Electronic Marketplaces in Hong Kong’s Trading Industry

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Abstract

Electronic marketplaces are important because of their potential to change industry structure, for example, by eliminating or altering the role of traditional intermediaries, leading to consolidation of fragmented industries or fragmentation of consolidated ones. Not solely a western phenomenon, there has been considerable electronic marketplace activity in Asia. Because supply chains in Asia are more fragmented than those in the US, many observers expect greater potential for electronic marketplace benefits, and hence adoption and impacts, in Asia. Still in their startup phase, it is too soon to expect to see evidence of industry structure change attributable to electronic marketplaces—such as declining prices for goods, reduction in the number of trading firms through bankruptcies or mergers and acquisitions, or systematic changes in the ways buyers conduct international sourcing. However, it is not too soon to start trying to understand the ways in which industry structure might change by looking at what the electronic marketplaces are trying to do. In particular, we are concerned with three theoretically motivated issues: 1) how well Asian marketplaces match theoretical characteristics believed likely to lead to changes in industry structure, 2) the electronic marketplaces’ avowed strategic intents, and 3) their resources for success.

1. Introduction

For the last few years, independent B2B marketplaces open to the members of an industry group—like Covisint in the auto industry—have been much in the news. Not solely a western phenomenon, there is considerable electronic marketplace activity in Asia [12]. Electronic marketplaces have the potential to alter the competitive structure of various industries [30], by promoting consolidation or fragmentation [22], by disintermediating or atomizing supply chains [7], or by changing an industry’s strategic groupings [8, 33]. Therefore, both countries and industry groups have an interest in the formation and fortunes of electronic marketplaces.

A particularly interesting situation is the Hong Kong trading industry. International trade is a complex sector involving the direct manufacture of goods, warehousing, transportation, import/export services, and host of related business services. Because of geographic and time zone differences, language and currency differences, and customs and other sorts of regulations, many companies that buy or sell internationally prefer to use intermediaries. Hong Kong, which was founded to facilitate trade with China, is home to some 100,000 trading establishments. Trade is arguably the most important sector of the Hong Kong economy. At the same time, it is a sector under pressure: increased openness of China trade threatens to erode Hong Kong’s traditional gateway status, and trading firms are being relentlessly forced to provide higher value-added services [24].

In recent years, a new potential threat has appeared on the scene—electronic marketplaces aimed at Hong Kong and/or China trade. Still in their startup phase, it is too soon to expect to see evidence of structural change in the industry attributable to electronic marketplaces—such as declining prices for goods, reduction in the number of trading firms through bankruptcies or mergers and acquisitions, or systematic changes in the ways buyers conduct international sourcing. However, it is not too soon to start trying to understand the ways in which trading industry structure might change by looking at what the electronic marketplaces are trying to do. In particular, we are concerned with: 1) how well these marketplaces match theoretical characteristics believed likely to lead to changes in industry structure, 2) the electronic marketplaces’ avowed strategic intents, and 3) their resources for success.

The next section provides an overview of theoretical issues related to electronic marketplaces and our research questions. Then, we discuss our qualitative method. The descriptive findings sections provide an overview of Hong Kong’s highly fragmented trading industry, portraits of three representative trading firms, and descriptions of five important electronic marketplaces. The discussion section answers research questions about the potential effects of electronic marketplaces on the Hong Kong trading industry.
2. Theoretical background

Electronic markets have long been predicted to have important effects on industry structure, such as an increase in the number of suppliers used by buyers [26], increased outsourcing (e.g., buying instead of making, use of intermediaries instead of doing something in-house) [3], disintermediation [7], and increased consolidation of access to suppliers [22], as would occur with a reduction in number of intermediaries. The mixed empirical evidence suggests that the effects of electronic markets depend on market-specific conditions [22], such as the degree of fragmentation in the industry [21], and that electronic markets theory itself may be wanting. For example, it has been observed that the arguments in support of a shift from hierarchies to markets would also support a shift hierarchies to networks [32, 34] and that “real” electronic marketplaces do things that markets and hierarchies theory did not predict [11].

Careful reading of the literature suggests that the definition of electronic markets may be a factor in both predictions and observed outcomes. For example, Bakos [2] explicitly considered systems that enable suppliers and buyers to find each other and exchange price information, while noting that “real” electronic markets may have other important features outside his focus. Kaplan and Sahwney [21] argued that electronic marketplaces enable different kinds of transactions, suggesting that effects may vary with marketplace type. For instance, a “real” marketplace that supports auctions of commodity products is more likely to result in reduced prices than one that links to suppliers’ product catalogs or aggregates several suppliers’ products into a fixed price catalog. Therefore, our first research question is:

Research question 1: what do electronic marketplaces in the Hong Kong trading industry do? In particular, how do they support buying and selling in international trade?

