications are that the short-to-medium term future therefore offers more opportunities than threats to alert market entrants.

Practical implications – A comprehensive analysis of the findings of an official large-scale survey last conducted in 2004 provides up to date market intelligence concerning a rapidly developing market for planners and academic observers. Specific marketing-mix strategies are suggested.

Originality/value – An authoritative overview of a complex operating environment.

Keywords Electronic commerce, Internet, Internet marketing, China

Paper type Research paper

Note on currencies

The contraction “RMB” for the Chinese yuan stands for *renminbi*, translating as “people’s currency”. In early March 2006, the conversion rate for the yuan (RMB) was 0.12 to the US dollar (USD), 0.07 to the pound sterling (GBP) and 0.10 to the euro.

Introduction

With its rapid growth in the past decade, the internet has become an important tool in international marketing (Samiee, 1998). The gathering of market intelligence, product promotions and transactions such as receiving orders, accepting payments, and arranging for delivery can all be conducted entirely on line. As a global medium, the internet facilitates all these marketing activities, even when firms deal with their customers that are geographically distant.

Concurrent with the development of the internet are the rapid growth of the Chinese economy and the explosion of the Chinese market. China’s per capita GDP was US\$1,100 in 2003, equivalent to \$5,500 when adjusted for purchasing power. By 2010, 40 million households will earn more than RMB 48,000 a year, equivalent to US\$24,000 (£14,000; €20,000) in terms of purchasing power, and enough to qualify a household as middle class by American or European standards. Because of its large population, multinational firms have regarded China as one of their most promising markets (Chen and Penhirin, 2004).



Given these facts, it is tempting to focus on the internet as a route the vast Chinese market. In developed markets, few firms can afford to overlook its role in reaching out to their customers. However, business-to-consumer internet marketing has flourished in countries like the USA. Owing to several pre-existing conditions: a long history of catalogue marketing that helped the fast acceptance of virtual transaction, a high rate of internet penetration, a mature credit payment system, and the presence of efficient delivery services. In China, none of these could be said to be true. Internet penetration is low by western standards, at 7 per cent (CNNIC, 2004), China still suffers from a backward transportation infrastructure (Haley, 2002), and only a small proportion of Chinese consumers possess credit cards (Worthington, 2003). Perhaps more problematic is a consumer culture that prefers face-to-face transactions. These have been mentioned in the marketing literature as the main obstacles to developing e-commerce in China (Haley, 2002; Samiee, 1998) and cast doubt on its viability for the launching of consumer businesses there.

The question is, for how long will this continue to be the case? An analysis of the development of online business-to-consumer marketing could provide a tentative answer, and this paper therefore examines the historical data on the development of the internet in China and the evolution of the online behaviour of the Chinese consumers. The conclusion is that the online market in China seems to be overcoming most of the constraints mentioned above. Consequently, it would benefit companies enormously to incorporate the internet into their overall marketing strategy in China, if they aspire to become a strong player there. Delay in implementing an internet marketing strategy would not only result in lost revenues, but also create market opportunities for competitors, who would then build a stronghold in the virtual marketplace.

The literature

This review of the literature relating to the role of the internet in international marketing, in China in particular, is by no means comprehensive, but seeks to cover the major issues relevant to the present study.

The internet and international marketing

Research on the use of the internet to reach consumers internationally started soon after its diffusion gained momentum in the mid-1990s. Quelch and Klein (1996) note that the providing of products and product information to potential customers has been a driving force for the rapid expansion of internet marketing. Moreover, being a global medium, the internet removes the many barriers to communication with customers and employees created by geography, time zones and location, creating a “frictionless” business environment. In particular, cross-border information flows and transactions are becoming more convenient. The internet could be used for providing customer services and support internationally, or conducting direct transactions with customers worldwide. Depending on the strengths of a firm, it could offer products to international consumers at a price lower than consumers would have to pay local vendors.

