

**ANALYSIS OF CHINESE E-COMMERCE
DEVELOPMENT
Case: TAOBAO.COM**

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ABSTRACT

Electronic commerce as a new field of application of internet technology was started in North America 1994. The developing speed of e-commerce has proved to be successful in the commercial world. Moreover, Chinese e-commerce as late comer also has shown its great potential in all the IT related-industries.

This thesis focuses on the development of the Chinese e-commerce over recent years. The data for conducting the thesis are collected from the primary sources like company reports, newspaper and secondary sources such as, books, articles and journals.

On the basis of the analysis of the current distribution channel, the empirical part of the thesis is started with an introduction of online distribution and how online distribution channels affect the Chinese e-commerce market. Additionally based on the analysis of current Chinese e-commerce market, this thesis is more focused on the Business-Customer (B2C) e-commerce part.

With comprehensive descriptions in current Chinese B-C e-commerce market, the objective is to discover the main problems and opportunities of this market.

Finally, through the case: Taobao.com, the study takes a more microcosmic research to discover how the local Chinese B-C e-commerce company works under this condition of current online market and how Taobao.com operates so successfully. Meanwhile, according to analysis, Taobao.com's successful case reflects the development tendency of Chinese B-C e-commerce.

Key words: Distribution channels, Online market analysis, Chinese e-commerce, Chinese B-C e-commerce, Problems, Taobao.com, Successful

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1 INTRODUCTION

1.1 Background of the thesis

Some people define the term commerce as describing transactions conducted between business partners. When this definition of commerce is used, some people find the term electronic commerce to be fairly narrow. Thus, many use the term e-business. (Turban & King 2003, 3.) E-business refers to a border definition of e-commerce, not just the buying and selling of goods and services, but also servicing customers, collaborating with business partners and conducting electronic transactions within an organization.

Electronic business is a new field of application of internet technology. It was started in North America in 1994. The developing speed of e-commerce has proved to be successful in the commercial world. Moreover, it also means a new global e-commerce will lead the economy.

Thus the new Economy has been transformed by digital technology in the “postindustrial” period. Value creation for consumers has shifted from physical good to an economy that favors service, information, and intelligence as the primary source of value creation. E-commerce is characterized by several attributes. (Turban & King 2003, 3.)

- a) It is about exchange of digitized information between parties.
- b) It is technology-enabled.
- c) It is technology-medicated.
- d) It includes Intra- and Inter organizational activities.

The status of Chinese e-commerce is backward. It still stays at the initial stage. Although Chinese government has concentrated on building an advanced e-commerce system, the substantial successful e-business is quite few.

1.2 Objectives and research questions

Chinese e-commerce has passed the golden period of rapid internet technology development in the last 10 years. Nowadays, many Chinese electronic businesses begin to confuse what are the next steps for their development.

This study has two targets. 1. Analysis the development of Chinese e-commerce based on the past ten years. 2. Find out the main problems which existed in Chinese e-commerce market and indicate them with the successful example of Taobao.

The objective can be summarized into following research questions:

1. What is the current situation of Chinese e-commerce market?
2. What are the main problems which exist in the Chinese B-C e-commerce market?
3. What are the solutions for these problems?
4. What is the development tendency of Chinese B-C e-commerce in the future?

The thesis starts with identifying the theoretical framework of e-commerce to point out the features of the Chinese electronic business. Then from marketing perspective, using the e-commerce principles knowledge to analyze the current situation of internet market in China and find out the problems which exist the online market.

Additionally, Taobao is set as a case study to further state how the 4P strategies have been implemented in Chinese B-C e-commerce companies.

After that, the thesis utilizes Taobao's successful case to reflect the development tendency of Chinese B-C e-commerce companies.

1.3 Research Method

The research in the thesis is written mainly based on the qualitative methods. Moreover, qualitative research answers to questions why and how and it is about obtaining more detailed and in-depth information.

To discover the basic background of Chinese e-commerce and obstacles, the search engines are implemented. Furthermore, search engines as information source in the thesis are used, which can provide latest information.

