

E-BUSINESS STRATEGY IN CHINA: INTERNET PIONEERS VS PRAGMATISTS

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ABSTRACT

This research addresses how Chinese companies develop strategies that support e-business enabled value creation. Nine in-depth cases studies are undertaken across three distinct industries (housing development, manufacturing, and B2C retail) using an integrated strategy framework that combines value chain theory with the resource-based view (RBV). The findings highlight some of the key characteristics of e-business strategy formulation, as well as how e-business value creation features differently between 'Internet pragmatists' and 'Internet pioneers'.

KEYWORDS

e-business strategy; China; Internet pioneers; Internet pragmatists

1. INTRODUCTION

With 591 million internet users the large-scale development of B2C in China in recent years offers promising opportunities for both Western and Chinese companies (CNNIC, 2013). The acceptance of online shopping, as well as steady improvements to online payment methods has created a market in excess of 161 million online shoppers (McKinsey, 2013). Although renowned Western companies such as Amazon.com and Ebay.com have played important roles in the market, so far, the most successful players are the indigenous Chinese companies such as Alibaba.com and Taobao.com.

Many researchers suggest that dotcoms and established companies are facing different strategic imperatives (e.g. Porter, 2001) and require different competencies (e.g. Fahy and Hooley, 2002). However, little empirical research has been conducted to explain the details of the differences. This paper provides some of this empirical evidence from a study which presents an industry perspective on e-business enabled value creation.

2. RESEARCH DESIGN

In order to address the gaps which have been identified, this research sought to answer two key research questions:

- (1) How have Chinese companies developed or adapted e-business strategies?
- (2) Are there differences between Internet pioneers and Internet pragmatists?

Internet pioneers are defined as the visionary early adopters who have seized on the opportunities afforded for reshaping industries and creating significant strategic advantages. By contrast Internet pragmatists are the more pragmatic early majority firms that have adopted e-business technologies to enhance their existing operations. (Fahy and Hooley, 2002; Zwass, 1996).

Based on existing theory, this paper takes an integrative approach to understanding e-business strategies, as this is believed to be more likely to capture the richness of e-business value creation. It is argued that no single entrepreneurship or strategic management theory can fully explain the value creation potential in e-business (Amit and Zott, 2001). Therefore, in order to investigate e-business value creation, we propose a theoretical framework that links the value chain framework and resource-based view (RBV) perspectives.

Primary data collection was carried out within nine case companies, following the case study research process proposed by Eisenhardt (1989). The lack of solid prior theorizing about this topic makes the inductive case study approach an appropriate choice of methodology (Eisenhardt, 1989). In-depth, semi-structured, face-to-face qualitative interviews were carried out with nineteen key managers responsible for e-business development. The cases identified contained both Internet pioneers and pragmatists and spanned three industries - housing development, manufacturing, and B2C retail. Further secondary data was collected with the aim of understanding the companies' backgrounds, senior leaders' views on competitive advantage and e-business applications and corporate strategies. Based on Yin (1994), the main stages of analyzing transcripts of in-depth interviews involved: pattern search, identifying explanatory concepts, identifying central categories, building typologies, and re-evaluation.

3. PRELIMINARY FINDINGS

All of the case companies are industry or market leaders in China. In the housing development industry, industry concentration and high profit margins provide opportunities for leading players. Meanwhile, intensified competition is eroding industry profitability. These changes require companies to gain competitive advantage through lower cost. Also, as customers have gained experience over time, they have become more brand-sensitive. Hence, cost control and brand-building are two key components of the case companies' strategies. As the manufacturing industry is at the stage of maturity, companies have narrower profit margins. Hence, they emphasize building brands, having competitive costs, and/or making strategic adjustments. As B2C retail sector is at the introduction stage, companies are experiencing high marketing costs and are focusing on increasing market share. Therefore, marketing cost is a key cost driver. In summary, cost control and brand-building are two key concerns shared by the case companies across industries. While strategic adjustment is a key successful factor in the manufacturing industry, R&D capability is a key driver for sustainable competitive advantage for B2C retail.

In order to manage the opportunities and the challenges facing the industries, the case companies have adopted some common strategies (see table 1):

Table Error! No text of specified style in document.: The types of e-business applications as solutions to key business challenges

Industries	e-business applications	e-business-enabled solutions	Key business challenges/strategies
Housing development	e-procurement.	Cost reduction and cost control across regions.	Marketing expansion at national scale. Mature customers.
	E-CRM (B2C); B2C website.	Brand-building and maintaining.	
	KMP	Standardisation and efficiency in product design and best practice approaches.	
Manufacturing	B2C website.	Brand-building and maintaining.	Maturity stage. Narrower profit margins. Globalisation.
	e-procurement.	Cost advantage	
	e-procurement; E-VCM.	Innovation (OIC, SC linkages).	
	E-CRM (B2B).	Operational efficiency (SC linkages).	
B2C Retail	E-CRM (B2C); B2C website.	Marketing cost Brand-building and maintaining. Technological innovation (OIC).	Introduction stage. High marketing costs. Marketing expansion. Extending customer base.
	e-procurement; E-VCM.	Operational efficiency (SC linkages). Operational efficiency.	

(CRM: customer relationship management, KMP: knowledge management platform, VCM: value chain management,

SCM: supply chain management)

The research found that Internet pioneers and Internet pragmatists have adopted different e-business strategies. The Internet pragmatists applied e-business to solve business challenges (e.g. improving innovation capability and operational efficiency by the manufacturers) and adopt advanced management concepts (e.g. the made-to-order model by Haier and the customer-centric concept by Vanke). The Internet pioneers used e-business as an innovative tool and a competitive weapon to reshape industrial structure. This finding suggests that dotcoms and established companies are facing different strategic imperatives and they should adopt different e-business strategies. In order to propose e-business strategies, both Internet pioneers and Internet pragmatists face the same strategic choice, especially with B2C applications: to be or not to be a first-mover.

The B2C retail case companies chose to be first-movers in their respective sector. They have both become leading players in their sectors and leading players in the Chinese B2C market. They are now reaping the rewards of early entry e.g. relatively low-cost of building brand identity and loyalty and seeking the historic opportunities. However, they are not the leading players in their markets. The best players timed their entry to the market a few years later, with a better offering including a better selection of products, better logistics and better customer services. Based on this analysis, we can conclude that first-mover advantages are not sustainable and dominant. However, seeking historic opportunities is a non-imitative source of competitive advantage. In the Chinese business context, as with other emerging economies, B2C readiness has played an important role in B2C applications.

4. CONCLUSION

In terms of the key e-business applications, online information capabilities (OIC) are the dividing factor between Internet pioneers and Internet pragmatists. Manufacturers and EC companies have actively built up their OIC. The housing developers are at an initial stage of realising information integration. Based on their OIC, manufacturers have achieved e-CRM (B2B). Currently, e-CRM (B2B), the channel management system is a key success factor for the Chinese manufacturers. By obtaining OIC, EC companies own the consumer relationship, whose lifetime value is often the value of the business. However, a common interest in obtaining OIC and exploiting e-CRM motivates Internet pragmatists (including property developers and manufacturers) to seek to learn rapidly from the experience of the pioneers.

Further thematic analysis of the case studies will be conducted. This will explore further differences between different industries' e-business strategies, identify key interventions in e-business management, and further test the integrative framework

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