Industry Analysis

China's internet market growth in 2010 increased by 58%, which shows that the internet advertising market has grown at a rapid rate. The advertising market consists of GPS services, maps, online magazines, newspapers, telecommunication, video web sites, etc. The largest website provider in China is Baidu.com, which is also the number one search engine provider. Google, Alibaba, and Taobao are the most popular and biggest internet service providers. In 2010, Baidu was the internet service provider that generated more profit achieving RMB7.9 billion and covered 84% of the market, Google the second largest internet search engine provided 12%.[1] Baidu will invest more than 2 billion Yuan to build an International headquarter R & D department which will focus on internet operating systems.

China's market accounts for 400 million users as shown on **Exhibit 5** of *Internet Usage Statistics*. As the market is growing faster and the demand is high, Google has the advantage of entering into this market and growing. According to (I Research), Chinas market accounts for 11 billion Yuan ($1.7 billion) in 2010.[2] Studies have shown that the internet market will grow at 50% each year for a period of four years. One of Google's strategies for growth is to target Chinese firms to advertise their companies' services through the internet over the next few years. During 2010, Google focused on getting small and big companies to advertise through the web. Display advertising is 69% of the revenue on this market. China has increased its resources and capabilities in 2011 to target this fast growing market. The company has invested millions in advertisement and promotion. But this telecommunication service does not place Google in good shape as Baidu and Tencent are the largest competitive threats entering this market and have much more demand than Google at this moment. Another threat for Google is the online Map guide which the government has regulated and requires a special license to operate in China.

Potential Entrants:

Considering the world-wide-web (WWW) encompasses the world at large, potential entrants into the world of search engine websites and internet / Wi-Fi based information search tools is limitless. Entrants into this industry need only a server to house the algorithms, programs, and website / web apps, along with a web hosting account that will allow for bandwidth usage. Considering the abundance of worldly accessible programming / design talent, a non-technical and strictly business investment firm can obtain services and workers to create and / or maintain the search algorithms, web bots / programs, and website / web app are cheaper than ever before. This trend is the reason for so many new entrants each year and the need for divisions within the industry so that visitors and users can either search for specific information and / or general information with ease.

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[1] http://www.salisonline.org/market-research/china-internet-advertising-industry-report-2010-2011/

[2] http://www.scribd.com/doc/26904502/13/China-Internet-Industry-Analysis-Close-to-Consumers-Focus-on-Growth

Search engines are divided into two categories, Vertical and Horizontal. Vertical search engines are designed to collect and provide information on a specific topic. Examples include sites such as WebMD.com (Health Queries), Kayak.com (Travel Queries), Monster.com (Job Queries), Amazon.com and eBay (E-commerce Queries). Horizontal search engines are designed to collect and provide information on basically all topics. Examples include sites such as Google.com, Bing.com (Microsoft) and Yahoo.com.[3] Horizontal search engines are used more so because information seekers are able to see multiple results from sources from all over the internet, which provide potentially a larger variety of query results and references. According to the *comScore 2008 Digital Year In Review* (**Exhibit 7**), Google ended the year with 63.5% market share of all search queries performed in the U.S., up from 58.5% posted at the beginning of 2008. Of the 137 billion estimated total searches performed in the U.S. last year, 85 billion were done on Google.[4]

An example of a non-technical entity entering into the online search market is the China based COFCO Group. Chinese lifestyle information website Ganji.com has launched a new collective buying product, linking local group buying websites in Beijing, Shanghai, and Guangzhou, which will first cooperate with Womai.com owned by COFCO Group in providing group buying deals in Beijing.[5] COFCO is China's largest food processing and manufacturer.

Due to the increase in use of cell phones, a new emerging market of mobile search applications has presented itself to be an up and coming profit gold mine. Similar to developing an online search presence, entrance into this market is possible by anyone. The latest entrants include application developer Android and companies like Yahoo and Bing (Microsoft). Looking at **Exhibit 8**, you can see that as of July 2010, Google had 90.57% of the search market share and 98.29% of the mobile search market share. Even with the ease of entry into this market, Google has already brought over its search market dominance over to the mobile sector.[6]

Suppliers:

The People's Republic of China has a set of policies that restricts the information that its citizens are exposed too. Some names for this strict restriction and policies given by the people of China are The Golden Shield project and Great Firewall of China. These policies are extended to the internet where they place filters that restrict the people from accessing websites with certain content. China is said to have the most sophisticated technology for monitoring and limiting internet access for their users. Chinas public security department employees thousands of people to monitor the internet traffic in their country.

