

FACTORS INFLUENCING THE DEVELOPMENT OF CHINESE ONLINE RETAILERS

Case study: Taobao

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ABSTRACT

During the last five years, the Chinese e-commerce market has experienced a dramatic boom in comparison to other traditional sectors. Due to the rapid advancement of modern technology, an increasing number of people are starting to shop online, which stimulates the development of electronic business and online stores. Therefore, this thesis focuses on studying the factors that have an impact on the development of Chinese online retailers.

Numerous factors can affect consumer behaviour and the sales volume of e-sellers such as customers' personal reasons, product characteristics or price. By studying these factors, online retailers can acquire useful suggestions for developing their online business.

The research question is what are the factors influencing the development of Chinese online retailers. To answer the research question, the thesis examines previous sources discussing the topic and introduces an analysis of the most popular Chinese online shopping website, Taobao. The data was collected by interviewing five Chinese people who have used Taobao.

To conclude, both Chinese online retailers and global e-sellers who are interested in developing e-commerce in China can benefit from the results of this study.

Keywords: electronic commerce, online retailer, purchase motivation, Taobao, China, e-business, online shopping

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Abbreviation

C2C	Customer-To-Customer
CCNIC	China Internet Network Information Center
E-BUSINESS	Electronic Business
E-COMMERCE	Electronic Commerce
E-MARKET	Electronic Market
E-MARKETING	Electronic Marketing
E-RETAILER	Electronic Retailer
E-SELLER	Electronic Seller
GPS	Global Position System
ICBC	Industrial and Commercial Bank of China
IT	Information Technology
QQ	Quite Quality
RMB	Renminbi
U.S.	United States of America
WHATSAPP	WhatsApp Messenger

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1. INTRODUCTION

1.1 Thesis background

With the widespread use of information technology, electronic commerce shows a dramatic increase in China nowadays. A research by CCNIC in 2014 showed that the number of Internet shoppers in China has reached over 361.42 million and the number of mobile shopping users rose to 236.09 million (CIW Team 2015).

Previous research has found an interesting fact that most Internet users prefer to browse their interested products in web shops just for collecting information that they require and in the end, they will approach it in physical stores (Teixeira, 2015). However, this situation has changed in the current Chinese e-commerce market.

The advancement of information technology lightens the web business in China and further leads to a more convenient life for Chinese citizens by giving them more choices, reducing product prices and eliminating geographical limitation. Obviously, the application of information technology brings forth changes in traditional consumption and accelerates the new era of Chinese electronic commerce. (Jia, Wu and Xie 2012, 662-663.)

1.2 Research question

This paper aims to identify the most influential elements for developing online retail business in China and give suggestions to individual e-sellers and enterprises concerning e-commerce.

To answer the research problem, there are some questions that are taken into account to deduct the research problem step by step according to a reasonable explanation and analysis. For example, the aim is to seek out the factors that can improve the business of online retailers in China and to analyse the advantages and disadvantages of some successful online shopping websites.

1.3 Thesis structure

This paper consists of six sections. The first and the second chapter discuss research methodology, research approach and collecting data. In addition, these chapters explain the objective of the study and the limitations in investigating the research question of the thesis.

The third chapter provides background information of Chinese e-commerce. It introduces the current condition in the e-market in China by presenting diagrams and analysing data such as the growth rate of electronic commerce and the market share or major online retailers in China.

In chapter four, based on earlier research and existing material, the factors influencing the development of online retailers are generalized according to three key factors: the external environment, online retailers, and customers.

The next chapter focuses on the case study, a well-known Chinese online shopping website, Taobao. By concentrating on this particular example, the author intends to find an answer to the research question. After that, the last chapter gives a conclusion and brings about the core findings and suggestions that can help online retailers to solve potential threats and problems while developing their own business.

2. RESEARCH METHODOLOGY

2.1 Research purpose

Internet shoppers preferring to buy products online is a trend of modern life in China. Shopping through the Internet, as a new channel, is becoming a necessary part of the business environment. (Quan 2009, 3.) Therefore, it is worthwhile to study factors that can affect customer behaviour and the business of online retailers. Figuring out what elements motivate customers to purchase a commodity through the Internet and what are the factors that can increase the turnover of online shops can give an outlook to e-commerce enterprisers and

individual sellers for running their business in a far-sighted way. (Quan 2009, 6).

2.2 Limitations

Regarding validity and reliability, the author has examined some previous studies on the subject and also conducted theme interviews to collect data. However, there are certain limitations.

With the rapid development of IT and web commerce, the current data can be replaced rapidly, which means that the findings presented here might change to some extent in the future. Secondly, even though some data are collected by interviews and the objects are considered as a group. However, there can be some particular cases and undiscovered findings. Moreover, the author found out that the data and statistics on some Chinese websites is not up to date. For example, CCNIC (China Internet Network Information Centre) is an official centre for internet statistic, but the most recent data is from 2014.

2.3 Research plan

Generally, when analysing human behaviour or exploring reasons for a specific situation, a qualitative research method is preferred (Bogdan and Taylor 1990, 185).

Considering the research question of this study, a qualitative method is an appropriate and effective approach to study the factors influencing the development of online retailers.

Beiske (2007, 10) notes that deductive reasoning is for suggesting a hypothesis on the basis of a known theory or a phenomenon and to prove it in a designated circumstance. It can be explained as “reasoning from the general to the particular”. Because of the researching process and problem, deductive reasoning is used for testing the hypothesis with the implementation of relevant methods to examine, modify and validate the guessing conclusion proposed at the beginning.

Thomas (2011, 516) notes that a case study is an instance of a certain phenomenon that is used to illuminate and explicate the research question. It is often used to analyse an object from a group of similar ones such as a person or an entrepreneur and study it holistically. It is a commonly used method in qualitative research. (Yin 2003, 15.) It goes deeper to convince and correct former theories with a purposive action (Racino 1999, 20).

A case study is usually defined as an empirical inquiry to verify the hypothesis of the research phenomenon in a real-life background by applying some research method including qualitative and quantitative method, multiple previous theoretical propositions and so forth. (Gillham 2000, 37) Therefore, in chapter five, Taobao, a popular Chinese online shopping website, will be discussed to investigate the research question from different aspects.

In most cases, an interview is an effective way to collect data in qualitative research and case study (Savin-Baden 2012, 4). Hence, a face-to-face interviews focusing on the research problem are conducted to collect data for the case study. After gathering all the needed data, the final step is analysing and giving the summary for the research problem.

