THE ADOPTION AND ADJUSTMENT OF E-COMMERCE MODEL IN EMERGING MARKET

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ABSTRACT

The purpose of this study is to develop an E-commerce model which can be applied in developing countries. By integrating the useful features in the existing models examined with the consideration of specific industry and respective E-commerce venture, we develop a comprehensive model at three levels, which are context, industry, and organization. Some key elements and relevant issues are also identified in each of the three levels.

The finding of the in-depth analysis of the international factors, industrial competition and organizational/firm factors etc. indicates the attractiveness of the Chinese natural stone market, and highlights that Build Direct business model needs to be adapted and adjusted to fit into the Chinese market. In the meantime, the study identifies and analyzes several key factors determining the timing of entry, suggesting the early entry of Build Direct in order to ride the wave under current favourable circumstances.
EXECUTIVE SUMMARY

With the increasing influence of E-commerce in the world economy, E-commerce has become a hot topic of academy. However, the previous studies focus on the perspective of developed countries, the adoption and diffusion of E-commerce in developing countries is still a field rarely touched. This study examined the previous works specified in the formulation of E-commerce models and identified some key components, such as telecommunication infrastructure, logistic, legality, security, which are essential to the adoption and performance of E-commerce. Moreover, in order to develop an E-commerce model that can be applied in the context of developing economy, some other components in the industry level and organizational level have been added. The model developed in the study has three levels: contextual level, industry level, and organizational level. The key elements in each level include: telecommunication infrastructure, logistic, legality, and culture in Contextual level; features of market, competition, suppliers, and customers in Industry level; and strategy, competency, and reputation in Organizational level. These components all have impacts on the form and degree of E-commerce in certain economy.

Application of the above established model to Build Direct's business strategy of whether to enter into Chinese natural stone market and the timing of entry decisions is done for in-depth analysis and recommendations purpose. Based on the above model, a detailed analytical model in China's case including country, social, governmental, market, macro-economics, cultural, internet usage/infrastructure, along with industrial competition and organizational/firm factors is developed to analyze the case of Build Direct, and the market entry decisions and the timing of entry is also recommended.
The finding of this study shows that Build Direct has remained competitive in terms of price, product quality, services in China, and with the attractiveness of Chinese natural stone markets. Build Direct's online business model needs to be adjusted in terms of payment, web design, logistics, demographic customer target markets etc in order to accommodate to special business circumstances in China. A comparison of some favourable factors such as the upcoming Beijing 2008 Olympic Games, favourable real estate industry trends, foreign exchange rate etc and some unfavourable factors such as Bribery, Internet Usage, limited payment methods etc is analyzed and weighted. Therefore, we recommend that Build Direct should go to Chinese natural stone market as early as they can on the condition that it has the financial and human resources capability to enter into Chinese market.
DEDICATION

I dedicate this project to my parents and my wife, Pingping Kan. I would not have finished the project without their love, patience and support. – Yu Tao

I would dedicate this paper to my husband Dandan Chang, and my daughter Maggie Chang, for their love and support. – Shixuan Liu
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– Shixuan Liu
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1 INTRODUCTION

1.1 Motivation

With the rapid development and popularity of internet, E-commerce has significantly changed the way business is done across the world. Organizations are adopting new technologies to improve their business performances, and among these is Internet-technology including World Wide Web, databases, e-mail, extranets, intranets etc. Business, especially that related to travel, software, computers, stocks, gifts and so on, is seen to achieve considerable results by selling their products online. In the fourth quarter of 2002, the world online retail sales reached $17.44 billion, an increase of 40 percent from the same period a year ago. (eWeek, 2003). In a word, E-business is transforming the business world.

With the booming of e-commerce, a lot of academic studies have been done on the characteristics of electronic commerce and the formulation of E-commerce models. However, most of these E-commerce models are developed in the developed countries. Although it is important to understand the application of e-commerce in the context of more developed countries, it has become increasingly essential and important for researchers to look into the E-commerce models in the emerging economies. Meanwhile, as the world’s supply chain is shifting to emerging markets such as China, India etc, we consider the economic potential and social effects of e-commerce business in these markets to be huge and significantly important to global companies in the near future. Therefore, we believe that a clear understanding of what factors impact the E-commerce development in emerging markets and how should we adjust the existing E-business model to emerging markets can help not only promote the diffusion of E-commerce in these economies but also provide some insights for the international companies when they analyze and apply their E-business model in the emerging markets. Thus, this belief motivates us
to develop a new model that is adjusted from a selection of existing E-commerce models, and that can be applied in emerging markets.

1.2 Project Statement

This study aims to develop a comprehensive E-commerce model that can be adopted under the context of developing economies. For this purpose, a good starting-point would be to investigate the existing e-commerce models. By examining and analyzing the existing relevant models developed by past studies, we identify some key components and develop a three-level E-commerce model. To test this model, we conduct the case study of Build Direct to determine whether strategically it should enter into Chinese construction material market and when.

This case study is conducted basically on secondary research. Most of the information and data about the E-commerce in China, and the natural stone industry in Beijing and Tianjing (China), is acquired from the secondary research on previous studies and Internet. The reason to use secondary data instead of primary data is the limitation of both distance and time. Since it is not possible to go to China to collect the first-hand information and data during this study, the secondary data is the only resources we can access. In addition, we also conducted intensive interviews with executive of Build Direct to collect the necessary information about this company.

According to the three-level model presented in this study, we classified the information and data collected in three levels: contextual level, industry level and organizational level. By examining and analyzing the data under these three levels, we give some practical recommendations for Build Direct to expand its E-commerce business in China after its successful operation in 36 countries.

This project has limited scope. Due to the limited availability of information about Chinese natural stone industry, most information for this study is acquired through the research
on the internet. This could cause the problem of low temporal stability for internet referencing. Ideally, a complete case study of the application of E-commerce model in emerging markets should also include primary data collection, on-site survey, structured interviews regarding E-business in emerging markets, etc. in order to reduce biases and acquire a full understanding of the E-business markets in emerging countries.

1.3 Organization of the Paper

The paper is organized as follows. In the next section (section 2), we started with choosing an E-commerce definition that is appropriate to our study. Then we analyze a selection of relevant e-commerce models and develop a new three-level E-commerce model by integrating the key elements identified from the models examined above. In section three, a comparison of E-commerce development between developed countries and developing countries was made to get a better understanding of the acceptance of this business model in emerging markets. Using case study method, we examine the new model from contextual, industry and organizational levels in the following three sections (section 4-6) separately. In section seven we come up with recommendation based on the examination made above. Finally conclusions are drawn, and limitation and future research are specified in order to facilitate future further studies in the E-business in emerging markets.
2 LITERATURE REVIEW

2.1 What is E-Commerce?

The term E-commerce has become popular since 1990s, but different people hold different conceptions and opinions on what is E-commerce. Many terms, such as ecommerce, e-business, e-services, and electronic data interchange (EDI), and even the Web and the Internet were all used to express the same activities. Defining e-commerce has been the source of disagreement. Reaching an agreement on the conclusive definition of e-commerce seems impossible in academic world and for practical measurement purposes across countries. Therefore, different definitions that focus on certain aspects of E-commerce have been stated in the previous studies.

The US Census defines electronic commerce as “any transaction completed over a computer mediated network that involves the transfer of ownership or the right to use goods or services”. However the same Census document that puts forward that definition also discusses the many conceptual and practical difficulties of making it operational. What is a commercial “transaction”? Does it have to involve money or can it also include barter or trade-in-kind transactions? What is a “computer mediated network”? Does fuel dispensed at electronic gas pumps (which are usually linked interactively to computer networks) qualify? How about telephone orders placed over a fully computerized interactive telephone network? It is thus not surprising that estimates of e-commerce retail sales volumes range widely depending on who is reporting them. (Viswanathan, 2005)

In April 2000, OECD member countries endorsed two definitions of electronic transactions based on narrower and broader definitions of the communications infrastructure.
From a broader perspective, an electronic transaction is the sale or purchase of goods or services, whether between businesses, households, individuals, governments, and other public or private organizations, conducted over computer-mediated networks. The goods and services are ordered over those networks, but the payment and the ultimate delivery of the good or service may be conducted on or off-line. The broader notion of networks that e-commerce operates over remains of considerable interest to both businesses and academic researches. From a narrow perspective, researchers focused on explicit transactions, carried out over the internet, rather than the broader notion of commerce or commercial activity. From this explicit perspective, a transaction is a finite, measurable event that can be distinguished from other business activities. (OECD, 2002)

For this study, we would like to take the broader notion of E-commerce. As we see, the term E-commerce is made up of two basic words: “electronic” and “commerce”. In this type of business activities driven by electronic technologies, the progress of internet and prevailing use of computers definitely provide a main channel for the transactions. However, except for the internet-mediated commercial activities, other electronic forms of transactions shouldn’t be ignored either. Especially when looking into developing countries, we need to take into account any forms and degree of E-commerce.

