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# Problems in the online marketing of online shops in China

## Case study: the Taobao online marketing policy

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Ding, Lu

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Laurea University of Applied Sciences  
Leppävaara

Problems in the online marketing of online shops in  
China  
Case Study: the Taobao online marketing policy

Ding Lu  
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Ding Lu

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With the development and popularization of the Internet, more and more people are choosing to trade via the Internet. For the Chinese market, online marketing is still in its infancy, and inevitably several problems exist. Taobao is the fastest developing of all online marketing shopping platforms in China and accounts for the largest share of the online shopping market. In such a rapidly expanding market, Taobao's rise is a cause for concern.

This thesis will examine the current online marketing situation in China; the main problems related to Chinese online marketing; and the problems and victims of the Taobao online marketing policy. This study attempts to explore an efficient method of improving the relationship between Taobao and its online shop customers.

Key words    online marketing, Taobao, policy, online shop

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## 1 Introduction

### 1.1 Background

Internet-based commerce is one of China's fastest growing industries, with the high speed of expansion to the surprise of the world market. As of December 31, 2012, the number of Internet users in China reached 564 million (Basic Data CNNIC 2013) and the Internet penetration rate reached 43.4%. The data show that the Internet has undoubtedly become an enormous market, and this market continues to expand. When the Internet has become an enormous market, online marketing will naturally develop. By December 31, 2012, according to CNNIC statistics, the number of Chinese websites had reached 2.68 million (Basic Data CNNIC 2013). This indicates that more and more people are interested in the market potential of the Internet, more traditional industries have started to use the Internet for marketing, and expect to use the Internet to create value for their own business.

Online marketing has been a great development in China. Several online marketing platforms are well-known in China, such as Eachnet, Dangdang, Jingdong, and Taobao. Among these online marketing platforms, Taobao is the biggest one with the rapid development. The success of Taobao has not been without problems. On October 10 2011 Tmall which is the Business to Customer (B2C) online marketing platform belong to Taobao released a new regulation. The regulation announced that the annual fee charged of merchants would be changed from 6,000 (RMB) per year to 30,000 (RMB) or 60,000 (RMB); the service credit deposit adjusts from 10,000 to 150,000 (RMB). However, the move had immediately met with opposition from some small online shop customers, because they cannot pay such a large amount of money, and so felt that Tmall had simply ignored their interests. In the evening of October 11, thousands of small online shop customers collectively "attacked" Tmall by "attacking" big online shop customers of Tmall. These small sellers maliciously purchased an amount of goods from the big sellers and then give them negative comments and applied for refunds. On October 12, there were over 30,000 small sellers joined in this action. On October 14, 20,000 more people joined this action. According to a survey one big seller of Tmall lost 500,000 (RMB) per day during this episode. All the big sellers lost 10 million (RMB) in total. (Wen, Z 2011)

### 1.2 Purpose

With the emergence and development of the Internet, a new marketing approach called online marketing came into being. Although the Internet has been popular for a number of years in China, online marketing is still in its infancy. Taobao is Asia-Pacific's largest network of retail business district, which is also committed to creating the world's leading online

retail business district. (Taobao interview report 2012) In order to achieve this target, they need to have appropriate adjustment of policy to satisfy their whole customers to stabilize their business. The purpose of this thesis is to probe into Taobao online marketing policy, and explore possible solutions from customers' perspective for Taobao to adjust the relationship with online shop customers.

### 1.3 Taobao

Taobao Marketplace (formerly "Taobao") was launched in May 2003 by Alibaba Group after eBay acquired Eachnet, China's online auction leader at the time, for US\$180 million and became the major player in the Chinese consumer e-commerce market (Gemme 2006). Taobao Marketplace facilitates consumer-to-consumer (C2C) retail by providing a platform for small businesses and individual entrepreneurs to open online retail stores that mainly cater to consumers in mainland China, Hong Kong, Macau and Taiwan (Huang, B 2008). In April 2008, Taobao introduced a dedicated B2C platform called Taobao Mall to complement its C2C marketplace. In June 2011, Alibaba Group Chairman and CEO Jack Ma revealed that Taobao will be split into three different companies: Taobao Marketplace (a C2C platform), Tmall.com (a B2C platform; then called Taobao Mall), and eTao (a shopping search engine). (Wikipedia 2013)

Taobao involves both Chinese C2C and B2C business and operates them well. Since its inception in 2003, in two years' time, Taobao has quickly become the first domestic online shopping market and has maintained its first place. Until June 2012, the second quarter of 2012, China's C2C online shopping market transaction was 179.02 billion. Taobao Marketplace accounted for 94.6% of China's C2C online shopping marketing market share, Paipai accounted for 5.03% and Eachnet accounted 0.01%. Taobao Marketplace still has an absolute advantage, and this advantage is still expanding. As showing in Figure 1:

