A Brief Analysis on Effect of Cross-border E-commerce for Small and Medium-sized Trade Enterprises Development in China

Yi-Wen ZHANG
Guangdong University of Science and Technology
yvonnecc07@163.com

Keywords: Cross-border e-commerce; International trade pattern; Small and medium-sized trade enterprise.

Abstract. With the internet-economic period comes, cross-border e-commerce as a new international trading way developed quickly in China, which is highly concerned and supported by governments and enterprises. Cross-border e-commerce is important to trading-oriented SMEs and cover for its capital, brand, channel, cost and other weaknesses. It is helpful to the transformation and upgrading of small and medium-sized trading companies in China. This paper will analyses the characteristics of cross-border e-commerce and difficulties which small and medium-sized trading enterprises are facing to, moreover, through discuss the role of cross-border e-commerce in the development of small and medium-sized trading enterprises, providing ideas for the transformation of SMEs.

Overview of Cross-border E-commerce

Definition of Cross-border E-commerce

According to the director of policy research office of the Chinese Ministry of Commerce, Mr. Shen Danyang, cross-border e-commerce refers to the new mode of trade in which manufacture and trade enterprises or individuals computerize the demonstration, negotiation and transaction through the means of e-commerce, which mainly known as B2B and B2C modes.

With the professional division and application of Internet technology in different phases, four modes have emerged in the cross-border e-commerce field as following. The first mode is micro-trade e-commerce platforms, such as Amazon, ebay, Ali-express, DHgate, Lightinthebox, etc. The second mode is trading information services emerged, like Shanghai TopEase Inc., Third one is trading process services, like Shenzhen Onetouch service Inc., The fourth one is promoting order docking trade, such as Canton fair e-commerce co., ltd. To sum, cross-border e-commerce refers to an international business which transactions are made and settled through e-commerce platforms, and goods are delivered and completed through cross-border logistics.

Background of Cross-border E-commerce

The rise and development of cross-border e-commerce is the outcome of the financial crisis and the popularization of Internet technology. The global financial crisis has changed buyer’s behavior in the international market. The financial crisis that broke out in 2008 hit the global economy seriously, and the economy in developed countries such as Europe, the United States and Japan were seriously affected. The demanding market of the world in a slump, international trade dropped sharply too. However, the global economy continued to be sluggish, and trade protectionism flourished. Under the financial crisis, the international purchase market changed from full container load to small batch, and long-term period purchase time divided into short-term purchase. Also purchasing way convert from offline to online. Traditional trade is obviously unable to meet the above changing demands, so cross-border e-commerce emerges.

In addition, consumers can shuttle in the market freely through the Internet, compared similar products directly, so that it breaks the traditional trade barriers, meanwhile, virtual market make complement with real market, the world purchase pattern been changed a lot. Cross-border e-commerce is an advanced form of the traditional E-commerce development, full development of
traditional E-commerce so that the same techniques and patterns can prepared on cross-border e-commerce, a lot of experience and models can be reference use directly. Also, the development of smart phones and apps intensify it.

**Status Survey of Cross-border E-commerce**

As a result of the financial crisis, the world trade volume has almost unchanged in the past three years basically. However the global cross-border e-commerce has been developing rapidly. According to the statistics of Nielsen, the scale of global cross-border e-commerce in 2013 was $100 billion in China, and the scale is expected to increase by 300% to $300 billion in 2018. In addition, according to data of “e-commerce revolution” from Morgan Stanley, global e-commerce sales accounted for 4% of total retail sales in 2008, 6.5% in 2012 and 9.3% in 2016. The six most active global cross-border e-commerce markets are the United States, Germany, the United Kingdom, Australia, China and Brazil, and the United States has the most huge potential e-commerce market. In America market, according to Morgan Stanley data analysis, the B2B online trading is $559 billion and B2C is turnover $220 billion. 59% of buyers are given priority to online shopping, and 48% of suppliers are moving from offline to online. However online retail only accounts for 10%-12% of total retail sales, it will rise to 40%-50% in the future (Ministry of Commerce in China, 2017).

China's cross-border e-commerce launched lately but developed rapidly. From 2012 till now, there are a series of policies have formulated by Chinese government to encourage and support cross-border e-commerce. According to Chinese cross-border market research by iResearch 2013, the total of China's cross-border e-commerce exports was about $24 billion. It increases approximately 30 percent year-on-year as estimated by 2017 (Ministry of Commerce in China, 2017). There are over 200,000 domestic enterprises have conducted cross-border e-commerce business through variety of e-commerce platforms in China.

