Understanding of E-commerce in China

Chain operation is our way out

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Abstract:
1. The main blocks against developing E-commerce are monopolization of Telecom industry, variance of the industry’s standard and confusion of the industrial interfaces
2. The superficial level of information socialization, the limited scale and application field of E-commerce, both of them lead to over-high cost of E-commerce and the unreasonable ratio of input-to-output
3. There is a long way to make E-commerce public
4. Reconstruction and amalgamation of traditional industries are essential for adapting network socialization and pushing the step of E-commerce.

Key Words:
连锁经营 chained operation
联盟成员 union member
本地化 localization
专业化 specialization
个性化 personalization
水平网站 horizontal network station
垂直网站 vertical network station
城市连锁服务中心 urban chained service center
华人网站联盟 Chinese network station union

With the advent of Internet technology, profound historical transformation has brought about unprecedented changes to the human society covering every aspect of people’s life, work and study. Today, more people become heavily dependent upon Internet and would be at a loss without it. Thus people say that “the time of e-commerce has come”. But looking back upon the development and situation of e-commerce in China, we could clearly see that our e-commerce as an industry has problems and gaps both in application fields and transaction scale. Mostly accountable is the country’s imperfect political environment for e-commerce, weak infrastructure, and people’s consumption habits. So today I would like to discuss in the following points about some of my understanding of China’s e-commerce. And I would be pleased to have your comments.

A) With e-commerce in the ascendant, market value rules are still the
guideline for e-commerce development

For over 20 years of reform in China, the country’s information industry has witnessed fast development whose speed is rarely seen in the world. China’s telephone and network users and scale are now second in the world only to that of the United States. According to survey data publicized on January 17 of this year by CNNIC, there are 8,920,000 Internet-accessing computers and around 22.5 million Internet users in China, which is above 2% of the total national population, a 33% increase in half a year’s time compared with the number of 16.9 million people in July, 2000. With the increase of the number of Internet users, Internet-related environment is also developing rapidly. Bandwidth is increased by large extent. The total bandwidth of international lines has reached 1234Mbps, 4 times of 351Mbps in July of 2000. Wireless Internet applications are surfacing. Laws and ordinances pertaining to Internet management are coming into being. Rapid increase of Internet users and improving environment provide huge market potential and development prospects for e-commerce in China.

However, the development speed and scale of e-commerce is not in direct proportion to the increase of Internet users, and is affected and restricted by many factors including policy, goods flow, credit, and consumption habit. E-shopping and e-commerce covers 12.54% of most commonly used internet services, much less than the 95.07% of e-mail use and also less than the 18.94% of internet game entertainment. The reason why the slump of NASDAQ broke “network miracle” into “bubble economy” overnight is because e-commerce had deviated too far from the market value rules in its pursuit of “eye-ball economy” while ignoring the fact that the market value of e-commerce must be tested in practice over time. So let us look at some of the major problems and contradictions in the process of China’s e-commerce development.

( A ) China’s e-commerce is still at initial stage; There are no standard “rules of game”. There needs to be a wholesome legal system as safeguard.

In spite of China’s rapid development of internet environment, sharp increase of internet users, large increase of bandwidth, and promulgation of laws and regulations concerning Internet, up to date there is not a single piece of law or ordinance that truly aims at promoting e-commerce development. On one hand it is because e-commerce develops too fast for management stability; on the other hand, the emerging e-commerce threatens to impinge upon traditional industries, and it is hard to make “rules of game” that are satisfactory to both sides, so there is a lack of stable protective measures for e-commerce.

“Digital Securities Net”, the web site that initiated commission discount for Internet transaction, thought it would attract more customers by utilizing low cost of e-commerce, but was banned by the China Securities Supervision Committee as “commission standards are not to be altered without authorization”. There are similar cases in securities and other industries as well. So we can see that e-commerce must have the nation’s legal and statutory support and protection to make its steady step forward in China.

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(B) The monopoly of telecomm industry, lack of uniform industry standards and interface disorder between industries hinders the development of infrastructure that China’s e-commerce needs to match its pace.

Internet application development is the basis for e-commerce development. Therefore internet technology application and infrastructure construction should be reinforced. For historical reasons, there has been severe monopoly in telecomm industry which is the foundation of internet technology. Of the 10 network channels ChinaNet has 1953M which is 70%. Thus our internet technology development lags far behind, and bandwidth for connection to international backbone has become a “bottleneck”, causing slow transmission speed, small capacity, crowdedness, and high cost of internet access. Meanwhile, uneven development of industries lead to different industry standards. Disorder and disputes between industries makes everyone a loser. E-commerce is a system engineering; highly developed economy and finer division of social labor demands cooperation from all industries to form a close “production line” and “supply/demand chain” to meet consumer needs.