### 2012 Q2 China's C2C online shopping marketing market share

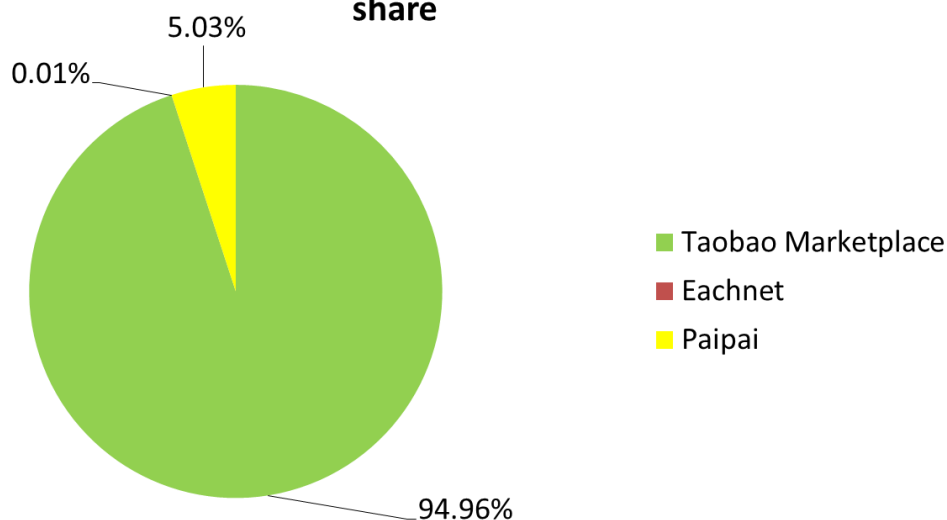


Figure 1: 2012 Q1 China's C2C online shopping marketing market share (IResearch 2012)

In the second quarter of 2012, the transaction of China's B2C online shopping marketing platform was 53.5 billion. Tmall accounted for 57.1%, left the competitors far behind. As showing in Figure 2:

### 2012 Q2 China's B2C online shopping marketing market share

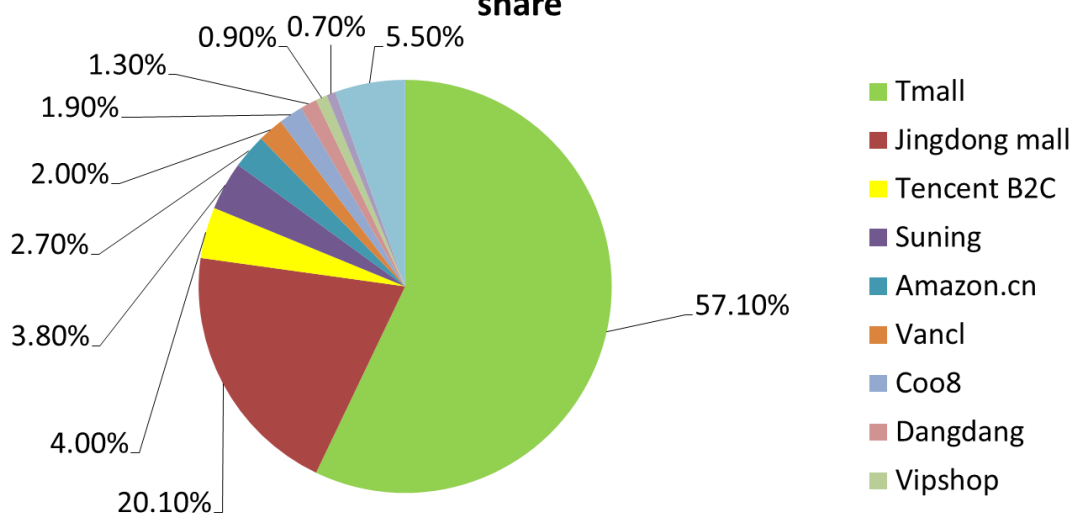


Figure 2: 2012 Q2 China's B2C online shopping marketing market share (IResearch 2012)

#### 1.3.1 Products and services on Taobao

The goods selling on Taobao involve many fields, for example, clothing, footwear, bags, accessories, digital products, home appliances, cosmetics, home building materials, foods, General Merchandise, car accessories, flower& gardening, books, coupon cards, virtual goods and so on.

Compared with other online shopping platform, Taobao makes its members feel active during the transaction process, because of the timely communication tool, Ali Wangwang. Ali Wangwang has all the function that general communications have. For example, voice and video function, viewing chatting records and viewing the information for the people you are talking with. Registered members of Taobao have the same account of Ali Wangwang. Buyers gain detailed goods information from sellers via Ali Wangwang, sellers inform buyers about changing goods price via Ali Wangwang as well.

Taobao has its customer services aiming to solve problems for both customers and online shop customers including complaints and right protection. They are the communication channel between Taobao and all its customers.

### 1.3.2 Security system

Taobao has real-name authentication system. Every customer needs to register an account by using identity card or business license. Individual customers register by identity card number, business customer register by business license.

Taobao also has credit evaluation system. Sellers and buyers can view each other's credit rating. After a successful transaction, both buyer and seller must evaluate for each other. Evaluation falls into three types, good, normal, bad. A good comment in return for 1 more point. A normal comment will not change your point. But a bad comment will lead to 1 point deduction. (Taobao security system 2013) Role as a buyer, credit divided into 20 levels as the following figure:



4分-10分	♥
11分-40分	♥♥
41分-90分	♥♥♥
91分-150分	♥♥♥♥
151分-250分	♥♥♥♥♥
251分-500分	💎
501分-1000分	💎💎
1001分-2000分	💎💎💎
2001分-5000分	💎💎💎💎
5001分-10000分	💎💎💎💎💎
10001分-20000分	👑
20001分-50000分	👑👑
50001分-100000分	👑👑👑
100001分-200000分	👑👑👑👑
200001分-500000分	👑👑👑👑👑
500001分-1000000分	👑
1000001分-2000000分	👑👑
2000001分-5000000分	👑👑👑
5000001分-10000000分	👑👑👑👑
10000001分以上	👑👑👑👑👑

