



VAASAN AMMATTIKORKEAKOULU
VASA YRKESHÖGSKOLA
UNIVERSITY OF APPLIED SCIENCES

Xiao Jingxuan

Logistics of E-commerce in the Chinese Market

Case company: Alibaba

Business Economics and Tourism

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Informaatioon pohjautuvana aikakautena elektronisesta kaupankäynnistä on muodostunut yksi silmiinpistävimmistä Internetin saavutuksista. Internetin nopean kehityksen ansiosta verkkokaupankäynti on kasvussa eri puolilla maailmaa. Kiinan tasainen talouskasvu ja Kiinan WTO jäsenyys ovat luoneet hyvinvoivan kotimaisen ympäristön verkkokaupankäynnin kehitykselle Kiinassa. Tuloksena logistiikkapalveluiden kysyntä on kasvanut, mutta myös yrityksiltä vaadittu laatu ja taso ovat nousseet. Vaikka logistiikka alan yrityksiä ei ole aiemmin pidetty tärkeässä asemassa verrattuna muihin yrityssektoreihin, joitain parannuksia on pyritty toteuttamaan.

Tämän opinnäytetyön tavoitteena on esittää elektronisen kaupankäynnin logistiikan nykytilanne Kiinassa, sekä analysoida olemassa olevia ongelmakohtia logistiikassa. Tavoitteen saavuttamiseksi opinnäytetyö on jaettu teoreettiseen ja empiiriseen osuuteen. Teoreettinen osuus selittää mitä on verkkokaupankäynti, logistiikka ja SWOT-analyysi. SWOT analyysia käytetään analysoimaan empiirisen osuuden tuloksia logistiikasta.

Kvalitatiivinen tutkimusmetodi on valittu informaation keräämiseksi. Tutkimuksessa olevia haastatteluja on kolme: yksi on logistiikka-alan yrityksen edustajan haastattelu, ja kaksi haastateltavaa toimii yksityisinä myyjinä kohdeyrityksessä.

Lopuksi esitettävät johtopäätökset on tehty kerätyn informaation ja analyysin pohjalta. Logistiikka-alan yritysten kehitys on positiivisessa kasvussa, mutta sen

haasteita ei sovi sivuuttaa. Tämä tutkimus antaa lukijoille tietoa logistiikan tärkeydestä sekä pyrkii tuomaan esille sen opetuksen tärkeyttä. Tutkimuksen lopuksi ehdotetaan logistiikka yrityksille strategioita kuinka he voisivat toimittaa parempia palveluja asiakkailleen.

ABSTRACT

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As we are ushered into an information-based era, electronic commerce has become the most eye-catching outcome of the Age of Internet which directly points out the future direction of the network technique application. With the explosive development of the internet, electronic business has arisen and growing rapidly worldwide. The steady growth of China's economy and China's accession into WTO creates a healthy domestic environment for the vigorous development of electronic commerce in the Chinese market. As a result, the demand for logistics services has been significantly increasing in China and the requirements of Chinese logistics providers are accordingly being improved and updated. On the other hand, logistics industry is not considered as important as other industries in China and few efforts has been made in this field.

The aim of this thesis was to present the current situation of electronic commerce logistics in China and analyze the existing problems in the logistics process. To achieve the aim, the thesis has a theoretical section and an empirical section. The theoretical foundation includes the explanation of e-commerce, logistics, competitive advantage and SWOT analysis, which will be used to analyze the empirical findings about logistics.

Qualitative research was selected as a research method for data collection, three interviews were conducted, of which one was with an operator manager of a logistics company and two were with individual sellers of the case company.

At last, conclusions are made based on data collected and analysis made. The development of logistics industry is showing a positive growing trend, while potential challenges can not be ignored. This paper can provide readers with the importance of logistics and call attention to facilitate logistics education. Strategies will be proposed after the study, aiming at facilitating China's logistics providers to offer better services to the customers.

CONTENTS

CONTENTS	4
1 INTRODUCTION	9
1.1 Current status of E-commerce in China	9
1.2 Logistics industry in China.....	11
1.3 Aim and objective.....	12
1.4 Thesis outline.....	13
2 THEORETICAL FOUNDATION	15
2.1 Competitive advantage	15
2.2 SWOT analysis	17
2.3 Electronic commerce	17
2.3.1 Definition of Electronic Commerce.....	17
2.3.2 Traditional commerce VS Electronic Commerce.....	18
2.3.3 Key factors of Electronic Commerce.....	19
2.4 Logistics	20
2.4.1 Overview of Logistics.....	20
2.4.2 Logistics in traditional commerce.....	21
2.4.3 Logistics in electronic commerce	23
3 E-COMMERCE IN CHINA	25
3.1 Business to Business (B2B).....	25
3.2 Business to Consumer (B2C)	26
3.3 Consumer to Consumer (C2C)	27
3.4 Consumer to Business (C2B)	28
3.5 Online to Offline (O2O)	28
3.6 Introduction to case company, Alibaba Group.....	29
4 RESEARCH METHODOLOGY	31
4.1 Research Methods	32
4.2 Data collection.....	33
4.3 Validity and Reliability	34
5 EMPIRICAL FINDINGS	36
5.1 Traditional logistics	36
5.2 E-logistics	37

	5
5.2.1 Characteristics of e-logistics	38
5.2.2 Problems with e-logistics	39
5.3 SWOT analysis of E-logistics	41
6 CONCLUSION	44
6.1 Limitation of research.....	44
6.2 Future study	45
REFERENCES.....	46

LIST OF FIGURES AND TABLES

Figure 1. 2011-2018 Chinese electronic commerce market transaction scale (trillion RMB). (iResearch 2015)

Figure 2. 2011-2018 Chinese online-shopping market transaction scale (billion RMB). (iResearch 2015)

Figure 3. Total value of china social logistics and growth rate (China Federation of Logistics & Purchasing 2014)

Figure 4. Structure of the thesis

Figure 5. Porter's generic competitive strategy

Figure 6. E-Commerce versus Traditional Commerce(Hossein Bidgoli 2002, 49)

Figure 7. Traditional Logistics Flow (Adam Robinson, February 19, 2014)

Figure 8. Total logistics costs and composition 2008-2012 (Fung Business Intelligence Center August, 2013)

Figure 9. Network of logistics providers. (Alibaba Inc. SEC F-1 Filing 2014)

Figure 10. 2014 Chinese electronic commerce market segmentation. (iResearch 2015)

Figure 11. 2011-2018 Chinese online-shopping market transaction structure. (iResearch 2015)

Figure 12. Chinese electronic commerce market main segments future perspective (iResearch 2015)

Figure 13. Alibaba's current position in China's e-commerce market. (Alibaba Inc. SEC F-1 Filing 2013)

Figure 14. Steps in the research process (S. Sreejesh et al 2013)

Figure 15. Differences between qualitative and quantitative research method

Figure 16. SWOT analysis of e-logistics

LIST OF APPENDICES

APPENDIX 1. Interview questions for the operator manager Ms.Li Ruiqi for researching traditional logistics process.

APPENDIX 2. Two interviews with C2C sellers on Taobao to show e-logistics process.

1 INTRODUCTION

Since the internet has become the representative of newly developed workforce and is playing an essential role in business, e-commerce has been developing and grown into the most eye-catching outcome of the Age of Internet directly in pointing out the future direction of network technique application. In recent years, China has experienced steady economic growth and the Chinese government has showed strong interest in the development of e-commerce in both the domestic and the international markets by issuing supportive regulations. With the arrival of e-commerce and its standardization, the demand for logistics services has been significantly increasing in China and the requirements of Chinese logistics providers are accordingly being improved and updated.

Despite of the leading role logistics play in the business market, it has not been taken as a serious issue by many Chinese companies. There is a misunderstanding that logistics is just about sending products to a destination, no professional employees or advanced technology are needed in logistics, nor an integrated theory system was formed. The misunderstanding results in poor Chinese logistics education and insufficient in skilled employees in Chinese logistics companies.

1.1 Current status of E-commerce in China

Based on the data collected from iResearch, which is presented below in Figure 1 and 2, the turnover (trillion) in China's electronic commerce market has been growing stably and rapidly from 2011 to 2014 and reached 12.3 trillion RMB in 2014. The increase rate fell some but still maintained a high level, floating around 20 percents. It is estimated that the overall transaction scale will keep rising in the future and the increase rate will gradually slow down.

