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## CULTURAL DIFFERENCES IN E-COMMERCE: A COMPARISON BETWEEN THE U.S. AND CHINA

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### Abstract

Every firm must identify and account cultural problems related to their online globalization. In order to accomplish this, they must identify the characteristics and trends of the Internet and E-Commerce in their target market. Next, any firm must differentiate the lessons of e-commerce in the U.S. with the target market by analyzing differences in end user behavior. Finally, they must formulate a plan to discuss how to remove cultural barriers to enhance net growth.

This paper specifically presents a study of the E-Commerce Market of China. Naturally, the two primary factors that these firms must consider are securing a payment system and overcoming any language barriers. As stated above, this paper will present an overview of the Chinese market, differentiate the Chinese market with the United States, and supply solutions to the ECommerce problems that are particular to China.

### Cultural Problems in Online Globalization

The Internet has provided easy access to market products and services across the globe. While the crux of the attention has been focused on developing the domestic market, in order to see sustained growth American companies need to fully recognize the immense potential of international markets and use the Internet to tap these markets. To illustrate the importance of these foreign markets, Jupiter Globalization Report published in January 2001, the U.S. share of the global Internet population will drop from 36% today to approximately 24% in 2005. During the same period, Chinese Internet users will increase tremendously [5]. Because American companies have much more experience, they can use their lessons learned to be even more successful in the foreign markets.

American companies, such as Microsoft, Intel and Compaq, all opened offices in China in the

early 1990s. Following their lead, many other Net Economy companies also opened their Chinese offices. All of these companies have encountered many significant hurdles that can be traced to cultural differences between the two countries. These hurdles have limited the effectiveness of those companies' e-commerce resources and in some cases have prevented profitability altogether.

These companies need to realize that Chinese people's cultural outlook and value system are different from the system predominant on the web. For instance, all companies should take into account language as many Chinese people who surf the net or wish to surf the net lack English fluency. Therefore, in this paper, the Internet and e-commerce strategies in China are discussed as a case study of unique cultural e-commerce strategies.

### The Current State of Chinese E-Commerce

In July 2001, The China Internet Network Information Center (CNNIC) reported that the number of Internet users in China has reached 26.5 million, with 4.54 million using leased lines and 17.93 million using dial-up connections. Contrasting this report, the "Statistical Report on Internet Development in China" said the number of users accessing the Internet via either means was only 4.03 million. Additionally according to the Statistical Report, another 1.07 million people are connected through appliances such as mobile telephones and various home information appliances. Despite this apparent disparity, it is clear from all of the data that the Chinese market is already significant and continues to grow (see table 1 and table 2)[1].

Table 1 Computer Hosts

Time	Computer Hosts	Leased line connections	Dial-up connections
1998.7	542,000	82,000	460,000
1999.7	1,460,000	250,000	1,210,000

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2000.7	6,500,000	1,010,000	5,490,000
2001.1	8,920,000	1,410,000	7,510,000
2001.7	10,020,000	1,630,000	8,390,000

**Table 2 Internet Users in China**

Time	Users	Leased line	Dial-up connection	Both
1998.7	1,175,000	325,000	850,000	/
1999.7	4,000,000	760,000	2,560,000	680,000
2000.7	16,900,000	2,580,000	11,760,000	2,560,000
2001.1	22,500,000	3,640,000	15,430,000	3,430,000
2001.7	26,500,000	4,540,000	17,930,000	4,030,000

As seen from the data, China had 26.5 million users by July 2001 (a 56.8% increase from the previous year) [2]. While 26.5 million is a large number, it only represents 2 percent of the entire Chinese population. In contrast, Approximately 60% (there are 168 million Americans in a total population of 280 million) who are now online, according to Nielsen/NetRatings [4]. In China, women Internet users are increasing rapidly. According to the "Statistical Report on Internet Development in China" by CNNIC, 38.7% of the Internet users in China are women. Internet users in China tend to be younger than those in the U.S. In China, 52.9% of the users are in their 20s and 30s while in the U.S. those with ages from 18 to 54 comprise 60% of the total users. Among those people in China who access the Internet at least once a day, 74.9% of them use the Internet to check e-mail and every Internet user possesses 2.3 free email accounts on average; 51.3% of them use it to surf the Web [2].

Most Internet users in China are very conscious of the time spent online, as the dominant internet service provider, China Telecom, still charges per minute access fees. Although a number of large corporations, such as China Unicom, have been formed and have entered the field of telecom and Internet, China Telecom still holds a virtual monopoly in this market. To maintain this monopoly, while almost every telecommunication company issues its own calling cards that can be used to access the Internet, a separate per minute fee is still charged by the telephone carrier—mainly China Telecom.