Illustration 1: Taobao buyer credit level (Taobao service center 2013)

Role as a seller, credit divided into 20 levels. As showing in figure 4:

4分-10分	♥
11分-40分	♥♥
41分-90分	♥♥♥
91分-150分	♥♥♥♥
151分-250分	♥♥♥♥♥
251分-500分	💎
501分-1000分	💎💎
1001分-2000分	💎💎💎
2001分-5000分	💎💎💎💎
5001分-10000分	💎💎💎💎💎
10001分-20000分	👑
20001分-50000分	👑👑
50001分-100000分	👑👑👑
100001分-200000分	👑👑👑👑
200001分-500000分	👑👑👑👑👑
500001分-1000000分	👑
1000001分-2000000分	👑👑
2000001分-5000000分	👑👑👑
5000001分-10000000分	👑👑👑👑
10000001分以上	👑👑👑👑👑

Illustration 2: Taobao online shop credit level (Taobao service center 2013)

For example, an online shop has 4 times good evaluations after four successful transactions, and then it has 4 points credit. As a result, this online shop will be shown a heart in its information to represent the credit. The online shop with crown level and upon crown level credit rating is usually called high credit rating shop or big seller. The online shop under crown level is called low credit rating level or small seller. An online shop under 4 diamonds credit level has no annual fee in Taobao marketplace.

Alipay, an escrow-based online payment platform, is the preferred payment solution for transactions on Taobao Marketplace. (Wikipedia 2013) Taobao launched Alipay guarantee transaction security issues for both buyers and sellers on the payment link called payment shipping methods, in order to reduce the risk of the transaction. Alipay is particularly suitable for computers, mobile phones, jewelry, and other higher price items trading. Taobao Alipay is free. When users pay for goods by Alipay, users do not have the burden of remittance fee. (Taobao security system 2013) Escrow: documents, real estate, money, or securities deposited with a neutral third party to be delivered upon fulfillment of certain conditions, as established in a written agreement. (InvestorWords 2013)

### 1.3.3 Process of purchase

A summary shopping process in Taobao is showing as below:



Figure 3: online shopping process in Taobao

Before a buyer orders the goods, if the buyer has any question about the goods, he or she can consult seller by Ali Wangwang. When the buyer confirms the order, he or she has to check shipping address and the number of goods. After confirming order, buyer pays money to Alipay, and waits for goods delivery. During delivery time buyer can view logistics order tracking. When buyer receives and confirms the goods, buyer can transfer money from Alipay to seller to confirm the delivery and finally rate the seller.

### 1.4 Research objectives

Taobao has been growing rapidly, there are approximately 3 million online shop customers so far. Some of the shops growing fast from a small size online shop to create its own brand on the online market place. However some shops are still at the beginning of research and experiment. In this intense competitive environment, Taobao ignore that some policy they made with preference damage the interests of a typical group, which impact Taobao's online

marketing development. The objective of this thesis is to study problems and victims of Taobao online marketing policy and provide suggestions for Taobao at the end of the thesis.

## 1.5 Research methods

In this research, case study and interview are main research methods. For case study, the author will study Taobao online marketing policy and the problems and victims to it. For the interview, the author will interview two online shops' owners, the one from a big online shop, the other one is from a small online shop with several questions related to Taobao online marketing policy, and analyze results.

## 2 Online marketing

### 2.1 Online marketing introduction

Online marketing is a new marketing approach, which is based on Internet, utilize the interactivity of digital information and internet media to assist marketing implementation. Briefly, online marketing is a marketing approach which reaches marketing targets through the Internet. (Online marketing 2013) Common online marketing methods are online advertising, online sales, online service support, email marketing, search engine marketing, viral marketing, link exchange, online shop, and so on.

“Internet has transformed marketing and business since the first website <http://info.cem.ch> went live in 1991. With over one billion people around the world regularly using the web to find products, entertainment and soul mates, customer behaviour and the way companies market to both consumers and business have changed dramatically.” (Chaffey, Chadwich, Mayer, & Johnston 2009)

### 2.2 Present situation in online marketing in China

Online marketing was adopted relatively late in China. Until 1996, Chinese enterprises began to try to use online marketing. From the year 1997 to 2000, is the initial period of Chinese online marketing, e-commerce developed rapidly, more Chinese enterprises started to pay attention to online marketing. Since 2000, Chinese online marketing entered the application and development stage. Online marketing service market initial shaping, enterprises' website building developed rapidly, online advertising continuous innovated, marketing means continuous sprang up and developed. Until the end of June 2008, Chinese had approximately 253 million internet users, ranking first in the world. The number of online shopping people were 63.29 million. Until the end of 2009, the number of Chinese internet users were reached

400 billion. Until the end of June 2011, China had 485 billion internet users, Internet popularizing rate is 36.2%, which increased 1.9% than 2010. (CNNIC 2011)

According to IReaserch's prediction, in 2010, online marketing market capital scale reached 23.9 billion, which would increase 34% than 2009 17.8 billion. Online marketing market grown sharply shows that more people had begun to attach importance to online marketing, it leaded enterprises to a different effect than traditional marketing.