2.2 Existing E-Commerce Models

Various E-commerce models that focus on different aspects of E-commerce have been formulated by previous academy studies. For this paper, we will use three categories of e-commerce models that are most related to this case study. The three categories presented below comprise the models describing E-commerce, models interpreting E-business process in individual enterprises, and models representing the consumers' acceptance and shopping behaviour. A selection of models is described below.

Category 1: Models describing E-business:
The first model examined is the hierarchical framework of e-commerce (Zwass, 1998). This model identified seven functional levels in the framework of E-commerce:

1. Wide-area telecommunications infrastructure;
2. Public and private communication utilities;
3. Hypermedia/multimedia object management;
4. Secure messaging;
5. Enabling services;
6. Products and systems;

These seven levels are categorized to three meta-levels that are infrastructure, service, and products and structures. The first three levels belong to the meta-level of infrastructure; the next two levels are under the meta-level of service; and the last two levels are parts of the meta-level of products and structures. The key points in this theory are that the lower levels support the higher levels, and Infrastructure supports service, which, in turn, supports products and structures.

This theory gives us an understanding that in E-commerce context, the technical components, such as the telecommunication infrastructure and access to the internet, provide a foundation for the development of E-commerce. With regards to our study, this model suggests the importance of infrastructure in the development of E-commerce.

The second model, the electronic commerce component model (ECCM) developed by Chan and Swatman (1999), is a comprehensive model including E-commerce types, activities and capability by providing a meta-view. Three components, namely, legal, service and infrastructure,
are identified at the meta-view level, and various objects are stated within each of the three components.

The main objects of the infrastructure component include telecommunication, network technologies, website development, database management, and human computer interface;

The objects of the legal component are government policy and regulation, privacy, intellectual property/copyright, and contractual and legal settlements;

The main objects of the service component are types of service (e.g. B2B, B2C), on-line shopping and education, information kiosks and other internet commerce activities.

This study states that the objects of each meta-view component can be added or deleted according to the changes of technologies and environment, and the importance of each object contributing to E-commerce can be rated quite differently by the various E-commerce participants at certain point of time.

ECCM provides a broader and more flexible perspective to explore the framework of E-commerce. In addition to the infrastructure and service components, it also adds legal aspect as one of the major components in the E-commerce framework. Moreover, it also claims that the types and weights of objects can be changed over time.

To sum up, these two models both highlight the infrastructure as an important component in the framework of E-commerce. Moreover, the introduction of legal component in the second model has extremely important meaning for understanding the whole framework. However, these two models fail to consider social and cultural components in the context of E-commerce.

Category 2: Models interpreting E-business process in individual enterprises
The first model developed by Clarke, 1993, identifies five-phase process in E-commerce, which are the pre-contractual phase, the contractual phase, the ordering and logistics phase, the settlement phase, and the post-processing phase respectively. This model summarizes the main business processes in E-commerce: collecting information about the products and services interested → creating relationship between buyers and sellers → placing the order and transport the goods → making payment → gathering management information.

The five-phase process model demonstrates that the e-commerce technology can be applied in the five-phase processes. It suggests the importance of technology, logistics and operation in facilitating the E-commerce activities. However, it doesn’t consider the inter-relationship among the industry and government, and therefore the complexity of real business world is not actually reflected.

Developed by Lazcano, 2000, the second model introduced the concepts of virtual business process, virtual enterprises and trading communities. In this model, the trading communities are composed of companies that offer relevant services such as manufacturing, distribution, transportation, warehouse, and retailing. Each of these companies can be a virtual enterprise with or without a physical presence. The virtual business process under the context of virtual enterprises can go beyond the corporate boundaries. It facilitates the information and data flow to support the component business processes such as manufacturing, trading shipping and distribution.

The third model, the model of Seven S’s (Reddy, Alan, 2002), identifies 7 key factors that are vital to the success of enterprises’ E-commerce: Speed, Simplicity, Service, Software, Security, Safety and Style. In terms of customer expectation, the speed of downloading a website and value-added service that a company can offer is extremely important. With regard to website design, it is a good practice to use modern software to design a website that can provide the key
information in the simplest way with distinct and appealing style. Moreover, the E-commerce companies need to ensure the security of customer information and make sure that customers feel safe to disclose their credit card information. This model focuses on the perspective of individual enterprise and addresses the vitality of website design and security to the success of E-commerce.

In summary, these three models suggest the importance of considering logistics, technology, security and operation in E-commerce process. However, they don’t take consideration of the industry, in which the respective E-commerce venture operates.

Category 3: Models representing consumers’ acceptance and shopping behaviour

The first selection is the e-commerce acceptance model (Pavlon, Paul, 2003). Four key drivers for the acceptance of E-commerce are identified: perceived usefulness, ease of use, perceived risk and trust. Based on the fact that E-commerce is technology driven, the technological elements, such as perceived usefulness and ease of use, are considered to have great impact on the E-commerce acceptance. In addition, trust has not only a direct and significant effect on the customer intention of transaction, but an indirect effect on the other three key drivers, namely, perceived usefulness, ease of use and perceived risk especially when uncertainty is present in the E-commerce activities.

This model integrates technological elements (perceived usefulness and ease of use) with the other constructs of trust and perceived risk to explain the intention and actual E-business transactions. It highlights that the acceptance of business-to-consumer (B2C) electronic commerce depends not only on consumer adoption of internet technologies, but also on consumer recognition of E-commerce venture as reliable merchants.

The second selection, descriptive model of online shopping (Chen and Su, 2003), describes common online shopping process and identifies three key components that can
significantly influence customer on-line shopping experience: interactivity, transaction and fulfillment. The interactivity component involves some key elements such as internet connection quality, web site design and waiting time. The transaction-related items include five main factors: value, convenience, assurance, evaluation and entertainment. The factors covered in the component of fulfilment include: delivery schedule and options, return and exchange policies, and post-sales services. These components and their respective factors form one's online shopping experience. Moreover, consumer online experience has strong influence on rapid purchase.

These two models, again, emphasize the importance of network technologies and the security guaranty for promoting E-commerce from the perspective of on-line consumers.

2.3 Three-level E-Commerce Model

From the examination of the models above, we must notice that all these models only focus on certain aspect of E-commerce: the first category of models addresses the framework of E-commerce; the second category of models mainly considers the E-commerce processes from the perspective of E-commerce ventures; the third category of models identifies some key drives for intension and actual on-line shopping. Although these models don't provide a complete picture for E-commerce ventures, they do suggest some key elements that need to be addressed in our study. These key elements include telecommunication infrastructure, legality, logistic, service, and security. However, these models don't include cultural issues, and we have to consider cultural issues when adjusting E-commerce model to different cultures and environments.

In addition, E-commerce activities are conducted in the real business world. E-business ventures not only confront the issues in the virtual aspect of E-commerce, but also face the problems in physical processes. In order to develop a model that may better help E-commerce
venture do business in developing countries, features of certain industry and the E-commerce venture's own strategy and capability need to be taken into consideration as well.

Therefore, by integrating the key elements identified from the model examined above with the consideration of industry and respective E-commerce ventures, we develop a three-level comprehensive E-commerce model (figure 1): Contextual level, industry level, and organizational level.

The main components in contextual level include:

Telecommunication infrastructure: As mentioned above, the telecommunication infrastructure provides a platform for the conduct of E-commerce. The developments of IT infrastructure, availability of the internet, and the quality and speed of network connection have extreme impact on E-commerce activities;

Logistic: E-commerce processes not only involve the flow of data and information but also include the flow of physical goods. Transportation networks of roads and railways, the capability and availability of warehouses, and the capability of postal system should be considered by the E-commerce venture to decide its delivery policy.

Legality: The issues which need to be considered in legal perspective are: whether the government policies and regulations related to E-commerce are favourable or not? Is there law to protect privacy? Is the legal environment favourable for ensuring the security of on-line transaction?
Culture: Culture and tradition would have different influence on consumers’ acceptance of E-commerce, and then further affect their on-line shopping intension and behaviour.

The main components in the industry level include:

Feature of the market: Every market is featured by the size, the maturity, and the potential. These features would influence firms marketing strategy and performance;

Competition: In market economy, competition is a normal practice. The intense of the competition can be decided by the number and size of the existing competitors, the ease of
entering and the advent of substitutes. E-commerce ventures need to formulate their strategy to compete in certain industry:

Suppliers: The power of suppliers needs to be evaluated as well. E-commerce ventures can take different measures to deal with the suppliers with different bargaining power;

Customers: Customers can also affect the E-commerce ventures’ performance. Those issues, for example, how strong is customers’ bargaining power and how much is the cost for customers to switch, need to be considered.

