

# Analysis of the Development of E-commerce in China's Small and Medium-sized Enterprises Based on Questionnaire of China's SMEs E-commerce<sup>1</sup>

Wu Jiani

(School of Economics and Resource Management, Beijing Normal University, China)

Abstract: E-commerce has become an important force in China's new economic development. The research group found that China's SMEs hold an optimistic attitude on the future of e-commerce, the electricity market competition environment is extremely fierce. They affirmed the government's support policies but also worried about the risk of policy uncertainty. E-commerce enterprises are most concerned about after sales and logistics issues and demand for talent and publicity channels. Based on it, this paper puts forward some suggestions on make domestic and foreign market research, try service outsourcing mode, increase brand innovation and innovate cross-border logistics service in order to promote the healthy development of Chinese e-commerce.

Key word: E-commerce; SMEs; Development Status; Solution

## 1.Introduction

SMEs and e-commerce has become an important power to solve the employment problem in China. In China, small and medium enterprises provide more than 80% of urban jobs. At the same time, e-commerce has created many new jobs, which is back for the comprehensive promotion of employment. "The Thirteen Five Development Plan of E-commerce " <sup>[1]</sup> shows that at the end of the "Second Five", China's e-commerce services market size reached 1.98 trillion yuan, traditional industries and emerging industry-related practitioners reached 26.9 million. E-commerce has become an important area of innovation development for enterprises, cultivate a large number of e-commerce business and managerial talent, create a lot of new jobs, become the preferred area of "innovation and entrepreneurship," provide a strong support for the comprehensive promotion of employment.

Besides, e-commerce has become an important force of China's new economic development. The social influence of e-commerce is also deepening, and it has become a new impetus to promote social system,

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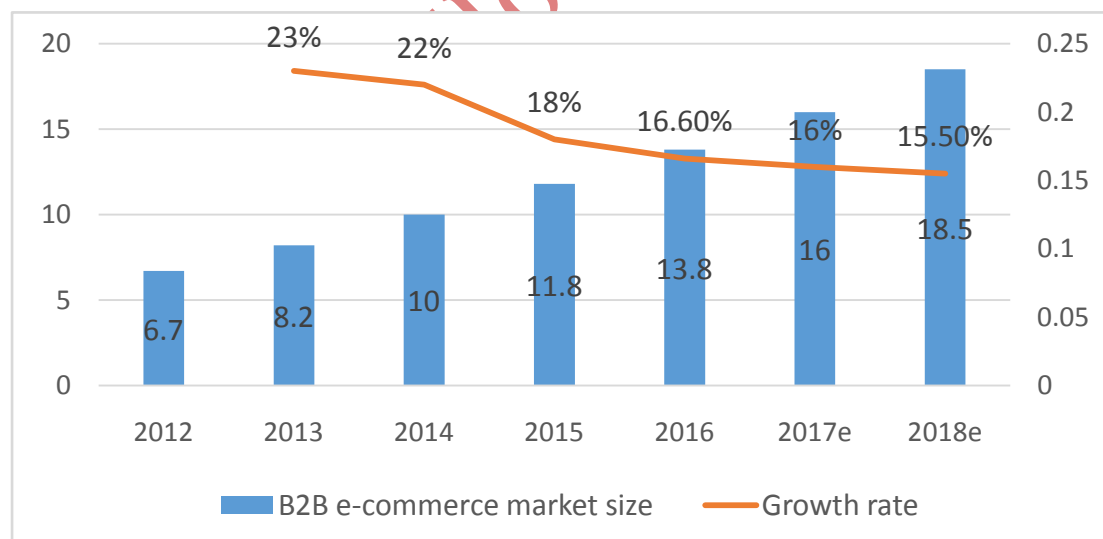
mechanism change and business model innovation.

In 2015, a series of support policy for the development of e-commerce such as "The State Council comments on the development of e-commerce to accelerate the cultivation of new economic power" was intensive introduction to achieve a comprehensive development goals of well-off society and enhance the efficiency of social resource allocation.