### 2001~2010 Chinese online marketing market capital scale

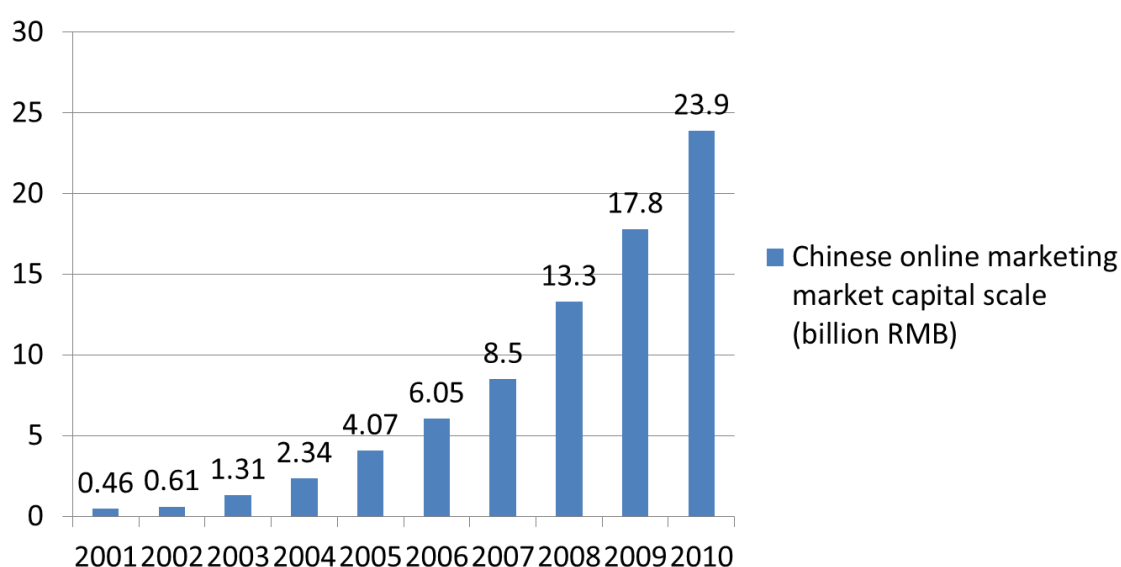


Figure 4: 2001 to 2010 Chinese online marketing market capital scale (IResearch 2007)

The income of China's online marketing market scale includes online advertising and search engine, among which, online advertising revenue includes network media, E-mail, network software, network game, digital magazines, and other types of media advertising revenue. (IResearch 2007)

### 2.3 Main problems of online marketing in China

In recent years, global online marketing rapidly growth and it has brought great business opportunities. Many countries' governments have developed online marketing planning and developed online marketing building vigorously. China is no exception. However in China online marketing still has some problems need to be solved.

Network infrastructure is a prerequisite to develop network marketing, over the years, although Chinese network infrastructure construction is progressing, when compared with the

network marketing condition, there is still a certain gap, the main problems are narrow network coverage and low rate of network utilization. China's network coverage is narrow, among which two-thirds of the users come from the cities. (Li, D 2004) Because of the high cost of surfing Internet in China, the number of Internet users is still small and frequency of surfing the Internet seems to be considerably low. In order to really achieve real-time online trading, network should have very fast-response speed and high bandwidth, which must be provided by the hardware support for high-speed network. In China, due to the slow economic growth and lagged-behind technical support, the network infrastructure is still poor. The quality of the network still cannot meet the online marketing requirements. As the author mentioned before, until the end of June of 2011 Internet penetration rate is 36.2%, (CNNIC 2011) network utilization is low, which causes a large number of network resources idle and waste. Low investment returns, seriously restricting the further development of the network. At the same time, more than a dozen departments and banking, taxation and other networking is not yet implemented. Simultaneously, the network interconnection between banking, taxation and other departments are not yet implemented.

There are no complete online marketing laws and regulations. Online marketing adopts electronic way to trade, business operators do not meet with consumers directly, and consumers and commodities without directly contact, these factors trigger a series of corresponding legal issues. For example, buyer received goods which are inconsistent with the one the buyer chose; online fraud; sellers suffered unreasonably refused to pay; online marketing security threatened by hackers. (Taobao Forum 2013) At present, China still has not a complete e-commerce or online transaction legal norms. It is not easy to protect the interests of business operators and consumers.

There are some problems in China's online marketing logistic distribution. Nowadays, demands of China's online marketing logistic distribution falls far from the minimum size of logistics enterprise's operation. (Xiao, H 2008) But due to the openness of the Internet and the uneven geographical distribution of customers, the service price is hard to reduce. Therefore, the high freight charges make enterprises lose their price advantage. Online marketing can greatly shorten the commodity trading time, but if there is no accompanying logistics system, the consumer may lose patience in the long waiting process, and online marketing again loses its time-consuming advantage. And also online shopping convenient and quick online shopping cannot be reflected.

Part of Chinese people has problem with the understanding of online marketing concept. (Wei,J 1999) From the enterprise point of view, some enterprise leadership have insufficient understanding of the importance of online marketing, or even cannot correctly understand the real meaning of online marketing. They lost the power to carry out online marketing after

witnessed the failure cases of other domestic enterprises develop online marketing. Although some companies develop online marketing but which was largely remaining in online advertising and online promotion level. These companies only published company name, product name, company address, telephone number and other basic information on the Internet, and did not pay attention to the specific introduction of enterprise image and product information. From the consumer perspective, in traditional shopping, consumers are able to judge goods quality by look, smell, touch, but in online shopping, consumers can only view goods limited information as image and text provided by business operators so that consumers are in doubt about online goods quality.