As anyone knows who has been following electronic commerce, what high tech startups are doing today is different from what they did last year and different from what they are likely to do tomorrow. So, understanding what electronic marketplaces are currently doing in the form of services offered is unlikely to give a full picture of what they are about. Closer to the mark are the concepts of “strategic positioning” [30] or “business scope commitments”. Business scope commitments represent a key concept in strategic groups analysis, a methodology that has been used to detect the presence, timing, and nature of significant structural industry changes [9, 33]. While the emergent nature of electronic marketplaces in the Hong Kong trading industry would not support a full strategic groups analysis, an understanding of the marketplaces’ business scope commitments can be instructive. Included in the concept are: target product/market combinations and geographic scope [10]. Therefore, our second research question is:

Research question 2: how are electronic marketplaces in the Hong Kong trading industry positioning themselves in terms of product focus, target markets, and geographic scope?

To date, adoption of electronic marketplaces worldwide has been lower than expected. Many perished during the recent dot-com meltdown, and more may yet fail. Therefore, it is useful to understand the strategic resources that electronic marketplaces can bring to bear in their quest for success. Are they dot-coms living off venture capital, the “clicks” parts of “clicks and mortar” enterprises, or traditional intermediaries who have fought back against disintermediation [7]? What partnerships have they formed? How much capital do they have? “Strategic resource commitments” represent the second key concept in strategic groups analysis and are viewed as key to obtaining and maintaining competitive advantage in target market segments [10]. Therefore, our third research question is:

Research question 3: what strategic resources do electronic marketplaces in the Hong Kong trading industry have to support their quest for success?

3. Method

Because electronic marketplaces are an emergent phenomenon and data to systematically test their impacts on industry structure are not yet available, the goal of this research is to understand possible future impacts on the structure of the Hong Kong trading industry by examining what the electronic marketplaces in this industry are trying to do. This admittedly exploratory aim lends itself to the case study research strategy [38]. Our unit of analysis is the Hong Kong trading industry, with an emphasis on apparel and textiles—a key segment, with electronic marketplaces as our embedded unit of analysis. Criteria for selecting electronic marketplaces for analysis include: headquarters in Hong Kong or China; focus on international trade, trade with China, or trade in apparel and textiles; publicly available data, and attention in the press. All data were collected from publicly available sources, including the companies’ websites, news articles, case studies, and public presentations by company spokespersons.

Research question 1 inquires about how the marketplaces support buying and selling. To answer this question we looked at such things as whether the marketplaces support online buying, whether they enable auctions, whether they provide catalog aggregation, technologies used, etc. Research question 2 inquires about business scope commitments. To answer this question we looked for information about target product focus (single vertical industry or multiple vertical industry), target buyers and suppliers, and geographic scope. Research question 3 inquires about strategic resource commitments. To answer this question we looked for information about initiators/owners (clicks only,
or brick and clicks), cash and human resources, and partnerships. In addition, where possible, we report relevant performance or “success” metrics [6] such as number of members, number of transactions, and revenue.

4. Descriptive Findings

This section describes, first, Hong Kong’s trading industry and three trading firms, and, second, five electronic marketplaces that address the industry.

4.1. Hong Kong’s trading industry

Founded by the British as a trading colony in the early 19th century, Hong Kong remains the world’s leading exporter of toys, clocks, calculators, radios, hair dressing apparatus, telephone sets, travel goods and handbags, imitation jewelry and artificial flowers [4]. For a brief time following World War II, Hong Kong was a major manufacturer of many consumer products, especially apparel and textiles, but by the early 1990s most manufacturing had been outsourced to China and Southeast Asia.

Today, China produces one third of world’s suitcases, one quarter of the world’s toys, and one eighth of the world’s footwear and clothing. While these products account for only about 3% of the products consumed in global markets, China is well on its way to becoming the world’s factory [37]. This trend will surely accelerate with China’s entry into the World Trade Organization and the easing of quotas on apparel and textiles imports [17].

If China is the world’s factory, Hong Kong is China’s corporate headquarters and sales office. For example, Hong Kong firms control much of China’s apparel and textile manufacturing, and most Chinese-made apparel exported to the US and Europe is sold in Hong Kong [4]. According to the Hong Kong Trade Development Council1, Hong Kong is the most important port of entry for the Chinese mainland: about 40% of the mainland’s foreign trade and 11% of China’s total trade is handled via Hong Kong, making Hong Kong China’s third largest trading partner.