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[3] http://royal.pingdom.com/2010/03/05/google%E2%80%99s-competition-most-of-the-internet/
[4] http://techcrunch.com/2009/01/28/google-gobbled-up-90-percent-of-all-us-search-growth-in-2008/
[5] http://www.chinatechnews.com/2011/03/18/13152-chinas-ganji-com-develops-group-buying-internet-service-with-cofco
[6] http://royal.pingdom.com/2010/07/29/google-undisputed-heavyweight-champion-of-mobile-search/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+RoyalPingdom+%28Royal+Pingdom%29

A study done by Harvard Law School showed that out of 204,012 distinct web sites attempted, more than 50,000 were inaccessible from at least one access point in China. China does indeed block a range of web content beyond that which is sexually explicit. These restrictions were blocking thousands of sites offering information about news, health, education, and entertainment, as well as some 3,284 sites from Taiwan.[7]

The “blocking” or restrictions of sites by the Chinese government is done through the use of government sponsored and / or controlled internet and network service providers. The four major national network service providers are CSTNET, ChinaNet, CERNET and CHINAGBN. China’s primary internet carrier is China Telecom. Two primary mobile internet provider companies in China are China Mobile and SINA Mobile. As of March 2011 China Mobile was the largest mobile phone provider which had more than 600 million providers. China Mobile enjoys substantial protectionism benefits from the government and also government intervention. It is presumably a government owned company. Chinas demand of mobile phone internet is very high, at over 73 million or 29% of the people in China access the internet through their mobile telephone. Just over 91 percent of China's Internet users are surfing the Web with a broadband connection, an increase of 100 million from 2007. Mobile phone Internet users totaled 118 million by the end of 2008.[8]

Google’s network servers and sites are housed and maintained in the US, so they do not need to use any of China’s networking or internet service providers to function in mainland China. However, in order for the people of China to access Google’s sites and applications, they must first go through the networking and internet services controlled by the government of China. Many US internet suppliers have been trying to enter the China internet market but because the government regulations are so strict, many realize that it is not worth the investment.[9]

Substitutes:

Google started as a web search engine company and has since expanded into both computer software and hardware. This has been done through their own R&D and the acquisition of over 90 companies since 2001, including YouTube (Online video streaming / social sharing), AOL (internet broadband services), and DoubleClick (online advertising). The strategic purchase of such companies was not only to provide Google with a competitive edge over the competition, but also to setup Google for future ventures in the world of information seeking and sharing.

Google Maps is an online / internet based mapping service application and technology. Access to Google Maps is free and also includes: Google Ride Finder and Google Transit. The application use of the service can be found on the computer, tablet, and smart phone. Substitutes for the application and technology usage of Google Maps include Garmin, Megellan, TomTom, and GTX Corp personal navigation systems. Local mapping service providers are

[7] http://cyber.law.harvard.edu/filtering/china/
[8] http://articles.cnn.com/2009-01-14/tech/china.internet_1_china-tops-world-xinhua-news-service-chinese-government?_s=PM:TECH
[9] http://www.cfr.org/china/us-internet-providers-great-firewall-china/p9856

Mapquest.com and Yahoo.com, while China based mapping service providers include Edushi.com and Mapabc.com.

Being that Google's primary function is being a general (horizontal) search engine tool, competition can be found in any site that provides specific searches and information to queries (vertical search engines). Local competition includes Fortune.com (Money / News Queries) and WebMD (Health Queries), while China based competition includes ChinaToday.com (News Queries) and Haohaoreport.com (Blog Queries).

Other competition to Google can be found in traditional forms of telecommunications and advertising (TV and radio). Google's primary source of revenue comes from online advertisement, totaling $28 billion in 2010. However considering that the internet is not the primary source of communication in the world, businesses still choose to invest the majority of their advertisement dollars into traditional forms such as cable TV and radio ads. Local competition includes NBC (Television Services), Comcast Cable (Cable Television / Broadband / VOIP Services), while China based competition includes China Telecom (Telecommunication Services) and China Netcom (Telecommunications / Internet Services)

Buyers:

Buyers of Google include students, business people, common internet users, researchers, and companies. All of which seeking to take advantage of Google's worldly and responsive search capabilities, along with its ability to provide them with access to people across the world. According to Experian Hitwise, the world authority on online analytics and website management, Google.com is the second most visited website in the world (Facebook.com being #1 as of December 2010).[10] Businesses looking to promote their businesses to the world for minimum costs seek out Google AdSense services because of this ranking. All other non-profit seekers take advantage of this ranking to find the most up to date worldly information.