Samiee (1998) argues that the internet can be used for marketing in four ways: communication and advertising, direct sales of existing products, sales of internet-based products, and online distribution of digital information or data. Wilson and Ivan (2002) point out that it helps to simplify business operations because

it allows companies to handle transactions electronically and thereby reduces their dependence on agents and distributors through direct marketing. It permits them to improve feedback and customer services by monitoring visits to their web site. Last but not least, the internet allows a firm to reach a large audience at a relatively low cost.

To make these results achievable, several conditions need to exist. First, personal computers and access to the internet have to be widespread. Second, customers have to be willing to engage in online transactions. Third, an online payment method based on credit payment systems has to be developed. Fourth, efficient delivery services need to be available. Online retailing quickly took root in developed countries because all of these requirements were satisfied (Haley, 2002). For example, the penetration of the internet in the USA stands at 69 per cent (Internet World Stats, 2004). The long history of the catalogue marketing industry has made American buyers accustomed to transactions that do not involve face-to-face interaction with the seller. The credit payment system is well developed in the USA and the vast majority of Americans possess credit cards. Finally, the US Postal Service and numerous commercial competitors provide efficient delivery services.

Internet marketing in China

Owing to cultural, economic, societal, and political factors, e-commerce development will not be identical across countries (Haley, 2002). In the case of China, researchers have pointed out that the development of e-commerce faces several difficulties.

Internet penetration. The most basic prerequisite for using the internet in international marketing is consumer access to the internet in the target market. Internet penetration among households in China lags far behind developed countries because the access price is out of reach for many. The cost of access is much higher than it is the USA. Partly as a result of government policies (Samiee, 1998). A report by the China Internet Information Center (CNNIC) shows that the internet reached only about 7 per cent of the population in the middle of 2004 (CNNIC, 2004).

Transaction mode. Personal interaction in purchasing behaviour is prevalent in high-context, Confucian-based cultures, of which China is a major example. Generally, people in these cultures prefer to deal with someone who either possess the knowledge about the product or who is a member of their social network. The Chinese have long favoured face-to-face transactions because they help to build trust, which is in turn a precursor to successful business relationships. This strong preference is likely to have a negative impact on e-commerce development because the latter is impersonal by nature (Haley, 2002; Samiee, 1998). Even as the computer and the internet become more commonplace, and some aspects of existing relationships and perhaps transactions take place over the internet:

... it is unlikely behavioural patterns grounded in cultural imperatives will be converted to automated, technology-based ones in a manner conducive to placing orders for unfamiliar brands through unknown vendors in the foreseeable future (Samiee, 1998).

Furthermore, as after-sale service is seldom handled well in China, consumers strongly prefer to see and feel the products they purchase to make sure the quality is satisfactory (Wong *et al.*, 2004).

Payment methods. One of the factors that facilitated online retailing in advanced markets was a well-system for buying goods on credit (Sirbu, 1997). It is convenient for

credit card holders to select a product and make a payment immediately, and the transaction is complete except for product delivery. However, credit cards as understood in developed countries are almost non-existent in China. No credit evaluation service, card verification system, or central clearing house is in place (Zhao, 2002). Though many consumers do possess debit cards, those do not extend credit and can be used only in the city where the issuing bank is located (Worthington, 2003). Tan and Wu (2002) cite a report showing that, though about 330 million Chinese held payment cards, only 9 per cent used them as often as once a week. As a result, neither firms nor consumers could benefit from the efficient transactions that e-commerce had brought to developed economies (Haley, 2002; Henry *et al.*, 2003; Meeker *et al.*, 2004; Zhao, 2002).

Transport infrastructure. Until recently, commercial courier services were not available in China. FedEx gained access to the Chinese market first, but its penetration is low (Haley, 2002), UPS maintains only 14 sales offices in China, and there is no private national courier company. The only distribution network with nationwide coverage that online businesses could use is the China Post Service, which is costly and slow and represents “one of the major complaints that customers have about e-commerce in China” (Haley, 2002). Tan and Wu (2002) observe that remote rural areas especially suffer from long delivery time and poor service. Overall, the consensus is that China does not have an adequate national delivery infrastructure to support business-to-consumer e-commerce (Meeker *et al.*, 2004; Zhao, 2002).