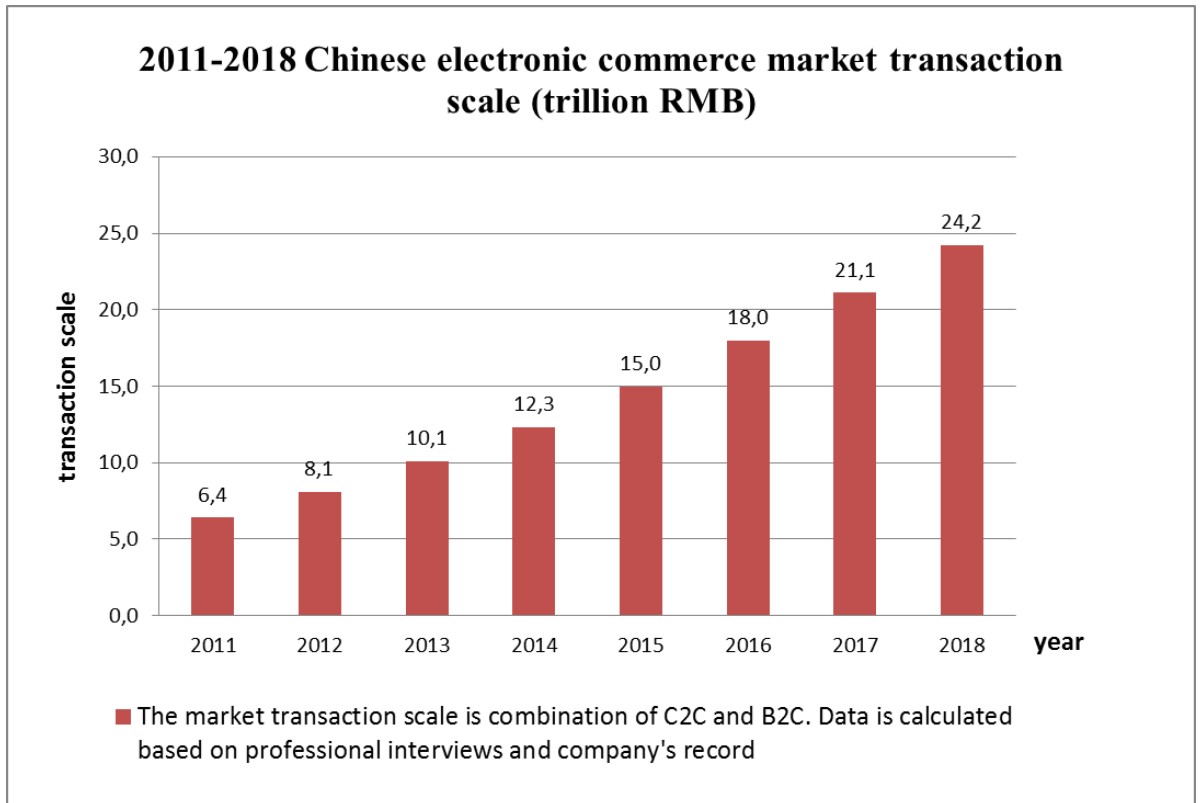


Figure 1. 2011-2018 Chinese electronic commerce market transaction scale (trillion RMB). (iResearch 2015)

Seeing the Figure 2 below, China's online-shopping market has witnessed continuous and stable development from 2011 to 2014, and the transaction scale (contain both B2C and C2C transaction scale) went up to over 2.8145 trillion RMB in 2014, with a 48,7 percents increase compared to 2013. The growth rate of online-shopping transaction scale from 2011 to 2014 shows a trend of slow decline and it is estimated that the trend will remain such in the coming years.



Figure 2. 2011-2018 Chinese online-shopping market transaction scale (billion RMB). (iResearch 2015)

The positively developing trend of e-commerce in China reveals huge purchasing power of the Chinese market, which means there is great potential for e-commerce growth in the Chinese market. Hence, the market demand for logistics is, accordingly, increasing and the Chinese logistics industry will be forced to reach a new level.

1.2 Logistics industry in China

Logistics is a composite industry that spans and can be applied to almost any field. Not only does it include all transportation means, but it also cover various industry fields. Based on the figures showing in the graph, so far, the logistics industry in China has maintained a steady growth rate and shows a positive developing trend in the future.

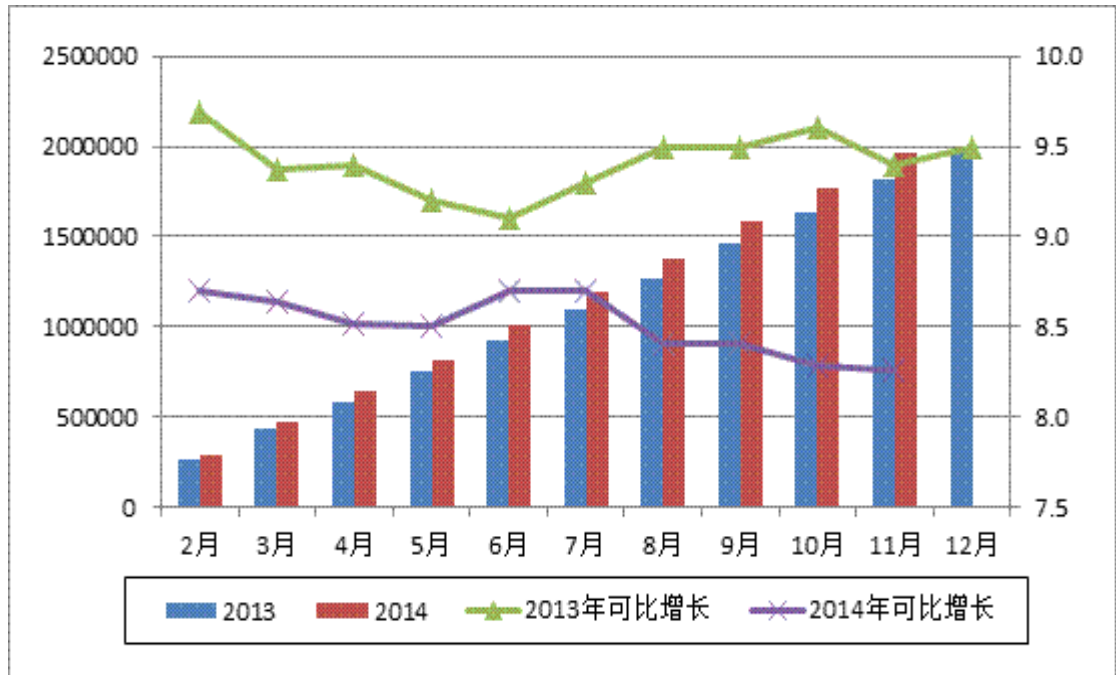


Figure 3. Total value of China social logistics and growth rate (China Federation of Logistics & Purchasing 2014)

Meanwhile, the problems of logistics industry in China cannot be ignored. A logistics management major in China was started in 2000, and the number of universities registered with or approved by the Ministry of Education to offer an undergraduate major in logistics was only 339 in 2009 even though it has been increased by 1 in 2000 (Liu, Binglian 2011, 46). The under-developed Chinese logistics education system restricts the development of logistics companies in a way, because there are not sufficient professional logistics employees for the companies.

1.3 Aim and objective

The arrival of the e-commerce and its standardization has brought logistics into a new phase. With the expansion of e-commerce market and the significant proportion of online consumers, logistics is playing a leading role in e-commerce and it is increasingly important for logistics providers to improve the service quality and update the technique systems.

The topic of this paper is selected from the writer's personal interests and is relevant to knowledge obtained at school. This paper aims at gain basic knowledge of logistics, including its definition, the major participants, the main logistics patterns and the general working procedure. When it comes to e-commerce logistics, Alibaba Group is selected as case company, for its dominant role in the Chinese e-commerce market. The objective of the research is to analyze the status of logistics, investigate the potential challenges of the logistics industry and call the attention of Chinese companies to logistics industry. Future development of e-logistics is presented based on the writer's analysis.

