

Reaching for the eCommerce Grasp in China

The number of Internet users is growing annually by 40 percent, and the number of websites in China is doubling every six months.

by Mark Kagan

The number always causes eyes to light up: 1.4 billion – as in the population of China. But when it comes to eCommerce, don't get too excited just yet. It will be at least a few more years before even a significant fraction of that number becomes involved in online transactions.



Even if the unofficial number of Internet users is correct (as many as 13 million by the end of 2000), versus the official figure of five million, that's still only a fraction of the population. More important, only nine percent of Internet users in China bought anything on the Web in 1999.

On the other hand, the number of Internet users is growing annually by 40 percent, and the number of websites in China is doubling every six months. At least in the cities, the infrastructure for web-enabled commerce is finally becoming a presence in terms of cell phones, land lines and access to computers. And, while it has not yet reached critical mass, the beginnings of a discernible Internet culture are appearing, says Bob

Rosenthal, research analyst at Framingham, Mass.-based IDC Research.

According to IDC, the Internet market in China will grow substantially through 2004 to more than 33 million Internet users, while the Internet economy will increase at a compound annual growth rate of over 170 percent,

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to more than \$114 billion. A full 36 percent of 118 Chinese companies surveyed indicated they are evaluating eCommerce solutions, and 24 percent are either formally plan-

ning an implementation, currently implementing or using eCommerce solutions.

IDC researchers have concluded that Chinese firms “seem more focused on getting things implemented than on marketing and making their websites look good,” and respondents said they “are spending more than 65 percent of their budget on eCommerce applications compared to [website] marketing and services.”

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The growing numbers of cell phone users in China – currently as many as 50 million–may be a strong driver in the use of the Internet. Rochelle Grayson, CEO of FlashCommerce.com, suggests that trends in China may follow those in Japan, where growing numbers of people are accessing the Internet through their cell phones.

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Meanwhile, the Chinese government is encouraging foreign companies to set up ISPs because of the need to expand the infrastructure. At the same time, it is also putting strict limitations and restrictions upon their activities, like much other foreign investment in China.

For example, foreign investors cannot hold more than a 50 percent share in Chinese telecommunications companies, and even that percentage is not allowed until after two years have passed.

Infrastructure is not limited to telecommunications. Assuming that significant numbers of Chinese go online, “eCommerce implies reliable transportation and roads, reliable shipping companies, security, and new financial models,” which are all problematic in China, argues Rosenthal. “Furthermore, the programming challenges of working with Chinese characters are often underestimated.”

Most analysts also point to the government’s seemingly schizophrenic desire to maintain tight controls on Internet activities for political reasons, even as it encourages and invests in its growth, as another significant limiting factor.

Nevertheless, Rosenthal asserts that eCommerce can

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work in China, even in the near term, and points to Dell Computer as an example. “Dell reported last September that they did several million dollars in sales of hardware online in China,” he says. It was notable because China is still a graveyard for people who try to do business there and get stymied, but Dell seems to have pulled it off.

“They did a lot of local advertising and local support, and made sure that their local staff knew exactly what the website was supposed to accomplish,” Rosenthal observes. “They also worked with customers to move them online and made sure that the site is easily navigable and the customers understood how to use it.”

The good news is that a growing number of Chinese are getting into the eCommerce swing of things. A countrywide survey released in April found that, as of March 2000, there were more than 1,100 consumer-related eCommerce Chinese websites. The survey was conducted

by the Computer and Microelectronics Industry Development Research Center (CMIDRC), a Chinese research group, and was sponsored by the Ministry of Information Industry and CCIDNET Consulting.

The survey found that just over 20 percent of Chinese Internet users have online shopping experience and, of those, only 40 percent were satisfied with online transactions. On the bright side, almost 90 percent of Chinese Internet users surveyed said they “would like to take part in at least one kind of online transaction this year, and 70 percent of them said they will experience online shopping.”

Still, “more than 80 percent of [Chinese]Internet users worry about the security of online transactions.” In China, for now, caution rules the day. 

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