How Do China’s Small and Medium-sized Enterprises (SMEs) Go Out Under the New Normal?—Based on the Case of Alibaba B2B Platform

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In recent years, China’s foreign trade has entered a new normal, whose pace of the growth has entered the middle and low-speed track, and requirements for brand and innovation are higher. With the development of information globalization, e-commerce has been widely used in various fields of foreign trade. Therefore, cross-border e-commerce provides a new platform for our enterprises, especially small and medium-sized enterprises, to expand international market. Moreover, with the increasing cost of raw materials, labor forces and the problem of product homogeneity getting more serious, the SME could only receive fragmented orders, the financing channel becomes limited and the profit margins are reduced. To explore how China’s SMEs go out and get profits, therefore, has a practical significance.

Keywords: foreign trade new normal, B2B platform, small and medium-sized enterprises (SMEs), go out

Description

In recent years, China’s foreign trade has entered a new normal, whose pace of the growth has entered the middle and low-speed track. According to the latest data released by the General Administration of Customs, the total volume of China’s import and export in 2015 is 24.58 trillion RMB, decreased by 7% compared to that of 2014, of which the total export trade volume is 14.4 trillion RMB, decreased by 1.8% compared to that of 2014, and the import trade volume is 10.45 trillion RMB, decreased by 13.2% compared to that of 2014. From the latest three years’ data, China’s foreign trade growth also significantly slowed down, with many foreign trade enterprises receiving fewer orders and less profit. Meanwhile, the foreign trade requires more on the innovation and brand, and the trade friction continues to intensify.

Those features revealed the problems of China’s foreign trade enterprises, especially SMEs, in logistics management, core technology, professional talents, and financing, and they also highlighted the urgency of China’s foreign trade reform. With the development and sharing of the globalized information, e-commerce is widely used in various fields of foreign trade. Therefore, the cross-border electronic commerce has provided a
new platform for our enterprises, especially small and medium enterprises, to expand the international market. According to the survey, in 2013, China’s cross-border electronic transactions scale was 3.1 trillion RMB, accounting for 11.9% of China’s total import and export volume. In 2014, compared to the traditional trade growth, the electronic business growth rate had surged by 30%. In 2015, the total volume of e-commerce market even reached 15 trillion RMB. Moreover, with the launching of series of supporting policies for cross-border trade and the improving of the industrial chain, many cross-border trading platforms led by Alibaba are gaining great momentum.

Faced with the fact that the demand for traditional enterprises is declining, and the traditional export oriented with low cost is losing its advantage, some enterprises begin to seek new way to go out. They use the cross-border e-commerce trading platform to expand overseas markets, and to complete a relatively comprehensive industrial chain. However, although many companies have recognized that B2B platform is an important channel to increase overseas opportunities, they could not do well in the operation and practice process, and some of them even get losses. The importance of the information networking cannot be neglected in today’s world, therefore, how SMEs adapt to the trend and take full advantage of B2B platform to go out has a strong practical significance (Tao, 2015).

The Necessity of SMEs Using Alibaba B2B Platform to Go Out

According to the data, the problems faced by small and medium-sized enterprises in foreign trade are: the lack of customer resources, insufficient promotion channels, increased cost, low brand awareness, shortage of funds, and lack of talent. Among above, the lack of customer resources can account for the proportion of up to 52%. Going further, this problem is closely related with other factors such as the lack of talent, low product awareness, and the limited channels of promotion. Therefore, the main obstacles for foreign trade enterprises to develop based on Alibaba B2B platform are shown in Figure 1 as follows:

![Figure 1. The main obstacles for foreign trade enterprises to develop based on Alibaba B2B platform. Source: The economic forum of Renmin University of China.](image)

The Division of Demanding Market Impacts the Traditional Business Model

Since the economic crisis in 2008, the whole world economy has been in a period of structural adjustment and recovery. While the domestic and international consuming demand continues to weaken, the e-commerce
industry, on the other hand, has rapidly developed. The remarkable superiority of e-commerce has impacted our traditional business model to a large extent. Moreover, with the features of convenience, affordability, and popularity, the e-commerce has attracted lots of customers from the traditional business model. This current situation forces the SMEs, especially the traditional industries, to transfer their structures and to adjust their own development strategies.

**Increased Cost and Limited Funding Channel**

Since China’s SMEs have few significant advantages in the scale, their economies of scale are not obvious. Meanwhile, largely influenced by the scale, domestic and foreign policies, market environment and traditional thinking, those enterprises are often in a low-profit state. As for the enterprises in some specific fields, they may burden more pressure from the cost of land, rental, and procurement. Many developed countries have begun to shift factories and manpower to the countries with lower labor costs, thus creating a greater business pressure for SMEs in China. In foreign trade, if the SMEs are involved in bad debts trade with a large amount of money, they could hardly supply enough fund, and some of them may even suffer the financial breakage or insolvency. As for SMEs’ financing level, their financing capability is limited considering their credit rating of or assets. In many cases, financial problems of SMEs cannot be timely or effectively solved.