1.4 Thesis outline

This thesis starts with a general explanation of the study, which contains the study background, current status of e-commerce in China, contemporary logistics industry in China, followed by the aim and objectives of this paper. As for theoretical foundation, competitive advantage and SWOT analysis are introduced and will be used in the analysis of the empirical findings. Information concerning e-commerce and logistics is detailed in the theoretical part of the study as well. Empirical findings are summarized based on the three in-depth interviews conducted with a logistics company and individual sellers of case company. Limitations will be given after the study results are analyzed.



Figure 4. Structure of the thesis

2 THEORETICAL FOUNDATION

The theoretical foundation provides evidence for the analysis of empirical findings and helps readers to get a basic understanding of some key definitions of the topic. For this paper, the theoretical part includes competitive advantage, SWOT analysis, electronic commerce and logistics, of which competitive advantages and SWOT analysis are used to summarize the empirical findings.

2.1 Competitive advantage

Competitive advantage is a business concept that is used to describe factors contributing to a company to differentiate and outperform its competitors in the marketplace. The attributes can cover fields such as natural sources, professional employees and geographic location. Porter (1985, 3) argued that

“Competitive advantage grows fundamentally from the value a firm is able to create ... Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset higher prices.”

In Porter’s opinion, there are two ways to generate value, lower price and differentiation, so that a corporation can attract more consumers and stand out in the marketplace. To obtain competitive advantage, Porter came up with three generic competitive strategies, namely those of cost leadership, differentiation and focus. The selection of strategy is presented in Figure 5.

	lower cost	differentiation
broad target	a. Cost leadership	b. Differentiation
narrow target	c1. cost focus	c2. differentiation focus

Figure 5. Porter's generic competitive strategy

Cost leadership is the easiest strategy to understand. A company that aims at becoming the cost leader in the field manages to lower the costs to the maximum. To do so, the company seeks for ways to lower costs at every phase and exploit every source of potential cost advantage. Typically, a company achieves costs saving by pursuing economies of scale or its own advanced production technology. Meanwhile, reducing costs must not to be done through lower product quality. The quality of a product should be maintained, at least be kept the same as its competitor's product, or improved so that the company can be competitive in the marketplace and outperform its competitors.

The second generic strategy is differentiation. To survive in the fierce competition and become the best performer in its field, a company should make itself unique and as well as it should be hard to find substitute products in the market. The attributes a company differentiates itself from other competitors with should be considered as essential to consumers. Once the company clearly positioned and has individualized itself, and has also maintained or improved the product quality at the same time, the consumers will be willing to pay for the uniqueness.

Combined these two basic form competitive advantage with the activities scope, the third basic strategy is defined. If focus strategy is selected as a company's strategy, the company will seek for a niche market and once it has found it, a

specific strategy can be made to face the targeted market's needs. The area to be focused on is usually narrow and accurate instead of the entire industry. To be profitable, the focus strategy is utilized in a market where there are widely existing under-performance competitors, then cost or differentiation strategy can be implemented to obtain competitive advantage.

2.2 SWOT analysis

SWOT analysis is a strategic tool utilized in any company decision making process that help evaluate the Strengths, Weakness, Opportunities, and Threats (SWOT). A SWOT analysis help companies analyze the situation they are, become aware of the potential challenges they will face with, summarize the past and come up with developing a strategy for the future. Strengths and weaknesses are generally considered as internal factors, while opportunities and threats belong to external factors (Lynn F.Kime & Winifred W.McGee. 2008. 1).

For this thesis, SWOT analysis is used as a tool to analyze the current statue of e-logistics in China. The analysis is detailed in words and presented in a table.

2.3 Electronic commerce

Transactions have happened already for thousands years when people started to exchange items to satisfy personal needs. Today, the arrival and commercialization of the internet has brought up a new form of commerce, which is electronic commerce (e-commerce). The same as traditional commerce, money and transportation are the basic components in electronic commerce, but not-or not only-in the traditional form.

2.3.1 Definition of Electronic Commerce

From the customers' perspective, e-commerce can be seen as simply shopping online. Theoretically, e-commerce is defined as the exchange of all electronically mediated information between an organization and its external stockholders (Dave Chaffey 2007. 8). There is even a broader definition of e-commerce given by the UK government, "E-commerce is the exchange of information (value) across

electronic networks, at any stage in the supply chain, whether paid or unpaid. It can take place within an organization, between businesses, between businesses and consumers or between the public and the private sectors.” (Brian Stanford-Smith & Paul T. Kidd 2000, 43)

2.3.2 Traditional commerce VS Electronic Commerce

In traditional commerce, people tend to select through smelling, touching, tasting or closely examining the products. Purchase behavior happens only if the consumers feel that the products quality is guaranteed, which makes the transaction process hard to be improved by technology. Additionally, the retailers use the knowledge of interior design to establish a relaxing and motivating store atmosphere, combined with promotion activities such as layouts and advertisements, to convince the customers.

The form of commerce started to change when the internet became commercialized. The internet has the potential of transforming business in industry structure, industry value chain and firm value chain (Amir Manzoor 2010, 114). In e-commerce, even though the objective of generating revenue is the same as in traditional commerce, the Web and telecommunications technologies are playing a major role (Hossein Bidgoli 2002, 49). Following are the aspects in which e-commerce differs from traditional commerce:

E-Commerce versus Traditional Commerce

Activity	Traditional commerce	E-commerce
Product information	Magazines, flyers	Web sites Online catalogs
Business communications	Regular mail, phone	E-mail
Check product availability	Phone, fax, letter	E-mail, web sites, and extranets ^a
Order generation	Printed forms	E-mail, web sites
Product acknowledgments	Phone, fax	E-mail, web sites, and EDI ^b
Invoice generation	Printed forms	Web sites

^aExtranets are the connection of two or more intranets. Intranets are internal networks that use web technologies. (They both will be discussed in Chapter 4.)

^bElectronic data interchange (discussed in Chapter 5).

Figure 6. E-Commerce versus Traditional Commerce (Hossein Bidgoli 2002, 49)

Instead of seeing the products and bargaining with the retailers in physical stores, the parties involved in a transaction in e-commerce most likely cannot see each other. As a result, the business communication approaches of e-commerce, the way to gather product information, make and handle orders and the form of invoice are all processed based on web and telecommunications technologies.

2.3.3 Key factors of Electronic Commerce

The term electronic commerce (e-commerce), was first brought up in the early 1990s and has been transformed over the last few decades (Amir Manzoor 2010, 13). No matter how business form has been transferred, profit-making is the No.1 driving force for every business. The key factors contributing to the success of e-commerce can be categorized into internal and external factors. Internal factors are those influencing factors within a company and under control, which embrace quality assurance, buying aids, purchasing incentives, increased security and trust, efficient customer information handling, innovative organizations and outsourcing. Quality assurance is the key issue of a successful e-commerce venture, for it relates to the trust issue and customer security.

External factors are factors outside of the company and beyond its control. Numerous of external issues affect the operations of e-commerce, such as internet usage, broadband and mobile devices, technology integration and payment system. Unlike technological issues that can somehow be known and improved, factors related to customers and markets are of high uncertainty and hard to predict, for example, the selection of e-retailers, competition and consumer characteristics. Apart from those, e-commerce legislation is an essential factor as well when intending to run a successful e-commerce business (Amir Manzoor 2010, 15-18).

2.4 Logistics

This framework of this chapter begins with an overview of logistics, including the concept it set and its fundamental nature. Then logistics process will be presented, as well as a comparison between traditional and e-commerce logistics, while the focus will be on e-commerce logistics. Furthermore, in order to conduct logistics efficiently and effectively, problems occurred in a logistics process will be analysis.

2.4.1 Overview of Logistics

Though logistics has been showing growing importance in corporate strategy and even in the global economy, little effort has been made to build a unified theory of logistics, thus the logistics discipline does not have as rich a heritage of theory development and empirical research as do older and more established disciplines such as anthropology, philosophy, psychology, and sociology (Stock, J.R. 1997). Due to the lack of a unified theory system of logistics, different definitions of logistics can be found on electronic materials and printed books. An authoritative and widely accepted concept of logistics was defined by the Council of Logistics Management (CLM) in 1986, the leading-edge professional organization with which currently over 13,000 members, as follows

“The process of planning, implementing, and controlling the efficient, cost-effective flow and storage of raw material, in-process inventory, finished

goods, and related information flow from point-of-origin to point-of-consumption for the purpose of conforming to customer requirements” (Council of Logistics Management, 1986).