Given these facts, one would question whether online business in China holds any promise in the foreseeable future. A useful way of examining the current status and future potential of the Chinese online market is to study the trend of internet development and the evolution of the internet behaviour patterns of Chinese consumers over time. Will there be a significant internet population in China? More importantly, how do the Chinese think of making purchases online? Have they become more inclined to do so over time? How many of them have started to shop online? What percentage of the internet users will make online purchases? Has the growth of internet business been severely inhibited by the four obstacles discussed above? Answers to these questions will offer insights into the feasibility and future potential of internet marketing in China.

Methodology

The most logical approach to finding answers to the questions just posed would be to collect data by a survey of a sample approximately representative of the market in question. Given the sheer size of the country and the population, the pragmatic choice is between primary data collected from a geographically limited sampling frame or national data from a reliable secondary source. The findings that follow derive mostly from the biennial surveys published over an eight-year period by the CNNIC, plus data from other sources as appropriate. CNNIC was founded as a non-profit organization in 1997, and operates under the guidance of the Chinese government. Key variables and trends over time are inferred from the data thus assembled.

Two classes of potential internet user were surveyed separately: members of households with telephone service installed (Group A) and students in full-time higher education (Group B), most of who would have been living in campus accommodation. These two population groups are believed to be the prime internet users. Telephone surveys collected data from a stratified sample of Group A, province by province;

telephone directories were used as the sampling frame for Group B. The number of respondents varied over the years but was always large. In the December 2004 survey, for example, data on 5,000 Group A respondents were collected, the number in each province proportional to its share of the total population, and 4,000 students were interviewed. The outcomes from the two groups were weighted in the aggregate results. More detailed description of the data collection process is available at www.cnnic.net.cn. The findings are almost certainly the highest-quality data about internet adoption, usage, and online shopping behaviour in China.

Findings

This section discusses data from secondary sources under heading corresponding to the four identified obstacles to e-commerce. CNNIC can be taken to be the source unless another is explicitly cited.

Internet penetration

By the standard of developed countries, the 7 per cent penetration rate of the internet in China is still low. However, the 87 million users it in fact exceeds the total populations of Germany, France, Italy or the UK, and is expected to continue to grow rapidly.

The first commercial internet service available to ordinary Chinese citizens was set-up in 1996, since when both the number of computers with access to the internet and the size of the internet-using population have grown dramatically. In 1997, fewer than 300,000 computers in China had internet access; by mid-2004, there were 36.3 million. In the same period, the Chinese online population grew from virtually nil to 87 million: see Figure 1. Over recent years, the annual growth rate has been at least 30 per cent. At the current growth rate, the Chinese internet population is predicted to reach 120 million in 2005, and to be the largest in the world in before 2010.

A major factor in this remarkable development has been the rapid growth of the PC industry in China, which has grown at 24 per cent annually in recent years. China is