Also, the data for conducting the study are collected from primary sources like company reports, official website of the company and secondary sources like books, articles and journals. For instance, the author has studied company reports in order to collect more information about Chinese e-business market.

Lastly, the method of data collected is employed as an implementation tool for qualitative approach. With respect to the thesis study, the useful and essential information can be found from the sources which are gathered through the secondary data.

1.4 Limitations

The concept of e-commerce is covered with Business to Customer (B2C), Business to Business (B2B), Customer to Customer (C2C) models. Concerning the different models of Chinese e-commerce, this thesis will first introduce the background information about Chinese e-commerce, and it will be narrowed in the term of Chinese B-C e-commerce, in order to make a clear path that Chinese e-commerce

has developed. Meanwhile, B to C model is well known by most people, hence easy to be explained.

There are varieties of factors that influence the development of Chinese B-C e-commerce, such as micro economic change and internet technology revolution. It will be a complex process if all of the elements should be considered to analysis the Chinese B-C online market. Hence, this thesis ignores the economical part and focuses on the services that Chinese B-C e-commerce companies provide for the customers.

In addition, Taobao.com is set up as the case study of this thesis, because of its achievements and its influence in Chinese B-C e-commerce. Moreover, the thesis only focuses on Taobao's successful experiences. Thus, Taobao.com will be strongly support the findings which created by author to solve the related problems.

Finally, the case Taobao.com is covered with its own company strategies. For reflecting the analytical part, only four types of strategies are mentioned in this case study.

1.5 Thesis structure

The thesis structure is comprised of three parts: the statement of distribution channels, current Chinese e-commerce analysis and Taobao.com case study.

Primarily, from the starting Chapter2, theoretical part of distribution channels is discussed. This section is divided into two parts---direct channels and indirect channels. Hence to identify the difference between the conventional distribution channels and online distribution channels. From this point, four online distributions performances in Chinese e-commerce are described in the thesis. Sequentially, the thesis turns to the core content--- Chapter 3: Chinese e-commerce analysis.

The following Chapter 3, according to the historical data, the study states the e-commerce opportunities under the current online business environment.

Moreover it involves the analysis of Chinese e-commerce growth ratio, online customer groups and political and legal influence. Then, describing the problems which existed in Chinese e-commerce market.

Later, Chapter 4 provides the solution for Chinese B-C e-commerce by the case study of Taobao.com. In this Chapter, four company strategies are introduced according to the company performance in recent years. Finally, Chapter 5 through several findings to generalize the solution that Chinese e-commerce could utilize. Then Chapter 8 finishes off the thesis with a summary.

The following illustration shows the structure of the thesis and the note of the chapter titles are attached.