To conclude, material flow and information flow are two key issues that need to be handled in logistics. Material flow refers to the process of the delivery physical goods from suppliers through distribution centers to stores. Information flow could be defined as manage the supply data from suppliers to retailers and demand data from end-customer back to suppliers so that material flow can be scheduled and tracked. (Alan Harrison & Remko I. van Hoek 2008. 6)

2.4.2 Logistics in traditional commerce

As mentioned in the previous section, logistics is about managing the material flow and information flow. This section will detail how these two flows are controlled in a traditional logistics process.

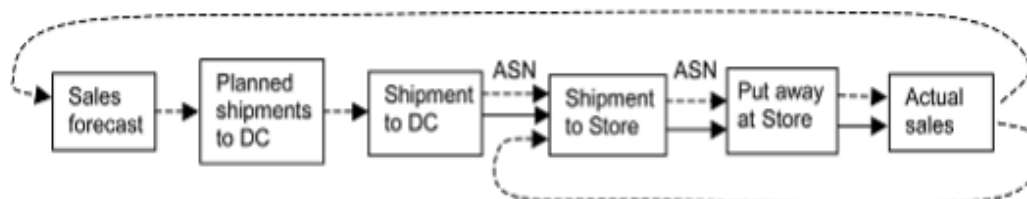


Figure 7. Traditional Logistics Flow (Adam Robinson, February 19, 2014)

Figure 7 presents how logistics works traditionally. First, sales forecast projects sales requirements, the required products will be planned to ship to a distribution center (DC) after a certain order is made. After be shipped to a DC, products will be delivered to the target retail store and put away at the store. Then the actual sales begin. The actual sales will serve as a reference standard to the next sales forecast. Advanced Shipping Notices (ASNs) will be assisting the useful information as the products flow through every single step of the process.

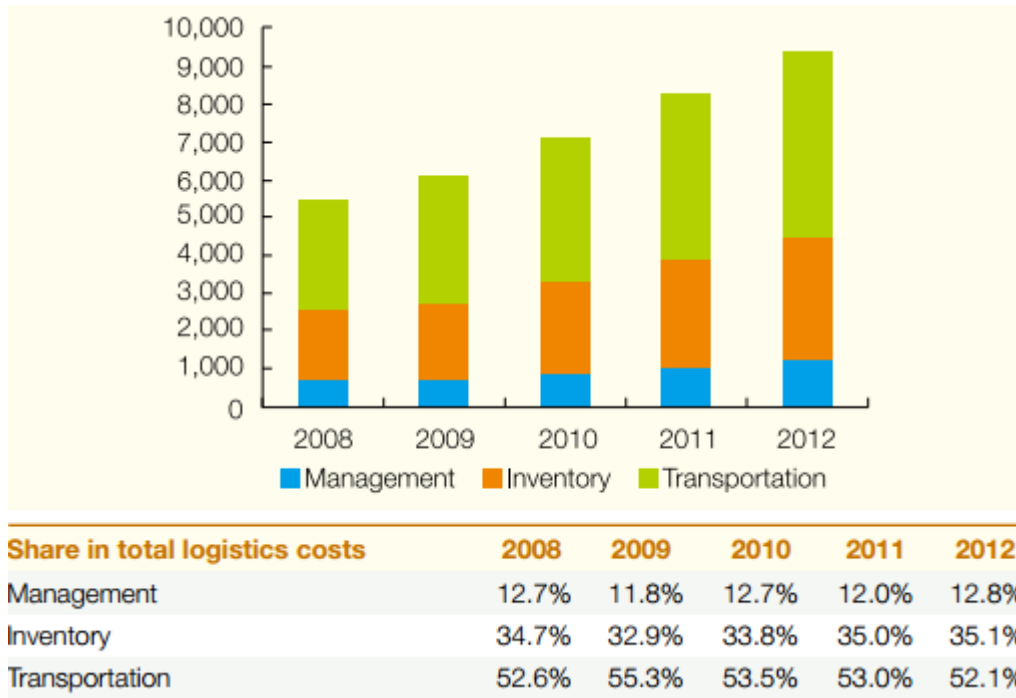


Figure 8. Total logistics costs and composition 2008-2012 (Fung Business Intelligence Center August, 2013)

Total logistics costs amounted to 9,400 billion RMB in 2012, showing a slow but stable growing trend from 2008 to 2012. As shown in Figure 8, transportation costs account for the largest proportion, which is over half of the total logistics costs.

As reducing logistics costs has become a considerable issue, companies have started to focus on outsourcing. Distributors requiring products from other companies or manufactures is relying on materials from the retailers, outsourcing is an essential part of the logistics process. Companies now tend to outsource service and products to 3PL operators that are geographically closer to original country, own a wider market or relative low labor costs in order to obtain economies of scale and lower logistics costs. As outsourcing is becoming increasingly prevalent, it is widely accepted to be an effective way to reduce costs and to achieve competitive advantage (Razzaque, MA & Sheng, CC 1998). The third-party logistics (3PL) operator becomes an indispensable part of it. 3PL operator is company that neither belongs to any party involved in a transaction, which is responsible for outsourcing logistics and the relevant service to

consumers. What a 3PL operator does is more than the transportation, but all the service/activities included in the logistics process, such as preparing the required documents for customs clearance, inbound/outbound delivery and warehousing services.

2.4.3 Logistics in electronic commerce

Logistics can be broadly defined as distributing the right product to the target place in the right quantity at the appropriate time. Graham, Deryn, Manikas, Ioannis, Folinas, Dimitris K(2013) made a definition of a new word, E-Logistics;

“E-Logistics or Electronic Logistics is part of an “E-genre”, which includes E-Learning, E-Business, E-Commerce, etc. All of these terms essentially refer to the major and significant employment of IT for that domain. In the case of E-Logistics the use of IT has been manifold, from software applications; databases, data warehousing, knowledge bases, data mining, etc. to the use of Radio Frequency Identification (RFID), the Internet and the World Wide Web”.

How E-logistics differs from logistics is not merely add an “E” in front of it. E-commerce has higher requirements with logistics than the traditional one, for e-logistics must manage the complexity of sending masses of packages to unique destinations every single day. For e-commerce, an integrated logistics system that combines the inventory and the distribution system together is required so that customers can track the whereabouts of their packages.

Take the case company Alibaba Group, for example, the rounded e-logistics process typically goes through the steps shown below.

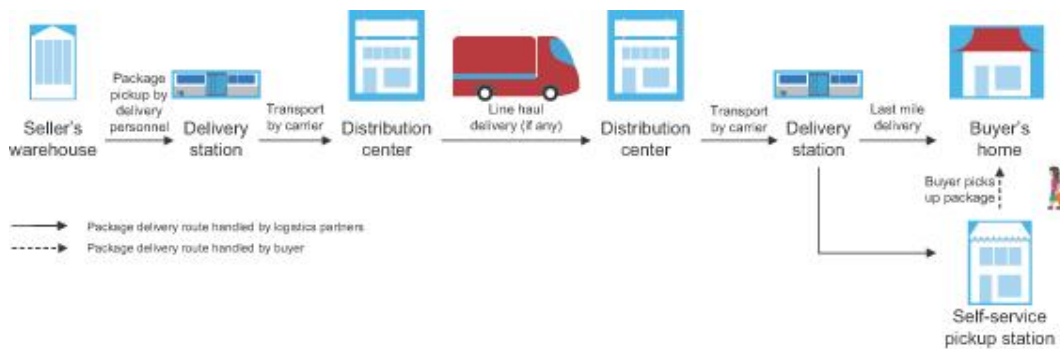


Figure 9. Network of logistics providers. (Alibaba Inc. SEC F-1 Filing 2014)

The dynamics of e-commerce put professional logistics management in an essential position (Inés Ramírez Nicolás, 2014). Logistics provides value-added activities and competitive advantages that lays a foundation of differentiation and contributes to a company's relative cost position (Branch & Alan E 2009, 13). In the twenty-first century, factors driving logistics focus on the competition between companies through offering value-added service and achieving competitive advantages. For an e-commerce company to make profit, logistical costs must be reduced. An integrated system is required in the process of order fulfillment (e.g. integrate distribution and inventory system) to achieve cost-efficiency.