Overall, trade is essential to the Hong Kong economy. The wholesale, retail and import/export trades sector2 accounted for 27% of Hong Kong’s GDP in 2000, followed closely by financial services at 24%. In 1998 over 400,000 people were employed in Hong Kong’s trading industry, and the sector was growing at 18% per year. The apparel and textile industry is also critical to the Hong Kong economy. While manufacturing employment in Hong Kong is on the decline, apparel and textiles account for 40% of employment in Hong Kong’s manufacturing sector [4].

Hong Kong has many advantages in its role as the “gateway to China” for trade and manufacturing coordination [4]. For instance, Hong Kong has the legal, regulatory, telecommunications, logistics, and other services infrastructure needed to “help international companies design, source, package, finance and market using e-commerce and ship using supply chain management” [17]. Many believe that the opening of the China market through membership in the WTO will lead to substantial growth in Hong Kong’s trading industry [17]. Others, however, worry that, with the improvement in the mainland’s port facilities, more goods will be shipped directly to and from China’s markets without going through Hong Kong. Direct trade between China and Taiwan might also worsen Hong Kong’s trading position [19].

Trading firms. In 2001 there were 102,000 Hong Kong establishments [15] in an estimated 70-75,000 firms involved in import and export services [27]. Most were very small: 92,000 trading establishments had fewer than 10 employees; only one establishment had more than 1000 employees [15]. Although smaller companies have lower overhead costs than larger companies, they face greater challenges. “Smaller companies have to do more because their pockets are not as deep as larger companies,” according to economist Guonan Ma at Salomon Smith Barney. “Downsizing and cost savings mean deflation ... and pressure on margins” [18].

Most trading and apparel/textile firms in Hong Kong are family-run businesses [4] and employ traditional ways of doing business. Much trading activity is conducted via postal mail, fax, telephone, and personal interaction. A 1994 survey estimated that 75% of Hong Kong’s import/export traders had computerized, but that use of IT was mainly confined to word processing and inventory control [27]. While electronic communication has the obvious potential to enable quick response and faster replenishment, researchers Berger and colleagues found only one Hong Kong firm that made use of EDI with customers [4]. By the end of 1998, only 14 per cent of Hong Kong traders had subscribed to Tradelink, an EDI-based service for submitting trade declarations [27], though the closing of trade counters in 2000 undoubtedly pushed many more online. More recently, it was estimated that only about 41% of the firms in Hong Kong’s trading sector have Internet access, and the percentage is lower among smaller firms [16]. Three brief portraits shed light on the strategic scope and resources of traditional intermediaries in the Hong Kong trading industry.

Li & Fung (www.lifung.com). By all accounts, Li & Fung is the leader in the Hong Kong trading industry, with global revenues of US $2B in 2000. The firm’s position in the industry was consolidated by its acquisition of Inchape Buying Service in 1995 and its 1999 acquisitions of the trading operations of the Swire Group (one of Li & Fung’s largest competitors), including Swire & Maclaine and Camberley. The latter

1 http://www.tdc.com
2 Government figures for this sector also include restaurants and hotels.
acquisition gave Li & Fung capabilities in garment design. In 2000, Li & Fung was five times the size of its two largest competitors [14].

Founded in 1906, Li & Fung’s original competitive advantage lay in the language skills of the firm’s founder, which enabled him to serve as an intermediary between American buyers and Chinese factories. Today, Li & Fung provides large US and European retailers a full array of supply-chain management services—from product design, through sourcing of raw materials from suppliers around the world, to the monitoring, production, and final delivery to the customers. [14].

For example, Carole Little, a Los Angeles-based producer of women’s clothing, was losing money and wanted to shift apparel manufacturing overseas. But the company didn’t have the resources to set up and manage a worldwide production network. Carole Little’s closed its Hong Kong buying office and outsourced 80% of purchasing and production management to Li & Fung, estimating the move would save $4 million a year and return the firm to profitability [35]. Similarly, Avon Cosmetics decided to pare its own overseas buying offices and to outsource all of its non-cosmetics merchandising to Li & Fung [5]. Interestingly, Li & Fung performed these services without direct ownership of raw materials suppliers or product manufacturers. The firm was a master of virtual organization, orchestrating supply chain coordination through a substantial investment in information technology.

Long a leader in the use of EDI, Li & Fung launched an intranet in 1995 to link its group offices and manufacturing sites across the world. In 1997, it launched secure extranet sites customized for key customers. By 2000, 10 such sites were functional. Li & Fung could carry out on-line product development and order tracking, eliminating the need to send hard copies of documents back and forth, thus streamlining communications as orders moved through the supply chain. Customers could track orders on-line and make changes to product customizations almost at the last minute of production. [14]

Jebsen & Co Ltd (www.jebsen.com). Jebsen deals in consumer products like beer, industrial equipment, cars, and travel services. Although sales of luxury consumer products were particularly hard hit by the Asian economic downturn, beverage sales (Blue Girl beer) and industrial machinery exports to Mainland China remained strong. “The future definitely is in the [Mainland] China market,” said Jebsen’s Director, Mr. Wolf [23]. “The industry sector is the most promising one because industrial machinery is needed for infrastructure and engineering projects.”

