

# A Pearl Research Exclusive Report

## Chinese Youth and Search Engine Usage 2008

An analysis of Baidu versus Google based on Chinese consumer interviews and feedback



## Pearl Research's Upcoming China Reports

Please contact us at [research@pearlresearch.com](mailto:research@pearlresearch.com), visit [www.pearlresearch.com](http://www.pearlresearch.com), or call 415-738-7660 for a no-obligation complimentary briefing or for further samples of the work.

- **Chinese User Opinions on the iPhone including purchase intent:** A report based on one-on-one interviews with Chinese youth regarding their knowledge and opinions on Apple's iPhone. The iPhone feedback will be complemented by general youth opinions on mobile products and services including carriers such as China Mobile and China Unicom and handset manufacturers such as Nokia, Motorola, Research in Motion and local brands.

- **Online Shopping in China:** With increasing Internet penetration and use of online banking, online shopping is becoming ever more convenient and accepted by China's youth. Pearl Research examines the interests, usage and concerns of Chinese youth towards online shopping.

- **Games Market in China:** The report provides insights into the \$1.4 billion market with analysis of emerging trends, top titles, leading companies, and forecasts. The report will examine the rising development capabilities in the country and emerging business models and game genres.



## Part of the Phoenix Generation series of reports covering Chinese youth

300 million strong and with \$135 billion in disposable spending income, China's consumer youth markets represent an untapped opportunity.

- Pearl Research's Phoenix Generation reports are an in-depth lifestyle study on Chinese youths ages 16 to 30. The qualitative and quantitative study identifies emerging trends, attitudinal shifts and "what's hot" in games, Internet, entertainment, technology, fashion, and consumer products.
- We focus on trends that have a business impact, providing insights into the origins and implications of these trends. The study helps companies understand this important demographic and what drives their lifestyle choices and spending habits.

### ***Defining the Phoenix Generation***

Pearl Research has coined the term "Phoenix Generation" to describe China's dynamic youth. This generation grew up during booming economic times and most do not have any siblings as the result of the one-child policy.

Pearl Research believes this generation will be the core driver of consumer spending in China. The Phoenix Generation reports are exclusive, primary-research reports dedicated to understanding this important demographic.

## About Pearl Research

Pearl Research is a business intelligence and consulting firm specializing in the technology, consumer and interactive entertainment markets with a special focus on emerging markets. Based in San Francisco and China, Pearl Research provides its clients access to a vast knowledge base of market research information. The company publishes in-depth research reports, provides a research advisory subscription service and customized research and consulting services.

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# I. Baidu dominates the search engine market despite lack of precision

## Background

Baidu started operating six years before Google's entrance to China

Since its launch in 2000, Baidu (NASDAQ: BIDU) and 2006, Google (NASDAQ: GOOG) have been engaged in a heated competition to capture market share

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Command 74.5%, while Google.com stood at 14.5%.

Beyond just market statistics, Pearl Research conducted 40 one-on-one interviews and an online survey of 450 across China with youth between the age of 16 and 30 to probe consumer sentiment about these search engines. These key findings illustrate what motivates consumers to select a search engine and provides the basis for a trend impact analysis.

## Executive Summary

Overall, Baidu leads the competition with strong youth-friendly features

Pearl Research believes that Google will continue to face challenges competing with Baidu's dominant position in the Chinese search engine market. Based on our interviews with Chinese youth, Baidu's lead is mostly a result of its Chinese brand, early market entry, strong entertainment functions and other youth-friendly features. Baidu's ability to return MP3 results efficiently and virtual community services such as its question-and-answer service "Baidu Know" have created a positive user experience for young Chinese users.

Features such as MP3 searches and forums are readily available on Baidu's homepage



**Pearl Research’s key findings**

Our interviewees largely selected Baidu as their first-choice search engine. However, when Baidu fails to return precise results, some users will use Google for more effective results. Other search engines that were mentioned for infrequent use include Tecent’s Soso and Sohu’s Sogou.

There are several reasons for Baidu’s popularity as outlined below.

**1) “Foreigners like to use Google”**

Based on our interviews, the primary reason for Baidu’s popularity is that Chinese view Google as an international product used by foreigners whilst Baidu is a product aimed exclusively at Chinese. Since Baidu is a Chinese-made product, some users believe it indexes more Chinese contents and is more suitable for Chinese searches. Zhu Q., a school teacher from Changzhou says, “I like to use Baidu for Chinese searches but switch to Google when I look for information in English.” For those respondents who were able to read some English, a common response to the question of why one engine was selected over another was “I would use Baidu for Chinese searches and Google for English searches.”

Thus, in order for Google to succeed in China, it must portray itself as a search

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One Beijing interviewee mentioned that Baidu’s mapping service provides information about bus routes, enabling users to map a location and figure out which Beijing bus to take to reach that location. For this user, Baidu became an

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early

*Users tend to believe Baidu’s search ability is superior due to its Chinese origin*

## 2) **First mover advantage for Baidu**

*Baidu's popularity also relies on its early market entry*

Baidu's early market entry in 2000 helped to establish its solid user base. Users of Baidu are familiar with its interface after years of use. "I've heard of Google but never used it before. I've used Baidu for a long time and there's no reason to switch," Bi L., male, 29, Beijing. "I started using Baidu when I first went online. I am just more used to typing in Baidu's address when I have to look for some information," says Huang L., a cell phone saleswoman from Shenzhen.