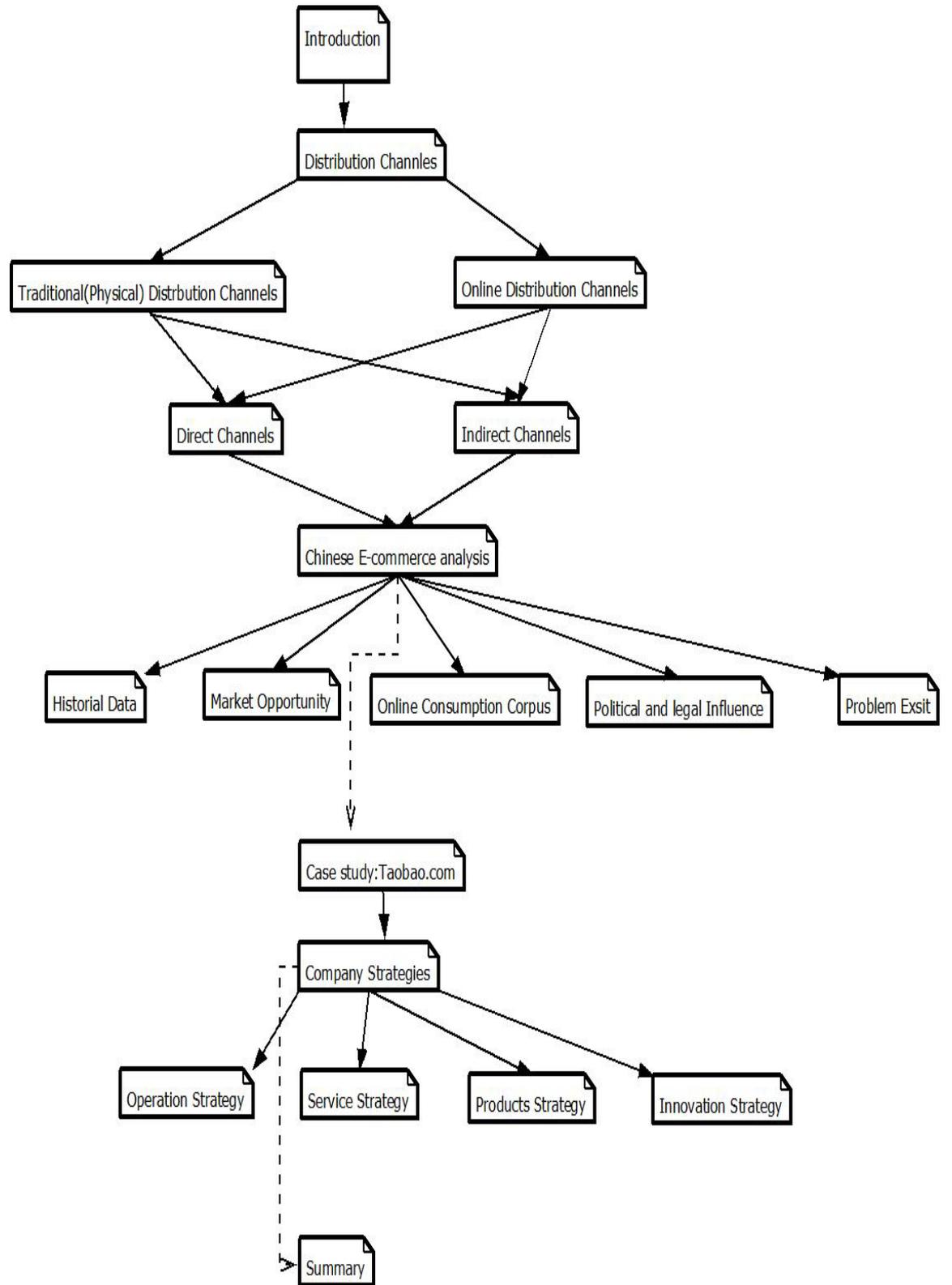


FIGURE 1. Process of the thesis

2 ANALYSES OF CURRENT DISTRIBUTION CHANNELS

2.1 Definition of distribution channels

Distribution channels are the pathways that companies use to sell their products to end-users. Producing products that customers want, pricing them correctly and developing well designed promotional plans are necessary but not sufficient conditions for customer satisfaction. Distribution as one element of place strategy in 4ps marketing mix play an importance role in it is inferring to operate a business. (Jobber 2007, 679.) Products need to be available in adequate quantities, in convenient location and at times when customers want to buy them. Thus, producers need to consider not only the needs of their ultimate customer but also the requirement of channel intermediaries, those organizations that facilitate the distribution of products to customers. In some market places, it is a very complex channel, including distributors, wholesaler, jobbers and brokers.

2.1.1 Traditional distribution channels with B to C model

All products, whether they are consumer goods, business to business goods or service, require a channel of distribution business channels tend to be shorter than consumer channels because of the small number of ultimate customers, the greater geographic concentration of customers, and the greater complexity of the products that require close producer-customers liaison. Service channels also tend to be short because of the intangibility of service and the need for personal contact between the service provider and consumer. (Jobber 2007, 682.)

The conventional distribution model has three levels: the producer, the wholesaler, and the retailer. This is a time-tested system with many well-established members at all levels. (Jobber 2007, 682.)