**Lack of Export Awareness and Professional Talents**

From our research, we found that many SMEs were confined by traditional sales thinking and marketing models in export business, and they were not familiar with e-commerce business and operational processes. Therefore, they failed to take into account the preferences of consumers, or online shopping habits, or local conditions, thus many difficulties in foreign trade arising. With the development of e-commerce, compared to traditional foreign trade with bulk of orders, foreign trade based on B2B platform focuses more on small and personalized orders. The change requires SMEs to improve their capability in operating business as well as meeting customers’ demand. However, there is an obvious shortage of talents who can meet all those requirements. In terms of the treatment and salary in foreign trade market, the average salary per month is around 2,000 RMB in the inland city, while in coastal city the number is about 3,000 RMB. In addition, foreign business usually takes long period to develop customers, and the job requires much time and experiences. Therefore, the low payment of the foreign trade market could not guarantee the employee’s living expense or further development, resulting in the loss of foreign trade talents (Qi, 2015).

**Insufficient Informatization and Promotion Channels**

In China, most cross-border e-commerce participants are small and medium-sized enterprises. In lack of incomparable strength, relevant capacity, and professional experience, the SMEs would choose the third-party cross-border e-commerce platform as their primary choice. Meanwhile, SMEs do not have an accurate target, or a precise self-estimate or a systematic assessment, their hasty choices are mainly influenced by acquaintances’ introduction or public promotion. In addition, for small and medium-sized enterprises, their information environment is relatively closed, thus hindering their exploring and analysis of the market, and finally resulting in limited channels of promotion.

**Rely on Traditional Business Methods and Lack of Innovation Awareness**

In the conduct of cross-border business, SMEs usually remain dependent on the traditional marketing methods by lowing prices to improve market competitiveness. Therefore, many small and medium-sized enterprises want to go out through e-commerce platform, and build their own unique brand. However, in
developing overseas market, they need to take into account the foreign customs, consumer preferences, and other factors. Those factors could add to the difficulty of building their own brands. In solving the problems, on the one hand, the SMEs shall change the traditional business methods; on the other hand, they need to make more rational choices based on a large number of market research and data analysis (Ren & Dai, 2015).

How Do SMEs Use Alibaba B2B Platform to Go Out?—Based on One Touch Platform

One Touch is Alibaba’s first comprehensive service platform for SMEs to do foreign business in a one-stop way. The one-step service includes finance, logistics, customs clearance, tax rebates and foreign exchange and other import and export services. The One Touch has changed the traditional foreign trade business model. It has integrated a large number of scattered, small foreign trade resources, so the SMEs would have less pressure in operating and financing. Only if SMEs be fully aware of the comprehensive functions and advantages of One Touch, and take the advantage of its convenience and welfare subsidies can they better promote their own foreign trade business (Shen, 2015).

Taking Advantage of Financial Service to Solve Funding Problem

Due to the limited assets, SMEs usually do not have a high credit rating to get enough loans from the bank to solve financial problems. Therefore, the One Touch launched by Alibaba provides them with the financial service including One Touch account statement credit line, L/C credit line, and OA credit line.

One Touch account statement credit line: It is designed mainly for customers with the basic service export business by giving them relevant credit in terms of their export volume. Moreover, the loan service offered by One Touch account statement credit needs no mortgage or guarantee. According to survey, this credit loan service decreased the SMEs’ funding cost by 10%. In addition, the maximum financing amount can reach 10 million RMB, which shortens the SMEs’ turnover of funds as well as save their time and cost. Also, the SMEs can use more flexible payment method according to different credit banks, such as sooner pay after borrowed, monthly payment or due repayment.

L/C credit line: It is a letter of credit financing method. The One Touch would provide SMEs with free services including receiving orders, reviewing the L/C, making documents, paying foreign currency, financing and etc. Also, the One Touch has launched three L/C financing products: L/C package loan, L/C financing buyout, L/C financing without buyout. The fastest loan takes only one day to reach one’s account, and the financing rate can be as low as 0.03% per day.

OA credit line: also known as CITIC insurance financing. When the supplier and overseas buyers do OA business, the One Touch can help SMEs to investigate overseas buyers credit and to manage processes including insurance and financing on behalf of the SMEs. From the research, we found that most SMEs daren’t take OA orders with large sum of money unless they have some special channels. Moreover, due to the long period of our product sales, the SMEs of our country can hardly receive orders when foreign competitors using OA credit method. Via OA credit line, the SMEs can receive the financing funds as soon as they confirm buyer’s qualification and deliver the products. The new procedure has accelerated the turnover of the funds and decreased the risk in the trade.

