



China's social-media boom

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China's social-media boom

Social media is exploding worldwide, and China is leading the way. A new McKinsey survey of 5,700 Internet users in China has found that 95 percent of those living in Tier 1, Tier 2, and Tier 3 cities are registered on a social-media site; in addition, the country has by far the world's most active social-media population, with 91 percent of respondents saying they visited a social-media site in the previous six months, compared with 30 percent in Japan, 67 percent in the United States, and 70 percent in South Korea (see sidebar, "The iConsumer China survey"). The survey, which explores the behavior of Chinese consumers on social networks, is the first of its kind in China.

While messaging and sharing photos is as popular in China as in other regions, one aspect of usage in the country stands out: social media has a greater influence on purchasing decisions for consumers in China than for those anywhere else in the world. Chinese consumers say they are more likely to consider buying a product if they see it mentioned on a social-media site and more likely to purchase a product or service if a friend or acquaintance recommends it on a social-media site. This can be explained in part by a cultural difference: Chinese consumers prize peer-to-peer recommendations because they lack trust in formal institutions. In general, the Chinese populace is skeptical of information from news sources and advertising; people rely more on word-of-mouth from friends, family, and key opinion leaders, many of whom share information on social media.

The popularity of these sites in China is critically important for companies looking to engage the vast and increasingly affluent online audience that uses social media as a vital source of information for brand and product decisions. The social-media landscape in China is a complex environment at huge scale. Yet not all social-media users are alike. They have distinct reasons for joining social media and different usage patterns, and companies that are forming social-media strategies should consider these elements. Our survey identified six user groups; understanding these target segments will facilitate analysis of consumer engagement to form insights on a broad spectrum of business activities, such as product development, brand and marketing strategy, sales-lead generation, and customer service and support.

This report reviews the survey findings and offers a perspective on how companies can use Chinese social media

to create meaningful value for their businesses. First, we will review China's digital-development stage and its social-media landscape. Next, we will look more closely at how the Chinese are using social media and how behavior and preferences differ by user segments. Finally, we will discuss the hurdles that companies face in addressing consumers who use social media and the ways to overcome them.

The iConsumer China survey

To gauge the size of the social-media landscape and participation rates of Chinese users, as well as the distinct ways in which Chinese consumers are adopting e-commerce, McKinsey surveyed 5,700 Chinese Internet users in large cities and smaller urban areas. Their responses were compiled and analyzed to form iConsumer China 2011, one of the most detailed studies yet conducted on the preferences and attitudes of Chinese consumers online.

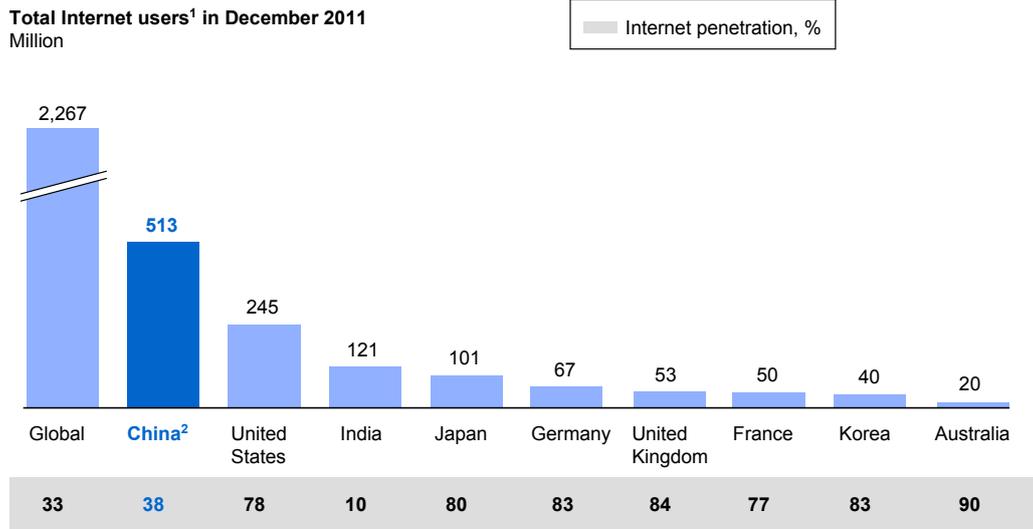
The most populous nation moves online

Internet usage has expanded more quickly in China than anywhere else in the world. In December 2011, China had 513 million Internet users, compared with 67 million in Germany, 121 million in India, and 245 million in the United States (Exhibit 1). The largest group of Chinese Internet users is people under 35 years old, with 40 percent between the ages of 25 and 34. Some 250 million Internet users in China are concentrated in Tier 1, Tier 2, and Tier 3 cities.¹ More than 50 percent of Chinese users spend more than 12 hours a week online.