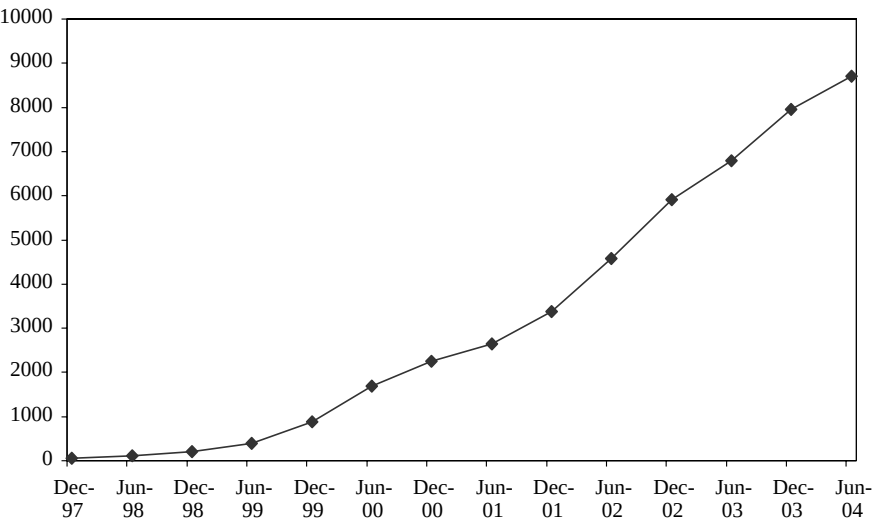


Figure 1.
Online population growth
in China

already the world's second largest market for personal computers (Zhao, 2002). The information technology infrastructure supporting the internet has also improved dramatically. For example, in the mid-1980s, penetration of telephone services was less than 1 per cent in urban areas; by 1999, it had reached 42 per cent (Yuan and Li, 2000).

Access via their PCs has become more convenient. At the end of 1998, more than half of all Chinese internet users accessed it from their offices. Since, then, the number with access at home has steadily increased to 67 per cent in mid-2004, and the proportion of respondents citing their offices as the place where they "often go online" has decreased to 42 per cent. They typically spend about 13 hours per week on the internet.

Currently, users accessing the internet via dial-up connections outnumbered those with broadband connection by 19 million. However, in the period covered by the most recent data, the latter had grown by 78.7 per cent from the previous year, and the former by only 14.5 per cent. The future picture will clearly be very different.

The online population consists mostly of young consumers, of whom 41 per cent are female. Generally, their education level is higher than that average, and more than half have completed higher (tertiary) education. Income levels vary widely: between 10 and 20 per cent in the most recent survey had no income, and can be presumed to have been mostly students. About 45 per cent earned less than RMB 1,000 per month, 25 per cent between RMB 1,000 and 2,000, and 15 per cent more than RMB 2,000. For the equivalents in pounds sterling, US dollars and euros, see *Note on currencies*, between the abstract and the introduction.

Attitudes

The second major concern about business-to-consumer marketing via the internet in China is that Chinese consumers value face-to-face transaction, a cultural phenomenon that will not change simply because access to the internet and other technologies provide the opportunities (Samiee, 1998). Nevertheless, Figure 2 shows

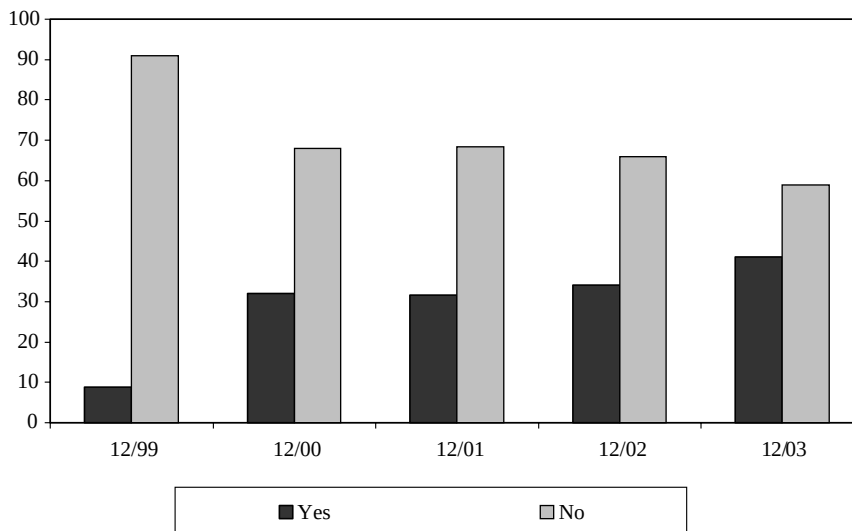


Figure 2.
Proportion of respondents
buying and not buying
online in the previous 12
months

that online transactions have been increasing steadily over the past several years. By the end of 2003, about 40 per cent of all internet users had become online shoppers. Why should this be so? In surveys since 2000, “saving time” has been consistently cited as a key motivation by almost half of the online shoppers, reaching 45 per cent in mid-2004. “Easy to do” (42 per cent) and “looking for rare merchandise” (30 per cent) also appear to be major factors. In 2000, 39 per cent of the respondents mentioned “fun, or out of curiosity” as a reason for shopping on line, but that proportion had fallen to 19 per cent five years later. Overall, consumers seem to have become more “rational” in their online shopping behaviour.

