

NEW TIDE OF ECOMMERCE

Case from China

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Abstract: Electronic commerce (eCommerce) is expected to play an increasingly important role in the 21st century global market. This paper describes a case based on interviews with the CEO of an SME implementing EC business in the East Coastal Area of China. Discussion of the case is based on Molla and Licker's (2005) six EC stages of growth and their Perceived E-Readiness Model (PERM) for developing countries. The findings help to explore the eCommerce status, major contributing factors, and unique values of eCommerce for China. The findings should also be important for studying eCommerce trends in the emerging markets.

1 INTRODUCTION

While the world economy started heading down sloop in 2008 and almost hit bottom in 2009, electronic commerce (eCommerce) has been getting more popular on a global scale. The evidence for the growth is strong in such emerging markets as China. According to CNNIC's 2009 report, by the end of June, the size of the net population (338 million), the number of broadband users (320 million), and the number of .cn domain names registered (12.96 million) secured China first place in the world in web development (CNNIC, 2009). Increasing number of netizens in China is getting used to web shopping for its reasonable prices and ease of use.

In such an encouraging digital environment, a number of eCommerce startups and new e-businesses are quietly emerging in the private sector of China's economy. The private sector was reported to have contributed 70% to the GDP growth in China several years ago (BusinessWeek, 2005). The private sector is also believed an important driving force in the country's transition from a traditional manufacturing economy toward a digital economy. In 2008, the central government issued a long-term plan for eCommerce development with a focus on eCommerce applications in the privately owned small and medium enterprises (SMEs). In May 2008,

Hangzhou, where the famous alibaba.com and taobao.com are head-quartered, was recognized the capital of eCommerce in China (Xu, 2008).

eCommerce is expected to play an increasingly important role in the 21st century global market as well as in the emerging markets. Molla and Licker (2005) argued that in developing countries successful adoption of eCommerce strategy in an organization depends on its perceived e-readiness in e-commerce, managerial, organizational, and environmental contexts. These four contexts are covered by two major constructs in their Perceived E-Readiness Model (PERM), perceived organizational e-readiness (POER) and perceived external e-readiness (PEER). Perceived organizational e-readiness has four components: awareness (innovation context), commitment (managerial context), and resources (human, business, technology contexts) and governance (organizational context). Perceived environmental e-readiness refers to an organization's assessment of the level of e-commerce support by government and other support-giving agencies and the readiness of market forces to conduct e-commerce (environmental context). They believe that e-commerce adoption can take various forms. The importance of e-readiness in a specific context may vary with each level of eCommerce sophistication:

initial adoption (email, static website), interactive, transactive, or integrated status.

In this paper, we will use the case of Fortune Marketing, a private SME practicing eCommerce business in the East Coastal Area of China, and explore their eCommerce status, major contributing factors, and the unique values for China using Molla and Licker's (2005) phases of eCommerce sophistication and their PERM model.

2 THE CASE OF FORTUNE MARKETING

China is currently in a stage of rapid growth in the Internet development. Since 2003, many new netizens get online each year. High school and college students are the primary Internet and Web users in China. According to CNNIC's report (2008), web users were mostly young people in the 25 to 35 year-old age span. A web user tended to buy more often online when his/her educational level is higher. Of all the netizens in China, those with a college or higher degree made up 36.2%; of all the eCommerce users, those with a college or higher degree made up 85% in 2008. Smart university graduates began to see their opportunities for career development.

The CEO of Fortune Marketing is a farmer's son from a mountainous area in the coastal region. In 2000, he set up the first student company with two of his classmates on a university campus. After three years' hard work, this student firm grew to be one of the top three electronic product retailers in the province. In November 2004, realizing the huge potential for web-based marketing, the CEO single-handedly opened up a different battlefield – Fortune Marketing and chose web-based advertising as the primary business line for the company. Through accurately selecting and combining multi-media online, the young firm assisted enterprises in distributing their promotion programs and advertisements to the target customer segments online. The great demand for online marketing and advertising in China offered this young firm a great opportunity. By 2005, the volume of transactions exceeded eight million Chinese yuan which helped to get Fortune Marketing recognized as a most innovative enterprise of high and new technology and won the Economic Contribution Award in Hangzhou City.