In addition to its 1,200 staff in Hong Kong, Jebsen had 200 employees in nine liaison offices on the China mainland. In 1996, when rules were relaxed, Jebsen & Co Shanghai and Jebsen & Co Tianjin were launched with licenses to trade in those locales. “We were one of the earliest to be allowed to keep a warehouse and invoices in those areas,” said Wolf [23].

Mars Concord Ltd. (www.marsconcord.com/). Mars Concord Ltd. is a small importer and exporter of brand name toys and gift items, exporting mainly to the US. Although the company was largely unaffected by the Asian financial crisis, director Edward Wong said the company was beginning to diversify into Europe. In addition, the company was expanding its operations on the Chinese mainland through increased use of information technology.

Mars Concord attributes some of its business success to early use of the Internet. “Previously 20-30% of our business costs was communications, but now with high-speed faxes and the Internet there is better communication with customers, so our costs have come down,” said Wong. The emerging business challenge is to find new customers and predict what items would be “hot”. Knowing ahead of time what toys would be in demand would help the firm advise customers and plan production with suppliers [28].

4.2. Electronic marketplaces in HK’s trading industry

The dot-com fever swept Hong Kong as it did the US, though with something of a lag. In 1999 and 2000, a large number of electronic marketplaces started up, including several in the trading industry [12]. The five most prominent are described here: GlobalSources.com, Alibaba.com, TradeTextile.com, Li & Fung’s StudioDirect.com, and ChinaTradeWorld.com.

Global Sources (www.globalsources.com). Global Sources is the veteran electronic marketplace in Hong Kong, claiming 5 years of experience (originally under the name Asian Sources). The company was founded in 1971 by Merle Hinrichs as a trade publishing and catalog company. Today, Global Sources lists its trade magazines and CD-ROMs as “complementary media” to its online marketplace.

Boasting 48 websites, including product verticals (in electronics components, general merchandise, home center/hardware, electronics/computers, fashion, manufacturing, and telecommunications), 14 geographic portals, and several specialist sites, Global Sources is clearly a “horizontal” player. Even within the apparel and textile segment, Global Sources offers a wide range of products. For instance, under its fashion heading, Global Sources offers: bags and footwear, fashion accessories, timepieces, and trimmings and fabrics. “Trimming and Fabrics is a product specific website and e-commerce center for volume buyers of fabrics and yarns, non-fabric materials, garment accessories and trims, and display and packaging supplies from established and emerging markets.” Global Sources offers a wealth of searches options—by product, suppliers, or country.

In addition to its electronic marketplaces and “complementary media”, Global Sources provides a
proprietary software package for online procurement. The Transact software is offered for customer hosting on a perpetual license basis or is available from Global Sources on a hosted services basis.

Global Sources publishes detailed financial and web transaction performance data on its website. All in all, the company appears have successfully leveraged its “print-based” information services into e-commerce business services. In the Best B2B Internet Site category, awarded at the Internet World Asia Industries Awards Meet (Singapore, 2000), Global Sources was recognized for its ability to deliver value to business customers based on efficiency, price, customer service, quality, innovation and trust.

**Alibaba.com.** Alibaba was founded in April, 1999, by Jack Ma, a former English instructor from Hangzhou China. Ma’s first e-business venture was [www.Chinapages.com](http://www.Chinapages.com), the first Chinese website for business information, in 1995 [39]. Two years later, he was appointed head of the information section of the China International Electronic Commerce Centre at MOFTEC (China’s Ministry of Trade and Economic Cooperation) in Beijing. With .5M RMB, Ma launched alibaba.com with the goal of becoming the premier trading site for SMEs in rural areas such as Kyrgyzstan, Sierra Leone and Brazil, as well as urban centers.

The key disadvantage of SME trading companies, Ma believes, is that they do not have proper access for finding trading partners. For instance, they may not have the funds to travel to trade fairs. He views his site as an electronic alternative to the trade fair, where business people—in 27 different vertical markets, from accessories to uniforms and work wear—can “meet” as a prelude to business deals. Sellers (buyers) post offers to sell (buy)—free of charge for now; potential partners contact them, via email or other means, and negotiate the deal outside the site. Since Alibaba.com does not yet support purchasing services, it is closer to an online community than to an e-commerce transaction site. However, Alibaba.com provides several related services that participants are likely to find of value: credit checks and shipping quotations.

