

Online media

(Fool's) gold in them thar hills

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There's a gold rush on in the Chinese "new media" industry. Venture capitalists are ogling internet start-ups with an enthusiasm last seen in the dot-com boom days of 1999. Chinese internet users are spending ever more time on blogs, e-zines, and online social networks, and downloading and sharing millions of terabytes of video and audio. Online advertising spend, at least US\$600m in 2006, is growing at over 40 percent a year. But just as no California gold prospector got as rich as blue jean king Levi Strauss, who sold the miners their pants, so the real money in Chinese new media is being made not by the new media firms themselves – that is, the sites generating the new content. Instead, the revenues are hogged by giant internet portal sites that control most internet traffic. Content, sadly, is not king.

The Sina stranglehold

By far the most powerful players in new media are the behemoth portal sites Sina and QQ.com (the latter operated by Nasdaq-listed Tencent), and their followers: Sohu, Netease (163.com) and Tom.com. Sina is one of the most trusted online news sites, not because it generates its own news content (it doesn't) but because it aggregates a vast amount of material first published elsewhere – a practice politely known in copyright-light China as "re-publication." Its forums and BBS functions are popular, and the site generates maximum traffic from internet celebrities and scandals by publishing multi-media supplements about popular subjects. Celebrity blogs drive a thriving blog service. Sina also offers games and an incipient video service. It innovates little but is quick to experiment with and profit from any new trend or revenue stream that other websites pioneer. QQ.com is similar to Sina, although its main appeal is a market-leading instant messaging service, and it tends to attract younger users.

After the portals, the next most profitable galaxy in the new media universe is online gaming. The leading companies are Shanda, The9, and Netease, and they have performed consistently well over the last few years, despite regular government crackdowns on teen internet gaming addiction. Together, the top portals, gaming companies and search engines account for most online advertising revenues (see Table 1).

Portal power

Table 1

Ad revenues of listed Chinese internet companies

	Main business	Ad revenues, US\$ m	
		2006	2007e
Baidu	Search	106	229
Sina	Portal	120	171
Sohu	Portal	92	120
Tencent (QQ.com)	Portal, messaging	34	66
Netease	Gaming	36	39
Tom Online*	Portal	13	18
Shanda	Gaming	6	14
Total		408	591

Source: Company reports, author estimates

*Company de-listed in Q3 2007

Networked togetherness

So what's new?

New media is a vague term that can include almost any entertainment or information content on the internet, accessible either by computer or mobile phone. In addition to blogs, internet forums and other text content, new media includes downloadable music and movies, podcasts, and multi-media online games. Also within the “new media” ambit are articles from print media republished online, a process known to Chinese internet users and publishers not as copyright infringement but as “republishing” (*zhuan zai*). New media also encompasses so-called “Web 2.0” or user-generated content, such as file-sharing, bulletin board systems (BBS), and online user-generated video.

“Social media” is a subset of new media whose primary goal is to promote social interaction. Facebook is the most famous example, but the form can include blog hosts and photo and video sharing sites. A Chinese example is Tianya.cn, a forum where users can link to people with similar interests, or who live in the same neighborhood, or who can answer questions or provide assistance. Such websites can also spread news. Tianya.cn broke the two biggest social activism stories of 2007: the Chongqing “Nail House,” involving a property owner who refused to vacate land acquired by developers, and the revelation of slavery in illegal brick kilns in Shanxi province.

In this article, we focus on new media companies that are primarily content generators rather than service providers. We therefore excluded the following, even though they are sometimes labeled new media: Focus Media, which installs flat TV screens in apartment and office buildings to display advertising; search engines (Baidu); wireless portals that provide services and information to mobile phone users (KongZhong); e-commerce sites (Amazon clones Dangdang and Joyo); and vertical sites that pull together search and resources about a single topic (51Job for job seekers and recruiters, and Qunar.com, for information about travel).

Lots of dirty words

The rest of China’s new media landscape is one of infinite variety and almost zero profit. Companies as diverse as e-zine *Kaila*, blog aggregator Bullog and YouTube-replica video site Youkou generate plenty of interesting content but little cash.

New media’s great virtue is its vivacity of content. Online media offers personal voices deafeningly absent from the state-controlled print and broadcast media, and plenty of outrage. Here, for instance, is an excerpt from blogger Wang Xiaofeng’s post decrying efforts to rid the Beijing dialect of obscenities before the Olympics: “With such ‘stupid cunt’-looking Olympics mascots, why the hell can’t we scream out ‘stupid cunt’ when we attend Olympics events?”