## 2.The Overall Status of the Development of China's SMEs E-commerce

During the 12th Five-Year Plan period, e-commerce has become more and more influential in China's economic development. The total annual growth rate of China's e-commerce transactions has exceeded 35%, and its contribution to China's GDP has exceeded 65%, achieving the strategic goal of twice the total amount of e-commerce transactions. In 2015, China's e-commerce revenue reached 20.8 trillion Yuan, exceeding the target (15.6%) of the Plan for Development of e-commerce during the 12<sup>th</sup> Five-year Plan; China's retail e-commerce sales are set to reach 3.88 trillion Yuan, increased by 33.3%, accounting for 10.8% of the total sales of consumer goods<sup>[2]</sup>, continue to maintain the position of world's largest online retail market. The role of e-commerce to promote consumption is becoming increasingly evident. According to "China e-commerce report (2015)" made by China International E-Commerce Center, China's total social e-commerce transaction volume is expected to 20.8 trillion yuan in 2015, with an increase of 27%, as well as exceed the goal of second five E-commerce development plan by 15.6%. China has become the world's largest and fastest growing e-commerce market<sup>[3]</sup>.

According to China e-commerce market transaction data in 2015 from iResearch<sup>[4]</sup>, China's B2B e-commerce market reached 11.8 trillion yuan in 2015, with an increase of 18.0% over the previous year, but the growth rate was lower than 23% in 2013 and 22% in 2014.



Source: China B2B e - commerce research report, 2016, iResearch

Fig.1 China's B2B e-commerce market transaction size growth

The B2B sector has always been responsible for a large proportion of the transactions within China's ecommerce arena. The gross market value of China's B2B market hit 8.2 trillion yuan in 2013, a surge of over 15% year-on-year.

SMEs in China mainly rely on several giant platforms, led by Alibaba, in e-commerce. which boasts a market share of 46% and, through its two marketplaces, proved how successful B2B e-commerce players can be. The total transactions of China's online shopping market were US\$ 680 billion in 2016 with an increase of 23.9%; and, it's estimated to reach US\$ 1.06 trillion in 2019.<sup>[2]</sup> The platform has benefited from Alibaba's over-arching brand and resources which its rivals can't match. Double 11 (or Singles' Day, held every year on November 11) is China's equivalent of Cyber Monday and is also a key factor contributing to Tmall's performance: in 2013, sales volume reached \$4.8 billion.

In 2015, Alibaba (Taobao, TMall, AliExpress, Alibaba International Trade Site, Alibaba Domestic Trade Site) remains the largest e-commerce platform in China due to its user base and abundant experience in the industry, as well as advanced technologies such as big data. Alibaba has 59.2% market share, followed by JD.com with a market share of 25.2%.<sup>[5]</sup> Jingdong is particularly well-known for its quick service, helping the company win customers.

### 3.Questionnaire Survey

The research group conducted a questionnaire survey of SMEs in China. A total of 82 questionnaires were received, 81 of which were valid (98.78% recovery rate). The questionnaire covers enterprises in Beijing, Shanghai, Shandong, Zhejiang, Jiangsu, Fujian, Guangdong, Jiangxi, Anhui, Sichuan, Hunan, Liaoning and Xinjiang provinces (Figure 2). Eighteen enterprises belong to manufacturing industry. Fourteen enterprises engaged in agriculture, forestry and transportation. Twenty-five enterprises are in technology, culture and health industry, seventeen of which are engaged in finance and other service. Six enterprises are catering business (Figure 3). Twenty-six enterprises are pure e-commerce enterprises whose e-commerce income accounted for 80% of the company's main business income, while 32 enterprises' e-commerce income accounted for 20%. (Figure 4)