(C) Low social information level, limited application fields and scale makes e-commerce investment cost too high and unparallel to its output ratio

As said before, internet application is the foundation of e-commerce, which requires that internet be widely used in all social realms and strata. China has long before included economy computerization into national economic construction plan; but out of weak bedrock, investment for computerization construction has been limited, infrastructure is weak, and per capita computer ownership is quite low compared to developed countries. By mid 2000, there were 579 million sets of computer in the world, averaging one PC for every dozen people or so. China’s computer ownership was 15.90 million sets, ranking No.8 in the world and averaging 88 PCs for every 10,000 people, i.e. one PC for every 113.6 persons. So the social information level is low. Many institutions and families do not have a single PC, or they have PCs not capable of connection to Internet.
The scale of Internet application directly influences the scale of e-commerce. But the fixed investment cost for building an e-commerce platform is quite high. According to market value rules, small scale causes high unit cost, and consumers will not purchase. Little proceeds lead to big loss which deprives enterprises of more capital for continuous and steady development. Thus a vicious cycle.

(D) Traditional consumption behavior is deeply rooted; it takes time for people to accept e-commerce.

In daily life, people have formed rooted consuming habits, and they tend to carefully select and try before they buy. But the virtual nature of Internet causes low trust and loyalty to e-commerce. Many people use Internet for information and communication but not purchase. According to CNNIC survey, of 22.5 internet users, only 0.86% use internet mostly for purchase of goods. So we can
see it will take quite some time for people to accept e-commerce.

(E) Improvement of macro policy environment and infrastructure will help promote national information level and build good atmosphere for e-commerce.

As is stated above we have seen some of the major problems with e-commerce in China. Now let us explore how to solve these problems, push for continuous and steady development of e-commerce, and consequently promote national economy and improve people’s lives.

Today’s China is in its historical stage of industrialization, and is now faced with the information tide. We must seize this opportunity to drive industrialization by computerization, bring our acquired advantage into play, and only in this way can we achieve leapfrog development of social productivity and double-fold push to the economic growth by industrialization and computerization. We should also consider China’s economic structure, productivity level, computerization process and national cultural status quo to follow a path that is unique and most suitable to China.

Firstly, China’s information industry needs more guidance and supervision from government to form an industry administration system of lawful jurisdiction, high efficiency and matching completeness. Government guidance and supervision will help to create policies and market competition environment in accord with international practice and in favor of the development of information industry. Secondly, according to relevant policies and promises the Chinese government has made for China’s entry into WTO, we should encourage and lead more investors from home and abroad into China’s communications market, constitute China’s e-commerce policy framework, sophisticate financial payment and clearance system, build national and municipal commodities delivery system, and improve macro policy environment for e-commerce. Thirdly, we should enhance infrastructure construction, construct new generation high speed information transmission backbone network and broadband high-speed computer network, build information platform to meet economic and social development needs, push for digital city engineering, speed up digital integration of city networks, and drive e-commerce into full play.

(F) “Mouse + Mortar”, quickly transform traditional industries to adapt to network socialization needs, push for e-commerce development

Internet development makes socialized network a historical necessity, to be followed by integration of world economy. E-commerce will become part of people’s daily life. E-commerce is commerce. From above we could see that there are problems with our e-commerce which needs to strictly follow the market value rules. Enterprise computerization is the basis for enterprise e-commerce. Only after an enterprise is equipped with computerization can it conduct such e-commerce as B2B or B2C.
In view of our country’s status (low social information level), e-commerce should develop the model of “mouse + mortar”, combining internet technology with traditional industry. This requires e-commerce enterprises to select traditional industries according to market value rules, penetrate and transform them; while it requires traditional enterprises to carry out computerization construction, develop e-commerce, and adapt to the demands of socialized network.

B) Chain operation realizes integrated scale operation of e-commerce and solves many conflicts in e-commerce, which is an ideal way out for e-commerce.

The year 2000 witnessed ups and downs of internet. People cherish “Internet miracle” one day, and hear “downs” the next. “Network miracle” became “network bubble” overnight, and people were at a loss! Everyone begins to look back upon the Internet “demon”. From aforesaid we know that Internet is only an information carrier platform and tool, itself bringing no market value. Value is created when market activity is exercised on the platform. However, China’s national situation and internet characteristics lead to deficiencies in e-commerce, causing losses and bankruptcies of internet enterprises.

On the basis of studying the status quo of China’s e-commerce, Chinese.com initiated the model of “network chain operation”. It utilizes the advantages of a unique domain name to build and perfect a network operation platform integrating brand, infrastructure, technology, product and market for alliance members to share. By scientific and rational division of labor and collaboration, a web alliance is developed to build a unified, wholesome resource information construction platform and market service system. This realizes integrated scale operation of e-commerce, provides customers with discreet localized and professional service, perfects e-commerce platform construction, solves many deficiencies and conflicts in e-commerce, and paves a brand-new way for e-commerce development.