### 3 Case study: Taobao online marketing policy

This research aims at studying four kinds of Taobao online marketing policies. Generally speaking, all online shops in Taobao marketplace should be benefited from the four policies, however, only a specific group has been benefited from them, while the others has not or even has been brought side effects. This thesis will study the following Taobao online marketing policies.

#### 3.1 Credit evaluation system

In Taobao Marketplace, after completing a transaction, both buyer and seller have rights to evaluate for each other, this evaluation is called credit evaluation. (Taobao rules 2003)

Evaluation of integrals is divided into three types. They are “good evaluation”, “normal evaluation” and “bad evaluation”, each of the evaluation corresponding to a credit point. “good evaluation” plus 1 point, “normal evaluation” plus 0 point, “bad evaluation” minus 1 point.

Credit evaluation has a certain timeliness. Consumers are able to evaluate for business operators within 15 days of transaction complete, over 15 days cannot evaluate. Consumers have a chance to modify, delete or anonymous evaluate within 30 days after the first evaluation. If exceeded the modification period of evaluation, consumers cannot modify, delete or anonymous evaluate and also cannot extend the evaluation period. On matter receive evaluation or evaluate others, only normal and bad evaluation can be modified to a good evaluation or delete evaluation for once, good evaluation cannot be modified or delete. Taobao rules that in each natural month, the Evaluation of integrals between the same buyer and seller cannot exceed 6 points. If within 14 days, between the same buyer and seller, for the same one good, has multiple payment transactions, multiple good evaluation only plus 1

point, multiple bad evaluation only minus 1 point. (Taobao evaluation rules and integrals methods 2003)

Good evaluation is significant for both online shop customers and consumer customers which represent the credit. From online shop customer perspective, more good evaluations show the shop more creditworthy, then more customers view the shop so that more opportunities consumers will buy goods from this shop. Therefore more interests the shop owner will have. For this consideration, online shop owners very care about good evaluation, and are not expect to receive any bad evaluation. According to investigate and summarize, if the online shop owners receive bad evaluation from consumers, they will try every means to eliminate bad evaluation, the common methods are: (Qian,W 2010)

1. Provide some benefit in return for a good evaluation
2. Threat buyer, harassment buyer, in order to force the buyer to change the evaluation.
3. Find the “delete bad review service”. It is said that delete a bad evaluation charging from 200- 500 (RMB).

Buyer has the right to evaluate the goods or the service whether good or not, seller should to accept the advice and then improve itself. However in intense competition world Taobao, a bad evaluation for sellers can be fatal. This is a unhealthy online buying and selling environment.

### 3.2 Online shop credit rating

Online shop credit rating is the accumulation of consumers' evaluation point, and display with shop's name on Taobao web page. Online shop credit rating has 20 levels the author mentioned in the first chapter. Taobao marketplace customers usually called the owners of high credit rating online shop as big sellers, low credit rating online shop owners as small sellers.

Online shop credit rating is a significant reference standard for consumers. Many customers prefer to view big sellers and finally buy goods from them. However, for the small sellers which are just entering Taobao marketplace with low credit rating, how can they compete with big sellers? According to investigation, when small sellers just enter Taobao marketplace, the first thing is not to sell goods to make money, but to spend money to own high credit rating. No goods order, how to own high credit rating? The answer is: they often spend money. Small sellers enhance credit rating. There are 3 common methods: (Sohu blog 2010)

1. Create false transaction by fake credit rating union to make credit rapidly ascend.
2. To buy an online shop which is already high credit rating.



### 3. Promotion at a loss, create sales volume rapidly

High credit rating basically stands for a good goods quality, hospitable service and creditworthiness. However in Taobao, an intense competition market, if they do not do in this way, they cannot subsist themselves.

From Taobao marketplace credit evaluation rules, it can be understood as a successful transaction can reward a good evaluation, once plus one point. Suppose to be a “diamond” credit level needs 500 credit points, which means 500 successful transactions and all received evaluations are good. For low price commodity such as mobile phone case, cheap clothing, everyone are able to buy several. To sell this kind of commodity with high frequency would be easy to achieve “diamond” credit level.

However, the current Taobao involves a lot of high value commodities such as refrigerators, furniture, mechanical equipment generally cost hundreds or even 10 thousand RMB. A good evaluation after this high-value commodity successful transaction plus 1 point as well as low price commodity transaction. It is difficult for selling high value commodity shop owner to reach a “diamond” level. One factor is related to major consumer groups. Not everyone need or be able to afford a refrigerator or 10,000 (RMB) commodity. Another factor is the consumption frequency. If a customer buy a refrigerator he or she may has no need to buy second one in a certain period.

From consumers’ perspective, purchasing goods such as a towel of 10 (RMB) or a cell phone case of 100 (RMB), they will not be hesitant, and will not take the credibility of this online shop into consideration. Because if they are cheated, they won’t visit this online shop again and for them there won’t be any after-sales. However, if consumer purchase high-value commodity such as refrigerator, equipment or other commodity, the consumer will consider the shop’s credit rating as well as after-sales service. According to current Taobao marketplace credit evaluation rules, generally high-value commodity selling shop with low credit rating which results in transaction difficulty.