3. BACKGROUND OF CHINESE E-COMMERCE

3.1 Electronic commerce in China

Nowadays, the information-based tide sweeps across the whole world and has a profound impact on the economy of many countries particularly on the Chinese economy. E-commerce is a dynamic industry in which online retailers compete with each other and make an effort to accommodate customer demand. This chapter presents an overall situation of e-commerce in China.

The United States of America, as one of the forerunners of e-business, has shown a stable and slow progress in the recent decade. Compares

the retail sales and growth rate between China and the US from 2008 to 2016. As we can see from the chart, the sales volume of e-commerce in China grew all the time and exceeded that of the US in 2013, being roughly twice as much in 2016. (Figure 1)

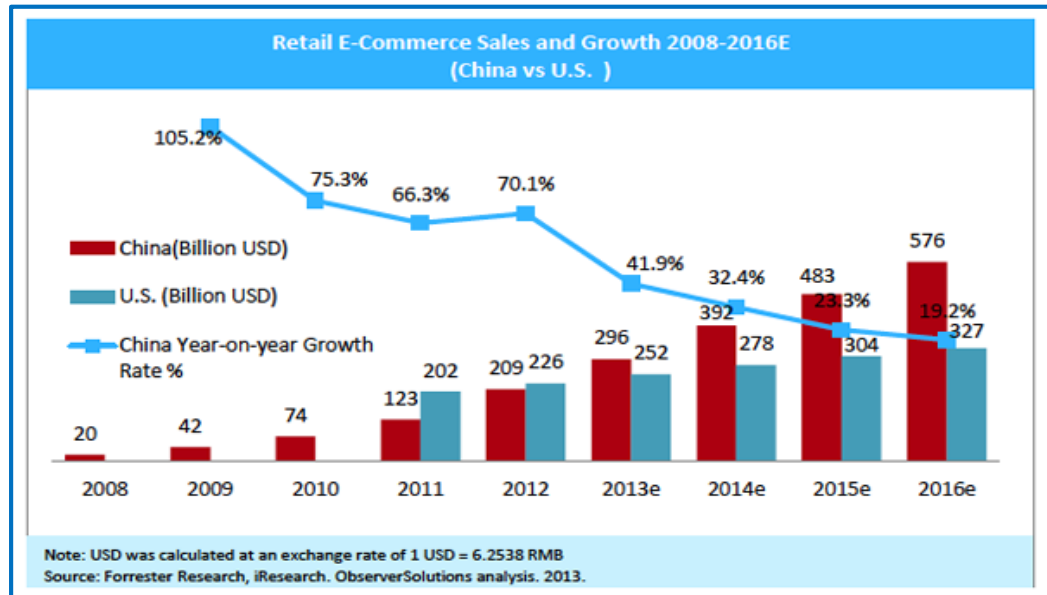


Figure 1: Retail e-commerce sales and growth 2008-2016E (China vs U.S.)

iResearch predicts that the boom in Chinese e-business will continue its rise in the near future, and the total amount of transaction sales will approach 1.18 trillion dollars (Guilford, 2014).



Figure 2: China online shopping market 2011-2018E

The next diagram below presents the situation of online shoppers in China from 2009 to 2015. The number of online retailers in China is actually in proportion to the increase of the amount of online buyers in these five years from 109 million RMB to 363 million RMB and from 384 million RMB to 701 million RMB (CNNIC, 2013). It suggests that the potential of electronic commerce market in China is incredibly large and promising.



Figure 3: Number of online shoppers in China 2009-2015E

Various motivations and factors motivate Chinese Internet shoppers to order in online stores such as convenience, economical price, and faster delivery and so on. Observer Solutions found that in 2013, approximately 67% Chinese customers tend to use the Internet to purchase products they need. About 12% of the consumers are fairly confident about their online shopping decision and around half of the people have responded positively on using the new channel to purchase goods. Only 33% of customers still stick on the traditional purchasing method as their single shopping channel. (Figure 4.)

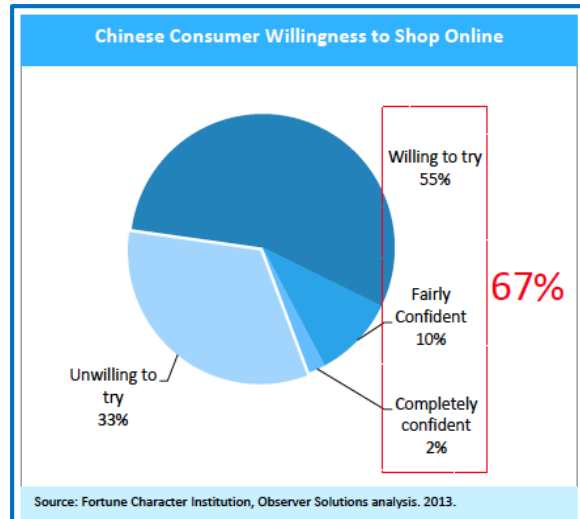


Figure 4: Chinese consumer willingness to shop online

There are several popular websites for online shopping in china but Taobao (Tmall) and Jingdong dominated the market, and other retailers occupied only a small portion of the entire market share. More than half of online shoppers prefer to use the platform of Taobao to purchase products than in different independent online stores. (Figure 5.)

Taobao built up its online platform in a very early time when China just started to apply its own electronic commerce and it developed a relatively successful and user-friendly system for customers to shop online. And year by year, more customers appeal to go shopping in their stores due to many benefits that Taobao brings to them. Hence, in chapter five, Taobao mall will be given as a case study to investigate the research question.

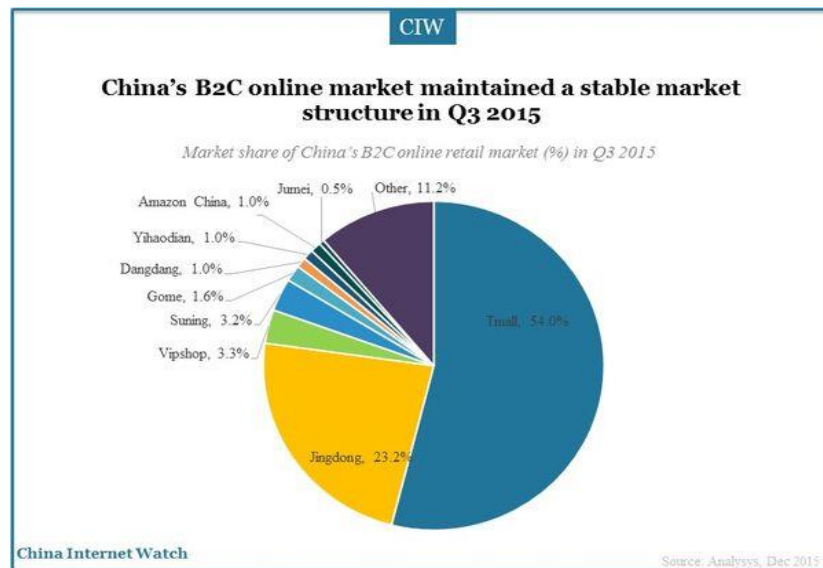


Figure 5: The market share of Chinese online retailers in 2015

3.2 Key concepts explained

E-commerce is a new channel to make trading with the use of network technology and telecommunication. Unlike the traditional method that people purchase products in local stores and the market, the Internet offers customers a dynamic, flexible and convenient platform where consumers can complete all the steps of the trading process (including browsing, selecting, purchasing and asking for delivery of the goods etc.) (Quan 2009, 12).