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male from Beijing.

*The network effect of Baidu allows it to grow its user base at a faster rate*

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in-depth returns.

## 3) **Baidu partnerships increases visibility**

*Baidu has high visibility on desktops and Internet cafes*

Through partnerships and software add-ons, Baidu is able to present itself on many user desktops, which made it more convenient for users to access its services. Our interviewees also noted that Baidu is often the default search engine at Internet cafes, which further enhances its visibility. "When I look at many Chinese blogs or forums, they use Baidu as the main search engine. It is often the first page I see when I turn on computers at an Internet café or someone's home.

When we need to know something, we just say let's Baidu it." Li X., male, 25, Changchun, Jiling Province. Whereas in the US, Pearl Research believes the term "Google it" has become part of the modern lexicon; in China, the term "Baidu it" has reached the same level of common usage.

**Internet cafes in China**



Source: Pearl Research

**4) Searches for multimedia content drives usage**

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*Baidu offers more convenient multimedia search functions that are popular among the youth*

To illustrate this point, Pearl Research conducted two searches, for Jay Chou, a popular singer in Chinese-speaking markets. A search for pop singer Jay Chou on Baidu’s music search service returns numerous links for music downloads and online music videos. On the other hand, Google does not provide direct MP3 searches. A search of “Jay Chou MP3” only returns web pages potentially containing music downloads. Thus for youth seeking quick access to entertainment contents, Baidu is clearly a more convenient tool to use.

## 5) Youth-friendly services on Baidu increase stickiness

Online communities such as “Baidu Knows” and online forums appeal to Chinese youth

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most popular one. I can find all the topics I want to talk about on it. If I ever wanted to know something, instead of filtering through many search results, I can just use Baidu Know.” Zhang X., male 21, Beijing.

## 6) Lower User Awareness for Google

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these names with Google and its service.

Google’s Chinese name and domains are not widely recognized by some Chinese youth.

As a result, many Chinese still cannot recognize Google as a fully localized product. “When I saw Google, it was all in English and very strange. I’m much more comfortable using Baidu.” (After hearing that there was a Google.cn) “Well I never knew about that, maybe I will try it next time but why would I use an American search engine to find out things in China?” says Li D., female, 25, Guangzhou.

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“I’ve heard of Google , but I don’t really know how to use it.” Referring to the popularity of Baidu and its wide-spread use among Chinese youth: “I remember during the Supergirl voting process that Baidu was so slow because everyone

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**7) Google’s Advantages: Strong Brand Loyalty**

One advantage that Google has over Baidu is stronger user loyalty. Although, as a group, Baidu-only users outnumber Google users, Google users expressed a stronger admiration for Google’s technical and search features. This strong user loyalty from our interviewees stemmed from their belief that Google offered a technically superior product for information searches.

*Many Google users switched from Baidu due to its superior information search service.*

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### **Strategy and Product Offerings**

Google China has been actively expanding its research capabilities in China and developing products specifically for the local market. The company has now established research centers in both Beijing and Shanghai. By the end of 2007, the company had approximately 500 employees in China. To enhance the user experience, Google set up servers in China in June 2007.

In addition, Google is partnering with leading Internet companies such as online classified ads site Ganji.com, website directory service 265.com and Internet forum site Tianya.com to expand its reach. The company also has stated that it has made several other undisclosed investments in China's Internet space.

Currently some of Google's China-specific products are still under development. At the Google Labs Chinese site, there is a public transit search and local information search functionality underway.

### **Key Partnerships:**

- Beginning 2007 - Google China invests in Thunder, one of China's most popular download management tools.
- January 2007 - Google joins forces with the world's largest mobile operator China Mobile to launch mobile search services.
- June 2007 –Google signs a partnership with Sina to provide search engine services for one of China's largest Internet portals.

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*Google now has approximately 500 employees in China.*

*Google formed key partnerships with companies including Thunder, China Mobile and Sina.*

## Strategy and Product Offerings

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partnership sites.

*Baidu currently offers 49 products in China.*

As of January 2008, Baidu China offers 49 products including searches, community functions and web enhancements.

**A list of Baidu's products. In addition, there is also a patent search feature, hao123 web directory and a financial portal**



Source: Baidu.com

Among these products, some are specifically tailored to meet the demands of Chinese users. For example, the culture and ancient literature search, as well as the recently launched 2008 Olympics channel is designed specifically to appeal to Chinese audiences.

*The entertainment and social functions are key drivers to Baidu's traffic.*

In order to connect with the younger segment of Chinese Internet users, Baidu offers entertainment products including MP3 and video searches, a game information channel and online forums. According to published statements from

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links to illegal music downloads. While Baidu continues to face criticisms over

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