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## The transformation, upgrading and countermeasures of traditional enterprises in the internet era

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### ABSTRACT

The wide application of internet promotes the transformation and upgrading of traditional enterprises. In order to respond various challenges and grasp development chances, the influence to external environment of enterprises from internet is analyzed by PEST method, and then the countermeasures for internet transformation of traditional enterprises are discussed from 3 aspects. It has the certain practical significance to grasp competition rules of network economy, and formulate corresponding reform strategy of enterprises.

### KEYWORDS

Internet era; Traditional enterprises; Transformation and upgrading; Network economy.



## INTRODUCTION

The traditional enterprises have promoted the economic growth of our country powerfully based on transformation and upgrading of internet features, in this trend, more and more people have realized the force of internet and seek for innovation and breakthrough positively in transformation and upgrading. Zhang Jing (2011) thought that government, internet enterprises and users are forces of promoting development of internet service industry in our country, while the government and enterprise have the great influence on innovation abilities of internet service in our country<sup>[1]</sup>. Liang Zhang and Shen Fan (2013) figured out State-owned Commercial Banks not only made good use of abundant capital and policy resources, but also could learn and comply with the development trend of internet finance, and finished the reform and innovation of business model by means of combining new financial powers based on this foundation<sup>[2]</sup>. Fan Fujun, Chen Changzu and Chen Fangming (2014) concluded 4 models of e-business transformation in middle and small-sized garment enterprises, and extracted capacity factors and capacity structure of each model, pointed out e-business technology based on internet was the effective means for transformation and upgrading of domestic garment enterprises<sup>[3]</sup>. Shi Bingyan (2014) used game theory to analyze the problem of breaking market competition pattern of product homogeneity when middle and small-sized enterprises moved to e-business, and thought that various methods were conducted, such as the establishment of collaborative network, to make middle and small-sized enterprises gather the essence for transformation and upgrading in the second round of e-business game<sup>[4]</sup>. With the application and popularization of mobile internet, Wang Xiaohua (2014) considered that strategic transformation and upgrading of enterprise shall be quickened, and predicted that O2O (online to offline) model would become the main breakthrough point of future retail industry development<sup>[5]</sup>. In the traditional innovation type, manufacturing enterprises with low technology always drop into “low technology trap” and “catch-up trap”, base on chances to manufacturing enterprises with low technology from open innovation of internet, Du Xiaojing and Shen Zhanbo (2014) considered that the competitive advantage would be improved by means of controlling potential risks, perfecting “ecological niche” of manufacturing enterprises with low technology in “innovation eco-system”<sup>[6]</sup>. Because of influence of internet, the products of enterprises will transit and promote to stage of “experience” and “transformation guide” from “service” stage, Li Wenming and Lv Fuyu (2014) suggested utilize new commercial activity services which have different values, including information push, issue of bidding documents from consumer, cloud service, cloud consumption, etc, to promote the information consumption of all walks of life, and in this way, the scale effect could be released between and quicker<sup>[7]</sup>. The internet has been great trend of development, and it influences the various industries offline and permeates into industries continuously. Today, whether an enterprise has potential or not, which depends on the distance from internet, and whether it has prospect, which depends on whether it can excavate information. In order to respond the challenges and grasp chances in development, traditional enterprises should seize the growing rules of enterprises in Internet era better and conduct the strategic design again.

## INFLUENCE TO OPERATING ENVIRONMENT OF ENTERPRISES FROM INTERNET

Internet brings the huge impact to traditional enterprises while it develops rapidly, and becomes the macro power of influencing the development of enterprises. By means of PEST analytical method, the influence to external macro environment of enterprises from Internet can be analyzed as follows:

### **In politics, Internet makes society more noisy and more democratic**

The beginning of Internet is centralization and requires “centered on me”. Internet comes into contact with the bottom of society because of its low cost and high efficiency, and disseminator, especially the social level of audiences becomes lower, everybody becomes “media person”. Here, everyone is equal without lowliness and nobleness, which makes the people at bottom of society have common speak channel and speak right with elites in Internet era, and have the convenient conditions of appealing their interest demands, make the information spreading be more quicker, convenient, symmetrical as well.

Internet plays the role in public opinion larger and larger. The mainstream view, rumor on transgenosis, food safety, vaccination and prevention and control of influenza epidemic situations, etc, spreads and diffuses which forms internet public opinion force and brings the pressure to government, so people get closer to democracy realization. In the aspect of admitting the civil rights and social progress, opinions in different values appearing on internet is normal, and the reasonable needs of online public opinion should be paid attention by policy makers of government as well. Similarly, it cannot be denied that internet democracy reflecting public participation of democracy characteristic is not a perfect democracy model, even the deviation between the will of the people on internet and real will of the people often occurs. Therefore it will be necessary to strengthen legal system construction of network security and seek for the balance between freedom of public comment and internet democracy.