**Comparative Analysis of Cross-border E-commerce and Traditional Trading**

**Comparative Analysis of Supply Chain**

Supply chain is refers to the various stakeholders connection or business cohesion before goods arrive to consumers. Through the control of information flow, starting from raw materials, finally connect suppliers, including logistics, cash flow, manufacturers, distributors, retailers, until the end user together as a whole supply chain (Michael Porter, 1999). However, traditional foreign trade is different from cross-border business in all aspects of the supply chain. Each phases of entire supply chain of the traditional foreign trade are independently. Because of the independent operation and independent finance, the capital inefficient, slow and inefficient logistics, decrease 20% to 40% value of the stock (Ministry of Commerce in China, 2015). However, cross-border e-commerce can rely on platforms to integrate information flow, sharing information, meanwhile, to improve the information transparency. With the integration of capital flow, establish a credit system and adopt of online payment methods, to shorten the payment process and speed up trading. In this way, with reduce stock cost, it can gain preferential logistics price and improve competitiveness of SMEs.

**Comparative Analysis of Profit Margins**

According to the data, the net profit of traditional foreign trade is only 5% due to too much process, and most of the profit is occupied by various channels. Among them, for example, manufacturing cost only accounts for 8%, domestic distribution accounts for 12%, foreign distribution accounts for 50% and foreign retailer accounts for 25%. However, in aid of network platform, cross-border e-commerce can face to customers directly and get rid of the cost of distribution. By that, 20% network marketing costs is required, 10% logistics costs, 4% online payment cost is enough, with 8% manufacturing cost. Thereby profits will increase at least one third (Ministry of Commerce in China, 2016).
Comparative Analysis of Product Requirements

In the traditional trade business, the buyer is generally to buy traditional Chinese manufacturing goods with high cost performance and high demand. The purchase behavior is generally the large-scale "container type" purchase with long cycle and slow order. According to the PayPal global online survey, unlike traditional market demand, 13% consumers are trying to seek for local features goods, the consumption accounted for more than 30%. In addition, cross-border electric platforms can analyze and summarize data from different consumers. Through carried out demand segmentation, to provide differentiated and personalized customized products for customers easily.

Operation Modes Analysis between E-commerce and Traditional Market

The process of traditional trade is complicated, including inquiry, quotation, order, manufactory, transportation, customs declaration, inspection, settlement and verification, etc. It is complex and involves a wide range, so generally completed by each trade company independently. However, e-commerce trade enterprises can take advantage of platforms to integrate customs clearance, logistics, settlement, tax, exchange online. To form such centralized management and operation so that to save labor resources and be more efficiently.

The Difficulty of Small and Medium Sized Enterprises

The World Economy Remains Slump and External Market is Harsh

Because the deep impact of the financial crisis continues, world economy is in a long period of low growth. Almost countries are adopted austerity fiscal policies. The developed countries, for example the United States, put forward the strategy of "re-industrialization" to encourage the development of their own real economy to expand and export, so put pressure on "made in China" by setting up trade barriers. Moreover, trade frictions between China and developed countries are heating up. Faced with the increasing number of trade frictions cases and the emerging patterns of trade protectionism, SMEs in China are limited by their capital and talents, unprecedented development pressure are coming.

Adverse Domestic Environment

The compress of profit margins in SMEs is mainly due to two reasons. Firstly, the currency in China has risen nearly 20 percent against the dollar since 2008. However, according to the experts, for every 1% appreciation of RMB, the profit margin of cotton textile, wool textile and garment industry will fall by 3.19%, 2.27% and 6.18% respectively (Ministry of Commerce in China, 2016). On the other hand, due to the impact of domestic inflation, domestic raw material and labor costs have been rising steadily these years. For example, a labor-intensive foreign trade enterprise mainly engaged in washing machines, refrigerators, freezers and display cabinets. From 2009 to 2013, the price of raw materials increased by nearly 50%, and the salary of employees increased by 30%. The labor cost was about one-third of the total cost, but the price of export commodities remained stagnant. So, the increase of the cost in each phases of foreign trade while the price of the international market remains unchanged can only lead to the serious profit margins compression of foreign trade SMEs in China.

The Help of Cross-border E-commerce to the SMEs

Integrate Supply Chains

Cross-border e-commerce has platforms or websites to help small and medium-sized foreign trade enterprises release profit margins through integrated supply chains. Competition among major cross-border e-commerce platforms is fierce. The competition of cross-border e-commerce platforms is actually the competition of platform service and supply chain integration. Firstly, to integrate two-way information flow by break the communication barriers between all links in the supply chain, by that it means integrate scattered logistics information and reduce logistics costs.
Secondly, relying on cross-border e-commerce platforms, establish a credit system to provide financial support by online cross-border payments for small and medium-sized foreign trade enterprises, so that to release capital flow quickly. Thirdly, the cross-border e-commerce extend traditional foreign trade chain to the retail sector, so the purchasing behaviors more flat and linear, as we called it straightens out the "smile curve". The traditional trading process "factory - exporter - wholesaler - retailer - consumer" will be reduced to "factory - retailer - consumer", even directly reduced to "factory - consumer". By increasing the work efficiency of each step and reducing the distribution cost, the profit is increased too.

