Analysis on the Development of E-business of Fresh Agricultural Products in China

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Abstract: The fresh agricultural products refer to the primary agricultural products which aren’t through deep processing methods such as cooking, manufacture and so on, including vegetables, fruits, meats, aquatic products, milk, flowers, etc. The electronic business of fresh agricultural products, (e-business of fresh agricultural products for short), refers to the direct sales of fresh agricultural products to meet the need of consumers on Internet platforms by all the means of electronic business. The traditional transportation of the fresh agricultural products from farmers to consumers generally includes four or five circulation links. The circulation cost remains high because of the excessive circulation links and wastage. E-business of fresh agricultural products helps to directly transport the agricultural products from the producers to consumers and accelerate the circulation of fresh agricultural products owing to the decrease of circulation links. Meanwhile, e-business of fresh agricultural products can solve the information asymmetry problem and informationize the circulation of agricultural products, which can lift the restriction of time and space to some extent. Therefore, it’s necessary to understand the operating mode of e-business enterprises of fresh agricultural products and probe the ways they profit.

This article is aimed to draw a conclusion after analyzing the e-business of fresh agricultural products in China from four aspects—the current situation of e-business of fresh agricultural products, the problems in purchasing fresh agricultural products online, the case study of e-business of fresh agricultural products (take Tmall’s business of fruits for example) and four suggestions concerning the development of e-business of fresh agricultural products in China.

The Current Situation of E-business of Fresh Agricultural Products

In March, 2016, Yiguo obtained the largest financing amount of e-business industry of fresh agricultural products in capital winter—Alibaba and KKR invested 0.24-0.28 billion dollars. It’s said that Fruitday finished its D-round financing of 0.1 billion dollars in April. The trading volume of e-business of fresh agricultural products reached 26 billion dollars in 2014, while it is 54 billion dollars in 2015 which is 2.08 times of the volume in 2014. Facing the rigid market demand, e-business of fresh agricultural products is supposed to provide the fresh agricultural products which are needed in daily life. With the development of e-business and the advent of Internet plus era, the fresh agricultural products in China have become the fourth category of well-sold products online, following books, clothes and 3C products. But now the permeability of this kind of e-business hasn’t reached 2%, while it is 30% of rag trade.
Lots of tycoons invested e-business of fresh agricultural products one after another. Alibaba invested Yiguo; Baidu invested COFCO I Buy Nets; Tencent invested Miss Fresh. The e-business of fresh agricultural products has become another field in which BAT (Baidu, Alibaba and Tencent) competes with each other, which accelerates the reshuffle of this industry. The prospective developmental trend and profit margins attract incessant capital which are invested into it. Therefore, the way how to profit in e-business of fresh agricultural products is the main concern of most enterprises in this industry at present.

At present, there are three main operation modes in Chinese e-business of fresh agricultural products. The first mode is called “E-business Platform Type” which indicates that the e-business platforms represented by TaoBao provide open services for other enterprises and individuals. In this mode, producers or distributors of fresh agricultural products release information about their products in virtue of Internet platform. The staff of e-business platforms manages the orders, while the managers of settled companies are in charge of products and refrigerated distribution by themselves. Shown in the diagram in the below:

The second mode is called “Vertical E-business Platform Type” which is represented by Tootoo. Tootoo establishes its own website and sells the fresh agricultural products online from the farms which are supervised by it. It is also equipped with its own refrigerated distribution which can deliver the fresh agricultural products rapidly. Shown in the diagram in the below:

The third mode is called “O2O (Online to Offline) Type” which is represented by XMATO. This mode means that the consumers are able to pick and pay for fresh agricultural products online, and then they help themselves to take the express. XMATO establishes its own website and sells the fresh agricultural products from breeding bases home and abroad. It is also equipped with its own refrigerated distribution. It will deliver the fresh agricultural products rapidly to the corresponding pick-up sites according to the address provided by consumers. And consumers will take the express by themselves. Shown in the diagram in the below:
The Analysis of Problems in Purchasing Fresh Agricultural Products Online in China

Currently

Problems of Consumption Concepts and Habits

Nowadays, the main purchasers of fresh agricultural products in some families are still the middle aged and old aged people. They are not accustomed to purchasing fresh agricultural products online. The high-priced overseas agricultural products cannot gain their popularity among the middle aged and old aged people. While purchasing the fresh agricultural products, they are used to looking over, touching and tasting the fresh agricultural products because they doubt the credibility of purchasing fresh agricultural products online.

