E-Commerce 3.0:
Rebuild the eCommerce Ecosystem

Study Report on China Traditional Industries Transformation to eCommerce

Preface

Transforming to E-commerce,
Is not a matter for a few enterprises only, nor is it a topic confined to certain industries.
Rather, it is a common choice and the only way forward for the whole business world.
E-commerce 3.0,
Does not constitute a refutation of E-commerce Enterprises Model (E-commerce 1.0), nor is it an overturn of Enterprise E-commerce Model (E-commerce 2.0).
Rather, it is a transformation of integration between traditional enterprises and the Internet.
The Internet has now become a hallmark of the current times of global social and economic development.
And, the E-commerce ecosystem has become an important symbol of the evolution of business civilization.
Related enterprises on the industry and value chains should unite,
And build a fully-integrated, open and shared value platform and cross-border, interactive, symbiotic and win-win ecosystem together.

Opening Chapter
The Next Decade of E-commerce

Statistics from the China General Chamber of Commerce and the China National Commercial Information Center show that in January 2013 China's 50 key large-sized retailers experienced a year-on-year drop of 12% in sales.

Figures released by the General Administration of Customs indicate that China' gross imports and exports have been falling for several years in a row. It has become a consensus view among the Chinese economic circles that foreign trade now makes "negative" contributions to the Chinese economy.

Bill Gates ever predicted that banks will be the last group of dinosaurs to become extinct in the 21st century.

In contrast to these figures and forecasts are the statistics from the China E-commerce Research Center. As of the end of 2012, transactions in China's E-commerce market reached RMB7.85 trillion, up by 30.83% year-on-year. B2B E-commerce transactions amounted to RMB6.25 trillion, up by 27% year-on-year. Online retail trading stood at RMB1.3205 trillion, accounting for 6.3% of China's total retail sales of consumer goods, up by 64.7% year-on-year.

The fall and the rise attest to the intensified competition between E-commerce and traditional enterprises. The population dividend, the resources dividend, the globalization dividend and the institutional dividend which the Chinese economic miracle has mainly depended on are gradually disappearing. Traditional enterprises urgently need to pursue new growth points through transformation and change. Will E-commerce become the next focal point?

The E-commerce market is in the ascendant, with opportunities and challenges existing side by side. However, the E-commerce market is like a "besieged city". Physical stores compete with virtual stores, while online and offline businesses urgently need integration……

The first ten years of E-commerce were the years when pure E-commerce had its heyday. The next ten years of E-commerce will see traditional enterprises rise again through E-commerce.

To gain an in-depth insights into the pain points, confusion, and demand as well as the best practices and lessons learnt of the traditional enterprises' transformation into E-commerce, Dell Services has organized the industry Study jointly with *China Information World*.

The Study officially kicked off in April 2013 and lasted for almost half a year. The Study covered the three main industries of Retail, Manufacturing and Finance which were most impacted by E-commerce business and where efforts to transform to E-commerce started the earliest. Study questionnaires were distributed to enterprises' decision-makers and management personnel. A total of 815 respondents were surveyed. Among them, 127 were enterprises' decision-makers (CEOs, LOBs, VPs and above), accounting for 16% of the total number of people surveyed; 495 CIOs and personnel at the comparable level, accounting for 60%; and 193 IT managers and personnel at the comparable level, accounting for 24%. The interviewees consisted of respondents from 27 provinces, autonomous regions and municipalities, including Beijing, Shanghai, Tianjin, Guangdong, Shandong and Anhui, etc.

Through face-to-face, telephone and email interviews, we held in-depth discussions with several hundreds of corporate decision-makers and management personnel over various E-commerce-related issues, including the development of E-commerce in China, difficulties and challenges facing enterprises, how does E-commerce help traditional enterprises to transform and achieve better business innovation and sustainable development. From these discussions, we have come to the main conclusions of this report.

An E-commerce ecosystem of mutual benefit and win-win urgently needs to be established.

From our Study, we have found that many enterprises are well aware that E-commerce is not only a new tool but also a core corporate strategy. E-commerce revolutionizes and reshapes traditional enterprises and the business environment at a wider level. The strategic value of transforming to E-commerce is mainly reflected in the establishment of a new business ecosystem.

To make successful transformation to E-commerce, traditional enterprises must organically integrate the three core supporting points of traditional business, namely manufacturing, warehousing & logistics, and sales. Traditional enterprises all have mature business models and workflows. To do good E-commerce, enterprises equally need to do well on each point of the ecological chain of E-commerce. The development of the Internet has brought many business changes to enterprises. However, amidst all these constant changes, a core element which does not change is the business logic that operates under all business phenomena.

As the commercial society came into being, the essence of business logic has always been to achieve a balance between supply and demand: meet the existing demand, or create new demand. Among the various types of change, what are changed are Internet technology, as well as the specific means and tools to realize the business logic. These may include the various models of E-commerce, online and offline integration and connectivity with mobile Internet, all of which have been much discussed in the market. Looking back the history of commerce, what is continuously changing in modern commerce is only the form of transactions. However, the entity and nature of trading and the fundamental gross-roots support have never changed. The key to doing good E-commerce lies in organically integrating the technological changes which the Internet has brought about with traditional enterprises as well as each component of the ecological chain of traditional commerce.

The E-commerce ecosystem concept which we have put forward refers to the same value platform which enterprises establish with upstream and downstream customers, suppliers and stakeholders in the process of engaging in E-commerce. On this platform, each role pays attention to the overall features of the platform and the ability to drive other participants through the platform. This will enable the E-commerce ecosystem to create value and stakeholders share its benefits. The development of E-commerce depends on the balanced development of the E-commerce ecosystem. The imbalance of interests for each party will produce a negative impact on the whole ecosystem. With the establishment and development of the E-commerce ecosystem, the whole industry also needs to be standardized and guided by a set of new rules.

Internet technology brings huge growth potentials to E-commerce and offers a lot of opportunities for cross-border revolutions and cross-border integration. On one hand, enterprises need to pay attention to the balanced development of the E-commerce ecosystem. On the other hand, they must also continuously integrate and innovate and drive the formation of new forms of E-commerce and business models.

Transformation to E-commerce needs patience.

Transformation is always a strategic measure. No transformation can be completed overnight. It takes time to make improvement and embrace a new business model. The impact of transformation on traditional business can be positive or negative. Before making transformation, enterprises must conduct comprehensive analysis and gain a clear understanding. For traditional enterprises, the transition to E-commerce is far from building a website or selling a product. Instead, enterprises must carefully examine their core competitiveness and consider how to organically integrate with other relevant traditional business from each aspect of the warehousing, supply and logistics chains. It takes considerable time to sort out and reflect on things.

Since the Internet was born, especially after the emergence of mobile Internet, the boundaries of traditional industries are being continuously broken. Every industry is undergoing a process of remaking. Their former form is gone. Many cross-border revolutions and cross-border integration attempt appeared. As traditional enterprises transform to E-commerce, their decision makers need to adopt a new thinking to examine and reflect on such possibilities.

In 2011 and 2012, numerous E-commerce enterprises rose and disappeared quickly. Also gone with them were the cheers and the pessimistic conclusions. All these attest to the fickleness of the industry and the missing of a business foundation. To transform to E-commerce, traditional enterprises with all the traditional business advantages, must give up the idea of overnight riches.

Transformation to E-commerce is far from an extension or change of channels and platforms, nor is merely a change of internal operation mechanisms. Rather, it implies more of a change in the whole corporate culture and behavior, decision thinking and management model and a shift of workflow and business focus to mobile Internet. Corporate decision-makers must consider making their enterprises integrate more with the Internet spirit. This is what was often mentioned in our Study that enterprises must have “the Internet gene”.

There is no fixed rule on the transformation to E-commerce. Enterprises should base on their specific situation and allow fast trial and error at the corporate culture and management mechanism levels, and make continuous correction in the transformation process. A benign ecosystem of mutual benefit and win-win with cross-border integration and heterogeneous operations is also realized and gradually matures in this evolutionary process.

Chapter 1
How Should Traditional Enterprises Break the Ice?

I. Challenges and predicament of traditional industries

The global economy is sluggish. The Chinese economy, which has attracted global attention for its growth miracles, is also slowing down. Traditional industries like retail, manufacturing and finance in China are undergoing difficulties under the current global economic environment. Enterprises face unprecedented challenges and crisis. The predicament is mainly reflected in the following aspects:

1. Rising raw material price and labor cost

One is the rising price of raw materials. Study data from the National Bureau of Statistics show that in June 2013, the purchasing price index of basic industrial raw materials stood at 97.4%, while the producer price index of industrial products was at 97.3%. The purchasing price index fell less than the producer price index, leading to a relative rise in enterprises' expenditure on raw materials. Industrial enterprises above the designated size experienced an increase in their unit cost and expenses, cutting their profits by approximately RMB69 billion.

The second is the rising labor cost. With the gradual disappearance of the population dividend, labor costs have been on continuous rise. Data from the National Bureau of Statistics show that in 2012 employees of non-private urban institutions nationwide had an average annual wage of RMB46,769 or an average monthly wage of RMB3,897, representing a year-on-year nominal rise of 11.9%. Migrant workers saw their average monthly wage rise to RMB2,290. Our own Study data reveal that 64.07% of the surveyed manufacturing enterprises considered rising labor costs as a major challenge facing them.

In addition, energy, logistics and venue rental costs are also rising. Traditional retail enterprises mostly sell through physical stores, which carry house rent, water, electricity and costs. Taking chain department stores and supermarkets as examples, they entered a period of fast expansion around 2004, with the number of physical stores increasing fast. However, as their rental term nears expiry in the past few years, rents are now rising fast. At some marketplaces, the annual rent may reach RMB10 million or more. This has exerted a heavy burden on retail enterprises.

The increased "hard costs" have plunged enterprises into growth difficulties. Our Study data show that 52% of the surveyed financial enterprises considered service costs as too high, which weakened their competitiveness. In addition, 66% reported high marketing expenses and regarded the high cost of acquiring new customers as the biggest challenge. The same problem also existed among retail enterprises. 31.05% of the surveyed enterprises pointed out that the problem of too high marketing expenses must be addressed.

2. Worsening problems of "difficult financing and expensive financing"

Enterprises' overall financing cost has risen. Small- and medium-sized businesses have seen a hike in their bank loan interest rate. It is also become more expensive for them to borrow money from private loans. In 2013Q2, a questionnaire survey of entrepreneurs in Hebei Province revealed that enterprises' overall financing index stood at 49.5%, which was below the threshold value. Their financing cost index fell to 52.3%, 2.3% down from the previous quarter but still above the threshold value. This shows that enterprises have some financing difficulties. Financing costs still need to be lowered further.

Enterprises face a rather tight financial situation, while banks need to improve their financial service and beef up their support to entity economies. The demand for loans could not be met, while too high loan interest rate, complicated loan procedures and long procedure required for loan approval are problems widely reported by enterprises.

3. Narrow sales channels and high sales costs

Our Study show that almost 20% of the surveyed retail enterprises and 28% of the surveyed manufacturing enterprises believe that narrow sales channels and too many intermediate channels had affected their profitability. For those manufacturing enterprises (24%) that mainly sell products overseas, overseas export channel obstacles have put them into operational difficulties in recent years. E-commerce as a new sales model can effectively reduce intermediate channels and enable enterprises to directly face overseas customers, thus expanding their customer base. This is also a reason why manufacturing enterprises have gradually become interested in E-commerce over the last few years

Wei Yaxuan, Deputy Director of the Finance & Accounting Information Department of Beijing Lufthansa Friendship Shopping Center Co., Ltd.'s Jinyuan Store, commented that a sluggish economy, the continuous emergence of diversified retail models such as large-sized shopping centers and fast-growing E-commerce have put traditional department stores at a disadvantage. Lufthansa Friendship Shopping Center Co., Ltd. itself has been in a trend of noticeable growth slowdown. In this case, enterprises are all considering how to innovate their business models and improve their performance. As E-commerce accounts for a growing share of sales and with the wide application of mobile and wireless technologies, the fast and convenient model of online sales is attracting more and more consumers. Online shopping has become a trend.

