

# Electronic commerce in China: emerging success stories

Maris G. Martinsons\*

*Department of Management, City University of Hong Kong, 83 Tat Chee Avenue, Kowloon Tong, Hong Kong, China*

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## Abstract

Enterprises across the People's Republic of China (China) seek to gain the benefits of electronic business, but very few of their electronic commerce (e-commerce) initiatives have been successful to date. A recent multiple case study examined some of the exceptions. This paper illustrates the distinctive nature of e-commerce with Chinese characteristics by profiling an online retailer, a traditional B2B intermediary, and an electronic marketplace or market space. Their key success factors were found to include the abilities to leverage core capabilities and to overcome institutional deficiencies through relationship building. The prospects for e-commerce in mainland China are related to the development of the rules and infrastructure that are fundamental to a modern market economy. © 2002 Elsevier Science B.V. All rights reserved.

*Keywords:* Electronic commerce; China; Multiple case studies; Organizational change; Explanatory theory; Institutional deficiencies

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## 1. Introduction

Enterprises across the People's Republic of China (China) hope to benefit from electronic commerce (e-commerce). Chinese managers have sought to learn from the experiences of dot-coms and Internet-enhanced business in the US and other developed countries. Concurrently, *wise* men and women from the West, often touting themselves as e-business consultants, have been eager to advise Chinese clients. Unfortunately, the results of their efforts to develop e-commerce in China are disappointing.

Admittedly, the deflation of the dot-com bubble exposed the difficulties of profiting from online ventures. However, the lofty expectations associated with the emergence of the new economy reflected a more sustainable belief in the commercial potential of the

Internet. Even now, the steady if less spectacular growth of e-commerce continues in the US.

In contrast, an e-commerce conference in Hong Kong that sought to apply the US experience to China ended up being characterized as “the blind leading the bemused” [1]. Experienced business people across mainland China tend to dismiss those touting the Internet as *feng zi* or *kuang ren*, crazy and/or out of touch with reality. Meanwhile, a *Fortune 500* chief executive has asserted that e-commerce in China was “hopeless” [2].

This pessimism in the Chinese context reflects the disappointing experiences of the vast majority who have ventured into e-commerce [3,4]. Commercial web sites in China, such as the leading portal and content provider, sina.com, the online book retailer, dandgang.com, and the name-your-price site, lalasho.com, have experienced difficulties similar to those of their American counterparts—Yahoo, Amazon and Priceline, respectively. Even Chinese enterprises emulating the eBay business model, such as eachnet.com,

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\* Tel.: +852-2788-7958; fax: +852-2788-8423.

E-mail address: mgmaris@cityu.edu.hk (M.G. Martinsons).

Table 1  
Profiles of the emerging e-commerce success stories in China

Company	Nature of business	Year established	Headquarters and operational base	Industry position
Mecox Lane	Retailing	1996	Shanghai	Leader
Li & Fung	Supply chain management	1906	Hong Kong	Leader
AAH	Aluminum extrusion and fabrication	1992	Hong Kong and Guangdong province	Leader

have been forced to branch into offline businesses to augment their sagging revenues. Meanwhile, the convenience of many online initiatives is questionable. For example, passengers wishing to use the online ticketing system of China Eastern Airlines had to live in Shanghai, buy a ticket originating from that city, use a credit/debit card from one particular bank, and then pick up their tickets at the airline's downtown office.

### 1.1. *Research focus, design and method*

Amidst this gloom and doom, a few Chinese enterprises are starting to benefit from e-commerce. They have increased their market reach and/or share, improved their productivity and competitiveness, and have attractive rates of return on their e-commerce investment. A study completed in early 2001 examined these enterprises and considered the key factors behind their early success. Consistent with the emerging nature of the phenomenon and our interest in understanding the "how" and the "why", a multiple case study design was used to study several of the early success stories in order to permit "replication" logic [5].

The unit of analysis was the e-commerce initiative at the enterprise level. Each case was treated as an independent experiment in order to confirm or disconfirm the emerging theoretical and conceptual insights. Data were collected using semi-structured interviews, observations, and assorted secondary sources. The primary data source was semi-structured interviews with individual informants. Key informants included managers and employees from the focal organizations and representatives from their major suppliers and customers. The sections that follow report on three of the emerging success stories with e-commerce in China: Mecox Lane, Li & Fung, and Asia Aluminum Holdings (AAH) (Table 1).

## 2. From mail order to online retailing

Mecox Lane was established in 1996 as one of the first mail order businesses in China. Despite taking its corporate name from a street in the Long Island, NY resort town of Southampton, the operations of the company are based in Shanghai—the heart of the Chinese dragon. Mecox Lane achieved steady revenue growth by offering a wide product line and nurturing a market that had no prior experience with catalogue shopping. It has reduced many Chinese consumer doubts about the notoriously shady business of mail order shopping by developing relationships with government agencies including the national postal service. Customers can order, pay for, and pick up their Mecox Lane purchases at the local post office.

Mecox Lane has engendered customer loyalty by assuring product quality and building a strong brand image. It has also overcome the financial challenges posed by a conservative credit granting system and a relatively small credit card population. Its first coup was to obtain a commercial loan from a banking industry that has habitually favored the state enterprises over private firms, and made decisions based on political criteria as much as on financial ones. Secondly, Mecox Lane persuaded the banks to provide facilities that enabled mail order customers to make credit card purchases.

In April 2000, Mecox Lane went online to augment its catalogue sales business. This new marketing and sales channel was able to leverage the company's existing expertise, business processes and payment system. A full-page advertisement on the back page of Mecox Lane's mail order catalogue kick-started its presence on the World Wide Web. Its web site exceeded a million registered hits and US\$ 100,000 in online orders in its first month and revenues have continued to grow steadily over time.

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