Motivation is an internal driving force that drives people to take action to achieve something. (Liu and Bai 1999, 53-55.) Consumption demand is motivated by purchase motivation, which reflects a customer's demand in psychological, spiritual and emotional aspects.

Customer behaviour refers to a series of actions that customers make in order to achieve, use and dispose goods, it also includes the process of decision making before taking any actions. Consumer behaviour is closely linked to the exchange of products and services. (Sheth, Mittal and Newman 1999, 700)

Logistics is part of the supply chain management, which organizes a complex process of transport, storage, package, assembling, delivery

products and service in an optimized and systematized way from producing site to consumption site in the interest of meeting customer requirements. (Tian 2003, 50)

Online shopping is an activity that conducts transactions through the Internet. It is also a new channel for collecting products information and purchasing products through the application of the Internet and a series of shopping assistant tools. Goods will be delivered to customers by mail. (Quan 2009, 7.)

4. LITERATURE REVIEW

To find out factors influencing the development of Chinese online retailers, this chapter reviews some theoretical material and will categorize it according to three main topics: environmental factors, factors of online retailers and factors of customers. Each of the factors affects the business of online shops as well as the consumption behaviour of the customer.

4.1 Environmental factors

Environmental factors refer to outside elements of online retailer's shops. It is a microscopical environment where web sellers find it difficult to make a difference except to accommodate it. China is a developing country with various geographical features and different level of economic conditions, so it is vital to take the element of the surroundings into consideration.

4.1.1 Geographical location and logistics

There are essentially two types of advantages related to the convenience of online shopping. First, customers can go shopping anytime in online stores when they want (Sathye 1999, 330; Pazgal and Sikka 2001, 155-156). Online shopping allows buyers to browse and purchase goods without time limit because there is no opening and closing time in the online shopping website.

Second, through the Internet, clients have more choices to find their desired products from different cities or even a distant country without losing a huge amount of money and time on traveling. Most of the time, consumers can purchase their desired goods by clicking the mouse in front of the computer screen at home and then wait for the goods to be delivered from hundreds or thousands of miles away within a few days (Lynch, 2013).

Accordingly, shopping convenience is one factor that online retailers should think about. In general, a primary motivation for online shopping is an inconvenience of physically going from store to store (Rohm et al., 750-752). In addition, the advantage of convenience of electronic commerce is considerably relying on the geographical location of the customer and the relevant elements for logistics.

The diagram below presents the fact that even though the number of online buyers in rural areas is still low (43%) in comparison to online shoppers who live in urban areas (64%), the internet shopper in the rural area grew dramatically by 40% in 2014. Hence, the statistic indicates that the e-commerce market in the rural areas contains a bigger potential with its promising growth than those wealthy but saturated metropolises where the developed market became a bit crowded. (Gwyn Guilford, 2014.)



Figure 6: China online shopping users in 2014

According to iResearch, while some early-adopted coastal cities earned the biggest amount of E-commerce sales, the sum of online business transaction in smaller inland provinces such as Ningxia and Qinghai seems to grow faster and is full of opportunities. For the online retailers, it is worthwhile and feasible to establish an efficient logistical system in those less-developed small cities and countryside. (Alizila, 2015.)

For all the online retailers, logistics is a significant part of the whole transaction process in E-commerce. In the last decade, most of the logistic companies that occupied the major market are domestic ones because foreign companies faced more strict policies and had to compete with the lower labor cost of local delivering companies. Meanwhile, the performance of many domestic companies has gained public attention with fast-speed delivery and low cost. (Wu 2001, 3-7.)



Figure 7: China's domestic express-delivery sector

The pie chart above shows the logistical growth rate of the top logistics companies in the Chinese e-commerce market. It is obvious that EMS, SF Express are the two profound delivering companies followed by other private companies, that grow faster than the other companies. In addition, Shentong, Yuantong, Zhongtong and Huitong also increase their business gradually and have often been chosen as a delivering company option.

4.1.2 Economy condition and government policy

The development of the e-commerce market can be affected by the level of the regional economy. According to the study of Tmall, the top ten provinces with highest online shopping consumption are southeast coastal provinces such as Shanghai, Zhejiang, Jiangsu and Fujian etc. where people earn a higher average income than the people from other

areas and so citizens in those metropolises have stronger purchase power as well (Li, 2010). In addition, the economy condition of the city has a strong impact on logistic as well. It is easy to understand that those wealthy metropolises have a well-developed transport infrastructure that can offer a better condition for implementing a logistic system and meanwhile, the characteristics of high population concentration and a great amount of online retailers in big cities knock down the delivery cost and future stimulate the consumption frequency.

Furthermore, government policy is another factor that online retailers should pay attention to. Take the process of logistics as an example, many electronic commerce enterprises have suffered from bureaucracy delays when they tried to develop their business. For instance, applying for the road freight permit to delivery products across the province. (Guilford, 2014.)

In recent years, the Chinese government has imposed a series of policies to open cross-border e-commerce pilots such as Ningbo, Shanghai to stimulate the development of electronic business in coastal cities which have the advantage to import and export goods from one country to another (CIW Team, 2015). Therefore, an online retailer having business in China should also consider government policy when they start up their web shops such as how to smile things over when they suffer from bureaucracy or what the strategies could be to take advantage of the new opening policy and seize more opportunities to win the market share (CNNIC 2014, 17).

4.2 Factor of online retailers

To develop electronic commerce and promote online business, e-sellers apparently assign a significant role to the development of their web stores. Some influential factors to catch a customer's attention and boost online business can be made by the online retailer themselves through offering good quality of products, setting up an appropriate sale

price, improving the web shop design and applying promotional strategies to conduct advertisement.