4. Enterprises' slow response to market demand

In traditional sales model, the enterprise is fairly far away from end customers. In a customer-centered era, such a sales model can hardly help enterprises to promptly grasp accurate market information. Our Study data show that approximately 32% of the surveyed retail enterprises reported inaccurate sales forecast and overstock. This no doubt puts a difficult operational straightjacket on enterprises.

Approximately 29% of the surveyed manufacturing enterprises thought that they were slow in responding to market demand and could not make production according to customer demand. There was still an outstanding problem of production capacity (35.65%). In the financial field where customer service is important, 14% of the surveyed financial enterprises admitted that under the existing conditions they could not accurately know customer demand, resulting in poor customer experience, lack of appeal of their financial products, difficult risk control and high customer loss rate.

II. Transforming to E-commerce is the only choice for traditional enterprises

E-commerce is a new Internet-based economic form in the information era. It is an important emerging field of active trading, widening application and continuous innovation in the global economy. To address their practical problems of high operating cost, difficult financing, unsmooth sales channels and slow market response, traditional enterprises must use modern information technology to actively transform to E-commerce to expand their marketing channels, lower sales cost and improve their ability to respond to the market, thus comprehensively enhancing their core competitiveness.

1. E-commerce expands traditional enterprises' marketing channels.

Traditional channels are time-consuming and suffer from low efficiency and expansion constraints. But, the Internet channel is free of time or space constraints. Transactions can be directly made through the Internet, thus markedly reducing logistics and turnover.

Traditional enterprises can use the Internet to inject the ability of fast response into their marketing channels. This will allow them to improve production and sales relationships and enhance channel efficiency. First, enterprises can socialize their internal coordination. Online marketing gives enterprises the ability to make interactive multimedia communication with their suppliers, retailers, consumers and various organizations anywhere any time, thus changing the traditional situations of isolation from the outside and information insufficiency. It allows enterprises to get optimized resources from wider external sources. Second, it promotes enterprises to open and leverage market opportunities cost-effectively and faster. Based on emerging market opportunities, enterprises can quickly reorganize their value chain and conduct business activities in the form of value chain and value net, or even form a "virtual company". Third, it will make enterprises' marketing structure more direct and more efficient. Online marketing allows direct communication between marketing agencies and manufacturers, and between consumers and manufacturers, forming a single, continuous economic activity and business flow. This will greatly reduce the labor resources consumed in the entire operation process and enable enterprises to get information about the sales, stock, price, profit and popularity of their goods.

2. E-commerce expands growth space for financial industry

As E-commerce makes breakthroughs in the electronic trading process and with the emergence of online banking, bankcard-based payment networks, electronic payment systems, E-ticket and E-cash, the traditional financial industry has entered a completely new stage of development. The emergence of online finance has changed the traditional way of face-to-face transactions between customers and financial institutions' employees. Distance will no longer constitute a constraint on the business development of financial institutions. Electronic financial services have greatly accelerated the flow of funds and the transparency of information. Through E-commerce, financial institutions can organically combine the processes of economic and financial information analysis, resources allocation decisions and fund raising, thus markedly improving funds use efficiency. Traditional financial enterprises can use E-commerce to accumulate large amounts of sales data, enhance their credit and facilitate their financing efforts.

E-commerce's impact on and improvement of the financial industry is mainly reflected in three aspects:

a) E-commerce as a new channel breaks the physical constraints of traditional financial institutions and expands them in both space and time. In essence, such business is old wine in old bottles. It is an embodiment of Internet-based finance;

b) Financial institutions can use E-commerce to innovate their product. The most typical example is supply chain finance. Though supply chain finance already existed before E-commerce emerged, E-commerce has nevertheless greatly expanded the scope of application for such products, thus better serving small- and medium-sized enterprises, solving the problem of difficult financing and becoming an important link in the healthy growth of the E-commerce ecosystem; and,

c). The Internet economy represented by E-commerce will speed up the process of financial intermediaries, forcing traditional financial enterprises to transform from financing intermediaries to financial service intermediaries. As Internet enterprises start to enter the financial field, it promotes traditional financial enterprises to think about ways to transform themselves and attempt various forms of transformation. E-commerce is now considered as one of the most feasible ways forward.

3. E-commerce helps traditional enterprises to customize on demand and respond to market demand faster

With real-time interactions, E-commerce can promote good communication between enterprises and customers. This will allow enterprises to promptly and accurately learn about customers' consumption habits and preferences, understand changes in demand, get a clear idea of the advantages and disadvantages of their product and consumer demand and promptly make specific adjustment. It also enables marketing managers to keep close contact with consumers in the processes of market survey and research, product design, production and service. Such an interactive marketing approach also allows consumers to take part in the product design and production processes, and makes it easier for enterprises to manufacture more popular products that better meet consumer demand. E-commerce allows enterprises to collect large amounts of market and customer data, analyze, research and mine these data, find deficiencies in their products or services, specifically improve product and service quality and operating processes, develop new product and enter new business fields.

More importantly, E-commerce brings customized production, which is a new production model, to enterprises. One example is the C2B model that has made a fresh start. This is a new business model of customer-driven flexible production. With the advancement of information technology, traditional enterprises can design and make, through the Internet, special products for customers, and provide customers with one-to-one services. This model of manufacturing on demand will greatly enhance enterprises' competitiveness and profitability power. For example, Dell has customized PC production through the Internet.

4. E-commerce helps traditional enterprises to lower operating cost.

Through online marketing activities, enterprises can improve their marketing efficiency and lower marketing expenses. Enterprises can use the Internet to look for the best suppliers from the global market. Meanwhile, by way of sharing suppliers and reducing middle processes, companies can reduce the losses caused by information inaccuracies, and lower raw materials, energy and logistics costs. E-commerce makes direct trading possible between the producer and the consumer. It reduces unnecessary middle processes and cuts down the cost of the product circulation process. On one hand, it can transmit demand information to enterprises to help their decision-making and production. On the other hand, enterprises can immediately pass on their demand information to suppliers to get prompt replenishment, thus achieving zero stock management and reducing stock management costs. In our interview, Honor Furniture CIO Zhang Ming commented that it is an inevitable trend for the retail industry to transform to E-commerce. This is because the costs of stores, warehouses and other real estate are rising. The inevitable outcome is a transformation to E-commerce assets.

The deep integration between E-commerce and traditional enterprises will gradually change traditional enterprises' operational models, improve the level of integration and coordination in all their business processes from the placement of an order to the procurement of raw materials, production, sales and stock management, enhance their operating efficiency and contingency response, thus cutting down their overall operating cost. In addition, information system integration will improve E-commerce and enterprises' ability to manage business information and markedly reduce their labor costs.

III. Strategic thought on traditional enterprises' transformation to E-commerce

The business which traditional commerce enterprises do is what is called "move the box" business. They sell what manufacturers make. When information flows are not smooth and it is difficult for enterprises and consumers to "meet each other", such one-directional model of production, supply and sales is feasible. However, with the fast development of information technology, particularly the Internet, Big Data, cloud computing and mobile computing, there are no longer obstacles in the exchange of information. Against this background, consumers' consumption habits and demand are also undergoing quiet changes. Consumers need low-cost goods that can meet their personalized needs. The past model of sales based on production will be fundamentally reversed. Production on consumer demand should actually become the conventional model for enterprises to make profit today.

We are now undergoing a tremendous change in business model. Under the strong impact of the Internet, the traditional retail model will gradually lose its footing. New business models and new business ecosystems will be rebuilt on the new infrastructure of the information era.

Transforming to E-commerce is the only way forward for enterprises. But, it will undergo a process: from a one-way process of using the Internet to release advertisements and other basic enterprise information to a simple interactive Q&A process of using E-mail to let consumers learn about enterprises' product information; and from a process of online payment and trading to one of E-commerce ecosystem building. The first ten years of E-commerce were the golden ten years in which pure E-commerce gained domination. The next ten years of E-commerce from today on will be another ten golden years in which the E-commerce ecosystem will be rebuilt and traditional enterprises transform and go for "E-commerce". During this period, E-commerce will develop to an advanced stage. Large amounts of sales and business data will be generated. The analysis of these data will gradually penetrate enterprises' R&D design, warehousing & logistics, production management, finance and other internal business decision-making and management, thus driving the grand integration between enterprises and between industries.

With the emergence of mobile Internet, cross-border revolutions and cross-border integration will become an inevitable trend. There will be emerging cases of cooperation between industries. The boundaries of many traditional industries will be then broken. The business models of each industry will be rebuilt. For enterprises, the most vital thing is to change thinking and not confine thoughts to the existing business forms in their industry. The Internet economy provides such a good atmosphere. It allows a corporate culture and mechanism of fast trial and error to exist, because people are trying many new things and there is no one fixed model to guarantee success for enterprises. The new E-commerce ecosystem will gradually take shape in such a process of continuous exploration, error correction and progress.

In the early stages of their transformation, many enterprises which went for "E-commerce" only took E-commerce as a new sales channel, thus prone to fall into the dead-end alley of making quick profit from online operations. In fact, E-commerce should be a corporate strategy rather than only serve the short-term interests. The fast development and taking-shape of the E-commerce ecosystem requires "showstoppers". Here, "showstopper" is not a derogatory term. Rather, it refers to those companies which can provide constructive thinking for new business forms. For example, the Tmall platform has attracted more than 80,000 traditional merchants. On this platform, these merchants have learned how to use the E-commerce model to make profit and improve their core competitiveness. These traditional merchants have increasingly realized that E-commerce is not merely a sales approach but also a core strategy. Such a change is tantamount to a revolution on the merchants themselves. However, it is precisely this idea and practice of "self-revolution" can stimulate real change and promote the establishment of a new business ecosystem.

Rising rents, high labor cost, overstocks……these are only the "tip of an iceberg" of the problems facing enterprises. Under the water, changes in business thinking, customer-centric philosophy, convenient and fast customer experience and improved logistics system are the key to enterprises' transformation to E-commerce. That information technology promotes business development is no empty talking. It is precisely the enrichment of information technology and means that can shorten the distance from production to customers. Small commodities can be directly exported through E-commerce, and fresh foods can be directly delivered to doorsteps from the farm field. To successfully transform to E-commerce, traditional enterprises must not follow others blindly or yield to external forces. Instead, it should come from enterprises' internal demand. It must be a positive change to adapt to consumer demand and alter behavior.

Chapter 2
The Three-Stage Growth Model of E-commerce

The gene for change has always been changing around the axis of permanence. From small workshops to large-scale production and then large-scale customization, every change in the production mode is an inheritance and innovation of the previous production mode. The driving force for inheritance and innovation comes from changes in the way of contact between enterprises and customers and in the trading platform, which will eventually bring about changes in enterprises' marketing mode and innovation model.

E-commerce no more than provides a new way of information interaction between enterprises, and between enterprises and customers. It offers a new pathway for improving the response speed and operating efficiency of the supply chain. Meanwhile, it creates greater possibilities for large-scale customization.

Renowned U.S. management guru Peter Drucker once had a famous saying: creating customers is the only correct purpose for enterprises. Centering on this goal and based on changes in the cooperation-competition relationship between the online and offline channels, the combination of the response speed and operating efficiency of the supply chain and enterprises' marketing and innovation, the development of E-commerce may be generalized into three stages: E-commerce enterprise (1.0), enterprise E-commerce (2.0) and E-commerce ecosystem (3.0). Like the evolution of production models, the three E-commerce models are of a relationship of succession and innovation between them.