The main components in organizational level include:

Strategy: What strategy the E-commerce venture would take has a great impact on the performance of the E-commerce ventures. The ventures taking the cost-based strategy will conduct very differently from the ventures that pursue a differentiation strategy;

Reputation: Since E-commerce allows the sales of the products to customers without physical contacts before purchase, the reputation is especially important to win customers. This reputation is built both on the security, safety of online transaction, guaranteed payment, and the service and post-purchase support provided by the E-commerce ventures;

Competency: Different E-commerce ventures have different E-commerce technological competencies such as network technology and web site design, and business competencies, such as marketing and management. Therefore, it is rational to understand the strength and weakness of the organizations.

Therefore, when planning to conduct E-commerce in developing countries, we should identify and analyze the components mentioned in the contextual, industry and organizational levels.
3 E-BUSINESS DEVELOPMENT

As early as 1997, Dell Computers reported orders of a million dollars a day. In early 1999, projected e-commerce revenues for business were in the billions of dollars and the stocks of companies involved in E-commerce were skyrocketing. Despite of the internet burst in 2000, the internet infrastructure continues to grow, and many companies engaged in business model reengineer to keep up with changes. In the business to business sector, Internet technology facilitates numerous changes in corporate infrastructure in information, data exchange and purchase and distribution process. While the business sector accounts for most of the value of Internet commerce, the retail sector has been growing rapidly in recent years. In the fourth quarter of 2002, the world online retail sales reached $17.44 billion, an increase of 40 percent from the same period a year ago. (eWeek, 2003).

3.1 The current development of E-Commerce

In terms of countries, the United States is clearly a leader on most fronts of electronic commerce. According to the US Bureau of Census’s earliest data on e-commerce, in the fourth quarter of 1999, online sales by retail establishments reached US$ 5.3 billion, accounting for 0.64% of all retail sales. From 2001 to 2002, Internet retail sales in U.S. increased 48 percent and sales were predicted to increase at a compound annual growth rate of 17 percent through 2008. Today, almost two-third of shoppers in U.S. uses both offline and online channels. European B2C sales figures still lag far behind those from the USA, although direct comparisons are extremely difficult because of definitional discrepancies between the continents. Helen 2004 reports $300 million in e-tailing sales for the whole of Europe for 1998, compared to $ 4.9 billion for the USA for the same year.
Beyond the USA, Europe and perhaps Japan, E-commerce in developing countries is a relatively recent phenomenon that is beginning to expand its reach in more industrialized cities and regions. A number of entities, including the government, the computer industry, and the telecommunications industry, have realized the importance of e-commerce for the economic development and are contributing to E-commerce diffusion. For example, in 1998 the government in Bangladesh withdrew all import duties and value-added taxes from computer hardware and software, resulting in dropped prices and a threefold increase in the number of computer owners over the previous year for the first time. But until now the E-commerce, especially the actual e-retailing is still very trivia.

Another characteristic that needs to be addressed is that different countries can participate in e-business in different ways based on their unique capabilities and resources, and even geographic positions. For examples, India specialize its strength in custom software development and business process outsourcing, and Mexico provides a preferable hardware manufacture base for many U.S. big IT companies including IBM due to its geography advantage. Therefore emerging economies may develop their unique development strategies based on national technology and the unique political and economic environments.

Apart from computer and network products, books (Amazon.com), gardening products (Garden.com), music on compact disks (CDNow.com) and office suppliers (suppliesOnline.com) are popular online merchandise; service products like online airline tickets and online distant learning also remain hot. In U.S. online purchase accounts for 32 percent of dollars spent on computer hardware and software, 17 percent of event tickets sales, and 12 percent of expenditures on books. According to statistics, in 1999 consumers in the Netherlands spent E147 million online, with 78% of the sales going to computer hardware and software, travel, and books and CDs.
In terms of profit, Internet retailing now contributes significantly to E-business profits. Amazon.com reported its first full-year net profit in 2003—some US$35 million on US$5.3 billion in net sales. Nearly three-quarters of all Internet retailers have been profitable in recent years.

The development of E-commerce is extremely uneven between developed countries and developing countries in the following two aspects:

1. Difference in the number of internet users: Here are some figures related to the internet users: (UNCTAD, 2004): - By 2003, 685 million people—11% of the world’s population—had access to the Internet; - Over one third of all Internet users in the world live in developing countries, whose share of the world’s “Internet population” grew by nearly 50% between 2000 and 2003. - Five countries—Brazil, China, India, Mexico and Republic of Korea—account for over 60% of all Internet users in the developing world. The figures show that the internet users in developing countries account for one third of all the users in the world. Therefore, in terms of internet usage, developing countries seems not far behind. However this figure only reflects an absolute value. If we consider the population distributed in developed countries and developing countries, the figure looks not so optimistic. If we take the household internet user in Canada for instance, the Survey of Electronic Commerce and Technology in Canada in 2002 shows adoption of some technologies approaching saturation, with 85% of businesses using computers and 76% with Internet access. (Davis and Tim, 2003) The percentage of internet users among all the householders in Canada reached 62%. 37% of the householders once shopped online and 19% of the householders made e-payment.

2. Difference in actual amount of E-commerce transaction: As mentioned above, developed countries, especially US, Europe and Japan, account for most of the e-tailing sales of the world. The E-commerce transaction in developing countries lags far behind. The UNCTAD 2004 E-Commerce Development Report—referring to Bangladesh, Egypt, Kenya, Morocco, Nigeria, Senegal, South Africa and Uganda—points to similar findings: Internet access is relatively high among enterprises, but the adoption of e-business is low. The Internet is often used only by the owner/manager, and mostly for research and e-mail.

3.2 Reasons Accounting For E-Commerce Lag in Developing Countries

Countries face different opportunities and challenges as they adopt new technologies and business practices such as electronic commerce. The pace and direction of diffusion is influenced by a country’s economic structure, role in the global economy, policy choices, and prior adoption of related technologies. It is also influenced by the character of the individuals and firms who
deploy and use the technology. These factors also influence the impacts that a new technology has at the national, firm and individual level. To understand the different development of E-commerce between developed countries and developing countries, four major factors need to be addressed:

Communication infrastructure: As mentioned in United Nations Development program 2000, rich and poor countries differ in their access to and use of information technology and this gap appears to be growing. From the data of communications infrastructure in 2000, the telephone lines density per 1000 are much higher in both developed countries with 512 lines per 1000 in Australia, 503 lines per 1000 in Japan and newly-industrialized countries with 433 lines per 1000 in Korean and 562 lines per 1000 in Singapore. The telephone lines density lags far behind in developing countries. The difference seems even more tremendous in terms of Internet hosts. The internet hosts per 10000 are 567 in Australia, 703.33 in New Zealand, 452.25 in Singapore, while this index is much lower in developing countries with only 0.13 per 10,000 in China, 1.00 per 10,000 in Indonesia and 1.58 per 10,000 in Philippines. (Charles, 2004) This weakness in communication infrastructure will undoubtedly restrict the E-commerce application in developing countries.

Integrated framework: E-commerce not only needs communication technology but also an integrated framework, such as policies on cryptography and public key infrastructure, regulations for digital signatures, electronic security and payment systems, legislation to protect personal information and so on, that would provide an environment conducive to performing commercial transactions over the Internet. Developed countries act much faster in this aspect. For example, in 1998, the Government of Canada established a program of Connecting Canadians, the broad program that incorporates policies and activities to facilitate universal access of businesses, households, communities and public sector, and to support on-line delivery of goods
and services either through public or private sector. Compared to developed countries, developing countries lag further in legal and institutional construction.

Logistic: Logistics is defined as that part of the supply chain process that plans, implements, and controls the efficient, effective flow and storage of goods, services, and related information from the point of origin to the point of consumer in order to meet customers' requirements (Council of Logistics Management, 1993). Traditional logistical issues may be amplified by e-commerce ventures. Beyond all the fancy Web sites and the convenience of shopping at home, it is the efficient transportation, distribution, and inventory management that hold the key to profiting on the Net. Even though stores have been eliminated, physical products still have to be stocked, packaged and shipped. Due to the elimination of store related costs, logistics expenses have become an even larger part of the retailers' cost structure. In 2003, Amazon.com spent $477 million on fulfilment – representing about half of its total operating expenses. The weakness in logistic in developing countries is an obstacle for E-business companies to deliver ordered products in short time, and makes it harder for E-business companies to make profit.
4 E-BUSINESS IN CHINA

China has been aggressively upgrading its IT and telecommunications infrastructure for e-commerce applications since the late 1980s. Many Chinese firms have established their web presence and adopted the latest technologies. In 1998 and 1999, China only had 100 and 600 websites applying E-commerce respectively. However by the end of 2001, there were about 2,056 B2C websites and 1345 B2B websites on presence, based on CCID's statistics (Zixiang and Wu, 2004). In 1999, China's E-commerce websites reported total revenue of 200 million yuan (US$24.1 million), or twice as much as in 1998. For B2C E-commerce, the total turnover in 1999 amounted to 55 million yuan. (John and Nah Seok, 2001) The development of E-commerce in China has following characteristics:

In terms of geography, large cities and economically advanced coastal provinces enjoy much better infrastructure and many more Internet users than remote and economically poorer provinces;

In terms of demography, Internet and e-commerce are better adopted among younger generations with higher education. Most e-shoppers are primarily young middle-class males with better education and higher incomes and mainly from Shanghai, Beijing and Guangdong.

