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E-Commerce
Strategy

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With 78 figures

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Preface

Changes have taken place in the traditional business strategic environment resulting from the development of e-commerce. Any country, industry or enterprise can survive in the new environment and continue to make progress only if it is able to make full use of opportunities brought about by e-commerce and actively carry out strategic transformation. To prepare for making a scientific e-commerce strategy, we should thoroughly understand the meaning, contents, research methods of e-commerce strategy first.

The book takes the lead in that e-commerce strategic analysis and comparisons are made at three levels of economic entities: nation, industry and enterprise. It builds awareness and sharpens readers' analytical understanding of the key issues about e-commerce strategies. To link the theory of e-commerce strategy and practice in the real world, it brings together theoretical perspectives based on academic research and a large number of cases, especially those of China. Proposing a forward-looking guiding ideology to researchers and constructors, it focuses on Chinese markets and features of e-commerce strategies for Chinese economic entities at each level. Graduates and undergraduates of e-commerce and computer science, government officials, entrepreneurs and managers will all get benefits from this book.

Both theory and practice are involved hierarchically and comprehensively in this book, which means that readers have the chance to see how the basic e-commerce strategies are varied and applied to the national, industrial and enterprise levels respectively, especially in those organizations with Chinese characteristics. What's more, lots of current situations, e-commerce strategies in use in specific environments and the latest planning and policies of the Chinese government will be discussed in the book.

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Tsinghua University, Beijing, China
August, 2013

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E-Commerce and E-Commerce Strategy

Located at the summit of e-commerce, e-commerce strategy plays a critical role in the developing process. In this chapter, we briefly introduce e-commerce and e-commerce strategy. We first introduce the fundamentals of e-commerce, including the definition of e-commerce, its origin and development, and what it studies. Then we introduce the concepts of strategy and strategic environment, and the relations between them. Finally, we discuss what e-commerce strategy is and how to research it.

1.1 Fundamentals of E-Commerce

Although e-commerce is a brand new concept whose history is only fifteen years old, it was one of the most significant scientific achievements in the 20th century. E-commerce has resulted in a revolution in the distribution system. It breaks through limits of time and space, alters trade patterns, improves the circulation of merchandize, capital and information, and makes enterprises more competitive by effectively reducing the cost of production. In short, e-commerce has enabled traditional business to achieve greater, faster, better and more economic results. The impact of e-commerce will go far beyond business. It will have a profound impact on every aspect of human society, such as production and employment, the functioning of government, the use of talent, law systems, education etc. It will permeate into any profile you can image: industries, logistics, finance, media, governments, enterprises, research organizations and even traditional agriculture. All these sectors will be deeply affected by e-commerce. As e-commerce develops, it will gradually affect all aspects of human life. A new economic revolution based on digitalization and the Internet has been coming. It is hardly too much to say that e-commerce is the most significant industrial revolution since the first industrial revolution, and its impact will exceed in importance what has gone before. This is because e-commerce not only can greatly raise productivity, improve the efficiency of economic operations, lower economic operating costs and make possible things that were impossible before, but also can affect people's

life styles, change their world outlook and methodologies. In the new century it will, to a large extent, depend on our participation in the third revolution as to whether we can narrow the economic gap between China and developed countries such as in Europe, North America etc., then gradually catch up with them and finally pass them. Therefore, it is inevitable that we will develop e-commerce, to join the world market, to participate in globalization and rejuvenate China.

Since e-commerce is a brand new science, it is not surprising that there are various definitions for it, none of which are well accepted. From another point of view this is not bad news and a prematurely uniform definition of e-commerce may slow down its development. This section introduces some basic knowledge regarding e-commerce, including some definitions of e-commerce, its origin and development. Throughout this section readers can acquire a fundamental understanding of e-commerce.

1.1.1 Definition of E-Commerce

In order to help readers fully understand e-commerce, which does not have a well accepted definition, we introduce some definitions given by some important international organizations, governments, multinational corporations that play a leading role in international economic activities, and some famous academic associations that play an important part in international economic research.

Here is the definition of the Organization for Economic Cooperation and Development (OECD): E-commerce is an electronic transaction which is the sale or purchase of goods or services between businesses, households, individuals, governments and other public or private organizations, conducted over computer mediated networks.

Here is the definition of the International Organization for Standardization (ISO): E-commerce is the general term for the exchange of information and requirements between companies, or between companies and their customers.

The United Nations Commission on International Trade Law (UNCITRAL) sees e-commerce as a function that adopts Electronic Data Interchange (EDI) and other communication modes to improve international trade.

The Global Information Infrastructure Commission (GII) defines e-commerce as economic activities that are enabled by electrical communication technologies, by which people can publicize, purchase and make settlement for products and services with economic value.

The International Chamber of Commerce (ICC) considers that e-commerce is to digitalize all phases of trading activities in the entire trade process.

A broader definition is given by the U.S. government: 'E-commerce is a collection of all business activities through the Internet, including advertisements, transactions, payment and services etc., and global e-commerce will involve countries around the world. As the first economic power, any action of America is paid high attention to, and many standards of the U.S. are accepted by the ISO and IEEE.

Some important multinationals present their definitions of e-commerce respectively as follows:

IBM: E-commerce = information technology + web + business;

Intel: E-commerce = electronic market + electronic trade + electronic service;

HP: E-commerce is to accomplish commercial business by electronic means.