### **In economics, internet reform transforms operating model of traditional industry**

Internet urges the new economic growth point. Internet brings new development vitality to finance, telecom, retail, even education and real estate, etc, while it permeates into these industries, and becomes their technical force of reform. Internet decreases the trade links, improves the trade speed, extends the trade time, changes trade places and widens the trade scope, which changes the profit model depending on intermediary agents and asymmetric information to gain profit, thus changing the industrial zoology and remolding industry chain. Through the transformation of internet, traditional industry removes the

redundant intermediate link, and bursts out fresh vitality. Today, consumers can directly contact with manufacturers or service suppliers by internet, ubiquitous internet provides great convenient and material benefit to consumers.

Internet changes mode of thinking of people. With the continuous application of internet technology and deepening of internet services, products of enterprises changes with it, and user experience becomes more and more important. Consumers buy because of like, the decisive factor of successful products in internet era is exceeding expectation of users, shocking heart, and making them scream. It requires that products should have practical value, concept value, and emotional attributes except physical property, the product move towards extreme from differentiation, and enterprises should pay much attention on improving user experience in order to create value. Take Kodak, Nokia, Sony as an example, they have been well-known for a time, but now they decline or go into liquidation, it's not that their products are bad, or management is weak, the reason of failure is the change industry ecology. The better products or better management will be of no help without complying with the trend of internet.

### **In society, internet permeates into everywhere of social life**

With popularization of connected life, the life of people depends on internet more and more. Internet involves in daily life, including restaurant, KTV, movies, ticket book, hotel reservation, etc. When brows social network media depending on interpersonal relationship for spreading, such as Facebook, Sina microblog Wechat, etc, read the moments of life, reflections on life from friends, or evaluation on products, people will cannot control their feelings to praise, nowadays it has been one of important standards of expressing feelings on internet, even evaluating the effectiveness of advertisements. Recommendation, judgment between acquaintances spreads infinitely and becomes powerfully by means of internet, and sometimes they are more important than advertisement on traditional media for enterprises.

Internet changes our working manners gradually. Nowadays people working on internet are more and more, for many people, it can be stood without meat for 3 months, but it can't be stood without internet for one day, and the internet has been the battleground without smoke of gunpowder. In the future, people may not need gathering for work, the working time will be more flexible in virtual office space by means of intellectual products, and the continuous network connection also makes people be in working state all the time. In this way, employers and employees will not only pay much attention on time, place or methods for finishing the task, because the creation of real value and realization of final goal is more important.

Internet changes the life and working manners of people, and raises the revolution of social life. In the future, many habits and regulation in people's life shall be defined again, people will grow with internet together, and gradually adopt, learn this important carrier of life. The business model is established based on the social life model. The way of economic exchange will be changed with the change of social way on communications.

### **In science and technology, internet becomes catalyst of creative development of people**

Internet improves the production efficiency of traditional industries by technology. Products, like Yu'eobao, Wechat, make more and more people be aware that internet is the basic context for individuals, industries and society trapped by it and it is rewriting the industry landscape in new economic model. Internet also creates many smart products through combination of traditional fields. In the future, sound and somatosensory time will become the development trend of internet, which will bring great convenient for people. Since more and more industries are shocked by internet, the combination between internet and traditional business thinking turns into the advanced productivity.

Internet reforms various industries, meanwhile, it holds up "public innovation" time, and changes the driving force of application level from elite innovation to public innovation. In the future, the application replying on personal abilities and preference may drive the social prosperity. From the birth of Wikipedia, some enterprises open source code of products on internet, these products get the improvement from public originality unexpectedly, and the free public wisdom promotes the rapid development of business. It can't be ignored that sometimes products from public originality has surpassed the best products manufactured by world's top enterprises. By this time, "micro power" of many people will not be windy, it is close at hand, and enterprises will have more opportunities to overtake at curve in internet era if they learn this kind of force and reconstruct enterprises.

So to speak, traditional industries will be "robbed" on a large scale by internet in the future, which is not changed with human will. When the external environment of enterprises changes radically, the enterprises will lose persistent development motivation if they don't change strategy quickly and effectively, which compels the transform of production mode and management idea of enterprises, so enterprises should take advantage of an opportunity on internet's development and conduct the strategic arrangement according to own situation.

## **STRATEGY CHOICE ON TRANSFORMATION AND DEVELOPMENT OF TRADITIONAL ENTERPRISES IN INTERNET ERA**

Enterprise is the interest body which can change current situation on its own initiative, and can seek for new market opportunity to strengthen own advantages, thus reaching the strategic target that can't be achieved in the past. According to the difference on network environment and implementation ability of enterprises, the strategy on transformation and development of traditional enterprises in internet era can generalized into following 3 types.

### **Growth strategy giving priority to opportunity**

Internet changes quickly, including the technical change and non-technology factors, such as behaviors of users, change on preference of consumers, etc, so the continuous learning, creation and self-change are needed. If enterprises can handle or

grasp it well, the red sea of industry may be avoided to grasp first chance to become upstart of market, while “dinosaur” with history advantages always becomes the object overturned.

