China, an opportunity in the medium term
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The traditional rural landscape of small manufacturers is beginning to give over to conglomerates of skyscrapers and shopping centres where the inhabitants of the most densely populated country in the world can walk and buy all sorts of consumer goods.

However, the traditional Chinese spirit prevales in the new panorama and behavioural patterns are integrated into the day to day life of the Asian giant, which is becoming more and more modern as the days go by.

The backdrop to this scene is the new technologies and investments in infrastructures that enable the sustainability of this growth financed by the surplus reserves the country has. There are more than 200 million cellular phone users whereas the number of Internet surfers is around 96 millions.

But where does the growing interest of the foreign companies in China stem from? Below this attraction lies, without any doubt, a show of confidence by the richer countries in the government of the country with respect to its capacity to achieve economic and political sustainability in the medium term.

Over the last ten years, China has shown signs of stability with an average growth of 8% and it has been able to manage a hybrid system that preserves the foundations of the Chinese Communist Party but introduces any pressing needs for the economic development within the beginnings of a market economy.

This has moved many western companies, in constant search of cost savings, to transfer their productive processes to China, especially those industries that rely heavily on labour due to the level of salaries.

The more salaries have grown in large cities, the more industries that require a lower degree of job training labour have moved outside the cities and have contributed to the

Highlights
1. China’s economy could increase by 10% in the second half of this year, while its industrial production has jumped 18% more in the first quarter of 2004 than in the last quarter of 2003, according to The National Statistics Office of China. In addition, with 1,400 million dollars in 2003, China’s GNP is the sixth largest in the world.
2. At present, online auction sites represent just a small part of the electronic sales market in China. This type of sales will reach, according to forecasts by eBay, some 16,000 million dollars by 2005 as against the 100,000 million dollars that online retailers will sell in 2004. The form of payment is one of the main obstacles to online sales in China, where cheques and credit cards are hardly used at all.
3. eBay’s expansion strategy in the Asian market is essentially based on acquisitions. In South Korea it bought the Internet auction company for 120 million dollars in cash in 2001, while in China it has owned two thirds of EachNet since July 2003. eBay is not prepared to repeat their experience in Japan, which they abandoned in February 2002 unable to take market share from Yahoo!, who had 95% of the market after launching its service five months before eBay.
4. EachNet is one of the largest electronic sales sites in China. It had 4.3 million registered users at the end of last year with sales topping 44 million dollars in the last quarter of 2003. eBay plans to hire more personnel for its subsidiary in spite of the fact that they do not expect profits in the next 3-5 years. EachNet, which will be renamed eBay, competes in the Chinese market with Yahoo!, which operates in agreement with Sina.com and the local Alibaba.com.
creation of jobs, which is so necessary for the stability of the country. In general, the Chinese still have limited buying power, overcome by far by their productive capacity. To ease this situation, the government limits the percentage of production devoted to internal consumption. In spite of these limitations, western companies have seen an enormous market in China in which to take up a position.

This is the case of eBay who recently announced its bet on China in the medium term, after losing out to Yahoo in the battle for the Japanese market. eBay’s strategy is based on the strong position it has taken in the capital of EachNet, an already consolidated company in China with more than 4.3 million registered users. This is usually the most fruitful business way for success in China. eBay foresees that China’s electronic commerce will reach 16,000 million dollars in 2005 as against the 100,000 million dollars in the United States.

However, the Chinese market is still terribly short of resources and each province of the country has its own peculiarities, which will entail an enormous capacity of adaptation from eBay.

China must not be seen as a single vast territory but as a conglomerate of regions that share a written language and a common cultural substratum but are different in their preferences, consumer habits, purchasing power and infrastructures. Those businesses that are based on the sale of goods must adapt their marketing plans for each zone they wish to operate in. Business models such as eBay’s can minimise costs of location and take advantage of the potential consumption of the country in the medium to long term.

However, eBay as well as all the other dotcoms face the very poor acceptance of electronic payment systems in transactions. Even so, the Chinese character is prone to trust, negotiation and business, so the first one to consolidate themselves in this market will have enormous opportunities.

As the Internet reaches all the corners of China and its users improve their purchasing power, the online market will offer huge opportunities. However, the consolidation of this type of business is a medium to long term bet and requires enough financial strength to bear the leverage in infrastructures, users and trade mark needed by this type of business.