The turnover of these high-value commodities withdrawal from Alipay often exceed the monthly free transaction quota (Taobao forum 2013) which means the owner of high-value commodities not only earn less credit points from consumers but also pay an additional fee. It is bound to affect the customer who are planning to register a shop selling high-value commodities, in addition, it is adverse to Taobao development. Because it is not in conformity with Taobao products diversity and have negative effect on promoting online shopping market resource sharing.

### 3.3 Search engine default sort order

Taobao search engine gives priority to Tmall shop, default sorts by online shop credit rating from high to low. In current Taobao, the type and quantity of goods have reached a surprising level, almost all commodities and services can be found in Taobao, such as cell phone, clothing, business card making, real estate, etc., However, due to a dominant Taobao, numerous seller customers influx in Taobao, the number of the same goods also increased sharply.

For example, search iPhone 5 in Taobao Marketplace's search engine, there are at least 4000 results, the first three results are from Tmall, followed by iPhone 5 from some big sellers, the sidebar is the seller who bought advertisement space.

	包邮Apple/苹果 iPhone 5 苹果5 phone5 国行裸机 联通电信裸机 天猫 Tmall.com 能德数码专营店 <a href="#">和我联系</a>	¥ 4799.00 运费: 0.00 信用卡	上海	最近969人成交1000笔 1341条评论	七天退换 正品保障
	Apple/苹果 iPhone 5 苹果5 16G 五代 iPhone5智能手机 国行裸机 天猫 Tmall.com 连骏数码专营店 <a href="#">给我留言</a>	¥ 4718.45 运费: 0.00 信用卡	上海	最近452人成交466笔 550条评论	七天退换 正品保障
	Apple/苹果 iPhone 5 16G 电信版 上海地区合约机套餐 天猫 Tmall.com 上海电信官方旗舰店 <a href="#">和我联系</a>	¥ 3480.00 运费: 0.00 信用卡	上海	最近36人成交36笔 13条评论	七天退换 正品保障
	Apple/苹果 iPhone5 无锁 未激活 未拆封 原装正品 行货手机 港版 花开稳相惜 <a href="#">和我联系</a>	¥ 2850.00 运费: 0.00	广东 深圳	最近402人成交509笔 2条评论	七天退换 消费者保障
	Apple/苹果 iPhone 5 16G 32G 未激活 100%真原封 三网V版 17豪礼 全球购 seven_susu <a href="#">和我联系</a>	¥ 3998.18 运费: 22.00	江苏 南京	最近3196人成交3321笔 7576条评论	七天退换 假一赔三

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最近成交57笔

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**当天发货**  
原封带孔  
假一赔三

Illustration 3: Search “iPhone 5”, the first five results (Search result 1 2013)

When turn to page 100, there still are shops selling iPhone 5, but they have almost no transaction, these small sellers and sellers who have no money to invest on advertisement cannot find a chance to survive under Tmall and big sellers.

Product Title	Price	Shipping Location	Recent Transactions	Reviews	Services
特价Apple/苹果 iPhone 5 苹果手机 5代 16G iPhone5 苹果手机 寄售苹果格子店 <a href="#">和我联系</a>	¥ 4448.20 运费: 22.00 信用卡	上海	最近2人成交3笔	5条评论	七天退换 消费者保障
Apple/苹果 iPhone 4S (无锁) 原装正品 手机5 未激活 全新 越狱 张燕874658517 <a href="#">给我留言</a>	¥ 3800.37 运费: 0.00 信用卡	广东 深圳	最近0人成交0笔	1条评论	七天退换 消费者保障
原封无锁自带中文全球限量发售 苹果 5 Apple/苹果 iPhone 5 16G martinko2010 <a href="#">给我留言</a>	¥ 5499.00 运费: 8.00	广东 广州	最近0人成交0笔		消费者保障
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上一页 1 2 ... 96 97 98 99 100 共100页 去第 100 页

Illustration 4: Search “iPhone 5”, the results of page 100 (Search result 2 2013)

#### 3.4 Taobao promotion activity

There is a new famous online marketing mode called second kill in Chinese online shopping market currently , which publish second kill information with a relative cheap price on Taobao website in order to attract online consumers purchase the commodity at the same time to achieve commodities and online shop publicity. (Cyber word 2011)

Second kill satisfy a part of consumers with low price pursuing. This is acme of price competition. Second kill features have followed three points:

1. Low price and limited quantity
2. Low cost and high advertising effect
3. Selling in a very short time, in 1 second

Many commodities on the internet are no bargain commodities, low price of second kill break the shackles, but not everyone can catch the chance. Due to the cost constraints, the second kill commodity generally has limited quantity which inspired consumers’ desire to participate. Sellers gain profit via second kill generally is not through second kill itself, but the amount of view, advertisement effect and associated goods purchased. According to statistics, the amount of shop view is 3 to 4 times than ordinary time when the shop held the second kill activity. (Ling,Q 2012) Encounter weekend and holidays, the number of view will be higher.

Taobao launches this kind of promotion activity, only big sellers and sellers who have strong economic strength join in, not involve small sellers or sellers with capital turnover difficulty. Through this promotion activity, big sellers and strong economic strength sellers will

be more strengthen. Under this sales competition environment, the small sellers and difficult capital turnover sellers will be no transaction.