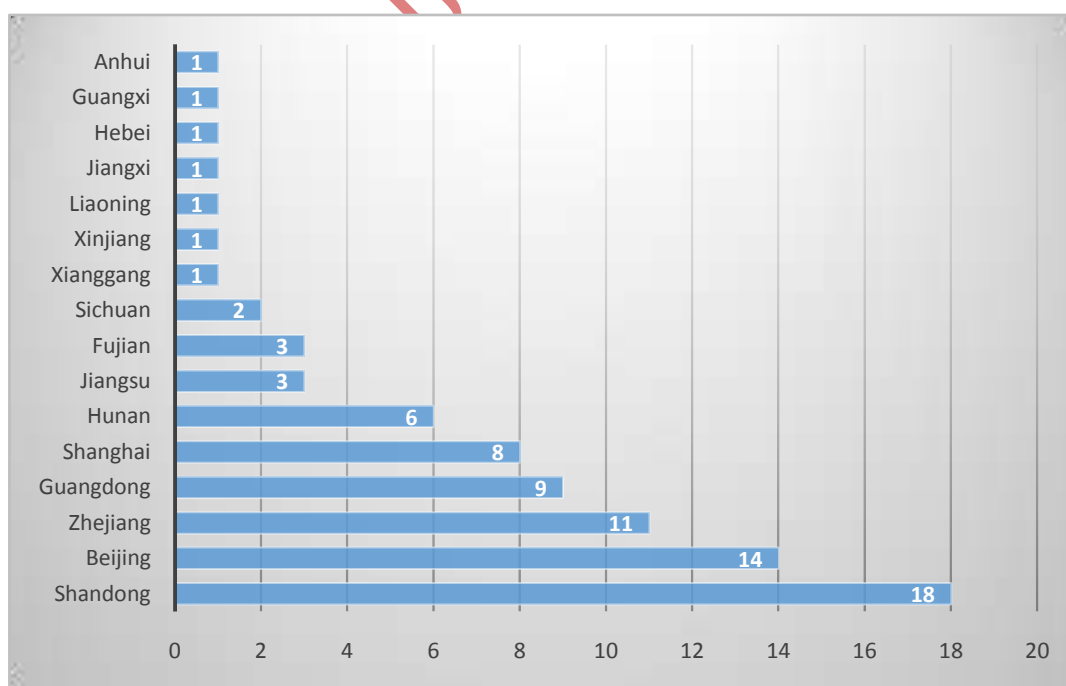


Fig.2 Enterprise geographical distribution of questionnaire survey

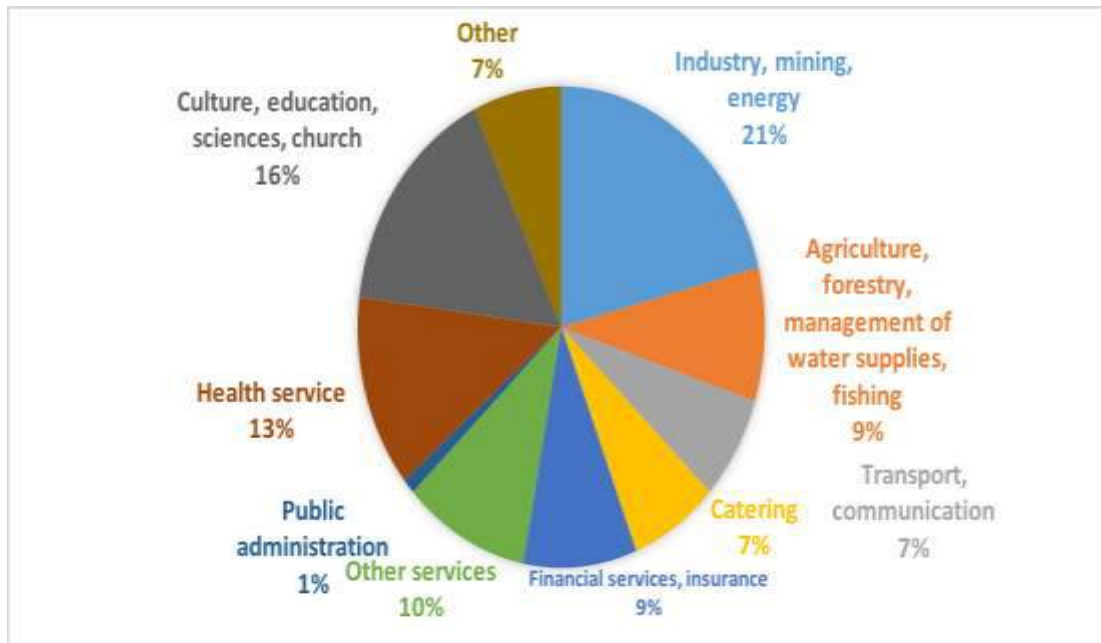


Fig.3 Survey of business areas of questionnaire survey

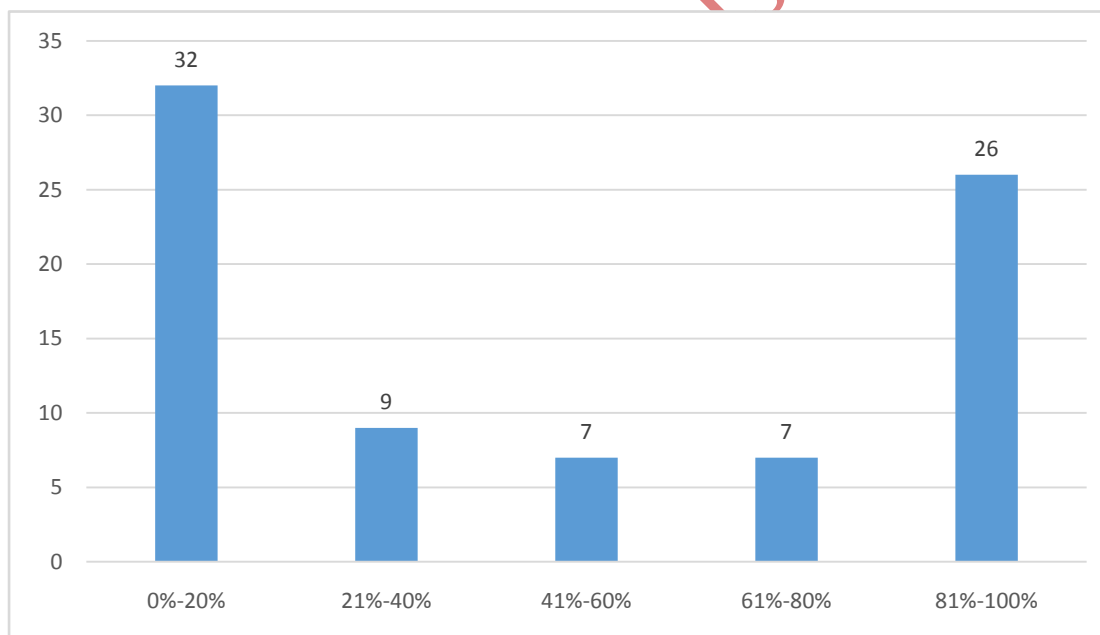


Fig. 4 The proportion of e-commerce revenue to company's main business income

### 3.1 Survey Results:

- (1) According to size and personnel structure, most employees are young and middle-aged; over half of staff is aged between 25 and 30. The size of domestic e-commerce enterprise is on the rise; 72.8% of companies have taken on employees in the past three years (Figures 5-6).