The outbreak of SARS in 2003 provided an unforeseen impetus for consumer e-commerce in China. Within a matter of months, a wave of online shopping was noticeable in large cities such as Beijing and Shanghai, as people tried to avoid going out. The general benefits of online shopping became more apparent to more consumers as a result (ChinaByte, 2003).

Payment methods

Despite the absence of a credit card culture in China, for infrastructural reasons, ownership of bank cards has exploded recently. The SARS crisis was again a prominent factor. By mid-2004, more than 700 million bank cards were in use, or one card for every two citizens, but only 30 million were credit cards, as distinct from debit cards with limited geographic acceptability. Nevertheless, the number of new credit cards issued in 2003 exceeded the total since their introduction in 1985. Analysts predict that the uptake will double each year (Madden and Wentz, 2004). The retail banking market in China will be opened to international competition in 2007. Some foreign card issuers have already arrived, and others will almost certainly play an important role in the future growth of this industry.

Figure 3 shows that the proportion of online shoppers using bank cards as their primary means of payment more than doubled in two years, from less than 15 per cent in mid-2000 to just under 40 per cent in mid-2004. Acceptance is clearly not as serious an obstacle as the conventional wisdom of global marketing might suggest.

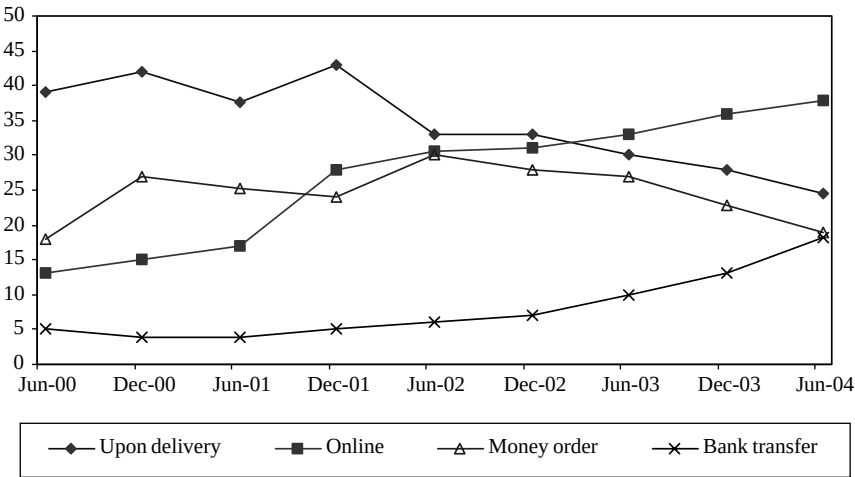


Figure 3.
Primary payment method
(percentage of
respondents)

Delivery services

Figure 4 shows the change in internet shoppers' choices of delivery services over five years. Direct delivery by the vendor (sometimes through a delivery contractor) has lost share substantially since 2000, standing at only a quarter of total business in the most recent survey data.

Since, 2000, the parcel service of China Post Service has improved its share from about 28 per cent to more than 40 per cent, evidently at least partly by providing new services tailored to internet retailing, such as one pitched between the ordinary parcel service and express service in terms of both cost and speed. Given the apparently improved consumer opinion of the service, plus its nationwide coverage and numerous facilities throughout China, CPS is likely to be the leading delivery service provider for the foreseeable future, even in the face of probable commercial competition. However, delivery services for rural areas still need much improvement.