The increasing popularity of the Internet, along with the maturation of online payment systems and enhancements in the reliability of logistics services, has fueled the growth of e-commerce in China, with more than 2,000 companies vying to be the Chinese version of Amazon. Chinese e-commerce is expected to triple by 2015, when sales could reach 2.7 trillion renminbi (\$420 billion)—20 percent higher than the projection for the US market (Exhibit 2). As e-commerce rises, a compelling opportunity for brands

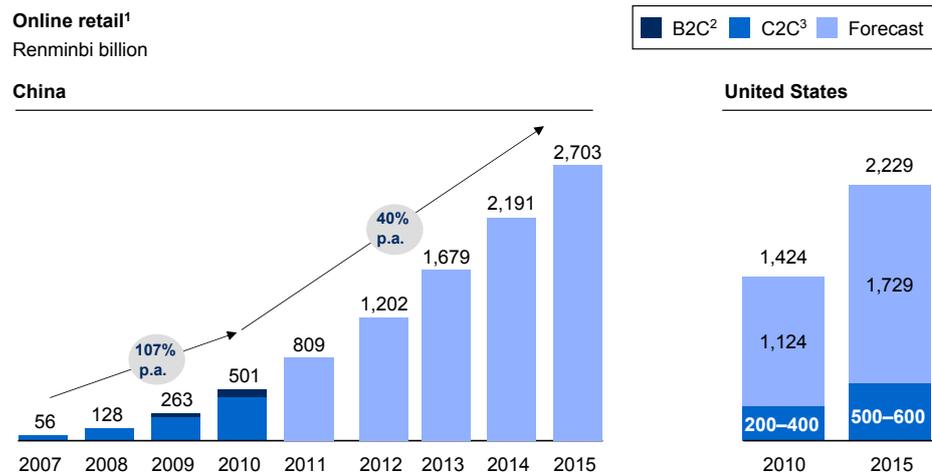
¹ The Tier 1 Chinese cities are Beijing, Guangzhou, Shanghai, and Shenzhen. They were the first cities that the central government opened to economic development and tend to be the most populous and affluent. Tier 2 cities have a population closer to 5 million people, and Tier 3 cities have around 2.5 million people.

Exhibit 1 China already has the world's largest population of Internet users.



¹ Including people accessing the Internet via personal computer and mobile phone; data as of the end of 2011.
² Percentage of overall China population over age 6.
 Source: Internet World Status, December 2011

Exhibit 2 China's e-commerce market is expected to grow significantly, becoming the world's largest such market by 2015.



**C2C represents 87% of online retail in China and only ~20% in the United States
 China's online-retail market will be larger than that of the United States by 2015**

¹ Excluding financial products, travel package/ticketing, and utility fees.
² Business to consumer.
³ Consumer to consumer.
 Source: CMM, CCID Consulting; Sino Market Research; Gartner; IDC; Euromonitor; Planet Retail; Forrester; BBE; GfK Market Consulting; McKinsey analysis

will be to prompt immediate purchases online by consumers searching for product information using social media.

Chinese consumers gain access to the Internet primarily through personal computers; however, they are moving quickly to mobile devices. About 50 percent of mobile-phone users in our survey said they were planning to buy a smartphone in the next six months; 35 percent said they have already used a tablet computer, and one-fourth of consumers who do not own a tablet computer said they plan to buy one in the next year. Some 58 percent reported using a smartphone to browse social-media sites at least once a week, compared with 43 percent of consumers in the United States.

Deep dive: China's unique social-media landscape

Local Chinese sites dominate the landscape; while Facebook and Twitter are fixtures of daily online use in the West and in other Asian countries, there is no access to these sites in China. In our survey, Chinese consumers identified the following social-media sites as their favorites: Qzone, which 44 percent of respondents said they use the most; Sina Weibo and Renren, each the favorite of 19 percent of those surveyed; Tencent Weibo, with 8 percent; and Kaixin, at 7 percent. (See table below.)