3 E-COMMERCE IN CHINA

E-commerce has developed enormously in China in the last decades, partially due to the supportive attitude and regulations implemented by the Chinese government. If classified e-commerce into several types based on the properties of participants, there are four participants that can be taken into consideration. They are business, consumer, government and citizen. E-commerce is categorized as Business to Business(B2B), Business to Consumer(B2C), Consumer to Business(C2B), Consumer to Consumer(C2C), Business to Government(B2G), Government to Business(G2B), Government to Government(G2G), Government to Citizen(G2C) and Citizen to Government(C2G). Since the government, as well as the citizens, are often considered independently, the major categories of e-commerce in China are as explained in the following sub-chapters.

3.1 Business to Business (B2B)

Business to Business (B2B) commerce refers to companies doing business with companies, and building business relationships with and among each other. The participants can be retailers, wholesalers or manufacturers, and the volume traded is most likely huge. Figure 10 presents Chinese e-commerce market segmentation, from which it is clear to see that B2B e-commerce accounts for 73.4% in total, far more than the combination of the other three sectors. The analysis shows that around 80% of e-commerce is of this type, and it is estimated to be continuing to grow faster than the B2C e-commerce sector (Zorayda Ruth B. Andam 2012).

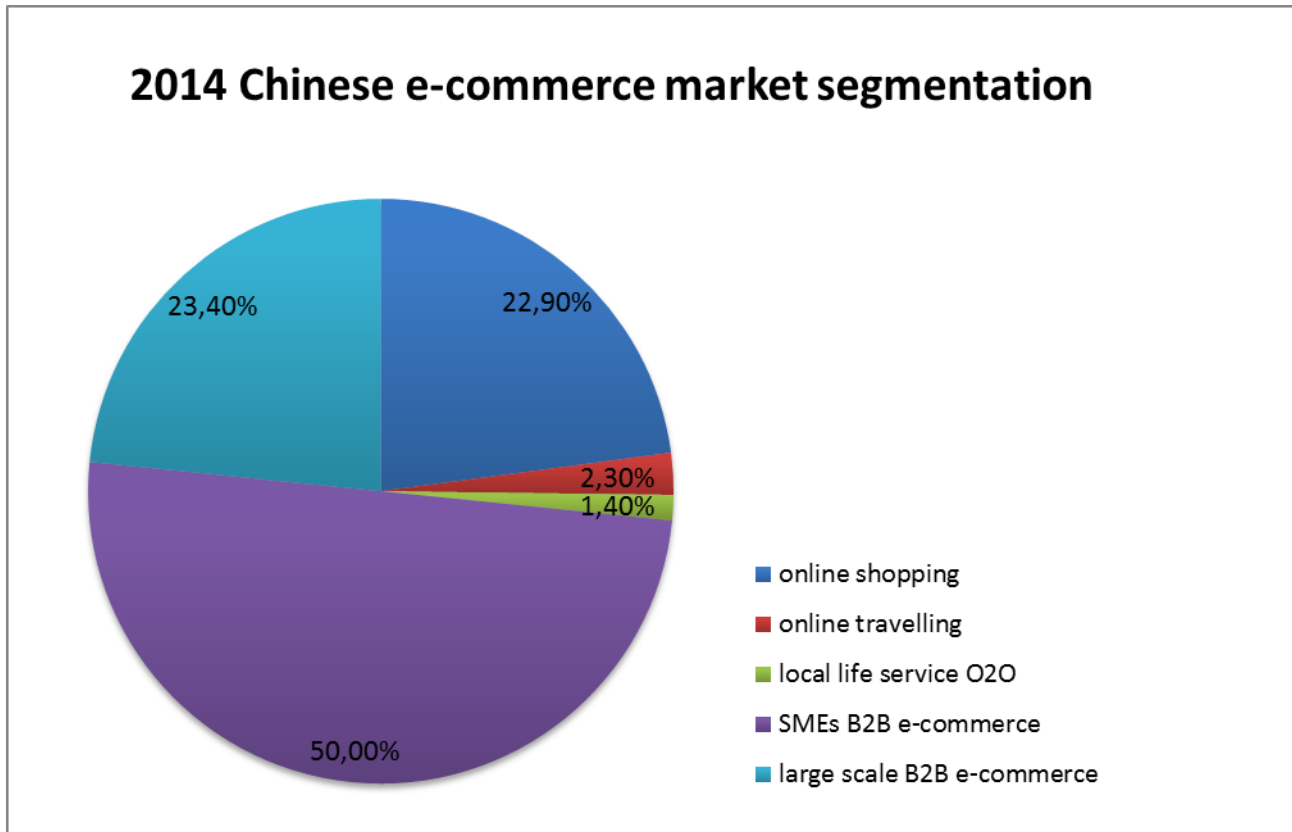


Figure 10. 2014 Chinese electronic commerce market segmentation. (iResearch 2015)

3.2 Business to Consumer (B2C)

B2C is the second largest and the earliest form of e-commerce which is simply defined as companies selling products to customers. From a consumer's perspective, Business to Consumer (B2C) e-commerce can be one of the types that people are most familiar with. Compared with shopping in physical stores, B2C e-commerce differentiates itself by lower costs to a great extent through elimination of rent and management fees. However, the complexity and cost of logistics can be a barrier to B2C e-commerce growth.

Recently, the proportion of B2C commerce in the entire Chinese online-shopping market has been steadily growing and is estimated to increase in the future. Accordingly, the percentage of C2C commerce is falling and is estimated to keep decreasing in the coming years.

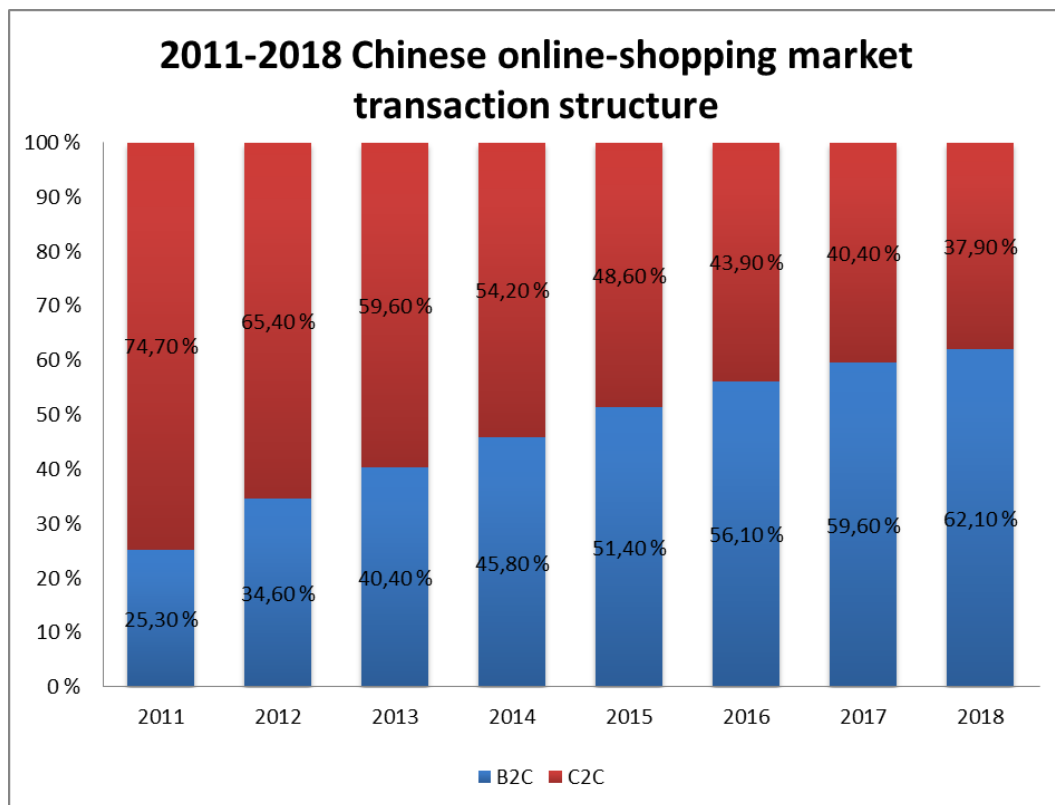


Figure 11. 2011-2018 Chinese online-shopping market transaction structure. (iResearch 2015)

3.3 Consumer to Consumer (C2C)

Consumer to consumer (C2C) commerce is transactions traded between private individuals or consumers. In the Chinese online market, Alibaba Group is the platform that is the first to be noticed when people mention C2C e-commerce. Taobao, a company of Alibaba Group, which is the biggest C2C e-commerce platform in China, provides a trading platform to everyone as if own an online shop. Since C2C e-commerce enables consumers to sell, or sometimes exchange commodities with other consumers, the trading details such as delivery date, quantity and price are completely matters between the consumers, which are negotiable as well. As a result, the advantage of C2C e-commerce lies in its trading flexibility, while guaranteeing consumers' security is an existing problem to be solved.

