

The Influence Online Information has on Chinese Consumer Buying Behavior 2011

Methodology, Design
and Key Findings



 **DDMA**
MARKET RESEARCH & CONSULTING

 **FGC**
FOCUSGROUPCHINA
A subsidiary of DDMA

Methodology and Design:

This report is based on a combination of primary consumer data and secondary trade and industry research. The design and details of each module are as follows:

Data Source One: Quantitative Consumer Research:



Data Driven Marketing Asia (DDMA) interviewed over 512 consumers in Shanghai. These respondents were interviewed via face-to-face interviews, with follow-up interviews conducted online. All respondents were aged between 15 to 40 years old. They all accessed the internet at least once a day, and had a personal monthly income and household income that was in the top 50% for Shanghai. In addition, all respondents had used the internet to research potential purchases in the past month. The core objective of this research was to understand online behavior, online activities and the most popular and common online sources used when collecting information about prospective purchases. A total of 12 product categories were covered in detail.



Gender	15 -20 Years old	21 -25 Years old	26 -30 Years old	31 -35 Years old	36 -40 Years old	Total
Male	51	50	51	52	51	255
Female	50	52	52	53	50	257
Total	101	102	103	105	101	512

Source: DDMA China Online Information Impact Report 2011
Base: All respondents: n=512

Data Source Two: Qualitative Consumer Research:



Focus Group China (www.focusgroupchina.com) conducted a total of 28 qualitative focus groups with consumers between January and December 2010. These groups were held in Shanghai among male and female respondents aged 16 to 40 years old. The purpose of these groups was to attain a clear understanding of how consumers collect information online when considering a purchase across a variety of product categories. The in-depth findings from this research focused on: the difference in the importance of online channels to prospective consumers when collecting information across product categories; the type of information collected and how this is exchanged online; the sequence and order that online information sources are used in the pre-purchase



information gathering stage; and the overall influence that online information has on the final purchase decision. The qualitative research findings were used to supplement and explain the quantitative research findings in more detail.



Data Source Three: Trade and Industry Secondary Data:



In order to provide relevant context and an overview of the market and product categories of focus DDMA Business Consulting collected data from a wide variety of published and trade sources. This data was designed to provide an introduction to the market and an overview of internet usage and to introduce the size and characteristics of product categories covered in this report.

This is an extract from the full report, which can be purchased from: www.ddm-asia.com

The Influence Online Information has on Chinese Consumer Buying Behavior: Summary of Key Findings:

Overview:

From a retailing and brand marketing perspective, companies need to pay very close attention to the rapid growth of internet usage in China and avoid the assumption that the Chinese consumer market will simply follow the development path of more developed consumer markets. The continued growth of the internet and the rise of mobile internet usage among Chinese consumers is potentially a huge game changer for retailers and for the approach to brand marketing and marketing communication in China.

The reality for the retail sector is that there is a very strong possibility that internet technology will allow Chinese consumers to simply leapfrog traditional western designed retail models and migrate much of their shopping online. The fact that online sales in Shanghai account for 10% of total retail sales for that market indicates that this has already begun to take place in the more developed Chinese consumer markets.

From a marketing perspective Chinese consumers are already highly reliant on the internet as a source of information upon which they base a large portion of their purchase decisions. This means that traditional marketing theory and marketing communication strategies, which have been developed over time and are based on experience in mature western consumer markets in a pre-internet era, are no longer as efficient or effective in the Chinese market. The fact that online information was the largest influence on 34% of consumer product purchases in Shanghai in 2010 demonstrates the impact that online information is already having on consumer education in the more developed Chinese consumer markets.

More than ever before, retail and marketing strategies need to be tailored to fit the behavior of the Chinese consumer, not simply transferred from western markets to China.

Data Driven Marketing Asia (DDMA) has conducted a year-long study among Chinese consumers in Shanghai in order to isolate, determine and measure the impact that the internet has on shopping behavior and on marketing communication. This report is a blend of quantitative consumer data and detailed qualitative consumer data. The quantitative data allows us to place some measurements around the impact of online

information while the qualitative data, conducted by DDMA business unit Focus Group China, allows us to truly understand the reasons and drivers behind Chinese consumer behavior and the impact that the internet and online information is having on this. A total of 28 focus groups were conducted for the purpose of this report with Shanghai consumers throughout 2010.

The report is designed to examine four key questions:

1. Will “The Taobao Effect” and the continued growth of online shopping undermine the mega retailer model in China? Will the sale of medium- to high-value consumer product purchases continue to migrate online?
2. In addition to online shopping, what is the real influence of online information on all consumer purchases in urban China?
3. When Chinese consumers are considering a purchase, what type of information has the greatest influence on their decision, what online information sources do they use to collect this information, and how does this vary across product categories?
4. Does advertising in traditional media in China still offer value for money given the huge growth in proportion of time spent online?



Introduction:

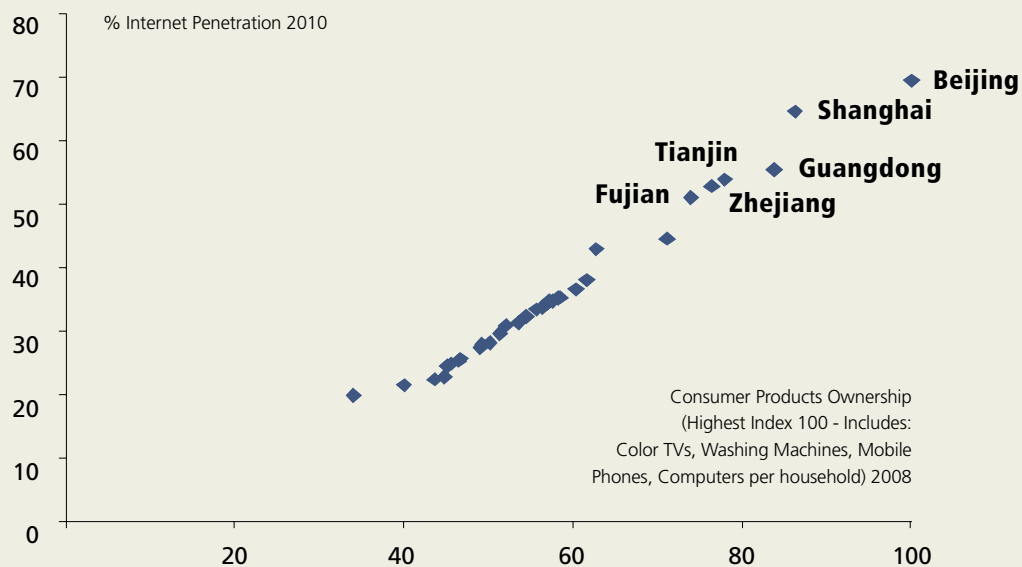
The conditions which amplify the impact of internet growth on retailing in China are directly linked to consumer experience. In terms of spending power and retail choices, the Chinese consumer market has only really developed over the past 10 years. This means that the habitual shopping behavior that western consumers have developed from generations of shopping in open markets is not present in China. It is therefore much easier for a Chinese consumer to adopt online shopping than a western consumer simply because there is no entrenched habitual behavior to be overcome or replaced. The same is true for the consumption of brand information and for how Chinese consumers learn about products and brands.