Key to Alibaba.com’s success is its careful management of website content. Rather than letting members post their requests and offers directly to the site, the company employs a staff of well-trained traders who decide how the leads are best classified on the site [39]. In 2000 and 2001, Alibaba.com was named “Best of the Web: B2B” by Forbes magazine and selected as the most popular B2B website by readers of the Far Eastern Economic Review. The company claims to be the world’s largest B2B marketplace for global trade.

Today, Alibaba appears to be still living off venture capital. It doesn’t yet charge subscribers or rely on advertising, although it does seek sponsorship deals. Alibaba’s revenue picture has attracted criticism, but Jack Ma is undaunted, arguing that the company has many ways to make money—the important thing is to find the best approach. One possibility is to enter the increasingly crowded “Internet solutions” market to help SME trading companies get online.

**TradeTextile.com** ([www.tradetextile.com](http://www.tradetextile.com)). Tradetextile.com was launched on March 1, 2000 by Allen Cheung, a veteran of the Dai Dai Development Co. Ltd., a HK textile trading firm, and two business partners with e-commerce technology experience. TradeTextile, funded with venture capital from Entrade (a e-commerce technology company) and iBC (a e-commerce consortium of a large HK property developer and two affiliated banks), claimed to be the first B2B e-commerce trading hub and e-enabling solution provider exclusively for the Chinese textile and apparel industry—a market estimated at $85B.

TradeTextile.com leveraged Cheung’s long-standing relationships with textile manufacturers into four interrelated lines of business: 1) a marketplace for worldwide buyers of Chinese manufactured textiles and apparel, 2) a provider of virtual trade show technology for manufacturers and trade associations, 3) a provider of technology solutions enabling manufacturers to engage in e-commerce transactions directly with buyers, 4) a B2B marketplace to facilitate transactions among the 700 members of the China Chemical Fibre Association. The marketplace for apparel buyers supported offers for sale and to buy, auctions and reverse auctions, as well as providing a source of industry information and a mall to host the e-Stores of textile manufacturers. At the time this paper was written, TradeTextile.com hosted 11 e-Stores. TradeTextile has formed strategic partnerships with a logistics company and with a company that would provide product inspection and laboratory testing for customers. TradeTextile.com currently boasts 8000 members and hosted $30M transactions in 2000.

**LiFung’s StudioDirect.** In March 2000, the Li & Fung Group entered the electronic marketplace field with a service offering that is now called Studio Direct. Li & Fung already had a private marketplace for conducting electronic business with its large customers, primarily US and European retailers, and with its dedicated worldwide base of suppliers. Since Li & Fung specializes in a full range of high value added services tailored to the unique needs of its customers, little was to be gained by creating a marketplace for its existing customer group. Instead, Li & Fung saw e-commerce as a way to expand its reach into a new customer segment—small and medium sized retailers—that the company could not economically serve with its existing business model [13, 14].

StudioDirect enabled small retailers to source “private label merchandise” from the same set of 7500 carefully managed companies that supply Li & Fung’s largest customers. StudioDirect allows customers to order shirts, shoes, and other popular items (including golf and home products) and to customize their orders to a certain extent. While sizes and cuts for example are fixed, customization of color, logo, and labeling is allowed (hence the term “private label”). The aggregation of orders from many...
smaller customers is both cost effective to process and offers the possibility of substantially increased sales volume for Li & Fung’s suppliers.

Mr. Fung is scathing about other electronic marketplaces that seek to connect buyers in the west with suppliers in the developing world. “The small buyer doesn’t want to meet the small, inefficient supplier. The small supplier doesn’t want to meet the small buyer. He wants to meet Gap,” said Mr. Fung. “A lot of the people putting together portals don’t have that basic thing—quality control. We have decided to use the Internet to aggregate the small and midsize guys and leverage them off our traditional supply base of 6,000 suppliers globally and leverage that supply base to service the small and midsize guys. My old-economy attitude is that first-mover advantage can’t be so important that suddenly your (original) business is no longer viable. You can’t put the cart before the horse. You can’t say I’m in the internet business”[20].

Not everyone was convinced that Li & Fung had solved the e-commerce puzzle so easily. Joseph Tsai, the chief operating officer of Alibaba.com, argued that while large companies in the US knew Li & Fung, the company had no advantages over marketplaces like his when it came to name recognition among small companies. “Can a trading company become a marketing company?” he asked [20].

Li & Fung expects to benefit handsomely from the transaction fees it will charge its new customer base. Traditionally, these customers could expect to pay commissions in the range of 25-30%. Li & Fung planned to charge them only 10-15%. The company expected this new line of business to represent $2B in sales by the year 2004. An additional planned service offering was to provide transaction capability since it advertises the First eCom.com global electronic payments service.