Since 2006, online advertising spending has taken an increasing part in many firms' annual budgets, which resulted in a rapid business growth to

online advertising and marketing providers. As declared by iResearch, China's number one electronic marketing research firm, in 2006 the market share of China's online advertising and marketing is beyond 6 billion Chinese yuan, 44% higher than in 2005. The volume of China's online marketing and advertising in 2008 was estimated to have broken the record of 13 billion. This estimated volume will probably reach 23 billion by the year 2010 (<http://www.iresearch.cn>). In less than four years, Fortune Marketing has grown at the neck-breaking speed of 250%. The firm was recommended as a cooperative education field to the twenty-seven colleges and universities in the southeast region of China.

After recognizing its strength in providing accurate direct marketing analysis service, Fortune Marketing has positioned itself as an online marketing service provider by offering enterprises complete web-based marketing solutions. Fortune Marketing, through its hard work, has won a number of important clients. Nowadays, the well known search engine businesses such as Baidu, Google, and yahoo, the famous B2B platforms such as Alibaba, MadeinChina, and the important portals such as Sina, Sohu, 163, and TOM all use Fortune Marketing for their online advertising and marketing services. In 2008, the number of employees at Fortune Marketing reached 1500. Two subordinate offices were set up in two other cities to prepare for expanding the business to the entire nation. In March 2008, Fortune Marketing was recognized as one of the ten best innovative young enterprises in Hangzhou City.

As the company was fast expanding, effective management became a critical issue. In November 2007, a management project team was established to analyze the processes, activities, and communication needs of each division to smooth out and improve the work flow. The strategy was to use information systems to enhance general management. By the first quarter of 2008, the company implemented an "integrated business management platform" for trial operation. This management platform provided for most of the supporting activities on the firm value chain comprising accounting, HRM, financial planning, administration, supervising and training, and many important front office functions covering marketing, Call Center management, and channel and product presentation. The firm has set up a room big enough to house 400 servers to ensure data security and reliability. Most Web SMEs in China are not able to afford such technological transformation currently. They achieved a 95%

paperless office at Fortune Marketing. The CEO is now able to see all the important data concerning important back office and front office processes from his office computer. He openly expressed his joy to have achieved the initial stage of using information systems to enable remote and real-time management of the entire company. This has greatly enabled the small administrative team to handle the fast-growing managerial tasks and aligned the rapid firm expansion with the needed level of management.

Through the years, Fortune Marketing has hired quite a few strong technical professionals who developed in-house more than ten effective software application products, including Fortune Marketing web-based marketing suite, Fortune Marketing web-based marketing campaign analysis system, Fortune Marketing web-based multi-media advertising system. Those software solutions won Fortune Marketing several copyrights, national patents, and software product certificates. This evident advantage in IS product development has helped to lay a solid foundation for offering accurate online marketing services. Currently, by integrating the disparate in-house programs such as Enterprise Information Presentation Platform, Web-based Alliance (a vertical product promotion portal), Internet Promotion Effectiveness Evaluation System (a direct advertising software), Expert in Distributing Short Messages (a wireless direct advertising program), and Fortune Marketing email marketing program, the company is able to offer a complete set of online services covering search engine marketing, web-based marketing campaign evaluation, web development, domain name application, spectrum use, and instant messaging. The technology center has recently completed the platform transfer from Windows to Linux to ensure safe and secured services to the clients. Currently Fortune Marketing is still making improvements to its web advertising service platform. Online payment is restricted only to a few trusted members.

Nowadays, the company has begun to pay more attention to diversify its technical knowledge assets. In terms of technical expertise composition, Fortune Marketing is moving away from a uni-faceted technical structure toward a cross-discipline multi-faceted team of multimedia professionals, junior programmers, technical marketing planners, senior system designers, system analysts, project managers, and web security engineers.

The CEO said frankly that although online marketing came into being in the 1990s in the United States, it is still a new concept to many SMEs in China. They need time to understand and accept

web-based marketing strategy. Fortunately, the number of China's netizens has been growing fast and is recognized now as the largest in the world. The market potential is obviously huge. He strongly believed that the key element for Fortune Marketing's growth and success is to provide extensive and quality education and training on web-based marketing. The strategy at Fortune Marketing is to work with the local governments with the goal of "sharing, cooperating, and achieving a win-win situation." They've started making use of various governmental platforms and forums to provide training programs to the SMEs in the coastal area on digitizing the information flows in production, management and marketing processes, and web-based marketing awareness. The plan is to apply the experience gained from the city to the entire province and get ready to radiate it to the entire country.

