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An Empirical Study on the Business Models of Import & Export

Companies in China

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Abstract

This paper first compares the definitions for business model in e-commerce given by scholars from all over the world, and then discusses types of business models in the application of e-commerce for China's import and export companies, and points out that three unique types of business models are adopted now in the practice of e-commerce for China's import and export companies. Also, this paper analyses the current state and business models of the largest import and export companies in Jiangsu Province, China as example case, and forwards some suggestions on how to improve the performance of e-commerce of those companies by selecting a suitable business model.

1. Definitions of Business Model in Electronic Commerce

1.1 Definitions

Different scholars and researchers define *Business Model* in different ways. The most common definitions are as follows:

Rappa (2002) thinks that a business model is the method of doing business by which a company can sustain itself -- that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain. Rappa also thinks that Internet commerce will give rise to new kinds of business models, for example, the Web

has popularized the auction model and broadened its applicability to a wide array of goods and services [3].

Timmers (1998) gave the definitions of business model as follows:

- An architecture for the product, service and information flows, including a description of various business actors and their roles; and
- A description of the potential benefits for the various business actors; and
- A description of the sources of revenues.

Also, Timmers (1998) listed 11 business models currently in use or being implemented, and they are: (1) E-shop; (2) E-procurement; (3) E-auction; (4) E-mall; (5) Third-party marketplace; (6) Virtual communities; (7) Value-chain service provider; (8) Value-chain integrators; (9) Collaboration platforms; (10) Information brokerage, trust ; (11) other services[4].

Weijun Zhong (2003) defines business model from the perspective of value creation pattern, and his definition can be seen clearly from table 1.

Table 1 Business model defined from the perspective of value creation pattern

Bus iness Model	Buil der of the Web	Users of the Web	Value Creation Patterns
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Income-driven	Pure e-commerce dealers	Visitors of the Web	Acquiring income directly
Cost-driven	Traditional business dealers	Traditional business dealers	Lowering cost
Service-driven	Third-party (brokers)	Traditional business dealers or those who need services in traditional business	Acquiring fees for providing services
Scalable-driven	Businesses seeking growth	Businesses seeking growth	Enhancing the power of the businesses and Expanding market share
Strategy-driven	Businesses with great insights	Businesses with great insights	Enhancing Competitive advantages

1.2 Comments on the Above Definitions

Although business models are perhaps the most discussed topic, however, they are the least understood aspect of the internet. So we still have no definition for it that can be accepted by everyone. It depends on a lot of factors including what goods or services a company deals with and which line the company is in. Especially when we discuss a specific line or industry, we can find that a certain industry might develop its own way of doing business and thus develops its unique business model, and the import and export companies in China are no exception [1].

2. Types of Business Model in the Application of E-Commerce for China's Import & Export Companies

2.1 The Importance of E-commerce for Import and Export Companies in China

With the reformation in the area of import and export business in China, more and more production companies got the license of dealing with import and export operations by themselves which made the professional import and export companies face even tougher competitive environment. Gone are the days when state-owned professional import and export companies dominate and enjoy the benefits of monopoly. One way of reducing such competition is to improve their efficiency by using internet and implementing e-commerce [2].

Internet can affect the professional import and export companies in the following three ways:

- Reducing the barriers to import and export business, or in other words lessen the importance of the roles that those professional import and export companies play.
- Changing the way of doing business for those import and export companies in China, especially when EDI (Electronic Digital Interchange)has become more and more popular in China. Those companies who can integrate resources from both suppliers and buyers may have more opportunities of doing well in the future.
- Urging the reformations of the trade-related government departments. As we know, e-commerce can not be realized without the basic infrastructure including laws, tax policies, telecommunication constructions and etc. So government departs including customs, taxation bureaus and Ministry of Commerce have done a lot to facilitate the implementation of

e-commerce for import and export companies.

2.2 The Three Main Types of Business Models in the Practice of E-commerce for China's Import and Export Companies

The Chinese import and export companies created their own models in the process of exploiting e-commerce chances. We should not rigidly copy the above-mentioned business models for import and export companies since those business models might be only effective for certain companies in certain industries. The author summarizes three main types of business models as follows:

- **E-government mode.** Like TradeNet in Singapore, the Ministry of Commerce of China has made great efforts in establishing a system which can integrate the whole process of doing business by using internet. One of the achievements of the Ministry of Commerce of China is that it created an identical series of standards that can be used among government departments, import and export companies, banks, transportation companies and so on. Another achievement is that the Ministry of Commerce of China also established the Online Trade Fairs on its own website (www.ec.com.cn/) which enable hundreds of thousands of dealers from both at home and abroad “meet” on internet and thus create potential opportunities for them[5].