4.2.1 Product features

- Price

From a client's point of view, the price is not only the factor that affects a consumer's decision making, but it is an essential element that has a strong impact on customer purchasing behaviour. Online price promotions provide clients with a more pleasurable initial web shopping experience (Meno and Kahn 2002, 15). Generally, price and demand have a very close relationship. For some identical or similar goods, in most cases, the lower the price is, the greater the sales are. The reason why the market of electronic commerce has more validity than the traditional market is because Internet trade is often supplied with relatively lower commodity price than the product from physical stores. Many cyber buyers expect that e-retailers can offer price promotions or lower the price of goods more than retailers in local stores. (Xu 2010, 66)

The cheap price is the top reason to motivate people to shop through the Internet (Sathye 1999, 332; Pazgal and Sikka 2001, 165) In the light of this point, the web seller could hold periodical sales activities to attract customers. Bridges and Florsheim(2008, px) suggest that the utilization of entertainment is not the main factor to incent the behaviour of online shopping but the utilitarian element since customers are price orientated in the shopping context.

In addition, many customers often have high expectations to get a price advantage when they plan to purchase goods online. They believe that the price of the product can be much cheaper than in the traditional market (Xu 2010, 66).

- Features of the goods

The characteristics of the product are the additional factor to bring people to shop online. Not all the products are suitable for sale on the Internet. Because of the difference between the traditional market and the electronic commerce market, the product that is suitable to be sold online should have special characteristics to be competitive with similar goods from the real stores. Therefore, creative, fascinating, hand-made products or other common goods with a lower price can be a good choice to put up for sale on the Internet. (Xu 2010, 66.)



Figure 8: Categories of popular products online

Due to a McKinsey statistic from 2015, the most popular goods in the E-market are apparel. 66% of the online shoppers purchased it and the average number of purchasing of this kind of products is around 22 times per year per person. Packaged food and cosmetics are the other products that have been usually purchased through the Internet. The number of online buyers who bought such products accounted for 40% and 37% respectively. (Figure 8.) Customers are also interested in other categories of products in the E-market such as small appliances, consumer electronics, household care product, etc.

4.2.2 The design of a web shop

In addition to product features, online shoppers look for an entertaining and safe environment to order their products (Bridges and Florsheim 2008, 310). For some shoppers, shopping online and placing their chosen items into virtual carts is an entertaining enjoyment. In fact, entertainment is a further hedonic component of online shopping (Wolfenbarger and Gilly 1999, 25-40). Luo believes that shopping entertainment on the website improves a buyer's satisfaction and changes their attitude toward the use of the web (Luo 2002, 37).

Customers can be satisfied with a good shopping experience if the website they apply is a creative and innovative place where they can relieve tediousness and gain excitement and entertainment (Luo 2002, 39). Meanwhile, a pleasurable online experience enhances the entertainment of the purchasing process and excites the sense of the customer, leading them to explore more products and tempting them with promotional incentives (Menon and Kahn 2002, 35).

These experiential online shoppers enjoy clicking lively and placing an item in their cart compared to going through the goods passively. The entertainment feature of various function and tools on the online shops fulfils the demand of some customers who tend to eliminate the tedious feeling that traditional shopping channel brings to them.

When referring to the web shop design in Chinese e-commerce industry, online retailers should consider the preferences of their target groups. For example, Chinese online shoppers tend to browse compact websites with a lot of information about the product and services because they need the shopping atmosphere to stimulate their desire to purchase, rather than American online shoppers who prefer simple and clean web design. Also, Chinese Internet buyers tend to use a forum to share information with other buyers and send an instant message to communicate with the seller (Wang 2011, 72-73).

4.2.3 Promotion

If the shop owners on the Internet expect to enhance their E-commerce process, they have to map out a strategic marketing plan to promote their store and products. In the field of electronic business, E-marketing is the fundamental method to promote products, brands and stores. (CNNIC, 2014, 18.) E-marketing strategies enable the consecutive and customized communication between customer and company through the application of electronic media, online tools and websites (Watson et al. 2002, 333-347). The terms of e-marketing are also considered as synonymous with internet marketing and online marketing.

There are a wide variety of e-marketing approaches to boost the sales revenue for online shops such as newsletters, social media, video, advertisement, text message and so forth. Unless traditional marketing which requires a large amount of human involvement, E-marketing offers a flexible marketing method that firms can contact with customer timely and directly so that a lot of the cost can be saved for the company. (Jia and Zhen 2011, 35-36.) At the same time, customers can get better information service in return. E-marketing is comparable to the marketing in agriculture-age when the relationship between customer and manufacturer were closer, but with lower cost (Sheth 2000, 55; Sheth and Sharma 2004, 700).

The second benefit of Internet marketing is it allows the customer to define products and services according to their personal demand via some interactive tool, for example online checking systems and seat booking systems (Watson et al. 2002, 336). Meanwhile, E-marketing is often presented to customers via an accessible and comprehensible form. For example, subscribing to a newsletter via email is an effective and informative way to promote a customer's preferred category of products or brands. Moreover, another obvious pro of e-marketing is that the customer can order and purchase their needed products

immediately after looking through the promotional information with the application of an Internet payment system so that the complicated purchasing process turns out to be a simple, convenient and flexible way to speed up the buying circle (Jia and Zhen 2011,35-36).

However, different countries should have distinct e-marketing strategies depending on their infrastructure level and customer characteristic (Quelch and Hoff 1986 11-12; Douglas and Wind 1987, 19-29).

Therefore, Chinese online retailers should apply designated and personalized promotion channels to meet the demand of their target consumer group.

4.3 Factor of customers

The customer is a recipient of goods, services or an idea from sellers, vendors or suppliers through a financial transaction (Richard, 2004; Kendall, 2007). Customers as an essential part in the development of electronic commerce affect the amount of sales revenue of online shops directly. In this chapter, readers can learn about some key elements, which affect client's shopping behaviour and purchase decision. Cyber sellers should play close attention on analysing customer behaviour and the psychological elements to meet consumer's radical demand and needs (Xu 2010, 64-66).

4.3.1 Online shopping experience

Online shoppers come to the store with a specific objective and constraint such as limited budget and time. The store atmosphere and shopping experience affect customer emotion and a series of further behaviours. (Donovan and Rossiter 1982, 34-40; Darden and Babin 1994 101-105; Hui, Dube, and Chebat 1997, 87-100; Sherman, Mathur, and Smith 1997, 365-366.) In the field of E-commerce, shop and service have been designed to supply a favourable store image to minimize negative response and enhance positive emotion through manipulating all the available outside elements (Eroglu and Harrell 1986, 347-363).

In addition, online retailers can improve service and shop design to construct a good relationship with consumers. Previous shopping experience and image of a shop decide the decision of the customer to select the shopping place where they can approach their needed goods.