I. E-commerce 1.0: E-commerce Enterprise Model

Amazon, Alibaba and JD are pure E-commerce platforms of the online shopping mall created by Internet enterprises, which can be known as E-commerce 1.0. These are the Internet enterprises which were the first to use communication networks to sell products, and we call them E-commerce enterprises.

The first group of E-commerce enterprises provides a new product sales channel to the traditional manufacturing and service industries, allowing companies to gain competitive advantages between various E-commerce platforms and between online and offline channels through price wars. Traditional enterprises see the E-commerce channel as an assisting means to distribute their products or clear their stocks and had logistic and fund flows in parallel with their main offline channel.

The E-commerce 1.0 model simply reproduces the traditional offline channel model and operates a traditional linear supply chain, with marketing and innovation limited to the economies of scale based on standardized product.

II. E-commerce 2.0: Enterprise E-commerce Model

In the E-commerce 1.0 stage, Internet-based pure E-commerce produces an unprecedented impact on traditional enterprises in China. The landscape of traditional industries starts to be changed. Under such a pressure, Suning, GOME, Intime, China Construction Bank and some other traditional distribution and impact, service, manufacturing and financial enterprises have adopted mobile Internet technology and O2O to transform to E-commerce. While cooperating with third party E-commerce platforms (e.g. E-commerce enterprises), these enterprises have begun to run their own E-commerce platforms, thus generating a tide of E-commercialization. This is the E-commerce 2.0 model.

In the E-commerce 2.0 model, traditional enterprises adopt the online and offline models side by side in a bid to offer some customized services through data mining, forming a preliminary loop supply chain. The E-commerce 2.0 model promotes traditional enterprises to pay attention to data and accept economies of scope. Alibaba defines platform, data and finance as three of its future strategies, while JD and Suning have stepped up their R&D of cloud computing and Big Data, actively developed comprehensive product lines and carried out marketing and innovation, which belong to the economies of scope. For example, Suning Easyshop has acquired Red Baby, and JD and Sina have collaborated to operate home decoration business.

In the E-commerce 2.0 stage, some essential contradictions start to emerge from traditional enterprises' transformation to E-commerce. The online channel competes with the offline channel, which is a common occurrence in the E-commerce 2.0 stage. Some traditional enterprises begin to adopt a policy of "same product, same price and same services". For example, EasyHome has introduced a "Four-Sames Strategy", while Haier has developed products and brands exclusively for the online channel.

Meanwhile, as E-commerce grew fast amidst fierce competition, traditional enterprises also face serious challenges from collaboration, ERP and other IT infrastructures.

III. E-commerce 3.0: E-commerce Ecosystem

From the birth to growth and prosperity, every emerging industry will experience a process from rampant to orderly growth. As E-commerce in China progressed from Stage 1.0 to

Stage 2.0, enormous opportunities have emerged in the business field. Many problems have also surfaced. These include: imbalanced industry pattern and inadequate industry transparency; frequent price wars, public opinion impact on consumers and overall low trust in the E-commerce industry; manufacturers' and producers' lack of position and bargaining ability in the industry, subject control and profit predation by intermediate channels and falling victim of industry development.

In the future, E-commerce will evolve into an ecosystem. As an ecosystem, the harm to any part of it will have a negative influence on the whole ecosystem and hamper the healthy development of the whole industry. Therefore, the E-commerce 3.0 stage will be a stage in which the whole industry will work together to push forward and rebuild a benign E-commerce ecosystem. The theme of E-commerce 3.0 will be one of stakeholders in the industry will leverage online and offline channels and a sound loop structure of the supply chain to carry out socially responsible operations and innovation.

Pursuing the goal of building a benign ecosystem, E-commerce 3.0 will have the following characteristics:

First, it is a whole-channel model. In a social environment where mobile terminals and mobile Internet are widely used, as technologies and applications like industrial the Internet, Big Data and cloud computing mature, consumers can go to concept stores to experience lifestyles based on their preferences and then make online purchases from E-commerce platforms and mobile terminals. Meanwhile, physical stores will carry out some of the work relating to consumer communication, goods collection, delivery, return or refund. Virtual stores will also become a platform to deliver the "production & consumers" model and a platform for Internet marketing and Big Data mining.

Second, it is a CEO-driven undertaking. E-commerce 3.0 involves not only a change in enterprises' IT philosophy but also a change in performance assessment practices, a change of the supply chain and enterprises' organizational structure, and benign co-building work between enterprises and their upstream and downstream stakeholders. This will require CEOs to plan their online and offline channels as a whole, integrate their internal and external resources, treat E-commerce as their main marketing channel, realize uncertainties in the development of E-commerce and truly establish a new business model which is based on cloud computing, Big Data, mobile Internet and industrial Internet.

Finally, it is an innovative model with demand gaining priority. To steer E-commerce 3.0, enterprises must change their traditional competitive advantages and competition strategy, establish the idea of customer advantage, transcend the boundaries between existing customers, existing brands, existing product varieties, industries and departments, and build a new business system. Specifically, they need to adopt the Internet and other information technologies to watch how people live, learn about their living environment, employ Big Data-related technologies to find collective wisdom, and form new mechanisms of reverse innovation and trusted marketing.

At the IT level, the E-commerce 3.0 model will realize information resources sharing based on Big Data and cloud computing, organically combine large-scale production with large-scale customization and complement the advantages of the economies of scale, the economies of scope and the economies of integration.

In short, be it innovation in products and services, or innovation in the various skills and activities required for the provision of products and services, the wisdom behind does not come from the behind-the-door work of enterprises' R&D department but rather from market and customer demands, from virtual and physical channel's capturing of market and customer demands, and from the need for enterprises and their stakeholders to form a common value platform when the global economy is sluggish and to improve corporate stability and growth strengths during an economic downturn.

This is precisely what E-commerce 3.0's charm really is. It requires that enterprises change their marketing model from a vertical 4P structure to an integrated channel. The fundamental task of marketing is to collect customers' insights and use them to develop and design new products. The precondition for enterprises to carry out business operations is to attach importance to the benign and sustainable development of the whole E-commerce industry.

IV. Six major pathways to achieve E-commerce 3.0

Currently, most traditional enterprises are in the E-commerce 2.0 stage. Some enterprises have started to plan the E-commerce 3.0 model. From the 2.0 model to the 3.0 model, finding and creating customers will continue to be enterprises' core purpose, while marketing and innovation will still be the main work for enterprises to do to achieve their purpose.

To achieve cooperation-competition between online and offline channels, the combination of response speed and the operational efficiency of the supply chain and promote the integration between the economies of scale, the economies of scope and the economies of integration, enterprises will have six pathways to choose from: transform from online and offline channel to a full-channel model, transform from a competition advantage strategy to a customer advantage strategy, transform from customer relationship management to supply chain relationship management, transform from economies of scope to economies of Big Data, transform from public enterprises to socialized enterprises, and transform from "business empires" to the E-commerce ecosystem.

Comparison of E-commerce 1.0, 2.0 and 3.0 Models

	E-commerce 1.0	**E-commerce 2.0**	**E-commerce 3.0**
Channel model	Mainly offline channels, supplemented by online channel	Online and offline channels compete with one another and change in strengths	Online & offline channels are integrated.
Supply chain structure	Traditional linear structure	Parallel structure	Loop structure
Marketing and innovation	Clear stocks, standardized products, and price wars	Exclusive product lines or sub-brands, and the paradox of same product and same price	Standardization and customization exist side by side and complement each other
Management decision-making	Senior managers' experience-based judgment and top-down	Top-down experience-based judgment + bottom-up inversion mechanisms	Bottom-up socialized decision-making
Goal pursued	Channels are everything	Business empire	Ecosystem
Corporate values	Maximize returns to shareholders	Give concurrent consideration to stakeholders	Commit to socialization that will make the world a better place
Application of Internet technology	Collaboration	Internet that offers news, views and entertainment	Living and operating tools and complicated network that combines virtualization with

			reality
Source of Big Data	Business-driven data	Businesses and social networking-driven data	Industrial Internet- & machine-driven data and social networking-driven data
Production mode	Large-scale production	More convenient demand and supply, long-tail sales become possible and large-scale customization takes shape	Large-scale customization
Economic form	Economies of scale	Economies of scale, and economies of scope	Economies of scale, economies of scope, and economies of integration

Chapter 3
Timing and Model of Developing E-Commerce

Traditional enterprises need to consider how to transform to E-commerce from both strategic and tactical aspects. The first two chapters of this report are mainly concerned with thoughts on strategies for traditional enterprises to go for E-commerce. It is pointed out that E-commerce is a strategic measure for enterprises to transform themselves but not merely a business means. It is specified that the overall goal of the next stage of E-commerce is to build an E-commerce ecosystem, smooth out the relationship between upstream and downstream enterprises and achieve win-win and innovation.

This chapter will mainly discuss the specific practices for traditional enterprises to undertake E-commerce, including determination of opportunities, selection of path and business model, corporate decision-makers' expectation of scale of investment. The quoted data are mainly from user surveys in the retail, manufacturing and financial industries.

I. Selection of timing

On the whole, feedback from the whole questionnaire survey and in-depth interviews shows that approximately 39.8% of the surveyed corporate decision makers said that they will consider E-commerce business in the next five years. In addition, 38.9% have no pan to develop E-commerce business for the time being as a result of their current business situation or development opportunities. Nevertheless, they agreed that E-commerce is the general development trend in their industry.

When is the best time for traditional enterprises to transform to E-commerce? After going through a process of "cannot see", "look down on", "do not understand", "cannot learn how to do" and "cannot stop" E-commerce, all traditional enterprises are considering this common question. Different industries and different enterprises have different answers. E-commerce has been realized for books, 3C electronic products, garments and other products with a high level of standardization. JD, Amazon, Suning and Intime have taken the lead in doing so. Home, building materials and fresh commodities may become online goods popular with consumers at the next stage.

On the whole, standardized commodities go for E-commerce faster than non-standardized commodities. If a retail enterprise currently has no clear understanding of or an overall plan for E-commerce, it will be certainly in a disadvantaged position in future business competition. E-commerce for non-standardized products such as home items and building materials only started in 2011. In the past two years, however, it is no exaggeration to say that there is a blowout of E-commerce in the home and building material industries. In last year's "Double 11" promotion, furniture was one of the three products with a sales value of over RMB100 million. Several enterprises with a sales value of over RMB50 million were furniture companies. Today, some brand companies have joined in the E-commerce army, which is two hundred strong. Some department –type E-commerce platforms like Taobao and JD all have their special furniture stores or channels. From our interviews, we have learned that following two years of planning, EasyHome has also started to set foot on E-commerce and set up an E-commerce company to carry out independent operations.

Timing is very important for traditional enterprises to transform to E-commerce. Some retail enterprises have detoured a lot, either because they missed the best time to do E-commerce or because they started doing E-commerce before they had a clear E-commerce strategy. In fact, enterprises' road to E-commerce is closely related to product categories. As early as 1999, E-commerce was only adopted for selling books, audio & video products, virtual point cards and other standardized products. Subsequently, products like daily items, small home appliances and 3C products that do not need too much service started to turn to online sales. It was only after that when products like bathroom items, big home appliances and home products which require sound service began to follow suit.

Currently, almost 30% of book and audio & video companies go for E-commerce. It will be quite normal even the figure reaches 70% in the future. In the 3C industry, E-commerce has a penetration rate of close to 20%. But, the rate only stands at 2% in the building material and home industries. The room for growth is big. One important reason why some 3C firms have not been so successful is that they started E-commerce fairly late and only went for E-commerce in a rash when no room for maneuvering was left. Many of the strategies and measures which they introduced were temporary, leaving hidden dangers to subsequent development. Moreover, these hidden dangers may become time bombs and may thrust these 3C E-commerce firms into a crisis at any time.