Summarizing all the above definitions, we can say that e-commerce is the process by which people use electronic means to do business or to do other economic activities. It is the process whereby traditional trade is carried out by electronic methods. The electronic methods refer to electronic technologies, tools, equipment and systems, including telephone, telegram, television, facsimile, e-mail, electronic data interchange, computer, the communication network, credit card, electronic money and the Internet etc. Commercial activities comprise inquiry, offer, negotiation, contract signing, contract fulfillment and payment. In a narrow sense, e-commerce refers to various online commercial activities focusing on commodity exchanges by electronic methods, by computer networks in particular, between companies, factories, enterprises, industrial undertakings and consumers. In a broader sense, electronic business (e-business) refers to carrying out the business of every walk of life (including by governments, enterprises and institutional units) by means of electronic technology. In addition, the terms "e-commerce" and "e-business" are often used interchangeably. In this book, the term e-commerce is used in the narrow sense, but the connotation of e-commerce will be extended properly in the following chapter. For example, business process optimization will be mentioned when referring to e-commerce strategy in enterprises.

1.1.1.1   Components of E-Commerce

Components of e-commerce are illustrated in Fig. 1.1, which include:

● Networks: These include the Internet, Intranet and Extranet. The Internet is the foundation of e-commerce and the carrier of commercial business information. The Intranet is the platform on which enterprises carry out their internal affairs, and the Extranet is the link between enterprises and users to carry out commercial activities.

● E-commerce customer: It includes personal consumers and business consumers. The business consumers construct the Intranet, Extranet and MIS to scientifically manage their staff, wealth, goods, production, supply and sales. Personal consumers get access to information and purchase goods by connecting the Internet with browsers, set-top boxes, PDAs (Personal Digital Assistance), Visual TV, etc.
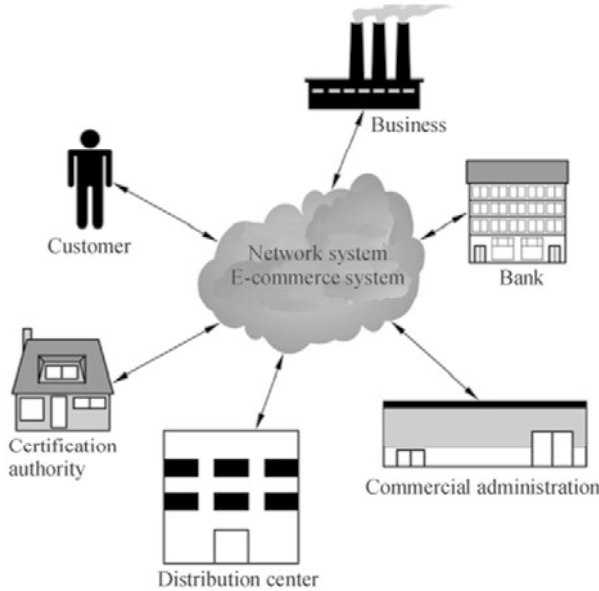
Fig. 1.1   Components of e-commerce

● Certification Authority: The Certification Authority (CA) is an authority recognized by law to be responsible for issuing and managing digital certificates, to facilitate parties involved in online sales to identify each other.

● Distribution Center: It is in charge of sending goods that cannot be delivered on line to consumers and keeping track of goods flow.

● E-bank: It realizes traditional banking business like settlement, and provides both sellers and buyers with real-time services 24 hours per day.

● Commercial Administration: It mainly consists of commercial management departments, tax departments, customs, foreign trade and economic management departments etc.

1.1.1.2   Benefit of E-Commerce

In general, the benefit of e-commerce is mainly reflected in the following three aspects.

● *Making traditional business activities better, more efficient and more economical*

Ever since the distribution of commodities emerged, business activities have been in existence. Before the invention of electronic technology, business had existed and developed for thousands of years. It's true that business activity can be carried out without electronic technology. However, with these technologies, business activity will become better, more efficient and more convenient. This can be reflected in the following areas: (1) Better management information.

Management can deal better and faster with sales data reporting and analysis. Progress in this area may lead to more efficient production, inventory and distribution, marketing and sales, better financial planning and more effective R&D and product development. (2) Better integration of suppliers and vendors. This action gives companies a better understanding of the business needs and encourages a higher quality of product and service delivery. The process can be more efficient, accelerate the interactions, and lead to a faster market response capability. (3) Better channel partnership. The benefit is enhanced by having the right products available at the right time and price, and knowing how to sell them most effectively. E-commerce processes allow companies to provide faster information about product availability, changes in the product, pricing and the company's promotional policy. (4) Lower transaction costs. Internet-based transactions systems cost much less in the long run because they reduce the need for a large organizational system. (5) Better market understanding. E-commerce transactions can automatically extract information about customers and their buying behavior. The data is captured along with the transaction, thereby creating a new mechanism for predicting market trends or targeting repeated or related sales. Loyal customers can receive loyalty discounts.

● *Breaking through the constraints of time and space*

Traditional business activities are mainly done through face-to-face negotiations. But how can we do it if the buyer and the seller are separated? In addition, people cannot work for 24 hours per day without rest, which made traditional business activities strictly limited. However, e-commerce based on the Internet can be accessed from any place, at any time. People can make business negotiations freely, no matter how far they are, how many time zones separate them, and whether there is a fax or a telephone. Thus, it eliminates barriers and allows businesses to sell and deliver products and services across the world. It is especially beneficial to small businesses in extending their reach far beyond traditional boundaries.

● *Creating some new business and making impossible things become possible*

There was no information search industry in traditional business. Although some service personnel existed who provided similar services individually, this could not develop into an industry because of the limited market. Moreover, in traditional ways of doing business, people in China cannot trade with people in the United States as they do in a bazaar. Chinese citizens cannot enjoy legal advice and financial services from American lawyers and banks; Chinese researchers cannot check whether there is a book that they are interested in, in a library in America; people cannot receive a university education from the United States if they are not in the USA. However, with e-commerce technologies all of these are feasible. People can achieve these things anytime and anywhere. Now information search has become an essential network service, and has created an important industry-search service; online C2C transactions have been thriving.