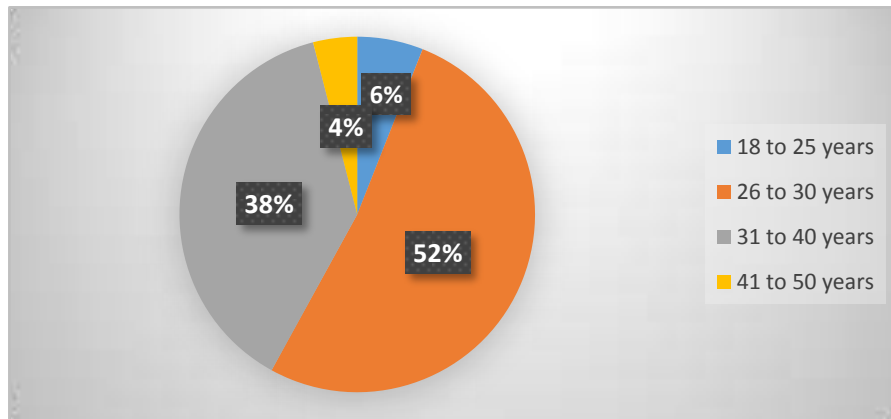


Fig. 5 Employees average age distribution

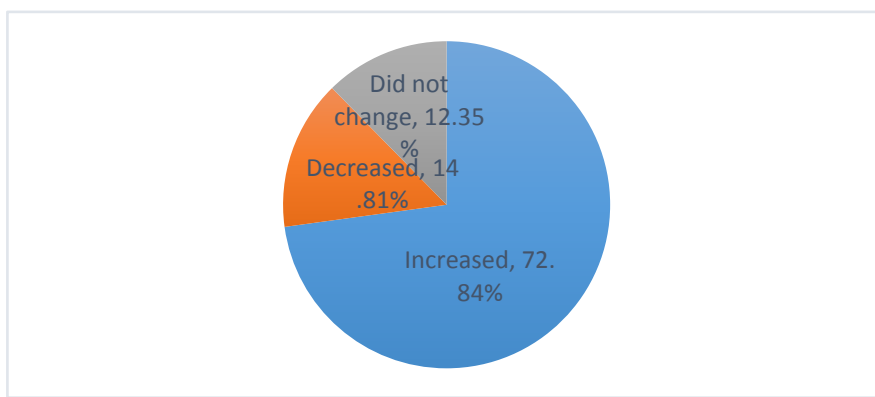


Fig.6 Changes in the total number of employees in the past three years

(2) In terms of profit, 72.5% of the enterprises were profitable and 17.5% “very profitable” (Figure 7). By cross analyzing the income of enterprises and the industry classifications, we found that the enterprises surveyed are spread relatively evenly across product categories.

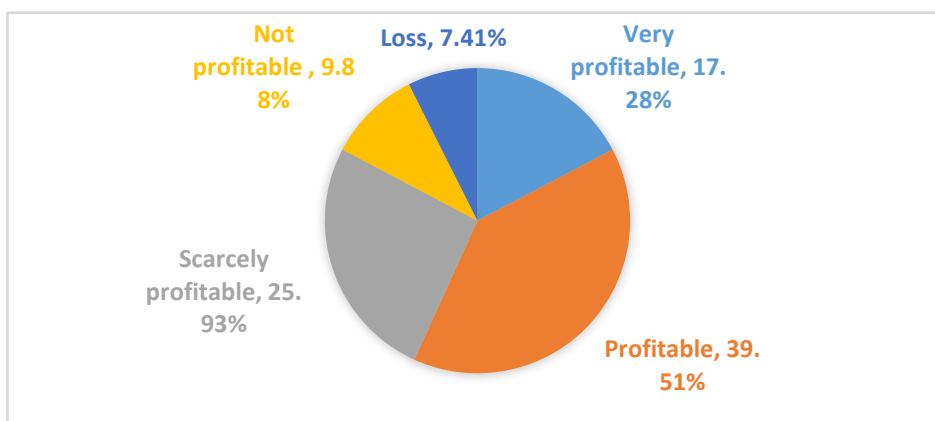


Fig.7 Enterprise profitability

(3) From a business model perspective, the proportion of B2C model of e-commerce enterprises is 57%, compared to 49% for the B2B model. The proportion of the B2C model in china is greater than the B2B model, as opposed to cross-border e-commerce, which is dominated by B2B model. There are 12

companies involved in cross-border e-commerce business in this survey, accounting for 14.81%. (Figure 8)