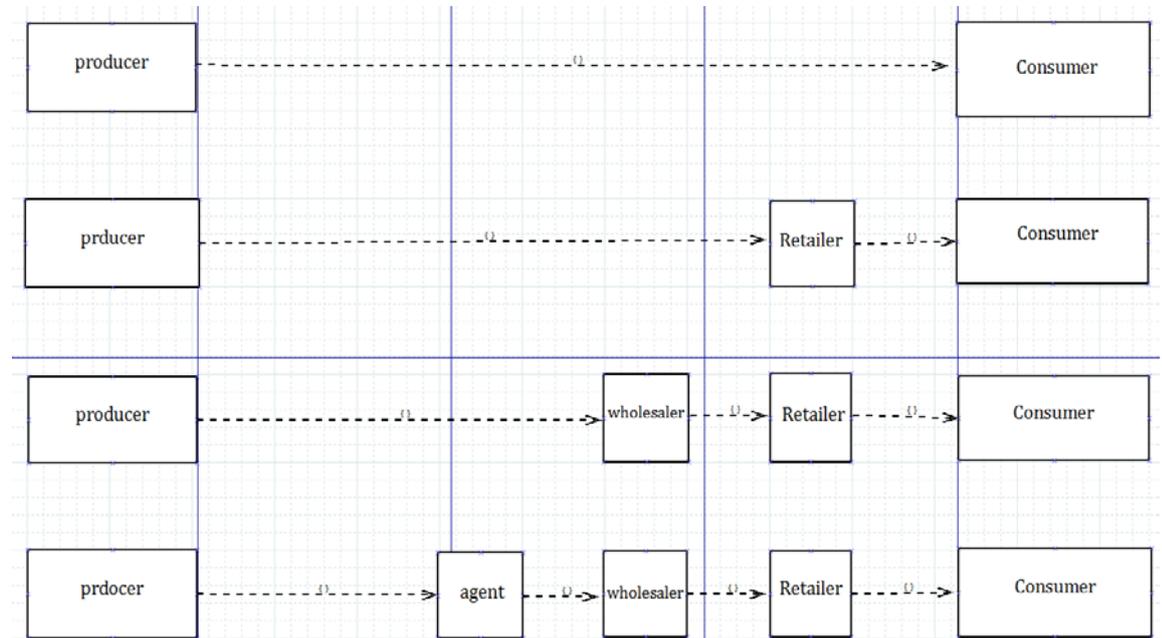


FIGURE 2. Four alternative consumer channels (Jobber 2007, 682).

- Producer direct to consumer

Cutting out distributor profit margin may make this option attractive to producers. Direct selling between producer and consumer has been a feature of the marketing of Avon cosmetics and Dell Computers (Jobber 2007, 682).

It calls for customer to sell and deliver their products themselves, using customers' own salespeople and warehouse. This kind of direct channel significantly decreases the overhead for using warehouse and avoids providing profit for intermediaries such as wholesalers and retailers.

- Producer to retailer to consumer

The growth in retailer size has meant that it becomes economic for producer to supply retailers directly rather than through wholesalers (Jobber 2007, 684).

Consumers then have the convenience of viewing and testing the product at

the retail outlet. Supermarket chains exercise considerable power over manufacturers because of their enormous buying capabilities. This route to the consumer has changed the form, for example, the internet retailer: Amazon which is emerging to compete with traditional retailers.

Retailers can promote the products by making consumers aware of its availability and by passing on technical information that could encourage the sale.

Because there are thousands of retailers located all around the country, they are excellent intermediaries for distributing your products to a wide geographical range of consumers. Today, many retailers prefer to buy their products directly from producers instead of going through wholesalers. This is typical of supermarkets. By selling directly to retailers, the added expense of transportation is the only issue

- Producer to wholesaler to retailer to consumer

For small retailers with limited order quantities, the use of wholesalers makes economic sense. Wholesalers can buy in bulk from producers, and sell smaller quantities to numerous retailers. The danger is that large retailers in the same market have the power to buy directly from producers and thus cut out the wholesalers. (Jobber 2007, 684.) In certain cases, the buying power of large retailers has meant that they can sell products to their customers cheaper than a retailer can buy from the wholesalers. Longer channels like this tend to occur where retailer oligopolies do not dominate the distribution system.