4.3.2 Age and gender

With the growth of people's age, their buying pattern for different kind of products and service alters as well. The tastes for food, apparel, furniture and recreation will be changed over time. (Kotler and Armstrong 2010 250.)



Figure 9: China online shopper by age group in 2015

The statistic above describes that people whose age is between 18 and 40 are the major group of online shoppers, which is accountable for 84% of the total amount of online shoppers in 2015. Thereby the online retailers should treat them as the vital target group. (Figure 9.)

With regard to genders, even though it seems the number of male shoppers (55%) exceeded female customer group (45%) in 2015, other statistics found that more and more women joined the new trend of the electronic transaction. Kotler and Armstrong (2010, 152) claimed that in

Western Europe, the vast majority of increased online sales are because of women, and in fact the same situation happens in China as well. The statistics also illustrates the fact that in 2015, Chinese mothers spend one-third of their online time on shopping and about 86% of mothers in China prefer to purchase mother-care products through the Internet. In fact, there are 70 million children whose age is from 0 to 3 in China and this number will grow faster due to the abolishment of the one-child policy in current China (Xiao and Liu 2015, 10). Hence, the online female market is promising and beneficial for many online retailers.

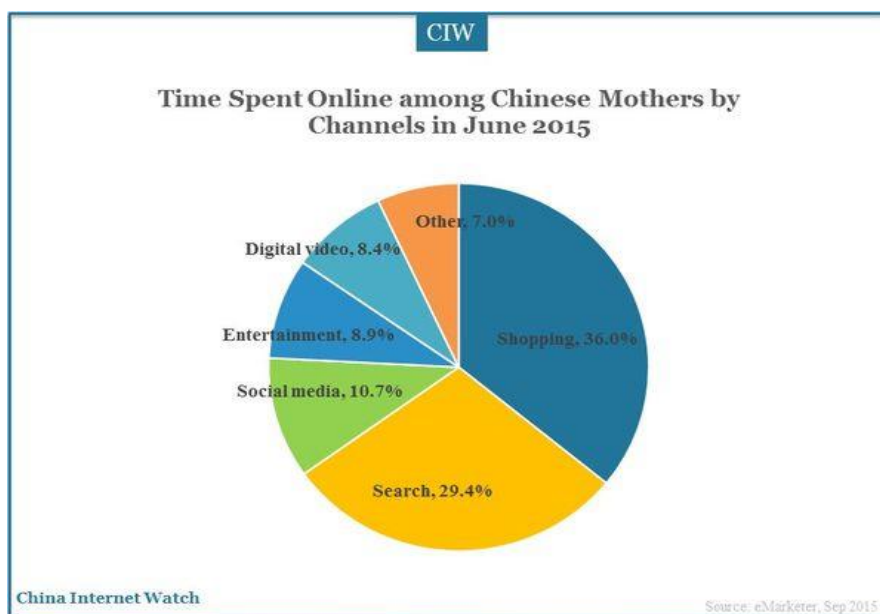


Figure 10: Time spent online among Chinese mothers by channels in 2015

4.3.3 Social impact

Social factors have a certain impact on customer purchasing decisions and further affect the business of online retailers. Therefore, it is significant to investigate social influential factors toward the customer and online sellers. Some essential social factors are the reference group, family, role and status.

The associative reference group is a small group consisting of individuals who knew each other and belong to a specific society.

Individuals in the group respond well to adapt to their group. (Wayne and Deborah, 2009.) It is often formed by families, close friends, neighbours, and colleagues etc. Apparently, those people are more likely to affect customer behaviour when they shop online because they are the closest people around customers. And among all those relevant people, the family has the most powerful influence on making the purchase decision of the customer. (Kotler and Armstrong 2010 250.)

The forms of customer's personality, values, initial opinion and preference for some brands and products are because of the impact of their families on their behaviour to some extent (Kotler and Armstrong 2010, 169; Khan, 2006 68.).

In addition, the customer also can be affected by some other social factors like the social impact of schoolmates, mass media and so forth (Park and Kim 2013, 18-20).

4.4 Table presentation

The diagrams below presents the structure of different factors that have had an impact on the development of Chinese online retailers.

Factors of Customers	➤ Online Shopping Experience	
	➤ Age and Gender	
	➤ Social Impact	
Factors of Environment	▪ Logistics	
	Uncontrolled Features	▪ Geographical location
		▪ Economy condition
▪ Government policy		
Factors of Online Retailers	➤ Price and quality of products	
	➤ Special features of products	
	➤ Design of the web shop	
	➤ Promotional strategy	

Table 1: Factors that influence the development of online retailers

5. CASE STUDY: TAOBAO

5.1 Company backgrounds

Taobao is the largest online shopping website in Asia, and it is similar to Amazon and eBay. Taobao was created by Alibaba Group on May 10th, 2003 and currently, it has around five hundred million registered users and over 60 million regular visitors. Simultaneously, the number of daily online products has exceeded over 800 million, which means that about 48,000 goods are sold on Taobao per minute (Baiké, 2016). According, in March 2013, Taobao is one of the world's top 10 visited websites, and it attributed to Chinese economy for approximately 30 million euro gross merchandise volumes in 2009.

Taobao accelerates C2C retails through supplying a dynamic electronic commerce platform where individual retailers and entrepreneurs can open an online store and supply products and service to satisfy customer's needs. In C2C market, Taobao plays a dominating role occupying 95.1% market share, and in recent few years, it has been transformed successfully from the single model of C2C to an integrated retail community including group shopping, distribution audition and a variety of electronic business models (Shanghai Daily, 2008).

The organization aims to offer good quality of products with lower price and customizing service to help the customer to have abundant choices and so to achieve a higher quality of life through providing online selling platform and a series of fundamental service. Also, a great number of online sellers make their start up dream on Taobao. Taobao as a good role model of web stores has considerably changed the traditional producing method and the consuming style of Chinese people. (Baiké, 2016.)

5.2 The application of influential factors of Taobao's e-business

By studying Taobao, the author found that Taobao, as one of the biggest winners in Chinese e-commerce, can be a great empirical role

model to express some influential factors on developing their online business.

According to the table structures of the literature review, the author put forward three categories for those affective elements that can impact the business of online retailers, customer relevant factors, outside environmental factors and online retailer relevant factors. In this chapter, the author will use Taobao as an example to explore how those factors can exert influence on the advancement of their e-business and what advantage and shortage of Taobao when they implement their plan.