From a marketing communication perspective the impact of online information is already very large in China. The internet provides an open, unregulated

alternative to traditional media channels. The popularity and influence which online information has on consumer behavior calls into question the value of traditional media as a communication channel and also places great emphasis on truly understanding what type of information Chinese consumers collect online when they are considering a purchase of a consumer product, and how they collect this information.

Shanghai was selected as the site to conduct all of the research for this report. This was because the characteristics of Shanghai in terms of disposable income levels, the high rate of urbanization, online shopping and the extremely high cost of retail space rental are indicative of how other urban Chinese consumer markets will develop in the future.

The areas with high internet penetration are also the six areas with the highest household consumer products consumption



Section One: “The Taobao Effect” and the challenge that online shopping presents to mega retailers in China

Chinese consumers spent over US\$ 82 billion online in 2010. This represents a 95% increase over 2009, and is the equivalent of 3.3% of total retail sales for China. When this number is evaluated on a national basis it would appear that the Chinese online shopping market is not as developed compared to other economies, however, when the level of online spending in the most developed Chinese consumer markets is evaluated independently of the national figures a very different picture begins to form.

In Shanghai, online purchases were the equivalent of 10% of total retail sales. Shanghai was used in this report as a proxy for current and future developed Chinese consumer markets.

If all Chinese markets are to follow the development path of Shanghai it will present a huge challenge to the future of the mega-retailing business model in China and to brand marketing in general. For large-scale retailers it will mean that the purchase of high-value and high-margin products will migrate online leaving these retailers to battle over low-margin, daily commodities.

Introduction to “The Taobao Effect” and to the key drivers behind the growth of online shopping in China:

Extensive qualitative research, conducted with Shanghai consumers throughout 2010 allowed us to identify the thirteen key factors which are driving the growth of online shopping in China.

1. **“The Taobao Effect”:** Taobao is the largest business-to-consumer and consumer-to-consumer online sales platform in China. The company generated revenues of US\$ 64 billion in China in 2010, which is the equivalent of 2.5% of all China retail sales. In Shanghai, Taobao holds just over 50% of the Shanghai online shopping market, with sales of US\$ 4.5 billion in 2010.

Many western commentators often unfairly refer to Taobao as “the Chinese eBay”. This description is misleading as it suggests that Taobao is a “me too” operation. This underestimates the success of the company and the role it has played in the development of the online shopping market in China.

eBay was the dominant player in China when Taobao was launched, however, by developing a business model which was suited to the Chinese market as opposed to transplanting an existing business model developed in western markets, Taobao has grown to dominate the online shopping landscape. The company has been highly innovative in terms of product range, payment systems, logistics and delivery, quality control, vendor management and consumer engagement. All of these process areas have been tailored for the Chinese consumer in a pragmatic and culturally astute manner.

Online sales as a percentage of total retail sales: selected markets

Market	2010
United Kingdom	10.5%
Shanghai	10.1%
European Union	5.9%
USA	4.5%
China	3.3%

Source: DDMA Trade and Industry Research, January 2011

Leading online shopping platforms: 2010

Leading Online Shopping Platforms	Share of Transaction Value
Taobao Mall	36%
360Buy	15%
Dang Dang	3.5%
Joyo (Amazon China)	3.3%
NewEgg	2%

Source: DDMA Trade and Industry Research, January 2011

Time spent online each week in China

19.6 hours

Aside from strong business performance, the bigger picture for the future of retailing and brand marketing in China lies in the impact which Taobao has had on the development of online shopping in China. The championing of the successful businesses of entrepreneurs and small businesses achieved on its consumer-to-consumer platform has done more than simply drive sales; it has established online shopping as an additional source of income for many and a trustworthy alternative to traditional shopping.

With over 3.6 million people selling on Taobao, almost every Chinese consumer knows someone that is either selling or buying through the platform. An average of 53,000 items are sold every minute on Taobao and the business-to-consumer website, Taobao Mall, hosts virtual stores for over 30,000 leading Chinese and multinational companies.

2. Traditional, “western style” shopping behavior has never formed in China as the consumer market is still very young:

One of the key barriers to online shopping in western markets has been persuading consumers to depart from the shopping behavior in traditional retail stores that has been learned over many years of consumption. This acquired shopping behavior is not entrenched in China as the consumer market has only really taken off in the past 10 years. This means that consumers are very flexible and willing to accept online shopping as an alternative to shopping via traditional retail stores and not just for low-end, cheap items. The fastest growing online categories in China are personal computers, tablet computers, mobile phones, medium- to high-end fashion and cosmetics and skincare. Sales of home furnishings experienced a 125% increase in sales in 2010 on Taobao, while the sale of food grew by 90% over the same period.

3. Increased confidence in the authenticity of products bought online:

Authenticity of products has long been one of the largest consumer concerns across all product categories in China and the presence of counterfeit products in the supply chain in China was a major issue for consumers in the pre-internet era as it is today. The high profile efforts of Taobao to weed out fake and counterfeit products from its range have played a key role in the development of online shopping. All reputable online shopping websites have had to follow the Taobao lead in this area and this has added trust and credibility to the popularity of online shopping. This in turn has created confidence with consumers that

the products that they buy through the established business-to-consumer websites are authentic. The qualitative research module of this study revealed that many consumers actually have more confidence that if they buy a product from a company's official brand website or from the large and established business-to-consumer websites such as 360Buy, they will receive the authentic product. They do not have the same confidence in purchasing many products through traditional retail channels as they know for many categories that counterfeit products are widely available in the market and that distributors and retailers can sometimes switch genuine product for counterfeit products.