When asked about the impacts of the global economic recession, the CEO replied that the online advertising business in China is still growing. This has helped maintain their business growth in the face of adversity. The slowness of the global economy has not affected their strategic moves; on the contrary, it presented an opportunity for his company to show its strength. As a result, many enterprises come to Fortune Marketing for weapons to respond to the challenges and threats. The CEO sees the global economic down slope more of a chance for his company in recruiting high-end managerial personnel as well. Some high rank business executives lost their jobs because of the economic recession. The cost of hiring high quality business executives thus becomes obviously lower. Currently there are three VPs in the firm. One is still in the process of negotiation. Some of them used to be managers in fortune 500 organizations around the world. Their expertise and experiences will no doubt strengthen the management capability at Fortune Marketing.

Despite the global economic recession, the number of visits at Fortune Marketing.net is still growing roughly at 600 per month. The total revenue has achieved a growth of 56% as compared to the same time last year. Their revenue is expected to double by the end of 2009. Such excellent business performances will surely make Fortune Marketing another model eCommerce enterprise in the region.

The CEO admitted that Fortune Marketing had a number of important tasks in the near future, such as to enhance the business core with highly innovative technology and creative technical professionals, to improve quality of customer services, and to

cooperate with the local governments in providing web-based marketing training programs. Fortune Marketing is prepared to play the leading role in China's web-based advertising business. When asked about the determinants of their success, the CEO stated firmly that the most critical are the vision and commitment of the top management. During his business career, he has gone through numerous ups and downs. Not every decision he sincerely believed correct at the beginning worked out in the end. "Risks are everywhere. Sometimes you would have to accept failures bravely. If you have a good vision and be persistent enough with your commitment, you will have the time to claim your success."

3 DISCUSSION

Using Mollar and Licker's eCommerce adoption perspective, we found Fortune Marketing has moved into the integrated status of eCommerce adoption. Fortune Marketing is almost comparable with any e-business in the United States, being able to manage internal operations, decision-making, supply chain, and relationships online. Among numerous eCommerce start-ups in China, eCommerce implementation at Fortune Marketing is much more sophisticated and rarely seen. This is one of the few who can proudly claim their revenues and profits to the public. From this case, we can see that eCommerce is providing self-employment opportunities for numerous college and university graduates. The success of Fortune Marketing is a good example of university graduates not relying on government policy but going independent by starting their own web businesses. Fortune Marketing has now become an excellent role model for college graduates looking for opportunities to become successful in China.

From the interviews we learned that business size did not appear to influence future eCommerce implementation plans. Fortune Marketing has 600 full-time employees. Many other Web SMEs are much smaller in size. Their current levels of implementation of eCommerce technologies, their business functions and maturity status, and their planned uptake may vary. However, they show as much commitment to eCommerce as Fortune Marketing.

From the interviews we also learned that extranets, online supply chain management, and EDI networks are still limited in China. E-procurement is mostly not yet adopted in the private sector. This

indicates that eCommerce use is not permeating all established value chains. Even Fortune Marketing's integrated system remains mostly outside international value chains. It is partly because its current business partners and clients are mostly within China. It may also reflect the current status of the eCommerce system integration level as noticed by Pares (2002) and Humphrey et al. (2003) in their analyses of developing countries' B2B eCommerce activities.

Another weakness we noticed through the interviews is that the credit card system and online payment mechanism are still lagging behind western systems. Currently, the most well-known third-party payment platform is AliPay, similar to PayPal in America. Many business clients prefer the online banking services of the China Commercial Bank. Online banking is still a new phenomenon in China. To have better financial protection, traditional electronic funds transfer is still preferred. Even Fortune Marketing prefers to limit the use of online payment to a few trusted partners.

We then examined the eCommerce determinants in Fortune Marketing using the POER perspective. Different from Molla and Licker's (2005) finding on commitment, top management commitment has been extremely important in Fortune Marketing, no matter whether it was for initial EC adoption or for EC implementation sophistication. Though Fortune Marketing is still considered one of the SMEs, vision and commitment usually are more influential in the private sector. The CEO at Fortune Marketing does not have any IT background. However, he is by all means a visionary and risk-taking entrepreneur. He is keen at taking stock of the changes in the environment as a result of e-commerce, comprehending the meaning of opportunities, threats, and potentials for his business, and projecting how the changes would affect his business in the short to long run. Fortune Marketing as discussed is run by a 3G entrepreneur who is willing and capable of making critical decisions to enable important business transitions and model changes. 3G entrepreneurs in China are made up of well-educated young-to-middle-aged innovators. Those business people are intelligent and confident with a global vision. They dream of doing global businesses and becoming famous.