5.2.1 Factors of customers

➤ ***Age and gender of the target customers***

One of the reasons that Taobao plays a dominating role in the C2C market is due to their precise marketing positing. According to the statistics, Taobao found that within all registered users, young people (age below 32) accounted for 83% and the number of female users exceeded male users. Thereby young, stylish women have been targeted as Taobao's main consumer group and they made a strategy and product positioning plan based on the fact (Wu 2015, 60-61).

➤ ***Online shopping experience and social impact***

Influential factors for the online shopping experience and the social impact of customers will be expressed in the next chapter's interview review. These two impacts will be validated from a customer's point of view. How are they affected by their previous online shopping experience on Taobao and what was the social influential impact they have went through.

5.2.2 Factors of environment

➤ ***Logistics***

Taobao cooperates with a great number of famous logistical enterprises and those companies can accept and deal with orders through the web background of Taobao directly and effectively. On Taobao's platform, both parties in the transaction are capable of choosing delivery methods and logistic company by themselves (Wu 2015, 60-61). When online retailers don't supply logistical service of Taobao, the delivery fee is decided by the seller instead of the buyer so that many transactions are ending up with the cancelation of the order because some buyers think the delivering fee is over-priced. However, the logistical service that Taobao offers can solve the problem by calculating the delivering fee on the basis of distance, so both sellers and buyers are more likely to accept this kind of third party logistical solution.

There are five logistical states of an ordering process on Taobao: waiting to dispatch, waiting for confirmation by the logistic company, waiting for collecting parcels by the logistic company, waiting for signing from the customer and signed by the customer. Taobao logistic service can help online retailers and customers manage their order productively by knowing about the status of delivering, which makes a fast, convenient and high-efficient logistics management (Wu 2015, 60-61).

➤ ***Government policy***

Because of the global financial crisis, in 2010, the Chinese government spent around 4 trillion Chinese yuan as a stimulus package for the sake of stimulating GDP (gross domestic product). Taobao and other IT companies seized the opportunity to expand its online business using the financial fund they got from the government. (CNET, 2009.)

5.2.3 Factors of online retailers

➤ ***Price and quality of the products***

- Low price of the products

One of the pros of Taobao is its price advantage. Taobao gathered millions of different sellers on its platform and those shops compete with each other so that customer can have a large number of choices if they want to acquire a product online and also customers can seize the goods with a relatively low price compared to most entity stores (Jia, Wu and Xie 2012, 662-663).

- Bad quality of the fake products

Even though the “free strategy” helped Taobao win the market and expand its importance in the field of electronic commerce, Taobao finds it hard to monitor the quality of the product to impede the circulation of fraud. Individuals can build up an online shop easily without charge and testing, it causes the circulation of fake products on the market to some degree. (Jia, Wu and Xie 2012, 662-663.)

➤ ***Special features of the products***

On the platform of Taobao, more and more online retailers started to provide products with special features and a series of innovative personal customizable service to satisfy different demands of the customer, such as hand-make gadget, custom-built original cards, album or costume. Some sellers even offer door-to-door service on the public holidays like home cooking services with low price on women’s day. Those featured products and services are popular as a special promotional solution because of its uniqueness, innovation and freshness and make Taobao, an online shopping website differ from other shopping sites where people can only purchase products that they can find everywhere in the shopping mall. (Jia, Wu and Xie 2012, 662-663.)

➤ ***Design of the web shop***

- Developing convenient chatting tool for customers and sellers

Aliwangwang is a chat application developed by Taobao as an official communication tool for customers and online retailers. It enables both parties of the transaction to check the status of each other (busy, available, offline etc.) and allow customers to send an instant message directly to sellers for bargains, inquiries about the product or the details of the service.

Also, Taobao offers users to chat in the form of an online chatting room and for customers they are capable of saving the chatting memo as electronic evidence in the event of trade dissension. The chatting tool is a practical and multifunctional software offering a variety of useful features such as video and voice call, text messages, transforming documents or remote assistance, which dramatically improves the ease of communication between customer and sellers and reduces unnecessary dispute at the same time.

- Practical payment system

To ensure the safety and convenience of the transaction, Taobao supplied a third-party online payment solution, Alipay, which is the most widely used payment tool in China. Alipay is an escrow-based online platform, which works in all transactions on Taobao. In addition, it is covering a majority of the other retailers. The amount of external sellers who use Alipay exceeded 460,000 nowadays including as flight ticket, virtual games, taxi, and so forth (Baiké, 2016).

This payment system is designed for protecting both the benefit of customers and sellers using its third-party solution. The payment can be released to the retailer once the buyer received his or her products and verified the quality of them. The money will be saved in the account of Taobao prior to this process for monitoring by both parties.

In order to build up a trustworthy payment system, Taobao cooperates with a series of fundamental banks such as bank of China, ICBC (Industrial and commercial Bank of China) and started to accept international visa card and MasterCard in 2012 (Yu 2011,62).

- Risk of third party payment platform

In 2008, the transaction sale volume proceeded 2743, 00 million yuan, increasing by 181% (Zhang 2011, 84).

Even though the third party payment is a solution to supervise the transaction process for the online buyer and seller, with the fast development of third party payment market it also brings forth worry to Taobao. Taking the risk of precipitation funds as an example, when abundant money has been saved in a virtual account, it has a certain possibility that the third- party enterprisers can spend the money in other high-risk activity investment, which can cause credit risk and operating risk. Furthermore, it enhances the threat of a series of illegal acts like money laundering, gambling and fraud (Zhang 2011, 79-82).

- The design of the Taobao website

The website of Taobao integrates a multifunctional transaction platform with a superior and tidy interface, which makes it convenient for both customers and sellers to manage and operate the system.

- Difficulty of daily maintenance of the website

On 24th of June 2015, 11.30AM, a majority of mobile online users responded to the breakdown of some main functions on Taobao. The customers could not search the product and check the feedback. The problem had been fixed at 12.38 AM on that day by taking the emergency repair actions. (Baiké, 2016.) That event presents the importance and difficulty to ensure the daily maintenance of all website functions.

- Building communication and information sharing channel

1. Customer service centre

Taobao established a relatively perfect after-sale service and help desk consisting of a professional hot line team with thousands of employees

offering 24 hours online service. On the homepage of Taobao, there is a detailed introduction for the registration process, questions and answers, buyer help, personal data modification, and refund rules etc. to help users learn about the essential “game rules” on Taobao (Wu 2015, 60-61).

2. Information sharing forum

Chinese online consumers are in a habit of checking feedback that was left by previous buyers prior to reading the description of products and making a decision to order the goods. Thereby Taobao built up a section below the part of product basic information to present the previous comments and enable the user to filter them by rating level to compare items from one shop to another. (Wu 2015, 60-61.)