- Producer to agent to wholesaler to retailer to consumer

This long channel is sometimes used by companies to enter foreign markets. They may delegate the task of selling the product to an agent and receive commission on sales.

The conventional distribution model, however, calls for all parties in the channel to protect their own best interests. Thus, retailers are pitted against wholesalers, and wholesalers try to best producers. This web of conflicting interests sometimes works to the detriment of the entire system. For instance, a producer may try to bypass the wholesaler and go straight to retailers, prompting the wholesaler to retaliate by dropping the producer's products. (Levinson 2010)

2.1.2 Intermediaries/selling methods

The characteristics of customers determined what kinds of distribution channel the companies use. All about the distribution is getting your products or services to the right people, at the right time with a special consideration for profit and effectiveness. A successful market has multiple distribution channels. They are influenced largely by the size and the type of the businesses. Each company will depend on its own needs to adopt one or two particular distribution channels to accommodate for any changes and help the business growth.

The following chart explains the different types of intermediaries that are used in the distribution channels.

TABLE 1. Intermediaries/selling methods (Distribution Channels 2009).

Direct (on-site)	
Direct Mail	Agents
Telemarketing	Wholesalers
Internet(e-commerce)	Retailers

1) Direct Mail

Direct Mail is very common for small businesses, which means products/services can be sold directly to the consumer on-site, for instance, directly from your shop, office or home by consumers physically coming into the premises to make a purchase. (Distribution Channels 2009)

This type of distribution works only when your target consumers are within the local region and are not based on a wide geographical area.

Also known as Mail shot, this type of marketing can produce sales on a local, national, or even global scale. The business would send out flyers, leaflets, brochures or catalogues (often targeted to particular consumers) selling your product/service. Any interested receivers of the mail would make an order through the contact details/order form that would be included. (Distribution Channels 2009)

2) Telemarketing

Telemarketing is one type of selling method which through the telephone marketing and becomes popular. Similar to direct mail, telemarketing allows sales to be made on a local, national and global scale, although the costs will increase with the time and distance of phone calls. Extra skills may also be required creating the need for more staff. Alternatively, a professional service can be consulted to carry out the task: with an increased cost or commission. (Distribution Channels 2009)

2.2 Online distribution channels

2.2.1 Background

With the popularity of the Internet ever increasing, it has now become one of the most common ways of doing business: e-commerce. Although e-commerce was often associated more with the larger companies, small businesses have now benefited from joining the bandwagon. (Distribution Channels 2009)The Internet acts a shop window for your business where your particular web site will allow consumers to view or purchase your products or services on-line. The Internet can also be used as a marketing tool, purely promoting your products, which will aim to result in more sales from other distribution channels.

The Internet can help target consumers worldwide although it may be more feasible for consumers to purchase from within the nation (due to costs of postage or feasibility of using the service). The obvious cost of using the Internet for sales is the original set-up and consistent maintenance, as well as the administration. (Distribution Channels 2009)

Moreover, some small businesses are purely Internet orientated selling services and products completely via their web site any time, and they will have no personal contact with the consumers.

2.2.2 Conventional distribution channel versus online distribution channel

The role of website for any business is to provide their products or services for the right people and to reach the target audience. In order to utilize efficiently of benefits of the website, many available distribution channels are needed.

Compare with the conventional distribution channels, online distribution channel trends full in flexibility and widely covered, all the producer, retailer, wholesaler or agent could use internet as a tool to distribute their products and service.

Therefore one kind of product or service would be found in different online channels, this different channel forms a complex mixed web whereby becoming a new model of business activities which called e-commerce.