The EasyHome Group started to follow up with E-commerce two years ago. After careful considerations, it finally decided to transform E-commerce last year. Because E-commerce only started then in the building material & home industries, EasyHome was among the first group of companies to go for E-commerce. In addition, the setbacks which many retail enterprises have come across in their E-commerce work served a reference for EasyHome. EasyHome therefore has a very clear E-commerce strategy, which is to coordinate between online and offline activities and take the “Four Sames Strategy” (same operation entity, same brand, same product, same services) as the basic principle. The ultimate goal is to improve the whole group’s core competitiveness. It does not take short-term economic returns as the yardstick to measure the success of its E-commerce. It is precisely because of this that EasyHome has adopted a down-to-earth approach to E-commerce. It has formulated a 3-5-year E-commerce development plan and followed its own pace to firmly push forward its E-commerce drive from scratch.

In the interview, Wang Xiaokang, General Manager of Beijing EasyHome E-commerce Co., Ltd., said, “When going for E-commerce, enterprises must be clear about their positioning and development direction. In the implementation process, enterprises are bound to meet with difficulties and challenges, or even doubt from others. However, be it a thoroughfare or a small path, as only as you go along the right direction, you will achieve your ultimate goal.”

In the whole corporate lifecycle, which stage is the best time for traditional enterprises to turn to E-commerce? 84% of the surveyed enterprises said that they would consider turn to an E-commerce platform during the mature or stable period. Some interviewees considered the degree of E-commerce platform stability as an important factor. 15% of the interviewees said that they would consider deploying an E-commerce platform in the early stages of corporate development, because these enterprises wanted to open up the market through a multi-channel strategy. The survey results are shown in Fig.1.

In addition, some interviewees argued that they would choose to deploy an E-commerce platform when their enterprises meet with a bottleneck or are in recession. These enterprises hold very high expectation towards E-commerce and hope that it could promote corporate transformation and bring in the “second spring” for them. Chen Jinsong of the Business Department of Zhejiang Saina Group Co., Ltd., said, “As long as the conditions are ripe, we can turn to E-commerce at any time.”

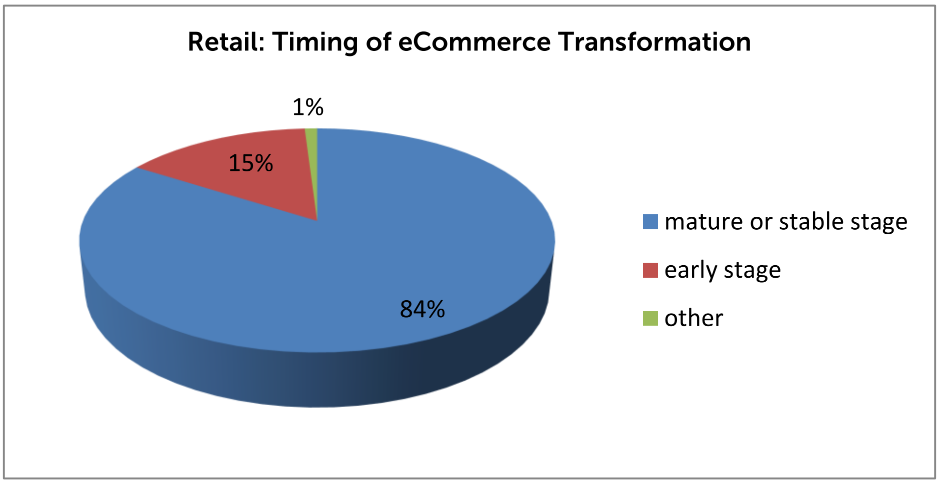

Fig.1

Similar to the retail industry, over 90% of the interviewees in the financial industry said that the mature or stable period is the best time for enterprises to consider turning to E-commerce. In addition, less than 10% of the interviewees said that every stage of the corporate lifecycle may be a good time to go for E-commerce. The survey results show that financial enterprises have generally realized the importance and necessity of E-commerce. IT Director Yan Yang of Minsheng Securities pointed out that banking, insurance, securities and fund trusting have all entered an era of mixed operations and the business boundaries of “big financial” institutions now cross each other and extend. In addition to cash deposit and withdrawal, securities and fund companies also operate all other financial services. Insurance companies also do financing to help customers to preserve and appreciate the value of their assets. Financial institutions’ business boundaries are more blurred now and their license advantages are increasingly weakened. The past thinking that “a business license will ensure business success” is becoming increasingly less tenable.

67% of the interviewees in the financial industry said that they intend to deploy Internet finance or provide other Internet-based financial services in the next three years, while 13% of the interviewees said that they had no such plans. In addition, 20% of the interviewees reported that they were not sure whether their enterprises will turn to Internet-based financial services in the next three years. The survey results are shown in Fig.2. CIO Tang Pei of Galaxy Securities said, “We are now considering building an E-commerce platform. However, we are still conducting research and survey as to which specific model, whether it is a subsidiary or a technology one, is to be adopted to run it.”

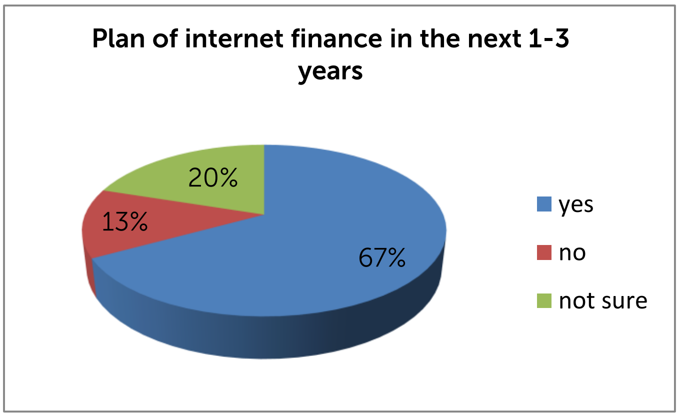

Fig.2

In the manufacturing industry, more than 16% of the interviewees regarded the early stage as the best time for enterprises to deploy an E-commerce platform. As many as 75% of the interviewees said that they would turn to an E-commerce platform when their companies are mature or stable. This shows that business stability is most valued in the manufacturing industry and manufacturers do not want to see E-commerce affect their normal business development. In addition, almost 9% of the interviewees considered every stage of the corporate lifecycle can be the best time for deploying an E-commerce platform. The survey results are shown in Fig.3.

Enterprises needs to make overall planning based on their needs. Che Ningzhu, Director of Beijing Benz-Daimler Chrysler Co., Ltd.'s Computer Center, noted that traditional enterprises in the manufacturing industry have a complete set of production and sales systems and fairly solidified models. There are too many uncertainties in automakers' transformation to E-commerce. The auto industry is not an industry that can bear high risks. Unless the conditions are mature and sound, automakers will not easily go for E-commerce. As for auto sales and maintenance, combining online with offline services is a direction worthy of exploration and implementation.

The selection of timing is also relative. Early entry does not guarantee leadership. There are times when pioneers become martyrs. Besides, it does not mean that later comers do not have opportunities. In addition to making an entry at the right time, enterprises also need to select a correct path and model to embark on the road of successful E-commerce.

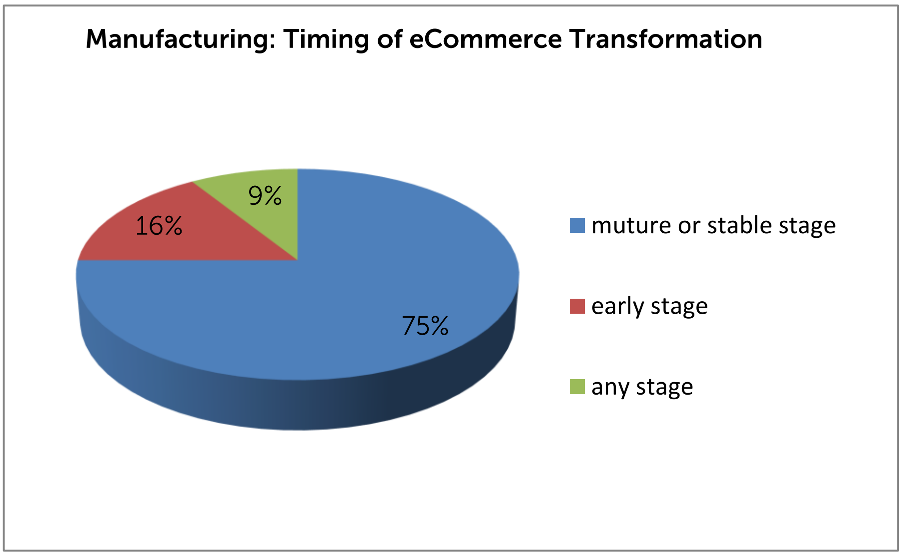

Fig.3

II. Selection of path and model

There are many ways for traditional enterprises to transform to E-commerce. The current survey reveals that enterprises usually choose two main paths to make such transformation, namely building their own E-commerce platform, or joining an existing third party E-commerce platform, such as the Tmall, Amazon, etc. Some enterprises will choose a mixed model, for example building their own E-commerce platform and selectively joining some mature third party E-commerce platforms of a big brand influence.

1. Adhering to a policy of "walking on the two legs" of building their own and joining third party E-commerce platforms

As for the three industries surveyed in the current research, namely finance, manufacturing and retail, most surveyed customers (89%) in the financial industry were included to build their own E-commerce platforms, while only 27% would choose to join an existing E-commerce platform. The survey results are shown in Fig.4. Compared with the manufacturing and retail industries, the financial industry is rather special, because it related to the economic bloodline of the country as well as to livelihood. Financial products as a special kind of commodity are also different from physical products like daily necessities. Their own attributes, security requirements and trading model are also very special. Some banks like China Construction Bank and Bank of Communications which took the lead to turn to E-commerce are financially and technically strong and well know their own needs for E-commerce. That is why they usually choose to build their own E-commerce platform. This will help them to control relevant businesses. In finance industry is still in the preliminary stage of E-commerce building, and all major banks are still make exploratory efforts. Currently, there is still lack of mature third party financial e-commerce trading platforms in the industry.

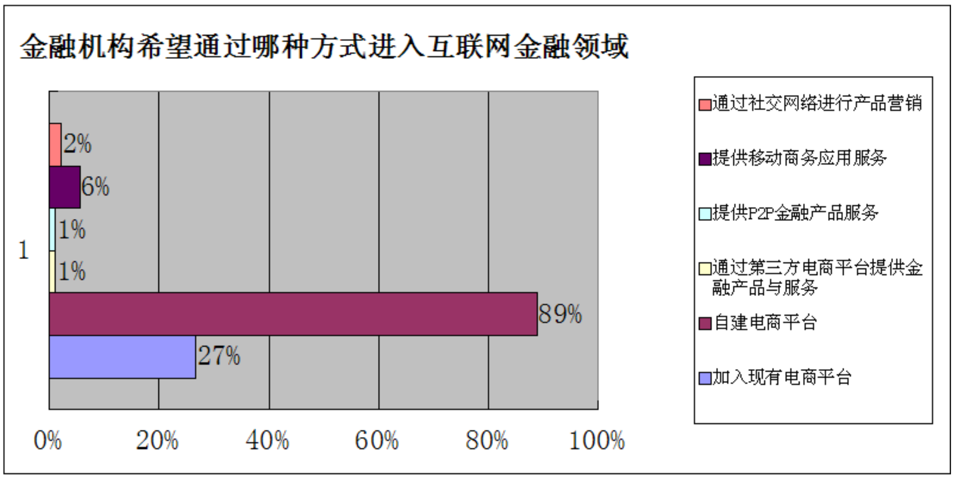

Fig.4

There are various ways for customers in the financial industry to enter the E-commerce field. Various financial institutions all want to find their own unique road to E-commerce. Therefore, financial customers can use third party E-commerce platforms to provide financial products and services, P2P financial products and services, and mobile business application services, or carry out product marketing through social networking. The choices are many.