In terms of industries fields, among the various e-commerce websites, online bookstores were the first to emerge. In the middle of 2000, China reportedly had more than 300 online bookstores. Following the emergence of E-bookstores, certain industries including banking and insurance are information intensive and better positioned to adopt any information-related activities. Major banks in China have been taking concrete steps to promote e-banking. The new
online banking system relies on Internet and telephone technologies to conduct business instead of bank counters. It includes 24-hour customer bank account access and allows transactions between accounts, personal financing consultation, fee payments, online shopping and online stock trading. Almost half a million subscribers of China Mobile can access their bank accounts via mobile phones for banking services such as checking bank balances, transferring funds between accounts and paying phone bills.

In terms of firm size, large enterprises have bigger IT budgets and better-trained staffs than small and medium-sized enterprises.

In terms of business sector, the total transaction of B2B has seen a very high transaction volume which reached US$13 billion while the total transaction of B2C sector is only US$150 million in spite of its large number of websites. But, its annual growth rate is impressive.

In terms of payment, although many operators can take orders and accept payment online, most China shoppers order online but pay offline. Online payment is not as popular among consumers and operators. According to a survey conducted by the China Internet Network Information Centre in mid-2000, only one-third of online shoppers have used online payment. 40% of shoppers still prefer the traditional method of payment upon delivery. Various methods of payment such as online payment by credit/debit cards, online payment by bank/cash cards, payment upon delivery, payment by post remittance, and payment via bank transfers and “electronic wallets” are practiced in China.

Compared with developed countries, Chinese firms are far behind their global counterparts in terms of real online sales. The gap for the percentage of participating firms is moderate. When sales for consumers and businesses is combined, only 3.4% of Chinese firms’ total sales are conducted online, compared to the 7.8% for the global firms. In addition, only
8.8% of Chinese firms' websites support online payment, while 33.6% of global firms' websites have the online payment function. (Zixiang and Wu, 2004)

This significant difference of the large gap of the actual volume of online sales has several reasons:

Firstly, the weakness in technology infrastructure: As mentioned before, in recent years we have seen large scale upgrading of technology infrastructure in China, resulting in great improvement of the hard environment of E-commerce acceptance. However, one of the problems this aggressive leap-forging strategy in upgrading technology infrastructure brings about is that China falls far behind in using 'traditional' e-commerce technologies such as EDI, EFT, and call centres. Chinese firms are also behind in facilitating the upstream and downstream integration to the internal database and information systems in enterprises.

Secondly, the obstacle in no-technological barriers: Another reason accounting for China firms' falling behind in conducting actual e-commerce transactions is that the barriers in business, legal and cultural perspectives fail to accommodate the technology progress. The most significant barriers include the lack of security, lack of a system to monitor, guaranteed buyer and seller credibility, and an inefficient delivery system. In addition, there is no sophisticated legal framework to facilitate e-commerce activities and protect the interests of both vendors and consumers. From a survey conducted by the study of Zixiang and Wu, 2004, Chinese firms share the same opinion with the surveyed global companies in considering the 'concern about privacy of data and security issues' and the 'inadequate legal protection for Internet purchases' as the top two obstacles to e-commerce diffusion. However, there are other specific difficulties in China. This survey also shows that 'Business laws do not support e-commerce' was reported as a serious obstacle in China, while the global firms consider it as a moderate obstacle (40.8% versus 24.2%). In addition, the 'prevalence of credit card use' is perceived by Chinese firms as a more serious
concern than in other countries (30.2% versus 20.3%). According to another survey conducted by the China Internet Network Information Centre in mid-2000, when asked about the reasons why they held back from using E-commerce, 46% of Internet users say that they feel insecure to conduct online transactions; 17% doubt the information posted over the Internet; 12% fear that after-sales services might not be provided; 10% fear that goods and services ordered online might not be delivered on time. This scenario could be best termed as a mismatch between China’s aggressive technology upgrade and its existing serious barriers in business, legal and cultural perspectives.

In contrast to traditional consumer behavior, online transactions have certain unique dimensions, such as the extensive use of technology for transactions, the distant and impersonal nature of the online environment, and the implicit uncertainty of using open technological infrastructures for transactions. More specifically, consumers must actively engage in technology use by interacting with the retailer’s Web sites; the spatial and temporal separation between consumers and marketers raises fear of Web retailer due to product and identity uncertainty; there is concern about the reliability of the Internet itself and the related infrastructure that Web retailers employ to interface with consumers (e.g., the open infrastructure raises the fear that third parties or hackers may threaten consumer privacy and monetary information). (Chen and Su, 2003) Overall, these three unique differences reduce consumer perceptions of control over online transactions, thus increasing their apprehension about acceptance of B2C e-commerce. Therefore, these non-technology barriers seriously restrain the E-commerce application in China.

Thirdly, tradition culture factors: The mindset of Chinese consumers is also a great barrier for E-commerce to flourish. The lack of personal relationships and contacts in online commerce has been a barrier to the development of B2B E-commerce. The personal relationship is especially crucial in the information – poor environment with a weak legal framework. Under the context that lacks corporate and credit information, many companies don’t like the ideas of
conducted business with new partners without any personal contact. Especially in China, it is common for suppliers to reward their customers with gifts or monetary payoffs. However, with online commerce, the rewards or gifts or money cannot be given easily.

In addition, most Chinese consumers still prefer the traditional mode of shopping: to see, touch, hear, taste, and smell the merchandise so as to ensure product quality prior to purchase. Moreover, China’s existing traditional retail network in urban areas, with its ubiquitous corner shops, wet and dry markets, and hawkers, has served its resident consumers very well, and are located within walking distance. Therefore, there is no compelling reason for resident to resort to online shopping at China’s present stage of development.

In general, the lack of a solid historic foundation of internal information systems, the poor integration of business processes with information systems, the existence of environmental barriers, including security concerns, poor legal protection and laws, low credibility both of vendors and consumers, backward delivery and supporting systems as well as traditional culture factors have, to a large extent, discounted China’s technology readiness for e-commerce diffusion.
5 INDUSTRY ANALYSIS – NATURAL STONE

5.1 Natural Stone Industry – US

The Natural Stone industry is growing at a rate of 15% in the global market in general. If granite only is considered, it may be little less or more, and when Marble, granite & other products are totally taken into account, the average growth rate is around 15%. The major markets for Blocks are still Italy and China followed by Taiwan, Spain and Europe. For monument market, Europe continues to be the No.1 followed by North America, Japan and the Far Eastern markets. For Slabs and tiles, there is a continuous growth in North America as well as in Europe. (Sri R. Veeramani, Global trend of Natural Stone & Products, Extract of the minutes of the meeting (2002-2003) of Granite, Natural Stone & Products Panel – CAPEXIL, Indian Stone AIGSA Magazine)

The American market has seen a lot of growth in the last decade; the principal increase has been in the residential market, especially for granite counter tops. Over 3000 new small companies have entered the market to fabricate granite kitchen countertops and bathroom multicoloured or granites with movement. They appear to be the only two markets with the right colours appealing to home owners. Prices have dropped drastically by 40% for granite, making it the leading hard cover surface material in demand. Home Depot by introducing Silestone from Spain has also made this once unknown product leader in the market place against other synthetic stone tops. Brazilian granite slabs have dropped in price almost 40% in the last three years, in part due to the devaluation of its currency.

Major changes have occurred in the restructuring of companies. Georgia Marble, the dimension stone division was sold by the French company Imetal and bought by a Canadian
company called Polycor. Dal-Tile, which owns American Olean, a major ceramic company, was bought by a major carpet company in Georgia, which has entered the hard covering market, making them one of the biggest flooring distributors in the United States. Canadian companies have expanded and consolidated their marketing efforts by buying companies or distributors in the United States. Many foreign companies have entered the market either with warehouses or sales offices, from Egypt, Turkey, China, Indonesia, Brazil, Mexico just to name a few.

China is increasing its sales to United States yearly at double digit figures and taking over the monument business (as are major producers of Indian granites), and branching into the commercial market such as hotels and restaurants, and now some into office buildings. They are especially strong in granite flooring and the Chinese market is looking to compete on all levels of production with any foreign producers to increase their percentage of this large market. It appears that in granite mostly China and India are competing heavily against each other to take orders at the lowest prices ever seen in this market, and prices have dropped by as much as 50% on Indian granites in the last decade. To give an example, 10 years ago Absolute Black granite tiles cost $5.00 per square foot and today the price is $2.50/SF for the same quality.