Only 31.9% of Chinese Internet users have had some experience of buying online. In the U.S. 82% of the Internet users purchased at least one product or service online [6]. The most popular goods for Chinese online shoppers are books and magazines, purchased by 58.7% of those who shopped online at least once. Computer-

related products were ranked the second item that Internet users bought.

**Different Payment Systems in the U.S. and China**

One hurdle for online shopping in China, is seen in the payment options which differ from those available to Americans. Most U.S. shopping sites offer credit card payment either on or off-line. According to the report by NetSmartAmerica.com, 70% of those who have shopped online at least once paid with a credit card. On the other hand, the most common method of payment among Chinese online shopping sites in 2000 is cash payment upon the delivery and receipt of ordered goods, reflecting the Chinese preference for cash-based payment. The pick-up/payment can be done by hourly workers hired by the shopping sites. Most of the shopping sites have indeed established branch offices in the big cities of China.

Statistics show that payment methods for online shopping in China are as follows: cash and carry 39.16%; credit card 19.87%; post offices remittance 17.58% Internet 12.54%; bank remittance 4.87%; EMS 3.35%; bank accounts transfer 2.63%. Statistics also show that the payment method that users prefer for purchases over RMB1000 (approximately USD 121) are as follows: cash and carry 48.74%; credit card 22.08%; Internet: 9.18%; post offices remittance 5.63%; bank remittance 5.30%; EMS 4.90%; bank account transfer 4.17%. The primary obstacles of online purchase are also listed here: security can not be guaranteed 31.76%; quality of products, after service and creditability of the merchant can not be guaranteed 28.33%; inconvenient payment 13.34%; delivery is time wasting, the channel is not expedite 10.14%; unattractive price 7.74%; unreliable information 7.28%; others 1.41% [3].

Many ways have been suggested on how to resolve the above-mentioned problems. One possible solution is the improvement in China's Postal Savings Banks. In many countries, the largest consumer banks where the branches are located in the postal savings systems. Chinese consumers need the branches in local post offices extend throughout the country. If so, other financial institutions would be hard pressed to compete.

In fact, the China Postal Bureau has now announced a new effort to develop electronic

commerce. A press release by a leading provider of financial software indicates that the bank card system will develop 16 gateways with nationwide settlements for automated teller machines (ATM) used by the post office. The firm, Shanghai Huateng Software Systems Co., Ltd. ("Huateng"), is a veteran provider for China's Golden Card system and is likely to assure a workable payments scheme to allow Internet transactions. Considerable difficulties remain for electronic commerce in China. Consumer banking still lacks extensive services and foreign exchange controls hamper transactions across borders. Still, the announcement of developments in payments schemes and the rapid adoption of e-commerce platforms by banks are impressive. Before China Posts, the Industrial and Commercial Bank of China, China Construction Bank and China Merchant's Bank among others have launched platforms. With new electronic payment arrangements, China is making strides to create nationwide bankcard and "e-commerce" systems.

#### **How to remove language barriers for net growth**

Today, a significant portion of people on the Internet are American. By 2004 it will only be a third, according to Barry Parr, a senior analyst at the San Francisco-based International Data Corporation, and two-thirds of all Internet spending will be from outside of the United States. Because nearly 80 per cent of Americans will soon be online, there is simply more opportunity for growth outside the United States. Cisco, one of the largest players on the new, in one of its commercial shows a flock of children from all over the world asking: "Are you ready?" Simply put, US sites are not. In fact, IDC's research shows that more than half the U.S. sites surveyed are doing nothing to globalize their sites and which could threaten their future. Forrester Research says leading U.S. websites now turn away almost half of the orders that originate outside the U.S., and that three-quarters of the sites are not designed to handle non-U.S. addresses or work out shipping costs. Many people think that businesses that those who don't begin preparing today could soon find themselves outflanked by their more internationally oriented competitors.

Of course, some are already well advanced. Yahoo!, the Microsoft Network MSN, and a few others have been globalizing their businesses for three or four years. As a result, they are among

the top five sites visited by home users in many different countries judging by the number of unique visitors per month, according to Media Metrix, an audience measurement company based in New York. Both Yahoo! And MSN have succeeded by making their local offerings as local as possible. Yahoo! now has operations in 20 countries including China. Jerry Yang, a co-founder of Yahoo!, says: "Our goal is get local when the growth starts to happen."

While China and other large populated countries are just now coming on to the Net, Net use has already exploded. One import factor, which contributes to the growth of Internet usage, in general, and e-commerce, in particular, is China has become a world center of PC production. Because of the low cost of labor and a stabilization of the process, many companies people can easily assemble their machines from parts at lower cost.

#### **Conclusion**

Good examples of tailoring the global web sites to suit differences in local cultures are Yahoo! and Bol.com. Language translation is only one of the factors that lead to success of Yahoo!. Creating a locally accepted payment scheme and translating the web site to local language are the first step of localization for company's globalization effort.

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