Refreshingly vulgar

This freedom of expression is refreshing, but not wholly unconstrained. The sheer volume of websites means it is impossible to patrol them as meticulously as print and broadcast media. And because offending content can be removed at the touch of a button, the act of publishing it is less consequential than the publication of a newspaper or magazine article. “Mistakes” by online publishers tend to be forgiven if a troublesome article is swiftly eliminated. The net result is that internet expression is relatively free, but truly adventurous content is short-lived.

The government exercises leverage over new media mainly through licensing requirements. Of the several permits required to run a website, the most important is the internet content provider (ICP) license from the Ministry of Information Industry

(MII). Foreign companies are typically not allowed to obtain an ICP license that allows them to generate revenue through the website, so they often get their ICP licenses through local partners.

Cartoon coppers

For internet users, the new media environment is subject to less regulation than almost any other aspect of life in China. MII and other government organs have attempted to impose “real name” registration that would stop anonymous posting to blogs and forum websites, but these efforts have failed. With anonymous dialup connections available almost everywhere, it is easy for net users to keep their identities private.

Even internet users who identify themselves, like the earthy Wang Xiaofeng, have surprisingly little to fear. A profusion of agencies claim the right to supervise internet content: MII, the General Administration of Press and Publications (GAPP), the State Administration of Radio, Film and Television (SARFT), the Ministry of Public Security, the Ministry of Culture, the Party’s propaganda department, and the State Council Information Office (SCIO). The predictable result is chaos. GAPP, the Ministry of Public Security, the Publicity Department and the SCIO can all regulate news and “sensitive information.” GAPP also regulates online games, while SARFT is supposed to control online video and IPTV. Meanwhile MII registers domestic websites and administers the Great Firewall that blocks undesirable foreign sites. With all this overlapping jurisdiction, regulations abound; internet users ignore them; agencies don’t enforce them; more regulations follow.

The government’s response to this regulatory miasma is to demand that the online community police itself. Online service providers and internet users are encouraged to agree to “self-discipline” pledges. Big-eyed cartoon police officers – a male and female pair called Jingjing and Chacha (from “*jingcha*”, the Chinese word for police) – appear by government edict on many web pages and encourage internet users to report illegal and offensive online behavior. Internet service providers and websites often delete offending posts or comments on blogs and BBS, sometimes prompted by a deletion order from a government agency, but often preemptively.

This self-censorship is fairly effective, but if all else fails the government can step in with direct measures. For example, before the 17th Party Congress in October 2007, the government indiscriminately shut down thousands of websites when it forced internet data centers to cease operations. Such shut-downs are common around high-profile political events. The internet is also monitored by real internet cops – no one really knows how many, although a figure of 30,000 is widely reported.

Trustworthy, entertaining – and free

Despite these limits, new media content is more entertaining and informative than its counterparts in print and broadcast. On sensitive news stories, such as the 2003 SARS crisis or this year’s “Nail House” property rights controversy in Chongqing, internet users had access to news that had been banned from print sources. As a result, internet news has higher credibility in China than in western countries. A study by public relations firm Edelman in 2006 found that the internet was the second most trusted news source (behind TV but ahead of newspapers).

Two other features add to new media’s attraction. The social network component of

Table 2
Advertising spend on all media in China, 2006

	Rmb bn	Growth %
Television	40.4	14
Newspapers	31.3	22
Outdoor*	16.5	14
Radio	5.7	47
Online*	4.7	60
Magazines	2.4	-3
Other*	3.0	na

Source: NBS

*Estimated

DIY censorship

much new media allows internet users to find companionship and community in an environment where they can be themselves – or pretend to be the person they’ve always wanted to be. Perhaps more important, the price is right: new media is free. Want to read movie star Xu Jinglei’s e-zine, *Kaila*? You can download it for free. Want to blog? Open an account at Bokee or Sina at no charge. Interested in your classmates? Join Facebook clone Xiaonei for free.

Add to attractive content a rapidly growing user population and a good demographic profile, and new media ought to be an advertising magnet. China’s online population reached 172m in September 2007. Surveys suggest that about 44 percent of internet users are college educated and that virtually all college educated Chinese are online. More than a third of internet users are non-students between the ages of 25 and 50, and thus are likely to be members of the rising urban middle class that advertisers are desperate to reach.

Spoiled for choice

Yet new media sites are starved for ads. Kaiser Kuo, director of digital strategy at advertising agency Ogilvy & Mather in Beijing, confirms that advertisers spend only a “tiny proportion” of their media buying budget on new media, a situation he says reflects a “marketing confidence gap.” Ironically, the sources of new media’s success in attracting viewers also explain its failure to attract revenue.

Placement problems

For example, the overwhelming proliferation of new media offerings makes it impossible to figure out where an ad might be effective. China has one major television company and less than a hundred women’s magazines with nationwide distribution; but by 2006, its internet boasted 37 million blogs hosted by more than 650 blog service providers. Furthermore, the piquancy that attracts users tends to scare off advertisers. Large corporations with big ad budgets do not want to be associated with controversy, and regulatory confusion makes them reluctant to risk advertising on new and niche sites.