4. Wider selection of products online versus in traditional retail:

With increased international travel and much greater exposure via media to popular products and trends from other countries, consumer tastes are changing rapidly. Despite the rapid development of the physical retail market in China the range of products is still relatively limited, and does not keep up with these developing and rapidly changing consumer tastes. A greater selection of products are available online, many of which are not available in China. This wider range makes online shopping a very attractive alternative for many Chinese consumers.

“When I visited Hong Kong I found a brand of chocolate that I really liked...when I came back to Shanghai I looked for it everywhere but could not find it...then I went online, and found it. I now order one box every month for me and my friends.”

Female, aged 27 years old

“I like to watch the Korean soap operas on TV. When I see some clothing styles or brands that the characters are wearing that I like, I go online and search for these, and if they are available I buy them.”

Female, aged 27 years old

5. Convenience of online shopping:

The convenience of shopping online has also played an important role in the development of online shopping in China. High population density and congestion is a prominent feature of many Chinese cities. Shopping online provides a welcome alternative to avoiding the crowds and the congestion experienced when visiting physical retail stores for many consumers. Retail penetration is still relatively low in even in the most developed consumer markets, therefore, to visit a specific store may require lengthy travel times. This can be avoided by shopping online

"It is much easier for me to shop for the things I need online. When I go to the shopping mall I have to get two subway trains and there are just too many people. Instead, I can buy the same things at a better price at home, and they will be delivered the next day...this means that I can enjoy and relax in my free time."

Female, aged 34 years old

"I want to shop at The GAP store in Shanghai, but it is very far from my house, so, I just browse their website, and if I see something I like I will buy this online or maybe I will wait to go to the store...either way...it saves me time and a journey."

Female, aged 27 years old

"My friends now live in Harbin, but there are not many shops there, so they are always shopping online for everything they need from clothing to computers and even for food that they cannot get there...it is convenient for them and also cheap."

Male, aged 31 years old

6. Improved payment systems: The low penetration of credit cards was a key barrier to the development of online shopping in China, however, this has been overcome by cash-on-delivery payment systems which have been pioneered by Taobao and other online retailers. The most popular online payment systems are Taobao's AliPay, 99bill and Chinapnr.

7. Improved logistics: Improved infrastructure and the low cost of postage and courier delivery means that items which are bought online are delivered very promptly and at a low cost. An estimated 2 billion packages were delivered via the postal service in China in 2009, of which 1.2 billion were from Taobao sales.

8. Rise of mobile: The rapid growth of 3G and smartphones in China has led to a corresponding growth in shopping via mobile phones. This has led to further growth of online shopping in China. Taobao's dedicated platform for mobile e-commerce is attaining sales of US\$ 6 million per day. In context, there are currently only 55 million 3G and smartphone handsets in usage in China.

9. Leisure: Chinese consumers are spending an average of 19.6 hours online each week. This is approximately the equivalent of one and a half days per week, when average time dedicated to sleep is taken into account. The huge amount of time dedicated to online activities has meant that browsing shopping websites and shopping online has become a leisure activity for many Chinese consumers. In Shanghai 7% of the total online time is spent browsing shopping websites.

"When I am at home I like to browse through popular shopping websites to see what is popular and what is hot. I also read the comments of people who have bought different products... Sometimes I share this information with my friends via Kaixin001 (a leading social website). If I see something I like and it is not too expensive, I might just buy it...passing time like this is like window shopping but without the crowds."

Female, aged 24 years old Shanghai

10. Value for money: Many of the products online are available at prices which are cheaper than the offline equivalent. Competitive online pricing, combined with convenient payment methods and speedy, low-cost delivery means that online shopping often offers better value for money than offline equivalents. In addition, the rapid growth and popularity of web-based group discount schemes has further boosted the popularity of online shopping.

Prime Retail Rental	US\$ Per Annum Per Sq Meter
New York	19,000
Sydney	12,800
Hong Kong	11,700
London	9,360
Tokyo	8,160
Guangzhou	5,700
Singapore	4,810
Shanghai	3,300

Source: DDMA Trade and Industry Research, January 2011

"Nowadays when I am buying anything I always first check the price online. For example, when I was buying this mobile phone I checked on PChome and 360Buy first, then I went to the store and I saw that the price there was more expensive for the same model, so, I bought it online."

Male, aged 28 years old

11. Physical retail cannot keep up with demand.

New consumer market development versus vast geographical spread: As new markets in China begin to enjoy the economic wealth that has been traditionally held by tier-one markets, the pool of available consumers is expanding rapidly. These new consumers wish to buy higher quality consumer goods but it is impossible for the retailers to open enough stores quickly enough in these markets to meet this new demand. All of the products which these new consumers wish to purchase are available online, and this is the key reason why the second- and third-tier cities are driving so much of the development in online shopping.

Fastest growing Taobao markets in 2010

Zhejiang	52%
Shandong	46%
Hubei	37%

Source: DDMA Trade and Industry Research, January 2011

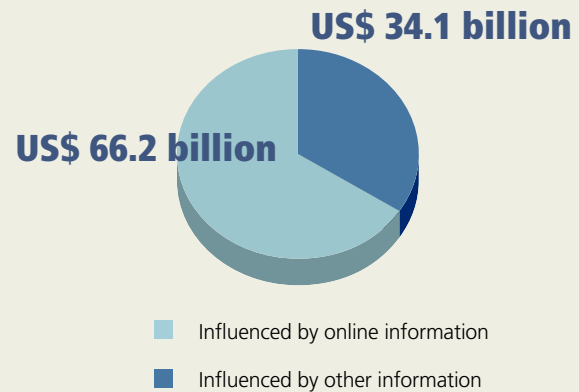
12. Variable pricing, fixed pricing and settler's remorse:

Chinese consumers have long had a reputation for negotiating over price at point of sale. Point of sale price negotiation actually creates stress in the shopping experience as many consumers are uncertain as to what the right price for a product should actually be, and after they have made a purchase consumers are often concerned if they got the right price. Shopping online via business-to-consumer sites eliminates the risk of settler's remorse as there is pricing is fixed. This adds to the appeal of online shopping as fixed pricing removes the stress caused by variable pricing. In other words, it lowers the risk of someone else getting a better price for a product because they are better at negotiating price.