**Break the OEM Dilemma**

Although China is in the economic transformation period, it still cannot get rid of its identity as the "world factory", which is the bottom of the global manufacturing industry chain. China has 40 million small enterprises, but most of them are OEM enterprises. Although "made in China" is popular in the United States, 94 percent of Americans cannot name a Chinese brand. With the aid of cross-border e-commerce platform, small and medium-sized enterprises can put the brand construction, after-sales service and sales together. From online, it can quickly establish online brands, connect with overseas buyers directly. The product design, research and development can be improved base on required, so that to improve enterprise’s brands and reputation. According to a PayPal report issued, a rigid demand for Chinese manufacturing products are worldwide. As long as there is enough profit space, the brand premium is product quality and performance, price advantage, customer experience and after-sale service, which provides a feasible path for domestic manufacturing enterprises to get rid of OEM difficulties and create their own brands.

**Accurate Marketing is Conducted**

In the age of big data, it highlights the necessity of precision marketing. Many small and medium-sized foreign trade enterprises should have begun to use data to expand the marketing. However, small and medium-sized foreign trade companies cannot finish data collection and analysis, only mislead by exist fuzzy marketing. Cross-border e-commerce platforms are more mature to provide data and specialize in analysis data on user behavior, so that to get the audiences and users information attributes to precision marketing and maximize efficiency.

**Keep off Trade Barriers**

Cross-border e-commerce platform is based on the Internet and the international logistics, which break traditional business concept, make the product supplier direct docking purchaser. Consumers with the help of network and the strength of electric business platform to break the traditional trade barriers, eliminate market information asymmetry. The terminal consumers can avoid from national policy guidance and restraint, decide on their own buying behavior. So that reduces the difficulty of market development.

**Simplify Trade Process**

The export volume of small and medium-sized foreign trade enterprises accounts for more than 60% of China's total trade volume (Ministry of Commerce in China, 2015). In the traditional trading business, small and medium-sized foreign trade companies need to deal with customs, freight, settlement, foreign exchange, tax and other departments to complete the whole business process after the transaction. Small and medium-sized foreign trade enterprises are subject to the constraints of capital and labor costs. Some companies are lack of salesmen who are proficient in all transaction steps and it is too difficult to follow up the foreign trade business. In addition, after the financial crisis, more and more overseas buyers demanded settlement by letter of credit or other ways, and capital pressure was brought forward. Many small and medium-sized foreign trade companies were afraid to accept orders because of settlement methods and financing difficulties of buyers. There are relatively mature comprehensive trade service platforms, such as Onetouch Inc., in Shenzhen and ShiMao Tong Inc., in Ningbo, can finish the outsourcing management, and help to complete operations such as customs declaration, logistics, foreign exchange, tax refund and financing relying on the platform.
Summary
To sum up, foreign trade e-commerce platforms solve the problems of financing difficulties of small and medium-sized foreign trade enterprises, save the labor resource, employees have more time and main power to focus on their business and market development, to help small and medium-sized foreign trade enterprises to develop more specialization, scale and efficiency.

Acknowledgement
Research on Construction of an Innovation and Entrepreneurship System of Cultivating Cross-border E-commerce Talents through “School-Industry-Enterprise” Collaboration, provincial major scientific project of universities in Guangdong Province of 2017 (No.: 2017GXJK199). Research on Evaluation of and Strategies on Innovation and Entrepreneurship Environment for Scientific Talents in Guangdong Province, college-level major scientific project of Guangdong University of Science & Technology of 2017 (No.: GKY-2017KYZD-5). Scientific results of International Economy and Commerce and other programs currently, “Quality Project” programs (key majors) of Guangdong University of Science & Technology of 2015.

References
[1] Kurnia S., Alzougool B., Ali M., et al. Adoption of Electronic Commerce Technologies by SMEs in Malaysia [C]// Hawaii International Conference on System Sciences. IEEE, 2009: 1-10.
[2] Epstein M. J. Implementing Successful E-Commerce Initiatives [J]. Strategic Finance, 2005, 55(12): 1430-1430.
[3] Iglesias-Pradas S., Pascual-Miguel F., Ángel Hernández-García, et al. Barriers and drivers for non-shoppers in B2C e-commerce: A latent class exploratory analysis [J]. Computers in Human Behavior, 2013, 29(2): 314-322.
[4] Terzi N. The impact of e-commerce on international trade and employment [J]. Procedia - Social and Behavioral Sciences, 2011, 24: 745-753.
[5] Ministry of commerce in China, 2018-last update, trade data in 2005-2018. Available: http://www.mofcom.gov.cn/article/tongjiziliao
[6] Porter M. Competitive Advantage of Nations [M]// The competitive advantage of nations:. Ashgate, 1999: 42–43.