IT Director Yan yang of Minsheng Securities pointed out that the integration between traditional finance and the Internet will depend on what primary businesses of financial institutions can make better use of the Internet to truly achieve customer-centered operations and preserve and appreciate the value of their assets. Specifically, the contact circles of finance business, product design, risk identification and services are the four aspects that need attention.

The survey data show that customers in the manufacturing and retail industries had a preference for existing third party E-commerce platforms. 37.32% of the interviewed retail customers said that they have already joined an existing E-commerce platform (Fig.5), while the percentage was 37.05% in the manufacturing industry (Fig.6). Both were the highest among the various choices. The reason is that products in both the manufacturing industry and the retail industry are highly standardized products which could be sold through an E-commerce platform in the easiest way. In fact, in both industries, E-commerce has developed to a certain stage. The two industries have also accumulated sufficient practical experiences and developed clear business models. In addition, some highly-known, trustworthy third party E-commerce platforms with wide-ranging and stable customer groups like JD and the Tmall already exist in the industries.

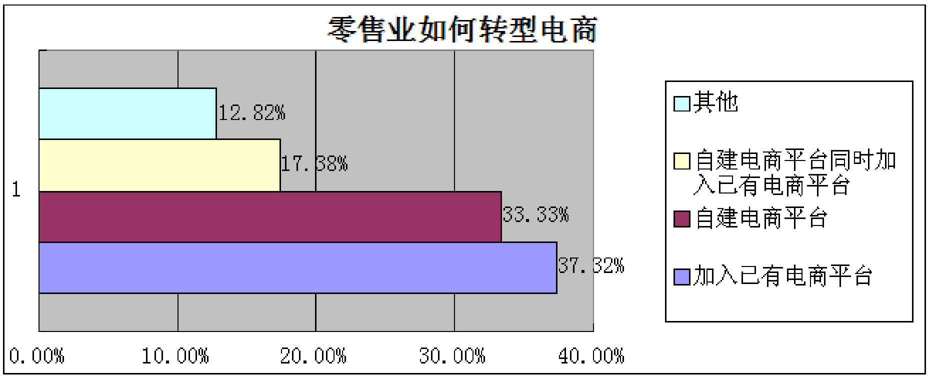

Fig.5

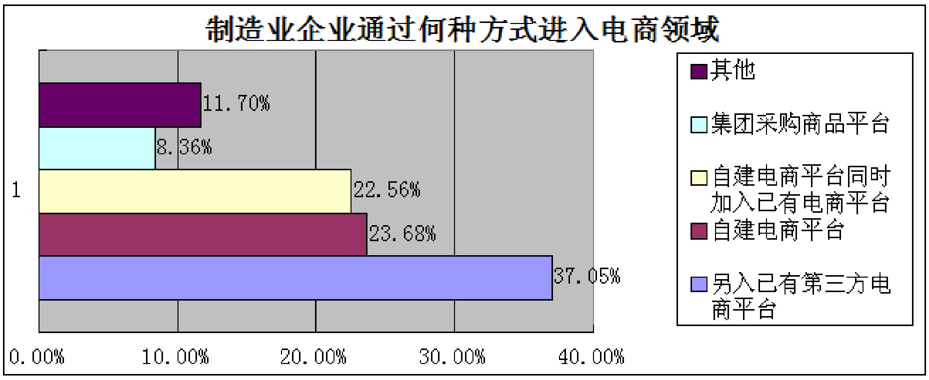

Fig.6

33.33% of the surveyed retail customers chose to build their own E-commerce platform, close to the percentage (37.32%) of those who chose to join an existing E-commerce platform, as shown in Fig.2. This indicates that the retail industry is already a relatively mature E-commerce market. Customers can make choices based on their practical needs rather than follow others blindly. In the early stages of E-commerce development, some small- and medium-sized retail enterprises may opt for joining an existing third party E-commerce platform, because it will allow them to leverage of the reputation and influence of such third party platforms to quickly enter the E-commerce channel and get returns from it. As E-commerce deepens in the retail industry, some big retail enterprises also start to enter the E-commerce field. However, what there big companies want is not merely to add an online sales channel but rather hope to beef up their core competitiveness and concurrently enhance their overall online and offline strength through E-commerce. Therefore, these companies will build their own E-commerce platform when the time is right. In addition, they boast sufficient financial and technological strengths and can build their own E-commerce platform.

Following two years of planning, EasyHome started to set foot on E-commerce and set up an E-commerce company to carry out independent operations. General Manager Wang Xiaokang of Beijing EasyHome E-commerce Co., Ltd. said that EasyHome positions its E-commerce as one for vertical industries rather than a department store-type E-commerce platform. The company will unify online with offline channels, provide one-stop services and enhance user experience.

Another evidence of maturing E-commerce in the retail industry is that 17.38% of the surveyed customers chose the mixed model of building their own E-commerce platform and joining a third party E-commerce platform, as shown in Fig.5. More and more traditional retail enterprises will base on their own features and market development to select the suitable E-commerce model. The mixed model provides the traditional retail industry with a flexible platform to go for E-commerce. It allows enterprises to exercise maximum leverage to make most of the advantages of building their own E-commerce platform and joining a third party E-commerce platform. It enables them to enrich retail enterprises' product varieties and tap into more sales growth points. For example, Gome Online is a typical example of the mixed model. The Gome Group first set up a Gome Online Mall and then acquired Coo8. Currently, it has integrated these two major E-commerce platforms and adopts a unified backstage. Today's Gome Online is not merely an E-commerce platform that only sells electric appliances. In fact, Coo8 has become Gome Online's Business Promotion Division. Gome Online is now enriching it online product varieties and has even established cooperative relationships with auto companies. In addition, Gome has also entered Tmall 3C. Through multi-channel development, Gome Online is making various efforts to achieve diversified operations.

2. Uncertainty and difficult control are main obstacles

The survey results reveal a similar pattern of E-commerce business model selections between the manufacturing industry and the retail industry, where customers who chose to join a third party E-commerce platform were in the highest percentage, followed by those (at 23.68%) who intended to build their own E-commerce platform. In addition, 22.56% of the surveyed enterprises said that they would go for the mixed model. The results are shown in Fig.6. On the whole, customers in the manufacturing industry were more enthusiastic about E-commerce than their counterparts in other industries. Traditional manufacturing enterprises have separate departments for product manufacturing and sales. The product manufacturing department is only responsible for product quality and supply and knows little or do not care about sales channels. In a product-centered manufacturing era, this is understandable. But, in the customer-centered manufacturing era, if manufacturing enterprises still stay behind closed doors and turn a blind eye to market changes, it will difficult for them to keep pace with changes in user demand. Eventually, they will be eliminated from the market.

On one hand, E-commerce opens up a new sales channel for manufacturing enterprises. On the other hand, it helps them to establish closer customer relationships and find a shortcut to learn about changes in customer demand. Manufacturers are in greater need of the E-commerce tool to get closer to the market and customers. The survey reveals that while most manufacturing enterprises are positive about E-commerce and bold to experiment with it, there are still some traditional manufacturers like automakers which take a wait-and-see attitude towards E-commerce. Some 4S shops which once cooperated with Sohu have left. 52.92% of the surveyed manufacturing enterprises considered the operation model of the traditional manufacturing industry as unsuitable for the E-commerce field.

In the survey, Qin Yuxi at Beijing Hyundai's IT Department noted that the new sales channel in the auto manufacturing industry is not yet mature at present. Many customers look and buy cars offline. In addition, because deposit payment and after-sales services are involved, customers are more at ease with offline payment, which is also more convenient. 30.08% of the surveyed manufacturer pointed out that uncontrollable factors in E-commerce will restrict enterprises' business development and pose a threat to customer satisfaction.

In addition, other major concerns to manufacturing customers included the integration between the E-commerce operation platform and other IT platforms (35.38%), and the low level of IT application and lack of ability to control E-commerce business (26.74%). The survey results are shown in Fig.7.

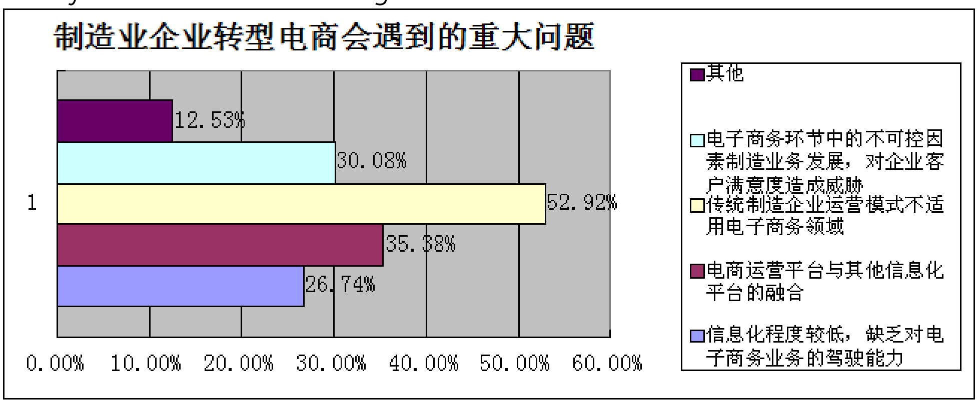

Fig.7

Talent is the biggest concern of financial institutions when they engage in Internet-based finance business. 49% of the surveyed financial enterprises said that lack of talent is the biggest constraints on E-commerce and Internet finance talent In addition, lack of E-commerce supply chain operation and management experience (26%), and mutual impact between E-banking and Internet finance and traditional sales channels (23%) are also the main obstacles for financial institutions to provide Internet-based financial services. Like retail and manufacturing enterprises, financial institutions must also well handle the relationship between online and offline businesses. How to turn online and offline businesses from a state of conflict and mutual constraint into complementarity and mutual promotion will be an issue which traditional enterprises must consider clearly and thoroughly solve when they turn to E-commerce. The survey results are shown in Fig.8.

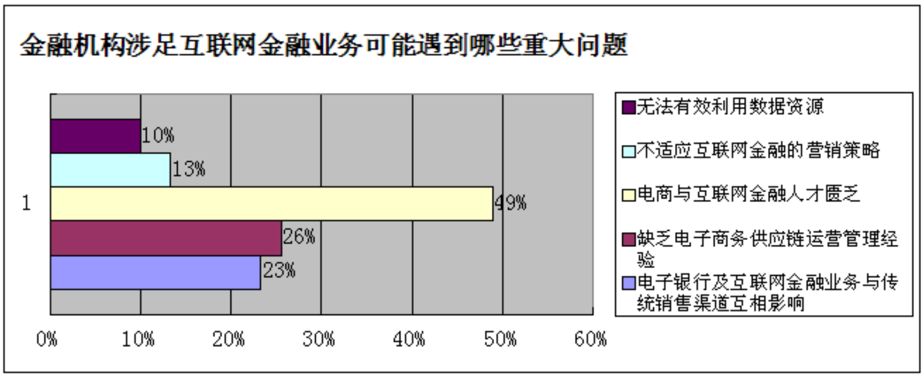

Fig.8

For retail enterprises, building warehousing management and logistics distribution systems is also a major challenge. Like financial institutions which felt that lack of talent is their biggest problem, 37.61% of the surveyed retail enterprises also considered introducing experienced warehousing & logistics talent is their most important task. In addition, how to improve the warehousing & logistics aspects of supply chain management (31.91%), how to rapidly respond to E-commerce's higher requirements for warehousing & logistics (26.21%), and whether key warehousing & logistics business points can be improved (12.82%) are also the obstacles of warehousing management and logistics that must be overcome for E-commerce. The survey results are shown in Fig.9.