There is still a good market for marble, but the growth in the market has not been as relevant as in the granite market. Granite has declined in the segment of major commercial buildings whereas limestone has increased steadily by 7% a year, and new countries of supply have entered the market in both limestone and travertine, such as Bulgaria, Turkey, Armenia, Iran, and others taking away the large market share once held by the Mexican and Italian producers. The main purchases from Spain remain still year after year to be Crema Marfil but this too will change drastically over the next decade as the high priced products from Spain will lose their market share to new quarries in beige marbles from countries like Turkey and Indonesia and others.
The demand for stone has been increasing regularly every year in North America by close to 15% or even more. Granite Countertops have been increasing by over 40% per year and have increased over 400% since year 1997. Marble and granite tiles have been increasing yearly by about 6% to 15% and have increased overall by about 70% since 1997.

In 2003, there was a modest overall increase in demand for stone from 2002 while some specific markets within the country have seen a larger increase. Decrease in granite monuments and decreases in demand for Indian limestone have been noticed. This year has seen a 25% increase in granite countertops. It is expected 2004 will see a very good increase in residential dimension stone. In general, construction is up in the market and exceeds over $500 billion, according to McGraw-Hill Construction Dodge. Total construction has seen about a 1% increase in this year from January-September 2003 index over last year. The low cost of financing a home in the United States due to the low interest rates has kept the residential market very strong, offsetting any commercial differences, and has seen a 17% overall increase over the previous year.

The commercial market has seen a slight decrease in dimension stone as many major companies are restructuring, and getting ready for more heavy competition from both domestic and foreign entities. Domestically all the other hard surface producers are fighting with the stone industry to increase their own demand for their products. Stone has out paced increases in even the traditional large market of ceramics. Foreign producers are introducing new products in the way of new finished, new colours or types of stones, and new countries are also entering the market.

In general, as far as colours go white is now coming back in demand for buyers both in marble and granite. Beige and yellow granites, marbles and lime stones are still leading the market demand. Green, black, greys, and browns are the next colours in demand as far as percentage demand for stone. Many new colours are being introduced yearly and there seems to
be no end as to what colours and or designs will sell in the market in some quantity. Imported slate tiles are still increasing in demand. Patterned flooring such as tumbled, antiqued, rusticated, and many other designs are increasing, especially with the ceramic tile distributors. Borders, mouldings, and even water jet cutting patterns have all seen an increased demand in the market. (The latest trends in the US stone industry, www.litosonline.com, Jeffrey Matthews)

5.2 Current Trends in Industry - US

5.2.1 Lower & Lower Price

While production in the granite industry has increased dramatically in the last decade, the decline in prices has also been impressive. Not all the decline can be attributed only to reduced costs as a result of technological improvement. Gross margins have come sharply down, and unless a production unit is extremely efficient or the material being worked with is highly exclusive, the chances of making any profit at all are low.

5.2.2 New Materials All the Time

More and more new materials are appearing everywhere and all the time. New quarries are being opened every day of beautiful materials in Brazil, India, Africa and elsewhere. There is a lot of choice of materials nowadays of a very wide range. Many of the big granite factories have decided that one way to prosper in the highly competitive industry is to work with materials no one else has, and thus are either operating their own quarries in far away countries, or arriving at agreements to buy the whole production of certain quarries. The access to raw materials has become a key aspect of competitive advantage. There are a lot more quarries but the fact is also that the production of many quarries is sometimes too small to be able to offer the materials for big projects.
5.2.3 The Big Companies Setting Up Own Warehouses

Some of the biggest companies are setting up their own warehouses in other countries so as to be closer to their clients and also make sales of small quantities instead of having to sell only full trucks or containers. There are now many warehouses of granite companies in the different cities in United States, Italy, Spain, Portugal, France, Holland, and Poland.

5.2.4 Increasing Popularity of Granite in Major Projects

One of the most positive developments for the granite industry is the greater awareness of it among the architects, and its growing popularity in major projects. Whether it is office buildings, airports, commercial centres or even hotels, granite is becoming more and more popular for the big projects all over the world. Most airport projects in recent years have used granite as the flooring material. (http://www.stonecontact.com/stonejournal.asp)

5.3 Natural Stone Industry – Beijing & Tianjin (China)

5.3.1 Market Size

China has turned into a natural stone giant with rapid development, particularly in the last five years. There are meanwhile four main regions for natural stone production and handling imports and exports: the province of Shandong, Fujian, Sichuan, and Guangdong. The key centres of Chinese stone processing have been created mainly in Shandong, Fujian and Guangdong. Their chief function is to process local and imported materials into products for decorative interior finishing. About 50,000 companies currently operate in the stone sector in China. There are two regional sales channels for natural stone products in China: First individual companies set up sales networks with branches in several different places. Second special “stone markets” are set up on the outskirts of the cities, where the sales branches of several hundred companies are combined under one roof.
The demand for natural stone materials in the domestic building industry is the key to continuing upward trend in the Chinese stone industry, as living space is still in short supply in China. The building industry should remain the most important pillar of the Chinese economy in the next ten years. The consumption of natural stone materials is to top the 300 million square meters mark and the import volume is to reach a value of 1 billion US Dollars. Natural stone imports are still concentrated on materials not obtainable in China.

The foreign trade turnover of Chinese natural stone is still registering high growth rates, particularly for imports. According to Hou Jianhua, statistician and editor at the national Chinese natural stone association, the import volume between 2000 and 2004 rose from 1.73 million tons worth 400 million US$ to 4.21 million tons worth 750 million US$. This equates to an 88 % rise in turnover in money terms. The quantity of natural stone imported rose by a factor of 1.43. The most popular kinds of natural stone for import are marble in rough or slab form and rough granite. Domestic production cannot cover the heavy demand for these popular materials. Natural stone is a material with characteristic local variations and inimitable distinctiveness. (http://www.stonerreport.com/ihmt/detail-e.htm?aclnews=10:0:771:::0:10:)

The increasing demands of natural stone in Beijing: In the domestic market in China, the demands for natural stone have been pulled off. Due to the construction of Beijing Olympic Games’ facilities as well as city expansion projects, the productions, use and all the covering expenditures for natural stone will reach to 30 billion RMB in Beijing, which is equivalent to 5 Billion Canadian Dollars. With the approaching of 2008 Beijing Olympic games and renovation periods of the Olympic projects, the demands for natural stone products are going up at the rate of 15% per year, estimated to reach 12 Billion RMB, equal to 2 Billion Canadian Dollars this year. (Source: 2003-june-23, increasing demands for natural stone, Chinese construction material information website. (http://www.pykj.gov.cn/gyxp/kjxg/020623wgsjxq.htm))
Therefore, we would rate the market size as +++.

5.3.2 Market Growth/Pricing

The foreign trade turnover of Chinese natural stone is still registering high growth rates, particularly for imports. According to Hou Jianhua, statistician and editor at the national Chinese natural stone association, the import volume between 2000 and 2004 rose from 1.73 million tons worth 400 million US$ to 4.21 million tons worth 750 million US$. This equates to an 88% rise in turnover in money terms.

The quantity of natural stone imported rose by a factor of 1.43. The most popular kinds of natural stone for import are marble in rough or slab form and rough granite. Domestic production cannot cover the heavy demand for these popular materials. Natural stone is a material with characteristic local variations and inimitable distinctiveness. The demand and with it stone imports to China will therefore continue to increase, with forecast annual growth rates of well over 15%. Trade between China and foreign countries is usually handled by setting up agencies in China, via sale on commission or through joint ventures and other long-term business relationships. It is also usual for companies to exhibit at trade fairs, although more for image care reasons. (http://www.stonereport.com/itml/detail-e.htm?aclnews=10:0:771:::0:10:)

Due to the name variation of the same products, a complete comparison of all the products handled by build direct with its Chinese counterparts is impossible. However, we did analyze the price of a specific product called Sahara Beige – Shabnam called in Chinese market. The prices offered by build direct is 3.55 US/Square Feet = 323 RMB/Square Meter at ex-factory prices excluding the freight & insurance; however in Chinese market, this product is quite popular and considered high-end and quality products, selling at 900-1300 RMB/Square Meter probably at the retailing price, almost three to four times higher than the price build direct offers.
So, for this specific product, the build direct is very competitive in terms of price. (http://www.ijiajia.com/martnewsinfo/247.html)

Therefore, we would rate the market growth, pricing as favourable ++

5.3.3 Market Diversity

The market for natural stone in China is highly diversified. Not only thousands of domestic quarries, export agencies etc, but also increasing numbers of foreign natural stone producers, quarries are establishing joint venture plants, or offices in China. However, one natural stone import, production and export base in Nan An in Fujian province has become a major natural stone supplier for Beijing Area, which provide around 80% natural stones used in Beijing Olympic Sports Facilities projects. It is estimated that only in Nan An area, the business turnover of more 154 natural stone producers in this area has reached 3.828 billion RMB, with an increase of 30.7% over the previous year, and there are more than 1300 natural stone producers in this areas only.