Summary of the survey findings

It seems clear that business-to-consumer e-commerce in China is capable of surmounting the obstacles to internet consumer marketing discussed in the literature – to a large extent, at least. Internet penetration is growing rapidly, and the absolute size of the internet population in China is already substantial. Consumers have started to realize the benefits of online shopping. Online payment by card is gaining momentum. The national postal service is improving its services and shoppers appear to have become more satisfied over the past few years. What, then, will be the more serious remaining problems?

Figure 5 shows that Chinese internet shoppers are relatively little concerned about payment methods, delivery, and product price. The stumbling blocks for suppliers are product quality and security. Many illegitimate businesses have been set-up to defraud consumers, some substituting shoddy products for those promoted at their web sites.

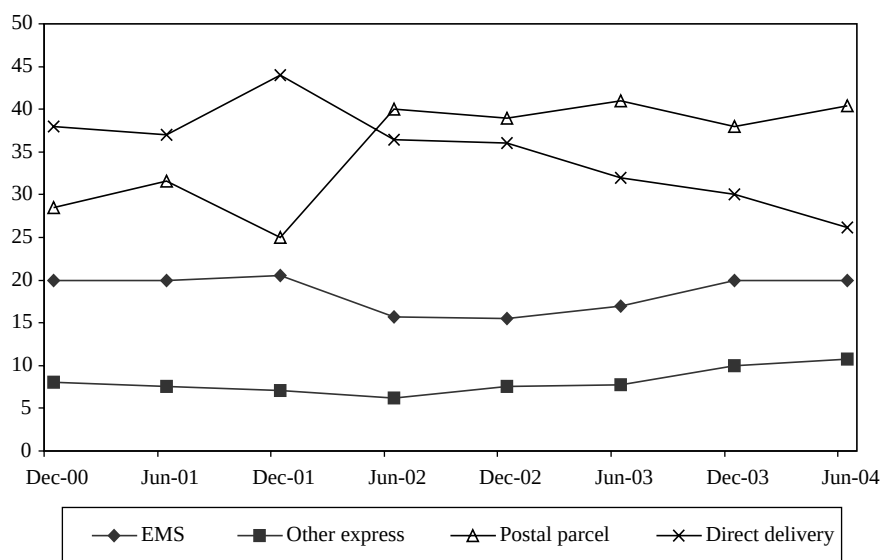


Figure 4.
Primary delivery service
chosen (percentage of
respondents)

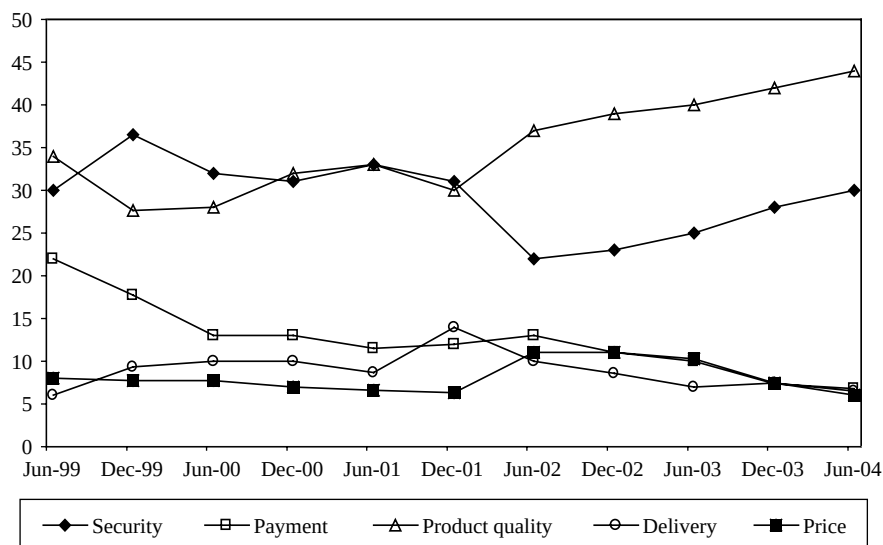


Figure 5.
Most serious obstacles to
internet retailing

Consumers' card information has been stolen, because payment methods were not secure. It is by no means rare for customers to be exploited quantitatively or qualitatively by sellers' deceptive practices (Li, 2004).