3.4 Consumer to Business (C2B)

A consumer posts the item with a certain budget online for companies' review. Companies can make an offer on the item after checking the consumer's requirements and the instructions of the product. After checking all the bids from different companies, the consumer can select the ideal one and then complete the transaction. "The world is rapidly changing, and traditional businesses have to take this into account. The market will soon function on a C2B (consumer-to-business) model, where the customer determines the design of the product. This requires flexibility – one of the reasons why Ma also hopes to see more women at the helm of companies. The future will come down to brains over brawn." announced Jack Ma, the founder of Alibaba Group, on CeBIT in March 15, 2015 (CIW Team 2015; CeBIT 2015).

3.5 Online to Offline (O2O)

Online to Offline (O2O) is a new e-commerce mode in China, connecting the online retailers with offline business opportunities through the internet. Customers are attracted by the service information online and then place an order and finally experience the services offline. Feedback online after the offline experience provides more information about the company to other customers; also serving as driving force to service providers for making improvements (Du Yingsheng & Tang Youchun 2014). Take Mc Donalds for example, Mc Donalds purchasing ketchup from Heinz is B2B, but selling food to customers (if the order was made online or through mobile devices) is O2O.

Figure 12 below is an estimate made by iResearch demonstrating the future development of main Chinese electronic commerce market segments. O2O in China, which focus on providing life services in local areas, has started to grow and occupy the e-commerce market. Popularization of mobile internet and the advanced mobile technologies will drive customers from PCs to mobile devices and become the engine of development of O2O e-commerce in the future.

Chinese electronic commerce market main segments future perspective(one hundred million)				
Macrosegmentation	Microsegmentation	2014 yearly scale	2018 yearly scale	CAGR(2014-2018)
B2B e-commerce	SMEs B2B e-commerce	61358.6	116627.3	17.4%
	Large B2B e-commerce	28782.6	42140.1	10.0%
Online shopping	PC+mobile device	28145.1	73000.0	26.9%
	mobile device	9297.1	45039.7	48.4%
	PC	18848.0	27960.7	10.4%
Online travelling	air tickets booking	1607.3	3250.0	19.2%
	hotel booking	636.1	1620.0	26.3%
	vacation planning	426.5	1286.7	31.8%
O2O service	Catering O2O	941.9	2127.3	22.6%
	Entertainment O2O	660.0	1521.5	23.2%
	Wedding O2O	45.2	227.1	49.7%
	Family service O2O	55.7	135.9	25.0%
	Skin care O2O	54.1	88.7	13.2%

Figure 12. The main segments of the Chinese electronic commerce market and future perspective (iResearch 2015)

3.6 Introduction to case company, Alibaba Group

The CEO of Alibaba Group, Mr. Jack Ma, used to be an English teacher in Hangzhou, China. Jack Ma established Alibaba Group in 1999 together with 18 people. Lead by Jack Ma, the 19 company's founders shared a belief that the internet can enable small and medium enterprises develop and compete more efficiently and effectively in the local and even the global market by taking advantage of the innovation and technology. At the outset, Alibaba Group helped small Chinese entrepreneurs and manufacturers to do business internationally with its first website. Nowadays, Alibaba Group has developed to the dominator in e-commerce in the Chinese market and plays an important role even in the global market. Additionally, Alibaba Group has expanded their business field from C2C (customer to customer) to B2C (business to customer) as well as to online payment platform (Alibaba group 2014).

Currently, Alibaba Group has achieved significant scale and size and has been dominating China's retail marketplace; Figure 13 below provides some data that

can better prove Alibaba Group’s status. There are several indexes that are worth attention: Alibaba Group’s transactions processed on mobile devices generated 37 billion US dollars in GMV (Gross Merchandise Volume refers to a metric used by online retailers and auction sites to track the value of transactions), which accounts for 76.2% of the total mobile retail GMV in China. For every minute, 3.6 million transactions are being processed in Alibaba Group. As Alibaba Group is expanding its market worldwide, its customers are located in more than 190 countries.



Figure 13. Alibaba’s current position in China’s e-commerce market. (Alibaba Inc. SEC F-1 Filing 2013)

4 RESEARCH METHODOLOGY

Research is done to generate new views based on the knowledge obtained and presented. Joseph F. Hair, Mary Wolfinbarger Celsi, Arthur H. Money, Phillip Samouel & Michael J. Page(2011, 5) state that business research is a process of pursuing truth through gathering, analyzing, explaining and reporting information so that a business decision can be made effectively and prediction can be made.

Broad as the business research scope is, researchers should have a clear plan before conducting research. Dynamic as business research is, researchers should constantly obtain new knowledge with new tools to conduct research more efficiently and precisely.

According to S. Sreejesh, Sanjay Mohapatra and M.R.Anusree (2013. 14), the process of conducting a research goes through the steps shown in Figure 14.

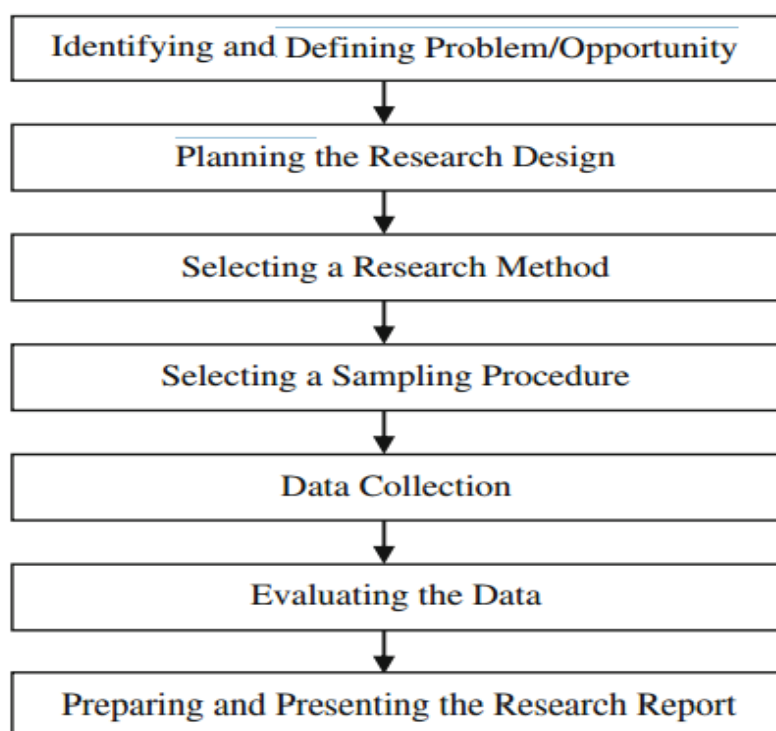


Figure 14. Steps in the research process (S. Sreejesh et al 2013)

Following the steps of research shown in Figure 14, the objective of this research is to let readers get basic knowledge of logistics working procedure and analyze the current statuses of logistics of e-commerce in the Chinese market then explore its potential challenges. To know what and how logistics work, the quantitative method of study (for example questionnaires) is not recommended in the research design. Hence, qualitative method is selected for data collection, three in-depth online interviews are conducted to obtain primary data on the topic.

4.1 Research Methods

Research is a search for knowledge, a discovery of hidden truth. “Research methods are the various procedures, schemes and algorithms used in research,” said Rajasekar, Philominathan and Chinnathambi (2013. 5). The methods selected and used during a research study should be well-designed, scientific and value-neutral so that the results are reliable and the readers can obtain useful information about the research problems.

When doing research, qualitative method and quantitative method are two basic approaches. Each one can be selected to conduct thesis research, or even both of them can be used. Quantitative research is based on the measurement of quantity or amount (Rajasekar, Philominathan & Chinnathambi 2013. 9), which is widely used in measuring numerical data which can be presented in graphs or tables.