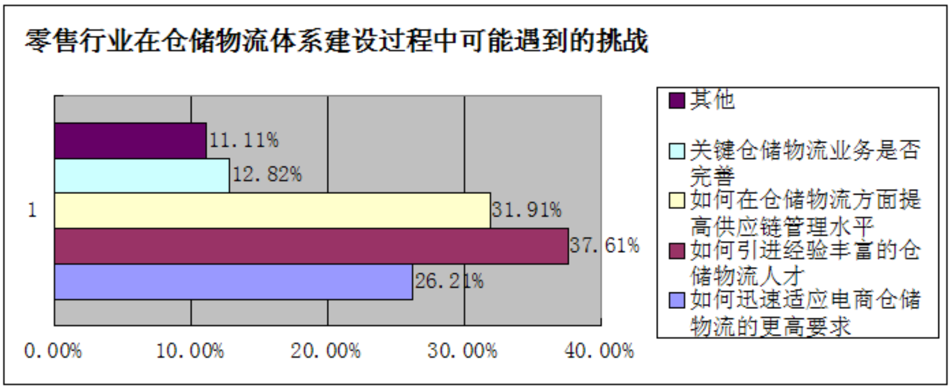

Fig.9

3. Give equal consideration to self-reliance and external forces

Our survey shows that enterprises have a strong demand for specialized E-commerce talent. It was mentioned above that 49% of the surveyed enterprises chose lack of E-commerce and Internet-based finance talent as their biggest problem, the highest of all the options. 69.80% of the surveyed retail enterprises (Fig.10) and 42.06% of the surveyed manufacturing enterprises (Fig.11) wanted to recruit E-commerce talent with high pay so as to set up their E-commerce teams. There was a higher percentage of companies in the retail industry that chose this option.

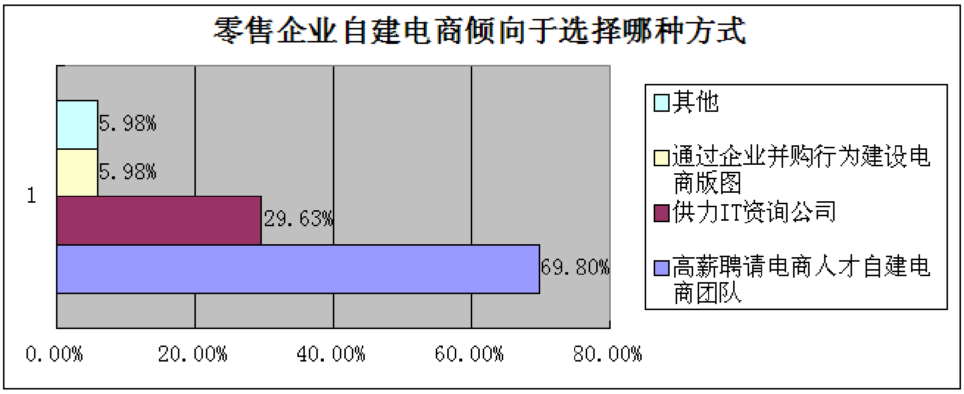

Fig.10

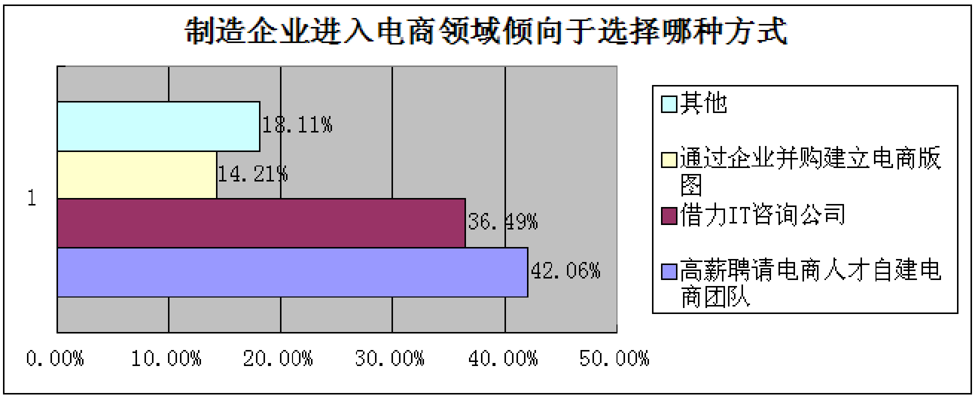

Fig.11

In addition, 29.63% in the retail industry and 36.48% in the manufacturing industry hoped that they could count on IT consulting firms' help to formulate E-commerce strategies, design E-commerce platform frameworks and implement relevant technologies. For example, we learned that Gome, Jinjiang Hotel, EasyHome and many department stores all chose to cooperate with professional IT consulting firms to implement their E-commerce strategies. These consulting firms provided them with strategy consulting, IT project management service, process optimization service, IT operation and maintenance service and IT implementation service. This trend is particularly obvious in the retail industry. (Figs.10&11)

Wei Yaxuan of Beijing Lufthansa Friendship Shopping Center Co. Ltd. said: "Traditional retail enterprises will not fully transform into E-commerce enterprises. Rather, they will supplement their sales channel through E-commerce. The establishment of E-commerce is to open an online platform and do standardized businesses online, such as business promotion, procurement, and so on. To transform to E-commerce, the retail industry needs consider customer experience at first. Subsequently, it must consider operation models so as to raise the profit level."

In addition, some enterprises said that they would also take the M&A shortcut to fast establish their own E-commerce block. 14.21% of the surveyed manufacturing enterprises and 5.98% of those surveyed in the real industry held this view. (Fig.10 &11)

4. The online vs. offline balance is the focus

From our survey, we have found that a common concern among those enterprises which did not go for E-commerce and those companies which just set foot on E-commerce was the competition between offline and online businesses. Online shopping is convenient and fast. Most importantly, the price is low. This is the common experience of many online shoppers. Online products are cheaper than offline products. Such a popular thinking is in fact not good news for traditional enterprises to go for E-commerce. To cater to such a popular demand, some enterprises intentionally adopt different prices for online and offline products, thus intensifying conflict between their online and offline business.

Gome Online's CTO Yu Binping argued that adopting the same price for online and offline commodities are at most a marketing strategy or means. In reality, the two cannot have the same price, because their product varieties, regions and dealer interests are different. Such differences make it impossible for offline and online products to have the price.

Computer Department Director Wu Zhengxiang at First Asia Gold Store in Shanghai commented, "Currently, our E-commerce business does not directly compete with physical stores. A common problem for traditional enterprises to do E-commerce is the problem of the price system. For E-commerce, price is the knocking brick. Online stores can only attract customers when they can offer lower prices than physical stores. Our online and offline products are different. We will develop some products for online sales. But, these products are not sold offline. Therefore, there is no question of price inconsistency for the same product when it is sold online and offline. In addition, when we introduce a new product, we also put it for online sales to test the market. After its sales volume reaches a certain level, we will slowly turn it to offline sales. Once a new product is put for offline sales, we will no longer sell it online"

We also found in our survey that quite a number of enterprises supported the idea of the same price for online and offline products. Wang Xiaokang said that the future will see no difference between traditional enterprises and E-commerce, nor will there be difference between online and offline businesses. Currently, some traditional enterprises will provide some products exclusively for online sales when they go for E-commerce. In fact, there is no reason for doing so. No matter from which channel consumers buy a product, it must be of the same quality and price. The product duality is a transitional measure which traditional enterprises adopt because they fail to correctly handle the contradictions between online and offline businesses. E-commerce must be of a unified structure. To achieve such unity, EasyHome was the first in the industry to put forward the "Four Sames Strategy": "same operation entity, same brand, same product, same services".

Wei Yaxuan also supports the view that online and offline businesses should be unified and inseparable and maintains that the two must support each other rather than do separate ways. When first designed, an E-commerce platform must consider both of these businesses and avoid competition between them.

Li Long of Wanda Department Store commented that a poor additional B2C model is bpund to affect offline business. Traditional retail enterprises should position B2C as a means to expand sales channels, promote brands and enhance customer experience rather than blindly pursuing online trading volumes. Wanda Department Store has adopted the O2O model to avoid adverse situations. Through E-commerce means, it is possible to attract more customers to physical stores. The two complement each other.

Many enterprises including Baida Department Store and Jujia Online have suggested that the O2O model should be adopted to ensure consistency between online and offline businesses rather than make online sales as a pure profit-making tool. They argue that the O2O model should be used a tool to improve enterprises' core competitiveness and thus achieve the mutual promotion between online and offline businesses.

III. Scale of investment

Traditional enterprises in China are still in an exploratory and starting stage of transformation to E-commerce. They have yet to develop a clear strategy for such transformation. When not absolutely sure or having no clear direction, many enterprises adopt a try-and-see approach to E-commerce. Because E-commerce is producing a growing impact on traditional industries, such attempt may be a forced or helpless move in many situations. Those who refuse to go for E-commerce may be truly "Out". Some signs of this could be found from our survey.

Almost 70% of the surveyed CIPs and decision-makers in the retail and manufacturing industries were inclined to set the budget for transformation to E-commerce under RMB5 million, as shown in Fig.1. This shows that traditional enterprises' decision makers basically consider E-commerce businesses at the level of building online business websites, goods exhibition and trading. They have yet to elevate it to the level of strategic corporate transformation. While this is partly due to enterprises' lack of a clear understanding of E-commerce's business models or caution against too much financial inputs due to low profit margins, lack of an overall transformation strategy is still the main reason.

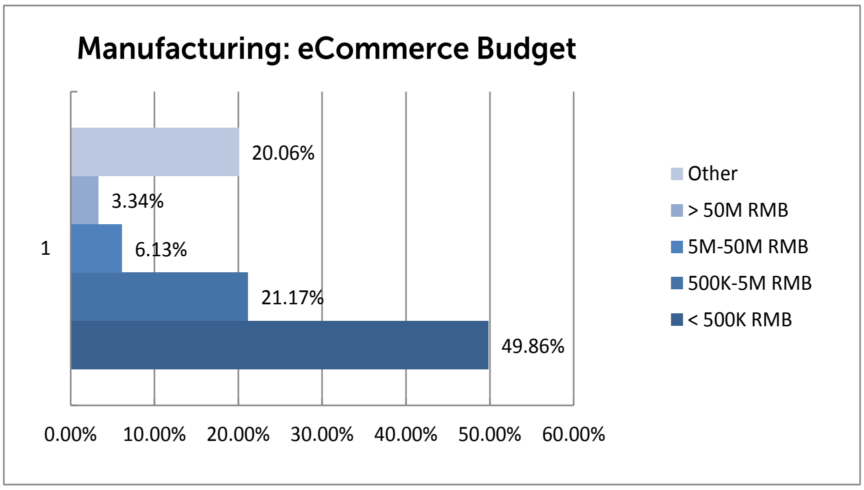

Fig.1

33.43% of the surveyed Manufacturing enterprises said that they have clear plan for E-commerce in the next three years, while over half were still in the wait-and-see stage, as shown in Fig.2. With the significant impact of E-commerce to traditional industries, this indicated the struggling and confusion of the traditional enterprises towards E-commerce. What are the main reasons for this? Some manufacturers (12.26%) said that the manufacturing industry itself lacks the E-commerce gene. This, together with manufacturing enterprises' low level of IT application, lack of support for E-commerce business and funds, has posed an obstacle to E-commerce businesses. This is the obvious reasons on the surface. However, the more in-depth reason is that traditional enterprises as represented by the manufacturing cannot see a clear direction forward amidst the current E-commerce development chaos. Though the whole industry strongly realize that E-commerce has produced a huge impact on their traditional businesses and may bring about enormous growth potentials, it does lack a clear strategic view for how to go for the transformation. Meanwhile, we also noticed that 12 of the surveyed manufacturing enterprises said that their inputs to E-commerce had topped RMB50 million. Though the overall percentage was not high (only at 3.34%), we nevertheless see the huge potential of transformation to E-commerce among manufacturing enterprises. Manufacturers have a strong demand for controlling stocks, expanding channels and making customization on demand. E-commerce is precisely a good medicine to cure these problems.