#### 4 Victims caused by the policies

##### 4.1 Victims of credit evaluation system

In Taobao marketplace, for both consumer customers and seller customers, the credit rating is the most important reference, even beyond the commodity information description and other consumers' purchasing comments. (Wang, C. Wang, Z. Ge, X. Jiang, J 2010) In another word, if a commodity has clearly information description and consumers' good purchasing comments, but this commodity is sold from a low credit online shop, consumer will not buy it without doubt. This is a wrong phenomenon. Taobao formulates this policy lead customers into misunderstanding. In order to achieve high credit rating, many sellers threaten consumer or even send horrific item to the consumer, which was reported by media have made harmful impact on Taobao and online shopping market.

Apparently, the victims of Taobao marketplace credit evaluation system are consumers and Taobao's image. If consumers cannot comment the truth, they certainly will not believe other consumer's comment. The modified good comment will provide incorrect information for subsequent consumers. As the result, consumers' profit has been damaged. Taobao's policy leads to buyer trust crisis, Taobao's image suffered negative impact.

##### 4.2 Victim of online shop credit rating

There are two kinds of victims of Taobao marketplace online shop credit rating, one is consumers, the other is owners of high-value commodity selling shop.

All seller and buyer customers value shop credit rating, so that sellers fake credit rating, buyers are cheated by fake credit rating.

Because of Taobao credit rating policy, high-value commodity selling shop trapped in a vicious circle. It is harder to have a good sales volume than low-value commodities then the shop still has low credit rating, due to consumers' psychology, they will not buy high-value commodity in low credit rating shop, so that the shop will bankrupt. Therefore, Taobao marketplace will not have shops to sell high-value commodity, it is not in conformity with Taobao products diversity.

#### 4.3 Victim of search engine default sort order

Taobao marketplace search engine gives priority to Tmall shop, default sorts by online shop credit rating from high to low. A low credit rating online shop may be placed highly behind of search results. It is hard to be found from search engine, as a result, the shop has few transaction. Besides these low credit online shops have no capital to invest advertisement to publicize shops, they are difficulty of subsistence. Owners of low credit rating shop are the main victims of Taobao marketplace default search engine policy.

#### 4.4 Victim of Taobao promotion activity

Taobao launches promotion activity is in order to attract consumers and increase sales. The more discount has the more consumers and sales will be. The participant shop should have the economic strength to support this loss cost promotion. As a result, low credit rating shop is not able to join in promotion activity.

The low credit rating shops are placed in highly behind of the search results, they have no extra money for advertising investment, no economic strength to participate in Taobao promotion activities, in addition, shops which participate in promotion activities attract all customers. Shops with low credit rating are really hard to subsistent in Taobao marketplace.

### 5 Conclusion

#### 5.1 Findings

The author interviewed two Taobao marketplace online shops' owners, one is a small seller, the other one is a big seller. The purpose of the interview is to assess Taobao online marketing policy's impact on both small online shop owner and big online shop owner of Taobao marketplace online shop, and collect suggestion from Taobao online shop owners' perspective. Two interviews' results are showing in the table below:

	Small seller	Big seller
1. How long do your online shop open in Taobao marketplace?	a. Under one year	c. Above two years
2. What is your Taobao online shop's credit rating?	b. Diamond level (251 - 10,000 points of credit)	d. Golden crown level (above 500,001 points of credit)
3. Have you ever invested on shop's publicity?	a. No, it is a large investment	c. Yes, effect was good; I will continue

		invest on publicity
4. How is your business?	b. Good, income is able to support myself	c. Great, flourishing business
5. Has your shop ever join in Taobao marketplace “second kill” promotion activity?	a. No, I have no enough money to support	c. Yes, I have, it brought a lot of profits to my shop

Table 1: Results of questions from 1 to 5, respectively from two interviews

It is very clearly to show two shops' basic information. From these five questions, this small seller can be summarized as no money support therefore cannot publicity for itself or participate in Taobao promotion activity, so that its business is quite common. However for big shop, it has economic strength to investigation on publicity and promotion activity, so that it has a flourishing business. It is observed that a flourishing business will bring more profits. Big seller spend part of profits to invest advertisement and then gain more profits, however, similarly small shop will fall into a vicious cycle.

Question 6 aims at investigating how these four kinds Taobao policies respectively impact on small seller and big seller. Result is that small seller realized credit evaluation system and online shop credit rating have a negative impact on its business, but search engine default sort order and Taobao “second kill” promotion activity have strong negative impact on its sales. For big seller, credit evaluation system, online shop credit rating have strong positive impact on its business; search engine default sort order not affect its business and Taobao “second kill” promotion activity has a positive impact on sales.

Two sellers gave totally different answers to question 7, which aim to know sellers' requirements for Taobao online marketing policy. Small seller's answer is related to buyer customer's comment. Small seller wants Taobao launching a policy which can protect the seller's interest, because customer evaluates bad comment unreasonable in order to return commodity. Big seller hopes Taobao improve its services fee policy, because the seller thought Taobao charged too much. Small seller and big seller faced different problems.

In question 8, the author made a bold assumption, suppose Taobao encouraged big seller and small seller cooperation through any form by providing privilege, will you participate in? What kind of privilege do you want? The result is both small seller and big seller agree this proposal, but for the demand of privilege, small seller would like to have an opportunity to advertise on the main web page for free, big seller would like to have part of the annual fee or service fee reduction.