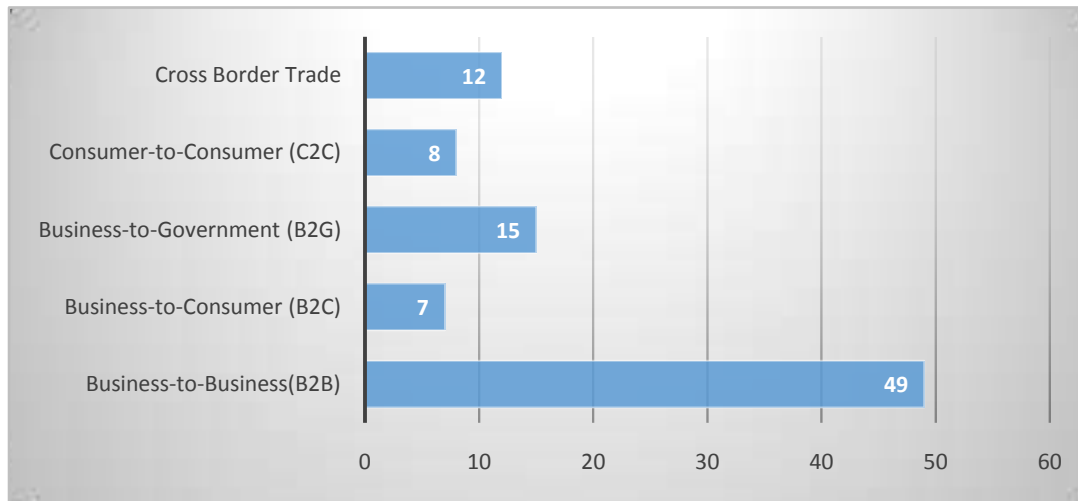


Fig.8 Distribution of the company's e-business model

(4) From the tax payment situation, custom duties and insurance tax are important in e-commerce in addition to income tax, value added tax and national insurance. Logistics insurance is a special part in the e-commerce. According to taxes paid by the enterprise, we found that insurance premiums represent a large proportion of enterprises' tax burden. (Figure 9)

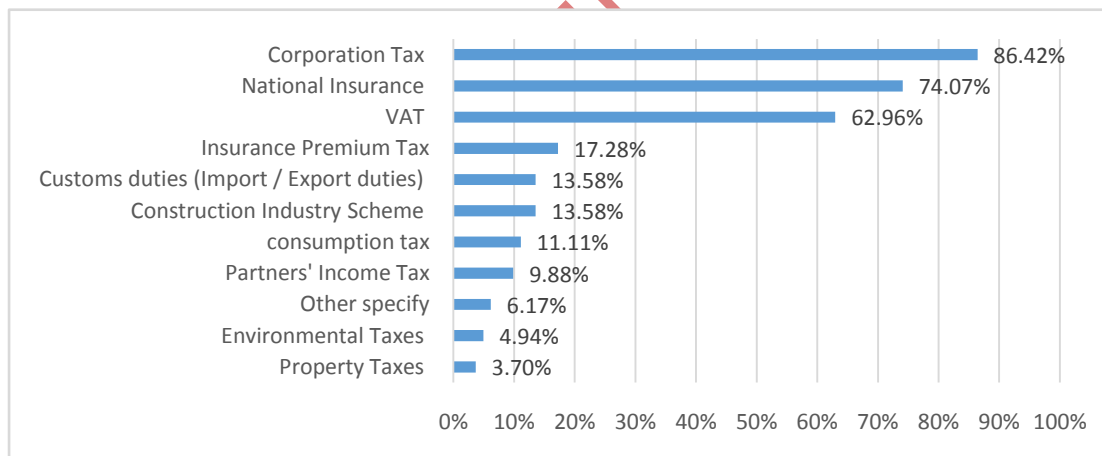


Fig.9 Tax paid by the company

(5) The development of e-commerce has three major characteristics. First, e-commerce has low barriers to entry. Competition is fierce, encouraging companies to innovate in order to not be eliminated by the market. Second, the development of e-commerce enterprises is largely affected by cost. Third, the e-commerce regulatory system is still in an exploratory stage. Companies are worried about policy instability with 31% of questionnaire respondents reporting concerns (Figure 10).

