

Case Study: eGuo.com¹

Track: Cases in Operations Management

Abstract:

eGuo.com (it translates as eCountry), a Chinese e-commerce company, has launched a one-hour delivery service in Beijing since April 15 2000. Currently eGuo sells about 6000 kinds of products including 1000 kinds of food. Its distribution network operates on a hub-and-spoke model, with one centralized hub and about 10 located spoke stations. The "eGuo 1-hour" service has got very positive response from Beijing residents. Daily number of orders reached nearly 1000 in the middle of June 2000. Current operations system has faced a challenge to keep commitment for on-time delivery for one hour.

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On February 14 2001, ZHANG Yongqing-the CEO of eGuo.com (it translates as eCountry) had been quite busy due to the crazy enthusiasm of Beijing youth for this First Valentine's Day of the 21st century. Now it was 10:00pm, he could relax for a while and look at the statistical result of the day's order fulfillment. The total number of fulfilled orders is about 1200, including about 350 flowers, 50 perfumes.....

Mr. ZHANG was quite happy with this data. Since April 2000, the NASDAQ stock price had dropped B2C model had been questioned, venture capital investors had lost enthusiasm to B2C, current B2C companies had received a lot of pressure from investors to get to profitability early. Under such circumstances, eGuo's Valentine's Day performance can give investors more confidence in eGuo's future. However, the large number of orders challenged eGuo's logistics system to keep its promise of "eGuo 1 hour delivery" in Beijing. Mr. ZHANG had to think about how to develop eGuo in the future.

The Development of Internet in China

The Internet in China has developed quite quickly. According to the surveys of CNNIC, the number of Internet users had reached 22.5 million by the end of 2000 up from 620 thousand in October 1997 and 8.9 million at the end of 1999. Computers connected to the internet in China totalled nearly 9 million- 1.4 million connected through leased lines and 7.5 million through dial-up connections. The Total Bandwidth of Leased International Connections has

¹ The Paper is sponsored by the Large Soft Science Project (E-Commerce) of Tsinghua University, Beijing in China in 2000.

reached 2799 MBPS from 351 MBPS at the end of 1999. Countries directly interconnected to China's Internet include the United States, Canada, Australia, Britain, Germany, France, Japan, and South Korea. Internet users who have purchased Commodities or services via the Internet in 2000 reached 31.67% up from 8.79% in 1999.

ZHANG Yongqing and His “eGuo One Hour”

ZHANG Yongqing received his B.S. from Tsinghua University, Beijing in China in 1986, then went to the USA, studying Physics at Utah University between 1986 and 1989, and received his PhD in Physics at MIT in 1992. He worked in Wall Street firms including Salomon Brothers and Prudential Securities between 1992 and 1999. He turned to his nature Beijing at the first half of 1999. In October 1999, he set up eGuo Inc. eGuo launched the ‘eGuo One Hour’ service in Beijing on April 15, 2001. He thought delivery should be one hour:

“The customer needs convenience, quick and cheap service, otherwise we would lose the meaning of “e”. It would be best if you can get what you want as soon as you click (like sending an email). The customer expects instantaneous service. From the traditional viewpoint, it usually takes one hour to go to the closest market to buy some thing. Psychologically one hour is a kind of the limit separating “short” time from “long” time. So one hour can be considered as instantaneous service. In addition, one hour delivery can solve the problem of payment, eGuo can get money back when they send products.

Customers get free delivery service within the Fourth Ring Road, Zhongguanchun and Asia Games Village in Beijing. Combining the promotion of Pepsi, eGuo provided ‘Cool One Hour’ for ‘Buy Ten Get One’ activity, which means that internet users can get one can of Pepsi for every 10 RMB (1 RMB=0.12USD) product purchased from one hour shopping at eGuo.com. Comparing the 4 to 5 day delivery time for common online shop, “eGuo one hour’ really exceeds customer’s expectation. eGuo received a very positive response from market. The number of orders reached nearly 1000 at the mid of June 2000. Currently eGuo sells about 6000 kinds of products including 1000 kinds of food. Consequently, eGuo got a great attention from the media, and became a lab for people to test e-commerce. Beijingers suddenly found that e-commerce was so close to them

eGuo’s Operations

The headquarters of eGuo is located at Sigma Plaza between the North Third and Fourth Ring Road. Its distribution network operates on a hub-and-spoke model, with one centralized hub and 10 located spoke stations in Beijing. The standard to select spoke stations is based on area allowing delivery in one hour and population density. Since September 26, 2000, eGuo has opened three spoke stations as “eGuo Marts” so that customer can go to buy directly.

Communication is the key for fulfilling orders as the headquarters, and warehouses at

different locations. At the beginning, they only used telephone to pass orders, but this caused a lot of message errors. Recently they developed a Management Information System that can be used to exchange order and inventory information by internet web. eGuo's inventory management is based on the MIS software. Computers at different locations connect with the server of the headquarters by Internet by telephone. The headquarters knows how much inventory is in different spoke stations. Only the headquarters has authority to coordinate the inventory sharing between different spoke stations. The software can make monthly plan, and spoke stations can submit their replenishment plans based on the information in the MIS.

As eGuo's salaries are more attractive, it has attracted many people from traditional companies. For example, many staff in the call center come from pager service companies, spoke station supervisors come from traditional retailer companies such as Carrefour. eGuo provides a lot of training for their employees, such as training for delivery staff and service staff of the call center. Each employee has training at least once per month (usually arranged during rest time). Performance measurement is based on customer response, quality sampling and on time delivery performance. eGuo has a relative loose work environment and team work culture, and provide more opportunities for employees to develop. Such an e-commerce model attracted many good people to join eGuo. As eGuo has a good reputation within customer and keep an attention from media, relative high income, employee feel some proud of working in eGuo.

Experience of Shopping at eGuo

September 12, 2000 is the Chinese Moon Festival. The performance of the "eGuo one hour" service was checked as a test. An order was placed at 4:00pm and requested to deliver at 8:30pm- at the beginning of the break time of a meeting. The order included four boxes of Pepsi (24 cans per box), and 9 kinds of potato or corn chip products (with 15 to 20 bags for each kind). Until 6:00pm no confirmation has been got. The tester called the eGuo customer service center. They answered that the delivery staff would give a feedback call at 8:00pm. At 8:30pm the tester was informed that 2 of 9 kinds of potato or corn chips were out of stock, and some of the other 7 kinds had insufficient stock for the order. At 8:50 the order arrived. But the break had finished, and the tester had to distribute the products during the meeting. Because this order was much more than an ordinary order, the delivery person had to use a three-wheeled cycle rather than a bicycle. He had to find another way to go. This took him longer time to come.

ZHANG Yongqing's Four Ideas for Development of eGuo

1. Building one of the largest shopping malls in Beijing in three years
2. Open 100 eGuo-Marts during the next 2 years
3. Cloning the Beijing model in Shanghai and Guangzhou
4. Acquiring etoys in the US to set up B2B model