# Developing the E-Commerce Environment

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ABAC has requested Marshall to evaluate the state of e-commerce in a select number of APEC economies.

Areas of Focus

• Factors that promote e-commerce development
• Barriers to e-commerce development
• The role of international investment and trade
Research Methodology

89 interviews with CEOs, managers, lawyers, academics, consultants, and entrepreneurs

Fields of Expertise
- Technology Start-ups
- Intellectual Property
- Online Content
- Entertainment
- Software
- Computer Hardware
- Network Backbone
- Manufacturing

China: 21
USA: 20
Japan: 22
Mexico: 26
Phases of E-Commerce Development

Level of Development

Introductory | Growth | Maturity

Time

Private Sector

Government

ABAC

usc Marshall
**Key Factors for E-Commerce**

**Government Finding**
Government plays a critical role in facilitating e-commerce by narrowing the digital divide and building trust among users, particularly in the introduction and growth phases of development.

**Private Sector Finding**
Private sector diffuses technology worldwide and reaches diverse consumers helping to sustain e-commerce development through growth and maturity phases.

**Culture Finding**
E-commerce development must be achieved within the context of the country’s cultural identity to ensure participant willingness to interact online.
The Role of Government

Government Finding

Government plays a critical role in facilitating e-commerce by narrowing the digital divide and building trust among users, particularly in the introduction and growth phases of development.

Narrowing the digital divide
- Government funded initiatives
- Effective regulation
- Cultivating human capital

Building trust among users
- Online government services
- Comprehensive legal framework
Government funded initiatives increase Internet use by delivering infrastructure to the masses.

**e-Mexico**

**Goal:** Bring the Internet to 95% of the population by 2006

**Status:** Number of Internet users has doubled since 2001

**Success Factors:**
- Government sponsored rollout of infrastructure
- Partnered with private industry

**e-Japan**

**Goal:** “Become the world’s most advanced IT nation”

**Status:** Highest broadband and wireless data usage; leader in m-commerce

**Success Factors:**
- Subsidized FTTH for low investment zones
- Targeted efforts to reach all demographics

<Government : Narrowing the Digital Divide>
Effective regulation can increase competition and drive usage by creating an attractive environment for users.

- Effective Regulation
- More Competition & Investment
- Better Service & Lower Prices
- Increased Usage

Japan

- NTT forced to open its network
- Ownership restrictions lifted.
- Spurs ADSL competition
- Global ISPs enter the market
- Prices fall
- Greater bandwidth
- Advanced services available

<Government : Narrowing the Digital Divide>
Effective regulation can increase competition and drive usage by creating an attractive environment for users.

Japan

- Prices fall
- Greater bandwidth
- Advanced service available

- 79%: 2nd highest reach
- 30%: Highest penetration rate

- Next generation network build out
- Increased content development

<Government : Narrowing the Digital Divide>
Government must provide a sufficient IT workforce to support growth through domestic or foreign sources.

“Our companies have a great need for educated IT resources but there aren’t enough qualified workers.”
Business Development Manager, network equipment provider in Japan

<table>
<thead>
<tr>
<th>Local Labor Sources</th>
<th>Foreign Labor Sources</th>
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<tbody>
<tr>
<td>Proper education must be provided.</td>
<td>Foreign labor policies must be flexible.</td>
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<tr>
<td>• Sufficient quantity of schools and programs</td>
<td>• Visa programs for IT workers</td>
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<tr>
<td>• Schools cover necessary material and knowledge</td>
<td>• Streamlined process to bring in or outsource foreign labor</td>
</tr>
<tr>
<td>• Cultural acceptance of IT careers</td>
<td>• Government assistance in helping local companies find foreign expertise when needed</td>
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<Government : Narrowing the Digital Divide>
By offering government services online, countries are able to build trust of the Internet with their citizens.

Online government services attract users to the Internet.

Successful transactions help citizens gain comfort and experience.