The CEO at Fortune Marketing has been actively promoting organizational learning and innovativeness as a core value in his own company culture. Under his personal influence, employees were actively involved in following the new trends in eCommerce and the moves of their competitors in

eCommerce implementation, and were ready to adapt to the new changes in the Web market. This supports the finding in Molla and Licker's (2005) study that awareness is critical in eCommerce implementation.

As Molla and Licker (2005) pointed out that the human, business, and technology resource dimensions of organizational e-readiness all had a major effect on initial e-commerce adoption at Fortune Marketing. This young firm has been able to attract young IT and IS professionals. Soon after Fortune Marketing adopted eCommerce strategy, it began to pay attention to combining different technical assets for running a full-blown e-business. Its success in selling IT products also helped to accumulate certain financial resources and gathered some experience of attracting external financial resources.

"Governance" refers to the strategic, tactical, and operational model that defines the way organizations structure to establish objectives, allocate resources, and make decisions (Willcocks and Griffiths, 1997). In terms of internal governance, Fortune Marketing seemed strong in aligning objectives, resource allocation, and decision-making to give top priority to eCommerce implementation. Fortune Marketing is ahead of many others in strengthening the management capability and improving organization structure to sustain a steady eCommerce sophistication.

PEER factors such as market forces e-readiness and supporting industries e-readiness seem to serve as key drivers for eCommerce adoption at Fortune Marketing. Market forces e-readiness refers to the application and use of e-Commerce by a firm's competitors, customers, suppliers, and other business partners. Fortune Marketing is under obvious pressures from the major search portals and B2B businesses in China to upgrade and integrate its business systems with theirs. Being slow in embarking on more sophisticated e-commerce implementation creates the danger of losing business clients and opportunities and fear of competitive disadvantage for Fortune Marketing. Such pressures tend to be less likely for many other businesses in China. Generally speaking, the implementation level of eCommerce is higher in foreign-trade related enterprises, since they feel more pressure to align their business functions and practices with those in other countries. Fortune Marketing's close tie with the IT industry in China provides advantages in getting updated hardware and software products and support. Being originally a successful student firm on a university campus, Fortune Marketing has some

preferential access to the young technical elites as well.

The role of government is an important determinant that may have affected the progress of eCommerce sophistication at Fortune Marketing. The readiness of government to promote e-commerce defines the institutional environment within which businesses operate and influences their confidence and level of e-commerce aspirations (Dutta, Lanvin, and Paua, 2004; Oxley and Yeung, 2001). The governments at different levels in China control technology development and thus can influence e-commerce implementation decisions (Montealegre, 1999). Currently government shows a clear commitment to eCommerce implementation in China in its policy measures, as well as financial support for technical projects establishing and expanding broadband network infrastructure, and financial support for selling home electronic products and computers to farmers at lower prices (China B2B Research Center, 2009). This will, in turn, stimulate eCommerce utilization in China.

The most important factor contributing to the boom of business at Fortune Marketing is the enormous need for timely and cost-saving services to users scattered all over the huge span of China and beyond. In a down economy, the most affected are those more or less related to foreign trading businesses. Many of them are now adjusting their focus to meet the internal business opportunities. As more SMEs begin to see the benefits of eCommerce practices, e-business firms like Fortune Marketing will see a better future. The case of Fortune Marketing also shows the importance and applicability of perceived benefit (usefulness) that forms the core of most adoption theories and empirical studies (Davis, 1989).

4 CONCLUSIONS

This paper shows a typical case of online business in today's China. The case, to a certain extent, helps to show most current trends of eCommerce in China, a strategic switch from its long-time sole focus on traditional manufacturing businesses to more services to numerous SMEs and individual consumers within the country. One delimitation to be aware of is that Fortune Marketing is based in Hangzhou, the capital of eCommerce in China. Our current study, however, can be compared with eCommerce developments in other countries.

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