13. Suspicion of information attained at point of sale:

The developing shortage of labor in China, the high cost of hiring staff, varying education levels and economic wealth and high levels of economic migration from developing to developed markets mean that there is often a very large socio-economic difference between staff who work in retail stores and the customers who shop at them. For example, customers who visit many of the retail stores in Shanghai will more than likely be served by people from other parts of China which

Influence on total Shanghai consumer sales 2010



Source: DDMA Trade and Industry Research, January 2011

are less developed than Shanghai or by people from Shanghai who have lower education levels. This often creates a problem with the perceived credibility of information collected at the point of sale. The impact on behavior is that many consumers research many potential purchases online in advance of visiting a retail store. This means that when they arrive in the store they already have much of their purchase decision made and if they cannot get a similar price and service to what they know is available online, they will avoid completing the purchase in the retail store, and will buy online instead.

The growing popularity of online shopping in China presents a major challenge to the mega retailer model in China. The key factor which makes China different to other markets in regard to online shopping is that traditional retailing, and hence the related shopping and consumer buying behavior, has not had enough time to develop and become ingrained into the habitual behavior of many Chinese consumers. When this is combined with the climbing cost of conducting a retail business in China, the huge geographical expanse of the market, the rapid rate of urbanization and the constant emergence of new consumer markets, it indicates that there is a definite possibility that technology will enable Chinese consumers to simply leap-frog traditional retail channels and migrate a greater portion of their shopping online.

Overall, there is no particular reason why Chinese consumers should shop and behave in the same manner as their Western counterparts. There is no doubt that Chinese consumers will continue to consume, there is a growing possibility that much of this consumption will take place via online channels.

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Section Two: Evaluating the influence of online information on consumer purchase decision making:

The second key area which must be examined and evaluated in the China consumer market is the overall influence and impact online information has on the final purchase decision **for all major consumer products sold**. Once this influence has been identified and measured, the approach to consumer marketing and communication can be truly evaluated relative to influence online information has across individual categories.

A sample of over 500 respondents in Shanghai respondents were asked to list products which they had bought in the last six to 12 months where information they collected online had the greatest influence on their final purchase decision. Across the 24 most popular product categories listed, an average of 34% of respondents stated that they had bought consumer products where online information was the greatest influence on their final purchase decision.

The variance across categories was high. For example, 67% of respondents had bought a 3G or smartphone in the past 12 months where online information had the greatest influence in terms of brand and model purchased. In contrast, 14% of respondents had bought a car in the past 12 months where online information had the greatest influence on their final purchase decision.

Shanghai government figures state that total retail spending in Shanghai for 2010 was US\$ 91.3 billion in 2010. When online shopping by Shanghai residents of US\$ 9 billion is added to the official number, the total amount spent by Shanghai consumers in 2010 is US\$ 100.3 billion. As an average of 34% of Shanghai respondents state that they bought consumer products in the past 12 months where online information had the greatest influence on their final purchase decision, this indicates that online information could be influencing and driving up to US\$ 34 billion of sales in Shanghai.



**Category bought In past 12/6 months (depending on category)
where online information had greatest influence**

Category Bought In Past 12 Months Where Online Information had Greatest Influence	% of Respondents
New Social Places: Restaurants, Bars, KTVs, Nightclubs	69
3G & Smartphone Handsets	67
Consumer Electronics: Digital Cameras & MP3/MP4 players	64
Music: Buy & Download	58
Travel & Tourism (In China)	57
Personal Computers and Peripherals	57
Movies & Cinemas	56
Medium- to High-end Fashion Clothing	47
Cosmetics & Skincare	46
Home Furnishings	38
Online Games	37
Printed Books: Leisure, Hobbies & Children's	36
Fashion Accessories (Mix and Match, Jewellery, Watches, etc.)	34
Home Appliances (White Goods)	34
Home Decoration Materials	34
Groceries	32
Sports Goods	28
Financial Products: Insurance, Investments, etc	24
Holiday Destinations (International)	23
Children's Food and Toys	20
A House	15
Eye Glasses	14
Passenger Cars, Accessories & Services	14
High-end Luxury Goods	12

As online information is already playing such an important role in influencing the final purchase decision for a large portion of consumer goods, it is now essential to gain a clear understanding into how consumers collect information online, what type of information they collect, how this varies across product categories and what the overall influence that this has on the final purchase decision is. The qualitative research component of this

Section Three: When considering a purchase, what type of information are consumers collecting online, how do they collect and exchange this information, what are the most important online sources and how does this differ across product categories?

From a marketing and communication perspective there is a great wealth of information available on the popularity and traffic numbers for the popular websites, however, there is a very large gap in understanding exactly what type of information consumers are looking for on these websites, how this information is collected and exchanged between peers and how important different online sources are in the information gathering process that influences the final purchase decision within each product category.

An example of the type of information which can be very misleading is the current excitement about social media websites in China. In the news, social websites are being presented as the ultimate solution to online marketing and communication. The reality is actually very different:

1. Social websites are of average importance in the collection of information when a purchase is being considered. They are the most important and influential source in the collection of information when a purchase is being considered in some product categories but are of little importance in others. For example, they can be highly influential in the consumer electronics category but of little importance in other categories.
2. The order which social websites are used in the information gathering sequence varies across categories. In some product categories they are the first port of call in the information gathering process when a purchase is being considered, in other product categories they may be used as final validation prior to purchase.

The reality of online brand marketing in China is that no single online channel operates in isolation or is the dominant source of information for consumers when they are considering a purchase within a category. Online sources operate in combination with each

other. When collecting information consumers place different levels of importance on different online channels and use these channels to collect different types of information.

To gain an insight into the difference in importance across channels, this study focused in detail on twelve key product categories. These are:

1. 3G & Smartphone Handsets
2. New Social Places:
Bars, Restaurants, KTVs and Nightclubs
3. Consumer Electronics:
Digital Cameras and MP3/MP4 Players
4. Personal Computers (Desktops, Laptops, Notebooks, Minis and Tablets) and Peripherals
5. Travel & Tourism
6. Cosmetics & Skincare
7. Movies & Cinemas
8. Fashion Clothing:
Medium- to High-end Branded Apparel
9. Passenger Cars, Accessories and Services
10. Printed Books
11. Home Furnishings
12. Home Appliances

The first step in the process is to understand the importance of the prominent online sources during the information gathering process when a purchase is being considered within a category. The importance of the following online sources was measured in detail.