Industry:

There are four major national network providers in China. CSTNET, ChinaNet, CerNet and China Telecom. CSTNET was the first company to generate a web based link for China and was the first company to give internet service to China residents globally. It has more than 12 sub centers in China which covers more than 20 provinces in China. It has been the largest network provider in China for the last years and is one of the key roles of today's development in the internet industry. ChinaNet the second largest internet provider and is another company that is authorized by the government in this country to provide this service to most of their provinces.

The television internet industry is growing drastically in China. More than 300 million people use computers to watch TV shows, movies and the news. Big video sites like Youku, PPTV, TuDou and KU6 are spending millions in trying to license content, produce programming and buy bandwidth to broadcast through the internet. The online travel market is another

[10] http://www.readwriteweb.com/archives/it_was_a_facebook_christmas.php

industry that is growing.[11] The global online travel market accounted for 4% growth of China's GDP for the last several years.

Many Kiosks and cafes are located in the provinces and offer internet service to web users where they can watch movies, download music, and search for information etc. Internet bars are very popular in China as they service food, alcohol, and there are even rooms to sleep and other type of entertainment is offered. The largest internet users in China are under the age of 30 years of age which account for 71% of the internet users as shown on **Exhibit 6** which shows China's Internet User Age Demographics. It has been researched through internet traffic tracking that 91% of internet users are using Instant Message services and internet searches the majority of times for things such as online gaming, gambling, pornography in comparison of using the internet search for research which is at the lowest.

Internet addiction in China rivals that of the US. Internet addicts in China spend roughly 6.13 hours online each day, a figure that coincided with the U.S assessment of 6.14 hours a day. Research by the internet media company InterActiveCorp showed that 42 percent of young Chinese who were polled felt addicted to the internet, compared with 18 percent in the United States.[12]

The search engine industry in China is ruled by Baidu.com. Other search engine providers accessible by the people of China include Alibaba.com, Yahoo, Sohu.com, Bing (Microsoft) and Tencent.com. The primary internet advertising companies in China are Baidu and SINA Corporation (SINA Mobile, SINA Online, and SINA.net). The top Vertical search engines for research and information in China are Hudong, Baidu Baike, and Chinese Wikipedia.

Conflicts and potential problems that occurred and are still occurring with Google's attempt at entry into China are focused around the strict restrictions in place. Google's algorithm based search tool does not take into account the rules and policies of the country, so in order for Google to enter the market, they would have to change their product. A product that is worldly accepted and praised by everyone, including those in China fortunate enough to have access.

[11] http://www.beijingimpact.com/forum/8-living-in-beijing/652-booming-demand-for-tv-on-the-internet-in-china.html

[12] http://laowaiblog.com/chinas-internet-addiction/

Exhibit A

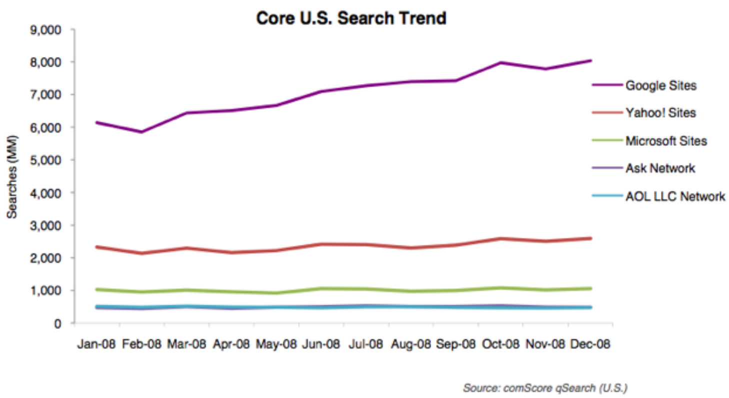

Exhibit B