Therefore, we would rate the market diversity factor as --.

5.3.4 Industry Profitability

When we take a look at the natural stone markets in Beijing/Tianjin Area, a few dominant marketplaces for natural stones actually take the lead in setting the market prices for natural stone finished products in Beijing/Tianjin Area. The prices charged from different wholesalers are more or less the same, and they all sell the natural stone at a low margin, normally at the range of 5% to 10%. However, for imported natural stone products, the profit margin is a bit higher than that of domestic natural stone products.

Therefore, we would rate the industry profitability as favourable +.
5.3.5 Threat of New Entry

The threat of entry into the natural stone industry depends on barriers to entry that are present, coupled with the reaction from existing competitors (Porter, 1980). In Chinese natural stone industry, the reducing tariff on finished natural stone products from the current 25% to as low as 7-9% would attract more foreign natural stone suppliers to enter into Chinese markets. Natural stone industry in China is highly fragmented, and there is no major monopoly player in China that can achieve economies of scale. Especially in porcelain, granite, slate, marble, travertine flooring and tiles products, it is very difficult to differentiate the products since they are more or less homogenous, and there is no strong brand loyalty, customer services. Switching cost for customers to change products is rather low since the products are more or less homogenous in nature and use. Since most of the products that build direct carries are of the foreign materials from a wide variety of countries, competing natural stone manufacturers would have a cost disadvantages in importing the raw materials from other countries like Turkey, India, then manufacturing them into finished products. However, due to the increasingly demands from both public and household projects, not much advertisement or marketing expense is needed to penetrate quickly.

Therefore, the above factors would support new entry into the industry, and we thus rate the threat of new entry is Moderate to High.

5.3.6 Government

China is to abolish import duties on semi-finished and finished products. International exporters of natural stone therefore expect a definite rise in export figures and hence higher revenues for deliveries of finished products to China. Experts expect this Asian market for polished slabs to develop into the second largest, and about 260,000 tons of stone blocks were shipped to China in 2004. The industry is much independent of government intervention as such
except for tariff reduction according to WTO requirement since even there is no formal standard in place in the natural stone products across China.

5.3.7 Bargaining Power of Suppliers

In Chinese natural stone market, there is a great disparity in scale between the large companies and the small ones. In 2003, 150 companies had annual sales of over 100 million RMB and 300 companies had annual sales of over 50 million RMB. Take architectural stone products for example, the output of the top 150 companies (in terms of scale) exceeded 40 million m² in 2003 and the output value was more than 23 billion RMB, both of which took up over 36% of the industry's total. Large-scale enterprises, such as Universal Marble & Granite Group Limited, Best Cheer Stone Group, Fujian Xishi Group Co., Ltd., Shandong Guanlu Group, Fujian Hongfa Group Co., Ltd., Kangli Stone Group, Dongcheng Stone Products Co., Ltd., Xinjiang Guanghui Group Co., Ltd., Tangshan Yutian Saw Corporation and Northern Liaoning Huaxing Machinery Co., Ltd., have obvious advantages over the small companies in technique, products quality and market shares. Shandong Guanlu Group is the first stone company in China to obtain both ISO9000 and ISO14000 certificates as well as ISO14025 certificate for its products. Meanwhile, the number of small companies has decreased and the overall quality of China stone industry has been enhanced. (2003 Review of China Stone Industry, http://english.cbminfo.com/allfile/4/2004-11-1/news2004111105304.asp)

Regional manufacturing companies play an important role in the Chinese domestic market share. The dominant region is called “Nan An” in Fujian province. According to statistics, the natural stone manufactured in this region has reached 80 million square meters, which accounts for 40% Chinese domestic natural stone production, 13% of global natural stone productions. This powerful regional group of stone manufacturers can possibly exert bargaining power over participants in the Chinese natural stone industry to raise the price or change the
quality of natural stone products. As mentioned earlier, this group of manufacturers had an 80% market share of the natural stone used in Beijing Olympic Sports facilities projects.

Therefore, we would rate the bargaining power of suppliers as moderate.

5.3.8 **Threat of Substitutes**

Crystallite glass series has better physical characteristics than marble and granite. Its unique advantage over traditional natural stones is that the substitute is environmental friendly products. There are a few other substitutes for natural stones, but their physical characteristics are not as good as that of natural stone. At the moment, crystallite glass hasn’t become popular, and its application is also limited due to the fact that the productions of crystallite glass rely on the exploitation of a rare mineral. Therefore, the impact of this substitute on the industry might be very limited.

So, we would like to rate this category as Low to Moderate.

5.3.9 **Competition Analysis – Rivalry among Competitors**

1. **Industry Fragmentation:**

At the moment, natural stone industry in China is still in its early stage. Customer loyalty, brand building all takes time, and it is not easy for any of the stone manufacturers to acquire a big lion’s share even for international participants within short period of time. In addition, low overall entry barriers, China’s WTO entry resulting in lower import tariffs, high transportation costs, and diverse market needs all contribute to high fragmentation in natural stone industry. On the other hand, increasing demands for natural stone products in China and booming of real-estate industry further exacerbate the fragmentation of the whole industry. As a result, competitive concentration is high.
2. Other factors contributing to rivalry among competitors:

The natural stone products namely porcelain, marble, travertine, slate, granite tiles and flooring are more or less homogeneous products. Switching costs from one supplier to another supplier is low; high transportation costs and fixed costs make the manufacturers difficult to meet the demands across China, and exit the industry. Buyer’s lack of information of suppliers is another factor due to distant geographic locations and varieties. Therefore, the Rivalry among competitors is unbridled, and as the new regulation put in place for government to control over real-estate industry overhead, the competition among the stone manufacturers will become tougher, and the prices of stone products will probably go down resulting in more intensified competition among the suppliers.

5.4 Housing Industry Trends – Beijing & Tianjin

Despite of the recent measures taken by Chinese government to contain the speculative behaviours in the real estate industry, house buyers have shown opposite responses from different cities. After the new regulation to levy more tax on reselling of new houses, in Beijing people’s willingness to purchase new houses has even increased 2.2% according to statistics (2005). It shows that the housing industry in Beijing will still keep a high growth rate despite of the new regulation by the central government. The price of real estate will keep rising in the few years to come due to the reduced supply of houses. However, the second-hand houses transaction will become popular in Beijing in 2005. All these trends will influence the demands for natural stone products. The increasing demands for new and second hand houses in Beijing and Tianjin area will lead to more demands for natural stone products in general. According to statistics, in 2004 the transaction of new houses in Beijing reached to 200 thousand units, and the second hand houses reaches to 20 thousand units.

So, we would rate this factor as favourable (+ +).
5.5 Consumer Analysis – Bargaining Power of Customers

5.5.1 Comparison of Chinese & American Culture

1. Trust by being present in China: No discussion of the Internet and E-commerce would be complete without a discussion of the issue of trust. While the market in China for the Internet is indeed huge and many Chinese are eagerly getting on line every day, only a small percentage (roughly 20%) have done any shopping on line. For good relationship, especially those relating to business, it is important to maintain good guanxi ('relationship' in Chinese). The definition of guanxi could be expressed as the existence of connections in order to secure favour in personal relations (Brunner, Chan & Zhou, 1989). While important in interpersonal relationships, guanxi is especially critical in business, where having guanxi can considerably improve how well a firm can do. Clearly, this is one aspect of a business relationship which is not the most easily accomplished when using the internet.

In addition, in Chinese business there is often a need or expectation for face to face contact in order to build up a sense of trust. Relating back to Hofstede’s notion of individualism – collectivism, where Chinese culture, based on the underpinnings of Confucianism, is generally collective. Confucianism also is in favour of the evaluating a partner's past and present behaviours, which is a prerequisite for trust. This is further supported by the connection between collectivism and high power-distance, which is contrary to the expectation that e-commerce, is a low power distance activity. Clearly, one of the problems that e-commerce is facing in China may be due to a lack of trust both in the online retailers and in the concept of buying something without face-to-face contact and without guanxi, particularly for wholesale business. Therefore, when suppliers are committed to enter into Chinese market, it is suggested that being present in China by setting up sales offices or joint venture firms be essential for the trust issue.
2. Hofstede identified five dimensions in his research on essential patterns of thinking, feeling, and action in different cultures. First let us see the comparison of Chinese and American cultures:

<table>
<thead>
<tr>
<th>Chinese</th>
<th>America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intuitive</td>
<td>Rational</td>
</tr>
<tr>
<td>Aesthetic</td>
<td>Scientific</td>
</tr>
<tr>
<td>Introverted</td>
<td>Extroverted</td>
</tr>
<tr>
<td>Self-restrained</td>
<td>Aggressive</td>
</tr>
<tr>
<td>Dependent</td>
<td>Independent</td>
</tr>
<tr>
<td>Procrastinating</td>
<td>Active</td>
</tr>
<tr>
<td>Implicit</td>
<td>Explicit</td>
</tr>
<tr>
<td>Patient</td>
<td>Impatient</td>
</tr>
<tr>
<td>Group-oriented</td>
<td>Individualistic</td>
</tr>
<tr>
<td>Continuity</td>
<td>Change</td>
</tr>
</tbody>
</table>

Source: Jeffrey Hsu, 2003, Reprinted by Permission, Copyright Idea Group Inc.
The application of the cultural difference on website design: As we can see Chinese and American culture have some big differences in power-distance, individualism, long-term respects. (See attached siemens website page in German and Chinese)

Power-distance in China is almost twice as much as in US, and this may influence the following aspects of user-interfaced and Web design: a) Access to information: High PD cultures exhibit more structure, with low PD cultures exhibiting less structure. In addition, there are more complex hierarchies and “taller” ones for high PD cultures than for low PD cultures. b) There is also a greater emphasis on the social and moral order (e.g. nationalism or religion) and its related symbols for high PD as opposed to low PD cultures. This same emphasis applies to symbols that
relate to expertise, authority, experts, certifications, or logos. The leadership of a nation is emphasized and prominently displayed.