1. Shopping websites
2. Portals
3. Social websites
4. BBS websites
5. News websites
6. Personal blogs
7. Price comparison websites
8. Search engine advertising
9. Banner advertising
10. Pop-up advertising
11. Specialist industry sites
12. Price comparison sites

An example of the output is as follows:

Official brand websites:

Difference in importance as a source of information across product categories

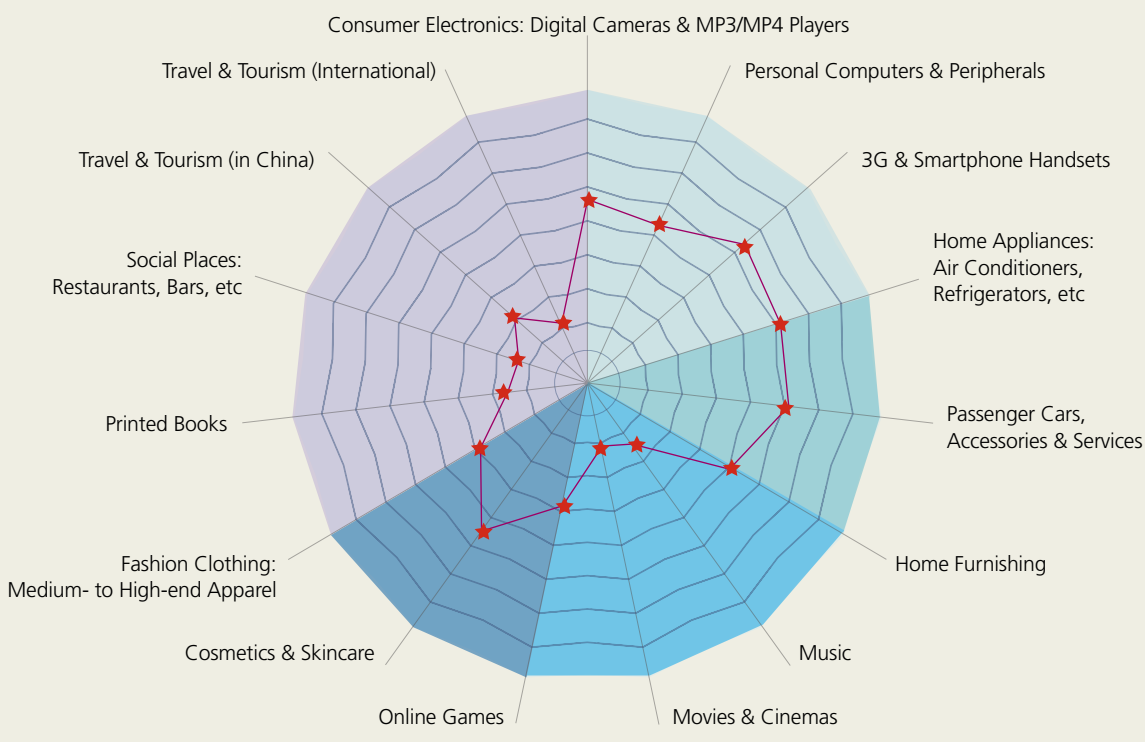
Official brand websites play an important role in the information gathering process. These websites are of particular importance in high involvement categories. They are most frequently used when consumers are considering a purchase in the consumer electronics, personal computers and peripherals, 3G and smartphones and home furnishings, passenger cars and home appliances categories. Official brand websites are also important for the cosmetics and skincare category and to a lesser extent, the fashion clothing category.

brand website is used to validate and double check the information on the potential purchase that has been collected earlier in the information gathering process from other information sources online. Close attention is also paid to special offers, recommended retailers and after sales service.

The type of information collected is dependent on the categories. For the high involvement consumer durables categories by the time that the prospective customer arrives at the official brand website, much of the purchase decision has been made and the official

For cosmetics and skincare and fashion clothing, consumers tend to use the official brand websites much earlier in the information gathering process. The information being sought pertains to the latest styles and collections that are available. For cosmetics and skincare the official brand websites are often used to check the latest products which are available and to learn about any promotions or demonstration events which may be taking place.

Difference in importance of official brand websites as a source of Information across product categories



% = consumers who consider this channel to be an essential or a very important source of information when considering a purchase in this category.

- Consumer Electronics, Computers & Smartphones
- Household & Auto
- Online Games, Movies & Music
- Fashion & Skincare
- Travel, Leisure & Entertainment & Books

Source: DDMA China Online Information Impact Report 2011
 Base: All respondents: n=512

The next stage of this process involved focusing on the importance of online channels within each product category of focus. The following example is drawn from the passenger cars category.

Chinese consumers who are planning to purchase a passenger car consider the information collected from BBS websites to be the most important source of online information.

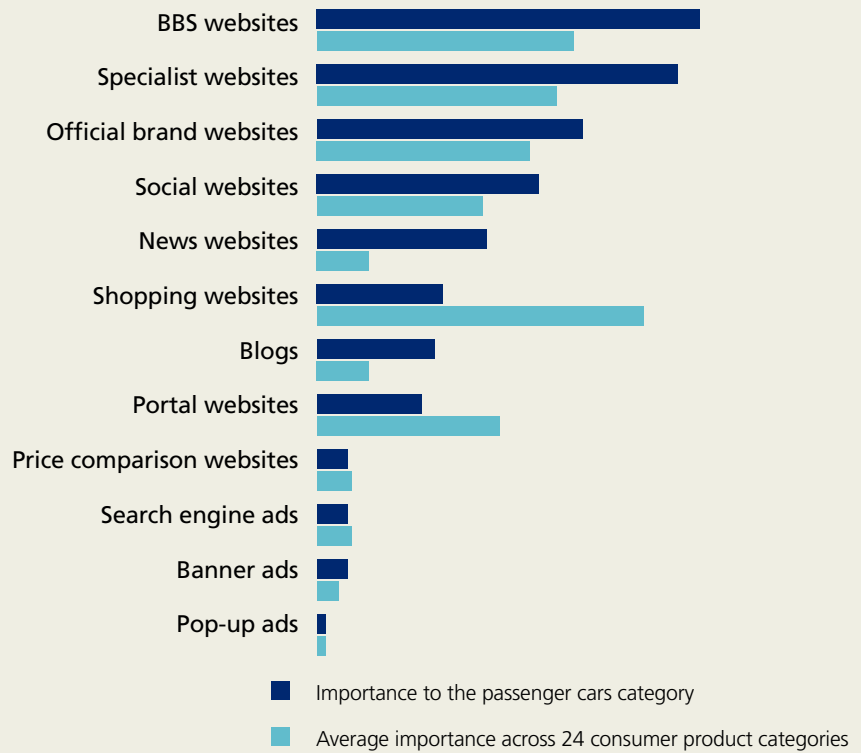
Specialist industry websites, such as Chinacars, are also considered to be very important sources of information for prospective buyers in the category.