The survey elicited several other important findings:

- Chinese social-media sites are already nearly as important as portals as an entry point to obtain content; 40 percent of personal-computer users said portals are their preferred sites for this use, while 36 percent opted for social-media sites. Search is still by far the largest source of content, with 80 percent of users employing that tool.
- Chinese Internet users spend more time on social-media sites than their counterparts do in Japan and the United States. For example, consumers in China spend 46 minutes a day visiting social-media sites, compared with 7 minutes in Japan and 37 minutes in the United States. As time on social-media sites increases, consumers are spending less time on other sites (Exhibit 3). The trend is also changing how consumers communicate (Exhibit 4).
- Different social-media sites attract different kinds of users. For example, consumers who favor Sina Weibo tend to be in higher income brackets, earning more than 8,000 renminbi (about \$1,300) a month, and they are much more likely to live in Tier 1 cities.

China's expanding social-media universe includes online product reviews, blog posts on the latest in technology and services, and a remarkably vocal group of consumer

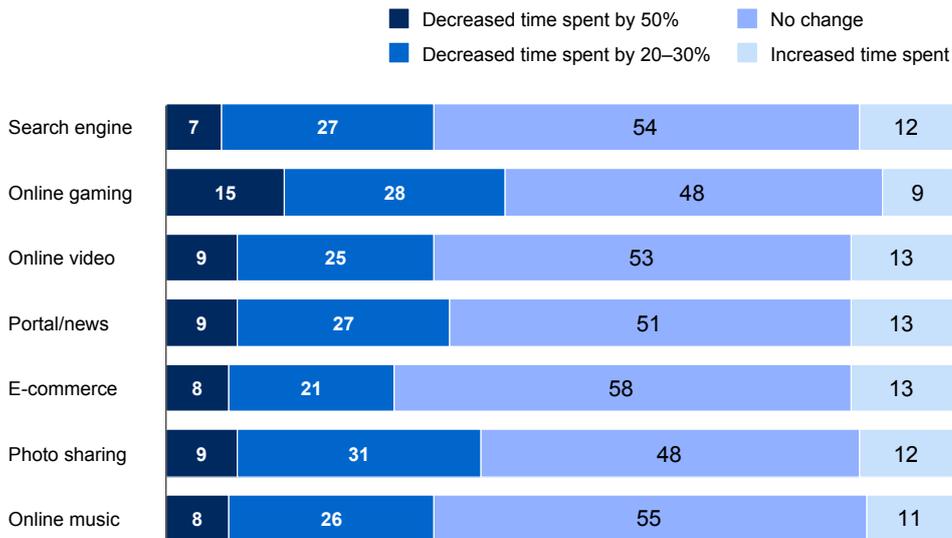
Chinese social-media sites possess some distinctive features compared with counterparts elsewhere:

- **Qzone.** The media conglomerate Tencent Holdings owns this site, which is bundled with the company's popular Internet-messaging tools. It is similar to MySpace in that it allows users to create their own Web pages for posting updates, photos, and videos.
- **Sina Weibo and Tencent Weibo.** *Weibo* means "microblogging" in Mandarin. Weibo products offer many of the features of Facebook and Twitter: for instance, users can post personal updates with a 140-character limit, upload photos and videos, and message other users. Sina Weibo introduced a multimedia function a year and a half before Twitter did. Tencent Weibo, its primary competitor, is owned by Tencent Holdings and recruits users from its QQ instant-messaging base; it has more users from smaller cities than does Sina Weibo.
- **Renren.** *Ren* means "people" in Mandarin, and the name Renren suggests people communicating with other people. Like Facebook, it began as a social-networking site exclusively for college students. While now open to a general audience, it is still dominated by university students and recent graduates.
- **Kaixin.** *Kaixin* means "happy" in Mandarin. Kaixin is also a Facebook-like site. The company started by offering online games; it targets white-collar office workers.

Exhibit 3 The popularity of social networking has resulted in a significant decrease in time spent elsewhere online.

How has your time spent on the following changed since you started using a social-networking site?