- **Self-established websites.** Most of the Chinese import and export companies built their own websites. But up to now those websites can only be used as Yellow Pages, which can only release company information, and most of the websites do not update frequently. This has limited the use of the websites, and those websites can not really be used to fulfill transactions. Another shortcoming of the so-called self-established websites is that it's quite expensive to build and maintain them, and the import and export companies lack professional technicians in computers who can

guarantee the everyday operation of the websites[6].

- **Third-party marketplace.** Due to the expensive maintenance fees and the fact that most of the self-established websites are not well-known by their target audience, most of the companies are members of at least one third-party website. Among the third-party websites the most famous one is Alibaba.com. We can see the popularity of this website by some statistics (see table 2).

Table 2 Some statistics about www.alibaba.com

Item	Statistics	
	Chinese Website www.China. Alibaba.com	International Website www.ali baba.com
number of members	1.5 Million	0.6 Million
new members per day	3000	1000
web pages visited per day	5 Million	1 Million
web pages visited per month	150 Million	3.5 Million
pieces of information for demand and supply per day	11, 000	4, 000

data base for business information	0.9 Million	0.6 Million
enquiries every month	2 Million	1 Million

Source: <http://www.zjol.com.cn>, June 19, 2003

2.3 Some Characteristics of the Business Models of the Import and Export Companies in China

- government departments play a very important role in pushing the development of e-commerce in foreign trade area in China.
- most of the import and export companies use more than one mode of business model in their e-commerce practice.
- Due to the complexity of foreign trade process, the mode of business model for import and export companies should consider more factors and involve more participants including government, banks, telecommunication companies, transportation companies and etc.

3. Case Study—Current State and Business Models of the Largest Import & Export Companies in Jiangsu Province, China

Jiangsu province is a developed province located in east China, and according to the most recent statistics from January through July 2003, the amount of export of Jiangsu province reaches \$29.62 billion, which is 13% of the total export of the whole country. In the meantime, the import and export companies strive to start and implement their e-commerce in doing business with foreign companies. We can have a glance at the current state of those companies in Jiangsu Province, also we can judge the business models

that they adopt from a recent survey made by the author of this paper among the largest import and export companies concerning their e-commerce.

3.1 The Largest Import and Export Companies in China Are Still at the Early Stage of E-commerce.

According to the above-mentioned survey, the largest import and export companies in Jiangsu Province are still at the very early stage of e-commerce. For example, only 10% of the companies established websites where their

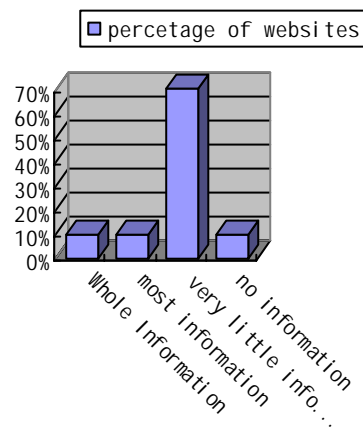


Figure 1 How much information the websites can provide

customers can get information of the whole products, another 10% of the websites provide most of the products' information, but 70% of the websites can only provide their customers with very little information about their products, and 10% of the websites provide no information about their products (see Figure 1).

3.2 The Challenges That the Import and Export Companies in China Are Facing.

According to the survey, the largest import and export companies meet with the following difficulties or problems (see table 3). From Table 3 we can see that the 3 biggest problems for those companies in doing e-commerce are lack of credit (55%), lack of cooperation from their

upstream and downstream business partners (45%) and lack of safety or online settlement means (40%).

Table 3 Problems that import and export companies are facing in doing e-commerce

Type of problem	Percentage of the companies that have the problem (%)
No enough technicians to maintain websites	25
Weak information system	35
Lack of laws	35
Lack of Credit	55
Lack of safety	40
Lack of popularity	25
Logistic problem	10
The upstream and downstream partners' cooperation	45
Online settlement problem	40

3.3 Some Tips on How the Import and Export Companies in China Improve Their Performance in the Process of Implementing E-commerce.

(1) The government at all levels should make laws to guarantee the implementation of e-commerce.

(2) The import and export companies should know that e-commerce is a trend in the future and an efficient way of enhancing their competitiveness in doing business.

(3) E-commerce is a gradual process in which every participant can only progress little by little, and the performance of e-commerce can only be seen in a relatively long time.

(4) The companies should attach great

importance in online marketing skills which are quite different from the offline ones.

4. Conclusions

(1) Business model is a different conception for different industries dealing with different products or services, therefore we have different definitions for it from scholars and researchers all over the world.

(2) Business models of e-commerce for China's import and export companies are unique because of the unique circumstances of China in its laws, credit conditions, information system, logistic system and other basic infrastructure.

(3) Although e-commerce for China's import and export companies is still in its inception period, progress has been made and the difficulties will be overcome since more and more parties now get involved to try to create a suitable and efficient business model to improve the performance of e-commerce for those import and export companies in China.

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