Official brand websites play a very important role in the information gathering process for this category, as does information derived through news websites and blogs.

Shopping and portal websites are significantly less important as a source of information for prospective buyers in the passenger cars category.

Social websites are relatively important as consumers exchange information via this medium on cars they are considering buying.

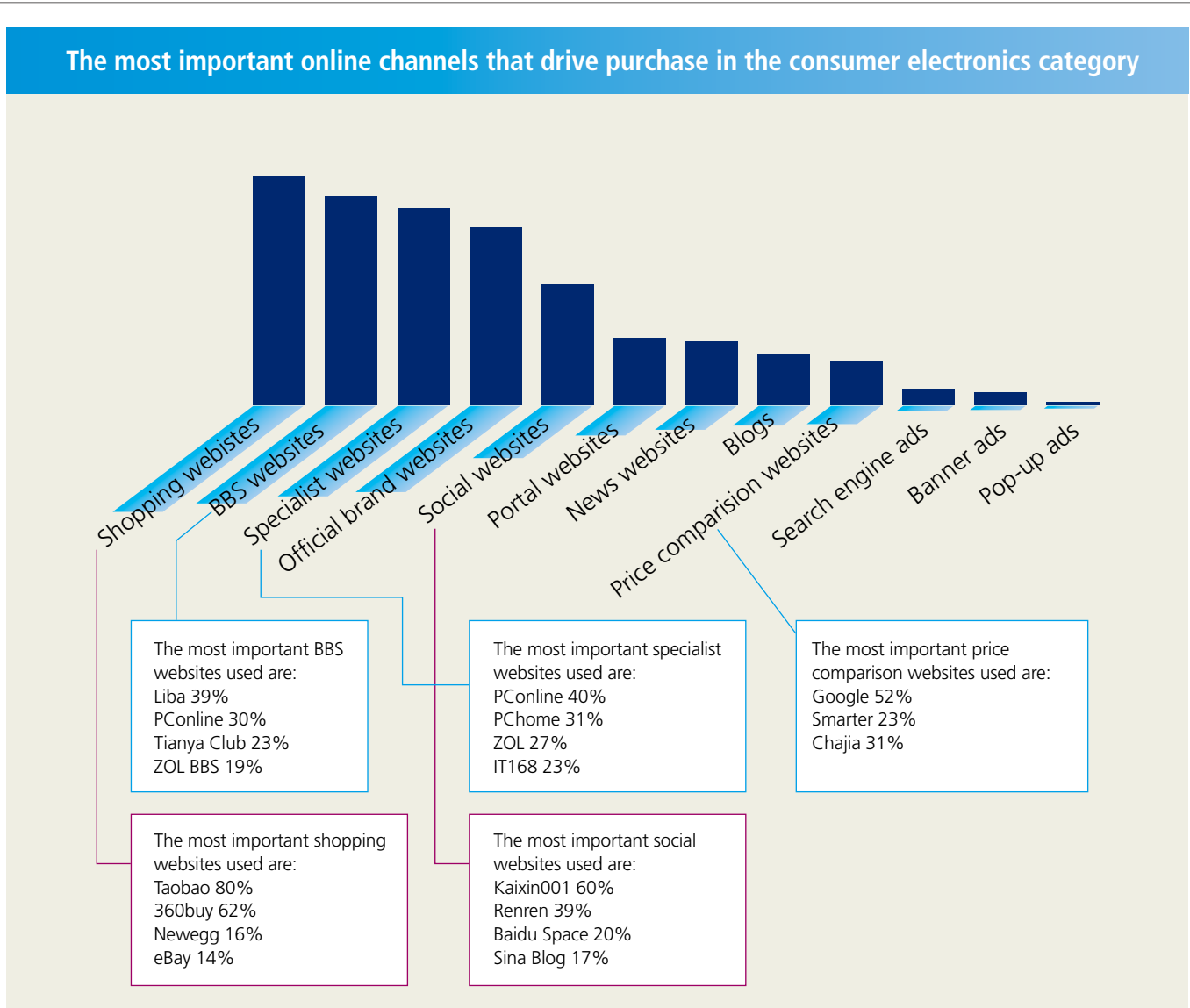
Importance of online information sources that drive passenger car purchases versus average importance across multiple product categories



Source: DDMA China Online Information Impact Study 2011
 Base: Respondents who Bought a Car in the Last 12 Months: n=138



This stage was then followed by the evaluation of the most popular online platforms within each online source. The purpose is not to audit these online sources but rather to provide examples of the types of websites which are used within each online channel. The following example is from the consumer electronics category.



Shopping websites are the main channel that consumers use to collect information about consumer electronics, with Taobao the dominant source of information. Other shopping websites, such as 360buy and Newegg, are also popular sources of information for this category.

BBS websites are also an important source of information for consumer electronics. Liba and PConline are the most popular BBS websites used. Other important BBS websites include Tianya Club and ZOL.

Specialist websites, such as PConline, PChome, ZOL and IT168 also play a key role in the information gathering process.

Social websites play a role in the collection and exchange of information, which is used in the purchase decision making process. Kaixin001 and Renren are the two main social website channels through which product information is collected and distributed, followed by Baidu Space and Sina Blog.

82%

of consumer electronics owners stated that information gathered online **influenced** their final purchase decision in terms of which brand and model to buy.

64%

of consumer electronics owners stated that information gathered online **influenced the majority** of their final decision as to which brand and model to buy.

