The Big Internet Players are Globalising

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The major league Internet players like Yahoo!, eBay, Amazon and Google are gambling on consolidating themselves internationally in markets like China that offer huge possibilities.

Amazon, eBay, Yahoo! and Google are becoming global companies and their efforts to grow outside the United States is starting to bear fruit. International sales at Amazon (The United Kingdom, Germany, Japan and France) have gone from being 21% of all sales in 2001 to 43% in the second quarter of 2004. In the same period, foreign sales at eBay, which is present in more than 20 countries, shot up from 15% to 36% of total sales. In the case of Google, who distributes their search results in 97 languages, this percentage jumped from 18% to 31%, while Yahoo! went from 17% to 23%. Moreover, slightly less than half of eBay’s registered users are non-US and, for the first time ever at Amazon, a full 50% of sales in the first quarter of 2004 went to international customers. The company, founded by Jeff Bezos, will open a new distribution centre in Scotland by the end of this year.

At present, China is the target of all the big online players. Since last year there has been a large number of acquisitions in the Chinese search engine market. Yahoo!, who bought the Chinese browser 3721 last year, has just launched its search engine called Yisou!, while Google has recently taken a stake in Baidu, the local browser. At the same time, eBay took over Eachnet, the Chinese electronic commerce company, with the aim of launching its online auction service.

Contributions
What does expansion into international markets mean to these companies, especially in China? Well firstly, online businesses are scaleable. The investments that, for example, Amazon and Yahoo! have made in their technology platform are amortised much faster if they can export them to other countries. Yahoo!, for instance, has 500 engineers working on their browser. Without a powerful distribution network the high investment costs are hard to assume. It is highly complicated for a local competitor to develop a website with similar applications. Secondly, given that there is no need to physically open shops, electronic commerce companies do not have to face the high costs of expansion their traditional counterparts face. Thirdly, there is the ever-present potential growth of international markets.

According to Morgan Stanley, there are currently more Internet users in the Pacific-Asia region (including Japan) than in the United States. ICD reports that Western Europe went from having 20% of world electronic commerce to 33% between 2000 and 2004. Growth potential in the Chinese online market is enormous. IDC states that China has the second largest number of web surfers in the world (80 millions at the end of 2003),
36% more than in 2002, although this just means a low 6% penetration in Internet. Morgan Stanley foresees that in five years China will be the largest online market in the world and that in 2005 there will be more than 40 million broadband users. In Spain this figure is currently 2 millions.

According to the China Internet Network Information Center, 21% of Chinese citizens made online purchases in 2003. Undoubtedly, it is a hugely attractive market which explains the heavy investments that are being made.

The dangers lurking behind the international expansion policy of Amazon, eBay, Yahoo! and Google may be in the cultural differences of the countries, the fluctuations in interest rates, the legal restrictions imposed by local governments, a greater degree of fraud in payments, the difficulties of finding local partners and good distributors and even the fact that local entrepreneurs could adapt the American models to their own countries.

In spite of this, the resulting data are positive. Between 2002 and 2003, the annual growth rate in international revenue was 71% for Amazon, 120% for eBay, 84% for Yahoo!, and as high as 242% for Google. In this way, the big American online players are becoming authentic multinationals. Their aim is to bridge the gap from the more than likely decrease in the growth of the North American market.

What challenges does the Chinese market pose to the online giants?

An Arduous Task
Jaume Ribera, Iese professor
The fact that the big online players are focusing on the Chinese market, which beats all the rest in growth and seems immune to their neighbours’ financial crises, is not in the least surprising. However, certain points should be kept in mind. For one thing, access to the Internet in China is still limited and controlled by the authorities. In this sense, some dangerous servers are blocked but this is also true for Google’s cache pages. Moreover, the logistic sector is very deficient in western provinces and credit card penetration is very poor. On the other hand, the only way for companies to set up in any sector in China is by forming partnerships with local companies that provide detailed local market knowledge. In short, the market is immense and is growing fast. However, it is good to keep in mind that nothing is impossible in China, but everything is very difficult.

A Waiting Game
Francisco Javier Núñez, Manager GRMS - IT Security PricewaterhouseCoopers
Despite China being the second largest country in Internet users (80 millions at the end of 2003), and logically there should be enormous opportunities for the big online players, there are certain factors that make the Chinese market less than attractive for this type of company. The most notable among them are: the very low turnover in electronic commerce in China, the youth of most users and the fact that 84.3% of them earn less than 240 euros a month. One must not forget that there are certain cultural aspects as well as legal barriers imposed by the government, which all add to the difficulty of developing opportunities in this market. In spite of the enormous potential of the Chinese Internet market, some time must pass before these opportunities can be
translated into real business opportunities for the big online players that have decided to take on this market.