



9 REASONS WHY CHINA LOVES THE INTERNET

THERE ARE MANY REASONS CHINA OUTDOES THE REST OF THE WORLD IN ONLINE USE. A LOT OF THEM ARE RELATED TO WHAT IS HAPPENING IN THE OFFLINE WORLD THERE.

By IMD Professor Misiek Piskorski – February 2015

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

The size of the Chinese Internet is staggering. There are almost 650 million Internet users in China now, more than in any country in the world — next highest is the U.S, with almost 280 million. That's just 46% of the Chinese population compared to 86% in the U.S., so this gap will continue to grow. For example, if every province in China achieves a 50% penetration rate, 135 million new Internet users will come online. 83.4% of Chinese users access the web from their mobile devices (compared to 63% in the U.S.), and many of the most popular services, like WeChat, exist only as a mobile application.

Chinese users are also more engaged than Americans are. Already in 2011 the Chinese spent more time [on the Internet than watching TV](#), while in the U.S. this crossover happened last year. More than 75% of them regularly contribute content online, but only less than a quarter of Americans do. And users in China spend more money on e-commerce than Americans. A recent online shopping holiday brought in more than \$5.75 billion in one day, compared to last Cyber Monday's over \$2 billion.

There are many reasons China outdoes the rest of the world in online use. The first set is related to what is happening in the offline world there:

Existing media are weak. Because their media are censored, people in China turn to the Internet to get a deeper understanding of what's going on in the country and see what other people think. Also, if you ask an average Chinese person about TV, you will often hear: "Oh, it's really boring. There are so many channels, but often there is nothing to watch." So, they turn to the Internet for their entertainment.

People are on the move. In 1990 only a quarter of the Chinese population lived in cities. Today, half does. This means that over 300 million people moved far away from the people with whom they grew up, and the Internet is critical to reconnecting them with their roots. This will only continue. The Chinese government plans to move 250 million rural residents into newly constructed towns and cities by 2025.

Income inequality is growing. China's economy is growing really fast and so is inequality. For example, in 2014 there were 190 people in China who had more than a billion dollars, up from zero in 2003. Those who have grown wealthier than their peers in a short period of time want to establish relationships with others of similar economic stature, and to do that they often turn to the Internet.

Kids are lonely. The one-child policy has been around for over 30 years. Most kids grow up without siblings. They come home from school and the only people they see are their parents. They want to hang out with people their own age, so they are glued to the Internet.

And some adults are lonely too. Due to the one-child policy there are many more men than women in China, particularly in rural areas, so competition in the marriage markets is intense and some men have to work really hard to find a spouse. The Internet offers a great opportunity to do that.

Second, people in China are drawn to the Internet because they have so many choices of engaging sites and services. Even though they cannot access Facebook, Twitter, YouTube, many blogging services, and some Google services, they can access multiple Chinese equivalents. In the U.S. people pretty much only use Facebook to interact with friends, but in China they can choose between QQZone, WeChat, Renren, and Alibaba Weixin, to name a few. To interact with celebrities and strangers, Americans tend to go to Twitter. In China, people can choose to go to Sina Weibo and Tencent Weibo — as well as a ton of little Weibos. The same goes for social gaming — Tencent, Netease, Sina Weibo, and others provide many social games for users to play. There are also many sites for which there's no equivalent in the U.S. For example, there are sites such as 9158.com or yy.com where you go and sing for or with other people. Such sites provide much-needed entertainment and allow people to connect with others easily.

The third set of reasons why the Internet is so big in China is that it connects shoppers to businesses in unique ways:

You can find a large selection at low prices. In China, the [five largest retailers account for only 10% of the total retail market](#), so most customers have to buy items in mom-and-pop stores. Since these do not offer great variety, or low prices, customers go on the Internet to get what they need.

Brands are weak. Some China specialists I interviewed in the country estimated that 330,000 new products are introduced every year in China. Most of them are unbranded, and most of them fail. Consumers don't have enough information about these products, so those who can are turning to the Internet to discuss these products with others online. In fact, [More than 40% of Chinese e-commerce shoppers](#) first saw information about a product on a social media site before buying it.

TV advertising is expensive. Since the state has a monopoly on television — and on TV advertising rates — companies often complain that it is too expensive. The Internet often offers a more cost-effective advertising solution. Firms not only advertise online, but they also pay online opinion leaders to drive their product reviews.

Same-day delivery is common. E-commerce really works in China largely because in many of the [160 cities with populations over one million](#), you can get extremely cheap same-day delivery. Buying online is so much more fun when the item you ordered in the morning is already on your doorstep in the afternoon. This will only get better as [some Chinese startups are gearing up to deliver products within 24 hours to any city in China within the next eight years](#).

We should expect the Chinese Internet to continue to draw vast numbers of additional users in, while finding many more ways to engage them more deeply. Chinese companies will accelerate this by constantly trying something new—often in partnership with each other. This is partly because engineering costs are low and partly because there is less of a fear of failure. If Chinese Internet companies introduce something and it does not work, they just scrap it and move on. I believe this approach will allow them to innovate far beyond what American companies like Facebook and Twitter are doing right now.

And if these trends do continue, it will not be long before we see broad adoption of Chinese Internet products in the U.S. and around the world, just as we saw with non-digital products in the past. With such innovation and variety, that can only be a good thing for consumers.

(reprinted with permission from my blog entry on [Harvard Business Review](#) online)

[Mikołaj Jan Piskorski](#), who often goes by the name Misiek, is a Professor of Strategy and Innovation at IMD. He is an expert on why and how people use various online social platforms across the world, and how firms can successfully leverage social platforms to build social strategies.

From 21 to 26 June, 2014, IMD will be running its [Orchestrating Winning Performance \(OWP\) program](#). Professor Piskorski will be leading a stream on Leading Digital Strategy Transformation. He also co-directs the [Leading Digital Business Transformation program \(LDBT\)](#).

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