A Reality Check of E-commerce Development in China

An analysis of challenges facing E-commerce in China

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Executive Summary: The author in the brief report analyzes nine major challenges that E-commerce sector faces in China. The nine challenges that may impede the development of E-commerce include: A) Lack of Real Understanding of E-commerce; B) Lack of Infrastructure to Support E-commerce; C) Lack of Access or High Access Cost Limiting E-commerce Growth; D) Lack of Low Price, Simple Application Solution; E) Lack of Trust - Reliability and Security Issues; F) Lack of Resource to Implement and Maintain E-commerce; G) Lack of Legal and Regulatory Framework; H) Lack of Other Critical Elements – Online Payment & Certification; and I) Lack of Technology Standards to Ensure Interoperability. The author will further lead to the discussion of E-commerce strategy during the presentation and invite the participants of the meeting to shed light on how to encounter these challenges.

Key Words: E-commerce; challenges; strategy; China.

Albeit the market back-slash to numerous newly emerged dot.coms in China as well as the rest of world, E-commerce sector still grows at an unprecedented rate and exerts major impact on the economy. Despite the potential growth, there are many challenges to be encountered for time to come. It is time to do a reality check on these challenges and think about strategies to facilitate the growth of E-commerce in China.

The Chinese E-commerce market has faced the following ten most challenging issues, which may, without proper attentions and solutions, slow down the continuous growth of E-commerce.

A. Lack of Real Understanding of E-commerce
B. Lack of Infrastructure to Support E-commerce
C. Lack of Access or High Access Cost Limiting E-commerce Growth
D. Lack of Low Price, Simple Application Solution
E. Lack of Trust - Reliability and Security Issues
F. Lack of Resource to Implement and Maintain E-commerce
G. Lack of Legal and Regulatory Framework
H. Lack of Other Critical Elements – Online Payment & Certification
I. Lack of Technology Standards to Ensure Interoperability
A. Lack of Real Understanding of E-commerce

At present, E-commerce in China is more of exuberance than a genuine market development. Although awareness of E-commerce is high, there is a lack of understanding about what E-commerce is all about, the technology involved, infrastructure or network readiness, operating and implementing cost, and real economic benefits to users. Investors or enterprises gold-rushed into E-commerce as a fashion or short-term investment opportunity. When it comes down to real revenue-generating E-commerce business, most participants move back to their traditional ways of doing business due to many factors as to be mentioned below, or simply, lack of tangible economic value E-commerce can bring in comparison to traditional business process. Besides, CEOs of many enterprises in China rarely use computers bearing limited knowledge of Internet and E-commerce. Therefore, when it comes to enable their businesses through E-commerce, they lack the passion that would help them get online. It will take time to get them used to the concept of E-commerce. Accordingly, E-commerce providers or governments need to actively promote awareness and in-depth understanding of how E-commerce could be used to reduce information asymmetry, increase productivity, cut production and transaction costs, and make business processes more efficient.

B. Lack of Infrastructure to Implement E-commerce Solutions

Companies need to achieve IT integration before planning to adopt E-commerce. The majority of companies in China, especially those of small and medium enterprises, do not have a local area network environment in place or even dial-in subscription from which E-commerce solution can be implemented, not to mention internal enterprise recourse planning system or office administration system in place. Without an existing infrastructure, E-commerce at most is perceived as an information-focus exchange marketplace where transactions can be done more conveniently in a traditional fashion. E-commerce providers will face innumerable difficulties in educating customers and promoting e-commerce. By rapidly building infrastructure through system integration and providing value-added ISP service and business software solution to visibly improve work efficiency, the transition to on-line commerce may over time greatly eased.

C. Lack of Access or High Access Cost Limiting E-commerce Growth

Set aide coastal provinces and cities in China, to the rest of area, accessing to the Internet is still luxurious. Users wishing to surf the Net via the dial-up mode have to pay two kinds of costs: call fees to be paid to telecom companies and Internet access fees to be paid to the Internet Service Providers (ISPs), added up to a total of RMB 5 per hour to customers online. This amount is expensive for the Chinese users to access the Internet since the average Chinese per capita income is about
$100. This will prevent many users from going online and delay the growth of the E-commerce in China.

