Closing Case: Think Twice Before You Google in China!

With the aim to start its operations in a vibrant market like China, Google which is a search engine company entered into the country and launched google.cn, an indigenous version. As per the requirements of the communist regime in China, Google registered itself as an internet service provider (ISP). It was also required to follow the local censorship rules, which prohibited searches and readings on issues such as democracy, Tibet, and many others. Google agreed to abide by these requirements.

Understanding the economic structure of China is very contextual in this case. It is a major world economy and has followed a socialist economic system since long. After the World War II, China emerged as a major communist power. During 1950s, China nationalised the banking systems and also brought the credit system under centralised leadership. The Chinese Communist Party also nationalised almost all the manufacturing units. It adopted a new land reform policy, which eliminated landlords from China. During the period of Mao, China became a unified socialist economy. From 1950 to the late 1970s, China was a closed economy and had state-owned enterprises (SOEs), which still exist. These enterprises are large industrial firms. In 1978, China adopted a new economic policy and went for reforms. It gradually started introducing aspects of capitalist measures in the socialist structure. FDI was allowed to the small economic zones. The government also agreed to reform SOEs and a large number of industries, which were not profit-making and brought out under non-public ownerships.

China also follows an economic planning model like India and Russia. Its first and the second five-year plans aimed at constructing around 700 large and medium size industrial projects, expanding heavy industry and strengthening the socialist structure of the economy. The objective to pursue reform was envisaged in the sixth plan. The planning has been evolutionary in China and has placed it as the second largest economy in the world, with an increasing share of industry and services in its GDP.

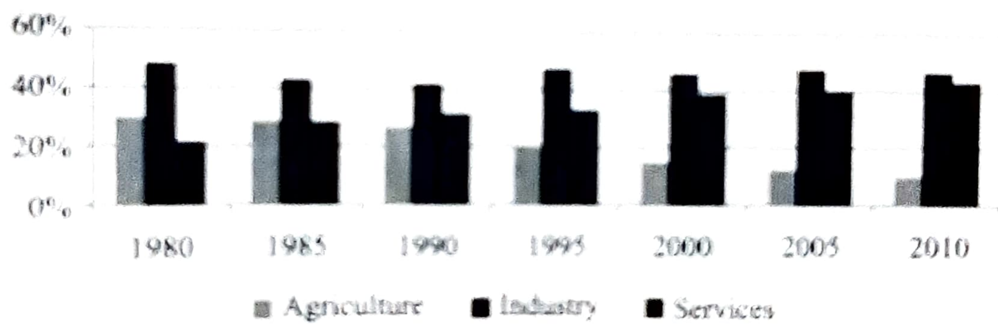

Exhibit 1 Sectoral share in Chinese GDP (%).
Source: World Bank.

With the evolving business climate, many multinational strived to enter into the Chinese market and build their businesses. Google was also one of them.

However, in 2010, Google was not in favour of abiding local censorship rules in China. It actually stopped censoring search results in China and started redirecting Chinese searches through google.com.hk (its server in Hong Kong). The Chinese government declared that Google's automatic redirection to Hong Kong-based website for accessibility of Chinese-based web pages is not acceptable. Owing to this, the company had to face the consequences of the state control over Chinese internet markets. However, Google maintained its sales team and research and development operation in Mainland China. This is essentially an issue which solicits managerial understanding of the economic systems. It was a unique departure and Google had nothing to gain, but only to lose. At the time when China was growing into an investment hub, it was really a hard luck for Google!

In 2007, Google China had a market share of 24%, which reduced to 5% in 2012 (BGR, 7 June 2013). In 2012, Deniel Alegere (president of Google Inc.) in an interview to Bloomberg TV told that Google never left Chinese market and Google is focusing on products that are non-sensitive to Chinese markets (Bloomberg, 24 June 2012). However, its share has been continuously declining. According to the latest data from Chinese Internet analytics company CNZZ, Google's share is merely 3% and ranks fifth of all the search engines in China, and held just 3% of the search market share in June 2013 (Jennifer Slegg, Search Engine Watch, 9 July 2013).

Source: This case is written by the authors based on inputs from the following sources:

1. Daily Finance, 9 July 2010.
2. Bloomberg, 24 June 2012.
3. BGR, 7 June 2013.
4. http://searchenginewatch.com/article/2280420/Googles-Search-Market-Share-in-China-Falls-to-Just-3, 9 July 2013.

CASE QUESTIONS

1. What strategies should Google formulate to re-enter the Chinese market?
2. Do you think it is advisable for Google to stay out of the Chinese market for too long? Give reasons to justify your opinion.
3. Economic systems shape the business environment. Argue with pertinent examples of Google's entry and stay in other markets like India.