

BUSINESS TO CUSTOMER E-COMMERCE IN CHINA: STRATEGIES FOR MULTINATIONAL AND US COMPANIES

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ABSTRACT

China has enjoyed rapid economic growth with average yearly rate of over 9 percent since the communist country opened its door to the world in 1979. It is expected to be the largest market in the world by the middle of the 21st century. However, the growth mainly focuses on the traditional trade but not e-commerce. The fledgling e-commerce market has huge potential yet generated relatively few discussions. In this paper, we describe the current landscape and trends of retail e-commerce in China. We analyze the related opportunities and challenges for global internet companies, especially those in the United States, interested in expanding their market to China. We recommend a set of strategies based upon empirical market research to conclude the paper.

INTRODUCTION

The business potential of e-commerce technology is seemingly irrefutable given the nearly 888 million Internet users worldwide. The United State, with 200 million Internet users, which has the largest share of Internet users in the world; and China, with 94 million Internet users, is the second largest Internet user population in the world till March, 2005 [1]. Although the growth in both U.S and abroad will continue, analysts predicted the share of U.S is going to decline. However, China, with the second largest Internet User population, has become the second largest Internet market now. Moreover, with about 1.3 billion people and 8-9 percent yearly economic growth, China could potentially become the largest Internet and telecommunication market in the world. Because of the huge number (about 1.3 billion) of potential e-commerce customers in China, this paper will mainly discuss the retail or Business to Customer (B2C) e-commerce.

RESEARCH METHODOLOGY

The statistical data of this paper mainly are survey results that come from China Internet Network Information Center (CNNIC), which is the state network information center of China and was founded as a non-profit organization on June 3, 1997. According to its website, one of CNNIC's businesses is Internet survey and relevant information services. Since the forming of CNNIC, it has actively carried out series of statistical surveys on the Internet information resources for public welfare. The authority and objectivity of CNNIC's statistical survey reports were wildly recognized by domestic and international communities. Therefore, the survey results that come from CNNIC will be accurate and reliable.

CURRENT STATUTES OF B2C E-COMMERCE IN CHINA

Obstacles

Although Internet users in China are increasing rapidly, according to the Chinese average income, a Chinese has to spend about his/her whole year salary to purchase a computer. Therefore, this high computer price or the Chinese low income is the fundamental reason that slows down the development of B2C e-commerce in China. There are many other problems exist: one of the problems for B2C e-commerce is its infrastructure which is based on the environment consisting of payment system, logistic system, and online security, etc. Another problem for B2C e-commerce in China is the culture issue which includes language, value concept and attitude to Internet, etc.

Payment Difficulty: The payment system mainly refers to the usage of the credit card in China, which is very limited in the sense that a card owner can only use his/her card only in the city where the issuing bank is located. **Logistic System:** Logistic system refers to the delivery channels in China. People who purchase online want convenience and saving time, which means they want to get their goods quickly and without leaving their homes; however, they have to go to e-retailer's brick-and-mortar store or local post office to pick up the goods they purchased online because of the limitation of delivery system in China. China's distribution system in many regions is still very backward. **Security:** In the CNNIC Internet survey report released in Jan. 2005, 34.3% of respondents considered security are the primary obstacle with China's current online shopping situation..

Opportunities

Considering the huge number of 94 million Internet users and the prediction that China would be the largest e-commerce market, many foreign companies are interested in the potential of B2C e-commerce in China and start to build their e-businesses in China. In addition to above reasons, there are more sound opportunities to attract foreign companies to enter Chinese B2C e-commerce market.

Chinese Government: the Internet in China first came to life in a university research lab in Beijing in 1985. By 1993, China's government had fully embraced the Internet. They recognized the critical role this new instrument could play in China's economic development. [2] **Chinese Single-Child Policy:** It is hard to know the true extent of Internet use in China, but one thing is certain, that is the younger generation, particularly single-child families in urban areas, is almost universally online. [3] There are about 100 million single-child families [4] in China. And the single-child policy was implemented about three decades ago in order to help control population growth. Because of this policy, the only child in one family becomes the most important person in this family, and then parents or grandparents like to do everything they think will be good to the child, especially, the education. **Cell Phone Payment Method:** Comparing to 41.60 million computer hosts, there are about 300 million cell phone subscribers in China. Cell phone becomes more and more popular among young people, who are the potential online shoppers. While cell phone becomes popular, the technology and services that related to cell phone also develop fast [5].

B2C E-COMMERCE STRATEGIES IN CHINA

After the analysis of the Internet users' profile and their online purchasing behavior, it is not difficult to find the strategies to establish e-business in China. We summarize the following strategies that could help companies to build a successful e-business in China:

- **Build good relationship with customers by providing them good quality products and good services.** This strategy can apply to everywhere, but it is extremely important in Chinese market, especially in the e-commerce market. Chinese customers will touch and try products before they pay for them in the physical store because it is hard for them to return the defective products after they purchase them.
- **Build good relationship with Chinese government agencies, such as banks and postal offices.** In China, “guanxi”, the relationship with other people, is an important issue to everyone. If the company has good relationship with influential public agencies, it can make the company’s business run smoother than without this “guanxi”. Especially, online shops can’t avoid dealing business with banks and postal offices to continue their businesses. It is better to have good relationship with those public agencies.
- **Ally with Chinese local companies or purchase local companies to facilitate the entry into Chinese market.** After about seven years’ development, e-commerce in China has grown up quickly, thousands of e-tailors are doing e-business now. It is really hard to build a new company’s brand image in a short period; however, without the recognition of the brand, Chinese customers will not trust the company and refuse to buy goods from it.
- **Build company’s own delivery system in major cities.** Delivery system is one of the obstacles for online businesses in China. If the company just relies on the state-owned post office, it will affect its business because of the poor service of post offices in some areas. Therefore, if the company can have its own delivery system (especially in large cities) to provide customers the prompt delivery service, it will help its business. There is another reason to do so, that is the cheap Chinese labor.
- **Apply the new payment method—paying by cell phone.** Since credit card’s penetration is still low in China, credit card can’t play the important role in e-commerce market. However, online shoppers want alternative effective payments that can provide them convenience and safety.

CONCLUSION

The primary challenges in current B2C e-commerce in China are the inconvenience of payment and goods delivery, online payment security and customers’ attitude to online shopping. However, the opportunities of B2C ecommerce in China are enormous. Once the global ecommerce companies who would like to establish their B2C e-businesses in China can understand the e-shoppers’ behavior well, especially apply effective strategies to their businesses, they can be successful in Chinese market.

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