The One Stop Service Including Customs Clearance, Foreign Exchange and Tax Rebate Service Saves Time and Cost for SMEs

With the increasing cost of labor force, raw materials, and renting, while influenced by exchange rate
fluctuations, product homogeneity and the gradual disappearance of the demographic dividend and other factors, the corporate profits are weakening in recent years. For SMEs, the cost in factors such as customs clearance and tax reimbursement has taken more and more proportion in the total cost, especially in some small orders, this cost could account for more than 30% of the total cost. The authors believe that the electronic documents have replaced the paper documents in today’s declaration process. The efficient network could combine settlement of exchange, declaration, tax reimbursement, and other factors all together, thus reducing the approval sectors, improving the efficiency, and saving moneys. In this case, the One Stop service not only provides SMEs with intimate and comprehensive services, but also gives them tax subsidies. For example, a small and medium-sized enterprise could get three cents refund by exporting one dollar’s product in three days with fast approval procedure. According to the survey launched by Alibaba, by using the One Touch platform service, a company could receive the tax return in one day at the fastest speed, while in the past, the tax rebate period could be as long as 20 days without the One Touch service. Therefore, the company could save much labor force and time so as to increase the turnover and utilization of the funds. In terms of the foreign exchange, it is influenced by factors like international liquidity and international capital flows in short-term, and it will be affected by international balance of payments, inflation, economic growth, government policy, and other factors in a long run. That is to say, foreign exchange may directly affect the profit of the SMEs, sometimes may cause losses. In order to prevent or reduce the impact of foreign exchange on SMEs, a strong backing protection is extremely needed. The bank of China first set up foreign exchange settlement branches within the One Touch platform. The branches could provide customers, especially SMEs, with foreign currency hedging and foreign exchange settlement services. At the same time, the One Touch can predict the future exchange rate of the settlement or purchase of foreign currency, which can better prevent the risk of exchange rate fluctuations.

**Use Logistics Services to Reduce Transaction Costs**

If an enterprise can do scientific, reasonable, and efficient in logistics management, logistics as a large proportion of business costs, will be effectively reduced and improved. So it also determines the importance of reducing logistics costs for small and medium-sized enterprises.

Alibaba group, a joint logistics provider, provides comprehensive shipping, land transportation, air freight, and international express delivery for small and medium enterprises. From the aspect of sea transportation, Alibaba group not only provides the shipping container and the container service, but also provides online services such as inquiring sailing, booking, trailer, and customs clearance. Bulk cargo has other value-added services like destination port delivering. It is also transparent and effective. The services of Shanghai, Ningbo, Tianjin, Qingdao, Xiamen, and the eight ports of Guangzhou have been opened. By air, the route has covered 170 countries and regions. And land transport mainly for the transport of Hong Kong, which can be given up to $100,000 for all risks. The service can not only enjoy the price discount, but also have senior expert to tailor a logistics service for small and medium-sized enterprises. It not only saves time, but also makes it safe and transparent. According to the survey data show that China’s small and medium-sized enterprises spend about 30% of their total cost on logistics each year. If our export enterprises can use comprehensive foreign trade platform like One Touch Platform, not only can reduce cost on the commission fees, but also enjoy a certain amount of subsidies and allowances on the foreign trade service. This will effectively reduce and improve transaction costs and better control the cost of the enterprise (Liu & Zheng, 2013).
Use Information Services to Create a Win-Win Eco-chain

In B2B e-business transactions, the mutual trust of both parties is hindered by the asymmetry of information between buyers and sellers. The integrity crisis is a major barrier to promotion and development of B2B platforms, according to a global survey by Alibaba. According to the survey, 90% of enterprises put the honesty factor in the position of choosing partners, more than the quality and price and other factors. An effective solution to this problem, by establishing a rich database of small and medium-sized enterprises and Alibaba’s credit record, gives information advantages for the development of small and medium-sized enterprise financial services. The information services business is Alibaba’s main business, which is a customer-centric open e-commerce platform for providing information and trading services for multiple buyers and sellers. According to a report by the iResearch Consulting, from the business income scale, Alibaba has occupied favorable dominant position in China’s e-commerce industry, occupying about 70% of China’s e-commerce market share, and still maintained rapid growth. In 2014, Alibaba total revenue is 525.04 billion yuan, up 52.1 percent from 2013. Alibaba Group earnings in 2015 also showed that the company’s revenue and profits maintained strong growth. In the fourth quarter of 2015, the company’s revenue was 34.543 billion yuan, up 32 percent compared to in 2013. After adjusting for non-US accounting standards EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) was 19.111 billion yuan, an increase of 27%. With 1,200 professional buyers from 240 countries and regions in the world, Alibaba publishes more than 3,000 enquiries and inquiries every day. Therefore, Alibaba has become an important e-commerce channel in the international market. Therefore, Alibaba relies on experience, data, and technical advantages to provide information services for small and medium-sized enterprises to solve the problem of the information asymmetry between enterprises and promote the trade to establish sincere cooperation. By collecting a large number of management, cash flow, and credit status data of small and medium-sized enterprises and individual businesses, and through the depth of the data mining, Alibaba classifies and identifies all users, and then provides effective customer information to build efficient credit system construction.

In short, Alibaba as a leading enterprise of China’s e-commerce ecosystem, organizes small and medium-sized enterprise members in the system together and concentrates on thinking, to explore the development of the business ecosystem. Alibaba constantly challenges traditional business models and creates new business models through continuous innovation. In landscape, it provides a sound development environment for other e-commerce platforms; in the vertical, Alibaba has effectively connected the upper middle and lower reaches of the foreign trade to the establishment of win-win ecological chain.

References