A gold mine: potential of e-commerce in china

Business, Marketing

Introduction

There is no doubt that Internet is the most great and valuable invention in 20 century. Due to the rise of Internet, electric commerce time is coming. E-commerce gives people a new trading model and thinking, and brings the innovation and new challenge into the economic world. Therefore more and more enterprises and government pay more attention on e-commerce. The definition of e-commerce, according to Ford (2001), is given that 'represents the realization of digital, as opposed to paper-based, commercial transactions between businesses, between a business and its consumers, or between a government and its citizens or constituent businesses.' There is another similar discussion of e-commerce by Timmers (2000), 'Internet electronic commerce includes electronic trading of physical goods and of intangibles such as information. This encompasses all the trading steps such as online marketing, ordering, payment, and support for delivery'. The content of electronic commerce is very widely, which includes the electronic provision of services, such as after-sales support or online legal advice. It also includes electronic support for collaboration between companies, such as collaborative online design and engineering, or virtual business consultancy teams. Most economists believe in the next decade, half of global trading will be achieved by electronic commerce.

Electronic commerce is not unfamiliar to us. It brings huge value for all business, and at the same time, brings the convenience to most people. Electronic commerce includes three models: Business to Business (B2B),

Business to Consumer (B2C) and Consumer to Consumer (C2C). The one of most famous B2C website Amazon. com, for example, got 384 million USD net income in fiscal year 2009. The net income increased 71% compared with fiscal year 2008 which was 225 billion USD. (Amazon. com, 2010). In China, the early e-commerce model appeared was B2B. However, due to the popularization of Internet, the value of B2C e-commerce is rising rapidly.

Environment of e-commerce in China

It can be said the fundamental element of e-commerce growing is powerful. China has the largest Internet population. The Chinese Internet population is huge number and increasing dramatically. In this circumstance, the growth of e-commerce in China is rapidly as well. According to the data from China Internet Network Information Center (CNNIC 2010), in 2009, Internet population nearly reached 384 million. This number had increased 41. 9% comparing with data from 2008. The popularizing rate is 28. 9%. In addition, according to the CINIC 25th of statistics (CNNIC 2010), the top three of Internet using rate are Internet Music (83. 5%), Internet news (80. 1%) and Internet searching engine (73. 3%). However, the increasing rate of online trading user is the fastest which is 68% in average. Compared with 2008, the number of online payment users increases 80. 9%. The report also shows the fourth famous types of Internet business are online travel agency, online share dealing agency, Internet Bank and Online shop. The total trading online is 250 billion RMB which equals 36. 6 billion USD. However, only 28% of Chinese web users make online purchase, compared with more than 70% in the US. This is because the development of electronic commerce in China

is later than western countries. From the data above, it can be concluded the electronic commerce in China has huge potential.

Objective of this research

To consider the value or proportion of electronic commerce, B2B is the biggest one no doubt. However, this research will be focused on the B2C model in China. Imaging e-commerce in China as a human, then B2B should be an adult but B2C should be only 10-year-old boy. 'He need more guide to the future development'. It means B2C e-commerce model in China is in developing stage, therefore the issues must be found out and be solved in time. This is the reason of choosing B2C instead of B2B.

The core issue of B2C e-commerce model in China is which elements can be barriers and help e-commerce growing well. To achieve this objective, it should indentify the situation of the e-commerce in China; locate the matters of barrier of Chinese B2C business (which factors will affect it in Chinese e-commerce environment?); predict the future development of e-commerce (find out the solution of those factors and get competition advantage). Several hypotheses about the key question should be mentioned. H1. If there is a more consummate or more convenient online payment method, the number of online consumer is increasing 50%

H2. If more types of business is appearing, the number of online consumer is increasing 50%

H3. If online company can provide safety which include safe delivery and

safe privacy, the number online consumer is increasing 50%

H4. If the infrastructure of Internet is more better (such as using Internet anywhere), the number of online consumer is increasing 50%

Structure of this research

There are five chapters in this whole research. There are introduction, literature review, research method, finding and discussion and conclusion. The graphic clearly shows the structure of this research.

Literature review

As previous chapter mentioned, the economic value of electronic commerce is huge. More and more enterprises and companies joined into e-commerce environment what ever big size or small size; more and more whole consumers and individual consumers are coming into this electronic circumstance. To understand the reasons, the benefits of Internet commerce must be indicated. Fairly, every change will bring the new problems. Therefore, some issues of B2C e-commerce in China will be pointed out.

Li (2006) stated some reasons for Chinese Internet users making purchase from Internet such as saving time, reducing cost, convenient to use and looking for rare goods. CNNIC (2004) also indicated around 22% of the online buyers purchase out of curiosity. In addition, there are new service provided, easy to compare product information, high volume product and so many advantage of electronic commerce. In this research will only state two representatives: fast responsiveness and cost reduction.