Furthermore, there are also some forums for customers helping each other and to share experience and information.

3. Impactful product category system

After logging on to Taobao, customers can easily find their target products through an internal search engine and use advanced search functions to minimize the range of merchandise. To narrow down the search result, Taobao offers a series of options of filtering methods like searching by price range, name of the shop, materials, rank of sales, product location and so on. (Zhang 2011, 83.)

➤ **Promotional strategy**

- “Free policy”

To compete with eBay, in the first few years, Taobao promised a low charge from sellers and no additional fee for the transaction to encourage sellers to open stores on its platform. This “free policy” urged the market share of eBay to shrink from 79% to 36% from 2003 to 2005 and closed its website in China by 2006. (Lu 2007, 52.)

Taobao made efforts on conducting a variety of promotion approaches to enhance its reputation and competitive power in the electronic commerce market in China. On the one hand, it applied itself with Chinese internet portals like Sohu and MSN, and established a mutually beneficial relationship together. On the other hand, Taobao implemented a series of powerful promotional strategies by inserting advertisements on famous movie and TV programs and gained a successful marketing effect in the end. For example, in 2004, Taobao enhanced its publicity by supporting movie making during Beijing TV week and selling stage property on its own website (Zhang 2011, 80).

In addition, Taobao gained importance in the market not only in wealthy and developed southeast cities of china but also in middle size cities and broad countryside areas. With the increasing level of government supervision on text advertisements, a great number of medium sized websites lost a lot of benefit and were suffering from bankruptcy. Therefore, Taobao seized that opportunity by spreading out advertisements on those small websites to extend its impact and grasping more customers. Meanwhile, a professional marketing team of Taobao devoted themselves to analysing the target customer group and to design innovative advertisement according to the analysis of the customer preference and interest.

However, the strategy and positioning of Taobao is based on the market in China so that all the service, product and web design are designed for Chinese online users, which prevents it from the expanding of global market in the long run.

5.3 Interview review

In order to investigate the elements that affect the advancement of online retailers, the author designed several questions and had interviews with five people who have a rich experience in shopping on Taobao and most of the interviewer are young people in their twenties.

According to the statistics of the interview answers, the author found that the average online shopping time for every interviewer per week are fairly high, about six times a month, which means they at least purchase products on the Internet one or two times a week. The top three motivations that urge them to shop on Taobao are convenience, cost effectiveness and the feedback-sharing sector where they can check previous buyer's comments.

In addition, most of the interviewees started to use Taobao as the result of the recommendation from the people around them such as colleagues, friends and classmates. Besides that, people indicated that they tend to like tidy but impact web design with bright colours with a lot of information about the product and service. Besides, a majority of product options and direct communication with sellers are also the advantages of Taobao interviewers enjoy to have.

The table below shows some interviews memo and the correspondent type of the influential factors according to the conversation with five interviewers.

Customer Relevant Factors

	Gender and Age	Shopping Experience	Social Impact
Person A	Male 52	"A good online shopping experience can motivate people to buy products in the same online store next time."	"Two of my colleagues in the office are very good at online shopping and often organized group shopping to get a discount."
	Female 26	"There was one time I bought a very expensive gadget in	"I like to send links and pictures of a good product to my friends and families

Person B		a shop and it turned out to be a fraud.”	when I got a cost effective goods from Taobao shops.”
Person C	Male 25	“I got used to shop online now, saving time and cost.”	“I started to go shopping on Taobao because of my cousin who got many products with much lower price than in local stores and recommended the online shop to me.”
Person D	Female 24	“I was an adventurer to try new stores with only few customer feedbacks while there were two times that I bought terrible products so I became a conservative buyer now.”	“My friend and I always share information about good online stores.”
Person E	Female 23	“Most of my online shopping experience is quite satisfying to some degree.”	“Sometimes, I will try to order products that my idol used on the Internet.”

Table 2: Interviewer's opinions on the aspect of customer relevant factors

Environment Relevant Factors

	Economy	Government Policy	Logistics
Person A	For customers themselves, it is hard to feel the influential factors of economy and policy that affect their shopping behaviors, but those two factors are potentially affecting the development of the electronic commerce as well as online shops and customers.		"I used to choose Shun Feng to deliver my order because they are efficient and careful with their delivery."
Person B			"My fancy glass cup was broken when I received it from the postman even though the tag of 'Fragile Cargo' was attached on top of the package box."
Person C			"I will tag those stores in my black list after they offered me a terrible logistics service."
Person D			"Delivering speed is the thing that I worry about most when I need to get something before a special day."
Person E			"I hope to have more choices of delivering companies in some online shops."

Table 3: Interviewer's opinions on the aspect of environment relevant factors

Online Retailer Relevant Factors

	Price and quality	Special features	Website Design	Promotional impact
Person A	"Price is my top motivation to buy something on Taobao."	"I rarely buy products with special features."	"I like the design of Taobao, easy to manage and convenient to use."	"I got information sometimes from the subscription email from Taobao with links."
Person B	"I always attempt to find products with a high cost benefit ratio."	"I ordered a customizing booklet with the photo of some family happy moments as a gift for my dad's birthday."	"The payment system is easy to use. After I charged the account, even my mom who is not good at any new gadget can manage it by herself."	"I feel that I am bit addicted now to snap up those daily one yuan products for fun, which gives me a feeling of tension and fulfillment if I got it."
Person C	"In fact, in most cases, I found that the quality is in proportion		"The chatting tool is useful but not as good as WeChat and QQ (some	"Sometimes I will buy unnecessary products because of the

	to the price.”		chatting application like MSN and WhatsApp), it can be improved to a better one.”	promotional campaign.”
Person D	“I will be more satisfied if I can get the same or similar products in the physical stores but for a lower price.”		“There are few times, nothing appears on the feedback sector when I click it and it’s not because of the issue of my computer or the Internet.”	“I love to receive some free gift from the seller, which sometimes, made me happier than getting the goods I bought.”
Person E	“I think the main reason of relatively lower price for the products on Taobao is because there is no or less rent for the shop that	“I really enjoy the custom-made service in some shops on Taobao. I used to buy some customized haircuts, postcards and a T-	“Refund process is not hard to follow but not all the sellers follow the rule.”	“I saw once a big advertisement poster on the wall in a countryside that surprised me a lot, because it is a very rural village in my opinion.”

	reduced the cost.”	shirt on a shop. The products are amazing and the price is acceptable.”		
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Table 4: Interviewee's opinion on the aspect of online retailer relevant factors

5.4 Date analysis

Through inducting and concluding the interview memo, there are some main features of the objects:

- Physical stores will not be substituted by online shops

Even though online shopping is a popular method of purchasing goods for many Chinese citizens and Puhuyondao presented that online shopping rate of China ranked NO.1 in the world in 2012, being much higher than in other countries (Dai, 2014). However, it does not mean that electronic commerce will take the role of the traditional shopping method to become the main shopping style in China. People still need physical stores. (Xue and Guo 2012, 132-135.)