Source: DDMA China Online Information Impact Study 2011
 Base: Respondents who Bought Consumer Electronics Last 12 months: n=179

The final stage of analysis within each product category is based on qualitative research conducted throughout 2010 by Focus Group China. This section is designed to provide detailed insight into the information gathering process and the sequence in which online sources are used, the type of information collected in each source and how this information is collected and exchanged online. An example from the printed books category is as follows:

Online information search process for printed books purchase decision

Male Consumers

Pay attention to best-selling lists and information about new book releases on news websites.

Search on **BBS websites** and **blogs** for information about books on specialised subjects, such as specific hobbies and areas of interest.

Use leading **shopping websites** to view users' reviews and compare prices.

Female Consumers

Much more active in collecting, exchanging and gathering information about books.

Use BBS websites to collect information about the latest books that other owners have recommended.

Pay close attention to best-selling lists on news, fashion, lifestyle and leading shopping websites.

Visit blogs of authors, celebrities and other famous people to collect information about new books which these people have read or published.

Exchange and share information online via social websites about books they have either read or are considering reading.

Pay close attention to reviews and rankings available on leading shopping websites. Share this information with friends online via shopping websites.



Both males and females pay close attention to bestselling title lists published in newspapers and on news and popular shopping websites. These lists are considered to be credible sources of information as they contain official sales figures.

"We usually always look at the rankings. On Dangdang there is a sales velocity ranking. It is separated into lots of types of books, and every type has a title and a ranking. Normally, I always first have a look at these lists to see which titles are the hot sellers."

Female aged 26 years old

"Dangdang has a sales ranking. The ones [books] that sell the most are on this list, and are of the most interest to me as they would definitely be enjoyed by everyone."

Male aged 31 years old

BBS websites play an important role in the collection of information about books. Users read posts placed by other readers in these channels and also offer their own opinions and views on books which they have read. Dangdang BBS and Liba are the two most popular BBS websites used for this purpose.

"Usually on BBS websites there are people who make their own posts and recommendations, for example, 'the ten classic books in my heart' and 'quite wonderful books that I have read'. I click through, and have a look at what they have introduced and recommended.....and then, if I'm interested, I'll have a look myself."

Female aged 34 years old

Information gathered from social websites plays an important role in the decision making process as to which book to buy, especially for females consumers. Information which is of particular interest includes new book reviews, recommendations and related comments from online friends about books which they have read recently.

"Usually on Kaixin001 I see some forwarded posts. Some are book reviews, and they are often written in a comparatively humorous and funny way. When I have read these, I go and search for any additional information, often from BBS websites or other sources. On Dangdang BBS, I look at some book reviews. If the reviews for a book are good or interesting, and the price is reasonable, then I buy a copy."

Female aged 27 years old

"Not so long ago there were lots of posts forwarded on Kaixin001 about Barbie Shou's beauty book, right? Actually these posts leaked a lot of content from the book. After seeing this, I felt it was actually quite useful, and then I went to Dangdang, and bought a copy."

Female aged 34 years old

Females are much more likely than males to pass on information to friends about books through social websites such as Renren and Kaixin001. Females often take notice of these post topics, and then click through to read the full reviews.

"Through my social websites I sometimes receive posts about books. If I feel these posts are fun or interesting, then I forward them onto my friends. You just have to click on the post or the comment, and then it is forwarded."

Female aged 28 years old

"We exchange information about books on Kaixin001 like this, if your friend has sent or forwarded a post about a book, you can only see the post title. If I see a book title that I think is quite interesting that my friend has sent to me, then I click through to read all the reviews and find out more about the book. If I think it is good, then I send the information to my other online friends that I think might be interested, and I go and do some more research about the book from other sources."

Female aged 33 years old

"I saw a post about a book which is all about female health. It had lots of information about dieting and other health-related matters. At the end, that post said all the content in the post was from a book called *Asking a Doctor is not as Good as Asking Yourself*. It was all about Chinese medicine and health. It was also very cheap on Dangdang – about RMB 20. In the end, I bought a copy."

Female aged 34 years old

Females pay a lot of attention to book-related information that they find in blogs of celebrities and famous writers.

"There is also lots of information in blogs. Before, weren't Han Han and GJM's blogs very popular? I normally go to Han Han's blog to see if he has any new articles out recently, or if he has published or is talking about any new books, then I might look at the reviews of these books in more detail or send the information onto my friends that I know who will also be interested."

Female aged 28 years old

"Everyone reads Han Han's blog a lot. His most recent book called 1988 and also his own magazine both attract lots of comments online...the information comes from his blog."

Female aged 29 years old

Males also collect information from blogs, but the information which they search for tends to be on more specialist subjects.

"When I read blogs, I look at stuff about trading shares. Some talented people tell you which books you should buy so that you can understand which stocks to buy. If some of these experts make a recommendation about a book, I go and read other reviews about the book, and I then look out for this book next time I am in the bookstore."

Male aged 26 years old

"Because I like to study and learn about computers and programming, I often go to review the blogs of some talented people who know a lot about this subject. Actually they are just normal people, but what they write is very professional and is often easy to understand. I go there to see their latest news as reference. I see if there are any books they recommend, and then I look for these books online, and read more reviews."

Male aged 34 years old

Shopping websites are used as an important source of information in the purchase decision process. Many of the most popular shopping websites have sections dedicated to books. Dangdang is the most popular shopping website, and is considered to be the most specialised and complete website.

"Once you have collected all the information from all of the other sources online and you decide to buy a book, then you definitely need to go and have a look at Dangdang, 360buy or even Taobao. Dangdang has specific and well organised information about books, and Taobao has lots of information about every type of thing."

Male aged 29 years old

"I usually buy my books on Dangdang. The information we collect from BBS websites, Kaixin001 or blogs is often not very detailed. On Dangdang there is lots of information about many different books, along with other users' comments and reviews. It is always the most detailed and best website for information."

Male aged 35 years old

"Dangdang has its own rankings. This is important reference information."

Male aged 33 years old

"There is another reason for going to Dangdang or 360buy and that is to look at prices. Only if the price is suitable will I buy. If it is too expensive, then I won't buy. I can find lots of novels and other types of books online for free. It does not matter if they are old or new...they are there and they are free...so if the price is too high, I just find a free version from somewhere online."

Female aged 34 years old

Once the type of information which consumers are search for when they are considering a purchase within a product category, how this information is collected and how it is exchanged online has been determined, the next key challenge is to understand how consumers behave online and the impact that this has on media consumption.