Li & Fung’s Studio Direct is more an “electronic stock offer” (eSO), designed to provide Li & Fung’s suppliers with an efficient means of disposing of overstocks and seconds.

ChinaTradeWorld.com (www.chinatradeeworld.com). Perhaps the most intriguing entrant among the electronic marketplaces affecting the Hong Kong trading industry is ChinaTradeWorld.com, a joint venture, established in September 1999, of the China International Electronic Commerce Centre (CIEC) of China’s MOFTEC and an anonymous Hong Kong investor registered under the name “New ePOCH Information Co., Ltd.” (Recall that Jack Ma headed a unit in CIEC before founding Alibaba.com.) Comparing itself to the Silk Road of yore (“Yesterday the Silk Road, today ChinaTradeWorld”), ChinaTradeWorld has an avowed mission to bypass “middlemen” in Hong Kong and other cities: “According to Loo [Executive Director of CIEC], with the service provided by CIEC through its Web site, it will no longer be necessary to do business in China by using Hong Kong- or Singapore-based middlemen. The MOFTEC connection, she emphasized, guarantees that all factories are government approved, and that the transaction will go smoothly. In addition, Loo said that the Web site would consistently provide a first-hand, up-to-date picture of regulations, policies, and economic information.” [36]

There is no mistaking the intent to compete with Hong Kong’s trading industry. A fact sheet entitled “The Silk Road—About ChinaTradeWorld.com”, notes that the website will be backed by “the new port city of Nansha on the Pearl River in Southern China. This state-of-the-art port, just one hour from Hong Kong, will become ChinaTradeWorld.com’s recommended fulfillment center for transactions.” Hong Kong’s world-class port facilities—often cited as an important part of Hong Kong’s trading infrastructure—are bypassed through this decision. Another of Hong Kong’s competitive advantages in trade—its legal and regulatory infrastructure—may also be bypassed: ChinaWorldTrade.com notes that: “We have access to MOFTEC’s public tender system, so overseas companies trying to enter the Chinese market have a head start. We have translated China’s trading laws into English to minimize misunderstandings. We provide a detailed database of support services such as quality control and insurance and shipping. And we have a wealth of news and information to help you make the right business decision.”

ChinaTradeWorld.com allows buyers to access products in 21 vertical categories, including apparel (e.g., accessories, down coats, pants) and textiles (e.g., silk and carpets). At present the site appears not to have transaction capability, searches generally yield names and contact information for companies that provide the product category. Nevertheless, the site appears to intend to provide transaction capability since it advertises the www.chinatradeeworld.com, global electronic payments service.

5. Discussion of research questions

Table 1 compares the five electronic marketplaces on issues organized by research questions.

5.1. Support for buying and selling

These electronic marketplaces do not strongly resemble theoretical electronic markets, where the emphasis is on price discovery and auctions to drive down prices [2, 21]. Li& Fung’s Studio Direct is more an electronic hierarchy [26] than an electronic market. Alibaba and ChinaTradeWorld do not (yet) support online purchasing. TradeTextile.com is the only one to support auctions at present, and Li & Fung’s planned eSO is intended not so much to enable customers to get lower prices as to help its suppliers dispose of surplus inventory. Further, two of the marketplaces (Global Sources and TradeTextile.com) emphasize the provision
of IT infrastructures services, and a third (Alibaba.com) is considering such a move. These observations suggest, as others have already noted [32, 34], that we will have to look beyond markets and hierarchies theory for an understanding of these electronic marketplaces’ potential and actual effects.

5.2. Business scope commitments

Three of the five electronic marketplaces address a similar target market: Global Sources, Alibaba, and ChinaTradeWorld all provide worldwide buyers with access to global suppliers of a broad range of goods (i.e., they are multi-verticals). Of these, Global Sources targets larger, “volume” buyers than Alibaba does. Unlike Global Sources and Alibaba, ChinaTradeWorld limits membership to Chinese suppliers, but in view of China’s vast size, this hardly constitutes a geographic niche. 90% of Global Sources’ sources, for example, are Asian. The two remaining marketplaces, TradeTextile and StudioDirect have the same niche focus on the apparel and textiles vertical, but they have different target buyers. TradeTextile’s target buyers are apparel manufacturers, whereas StudioDirect targets retailers and wholesalers.