Other reasons for the low ad spend have more to do with the business and technological immaturity of new media firms. Most cannot provide detailed information about their audiences. Online advertisers rely on traffic rankings data provided by Alexa, a free traffic comparison service owned by Amazon. Alexa’s data can easily be massaged and is widely viewed as misleading, but there are few other options. Lack of data might not matter for a website with a clear identity, but most of them are too young for that. “No new media company has been there long enough and gotten enough revenue to really establish an identity and a core set of users,” says Anne Stevenson-Yang, an American internet entrepreneur and consultant. As a result, advertisers default to established advertising choices, like Sina.

Sina, unsurprisingly, protects its turf and thereby slows the distribution of advertising dollars to its new media competitors. For instance, Sina vigorously opposed attempts by celebrity blogger Xu Jinglei to sell (and collect the revenue from) ads on her Sina-hosted blog. Xu, a well-known film and television actress and director, is China’s most popular blogger and responded by dumping her Sina blog and launching a free e-zine, *Kaila*. Few other new media outlets have the celebrity power that enables them to maneuver around Sina.

Seller beware

Much has been written about the potential of the internet to undermine the government's social and political control. Less studied is the reputational risks that the Chinese internet can create for big companies. This risk, which may act as a constraint on the growth of online advertising, can take two forms. First, advertisers may want to avoid sharing space on a site with an author who runs into political trouble. Such authors are exceedingly common and can turn up on popular, well-trafficked sites. Blog aggregator Bullog hosts the blogs of Lian Yue, who was instrumental in organizing protests against a chemical factory in the port city of Xiamen in June 2007, and of Li Yinhe, a sexologist who defends wife-swapping. MSN Space hosted blogs – now both shut down – by Zhao Jing (a.k.a. Michael Anti), who urged reporters at the *Beijing Daily News* to resist a government crackdown in late 2005, and by Zeng Jinyan, the wife of AIDS activist Hu Jia, who kept a blog in 2006 recording her struggle to cope with Hu's detention by the authorities.

Second, angry internet mobs can turn minor customer relations problems into massive PR disasters. Several big Western brands have learned this the hard way. An internet campaign started on social networking sites forced Procter & Gamble to accept returns of high-end SKII skin care products that were alleged to contain heavy metals. A protest campaign started by TV anchor Rui Chenggang on his blog and joined by thousands of internet users helped to eject Starbucks from the Forbidden City. Dell sold a model of laptop computer with a chip that was slightly different than advertised. An irate customer started an anti-Dell campaign on an IT forum website that mushroomed, eventually forcing Dell to apologize effusively and offer returns and compensation.

Online and angry

Another anomaly is that Chinese internet advertising clings to formulas from the world of print. Sina and the other portals mainly provide display advertising, rather than the Google-style contextual advertising which is linked to key words on a page and is the main driver of online advertising in the developed world. And, like newspapers, Sina and its peers sell ads by the day, rather than on the per-impression or per-click basis used in the rest of the world. Analysts disagree on why this is so. One explanation is that Sina is so powerful it can impose a cost per day rate even though advertisers would prefer a traffic-based rate. Another, contradictory, theory is that Chinese advertisers are conservative and prefer to know exactly when and where their ads will appear.

Free for ever?

As for non-advertising revenue, forget it. The problem is not really that internet users are poor – although a much-cited recent survey by China Internet Network Information Center (CNNIC) found that only a third of internet users earned more than Rmb1,500 (US\$200) a month and only 4 percent made more than Rmb5,000. These figures are probably understate the income of Chinese internet users. Income data in China is notoriously inaccurate, and all other evidence collected by CNNIC suggests that more than a third of internet users are college-educated urban professionals.

A more important obstacle is the lack of an online payment mechanism. Credit cards are not widely used, and government regulations make online payment systems like PayPal hard to implement. A promising option would be to have payment for online services billed to mobile phone accounts, which are ubiquitous. But this has gone nowhere because the mobile telephony duopolists, China Mobile and China Uni-

How to spend it?

com, have demanded exorbitant percentages for transactions billed through their networks. And even if an online payment system took root, it is not clear how much good it would do for new media sites. Internet users have grown so accustomed to getting new media for free that it will take years to persuade them to pay for it.

*Content still counts
– as does counting*

In sum, the new media industry is prospecting what promises to be a rich seam, but to strike gold companies will need to offer more than compelling content: specifically, a clear identity that attracts a defined user group. And they will need to back it up with data about their users that will lure reluctant advertisers away from Sina. It may be a long shot, but it's probably not time to switch to blue jeans just yet.