Section Four: Does traditional media offer value for money in China?

As Shanghai consumers are spending the equivalent of one and a half days online it is obvious that this time has been diverted from some other leisure activity. The China media market has always been very expensive and fragmented. The growing amount of time being spent online now calls into question the value of the traditional media and its ability to reach and communicate with a brand's target audience.

Among marketers some of the most popular and, therefore, expensive advertising time slots on China Central Television (CCTV) are placed around national news broadcasts, popular dramas and soap operas. Almost US\$ 2 billion was spent by advertisers at the CCTV advertising auction to buy media time from the network in November 2010. While there is little doubt that advertising on CCTV provides nationwide access, the rapid growth of high speed internet access combined with the growing popularity of watching news programs, sports programs and popular soap operas online instead of on TV, calls into the question the value that traditional TV media offers in reaching an advertiser's target consumers. For example, while

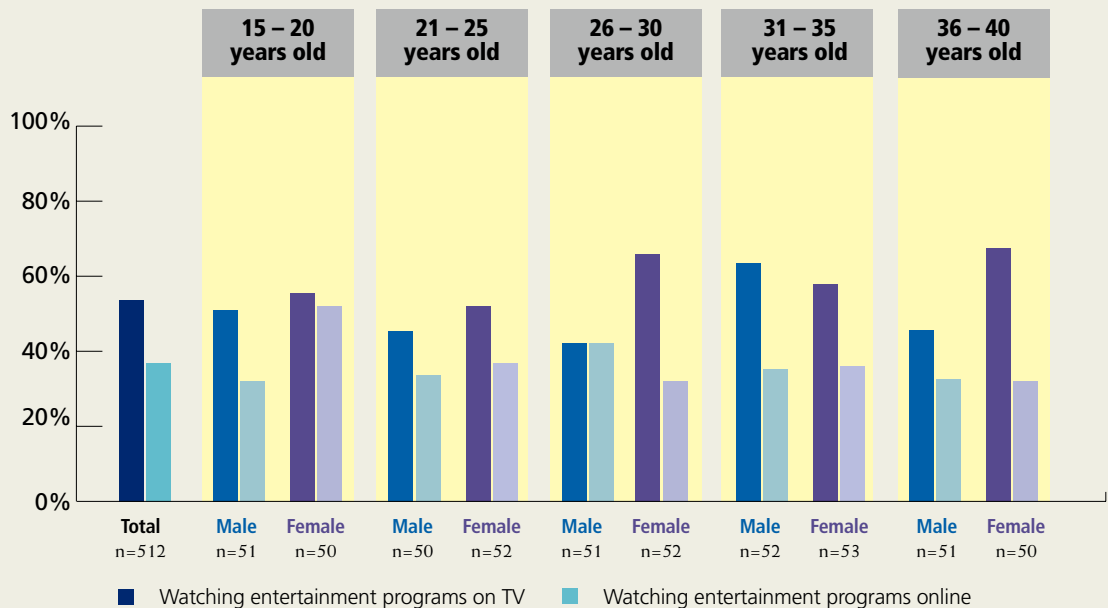
55% of internet users interviewed in this study stated that they watch entertainment programs on TV every day, an additional 40% stated that they now prefer to watch entertainment programs online instead of on TV. Similar numbers also apply to watching news or sports on TV versus watching the equivalent programming online. A similar pattern is also present in the comparison of the consumption of general, sports, fashion and entertainment news between traditional offline and online sources. Once more, the growing dependency on online content has eroded and diminished the consumption of the equivalent content delivered via traditional offline channels.

As Chinese consumers spend an increasing amount of time online and are becoming increasingly reliant on the internet as a source of general and product information, it is important for companies to understand these online activities relative to the offline equivalents in order to determine if online channels offer a more efficient approach to communicating with their target consumers than communicating through traditional channels.

A further point for consideration when planning any brand communication is to factor in how consumers interact with each other on a daily basis. Chinese internet users chat with friends and acquaintances online every day at a higher rate than meeting and socializing with friends and acquaintances in person. This suggests that while Chinese consumers may physically socialize less than before, they are in contact with many more people than during the pre-internet era. This means that word of mouth is far more influential today than it was in the pre-internet era.



Daily online activities: Watching entertainment programs online versus on TV

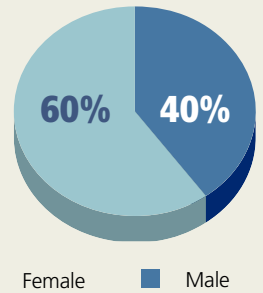


Source: DDMA China Online Information Impact Report 2011

Behavior and activities:

The qualitative research component of this study provides a deeper insight into this activity. For college students and office workers, it's not possible to watch all the programs they like during the week on TV. Rather than missing out, they often watch the episodes that they have missed online during their free time.

Share of total time watching entertainment programs online: Males versus females



Source: DDMA China Online Information Impact Report 2011
Base: All respondents: n=512

Conclusions:

Rapid internet growth has created significant challenges for both retailers and companies wishing to market and sell their brands to Chinese consumers.

From a retail perspective there are no guarantees nor is there any real reason why Chinese consumers will develop the same shopping behaviors as their western counterparts. Chinese consumers have not had time to develop habitual shopping behavior and “The Taobao Effect”, combined with all the advantages of shopping online has led to a rapid growth in online shopping.

Shanghai is the most advanced online shopping market. In this market online shopping generates revenues which are now the equivalent of 10% of all Shanghai retail sales. If other Chinese consumers follow the path of their Shanghai counterparts, online shopping will grow rapidly at the expense of traditional physical retail.

Aside from online sales, the actual influence that online information has on all consumer product sales in China is very high. Online information was the



largest influence in the purchase decision for US\$ 34 billion of consumer goods in Shanghai in 2010. Understanding this influence and the type of information collected by consumers during the pre-purchase stage is essential for the formulation of efficient marketing messaging and communication activities. How important different online sources are and how this varies across categories is also essential in terms of media placement, focus and investment.

Media buying and planning has also been impacted by the rapid growth of internet usage and the amount of time

which consumers are spending online. The levels of investment in traditional media must be questioned for many brands that are engaged in advertising and communication in China given the enormous amount of time which consumers are now spending online.



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