Individualism versus Collectivism: According to the above chart, there is a huge gap in these two countries’ cultures – American individualistic culture versus Chinese collectivism culture. American individualistic culture values personal time, freedom, challenge, and such extrinsic motivators as material rewards at work. On the other hand, Chinese collective culture values training, physical conditions, skills, and the intrinsic rewards of mastery. These differences may influence the following aspects of user-interface and Web design in China: a) Motivation based on personal achievement is underplayed in favour of group achievement. b) Success is demonstrated through achievement of group agendas. c) Rhetorical style includes the use of official slogans and a desire to reduce controversy. d) Prominence is given to wise leaders and states of being. e) An underlying sense of social morality, with an emphasis on relationships. f) Marked emphasis on tradition and history (Marcus & Gould, 2000; Hofstede, 1997)

Chinese culture focuses on long-term relationship building rather than short-term one such as American culture. High Long-term countries would emphasize the following aspects of user-interface design: a) Content focused on practical value and issues. b) Relationships should function as a source of information and credibility. c) Patience in achieving results and goals (Marcus and Gould, 2000; Hofstede, 1997)

5.5.2 Bargaining Power of Customers

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other – all at the expense of industry profitability. Several factors have been identified to determine the bargaining power of buyers in natural stone industry: first, the natural stone products are homogeneous, and it will take a long time to build brand loyalty and branding awareness. Second, low switching costs among different
buyers are another reason to increase the power of buyers. Third, information asymmetric is fading, and now customers are more educated and knowledgeable than before. Fourth, lowering tariff increase the competition among suppliers, this helps the customer to choose the best products among different suppliers.

Based on the above analysis, we consider the bargaining power of customers is Moderate to High.

5.6 Natural Stone Industry Trends – Beijing & Shanghai

The most demands for natural stone products are driven by renovation projects in Shanghai & Beijing area especially for luxury household renovation. For example, 100% of the balcony tiles used in house renovations in Shanghai are medium or high-end products. The low end natural stone tiles with price less than 300 RMB per square meters have been discarded. From the 2005 Shanghai Natural Stone Expo, those imported natural stone such as black galaxy, etc has received a warm welcome from the buyers. On the contrary, those with price less than 300 RMB/SM receive no attentions at all. (http://www.wtostone.com/stonenews_2.asp?id=263)

5.7 International Factors Influencing Entry & Timing Decision

5.7.1 Social Factors

Olympic Game, Bribery. 2008 summer Beijing Olympic Game would boost the natural stone industries since it will not only build sports facilities projects, but also drive other industry such as Hospitality industry, Infrastructures, Housing, and Real Estate. All these industry requires a huge amount of natural stone products for the public, government and private household projects etc. However, one thing that needs to draw our attention is the bribery and corruption issues. Those public, government projects are prone to corruption of individuals who are in charge of purchasing the construction materials, which is not uncommon in China. Even though the environment for natural stone industry growth is quite attractive, bribery and corruption is an
important factor that cannot be disregarded. For build direct online wholesaling business model, lack of face to face transaction might be a disadvantaged factor due to the competitors who practice bribery for bidding huge government projects.

So, we would rate the social factors as moderate favourable (+)

5.7.2 Macro Economics

There are Foreign Exchange Rates, WTO requirement to reduce tariff rates & its impact on ordinary family purchasing power to purchase high quality natural stone products with low price. There is no doubt about the appreciation of Chinese RMB due to Chinese RMB pegging with US Dollars and government control over the exchanging rate. The appreciation of RMB is just a matter of time. In addition, according to WTO requirement, the tariff for importing industrial products will drop from the current 24.6% in 1997 to 9.44% average level in 2005. (http://www.ydsc.com/news_001.htm). These two factors will further boost the demands for natural stone products in China due to the appreciation of RMB against US Dollar, and reduced tariff rate for import. As we learned from the internet research, now more ordinary people could afford the imported natural stone products due to its high quality and increasing purchasing power of ordinary Chinese families.

So, we would rate this factor as favourable (+ +).

5.7.3 Internet Usage in China/Beijing

China has about 68 million Internet users among its 1.3 billion people, according to figures provided in July by the China Internet Network Information Centre. Internet usages are highest in China’s largest cities, such as Beijing and Shanghai, with about 30% of residents going online. According to an on-line survey, only 5.3% of those surveyed used the net for online shopping. Those, who do, spend a yearly average of $50 on small items such as books, magazines
and CDs. One reason for the low number of online purchase is that credit cards are not widely used in China, though debit cards are becoming popular, and delivery systems are not well developed. According to 62% of the people surveyed, the primary problem with using the Internet in China is that their connection is too slow. Connection speeds are affected, many say, by the censors the government uses to block tens of thousands of sites. (http://www.inforwar-monitor.net/modules.php?op=modload&name=News&file=article&sid=807)

E-Commerce: Due to the lack of clearly defined regulatory powers over the industry, an effective Chinese certificate authentication system, secure and reliable on-line settlement system, and an efficient physical delivery system. Many U.S. IT sector companies have been actively engaged in jointly developing these systems in China, and WTO accession will increase the speed of these developments. E-commerce in China has great potential, but first must overcome three major impediments: 1) China is still a cash-based society and use of credit cards is not widely adopted; 2) channels of distribution in China are not well developed for the delivery of items purchased over the Internet; and 3) Internet security

However, there are several Chinese Internet companies that have been very successful in a cash-on-delivery e-commerce model in the major cities, although they are of business to customer business model. For build direct business model, the lack of internet usage among Beijing residents would be an obstacle to overcome to win family household renovation business. Therefore, it may take a little while for build direct to build credibility, reputation for high quality products, service, and timely delivery.

So, we would rate this factor as unfavourable (- - -).
5.8 Market Analysis

Based on the above analysis, a new model to analyze the forces driving competition in international contexts is developed to assess the natural stone market attractiveness in China. When adding the above international factors namely social, cultural, macro-economics, industry trends, government, market size/growth, industry profitability, Internet Usage/Infrastructures along with the five forces analysis of the natural stone industry in Beijing, China, we come to the conclusion that the natural stone industry in Beijing/China is highly attractiveness. In other words, the overall environment is very positive despite of several negative factors such as the intense competition of natural stone industry in China, and internet usage/infrastructures, payments methods etc. In the meantime, some of the negative factors can be remedied by adopting different approaches such as changing the payment methods from credit card to remittance, focusing on E commerce business to business models rather than business to customer model, etc. Given the positive environment of natural stone industry in Beijing, China, it is still hard to say whether this market is attractive to build direct, and whether Build Direct's unique business model and its core competence in price, customer service, product quality, and logistics still remains competitive in China is still a question. Therefore, further in-depth analysis of build direct company is essential to determine if its core competence still remains competitive in Chinese natural stone market.
6 COMPANY ANALYSIS – BUILD DIRECT

6.1 Current Company Operation & Strategy

The need to open new markets to diversify risks: from the interview with Jeff Booth, CEO of build direct, we learned that 70% of build direct business is for US market. The reliance on US market makes build direct vulnerable to unexpected market changes in US or dumping charges by US government etc. In order to diversify the operational risks, it is recommended that build direct should expand its business to other continents to dilute the potential risks.

Cost Leadership Strategy: Build direct has successfully become the most efficient & cost saving on-line wholesalers in the natural stone industry. Taking advantage of internet technology, vertical integration to downstream value chain gives build direct unique competitive advantages to reach all potential customers and sell natural stone products at exceptional low prices with high quality, excellent customer service, and timely delivery.

6.2 SWOT Analysis

6.2.1 Strength

Price: Build direct has the best prices of the high quality natural stone products due to its cost leadership strategies and online cost effective business model. Being consistent in keeping the unbeatable price is the top priority of build direct business strategy. Therefore build direct can beat most of the competitors with its consistent best price practices.