From production management perspective of an internet enterprise, the “chain operation” of Chinese.com mostly materializes on following three levels:

(A) Elements of enterprise production operation

Such elements of production management as brand, capital, technology, human resource, and market are basis for enterprise existence and development. Internet enterprises are no exception, and they must have these production business elements to operate and generate proceeds. As competition is fierce in internet industry, investment cost of these elements are quite high, bringing upon relatively high business risks.

Therefore, Chinese.com fully utilizes the brand value of its unique domain name and invests hugely to establish a unified and open network operation platform, incorporating such functions as web site access infrastructure construction and
maintenance, technical development and support, brand building and promotion, website design, and development and marketing of products and services. All these are for the alliance members to share, thus reducing their cost of production element investment and enabling them to focus their niche resources on information resource construction and product or service development and operation. This also reduces the input/output ratio, making for business profits.

(B) Information resource platform construction

One of Internet’s main functions is its role as information hinge. So Internet enterprises must first build their information resource platform, ensuring accurate, timely, effective and abundant information resources to satisfy user demand for information.

The chain operation of Chinese.com fully mobilizes and exerts the localized and professional advantages of its alliance members all over the world, divides work and collaborate according to consolidated information resource construction layout, jointly constructs and integrates information resources, and is committed to build a large-scale comprehensive service network covering the whole world and every aspect of people’s life, work and study. It provides users with discreet localized, professional and personalized service. It achieves both the scope for a horizontal web site and the depth of a vertical web site, resulting in consolidation of content and form of web site construction to meet customer needs.

(C) Development and marketing of products or services

Another major function of internet is market hinge. But it is only an information carrier and promulgation tool, itself not bringing any market value. Therefore internet enterprises must develop and market products or services.

The network chain of Chinese.com, while building an information resource platform, also builds a consolidated market service system that covers the whole world and every aspect of people’s life, work and study. It grasps complete, timely, sufficient and accurate customer requirements, and finds the market opportunity to meet the customer requirements accurately and in good time. It adopts unified development and marketing of products or services, manages integrated operation, extends business scale, reduces operating costs, and thus giving customers real boons and resulting in scale benefits.

The city chain service center is the chief component of Chinese.com city web site alliance, and is a basic node in the information resource construction platform and unified market service system of Chinese.com. It is responsible for construction of local city life information service, construction of online cities using uniform models provided by Chinese.com, and local promotion and service of Chinese.com unified business. Consequently a city life service network is formed covering cities all over the world where there is Chinese population, providing users with discreet and localized service.
While providing localized services with the city chain service centers, Chinese.com always sticks to the principle of professionalism and individualization. Professional web site alliance is an embodiment of this principle. Chinese.com encourages collaboration from more web sites that provide professional services of all lines. By becoming a collaborative partner of the whole Chinese.com alliance system, they jointly construct the system and share the market opportunities and profits brought about by the system.

Different professional web sites have different niche resources and services. So Chinese.com builds channels according to lines of business, weaving all professional web sites of a same type together, integrating resources and compensating each other. Thus a professional channel is created together with rich contents, complete services, and easy communication. Users are supplied with excellent and efficient professional and personalized services, demands being met in depth and scope. It is similar to a professional market in real life. People go to these professional markets to purchase because they can freely choose and compare goods from among the many vendors proving similar commodities, and find the goods or services they really want in an easy way.

Professional web site partners and city chain service centers serve as platform to each other and compensate each other, ensuring the double advantages of horizontal and vertical web sites and achieving unification of content and form in web site construction. This should be a perfect combination of web site construction and market operation.

Matching the web site chain operation model, Chinese.com establishes and develops a “carrier” of Chinese web site alliance, pushing to achieve the strategic goals of network chain operation. From September 25-29, 2000, the First Session Congress of Chinese.com alliance members was grandiosely held with “joint effort together, joint success online” as theme. The attending representatives of 138 web sites (87% of planned attendants) examined and passed the Articles of Chinese.com Alliance Congress. The first Council of Chinese.com First Congress was elected. The Chinese.com Development Strategy Compendium was completed, symbolizing a great milestone and Chinese.com entering a brand-new historical stage! Up to date, Chinese.com web site alliance has 587 members across China and 130 overseas member sites. Industry scale advantage is taking shape.

Based on this fact, we could see the prospect of chain operation, the prospect of Chinese.com, and the prospect of China’s e-commerce. This prospect is not brought about by the fact that Chinese.com, by acquiring the public Gold Lion, has become the first publicly listed “.COM” company in China’s securities market and now possess financing capabilities; nor is it brought about by the strong financial backup of TOP Group. It is the model that accounts. I think we could see this fact: the consolidated and open network operation platform provided by Chinese.com incorporates infrastructure, network security, brand building, technical support and market development. Since its inception in July 2000, in spite of imperfections in web site construction, its force is sufficiently strong to attract all those web site CEOs who need technology, capital and resources. Every important step of Chinese.com greatly influences the development process of China’s internet industries.