%, n = 709

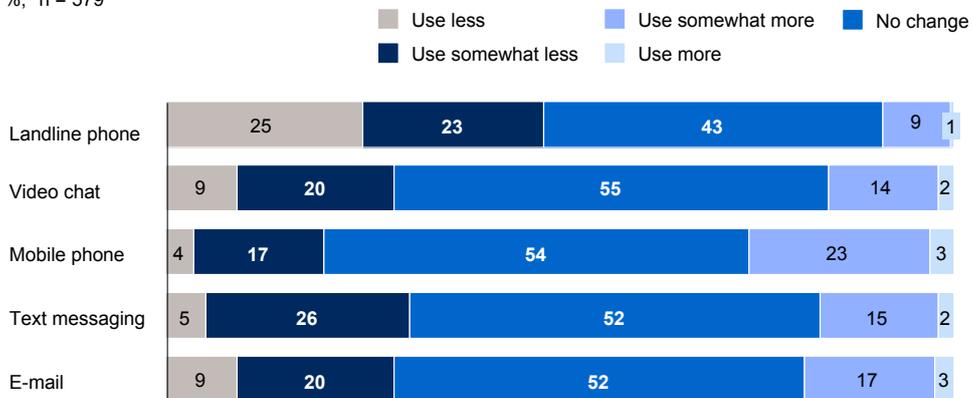


Source: iConsumer China 2011

Exhibit 4 Social networking is becoming more important as a channel of communication.

How has your use of other communication channels changed since you began using social-networking sites?

%,¹ n = 579



¹ Some categories exceed 100% due to rounding.
Source: iConsumer China 2011

advocates who don't hesitate to condemn products they consider shoddy or substandard. Chinese bloggers enjoy huge audiences. For example, Laoluo, a language teacher who has 1 million followers, frequently writes about defective products and technology, and Little S, a Taiwanese actress with 12 million followers, blogs about celebrities and other popular topics. One challenge is the increasing amount of "seeded" content generated by companies looking to create positive sentiments toward their brands and negative sentiments toward competitors. This complicates analysis of Internet voices, increasing the importance of screening out commercial noise to get at authentic consumer sentiment.

Deep dive: China's distinct social-media users

To better understand Chinese social-media users, we segmented them into six groups based on motivation and behavior:

- **Social enthusiasts** spend a large portion of their time maintaining friendship networks; they account for about 15 percent of social-media users.
- **Resenders**, who account for 15 percent of participants, actively repost messages, such as jokes, from other sources. Although they do not post original material, they often have large numbers of followers.
- **Readers** generally do not participate but read what others have posted. They make up about 14 percent of users.
- **Opinionated users**, about 14 percent of participants on social-media sites, express their own, often strong, opinions and build large personal followings.
- **QQ spillovers** gain access to social-media sites thanks to their use of the QQ instant-messaging service owned by Tencent. While this group accounts for 21 percent of the audience for social media, participation from such users is minimal.
- **Inactives** belong to social-media sites but do not participate in a meaningful way.

The first four user segments tend to be more important than the last two for companies trying to reach Chinese consumers. These consumers' differing motives for using social media and their purchasing patterns and influences should be considered when companies think about how to engage them.

Social enthusiasts are a brand's best friend. They spend more time on social-media sites than any other segment—69 minutes a day, compared with an overall average of 46 minutes a day. They use social media to build and maintain their circles of friends: 68 percent of respondents in this segment post daily updates on their lives, while only 41 percent of all users do. And they care about the number of friends they have: 76 percent agree that having a large circle of friends is important to them, while less than half of average users say so. We also found that the segment is more educated and slightly younger than average.

These consumers are happy to see brand ads on their sites. They are by far the most likely to use social-media sites to learn about products and services that they want to purchase; 46 percent of respondents in this segment agree that this is an important feature of social media, while only 30 percent of users overall say so. They are the most open to advertising and special-purpose apps sponsored by brands. Social media is used most for sharing reviews of products and services and telling friends about their recent

Case study 1

One multinational appliance maker learned a hard lesson about the power of social media in China. After a popular blogger complained about a defective product, the company responded through Weibo, but it refused to recognize the quality problem. Other consumers soon joined in and uploaded videos of and posts about their own problematic appliances, severely damaging the brand's equity. Takeaways from the episode: companies must learn the rules of the game in social media and engage consumers accordingly; additionally, they should build relationships and engage with key opinion leaders before a crisis hits. In our view, having a few dedicated members to seed content is usually not sufficient, given the sheer scale of the landscape and consumers' expectations. Companies should adjust their organizational models and use new approaches to handle the requirements of consumer engagement on social media.

purchases. People in this segment are more likely to use Groupon-type coupons issued to large groups of consumers than are people in other segments.