Internet becomes a trusted medium for personal and business transactions.

<Government : Building Trust and Awareness>
A comprehensive legal framework protects consumers and businesses which encourages online transactions.

**Consumer**
- Internet Privacy Protection
- Sales Fraud Protection

**Privacy major concerns**
- 70% of users won’t register demographic information online
- 42% enter false information instead

**Piracy major concerns**
- Insufficient protection of intellectual property will discourage investment and technology transfer.
- Enforcement is an issue

**Business**
- Intellectual Property
- Sales Fraud Protection

Source: GVU's Tenth WWW User Survey

<Government : Building Trust and Awareness>
The Role of the Private Sector

Private sector diffuses technology worldwide and reaches diverse consumers helping to sustain e-commerce development through growth and maturity phases.

Diffusing technology worldwide
• Multi-National Corporations (MNC)

Reaching diverse consumers
• Small-Medium size Businesses (SME)
"The push for new technology comes from big companies."
former CEO of high-tech start-up in Mexico

By sharing technology through global expansion, MNCs increase online participation.
Wal-Mart: Diffusing Technology Globally

Competitive advantage through efficient use of IT worldwide

Integrated Supply Chain – Satellite System – Suppliers Use Similar IT Platforms
Electronic Data Interchanges – Online Store

<Private Sector : Diffusing Technology Worldwide>
SMEs extend e-commerce by expanding into new markets currently untapped by MNCs.

• SMEs grow through the desire to gain competitive advantage

• As SMEs grow the number of niche markets that were previously unserved decreases
Netflix: Unique On-Line Business Models Reach Niche Markets

- Founded in 1998; IPO in 2002
- New business model:
  "Unlimited DVD rentals for a flat monthly fee."
- Over 2.2M subscribers: +72%
- Revenues of over $500M: +96%
- All customer interaction takes place online
- Broadband video-on-demand service in 2005

<Private Sector : Reaching Diverse Consumers>
The Role of Culture

Culture Finding

E-commerce development must be achieved within the context of a country’s cultural identity to ensure participant willingness to interact online.

Incorporating Culture

- Adapting processes
- Adopting technology
A country’s e-commerce activities must be aligned with existing consumer behaviors and infrastructure.

**Adapting processes**
Consumers have existing purchase behaviors
- Credit cards vs. cash
- Preference for in-person transactions

**Adopting technologies**
Existing infrastructure influences technology migration
- Fixed line vs. wireless
- Costs of existing infrastructure

supported by existing culture

<Culture : Incorporating Culture>
Settlement in Japan: Adapting Process to Existing Behaviors

**Consumer Behavior:**
- Low credit card usage during introductory stages of e-commerce
- History of paying bills at convenience stores such as 7-11

**Resulting action:**
Even as credit card usage increases, e-commerce companies ships individual’s order to local 7-11 where the fulfillment of the order takes place.
Technology Adoption in China: Taking Advantage of Existing Infrastructure

Existing Infrastructure
- Low credit card penetration
- Low fixed line penetration

Resulting action:
Mobile phone subscriber growth surpasses PC growth. E-commerce switches to M-commerce, where orders and fulfillment are handled via SMS services
Key Factors For E-commerce

E-Commerce Growth and Development

Engage Private Sector

Active Government Involvement

Adapt to Culture
Roles for Growing E-Commerce

- **Introductory**
  - Government Funded Initiatives
- **Growth**
  - Effective Regulation
  - Cultivate Human Capital
  - Online Government Services
  - Establish an effective legal framework
- **Maturity**
  - Multi-National Corporations
  - Small/Medium Enterprises
There is no one right solution for any country. Leaders must take the developmental phases and cultural environments into account.

- To grow e-commerce, business leaders must analyze the phases of development within their countries and industry sectors.
- Business leaders must adapt their strategy to involve the right mix of private and public sectors relevant to their country's needs.
- Culture is the environment that defines the boundaries.
Thank You!

Questions?