The strategic focus of TradeTextile’s marketplace (excluding its virtual trade fair and technology offerings) appears to fall 100% percent within the ambit of ChinaTradeWorld. This circumstance may offer, over time, an instructive perspective on the relative merits of specialist versus generalist electronic marketplace strategies. It will be interesting to learn whether the manufacturers involved in TradeTextile also actively participate in ChinaWorldTrade and the relative benefits attributed to each marketplace membership. Perhaps the most interesting fact about these marketplaces is ChinaTradeWorld explicit direct attack on traditional Hong Kong intermediaries. Its avowed aim is to bypass them and their traditional sources of competitive advantage such as port facilities and legal and regulatory infrastructure.

5.3. Strategic resources for survival

These five electronic marketplaces exhibit different ownership patterns. Two (Alibaba and TradeTextile) are dot.coms. Two (GlobalSources and Li & Fung’s StudioDirect) are e-business initiatives of established intermediaries (the first one an “infomediary”, the second a trading firm). One (ChinaTradeWorld) is a government-sponsored initiative. The bricks-and-clicks electronic marketplaces are clearly leveraging powerful resource bases. Since they represent “natural” extensions of their parents’ core strategies, the parents are likely to pursue them aggressively: Global Sources exploits the web potential of its print catalog empire, and Li & Fung’s initiative targets a potentially lucrative customer base that it could not serve cost effectively with its established infrastructure. The Chinese government marketplace undoubtedly has the resources to succeed if its backer retains its resolve. Even the two dot.coms appear to have the resources needed to succeed: alibaba.com was selected as “best of the Web” by Forbes for two years running, and TradeTextile has powerful partners.

6. Conclusion

As we noted at the outset, it is still too early to try to assess the actual impacts of electronic marketplaces on Hong Kong’s important, fragmented, and vulnerable trading industry. However, it is not too soon to try to understand the potential effects by looking at what the electronic marketplaces are trying to do. Our review of these marketplaces shows three patterns. First, well-resourced traditional intermediaries (Global Sources and Li & Fung) have formed electronic marketplaces to extend their reach. Second, new entrants (Alibaba and TradeTextile) have targeted underserved markets (SMEs and textile manufacturers). Third, a Chinese-government sponsored initiative (ChinaTradeWorld) has the avowed aim and resources to bypass traditional Hong Kong trading firms, many of which are SMEs. Thus, there seems to be some justification for the hypothesis that, if successful, electronic marketplaces would have significant long-term negative effects on the Hong Kong trading industry.

7. References

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<td>Bid/ask trade, auction, reverse auctions, information services, e-Store hosting Consulting and e-commerce technology solutions for small companies Virtual tradeshow capability Private label management service; Ability to place, pay for, and ship small orders with some customizations from L&amp;F’s suppliers; (planned) eSO, electronic stock offer—allowing suppliers to post surplus inventory for sales</td>
</tr>
<tr>
<td>Listings of providers of products in numerous product categories Listings of related service providers (shipping, insurance, quality control, legal, accounting)</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
</tr>
<tr>
<td>Internally developed transaction processing software named Transact; Oracle database; SingTel hosting services</td>
</tr>
<tr>
<td>e-Store software from Entrade customized by tradetextile</td>
</tr>
<tr>
<td>High-defn rotating image of products that users can customize; Sun HW; Selectica configuration; Oracle DB; Broadvision transaction SW</td>
</tr>
<tr>
<td><strong>Business scope commitments</strong></td>
</tr>
<tr>
<td><strong>Product focus commitments</strong></td>
</tr>
<tr>
<td>27 industry verticals, including apparel and textiles; 14 geographic portals</td>
</tr>
<tr>
<td>27 industry verticals, including apparel &amp; textiles; 2 geographic areas: China &amp; Korea</td>
</tr>
<tr>
<td>Exclusive focus on textiles and apparel: textile raw materials, fabrics, garments, home furnishings, yarns</td>
</tr>
<tr>
<td>Aimed at “private label buyers”; few product segments: men’s and women’s apparel, home and golf products</td>
</tr>
<tr>
<td>22 industry verticals, including one for apparel and another for textiles; China manufacturers only</td>
</tr>
<tr>
<td><strong>Target buyer types</strong></td>
</tr>
<tr>
<td>Importers of manufactured products and components, including top 100 international trade buyers such as Dell and K-mart</td>
</tr>
<tr>
<td>SMEs—buyers in rural and urban areas and many industry categories (Alibaba believes in similarities among SMEs regardless of product category)</td>
</tr>
<tr>
<td>Textile buyers from across the world SMEs that don’t know how to source from China [25] and can’t afford their own e-commerce capabilities [31]; Textile associations (e.g., Textiles-Indonesia))</td>
</tr>
<tr>
<td>SME retailers (20,000 in US/annual sales under $100 million) and SME wholesalers (2800 in US/turnover under $50 million), others in EU &amp; Japan Customers would pay Li &amp; Fung a lower than usual fee</td>
</tr>
<tr>
<td>Buyers who wish to source products of any type from China For Chinese companies to get permission to export is difficult and time-consuming; all ChinaTradeWorld.com sellers are already MOFTEC certified</td>
</tr>
<tr>
<td><strong>Geographic scope</strong></td>
</tr>
<tr>
<td>Buyers in 230 countries; 100,000 suppliers in 150 countries (90% Asian) Geographic origin of buyers’ requests for information: Asia 30%, NA 21%, Western EU 19%, ME 11%, Eastern EU 5% Language of business: English</td>
</tr>
<tr>
<td>Buyers &amp; sellers over 200 countries; HQ in Hong Kong, with offices worldwide: Languages of business: English, Korean, Chinese &amp; Simplified Chinese</td>
</tr>
<tr>
<td>Worldwide buyers; Chinese suppliers; HQ in HK, offices in Shanghai and Chicago Languages of business: English, Chinese&amp; Simplified Chinese</td>
</tr>
<tr>
<td>Buyers in US, EU and Japan; 7500 suppliers in 26 countries [24] (now 35 according to news article) throughout the world (but mainly Asia) Language of business: English</td>
</tr>
<tr>
<td>Worldwide buyers in 140 countries, Chinese suppliers—180,000 factories, farms and production centers; Languages of business: English, Chinese &amp; Simplified Chinese</td>
</tr>
</tbody>
</table>
### Resource commitments