In the words of Albert Einstein, “Not everything that can be counted counts and not everything that counts can be counted”. Qualitative method is characterized by its objectives, which aims at getting more accurate results of a certain field. The results it generates are usually in form of words, rather than numerical data (Nouria Brikci & Judith Green 2007. 4).

The differences between qualitative and quantitative research method are summarized in the table to give a clear picture of what they are and in what situation they can be used.

Quantitative Method	Qualitative Method
numerical, non-descriptive, applies statistics or mathematics and uses numbers	non-numerical, descriptive, applies reasoning and uses words
an iterative process whereby evidence is evaluated	aim at get the meaning, feeling and describe the situation
results are often presented in tables and graphs	data collected cannot be graphed
conclusive	exploratory
investigate what , where and when of decision making	investigate why and how of decision making

Figure 15. Differences between qualitative and quantitative research method

4.2 Data collection

Classified by the source, data can be categorized into primary and secondary data. Primary data is also called firsthand data, which is collected from the target group's experience through direct observation or interview. Secondary data is based on the data collected by other organizations and available to public use, which can be obtained from for example company records, government reports or publications. Compared with primary data, secondary data is most likely cheaper and is easier to have access to if primary data is not available.

In an area in which the researchers have no idea about the details, a survey or a questionnaire is hard to precisely design to cover the target issues. To study fields where little is known, a qualitative method of study is a better approach to start with, including interviews, focus group, etc. The data collected through qualitative research can help in getting an overview of the phenomena and creating hypotheses that can be tested by quantitative methods later if necessary.

In this paper, the aim is to observe the E-logistics process in depth, understand the phenomena and investigate the problems. The research method selected in this

thesis is the qualitative method, which is conducted through interviewing. The interviews contains two parts, an interview with workers in an express company in order to understand the traditional logistics process and an interview with store owners in Alibaba Group with the aim of understand C2C e-commerce logistics process and analyzing its potential problems.

4.3 Validity and Reliability

Validity in qualitative research is concerned with the accuracy and truthfulness of scientific findings (Le Comple & Goetz 1982. 32). Validity is essential in both qualitative and quantitative research, it helps audiences get to know the actually exists phenomena.

Reliability in qualitative research is concerned with the consistency, stability and repeatability of the informant's accounts as well as the investigators' ability to collect and record information accurately (Selltiz et al 1976. 182). In other words, reliability is the basis of a research; otherwise the research findings will not make any sense. The research method and the measurement used should stay stable over time and remain the same if given repeatedly. As a result, researchers are required to conduct research using the same methods obtaining the same results every time using the same methods on the same subjects.

Validity and reliability are two factors that every qualitative researcher should pay attention to while designing research, analyzing findings and commenting the quality of the study, said Patton (2002).

For this paper, three interviews are made with the purpose of achieving the objectives that were settled. One interview is done with Ms.Li Ruiqi, the operator manager of Guangdong HongQiao International Express Co., Ltd., to get a deeper understanding of the traditional logistics process and its weaknesses. Two other interviews are conducted with two sellers who own a store at Taobao, which is Alibaba Group related company and the biggest Chinese C2C platform. The interviews with Taobao sellers aim at obtaining information in how logistics

processed in contemporary C2C e-commerce works and are there hidden potential problems.

The interviews are conducted online and presented in form of words in the appendix. Due to the long distance and the time differences between Finland and China, the interviews are all arranged in the afternoon around 3 or 4 o'clock in Finland so that the interviewees have already finished their work and are available for an interview.

5 EMPIRICAL FINDINGS

The empirical findings includes three parts, traditional logistics, e-logistics and SWOT analysis. This paper is focused on e-logistics, as clearly stated in the title, so the SWOT analysis concentrates on e-logistics only. Instead of playing a major part, traditional logistics only serve as a comparison when analyzing e-logistics. However, the requirements and problems with traditional logistics will be pointed out as well.

5.1 Traditional logistics

According to the interview with Ms.Li Ruiqi, the operator manager of express company, the main challenges of traditional logistics are slow reaction, one size fits all and inventory management.

Sluggishness exists in all phases of traditional marketing and the distribution process. Resulting from the disjointed reordering process along with the logistics, the distribution system cannot keep pace with the demand for popular products.

In traditional logistics, the same distribution system is utilized with all the items. In order to same time and costs, or due to the non-standardized management, logistics companies restore inventory and deliver products through one kind of a logistics network.

Too much inventory kills retailers. Too many accidents could happened in the marketplace, which makes markets difficult to predict. The inventory problems become one of the key problems when companies own a lot of warehouses in which to store inventory. Overestimating or underestimating a product's status in the marketplace can cause problems of inventory management. Even a worse situation occurs when the logistics process is completed and reaches the end of supply chain, as inventory bears no relation to actual demand.

Furthermore, despite the competitive advantage generated and logistics costs reduced by outsourcing, the flaw of outsourcing lies in its easily losing control of the third party logistics (3PL) if they are not financially interdependent.

5.2 E-logistics

On the circumstances of the e-commerce industry, logistics companies tend to be more professional in order to meet the requirements of e-commerce, the ability a logistics company should have the follows features: information processing of data, automation of warehouse management, distribution networked and transparency management of distribution process.

Each distribution centers should be equipped with computer terminals, and be connected to a central server through the enterprise LAN. Utilizing automatic metering, optical identification and bar code technology should be used to mark all goods with name, specification, quantity, storage location, supply, warehousing time and other relevant information. Then should be transferred the information into digital signals and importing server database to achieve digital management.

For large distribution centers, automated equipment and devices such as automated metering devices, high-rise automatic shelves, automatic sorting machines, automatic guided vehicles and automatic stacking machines should be controlled by computers that are connected to a central control room. Once the electronic order is confirmed online, the computer should formulate the best distribution route and the best combination of transportation means based on the contents of each document. A computer should also control a variety of devices automatically to extract goods according to the species, size and quantity.

Meanwhile, products in the same delivery batch of different varieties, different specifications and different quantity should be delivered to the target destination, with a distribution list printing the consignee, delivery destination, delivery time, name, size, quantity, job number and other information . When the goods are about to be stored in a warehouse, the devices can automatically measure and read the bar code of the goods, then classify them before putting goods into storage.

Due to the nature of the internet, distance and time in traditional business has gone through a radical revolution. The sellers and buyers may geographically far apart, but are close on the internet. In order to solve the difficulties of distribution caused by geographical distance, the distribution centers must set up sub-centers in different locations as much as possible, if allowed by financial condition, to expand the distribution area and win more business share. The connection between a distribution center and a sub-center is achieved through the internet and a distribution network, so that it is possible to exchange information between each other. The exchange of information flow contributes to the selection of the best distribution route and achieves the lowest distribution costs. Alternatively, driven by the profits, a connection can also be achieved across distribution centers or industry, to make distribution reach beyond the previously covered area.

Distribution center should take advantage of location-based services provided by the global positioning system (GPS), continuously tracking the important packages or packages of huge volumes till the goods are delivered to the customers. Then the details of any distribution can be tracked, and the security of goods can be guaranteed to some extent.

5.2.1 Characteristics of e-logistics

Compared to traditional logistics, the revolutionary breakthrough made by e-logistics, which also differentiates itself from traditional one, is shown in the following aspects;

Traditionally, distribution by sea, by air and by land are mutually independent. E-commerce logistics is an integrated system that combines the traditional transportation modes together, and reorganizes the scientific and efficient process so that customers can obtain the best transport routes with the shortest transport times, highest transport efficiency, lowest transport costs and the safest transport security.

Second, the transportation process is no longer independent of the manufacturing process. E-logistics achieve the planning and controlling of company's entire

purchasing, marketing and selling process; complete the design and operation of the production system as a whole. Based on the modern information technology utilized, the material flow, cash flow and information flow are unified together, reducing the total cost of society production. Then the suppliers, manufacturers, distributors, logistics service providers and end-customers can all end up with a win situation.

Third, e-logistics enhance the customers' status and emphasize that customers' demand goes first in providing logistics services. Customers' demand determines the details of logistics service and in which way the services should be offered. Currently, production tends to be of small quantities and diversification, and customers' demands tend to be diversified and individualized. Under this trend, e-logistics service providers are developing specialized and personalized services.

Fourth, among various transport elements, e-logistics focus more on the management of the distribution process and advanced information technology data. Transferring the traditional logistics operating process into an open and transparent mode contributes to keeping up pace with the production and product sales plan.