Resenders are also brand-friendly. They see social-media sites as a means to promote themselves: 32 percent of respondents in this segment indicate that “driving traffic to my blog and generating followers” is important, compared with an average of 18 percent for all respondents. They achieve this by building on other activity, for instance, commenting on others’ blogs, writing on their walls, or reposting videos. They have slightly lower education and income levels than the survey average, and more of them live in lower-tier cities.

In addition to being friendly to brands, these users are happy to contribute to Web pages devoted to a particular brand’s products. More than 40 percent say they make Groupon-type purchases, and 69 percent say they spend money on things they see on social-networking sites every month—a level that exceeds even that of social enthusiasts.

Readers also spend significant time on social media (55 minutes a day), but a big portion of that is devoted to reading content; for example, they typically follow a number of microblogs and read them on a daily basis, but only 13 percent of respondents say they comment on blogs, and only 7 percent say they write on someone else’s wall. They also rarely post their own content on the Web. Consistent with their behavior, consumers in this segment tend to be neutral about brand advertising on social-media sites, but they could be influenced by bloggers talking positively about products. Like social enthusiasts and resenders, they strongly agree that they make friends with companies online.

Opinionated users could become a brand’s worst enemy if not managed well. They spend an average of 60 minutes on social-media sites every day, and more of that time is devoted to uploading content than reading it. More than 60 percent of respondents in this segment view social-media sites as important places for them to express their opinions, while only 26 percent of overall respondents do. This group of consumers does not want to see brands advertised and will speak out if they have had a bad experience with a product or brand. They are much less likely than people in other groups to purchase an item that a site has featured.

Our segmentation suggests that a one-size-fits-all approach to marketing on social-media sites could be a waste of time and money. Instead, it’s important to recognize different

Case study 2

A good example of how social media can be used for marketing occurred during a thunderstorm that drenched Beijing in June 2011. It began with a post on Sina Weibo of photos of a young man putting Durex condoms over his shoes. The post was then picked up by the official Durex Weibo account. The post went viral and reached an estimated 50 million users throughout China. The effort was described by *China Daily* as one of the most successful uses ever of social networking for marketing purposes.

patterns of consumer behavior in social networking, as receptiveness to commercial activities and preferences about modes of interaction clearly vary; it’s also essential to deploy appropriate strategies for each segment as they apply to target consumers.

Engagement with the digital Chinese consumer

Companies face three big challenges in China when seeking to extract value from social media. First, some executives lack familiarity with social media and do not know how to mine consumer insights from this ocean of data, or how to translate those insights into actions, especially in the country’s dynamic ecosystem. Second, existing social-media knowledge and analysis frequently is not actionable; participating in the social-media space requires companies to build capabilities and focus on execution. Third, executives may be unsure about how to fit social-media insights into traditional brand-planning processes, who should own social media within the organization, or how to measure impact. There are a few important areas to consider when exploring how to create value from social media:

- Social-media objective and baseline setting.** Companies should decide what they would like social media to achieve for the business (for example, product development, brand and marketing strategy, sales-lead generation, and customer service and support). They should develop an understanding of the social-media context by systematically tracking buzz volume and brand sentiment against competitors. And they should identify important platforms and individuals who matter to their brand—especially opinion leaders who have a significant number of followers.

- **Social-media engagement.** Companies should prioritize platforms to build a presence and reach target consumers. They should clarify the role that each platform will play in the overall engagement strategy. It is also important for companies to have two-way conversations that involve consumers, rather than carrying on a monologue; they should engage on topics that are of interest, determining these by observing discussion topics in consumers' posts, for example. Additionally, companies can host events for key influencers to create positive experiences and encourage them to be brand advocates.
- **Organization, IT enablement, and capability building.** Organizational needs must be defined, and talent should be recruited to close key capability gaps. Companies can use social-media tools to monitor consumer discussions, and they should integrate social-media insights and engagement into regular business processes. They should define key performance indicators to track social-media performance and foster cross-

departmental collaboration to take full advantage of this opportunity.



The eager adoption by Chinese consumers of homegrown social-media sites has created unique opportunities for companies that want to gain insights about, and engage with, a vast and increasingly affluent market. Companies that want to tap into the power of social media should understand the landscape and different types of users; this can help them glean insights and engage consumers. And companies should also be prepared to make significant organizational and operational changes, including shifting mind-sets to capture the full value of social media for the future of the business in China.

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