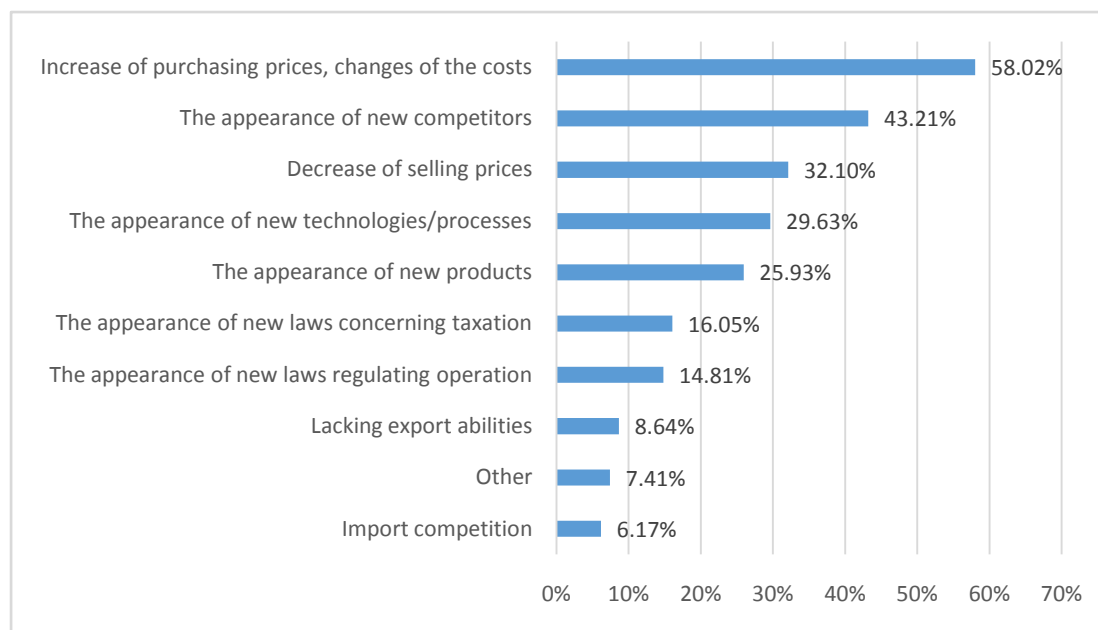


Fig.10 the major factors on the market influencing e-commerce

(6) E-commerce logistics and payment is still dominated by third-party actors. The survey found that only three enterprises had their own in-house logistics, while 19 companies choose SF Express. Cross-border e-commerce mainly relies on UPS and DHL (Figure 11). The traditional means of payment is still the main approach for e-commerce payment system. Nowadays, more than three quarters of enterprises use online payment. At the same time, WeChat pay, Alipay and other emerging means of payment are rising.

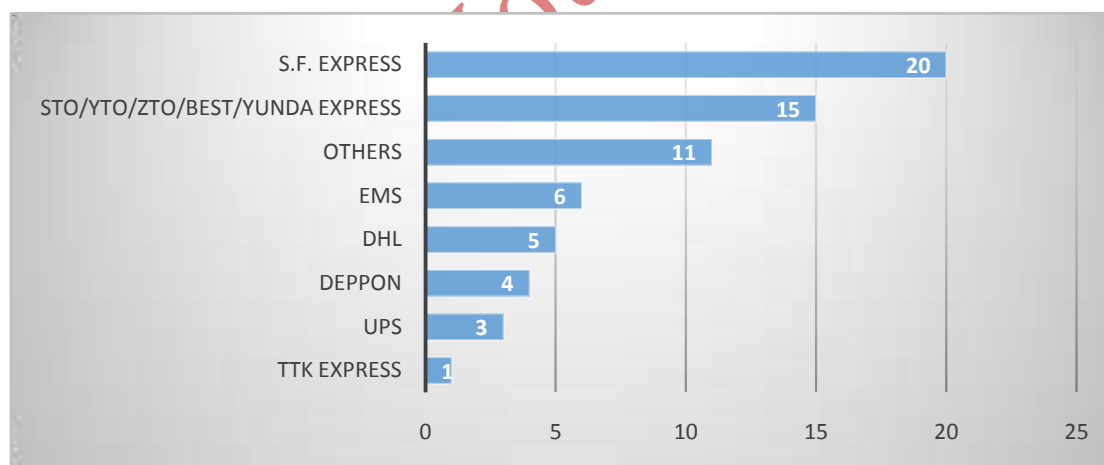


Fig. 11 Logistics partners' distribution of e-commerce enterprise

The questionnaire asked about the current industry situation, government incentives on cross-border e-commerce, and challenges faced by enterprises. The problems and views identified are as follows:

(1) An optimistic attitude on the future of e-commerce

E-commerce SMEs surveyed are optimistic about the future prospects of the industry, especially in the era of big data. Most consider that the e-commerce model will become more efficient and that the market will continue to

grow. E-commerce innovation based on large data creates new business models by refining information and applying it to various processes of e-commerce. Big data can help companies trace market dynamics, identify consumer needs, match consumers with products and services, and achieve on-demand customization, which is particularly prominent in the clothing retail industry.