Last but not the least, e-logistics is closely knitted working worldwide, and more and more multinational e-logistics companies are established through international mergers and alliances.

5.2.2 Problems with e-logistics

Based on the two interviews conducted with individual Taobao sellers, e-logistics in the Chinese market are at the growing stage and potential challenges it will face with are shortage of education of logistics, low efficiency of logistics and distribution, lack of information-based management mode, irrational layout of distribution center, high distribution costs and weak anti-risk capability.

Currently, there is a misunderstanding in domestic logistics. People consider logistics as simply the sales process, advanced technology is not necessary, nor

workers who are well-educated and skillful in this field. The development of logistics education in China is backwards and no integrated logistics education system has been established. Chinese universities only set up simple logistics courses; with poor professional training opportunities, education of logistics has just started in the master's or doctor's degree. As a result, there is a shortage of professional employees for Chinese logistics companies, and the companies lack of overall knowledge or proper understanding of logistics.

Currently, most distribution centers ignore the improvement of distribution facilities, even bikes and buses are still used in distribution. Not only do outdated distribution facilities lower distribution efficiency, but also lead to the logistics insecurity and increase in the logistics costs.

As e-commerce has been growing rapidly in recent years, higher requirements have been placed to logistics industry, and efforts have indeed been made to improve the logistics industry. When compared to the developed countries, China's logistics industry is still at the outset. Chinese domestic logistics companies have not effectively utilized information technology, the information flow is operated in a very narrow field. Hence, it is hard to achieve cross-department, cross-industry, cross-company information sharing. Lack of information-based management mode directly jeopardizes the timeliness and accuracy of logistics services.

Seen from a macroscopic view, the distribution centers and the functional areas have covered the mainland of China, but a regulatory network has not been built. The management that is not standardized makes no clear regulation formulates the responsibility for distribution centers in different areas. Moreover, irrational allocation of funds and the locations of distribution centers are the results of the lack of regulatory network and nonstandard management. The repeated construction of logistics facilities leads to a waste in the social resources. From the microscopic point of view, companies do not have an overall look of the market situation and cannot estimate their actual status in the marketplace. Companies do not understand, or have a clear objective of self-development, and

just blindly utilize an e-commerce logistics system without professional technical guidance. Then companies have difficulties in conducting common business, and will end up in chaos in distribution centers.

Due to the different forms of e-commerce (B2B, C2C, B2C, C2B and etc.), e-logistics operators not only distribute products to wholesalers and retailers, but also directly to a large number of end consumers. Besides, e-commerce is not limited by time and geographical distance, it is difficult to form a scale of centralized distribution flow, which makes the distribution work complicated and trivial and increases distribution costs accordingly.

The majority of logistics companies in the Chinese market are small and medium enterprises (SMEs). Those companies are of small scale, without sufficient funds and advanced information or communicated technology. Compared with large companies, the weakness of SMEs is being undersized and providing fewer services, which makes them more easily affected by the market and it is harder for them to survive when suffering from a crisis.

5.3 SWOT analysis of E-logistics

Strengths:

The application of advanced technology, such as ERP system, GIS and GPS

Huge amount of competitors in the marketplace, the competition forces them make improvements on service quality to survive

Weaknesses:

Weak anti-risk capability

Complexity of logistics and high distribution costs

Irrational layout of the distribution center

Low efficiency of logistics and distribution

Lack of information-based management mode

Opportunities:

Positively developing trend of Chinese economy and e-logistics industry

Government facilitates the establishment of logistics education system

Positive policies and regulation stated by Chinese government to encourage the future development

Ongoing infrastructure buildup

Wide domestic market and potential market to be developed

People started to aware of the potential development of e-logistics

Threats:

Shortage of education in logistics

No sufficient professional logistics employees

Competition from multinational companies and foreign companies

<p>Strengths:</p> <p>The application of advanced technology (i.e.ERP system, GIS and GPS)</p> <p>Huge amount of competitors in the marketplace, competition generates improvements</p>	<p>Weaknesses:</p> <p>Weak anti-risk capability</p> <p>Complexity of logistics and high distribution costs</p> <p>Irrational layout of distribution center</p> <p>Low efficiency of distribution</p> <p>Lack of information-based management mode</p>
<p>Opportunities:</p> <p>Healthy development of Chinese economy and e-logistics industry</p> <p>Government facilitates establishing logistics education system</p> <p>Positive policies and regulations</p> <p>Ongoing infrastructure buildup</p> <p>Wide domestic market</p> <p>People started to aware of the importance of e-logistics</p>	<p>Threats:</p> <p>Shortage of education of logistics</p> <p>No sufficient professional logistics employees</p> <p>Competition from multinational companies and foreign companies</p>

Figure 16. SWOT analysis of e-logistics

6 CONCLUSION

Logistics is a comprehensive industry, not as simple as most people consider it is. One purpose of this paper is to let the importance of logistics become noticed and call people's attention on this industry. Logistics education in China is backward and just starting to develop, more attention is needed and more efforts need to be made on this field in the future. As shown in Figure 10, there is a trend that e-commerce will be operated more on mobile devices instead of PCs. As a result, a logistics company can take advantage of the improved technology to create software or apps that are available on mobile devices for consumers to track the logistics process. According to the characteristics of e-commerce distribution development, logistics providers under e-commerce should not only develop under the traditional distribution industry; but also own capacity of processing digital information, automatically warehouse management, establishing cargo distribution networks and make distribution processes transparent. An integrated logistics system is required in the future development.

6.1 Limitation of research

This research conducted is aiming at an analysis the logistics of e-commerce in China. In the theoretical part of the study, it was hard to find a theory that is particularly used for a logistics. Few efforts have been made to create a logistics theory, so no integrated logistics theory system has been formed, which is why the analysis of the empirical findings can only rely on the interviews and a general, widely used theory.

Apart from the shortage of logistics theory, the data collection from Alibaba Group is a severely challenge. Due to the confidential in Alibaba Group' data, it is not possible to interview the employees nor to access the internal data. Since the scope of Alibaba Group' business covers B2B, C2C, B2C and C2B commerce, C2C commerce sellers were selected for the interviews C2C was used as a representative to analyze e-commerce logistics.

Additionally, time and geographical distance limited the data collecting progress. More C2C sellers could be found and interviewed to get more representative results if the interview could be conducted in person and be given enough time.

6.2 Future study

As mentioned in the limitations of the study, the main limitation of the research is that the data of Alibaba Group is confidential, so the interview could only be done with C2C sellers. The interviews could be more thorough if both the interviewer and the interviewee are in the same place and more interviewees could be found to increase the representative of research results. Furthermore, future study could be done among companies if it would be possible to find logistics companies with whom to have deep interviews with, so the analysis of e-logistics would not be restricted to C2C commerce but also to other form such as B2B B2C and C2B.

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APPENDIX 1

INTERVIEW QUESTIONS FOR THE OPERATOR MANAGER MS. LI RUI QI FOR RESEARCHING TRADITIONAL LOGISTICS PROCESS

1. When was the logistics department in Guangdong HongQiao International Express Co., Ltd., founded?
2. What is your company's target group customer?
3. How do you evaluate the current status of logistics in Chinese market?
4. Can you introduce the working process of logistics department within your company?
5. How do you think the traditional logistics differ from the modern e-logistics?
6. What kind of advanced equipment and devices are utilized in traditional logistics industry?
7. As modern e-logistics is rapidly growing, what kind of new technologies will be applied to your company in the near future?
8. What is the hardest part of your work?
9. What do you think will be the potential challenges that traditional logistics will meet in the future?
10. To survive in the fierce competition in Chinese market, what efforts and improvements should be done with traditional logistics?

APPENDIX 2.

TWO INTERVIEWS WITH C2C SELLERS ON TAOBAO TO SHOW E-LOGISTICS PROCESS.

1. When did you start your own store on Taobao?
2. What kind of products are you selling and your target group?
3. How was your business since you started it?
4. Can you introduce how did you start the business?
5. If an order was confirmed, how do you deliver products to the customers and what factors affect your decision when selecting a logistics company?
6. Please detail your working process?
7. How do you think traditional logistics differ from modern e-logistics?
8. What is the most risky part of your work?
9. What do you think will be the potential challenges that e-logistics will meet in the future?
10. To survive in the fierce competition in the Chinese market, what efforts and improvements should be done with your own business to differentiate your company from other competitors?