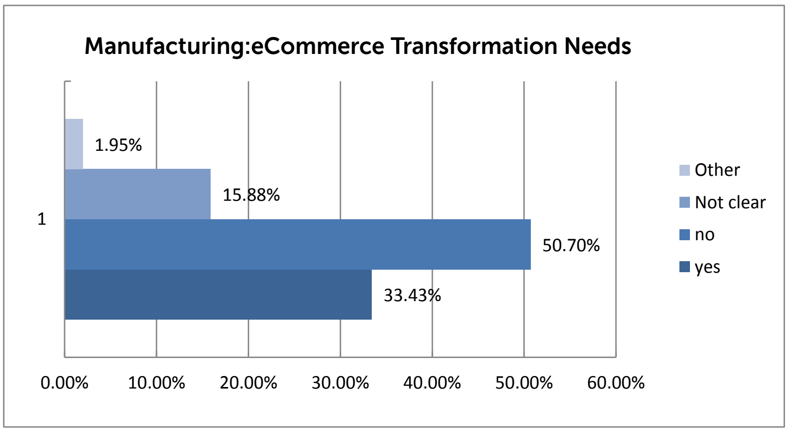

Fig.2

Mobile IT Director Teng Hubing of China Electronic Appliance Corporation said that their greatest concern with E-commerce is the problem of investment. In the retail industry, approximately 39.32% of the interviewees were inclined to invest RMB0-500,000, while 32.48% for RMB500,000 - 5 million and only 0.57% for over RMB5 million, as shown in Fig.3. Retail has similar situation to the Manufacturing industry. Wei Yaxuan said that while optimistic about the future E-commerce, Century Jinyuan did not have a separate budget for making transformation into E-commerce. This matches well to our assessment of the current situation of the overall traditional industries.

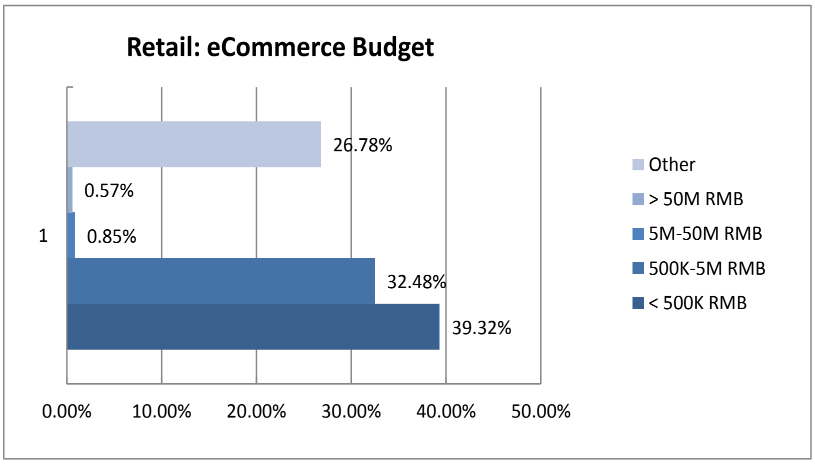

Fig.3

JD Founder & CEO Liu Qiangdong once said that E-commerce at present is still at a small scale and is far from reaching a time to discuss about winners and losers or who ir sright and who is wrong. Competition has only just begun. Everyone has opportunities, including traditional retail enterprises.

"E-commerce will certainly impact the traditional retail industry. E-commerce has its advantages. But, the traditional retail model also has its own strengths", said Wu Zhengxiang. Traditional enterprises definitely have advantages in doing E-commerce than pure E-commerce enterprises. "For example, traditional enterprises have their fixed offline consumer groups. By building their E-commerce platform, they can certainly bring more convenience to these fixed consumer groups. The biggest problem with E-commerce now is the problem of credit standing. In this respect, traditional enterprises can do better. In addition, traditional industries also have physical stores and can therefore provide customers with venues to experience products. This is particularly the case of nationwide chain companies like us."

E-commerce at First Asia Gold Store is in a stage of trial use. It was only put into operation a few months ago. But, what the store has realized is that it would not do if it did not go for E-commerce. Currently, sales through E-commerce are at a different order of magnitude with physical stores. Wu Zhengxiang pointed out, "Our principle for conducting E-commerce is that no impact should be produced on our traditional business. Because of this consideration and the fact that our E-commerce is still in an exploratory stage, our sales from E-commerce are not big. At present, E-commerce is only a supplement to our traditional business. We do not expect big sales from E-commerce. Rather, we hope it can attract more consumer groups."

Different from the manufacturing and retail industries, the finance industry is characterized by ample fund, intense competition and high user demand for E-commerce, inputs to E-commerce are bigger. This was evidenced in our survey results. 66% of the surveyed financial enterprises' CIOs and decision-makers said that their investment in E-commerce was between RMB500,000-5 million, while 19% of the interviewees responded that they would invest more than RMB5 million in E-commerce building, as shown in Fig.4.

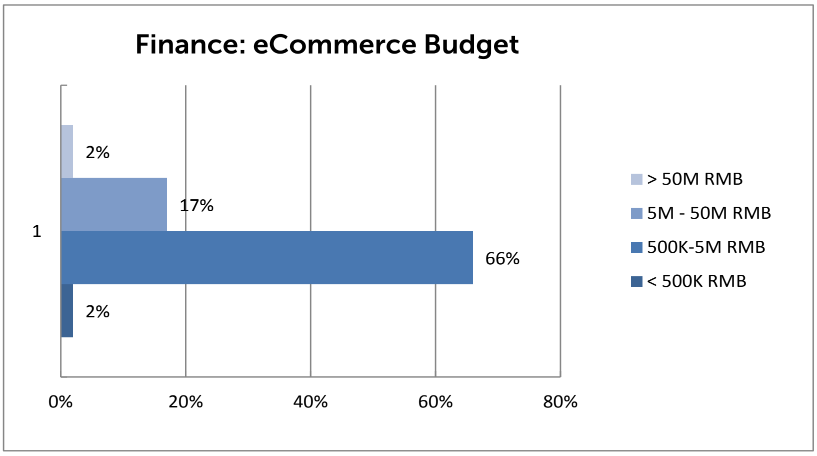

Fig.4

Huang Sheng at Industrial Bank Beijing Brach's IT Department said, "The business development prospect is determined by market demand. However, E-commerce currently does not have a clear business model. It is still purely driven by forces outside the market, forcing many enterprises to go for E-commerce. With the development of the Internet, banking time (Financing Night Mart) and online and offline sales channels have increased. From the CSR perspective, the most important thing for banks is to ensure that most people have an opportunity to buy financing products. Therefore, the offline channel is still the main channel."

Given that it has become a general trend for the Internet to enter the financial industry, traditional financial service enterprises' E-commerce strategy is based on a consideration for seizing the first business opportunity and a practical choice to consolidating the existing service ecosystem. Under the Internet environment, financial services can theoretically complete information matching and minimize risk control cost. The user behavior data accumulated in the Internet trading process imply that service providers can effectively assess and control risks. What truly makes the financial industry worry about is that when information about the supply and demand parties is highly transparent and can match each other, the trading parties can directly trade not through financial institutions. From third party payment and micro financial services, Internet-based finance has truly touched on banks' core businesses.

Galaxy Securities' CIO Tang Pei said that Internet-based finance is changing the landscape of finance in China and even the whole world. Internet-based finance is a product of the combination between the Internet and finance. Internet-represented modern information technologies, particularly mobile payment, cloud computing, social networking and search engines will produce a fundamental impact on the existing finance models. Internet-based finance has changed the current business traditions and channel models. But, Internet-based finance is essentially the same as traditional finance. Both aim to offer the best services at the lowest cost and get higher returns in a more efficient manner. It is therefore necessary to make sound business positioning and transformation, adhere to the good existing business principles and promptly transform those business models that do not adapt to the new situation.

The future of Internet-based finance is open to imagination. Our survey shows that 67% of the interviewed financial enterprises said that they would provide Internet-based financial services in the next three years. Mobile E-wallet and mobile payment, winning customers through social networking platforms and E-commerce services are the Internet-based financial services of greatest interest to financial enterprises. In future banking, existing finance business' share of the overall business will fall sharply, while data business will gain a higher percentage.

Traditional enterprises are under attack both in front and at the back: operating cost is rising, and sales channels are difficult to open. Therefore, these enterprises are actively considering a transformation to E-commerce transformation. However, they do not know how to do it. Taking the retail industry as example, we found in our survey that retail enterprises' investment in E-commerce was basically under RMB5 million. There was only a 7% gap between the number of those enterprises making an investment of under RMB500,000 and that of those which invested between RMB500,000 and 5 million. On one hand, this shows that most retailers adopt a trial attitude towards E-commerce. On the other hand, it also reveals that retail enterprises are at a loss about the road towards E-commerce, with no unified understanding formed. They still need to clearly define the position of E-commerce business in their overall development strategy. In addition, answers from manufacturing enterprises showed a similar problem. For example, there were fairly even numbers of manufacturing enterprises which would go for E-commerce by joining third party platforms (37.05%), by building their own E-commerce platforms (23.68%) and by adopting both (22.56%). To a certain extent, this also indicated that the CXOs are holding different methodologies towards the approaches to E-commerce, and need a clearer strategic planning in the procedure.

Based on an overview of the interview and questionnaire survey feedback, our assessment on the surveyed three industries is as below:

For Retail industry - the economic crisis and E-commerce have produced a huge impact on the existing businesses in the retail industry. The traditional retail industry must adopt E-commerce to make breakthroughs, look for new channels and growth models and leverage their existing procurement/warehousing/logistics advantages.

For Manufacturing industry - boosted by booming E-commerce, the manufacturing industry still intends, despite its lack of relevant talent, use E-commerce to get closer to the market and provide the most direct and timely market information for their products.

For Finance industry - in the finance field, Internet-based finance is emerging fast. E-commerce is a feasible way for financial enterprises to get into Internet-based finance. The integrated use of E-commerce data and financial enterprises' other data will help to build the cornerstone of financial institutions' Internet-based finance.

Chapter 4 Rebuild E-commerce Ecosystem

From our survey and research, we have a strong feeling about CXOs' thoughts and doubt above transforming to E-commerce in traditional industries. Establishing a benign E-commerce ecosystem is a common demand of the whole industry. Enterprises' desire for E-commerce talent as revealed in our survey and research shows that their CXOs urgently need a clear E-commerce strategy -- due to lack of systematic thinking and a clear positioning at the strategy level, traditional enterprises' decision makers' understanding of E-commerce is much affected by outside factors. The E-commerce concept more comes from their online shopping experience, or media discussions and comments. However, they still lack a profound understanding of the changes in operating systems and management mechanisms required for transforming to E-commerce.

As for the scale of investment, many CXOs set their E-commerce investment at the RMB1 million level. This can be quantified into an attempt to set up an E-commerce website to display commodities and make basic online sales. But, it is not a complete E-commerce transformation strategy. There is no systematic panning and thought on the changes which E-commerce will bring to operation models, supply chain shortening and fast response to market demand.