(2) The electricity market competition environment is extremely fierce

Respondents reflect that current entry barriers of domestic e-commerce are low, leading to fierce market competition. At the same time, product price information is intensive. High transparency means no price discrimination in e-commerce that works for the developing and upgrading of products. For cross-border e-commerce enterprises, the key point is how to survive. In the past, goods made in China relied on low cost to attract consumers. The price competition would only make profit for enterprises getting lower and lower in added value. The competitiveness of Chinese goods needs to be enhanced.

(3) Risk of policy uncertainty

In the questionnaire, many entrepreneurs mentioned policy risk issues. Although most support the government's current policies, especially the establishment of free trade zones, financial support, tax reductions, platform subsidies, warehouse storage charges relief and other support policies, many worry that current e-commerce development is still in the early stage and there is still uncertainty on laws, regulations and tax policy. Entrepreneurs are wary of policy change.

(4) After sales service and logistics

SMEs reflected that the seven days "no questions asked" return policy guarantees the rights of consumers and reduce consumers' concerns, although this increases the return rate and adds to costs. Some consumers return fake goods causing losses to the e-commerce enterprises. For cross-border e-commerce, many companies reflect that the customs clearance process delays delivery. The transit of cross-border trade is long and it is common for packages to be lost and damaged. The safety and efficiency of transport are not guaranteed.

(5) Talent and publicity

The questionnaire reflected that the development of cross-border e-commerce promotes enterprise upgrading. But many companies also complained of a shortage of qualified staff. The industry chain in the cross-border e-commerce needs professional interdisciplinary talents. The shortage of talent in marketing restricts development. However, as a new industry, a personnel training in cross-border e-commerce is not established. SMEs find it difficult to attract talent due to their size, resources, management level and other conditions. The shortage of senior talent has become a bottleneck in the development of cross-border e-commerce. Advertising and product promotion are also crucial. The development of e-commerce is an opportunity for innovate marketing. In the questionnaire, many companies mentioned issues of TV channels and promotion. At present, marketing of new products of China's enterprises is weak and there is a limited understanding of overseas markets. Government support and guidance on product promotion would benefit cross-border e-commerce enterprises.

#### 4. Policy Recommendations

The results of the questionnaire survey for small and medium-sized enterprises are basically the same as those



under the framework of big data. In view of the current problem in the development of domestic e-commerce, the following suggestions are put forward from the enterprise perspective.

(1) Make a good job in domestic and foreign market research

Cross-border e-commerce markets spread all over the world. It is necessary to study and familiar with the local customs, business environment, shopping preferences, economic development and legal system before entering the market, which helps deal with possible future risks and disputes. Strengthen the risk prevention awareness, pay attention to intellectual property policy research. The intellectual property policy is different in different country. Protect enterprises' property rights to minimum the unnecessary trouble in the future.

(2) Try service outsourcing mode

Enterprises can outsourcing some professional links to domestic and foreign professional service providers according to their own specific circumstances, such as management information system, advertising design, product design, shop decoration and other aspects. Employing overseas employees directly engaged in online shop customer service, not only benefit for understanding and meeting the shopping habits and needs of target market, but also avoid the cognitive gap of the new market trade environment, reduces the cost to form a new team as well.

(3) Strengthen brand technology innovation

With the large data technology of cross-border e-commerce platform, excavate customer preferences and needs timely for accurate product sales. Besides, strengthen enterprises' division of labor and experience exchange, improve the common combat capability. The complementary products are conducive to the industry's benign competition.

(4) innovation of cross-border logistics services

Combined with the national strategy of "one belt one road", overseas warehousing base can be set up in countries with large market share, logistics enterprises can create overseas warehouses joint industrial park or cross-border e-commerce network platform. Transfer large quantities of goods in the form of maritime or land to the warehouse, and then delivery them on local, thus to improve the efficiency of logistics and distribution and shorten the logistics cycle

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