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Payment Barriers in China's B2C Business

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Abstract

With the entry into the WTO, China has made a lot of progress in its e-business. However, there are still some barriers that limit the development of e-business in China. One of the most difficult hurdles might be the fragile online payment system. According to The first DHL Global E-commerce Report, in mature Internet countries, online payment is no longer a problem. For instance, six out of 10 companies in the US (60%), Australia (61%) and Finland (58%) say payment is not a barrier to e-commerce. But less mature markets including China consider payment a barrier. This paper mainly discusses the payment barrier to B2C Business in China, and then forwards some suggestions on how to remove those barriers on the basis of analyzing the case of BOLChina—A successful B2C model from Germany. Also, some conclusions are given to make it more clear that China should break the ice of payment barriers on the way to the bright future of its e-business.

1. Current Situation of China's Internet Users

Since a certain number of Internet users are the foundation of e-business especially the base of B2C business, it's quite imperative to discuss the current status of Internet users in China and the main characteristics of their online buying behaviors. This section describes the population of Chinese Internet users and their basic online shopping behaviors.

1.1Growing Online Population

The China Internet Network Information Center (CNNIC) in January 2002 claims that the number of Internet users in China has reached 33.7 million, with 6.72 million using leased lines and 21.33 million using dial-up connections. The "Statistical Report on Internet Development in China" said that the number of users accessing the Internet via both means was only 5.65 million. Additionally, another 1.18 million people are connected through appliances such as mobile telephones and various home information appliances. According to the reports made by CNNIC in the past four and a half years, we can see clearly the development of Internet in China (see Exhibit 1 and Exhibit 2)[3].

Exhibit 1: The Increase of the Computer Hosts in China (in Thousands)

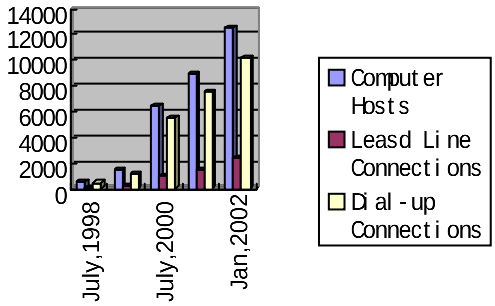
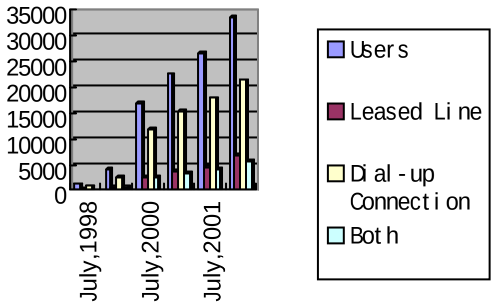


Exhibit 2: The Increase of the Internet Users in China (in Thousands)



With 1.3 billion potential e-consumers, it is likely that the Chinese market will have a ramatic effect on world e-commerce. However, Internet penetration rate in China is currently low when compared to the U.S., but is growing at a tremendous rate. Citing research by CNNIC Semiannual Surveys, the report said that Internet penetration is currently only 2.6 percent in mainland China which reflects the fact that China's e-business is quite fledgling.

Even though many mainland Chinese do not have Internet access at home, Internet penetration rates for mainland China were once doubling every six monthAs from October, 1997 to July, 2000, though the speed slowed down in recent two years, the absolute number of Internet users still increased at a quick pace, and this has laid a solid foundation for China's B2C business.

1.2 Favorite Items Bought Online

Only 31.6% of Chinese Internet users have had some experience of buying online. The most popular goods for Chinese online shoppers are books and magazines, purchased by 58.0% of those who shopped online at least once. Computer appliances(33.7%) were ranked the second item that Internet users bought. The rest popular items are: Photographic Equipment 3.6%, Communication Appliance 15.5%, AV Equipment 34.4%, Living and Housing 11.6%, Clothing 4.4%, Family Electrical Appliance 5.6%, Sports Equipment 4.4%, Medical Care Services 3.1%, Present Delivery 14.7%, Financial and Insurance Services 2.6%, Ticket Ordering 9.7%, Educational Services 11.8%, Others 3.1%.

1.3 Reasons to Buy Online

48.3% of Chinese Internet users bought online because they thought it can save time by buying online, and “Easy to Operate For Fun and Curiosity (31.5%)” and “Reduce Costs(38.8%)” are the reasons next to “Saving Time”. Interesting is the following reason of “For Fun and Curiosity (31.5%)”, which was ranked the 4th purpose for users to purchase online.

2. Payment Barriers to B2C Business in China

2.1 Barriers in China’s Banking System

Credit cards are very inconvenient to use in China because banks don’t share a centralized settlement system. Different banks issue their own credit cards and the cards can only be used in certain shops and restaurants and hotels, etc. Each bank has its own territory and they don’t talk to each other. Cash, instead of credit cards, is the dominant payment method.