D. **Lack of Low Price, Simple Application Software**

At present, there is a range of application software in the market for e-procurement, enterprise resource planning (ERP), customer relationship management (CRM), sales force automation (SFA) to provide e-business solutions. However, managing and operating an internal E-commerce solution requires a relatively high knowledge and understanding of technology and network operations. For a few large companies and multinationals, implementing, operating, and managing a solution is not as arduous a task, as most have internal information technology (IT) departments that are able to manage the system. For most of companies in China, however, this is a significant restraining factor. Hence, E-commerce providers need to develop simpler, low-cost application software solutions to users. Otherwise, market development and E-commerce adoption are likely to be slow.

E. **Lack of Trust - Reliability and Security Issues of E-commerce**

Users perceive E-commerce as a open, continuous, information sharing business environment. Oxymoronically, they are told that E-commerce is safe, secure, and confidential. There is general reluctance for Chinese users to give out personal or corporate information on Internet. There is a genuine concern over the security of E-commerce platform due to numerous stories of hackers and crackers. Accordingly, providing network security and changing the mindset and perception of consumers are expected to pose greater challenges to all E-commerce players.

F. **Lack of Resource to Implement and Maintain E-commerce**

The resource required to implement an E-commerce solution is very high. There are two major resources involved here: capital and human resources. Users need funding to build certain infrastructure first, and then employ an external party to help maintain the system and look after operations, or have in-house personnel to oversee the system. It is well known that most Chinese companies especially state-owned, both large and medium- sized, are short of cash. Funds in these enterprises are scarce and workers are always looking forward to getting their salaries on time. It is unrealistic to let these enterprises deploy E-commerce on their own. Moreover, there are those huge costs involved in buying equipment for them. The high cost of equipment and infrastructure is a significant barrier for businesses to engage in E-commerce. In addition, since the Internet is still a novel economy and there are only few people in the market having acquired knowledge, the need to rapidly expand the human capital to fuel E-commerce growth is urgent. In fact, there is a dearth of such people and the few sophisticated professionals around are already employed. At the same time, due
to scarcity of supply, engineers in E-commerce sector become very expensive to hire. The high initial and maintaining cost, along with the shortage of well-qualified personnel pose another major challenge to the development of E-commerce sector in China.

G. Lack of Other Critical Elements – Online Payment & Certification

Enterprises or consumer users are reluctant to engage in on-line transaction because of difficulty in finding convenient method of payment. Although 30% of Chinese Internet users own credit card, they still have to resort to other method, such as COD, to pay for the purchase of on-line items. However, this issue is becoming less concerned recently since banks and several E-commerce company have partnered together to resolve on-line payment issue.

H. Lack of Legal and Regulatory Framework

As usual, legal framework always lags behind the emerging economy. E-commerce is a novel economic phenomenon and will take time for government to response to it. However, for the use of E-commerce to expand and extend to commercial proportions, users need to be assured of the security and legal framework. Until this issue is addressed, the market for E-commerce application server software would not be able to develop, as companies are likely to be very reluctant to implement an E-commerce solution due to the high risk of unsecured transactions. At this point, the regulatory and legal infrastructure in China has not been fully established. The Chinese government did stipulate some regulations that require Internet companies to obtain license for content listed in their websites, although the regulatory impact on E-commerce is unclear. In the near future, governments are likely to be forced to address these issues passing laws that recognize on-line transactions and certification, and digital signatures.

I. Lack of Technology Standards to Ensure Interoperability

There are several platforms that have been put forth for the E-commerce including XML, Open Buying, Java, and electronic data interchange (EDI). The lack of standards has not impeded the development of the market. However, E-commerce providers in China need to work together to establish a standard. This is because, as the E-commerce market continues to grow, the interoperability of all product categories is a must for various users to communicate each other, reduce the cost for various interface solution, and reduce the risks of project failure. Another unique issue in China is the Chinese language. Many E-commerce sites are designed only in the Chinese language that significantly limits the data exchange or cross border transaction. Setting up a universal standard and solving language issue will ease the growth of E-commerce in China.
Having detailed the challenges that E-commerce business in China faces, it should be born in mind that despite all these difficulties, E-commerce is making significant strides in China. After the hype for E-commerce drew its curtain, serious thinking and strategies have to be laid out to encounter these challenges. It may call for the effort from government, local enterprises as well as international players in the E-commerce market. Only when we are willing to meet the challenge and remove barriers toward the future shall we see the genuine market development of E-commerce sector in China.