Problems of Product Quality

There are great disparities between the physical goods and advertised pictures on the websites. For example, it’s difficult to make the unified standards of colors and sizes. What’s more, there will be great losses in the processes of storing and transporting the fresh agricultural products because of their particularity. Therefore, some consumers will find that the fresh agricultural products they receive can’t be matched with what the advertised pictures on net platforms show, and then they may lose their confidence in fresh agricultural products providers. The qualities of some fresh agricultural products can’t be guaranteed because of some uncontrollable factors, such as the low barriers to entry e-business industry of fresh agricultural products, the unlimited trading places on the Internet, the medial logistic links and so on.

Problems of Logistics Costs

Although purchase of fresh agricultural products online has gained its popularity, the fresh agricultural products providers basically need to face up with operating deficit at the beginning period because of high logistics costs, small business scale and some other reasons. Different from the traditional foods, fresh agricultural products purchased online have high requirements for transportation and distribution. So the fresh agricultural products providers not only need to integrate the resources of fresh agricultural products, but also need to make good use of cold chain logistics resources. The providers need powerful cash flow to support them, too.

The Lack of Standard Legislation and Supervision for Purchasing Fresh Agricultural Products Online

At the present stage, there are few laws about purchasing the fresh agricultural products online. According to Network Transaction Management Approach, which is publicly announced by State Administration for Industry and Commerce and put into effect on March 15, 2014, consumers can return what they purchased online before with no reason in 7 days since they receive the goods except for the goods which are fresh, alive and perishable. In addition, consumers have to pay attention to the additional provision that the goods they return need to remain intact. And the network commodity operators are supposed to return the money paid by consumers back within 7 days since they receive the returned goods. The shipping freight of returned goods is supposed to be paid by the consumers; if the network commodity operators make additional promises with consumers, the shipping freight of returned goods should be paid according to their promises. However, this provision doesn’t cover the detailed definition of perishable goods.
On April 24, 2015, the Fourteenth Session of the Twelfth NPC Standing Committee adopted the revised version of Food Safety Law of the People's Republic of China, which reinforced the supervision for online-purchased foods for the first time. The new Food Safety Law of the People's Republic of China stipulates that the providers of third party trading platforms for online-purchased foods should strengthen their supervision over operators who run the business of selling foods by means of the platforms. And the operators need to undertake joint liability in case of the disputes and pay the compensation in advance. Moreover, only criteria for the refrigeration, transportation and distribution of fresh agricultural products are laid down in China until now. The country is short of criteria for purchasing fresh agricultural products online and delivery equipments of fresh agricultural products.

The Case Study of E-business of Fresh Agricultural Products—Take Tmall’s Business of Fruits for Example

In October 2016, if the keyword "fruit" is input on Tmall, there will appear 93516 related products. The 212 brands include Miao.Tmall, Yiguo, Fruitday and so on. The species of fresh fruits include passion fruit, kiwi fruit, apple, Mango, dragon fruit, lemon, pomegranate and other fruits. Besides Chinese mainland, the places of production also include some foreign countries, such as New Zealand, Vietnam, South Africa, Thailand, Australia, Chile, etc. If the goods are sorted according to sales volume, the top one will be the yellow heart kiwi fruit which is sold by a brand from Sichuan Province. 15 kiwi fruits are sold at the price of 32.8 Yuan including the carriage. 36820 consumers evaluated the commodity. 3535 consumers among them thought the savor of the kiwi fruits were good; 3245 consumers thought the kiwi fruits were fresh; 3214 consumers thought the package of the commodity was good; 2508 consumers thought the fruits were cheap; 1957 consumers thought the goods tasted good; 1139 consumers thought the size of the kiwi fruits were big enough; 3092 consumers thought the savor of goods was just ordinary. However, the consumers gave different evaluations for the goods according to their comments. Some consumers thought the kiwi fruits were a little bit stiff and didn’t taste good; some consumers thought the goods were unsavory and difficult to be full-blown; some consumers said that it took a short time for the kiwi fruits they bought for the first time to mature, but it took a long time for the kiwi fruits they bought for the second time to mature; some consumers thought the fruits were very good and fresh.