We believe that in the E-commerce 3.0 era, enterprises must consider the healthy development of each point of the ecological chain of E-commerce. Going for E-commerce is not something for a few traditional enterprises or several industries. It is in fact a common choice and the only way forward for all industries. To transform to E-commerce, traditional enterprises must make breakthroughs at several points or some areas first, then expand to industries or even the whole business field and finally evolve into the transformation and win-win from the "business empire" to an E-commerce ecosystem explained above.

I. An ecosystem is a value platform.

As an old saying goes, there is no making without breaking. E-commerce is a revolution to traditional business models. It implies the rapid establishment of a completely new business model. *Harvard Busies Review* defines "ecosystem" (or "business ecosystem") as follows: an ecosystem refers to a value platform which is established by various stakeholders in business activities. Each role is concerned about the overall features of the value platform it is in and the ability to drive other participants through the platform, so as to make the system create values and enable each role to share the benefits.

In line with such thinking, the “E-commerce ecosystem” concept we put forward can be described as: The E-commerce ecosystem refers to the same value platform which enterprises establish with their upstream and downstream customers, suppliers and other stakeholders in the process of engaging in E-commerce. Each role is concerned about the overall features of the E-commerce value platform it is in and the ability to drive other participants through the platform, so as to make the E-commerce ecosystem create values and enable each role to share the benefits.

How should we understand the E-commerce ecosystem? First, the E-commerce ecosystem is a platform. Therefore, what it emphasizes is the smooth running of the whole platform and the balance of interests between the various parties on the platform. Centering on this new platform, a new order needs to be created.

The development of E-commerce depends on the balanced development of the E-commerce ecosystem. While paying attention to consumer rights and interests, E-commerce enterprises also need to protect the interests of downstream producers and suppliers. The imbalance of interests for any party may have a negative impact on the ecosystem. Establishing benign E-commerce rules will greatly promote the healthy development of E-commerce.

Secondly, the E-commerce ecosystem is a fully-integrated, open platform. There is a relationship of interdependence, synergic development and common innovation between enterprises as well as between industries. Industry boundaries are not as clearly cut as before. Integration and crossing will generate more sparks of innovation new development thinking.

Internet technology brings huge growth potentials to E-commerce. It also provides a lot of opportunities for cross-border revolutions and cross-border integration. On one hand, enterprises need to pay attention to the balanced development of the E-commerce ecosystem. On the other hand, they also need to constantly integrate and innovate and create new forms of E-commerce and business models. There is more than one way for E-commerce to succeed. Learning and imitating are only transitional strategies in the early stages of E-commerce, make reference to others’ successful experience and create new business models based on their own needs.

I. Balanced Interests & Mutual Growth

From the current status of China’s E-commerce industry, the market as a whole still has an imbalanced understanding of E-commerce planning. Traditional enterprises are far from completing E-commerce building by merely setting up an online sales website, building a warehouse or making fast product deliveries. Rather E-commerce requires enterprises to systematically sort out their own core competitive advantages and elevate E-commerce planning to the corporate strategy level. The left hand of E-commerce is connected with consumers, while its right hand is connected with partners and suppliers. A good balance is required between the left and the right hand and among the various parties. Giving concurrent consideration to the interests to each link of the E-commerce ecosystem is essential for sustainable operations. A clear example is that various group shopping websites mushroomed in 2012 but most went bankrupt soon. The main reason was that most of these group shopping websites were well-developed in big cities in the early stages. However, due to capital driving, they failed to make clear planning or accounting for the sharing of profit from online and offline channels or E-commerce profit models but still rushed to expand to more cities. Meanwhile, they only paid attention to front-end consumers while ignoring a balance between them and their suppliers. When the group shopping websites fail to balance the interests pursued by different stakeholders in their ecosystem, total failure is nothing surprising.

To balance interests in the E-commerce ecosystem, attention needs to be paid to the balance between the front-end marketing strategy and order executions at the backstage. A common phenomenon in the E-commerce industry is that front-end marketing receives much attention, while backstage operation management is neglected. In fact, the carious order execution processes at the backstage including packaging, sorting and voucher number verification determine to a great extent customers' experience and feeling, thus holding the key to customer adhesion and the success of the E-commerce strategy. The June 18 War waged in the E-commerce circles in 2102 is still fresh in many people's memory. The practice of E-commerce platforms competing and demand in resources from suppliers has put enormous pressure on those small suppliers which lack an ability to bargain. Due to too-much-to-the-front marketing tactics, public opinions and reputation, consumers' overall trust in the E-commerce industry is gradually falling. Traditional enterprises' E-commerce business depends much on the collaboration between all upstream and downstream links on the ecosystem. As a consortium, the serious harm done to the interests of any group in the E-commerce ecosystem will have a negative impact on the whole ecosystem. Therefore, sorting out the relationship of interests between upstream and downstream enterprises, achieving synergetic development and carrying out innovation are the true significance of reshaping the E-commerce ecosystem.

The ecosystem concept is put forward against a profound corporate, industrial and business background. As far as the current situation is concerned, the partial imbalance or disconnection of the industry landscape will seriously affect enterprises' own economic interests and sustainable development. Taking the manufacturing industry as an example, we have found in our survey that 27.58% of the surveyed manufacturing enterprises maintained that too long middle sales channels affect their product profit. 24.23% noted that the overseas export channel bottleneck restrict their corporate development. On one hand, the separation between the production and the sales process leads to serious overstock. On the other hand, it causes unsmooth information communication with the outside world, making it slow to enterprises to respond to change in customer demand. Over 64% of the surveyed manufacturing enterprises said that such an imbalance of the industry chain is their biggest difficulty at present.

On the other hand, the industry lacks transparency and a lot of profits are taken away by intermediate channels. In the summer of 2013, cherry became a popular seasonal fruit. Its average selling price at agricultural product fairs was RMB12-15/500g, while its wholesale price was only around RMB5/500g. To reduce the circulation processes, fresh product E-commerce started to emerge in China. Fresh fruit, vegetables, seafood and dried fruit may become new hit products for online sales after books, 3C electronic products and services. E-commerce is an effective tool to shorten the commodity circulation process, It allows the producer and the manufacturer dominate industry development again, thus improving industry transparency and promoting the balanced and healthy development of the whole industry ecosystem.

III. Cross-border integration, heterogeneous operations

It must be reiterated that the ecosystem is a platform to create and showcase common values. For an enterprise, it involves the common interests of upstream and downstream partners and the enterprise itself. For an industry, it involves the interests of all the parties in the closed loop of the industry. The establishment of the E-commerce ecosystem must be examined from two aspects, the micro level of the enterprise, and the macro level of the industry.

Key guarantees for establishing the E-commerce ecosystem and improving corporate stability. The ecosystem stresses the interest community, namely enterprises must establish close cooperative relationships with upstream and downstream partners and form a unified value platform. This is only way to guarantee that enterprises can weather out difficulties in an economic downturn. Our survey shows that over half of the interviewed enterprises said that they would only consider turning to E-commerce when they are mature or stable. The establishment of an ecosystem helps enterprises to keep stable cash flows and enhance their ability to withstand risk.

In China, there are not many cases of successful transformation to E-commerce in traditional industries. Such transformation is still in an exploratory stage. Only one of the TOP 10 E-commerce companies is a pure E-commerce firm, while all the other nine companies have their offline business. This is because the US retail chain industry is extremely efficient and their IT and logistics systems are relatively mature. In the transformation to E-commerce, these companies can fast reproduce traditional retail enterprises' good practices to the E-commerce field. But, China's retail industry is less mature and accounts for a small percentage of the gross retail sales of consumer goods. Moreover, the turnover of current funds is slow, and overall profits are also low. E-commerce's impact on traditional retail enterprises in China is more violent. It is therefore urgent for traditional retail enterprises to go for E-commerce. While it is still too early to assert that China's traditional enterprises will follow the US road to E-commerce, the current domination of pure E-commerce may change in the next ten years. Traditional enterprises may make a fast rise in E-commerce.

"If banks do not change themselves, we will change the banks", Ma Yun's ambitious words are particularly louder today. JD has done well in offering financial services on the supply chain, while Alibaba has run popular small loan services. As Internet-based E-commerce shares the financial service ''cake" with banks, turning to E-commerce has become the only choice for the financial service industry. In fact, all major financial service enterprises have successfully introduced their unique Internet-based financial services. China Construction Bank has introduced its E-commerce websites "EasyFinancing Personal Mall" and EasyFinancing Enterprise Mall, while Bank of Communications has launched a "Jiaobohui" business platform. Bank of China's Guangdong Branch has piloted a "Cloud Shopping" E-commerce platform, while Ping'an's Internet financial trading platform was also officially put online in March last year. The establishment of an ecosystem will lay the foundation for enterprises to carry out cross-border cooperation and heterogeneous operations. The cross-border integration between the Internet and the financial industry has set an example. Building the E-commerce ecosystem can promote the diversification of business models and help more traditional industries to achieve cross-border integration and interact with one another, thus paving the way for innovating business models.

E-commerce is not merely about generating a new way of sales or adding a new sales channel. It emerged as a result of the development of Internet technology, while the emergence of new technology will not only bring about changes to traditional enterprises at the tactical level but also produce an impact on enterprises' strategies. Under the current situation, traditional enterprises need to comprehensively consider the cross-border integration and innovation of all their stakeholders.

Why Us?

The industry Study had been initiated by Dell Services and jointly implemented by Dell Services, *China Information World* and CCID ThinkTank.

With more than 20 years of best practices in the direct sales, Dell truly lives up to its reputation as the pioneer of E-commerce business. Of its 20-plus years of successful experience in direct sales, every of its core systems for E-commerce operations has been widely acclaimed in the industry. As for internal operation management, Dell's Supply Chain Management and Call Center Management, etc., have long taken the lead in the industry, firmly becoming the essential classic cases for the Operation Management courses offered by leading business schools around the world. As for external marketing strategy planning, Dell is the commanding leader in social media marketing. In 2011, it ranked the first in social media operations in North America, overtaking fast consumer goods companies like Coco Cola, Nike, etc. Dell Services (China) Co. Ltd. was established in 2011 after Dell's acquisition of Perot Systems and BearingPoint China in 2009. It is one of Dell's four major business divisions and represents Dell's core strategic direction in its transformation into end-to-end solution provider, committing itself to turning Dell's successful practices into business conventions and to converting the internal operation systems which are frequently inquired by Chinese customers into business solutions that can help customers to deliver business value. Dell Services has accumulated considerable valuable experiences in successful partnership China's traditional enterprises in their transformation into E-commerce.

China Information World has focused long on the development of IT applications in China and gained great insight in to the demand for and changes in IT applications in various industries. It has also accumulated a tremendous customer base. In its years of industry observations, *China Information World* has keenly sensed the impact and challenges which the rise of E-commerce has brought to traditional enterprises. It has also well realized that transforming to E-commerce is a rare opportunity for China's traditional enterprises to cope with a sluggish global economy and seek new growth points.

As for Dell Services and *China Information World*, one is an E-commerce company which can concurrently provide other enterprises with mature E-commerce solutions and consulting services, while the other is a leading media in the IT industry and has conducted in-depth research and gained great insight into IT applications in various industries and undertaken comprehensive and in-depth surveys and analysis. The two sides are both keen to explore the topic of traditional enterprises' transformation to

E-commerce. Their respective advantages and experiences can be put into full use in the joint survey and research.

To help traditional enterprises to spot problems, seize opportunities and make smooth transition in their transformation to E-commerce, the cooperative parties organized this industry Study. Based in interviews of hundreds of industry users, we draw the conclusion that the E-commerce ecosystem will be the driving force for the healthy development of the E-commerce industry. The objectives are that the general practices and industry trends which are revealed in our survey and research can provide valuable industrial reference for China's traditional enterprises to transform to E-commerce.