Fast responsiveness

Most companies believe increasing responsiveness to their customers is very important. Internet helps company to achieve this. Customers can gain the increased responsiveness from companies through Internet easily. The shipping companies such as Ems, allow their customer to check the location of their shipments online. Customers do not need to call the company, and instead of that, the only thing they need to do is going to the website of shipping company and no time limitation. Customers feel happy with cost reduction and convenience and even for the shipping companies. Good responsiveness leads to company and customer closer, and the customer feels they are treating well by the company (Amor, 2000).

Cost reduction

The other good reason for moving to Internet is cost reduction. Internet helps company reduce the service cost and production cost greatly. Lenovo, the biggest laptop manufactory in China, since year 2000, distribute the product driver and update from Internet. The company does not need to copy many of CD-ROMs, and that helps the company saving a lot of money. Customers will feel convenient because they do not need to keep so many disks. In addition, cost advantage of Internet also attracts more small and new business. Amor (2000) stated 'the primary goal in the long term is not cost reduction, because everybody will have saved cost and increased the profit. Deep and good relationship with your customers is very important. Service quality is the main factor to get increased profit, not the base product' (Amor, 2000).

The issues of B2C e-commerce in China are the key point to discuss. In the Li' research (2006) pointed out four main issues: Inconvenient payment mode, quality, after service, trustworthy, security and slow delivery. According to CNNIC (2010), more issues were listed, such as how to avoid cutthroat competition, the quality of Internet environment, barrier of language, online management policy, limitation of online business and so on. Moreover, geographic problem and popularizing rate are still two big issues of hindering development of e-commerce in China. But they both need more time to be solved. In this research, several representatives of defect of B2C commerce model in China will be stated.

Trust and Security

Amor (2000) discussed that security of information, trust of the vendor, and personal privacy are the antecedents to e-commerce acceptance. According to the search of Teo (2007), the size and perceived reputation of an Internet store as antecedents of trust. He believed size and reputation provide 'assurances of the vendor's ability' (Teo, 2007). Most online companies have strategy on how increase their reputation. It should only one aspect to evaluate a company. Hua (2009) pointed out the most important to adoption of online banking is trust and security. In fact, trust and security is not only important to online banking, but also identified as significant element to any financial related online services. The main concern of consumers is that they do not know who is gathering the data and what is being done with the data (Hua, 2009 and Culnan, 2007). A good privacy policy is helpful tool to build trust for consumers. 'Third party seal is a statement that does not disclose consumers' information to any other party or companies' (Hua, 2009).

After sale service

Normally, online consumers pay more attention on after sale service. Because they make purchase before they see the products. So, return policy plays important role in B2C market. It can affect the online demand and the profit finally (Wang, 2007). To fulfill the higher profit and more demand from consumers, a convenient return policy must be set up. Obviously, a new return policy cost a lot of additional fees such as rent costs, transportation costs and inventory holding costs. This issue becomes the barrier of attracting more consumers. Therefore, most companies start to design appropriate location and inventory policy with return logistics. In Wang' research, an unique characteristics is indicated. A number of B2C companies sell their products online, but do not ship the product by themselves (Wang, 2007). This is a clever way to achieve 'zero inventory'. The whole process like that: a customer order product from company website, the company transfers the order information to nearby supplier, and supplier directly delivery the product to company's customer. However, there is still a gap between customer order and information going to supplier. To those customers who need to receive product in short time, the way of reducing the gap is significant for company.

Enough market research

EBay is a successful online auction company and the most famous representative of C2C style of e-commerce. EBay is running business around the world. In 2002, eBay announced to join into Chinese Internet auction market. After one year, a Chinese mainland auction website-TaoBao was started. It became the main competitor of eBay in China. The result is clear

to know today - eBay was failed. The big mistake of eBay China is using its own model in wrong time. In 2002, online auction market was in exploration stage in China. It can be said more than 90% online users never tried to use online auction service, and this led to the potential customers were in dubitation. TaoBao clearly understood this situation and used the 'free strategy' to attract more potential sellers and buyers, and maximum reduced their scruple about online auction. Compared with eBay, it did not catch this point and still charge to sellers. The other mistake of eBay should be the culture problem. There is a small story from previous Chinese eBay officers. One eBay executive was going to China to attend a meeting. He wanted to choose some gifts for his Chinese colleagues. Finally, his colleagues all got very 'surprise' from the gifts. Every one received a green color hat. Because in China, the person who wear green color hat means this person's wife has special relationship with other man. Although, this is only a story from eBay China, but it indicate eBay had bad research of Chinese culture and lack of market research. Differences in national culture can affect consumer behavior in e-commerce situations (Chaffey, 2004).

Methodology
In this chapter, the research method will be explained.

