Mobile Internet shakes up stodgy China industries

May 8 2014, by Joe Mcdonald

In this March 28, 2012 photo, Chinese performers hold up cards showing the various apps available for online users for shopping and other services at the launch of a mobile phone in Beijing, China. In an abrupt shift, some 81 percent of China's 618 million Internet users go online via smartphone or tablet, part of a worldwide trend known as the mobile Internet. The services Chinese users flock to are usually privately owned, while the competitors they leave behind belong to the state. Video websites compete with state TV, online financial services draw deposits away from banks and instant messaging apps take revenue from government-owned phone carriers. (AP Photo/Ng Han Guan)

Alibaba, the e-commerce giant planning a blockbuster share sale in the U.S., shook up China's vast but sleepy retailing industry by popularizing online shopping. Now it and China's other Internet companies are mounting challenges in areas from banking to broadcasting.

The new wave of change was triggered by the abrupt shift of Chinese Internet users to surfing the Web via smartphones or tablets. Some 81 percent of China's 618 million Internet users now go online wirelessly. Companies such as Alibaba that arose in the era of the desktop computer-based Internet are scrambling to roll out mobile-friendly services.

The services Web users flock to are usually privately owned, while they are leaving behind traditional state-owned companies that control many industries. Video websites compete with state TV, online financial services draw deposits away from banks and instant messaging apps take revenue from government-owned phone carriers.

"I try to buy everything online," said Cao Ying, a 30-year-old software engineer in Shanghai.

Like many young professionals, Cao lives through her smartphone. Grocery shopping, paying bills, finding a taxi: whatever Cao needs is just an app away.

"I'm one of those people who are driving shopping centers out of business," she said.

Some Chinese leaders welcome the competition as a tool to make the government-dominated economy more productive. In the 1990s, Beijing encouraged desktop computer-based online commerce that shook up retailing. Today, China's leaders are allowing a wave of disruption to flow from mobile Internet. Still, it is unclear how far the trend will be allowed to run if politically favored companies are threatened. A commentator for state television called online financial services "parasites."

The shift to mobile Internet is "putting a lot of pressure on traditional retailers and banks to offer a better service," said Ben Cavender, an analyst for China Market Research Group, a consulting firm in Shanghai.

The fiercest competition is among a trio of giants that dominate China's Internet: Alibaba Group in e-commerce, Tencent Holdings in games and Baidu Inc. in search.

Since the start of last year, they have spent more than $7 billion to create or acquire e-commerce, social networking and other mobile services. The flurry of deals is also bringing them into head-to-head competition with each other for the first time.

In this March 28, 2012 photo, Chinese performers hold up cards showing the various apps available for online users for shopping and other services at the launch of a mobile phone in Beijing, China. Alibaba, the e-commerce giant planning a blockbuster share sale in the U.S., shook up China's vast but sleepy retailing industry by popularizing online shopping a decade ago. Now it and China's other Internet giants are mounting challenges in areas from banking to broadcasting as smartphones bring even more people online. (AP Photo/Ng Han Guan)

"These three used to be like three mountains in the Chinese Internet business. But now they have to get into a major war against each other," said Bing-Sheng Teng, a specialist in corporate strategy at the Cheung Kong Graduate School of Business in Beijing.

The three are little known outside China. But that is likely to change. Alibaba filed Tuesday for a U.S. initial public offering that analysts say might raise up to $20 billion and be among the biggest IPOs ever.

The rise of e-commerce in China gave millions of households wider access to clothes, books and consumer electronics in a society that in the 1980s still required ration tickets for some supermarket items. That was aided by Alibaba's launch of an online payment system, Alipay, which filled the gap for the shoppers who lacked credit cards. The company launched retail website Taobao in 2003.

Still growing at an explosive rate, online shopping is forecast by consulting firm McKinsey to triple from 2011 levels to $400 billion a year by 2015.

At the center of the transformation are Alibaba founder Jack Ma and his chief rival, Tencent founder Ma Huateng. Ma Huateng's net worth is estimated by Forbes at $13.4 billion and Jack Ma's at $10 billion.

"Neither one has succeeded by moving slowly or cautiously," said Gilles Ubaghs, a researcher for consulting firm Ovum. "It's been a matter of, Let's throw everything at this and grow as fast as we can."

In the next tier of competitors are entertainment portals Sohu.com Inc. and Sina Corp., security company Qihoo 360 that operates a popular mobile browser and video site Youku Tudou Inc.

Alibaba is the biggest spender, laying out $3.9 billion since the start of 2013. In March, it moved into Tencent's territory by paying $800 million for control of ChinaVision, a Hong Kong producer of films, TV programs and mobile games. The next month, the company, along with a fund run by Jack Ma, invested $1.2 billion in Youku Tudou.

Tencent moved into Alibaba's territory in February by paying $250 million for a 15 percent stake in China's No. 2 e-commerce platform, JD.com.

Baidu already controlled a video site, iQiyi, and has invested $2.4 billion since mid-2013 in an e-book store, a group buying site and a distributor of smartphone apps.

The latest battleground is in online payments and finance.

The volume of payments using mobile phones soared 800 percent last year compared with 2012 to 1.3 trillion yuan ($220 billion), according to research firm Analysys International. Alibaba's Alipay accounted for 70 percent of that, with Lakala, owned by computer manufacturer Lenovo Group, in second place at 18 percent.

Zhang Liqi, a 28-year-old employee at a fast food chain, said she always turns to her phone to check for restaurants with discounts before dining out with friends.

"And everyone just takes out our mobile phones to pay the bill," she said.

Alibaba and Tencent, whose payments service Tenpay competes with Alipay, have expanded into online finance services with accounts accessible by smartphone that pay up to 6 percent interest. That is double the best rate offered by banks—and then only if money is locked up in a one-year certificate of deposit.

Along with eight other companies, Alibaba and Tencent were picked in March by the government to become investors in China's first privately financed banks since the 1949 communist revolution.

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