Laws and regulations regarding e-commerce are sorely needed.

Management implications

An objective of this study was to investigate whether or not the e-commerce environment in China poses insurmountable threat to online consumer marketers.

It seems reasonable to conclude from the findings of the research surveys reported and analyzed above that real challenges exist, but also that any objective situational analysis would identify as many opportunities as threats in the current operating environment. Accordingly, e-marketing planners in firms targeting modern China should develop appropriate strategies for using the internet to their advantage. Pioneers winning a substantial segment of the market and segments within it, who can also earn and retain consumer loyalty should reap enormous benefit in the long run.

To conclude, this paper therefore concludes by discussing aspects of marketing-mix strategy, with respect to the ever-familiar Four Ps.

Product

All products are not suitable for e-commerce. Table I (CNNIC, 2004) shows the prevalence of online buying of 18 product categories in China. Those at the head of the list possess a common characteristic: relatively little customization is needed to meet the needs of individual consumers. Because the internet does not allow consumers to touch, feel or see in the flesh what they could as customers at the point of sale in conventional retailing, standardized products are easier to accept in the virtual environment. This is especially important in China because more than half of all internet users still have no experience of online shopping. When survey respondents

Product	Percentage of respondents mentioning
Books	57.6
Computer and related products	33.4
CDs and DVDs	26.4
Home appliances and household services	16.5
Communication devices	14.1
Clothing	12.3
Gifts	10.8
Cameras and related products	9.3
Cosmetics	8.7
Educational services	6.6
Sports goods	6.5
Consumer electronics	6.4
Tickets to various events	5.5
Hotel reservations	3.5
Stationery	3.2
Medical care	2.9
Financial services (including insurance)	1.5
Food	1.8

Table I.
Products purchased
online

were asked which product categories online sellers should further develop, the patterns in Table I emerged again. Therefore, the three that have already been bought online by more than a quarter of all respondents would seem to have a promising future in the short to medium term.

However, experience elsewhere suggests that there will undoubtedly be fast growth in the markets related to other categories. Major Chinese online marketers are quickly adding to their inventory such products as cosmetics, gifts, lingerie, and speciality foods. One area that has seen fast growth in 2003 and 2004 is online travel services.

Planners should keep firmly in mind the fact that the enormous size of the Chinese online population and its fast growth mean that even the products with smaller percentages in Table I may enjoy a substantial market in the medium term. At this early stage of e-commerce in China, companies would benefit from closely monitoring new trends in the market and being creative in designing strategies to attract potential customers.

Promotion

Probably the first task in promoting products to Chinese consumers is to build an internet presence in a language that consumers understand. Most web sites at present use the English language, which the vast majority of Chinese have not mastered (Tan and Wu, 2002). A few years ago, only the companies with the largest resources could afford to maintain multi-language web sites (Samiee, 1998), though the situation is changing. SMEs, in particular, need to pay attention to this issue, because many lack the resources to do everything necessary in this respect. They could consider adopting the services provided by some Chinese internet service companies, such as "online marketplaces" in which presence can be "rented".

Samiee (1998) also emphasizes the importance of using a variety of communication tools to attract consumers to a web site. For small firms without the resources to promote its internet presence by traditional means such as mass advertising, it is

especially beneficial to be listed in an online Chinese business directory or marketplace. In fact, according to a recent report by a Chinese market research firm, more than 60 per cent of Chinese firms that have conducted some form of marketing on the internet, have joined an e-marketplace, and regarded that as the most effective way of promoting their business.

Companies should also consider setting up web sites under the first-level domain name extension.cn, which designates a base in China. About 100,000 such addresses were registered in 2004, 58 per cent for new commercial web sites and the remainder as additional to existing addresses (CNNIC, 2004). Many have gone one step further to minimise the chance of losing business to competitors, they also register web site names with.com.cn or.net.cn extensions. Because such site addresses are being snapped up fast, it would be wise for western companies to take this step as early as possible.