When Lei Jun established MI, traditional mobile phone manufacturers feel crisis as now, but amuse themselves by watching Lei Jun. The result is that MI uses “Internet thinking” to make other enterprises to be stunned after establishment for 3 years. MI chooses the strategy of hardware without making money or making less money, and mainly makes money from value-added services, including later soft services, such as sell of MI desktop, theme, even advertisement sell. This is the common commercial logic in internet era, firstly, gain users by sparing no expense, and the realization model will not be worried after gaining users. Meanwhile, in order to lower the price of mobile phone, MI mobile phone chooses direct selling of internet, directly transforms the channel fee to users by surrendering part of the profits, so MI mobile phone is called the mobile phone with highest cost performance. At the aspect of service, MI collects feedback of users and product suggestions from forum, and solves system problems, promotes upgrading based on feedback of users. MI utilizes internet tools in user research before productivity, production, sell and after-sales services, and its commercial logic is designed by referring internet products, which transplants internet thinking to traditional enterprises with one hundred percent.

The largest opportunity of internet is to develop own network advantage, technical advantage, management advantage, etc, to improve, transform offline traditional enterprises, thus changing the original industry development rhythm and building new game rule. After enterprises find development road, the resource and ability of other enterprises will not be effective, which makes enterprises to conduct the strategy giving priority to opportunity.

The enterprises choosing the strategy giving priority to opportunity can gain many service factors of interior of organization from exterior, thus resulting in the change of enterprise’s advantages, and becoming the leader of industry. In the new competition environment, enterprises that put the transformation, upgrading and development of internet into effect quickly and effectively will be the king in future competition.

### **Growth strategy giving priority to ability**

Opportunities and threat brought by internet are in parallel. Do “something being able to do” well smarter than blindly try “something being likely to do”. In transformation and upgrading, it is a good choice to naturally expand by taking use of own advantage and following development of internet, and in this way, enterprises can grasp opportunity and build advantage based on operation need of business.

The cooperation between Haier Group and supply chain network financial platform of China Citic Bank Industry strengthens their development strategy of network, and realizes complementary advantages of strategic transformation, starts the new model of supply chain cooperation between manufacturing industry and banking industry as well. According to appointment of both sides, the existing distribution network, logistic network, information network of Ririshun platform under Haier Group has close connection with supply chain network financial business of China Citic Bank, the convenient financing and payment service will be provided to middle and small-sized enterprises upstream and downstream on Ririshun platform by means of establishing the supply chain network platform fusing online and offline, and the risk can be controlled effectively by means of rigorous management process and relying on analysis technology of big data. The cooperation between Haier Group and China Citic Bank adds a strong support platform for China Citic Bank, thus making it pay more attention on credit and loan services in sales system of Haier; while Haier can provide the small loans to dealer better through supply chain finance platform, for both sides, it is the transboundary win-win in big data of internet era.

The growth strategy giving priority to ability can starts from the point that enterprises are good at or easy to succeed, which will be easy to find accurate combination path for enterprises. When the enterprise grasps own business and skills of showing and promoting it on internet, the innovation ability of enterprise will release in transformation and upgrading. This kind of partial transformation and upgrading gathers to the certain degree, the internet level of enterprise will enter into a new stage.

### **Selective following strategy**

In the time of traditional industries overturned by internet, some traditional enterprises having “contacted internet” don’t get rid of shock of internet, because the playing methods of internet is completely different from traditional management concept formed in traditional enterprises for many years, which makes some enterprise be in a dilemma. The connection method may be found through imitation of selective following strategy or strategy reference of best enterprises in internet.

The cases of successful imitation can be found everywhere. After MI creates the myth on development and marketing of domestic smart phone, many grassroots entrepreneurs imitates MI model, utilizes their previous advantages to make pancake, do catering, sell cosmetics and sell sex toy, etc, and they can create sales amount more than ten thousand yuan each day. The imitation is not duplication, is learning and referring operating model of others and combining own real situation for development, meaning the imitation and creation develop simultaneously. The followers can iterate and optimize products in low risks by imitating profit model of front runner, test whether products is accord with the demand of users by smallest cost and effective method, and adjust the direction flexibly. If the product is accepted by users, it is “quick success, cheap success”, not “meaningless failure”.

The appropriate imitation can bring more convenience for traditional enterprises. Because of limitation of information and cognitive ability and some external factors controlled difficultly, the future prediction of some enterprises may be not accurate, so the risk is large. In addition, some enterprises have short slabs, such as lack of capital, lack of rich channels, etc, and these will reduce the profitability of enterprises and make enterprise be difficult to go higher.

## CONCLUSIONS

The connection with internet may be a kind of pain for some enterprises. Since the recognition on internet transformation is lacked, the transformation process has misunderstanding more or less, which hinders the growth of enterprises. The comprehensive analysis on external environment of enterprise can present a concise overall situation for development of enterprises, which will be helpful to take use of new thinking for further utilization of internet.

The position of enterprise in industry is different, so the strategy selection and development measures that can adopt will be different. If enterprises want to gain persistent development in internet era, the surviving ability of “following with bend and making use of momentum” should be learned, and the strategy should be adjusted continuously based on external situations.

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