Besides, banks don’t have a complete network among all of their branches, so they don’t promote credit card usage. Trying to own a credit card in China is a difficult process. And, very often, consumers are given very little credit lines so that a credit card virtually works as a debit card.

Therefore, online payment is a big bottleneck to e-commerce. A Web site has to establish settlement with different banks before they can accept all different cards from its users. Most B2C sites are actually using the Web as a catalogue only, while collecting the money offline at the time of purchase at a consumer’s home or office.

2.2 Online Shopping Barriers

Just as elsewhere in the world, the Chinese online shoppers have their trouble regarding every aspect of online shopping behavior. Concerns about security and quality of goods are cited as primary online shopping barriers: (see Table 1) [2]

Inconvenient payment ranks the third place in online shopping barriers, but the value and attitude of Chinese people towards credit cards attributes partially to this barrier. According to a research made by China Women Journal and Mastercard, among the banking card holders, 62% of them possess 1 to 3 cards, 36.6% of them possess 3 to 6 cards, and the rest of them even hold more than 6 cards. However, only 34% of them use credit cards occasionally, 15% of them never use any card [5]. The trouble is that few Chinese people trust the Internet for business. A Chinese saying goes that one should “never let out your hawk until you see the hare.” So, frankly speaking, providing a more effective way of paying online will not solve the “attitude” problem of Chinese online purchasers.

Table 1 :Online shopping barriers in China

Online shopping barrier	Percent
Security can not be guaranteed	31.0%
Inconvenient Payment	11.8%
Quality of products, after service and credit of the producer can not be guaranteed	30.2%
Delivery is time wasting, the channel is not expedite	13.9%
Unattractive Price	6.3%
Unreliable Information	6.3%
Others	0.5%

Source: Jan, 2002 CNNIC

2.3 Trust Issues

Many surveys made both domestically and abroad showed that most Chinese online shoppers were also distrustful of companies that exist only in cyberspace without a brick-and-mortar counterpart. According to the surveys, few Chinese would make a purchase from an e-tailer that they had never heard of before [4].

Since the Chinese online market is just in its infancy, Steve Diller, partner and head of eBusiness and Media Strategy at Cheskin thought that it's even more critical to pay attention to online trust, as technology penetrates global markets, access to e-commerce won't be the issue, creating loyal relationships through service, authenticity, and trust will be key.

2.4 Other Related Barriers

Other related barriers include distribution of online shopped goods, the application of state-of-the-art technology in China’s e- business, etc.

As to the logistic system, which is another serious problem of e-commerce development in China, the successful online shops in China adopts a pragmatic method—to order online, to pay offline. Such a strategy is based on such a logic of trying to avoid much involvement of delivery and transaction infrastructures. In fact, the development of delivery and transaction infrastructures is out of the reach of internet companies in China. The worst situation is that internet companies invest a lot of money to develop infrastructures that are supposed to be done by the government and other industries. When the infrastructures are not available, e-commerce companies should focus on building up information platform to make that part electronic and seek more physical solutions for delivery and transactions which is called partial e-commerce models. Unlike in the U.S., delivery function of online shops is contracted out to major courier firms such as UPS, FedEx, etc., the only viable delivery system to both business and homes is the state-owned Post Office. But the Post Office is notorious for being slow and mishandling goods. Foreign competitors, such as DHL and EMS are starting to have presence in large cities of Shanghai, Beijing and Nanjing, but they are targeting office buildings and the cost they charge is excessively high for an ordinary online shopper. So, a lot of Chinese online shops together with foreign ones are taking advantage of cheap labor resource in China to combine with electronic solutions. Physical solutions in delivery and transaction are not necessarily second best solutions in China since labors are still very cheap in China.

3. Some Suggestions on How to Remove Payment Barriers in China

3.1 Establish a far-reaching, well-organized payment system

Dotcoms and B2C business in China could only achieve ideal growth after entered into long-term agreements with banks.

China lacks central credit clearing corporations, making the proliferation of credit cards difficult -- although debit bank cards number is over 350 million[4]. The tool that has transformed American on-line purchasing is therefore rare in China. Companies selling merchandise depend on cash-on-delivery and nascent debit card accounts for their commerce. Recognizing this obstacle, the People's Bank of China and the leading state-owned commercial banks are actively engaged in setting standards for secure payment through the establishment of certification authorities. Companies such as Capital Electronic Center are already filling the gap by facilitating on-line payment for any of 12 debit or credit cards issued by the major commercial banks. After such efforts, the off-line cash payment which is currently quite popular as a substitute is to be soon outmoded and replaced by a modern online payment

3.2 Increase communication with global e-commerce outfits, publicize knowledge about e-commerce and Internet usage, and merge the modern Internet economy with the traditional business model.

Any commerce model involves three infrastructures: information infrastructure, delivery infrastructure and transaction infrastructure. E-commerce models in western countries take big advantage of well-developed delivery infrastructure and transaction infrastructure and try to manage information flow, goods flow and payment flow as much as possible with electronic solutions (complete e-commerce models). The internet strengthens information infrastructure and catalyzes E-commerce development.