From results of all questions, it is obvious that small seller has capital difficulty. However Taobao did not provide policy support, in addition, Taobao's policy negatively affect small seller so that small seller is difficult to maintain.

Taobao develops rapidly so that not only ignore the relationship with online shop customers, but also not pay attention to online shop customers and buyer customers' reaction on Taobao's policy, after all Taobao cannot develop well without online shop customers and buyer customers. Currently, Taobao online shopping environment is unhealthy. By studying Taobao's policy, the author found that Taobao's policy not only caused small seller maintain hard, but also resulted in buyer customer generating crisis of confidence for Taobao. If Taobao cannot improve the unhealthy online shopping environment, buyer customer crisis of confidence will always existing. This requires Taobao starting to improve the relationship with online shop customers first by adjusting or launching policy.

## 5.2 Suggestion

Taobao has been rapidly developing in recent years, the business' expansions not only require good operation, but also require a reliable image established in all its customers and good relationships between the company and all customers. Taobao's policies cause seller-customer confidence crisis, directly leading to buyer-customers' confidence crisis, Taobao must attach great importance to it. In order to improve the relationship between Taobao and its' policy victims, the author summarizes some clues from the online shoppers.

Taobao business should have more accurate market segmentation. Taobao could have more accurate segmentation by commodity quality. Currently, the market demand for quality showing a variety of trend, Taobao could have more refined classification, according to commodity quality and reputation by establishing multiple platforms based on Taobao marketplace and Tmall to satisfy the owners of high-value commodity sales shop and customers with different consumption levels. For example, Taobao could establish platform called Taobao home appliance marketplace or Taobao jewelry marketplace to involve all home appliance sales shops and jewelry sales shops. These sales platforms should be different from Taobao marketplace and Tmall; they should have their own rules about credit rating and credit evaluation.

Taobao need to clarify Taobao marketplace online shop's credit rating and consider more for small sellers, so that buyer customers could have a correct understanding of credit rating policy and small sellers. To understand credit rating is a secondary reference, the most important reference is commodity information description.

In addition, Taobao could provide promotional policy for small sellers. For example, a Taobao marketplace online shop opened for three months will have a three-day free advertising opportunity; opened for six months will have a free online shop decoration opportunity and also a 50% discount advertising opportunity. This policy indicates Taobao's support and attention for small sellers.

Taobao could also provide promotional policy for big sellers, on the premise of big seller cooperate with a small seller on business, to help small seller promote its commodities sales through any form. If a big seller cooperates with a small seller, this big seller could have 10% discount for its annual fee. Taobao also could provide a higher level of free online shop decoration opportunity for the big seller to encourage its supporting. This method could improve Taobao's online shopping platform atmosphere. A healthy, united, reliable online shopping environment leads Taobao develop further.



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## Illustrations

Illustration 1: Taobao buyer credit level (Source: Taobao service center) P10

Illustration 2: Taobao online shop credit level (Source: Taobao service center) P11

Illustration 3: Search “iPhone 5”, the first five results (Source: Taobao Marketplace web site) P19

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Table 1: Results of questions from 1 to 5, respectively from two interviews P 23

Appendices

**Questionnaire form for two Taobao Marketplace online shop owners - one is small seller,  
the other one is big seller**

The purpose of this questionnaire is to assess Taobao online marketing policy's impact on both small online shop owner and big online shop owner of Taobao marketplace online shop, and collect suggestion for Taobao from online shop owner perspective, in order to improve the relationship between Taobao and online shop customers. Complete the questionnaire by selecting the best response for each question. Thank you for your participation.

Ding Lu  
Business Information Technology  
Bachelor's Thesis  
Laurea University of Applied Sciences leppävaara

### Questionnaire

1. How long does your online shop open in Taobao marketplace?
  - a. Under one year
  - b. One year to two year
  - c. Above two years
  
2. What is your Taobao online shop's credit rating?
  - a. Heart level (4 - 250 points of credit)
  - b. Diamond level (251 - 10,000 points of credit)
  - c. Crown level (10,001 - 500,000 points of credit)
  - d. Golden crown level (above 500,001 points of credit)
  
3. Have you ever invested on shop's publicity?
  - a. No, it is a large investment
  - b. Yes, but had no effect
  - c. Yes, effect was good; I will continue invest on publicity

If you have, what kind of publicity you had chosen?

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4. How is your business?
  - a. Not good, it is hard to maintain
  - b. Good, income is able to support myself
  - c. Great, flourishing business
  
5. Has your shop ever join in Taobao marketplace "second kill" promotion activity?
  - a. No
  - b. Yes, I have, but it not bring any profit to my shop
  - c. Yes, I have, it brought a lot of profits to my shop

If haven't, what is the reason?

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6. Following Taobao marketplace online market policies impact on your business. Tick on the scale of 1-5

Taobao marketplace policy	1= strong positive impact	2= positive impact	3= no impact	4= negative impact	5= strong negative impact
Credit evaluation system					
Online shop credit rating					
Search engine Default sort order					
Taobao “second kill” promotion activity					

7. From your perspective, what kind of policy you wish Taobao launched or how to improve Taobao’s policy will more conducive to your shop development?

8. Suppose Taobao launched a policy which will provide you a privilege, under the condition of big sellers and small sellers one to one cooperation through any form. Are you willing to participate in?

- a. Yes
- b. No
- c. I am not sure

If yes, what privilege do you want?

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