Different kinds of fruits from various places of production are sold by different stores on the e-business platform of Tmall. All the fruits sold are local specialties of medium-to-high grade with product advantages. There will be certain profit margin in the business of selling fruits but the price of fruits which are sold online are cheaper than the fruits in the physical stores. The fruits sold online can be bought conveniently at a cheap price, so they sell good. However, according to the evaluations of consumers, we can know that some fruits are of bad quality. The qualities of fruits are different even though the fruits are of the same batch which leaves bad impressions on some consumers. Some consumers even say that they will never purchase fruits online. Therefore, the quality of fruits is vital in the e-business of fresh agricultural products and needs to be guaranteed. Studies have shown that the possibility for consumers to buy the fruits in a store again is greatly influenced by consumers’ trust on sellers. As a result, the e-business platforms are supposed to provide goods which are genuine at fair prices, of superior quality at reasonable prices and matched with the descriptions on the websites. And then the fruits can better attract consumers, detain consumers and improve their brand loyalty.
Suggestions Concerning the Development of E-business of Fresh Agricultural Products in China

Expanding Propaganda and Advocating Consumption

China Net Network Information Center (CNNIC) published The Statistical Report on Internet Development in China (abbreviated the Report) in Beijing for the 38th time. The Report shows that China's Internet users have reached 710 million and the Internet penetration rate of China has reached 51.7% until June 2016. Chinese Internet users are able to surf the Internet through various channels, such as mobile phones, tablet computers, notebooks, desktop computers, smart watches and so on. The e-business platforms can publicize the fresh agricultural products which are sold online through various Internet media and establish the platforms for communication, such as customer services, BBS, websites, social networking platforms (QQ, Wechat, Microblog), to guide the consumers to spend.

With the innovation of electronic payment mode, online transactions have become more and more convenient. And it can also facilitate customers to buy fresh agricultural products online. Staying at home and clicking the mouse, Consumers can buy inexpensive fresh agricultural products both home and abroad quickly and conveniently, which is still very attractive to consumers.

Guaranteeing the Quality of Fresh Agricultural Products and Enhancing Customers’ Brand Loyalty

The qualities of fresh agricultural products are the fundamental factors for expanding the business scale and increasing the sales revenue. Both exquisite packaging and good promotion need the qualities of fresh agricultural products as the guarantee. And the e-business of fresh agricultural products takes advantage of the platforms to sell fresh agricultural products of medium-to-high grade, which directly transport goods from the places of production. Then the qualities of goods can be ensured, and the information of goods can be traced back by consumers. It can not only reduce the logistic cost, but also improve profits. For example, Tootoo establishes its own production base which can ensure the quality and the supply of products. It also organizes staff to pick the fruits in their own farms and popularizes knowledge of foods to them. So the problem of asymmetric information can be solved. What customers get are not only products, but also healthy life styles and the stories behind the picking experience as well as the fresh agricultural products.

Developing the Logistics Technology and Reducing Logistics Cost

The distribution of fresh agricultural products is of strong timeliness and high transportation loss, which means that it urges for more professional and effective logistics mode. Cold-chain logistics distribution system is the key factor of developing e-business of fresh agricultural products. Cold-chain logistics distribution system can be developed from two aspects. On one hand, the government should establish cold-chain logistics system covering all links of fresh agricultural products, and make preferential policies to actively guide private capital to invest the construction of cold-chain logistics system. On the other hand, if the enterprise is small and its distribution capacity is insufficient, it can cooperate with excellent third-party logistics and distribution companies to effectively reduce the cost.
Reinforcing the Standard Legislation and Supervision for Purchasing Fresh Agricultural Products Online

In October 2015, China Food Science and Technology Network reported that some baby cabbage traded in the market had been sprayed with formaldehyde to retain their freshness. It’s reported that the frozen charge of about 20 tons of baby cabbage was almost 1500-2000yuan. However, the formaldehyde is cheap and it just cost 8 to 10 Yuan. This price gap of almost hundreds times made formaldehyde become the only option for those vegetable merchants whose business are on small-scale. Although this chemical does a great harm to human bodies, it has not been defined as inspective targets by supervision department. Government departments should be combined with various line organizations, companies as well as business institutions to formulate unified trade code for the e-business of fresh agricultural products and supervise it. So the e-business of fresh agricultural products can be operated under the unified trade code and be standardized as well as safe. The e-business platforms are responsible to supervise and control the production, processing, circulation and other links of fresh agricultural products. Strengthening the consciousness of quality can help to enhance consumers’ confidence and acceptance for e-business of fresh agricultural products.

Conclusion

There is still much room for e-business of fresh agricultural products and cold-chain logistics technology to develop. The government makes more and more strict as well as specified regulations and standards for e-business of fresh agricultural products, too. The futural developmental trend of e-business of fresh agricultural fruits is to produce organic food, green food and pollution-free food with agro-product geographical indications. The transactions for e-business of fresh agricultural products can realize the division of labor based on specialization. The production bases of fresh agricultural products are in charge of the production links of agricultural products; the e-business platforms develop and serve clients; the distribution links can be outsourced to the professional logistics enterprises for fresh agricultural products. Therefore, the problems of standardization, products’ security and cold-chain logistics can be solved. And the vocational work of e-business of fresh agricultural products can be gradually regionalized.

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