Companies need to adopt multiple approaches to promoting their web sites. In the CNNIC survey, 87 per cent of respondents stated that they learned the existence of web sites through search engines, 64 per cent by web links, 53 per cent from friends or family members, 28 per cent through e-mail, and 27 per cent through other mass media. The heavy use of search engines again highlights the importance of having an internet presence in the Chinese language. In addition, heavy traffic to major Chinese web portals and the importance of web links in getting people to visit new web sites, suggest a strategy of collaboration with these portals.

One of the major tasks of a company's web site is to convince the potential shopper about the quality of the product and the trustworthiness of the vendor. Since, product quality and online transaction security are two of the most serious concerns among Chinese online shoppers, the vendor needs to communicate positive assurances conspicuously at the site. Customer testimonials and awards from governments and industry associations are obvious tactics.

Price

Prices of the products sold online should be set relative to what consumers expect to pay in bricks-and-mortar stores. We have already seen that the proportion of shoppers hoping to save money from online purchases grew from 31 per cent in mid-2000 to 45 per cent in mid-2004. This implies that, for the time being, the online price may in fact need to be lower than the "real" price, including delivery costs. Companies should strive to transfer the savings from conducting online business to their customers.

Place

The distribution of internet users across the various regions of China is highly uneven. They are mainly concentrated in the better-developed coastal and urban areas (Wong *et al.*, 2004; Zhao, 2002). This is clearly part of the explanation for the survey finding that respondents were content with the delivery services they received from online sellers, because the transportation system in those areas is far superior to that in remote, rural areas. A direct implication of this fact is that companies trying to open up new markets in China should consider entering the urban markets first. As well as using the China post service, they might benefit from establishing their own branch stores or offices, or forming alliances with local Chinese businesses in major cities. One of the advantages of this approach is that it not only allows the company to be able to

deliver products to consumers, but also affords an opportunity for potential consumers to have some physical contact with the product, sometimes even before they make the purchase decision. The Chinese preference for such direct experience makes this a potentially effective strategy.

Urban consumers in China have generally led their rural counterparts in new trends in consumption behaviour. For example, most users of bank cards live in urban areas (Worthington, 2003). The adoption of shopping on the internet is unlikely to be an exception. In addition, the urban market will be more affluent in the foreseeable future (Palumbo and Herbig, 1998).

Furthermore, deferred expansion into rural areas would be likely to benefit from the development in the interim of a better internet infrastructure.

Conclusions

Marketing researchers have pointed out several barriers to e-business development in China, including low internet penetration, a consumer culture that favours face-to-face transaction, the lack of a credit payment system, and an underdeveloped transportation infrastructure. However, recent evidences suggest that developments in the e-business sector are reducing these difficulties. Both internet penetration and the absolute size of the internet population in China have increased dramatically, and will continue to do so. More importantly, consumers are actually developing an appreciation of the benefits that online shopping can bring. A substantial number of internet shoppers now use bankcards to pay online, after several years of fast development in the industry. Last but not least, consumers appear to have become more satisfied with the delivery services provided by the China post service. Only product quality and transaction security are perceived to be serious drawbacks of online shopping.

At the current growth rate, China will likely have the largest internet user base in the not too distant future. Therefore, there will be an enormous potential in its e-commerce sector (Wong *et al.*, 2004). China has put a great deal of emphasis on the development of information technology and has determined that the internet is an important tool for continued economic growth. With its entry into the World Trade Organisation, international trade will become even more important for China. The internet will play a pivotal role in China's relations with the rest of the world (Press *et al.*, 2003). Western companies targeting China need to realize the unique characteristics of its online shoppers, and devise appropriate marketing strategies to reach and convert them. Those who build a successful internet business for this enormous emerging market will serve their businesses well in the long run.

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