Research philosophy
Choosing right methodology is important to research. It can affect the research strategy and result. In the modern research, the three research philosophies usually are used wildly- positivism, phenomenology and realism. Gill (1997) defined those two philosophies as 'Positivism promotes a more objective interpretation of reality, using hard data from surveys and

experiments' and 'phenomenology is concerned with methods that examine people and their social behavior'. Researchers are allowed to familiarize themselves with the problem or concept to be studied by using quantitative research. A positivism philosophy focuses on facts and looks for causality and fundamental laws. It allows researchers to formulate hypotheses and test them. Phenomenology requires researchers to develop assumptions and create meaning through data collection rather than 'quantification in the collection and analysis of data'. The realistic philosophy combines the features of positivism and phenomenology philosophy.

In this research, the positivism research philosophy will be chosen. The reasons will be explain next. Firstly, there is an extensive literature with a core theory. E-commerce is famous and hot topic. Due to the huge potential value of this new area, many researchers and economists have discussed it. As above mentioned, e-commerce in China was started later than western countries, but the theories had been imported to China very early. Secondly, positivism emphasizes quantification in the collection and analysis of data. The number if Internet business and online consumers is increasing quickly. The sample of research is large. So, positivism philosophy will be chosen in this research to gain more depth investigation of e-commerce in China.

Research approach

There are two types of research approaches-deduction and induction. Professor Burney from University of Karachi (2008) explained this two approaches as 'Inductive approach is usually described as moving from the specific to the general, while deductive approach begins with the general

and ends with the specific'. Chinese e-commerce includes general issues that same with other countries but also has specific ones. This research tries to find them out and also provide some suggestions. As choosing positivism research philosophy, and there are many existing literature about e-commerce issues in China, deductive approach is predominantly used to the relationship between theory and research. The deduction approach will be used to explore the implication for future development of Chinese B2C e-commerce from the analysis of the data collection.

Research design
This research will use face-to-face questionnaire survey and online questionnaire survey as main strategy, and telephone interview as supplementary of research. All questions are depending on the key questions and the result will confirm the hypotheses. The survey can give more control over the research process. The questionnaire survey is aimed to online customers and potential customers. The reason is that customers are important to business. Doing research in customer group can directly understand the fundamental issues between company and customer. Considered with the time and cost, face-to-face questionnaire survey is carried out in the two popular cities of China-Shanghai and Hangzhou. Shanghai is the biggest economic city in mainland China and Hangzhou is the first e-commerce city in China.

Online survey can reduce research time and cost helpfully. But the respond rate should be less than face-to-face. To increase the online respond rate, 500 RMB (equal to 50 pound) will be setup as bonus to attract more people.

The other advantage of online survey is no geographical barriers. It can average the samples and increase the accuracy of the survey. In addition, telephone interview will be focused on the company side. It is not enough to do research on customer side only. Understanding of both side helps to consummate this research maximally.

Data collection

Questionnaire survey
The questions of online survey and face-to-face survey will be totally same. Each question is designed as short as possible, and tries to make respondents having patience to finish it. The questionnaire will be divided into five sections. Each section will be set around two or three questions. The first section will identify the basic information of respondent, such as age, gender and occupation. That will help analyzing which group is the biggest customer. The second section will identify the potential customers' purchasing power and interest. Potential customer group is also significant. The current online customer can directly go to section three. Section three will identify the current online customers' interest, purchasing power and so on. Section four will identify the resentful aspect of online customers. This section can help researcher to locate the main problems which perplex the customers. The last section will provide some suggestions and identify which ones are accept by customers. And last question will be open question to allow respondents to state some issues which previous section do not mentioned.

As above mentioned, face-to-face questionnaire survey is carried out in two

cities. Each city will be allocated 200 copies temporarily. That number may be increased depending on the time and cost of face-to-face survey. The number of online survey cannot be counted. But several famous website will be chosen, such as KaiXin, TianYa and Powerapple. Those websites all have very high rate of page view. And the bonus will attract more respondents to finish the survey paper.

Interview

Telephone structured interview will focus on the company side. Ten telephone interviews will be set up. The companies will be chosen from the top twenty of online commerce website, and the business types should be different, such as online travel company, online flower company, online pharmacy company and so on. Different type of business should increase the accuracy of research result. Through structured interview, more in-depth data should be collected.

Research limitation

The questionnaire survey is limited by the geographic barrier. Also, the time and cost directly limit the sample size and quantity. Online survey helps researcher to solve a part of this problem. However, online survey will be only focused on current Internet surfer. And huge number of people, such as those offline customer and future potential customer, cannot be investigated. And the respond rate of online survey may be low or very low. In addition, the potential businesses, such as those traditional businesses which never touch electronic commerce style, are also not included in the research scope.

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