3.3 Establish A Strict Credit System Throughout the Country

The credit system is also linked to popular perception. In the U.S., bad credit brings you lots of trouble. In China, wrongdoers are left too much leeway to correct things. How can we establish a credit system under such cultural views? So, it's necessary to set up such a credit system so that the questionable practice online will be punished.

3.4 Establish An Efficient Delivery System

Delivery is another serious problem to e-commerce development in China. The only viable delivery system to both business and homes is the state-owned Post Office. But the Post Office is famous for being slow and mishandling goods. Foreign competitors, such as DHL and EMS are starting to have presence in key cities of Shanghai, Beijing and Guangzhou, but they are targeting office buildings and the cost they charge is prohibitively high for an ordinary consumer.

How to get goods out to a consumer's door in time before he or she gets irritated is a huge problem. Or is there an alternative solution? Web sites in Japan are using Seven-eleven convenient stores as the distribution channel. Consumers purchase goods online but go to a Seven-eleven store to pick them up. But China should develop a more practical model of e-distribution since there is no such a chain store system like 7-11.

4. BOLChina—A Successful Case in China's B2C Market

Bertelsmann is a Germany-based company offering books and other media products. Since its entry into China in 1995, Bertelsmann contributed to many cultural exchanges between Germany and China and today it strives to further develop the Chinese media industry through its products and services.

During Chancellor of Germany Kohl's first visit to China in 1993, Bertelsmann set its foot in China as a member of the German delegation. Bertelsmann then started negotiations with competent government authorities in Shanghai concerning the possibility of media cooperation. After a series of negotiations the Science and Technology Book Corporation under the Shanghai Press and Publishing Bureau and Bertelsmann Germany Holding GmbH signed a joint-venture contract in July 1994. Subsequently, in February 1995, Shanghai Bertelsmann Cultural Industrial Company Limited was founded [1].

As a result Bertelsmann, one of the leading media groups in the world, entered China and opened a new chapter in its adventure in China: promoting cultural exchanges between Germany and China, sharing its successful experience with its Chinese counterparts, and providing a wide variety of media products to the Chinese consumers. At present, Bertelsmann's operation in China is not only based on the traditional book market, but also pervasively participates in the progress and further development of the Chinese cultural industry and advanced multi-media and e-commerce, shaping its unique professional service in the market.

While China's dotcoms are bruised by the heavy blow from the recent Nasdaq crash, Bertelsmann AG, the third largest media conglomerate in the world, is moving its China businesses onto the Web.

Aimed as exploring China's fledging multimedia market, Bertelsmann has launched an online media arm under the global brand umbrella of BOL.com.

BOL China (www.bolchina.com), functioning as a platform to retail media and entertainment products in China, claims to be capable of dispatching 100,000 book titles throughout the country on a daily basis.

To run an online bookstore is nothing new in China and many firms have so far struggled in the industry.

Ekkehard Rathgeber, vice-president of Bertelsmann Direct Group East Asia and General Manager of Shanghai Bertelsmann Culture Industry Co Ltd, is upbeat about the online business for one reason: the strong brand of Bertelsmann and its traditional media businesses.

The initiative in China is part of Bertelsmann's global strategy of transferring its established business onto the Web.

Thomas Middelhoff, chairman and chief executive officer of Bertelsmann AG, declared the corporate strategy to focus on development of core content services together with e-commerce. The success of this company's online business is partially due to the pragmatic way of using the traditional COD payment pattern and the cooperation with Post Offices in delivering its books to customers.

The company introduced its first book club to China in 1997. The club has been a great success in other parts of the world. The club's registered members in China have hit 1.5 million.

In 2000, Bertelsmann's revenue in China was 140 million yuan (US$16.87 million).

5. Conclusion

(1)China's e-commerce and dotcoms will only switch to a rapid and healthy growth track after the establishment of a sound basic infrastructure base especially the payment system.

(2)Now is not the proper time for the explosion development of B2C business and dotcoms because China's dotcoms are merely castles in the air , for they have no fundamental support. Some experts say that ``The highway of Internet is supported by weak pillars like paper pokers." Maybe this is not exaggeration.

(3) A logistics and distribution system is another barrier that has hindered the growth of B2C business. After more than 50 years of development, a State-owned comprehensive logistic and distribution system has been set up with the participation of department stores, grocery stores, book stores and post office. The dotcoms could utilize the delivery capability of traditional businesses instead of setting up a new system by themselves.

(4) China's infrastructure including payment system is poor but improving. For example, China's big four commercial banks - the Industrial and Commercial Bank of China, the China Construction Bank, the Agricultural Bank of China and the Bank of China - have yet to reach every corner of the country, once they realize that online payment system can bring huge profits to them, they are bound to take part in the improvement of online payment system proactively.

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