<table>
<thead>
<tr>
<th>Initiator(s)/Owner(s)</th>
<th>Global Sources, public company with 26M shares outstanding</th>
<th>Hong Kong entrepreneur Jack Ma</th>
<th>Allan Cheung (former A.T. Kearney e-commerce consultant), C.J. Xu (an experienced software developer), and Y.F. Cheung, the managing director of an HK textile trading company</th>
<th>Li &amp; Fung CIEC Branch of MOFTEC, Chinese government (51% ownership), and a private Hong Kong investor named “New ePOCH Information Company, Ltd.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; Qtr 2001 Cash $12M, total current assets $26M, total assets $53M</td>
<td>Quickly raised $25M in 2 financing rounds from: SOFTBANK, Goldman Sachs, Transpac Capital, Fidelity Capital, TDF, Pte Ltd of Singapore, Investor AB of Sweden</td>
<td>Entrade invested cash and incorporated the Entrade B2B e-commerce technology into the new venture for a 25 percent ownership investment in the company and secured the right to acquire an additional 10 percent later iBusiness Corporation Limited (iBC) has a 25% stake (iBC was established early in year 2000 by four HK blue chip companies</td>
<td>Raised $250M in private placement of 60M shares in 2000 from: Castling Group (VC) and Goldman Sachs</td>
</tr>
<tr>
<td>People</td>
<td>500 employees plus 1300 people who work at sales rep and service locations worldwide</td>
<td>Started with 18 employees, current number unknown</td>
<td>Has “over twenty sourcing specialists”</td>
<td>CIEC has 600 staff in 74 cities in China</td>
</tr>
<tr>
<td>Partnerships</td>
<td>Local partners in: Australia, South Africa, Indonesia, Turkey; TradeCard for transaction services; ABN AMRO Bank for services integration; dollarDex for online care insurance services</td>
<td>Singapore Chinese Chamber of Commerce &amp; Industry (SCCCI)</td>
<td>Entrade—developer of E-store technology; Specialized Technology Resources—laboratory and inspection; Line (logistics services); Global Textile Network</td>
<td>Danzas AEI (Freight) CITT for credit risk evaluation; Andersen consulting for systems integration</td>
</tr>
<tr>
<td>Performance Indicators</td>
<td>226,361 active members 4000-5000 daily readers [29]; 30% visit daily; 49% visit once or twice a week; 17% placed many orders; 38% placed no orders to date; 80,000 products listed online; 2M sales leads annually; $800-1500/mo in fees per month in fees average per subscriber [29] Revenues for 1&lt;sup&gt;st&lt;/sup&gt; Qtr 2001 $25M</td>
<td>500,000 registered members in May 2001; 2,000 new subscribers per day 175,000 sell offers; 64,000 buy offer 2000 new orders and requests daily; 200,000 daily hits</td>
<td>8000 members 12,000 views per day $30M in transactions in 2000</td>
<td>Goals are: $2B in sales by 2004; 1000 new customers, sales of $2M each</td>
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<td>Information Sources</td>
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### Additional Resources

- [www.globalsources.com](http://www.globalsources.com) except where noted
- [www.alibaba.com](http://www.alibaba.com) except where noted
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