Service: Build direct offers excellent customer services with toll free 800 numbers so that customers can call for quarries and solutions. The knowledgeable sales staff in build direct give customers more professional advises to achieve customer satisfaction.
Product Quality: Unbeatable price with top quality products are the basis for build direct competitive advantages, among others. However, quality doesn’t necessarily mean expensiveness in build direct case because of utilization of proprietary internet technology for volume global shipments, thus making build direct a completely new sales channel.

Logistics: Build Direct exclusive logistics technology is an integral part of the Web Store so customers can instantly obtain prices inclusive of shipping costs. With its complete logistics system, build direct can ship its products across North America.

6.2.2 Weakness

Build Direct is still in its early stage of development even though it grows at an amazing rate. Build Direct needs more time to gain more market share to achieve its strategic goal – become a truly global company. Therefore, it is essential for Build Direct to expand it global business in strategic regions like China but in a controlled manner.

6.2.3 Opportunity

According to the US, China and global industrial trends, the natural stone industry will continue to grow at an annual rate of 15%. With its innovative business model and long-term vision, Build Direct has a great potential to gain more market share in these promising markets, and grows with these markets. How to fully take advantage of the current opportunities to grow faster is a crucial question that Build direct need to answer, in which strategic focus on Chinese market becomes part of the answer.

6.2.4 Threat

Fast-growing companies always face new challenges such as human resource issues, correct evaluation of its capabilities to meet the market needs, adapting the business model or business practices to meet each country’s particular needs due to different culture, social, political
environments, etc. In order to develop the Chinese natural stone markets, the adaptation and adjustment of build direct business model would be essential.

6.3 Build Direct Competitiveness in China Market

6.3.1 Strength

As a global natural stone on-line wholesaler, Build Direct has the advantage of economies of scales (low price with high quality). Since the natural stone products are homogeneous, the price and quality are definitely two advantages for build direct to enter into Chinese markets given that using high quality natural stone products becomes the popular trend in Beijing & Shanghai area. Entry into Chinese market would boost the economies of scales for Build Direct and further reduce the operational costs. With build direct rich experience in dealing with natural stone products, there is no doubt that Build Direct can train more sales professionals in China to provide professional customer services.

6.3.2 Weakness

However, we should also see some disadvantages for Build Direct. For example, logistics is Build Direct current core competence. In China, there might not be complete and reliable logistics systems for transportation especially in remote inland area. In this case, Build Direct logistic technology might not be useful for guaranteed timely delivery in China’s remote inland areas. On-line payment which is so popular in North America might be problematic in China since China is still a cash based society, and there is no trust system as such. Bribery and corruption might be deterrent to expansion of Build Direct. It is not uncommon for purchasing agents or officers to get “commissions” from suppliers especially when the competitions among different suppliers become tougher. Build Direct’s on line purchasing would make this practice impossible. In addition, human resource is another issue to look at because of possible shortage of qualified sales forces in China.
7 RECOMMENDATIONS

7.1 China Market Entry Decision

7.1.1 Adjusted Business Model

Based on the analysis of the high attractiveness of the markets and industry as well as the strength and competitiveness analysis of build direct – (strength & weakness), it is therefore recommended that the broad strategy for Build Direct should be to invest in China as early as possible to build position, that is, to go to China natural stone markets with its adjusted innovative brand new business model. Even though there might be some obstacles to its current business model, Build Direct’s core competence in price, product quality, and service still remains its competitive advantage in China, and for Build Direct, the advantage still far outweighs the disadvantage. Given the attractiveness of Beijing market, Build Direct should build its presence in Beijing in the first place. However, it needs to adapt its business models to fit in Chinese market while keeping its cost leadership strategy and its core competitive advantages such as unbeatable price with the best quality, excellent customer services. For Logistics, Build Direct can focus its business on the developed metropolis such as Beijing/Tianjin or Shanghai areas in the beginning, where logistics is not expected to be a problem. As time goes on, Build Direct can build its own logistic system or technology with the assistance from logistics companies across China.

7.1.2 Payment

For Payment, even though Build Direct cannot offer cash on delivery payment model, it still can change the on-line payment to bank draft and remittance of down payment, and the bank draft and remittance payment are now widely used for business to business e-commerce.
transactions in China. It is assumed that since this business model can attract Chinese buyers to make down payments before, there is no reason why the business model cannot apply to other Chinese buyers. However, it will take some time for Build Direct to build its own brands, credibility and reputation in the long term especially in that Chinese culture values long-term business relationship.

7.1.3 Web-design

For web design, based on the above analysis of cultural difference, we recommend the following points to be considered when designing Build Direct web page in Chinese: due to high power distance, more structured design webpage such as complex hierarchies in content and exhibiting social/moral symbols such as expertise, authority etc, for example Excellency for Amazon, E-Fun for E-bay in Chinese; because of high collectivism in China, web design should focus on group achievement, use of official slogans, emphasis on relationships, marked emphasis on tradition and history; based on emphasis long term relationship in China, web design should focus on practical value and issues, patience, and credibility and reputation building etc. In addition, more eye-catching animated promotion logos, uses of cartoon figures, “crowded” web page content are also salient characteristics that are different from American web page.

7.2 China Market Entry Timing Decision

7.2.1 Internet Usage

Internet Usage tends to be a major deterrence to build direct business model in China. In Beijing & Tianjin Area (20 Million residents), there are approximately 30% of population using internet, which is equivalent to 6 Million population. Among this population, approximately 5% of the population shop online, which equal to about 300,000 people. Therefore, Build Direct has to focus on business to business rather than business to customer model. Should Build Direct can
attract enough local wholesale business in several natural stone markets in Beijing & Tianjin area, this should not be a problem.

7.2.2 Payment

On-line payment (such as credit card) could not materialize in China before due to its incomplete banking and trust system. However, on 12 July, 2005, US Internet giant eBay announced that it will launch its online payment service PayPal in China in September 2005 in an attempt to give a boost to its development of e-commerce in China. This allows buyer in eBay to send money to an account of eBay. Sellers, meanwhile, can only access remittances from the account once a buyer verifies the products. Alibaba, another B2B online business giant in China, also launched its AliPay online escrow system in February 2, 2005, and the www.alipay.com website, which makes AliPay available to all businesses and individuals in China. So, build direct can exploit the opportunity to partner with these brand new on-line payment systems for its online wholesale business model in China. In the meanwhile, Build Direct can still focus on remittance and bank draft for collection of down payment for the time being in China.

7.2.3 Bribery

Bribery issue is another impediment to Build Direct business in China. Therefore, Build Direct should focus not on public projects but on private projects instead especially on real estate and household renovation markets. In addition, the prices of natural stone products that Build Direct handles are more acceptable for household renovation projects than public construction projects which favour cheaper domestic low-end natural stone products.

However, there are also positive factors such as foreign exchange rates – the future appreciation of RMB, upcoming Beijing Olympic Games, and the attractiveness of the market. This would increase the future demand for high-quality natural stone products in Beijing area, thus further increasing the business opportunities for build direct. With cost leadership strategy
focusing on the core competence, adaptation and adjustment of innovative business model, Build Direct will have obvious competitive advantages over local and foreign competitors in Chinese markets. With the favourable environment as mentioned above and the assumption that Build Direct has the financial and human resource capability to enter into Chinese market, there is no reason Build Direct should abandon this lucrative market especially at this moment.
8 CONCLUSION

The wide spread of internet technology has significantly and dramatically changed the way business is done around the world. However, the proven success of an E-commerce business model in developed countries does not necessarily lead to the future success of the same model in developing or emerging markets. The study identifies several key international factors which influence the success of E-commerce business model in emerging markets, and more importantly provide a general framework in analyzing E-business model application in emerging economies. The study indicates that adaptation and adjustment of E-business model to fit into different circumstances would be essential for the success of the E-commerce business in emerging markets.

With the recommended Three Level E-Business Model in Emerging Market, we are in the position to apply this E-commerce model to analyzing the company of Build Direct’s decision to enter into Chinese natural stone markets. After analyzing the core competence of Build Direct in Chinese market along with the attractiveness of Chinese natural stone industry, we come to the conclusion that Build Direct should build its position in Chinese natural stone market as early as possible.
9 LIMITATION AND FUTURE RESEARCH

Due to the limited availability of information about Chinese natural stone industry, most relevant information for this study is acquired through the research on the internet. This could cause the problem of low temporal stability for internet referencing. In addition, this case study only considers doing E-commerce in China, and the validity of the application of the three level model in other developing countries needs to be further attested. Therefore, future research in E-commerce model in emerging markets should use primary data to test model and making cross-country comparisons.
APPENDICES
REFERENCE LIST


http://www.unctad.org/Templates/webflyer.asp?docid=5655&intItemID=1528&lang=1&print=1


http://commerce.concordia.ca/gkersten/ebusiness/ecom_zwass.html