Interviewee A claimed that she started to use the Internet to shop quite late and the main reason why she is accustomed to purchasing goods often through the Internet is because of the location of her college.

The college of her is far away from the shopping centre thereby online shopping is a convenient channel to approach products while she still enjoys shopping in entity stores on weekends and holidays. “I like the feeling of shopping in stores, for example checking the clothes quality and styles, I believe it is much better to look through the items and try it on in the physical shop if I want to buy a dress or jacket.”

Accordingly, it is predictable that in the future the way of traditional shopping is still the regular purchase channel for many people and

online shopping as a new life style can be added as a parallel method to enrich a citizen's life.

- The process and atmosphere of online shops sometimes outranked the fulfillment that was caused by the product itself

The innovative design of the website, interactive sectors of the process of preparing, browsing and purchasing goods on the Internet, in fact, can be compared to playing a game or exploring a new channel, which entertains the customer and stimulates their enthusiasm in a positive circle (CNNIC 2014, 19).

Interviewer C explained the reason that motivated her to go shopping on Taobao. She enjoys the whole process of selecting the goods on an electronic platform by simply clicking the mouse and filtering the results. She can always find a variety of choices she likes. "I like the feeling of putting goods in my shopping cart on Taobao and the sense of excitement of waiting for my purchased product being delivered to my hands. It's quite like receiving a surprise or present." Said by Object C.

Interviewer D complained about the obsession caused by some sales persons when she goes shopping in the entity stores. "I tend to enjoy the atmosphere of online shopping where nobody will disturb me by introducing the product that they want to sell and I can avoid suffering from some awkward conversation such as being persuaded to do a free test to choose an acne remover product."

- There is a potentially beneficial market for products or services with special features

The diversity of the products of Taobao contributes to the fact that customers can have more choices if they shop on Taobao. Therefore, how to stand out from millions of competitors is a question for many online retailers that urge the producer to offer distinctive products and customizing service to meet personal requirements and preference. (Xue and Guo 2012, 135.) "Before my father's 50th birthday, I ordered

an exquisite booklet that was covered with many amazing family photos and attached some sweet words for my dad and it has been delivered on time during the party, which was a big surprise for him” the interviewer B told the author.

- Logistic and the quality of product are the main worry for customers

Quality is the essential part that affects sales and the rate of customer return (CNNIC 2014, 17.) Almost all popular products on Taobao have a merchandise description page with fancy pictures, elegant page design and attractively worded introduction. However, there are many customers that responded that the difference between the product description and the real item that they receive will leave them with an unhappy experience. Half of the interviewers claimed that they would not return the wrong goods if the product is not too expensive because they do not want to take the trouble to return it and cope with dispute with the seller.

In addition, logistics is another aspect that has been considered most of the times by customers. Different online stores will offer different choices of delivering companies for customers and sometimes there is only one choice to pick and apparently the delivering speed and security cannot be controlled by the customer, hence it is an issue many customers worry about.

Interviewer E had a really bad shopping experience owing to the logistical issue (Xue and Guo 2012, 135). “I ordered a GPS navigation machine for my new car from a store on Taobao because I saw a lot of good feedback below the goods description, but it took me eight days to receive the product and the package has been thrown on my lawn mixed with soil and grass. The most unlucky part is it did not work after I charged it. Although the seller promised to exchange it with a new one, but I didn’t have any mood and energy to do that again.”

According to statistic, the top reason for many online shoppers is convenience, which is highly related to logistic. Therefore, online

retailers should pay close attention to choosing a good logistic company and maintain a good reputation of fast speed and high level of security of the delivering service.

6. CONCLUSION

The aim of this paper was to find the factors affecting the development of online retailers in China. The related data was collected from existing sources and through an interview and a case study.

The three key aspects were environment relevant factors, customer relevant factors and online retailer relevant factors. From the view of outside surroundings, online business and customer behaviour can be affected by of logistics, customer's geographical location, government policy and current economy condition. Those are elements that are difficult to control by individual e-sellers or enterprisers and hardly to be realized by the customer.

Even though online retailers cannot control or change those outside elements, they can accommodate to the environment and seize the opportunities by responding to policies, adjusting to economic trends and cooperating with logistics companies with good reputation and offering fast and safe delivery service.

During the whole process of online transaction, the customer plays a vital role and decides the development of online shops in the long run. Therefore, it is essential to take a series of actions to satisfy their demands and catering to their preference. To impress customers and enhance good reputation of the online shop and brand, e-sellers can make efficient and innovative promotional strategies and develop a user-friendly shopping platform on the Internet where users can enjoy the favourable atmosphere, to purchase products by safe and convenient payment system and enable to share information and communicate with sellers and other buyers.

Furthermore, electronic retailers should pay more attention to their products and services. To compete, e-sellers can supply products with high quality and reasonable price to attract customers in the first time or to offer the service or goods with special feature in order to differentiate them from other retailers.

Based on the findings of this study and existing statistics, it is obvious that e-commerce in China is growing and there are numerous opportunities for e-sellers if they can adapt to the business environment and apply particular strategies to satisfy their customers.

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APPENDIX

Interview questions for Chinese online shopping customers

Interview duration: 15-30 minutes

Location: a quite coffee shop

Zhang Fusong	Male	Age: 52	Sales manager
Gu Jie	Femle	Age: 26	Accountant
Sun Qimeng	Male	Age: 25	Medicine school student
Yin yi	Female	Age: 24	Graduate student
Li Yijie	Female	Age: 23	Undergraduate student

Table 5: Interviewer's personal data

Interview Questions:

1. How often do you usually browse Taobao web shops?
2. How many times do you purchase products on Taobao per month?
3. There are so many other web-shopping platforms such as Jingdong, eBay and Amazon China, why do you prefer to shop on Taobao rather other websites?
4. Are you more tend to online shopping or going to the physical store in the shopping mall?
5. What is the most satisfied and unsatisfied part when you shop on Taobao?
6. What do you usually buy on Taobao?
7. On Taobao mall, what kind of induvial online stores you like most and why?
8. When you have a specific target product, how do you find a better online store to buy it?

9. Please describe an unhappy online shopping experience on Taobao if you have one.