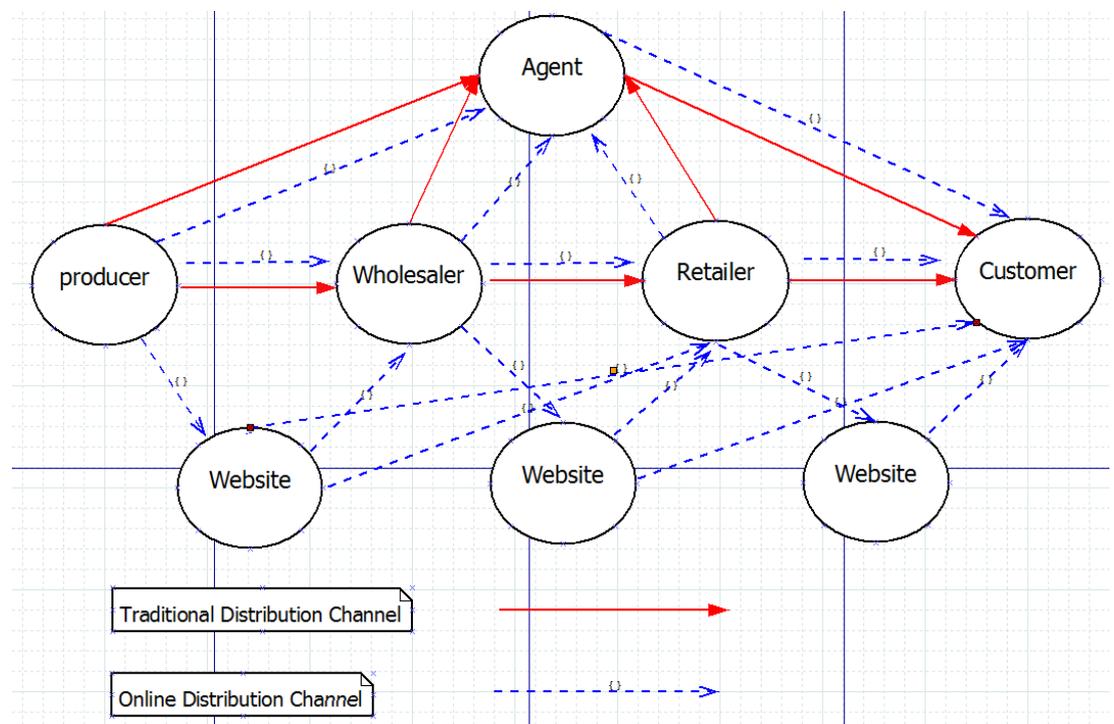


FIGURE 3. Traditional distribution channel vs. online distribution (Jobber 2007, 687).

Besides, the normal online distribution channel such as newsletters, electronic press releases cannot afford the load of products/service information, then the new channels are created and more variety. According to Nyo (2010), there are 6 types of new online channels.

1) Social networks

The current trend of the Internet is social interactions, and the trend is here to stay for a while. Multi-million corporations are in the hunt to acquire popular social networking sites because they understand the potential and the impact social networking has on Internet users. Treating social networks such as Facebook and My Space mean reaching to more people and increasing awareness of your website.

2) Social media

As with social networks and social bookmarks, social media has become increasingly popular among Internet users for the same reasons. Using a social media like You Tube or Flickr as a medium to promote your business could bring a lot of traffics to your website. In an official Press Release about an agreement between CBS and You Tube, it was said that "Today's agreement demonstrates that You Tube has become a revenue-generating distribution channel for major networks and other media companies. By partnering with You Tube, media companies can now have a two-way dialogue with viewers who can provide feedback about what they find entertaining."

3) Blogs

Blogs are popular because they provide up-to-date information and enables readers to engage in discussions via comments. By using blog as a distribution channel, businesses can build a loyal readership and interact with their customer base.

4) Widgets and gadgets

Widgets and gadgets deliver dynamic and updated content to the users at any time. They leverage the website's content to create new opportunities, extend users and strengthen the presence of your brand. And for that very reason,

widgets and gadgets have proven to be a very successful method of distribution.

5) Browser extensions

Browser extensions such as customized search engine, add-ons, and toolbars provide users with an easy access to your website and the functionalities that it offers instantly from their favorite browser. It is an effective distribution channel for both the business and end users as it maximizes access and visibility for both parties.

6) Search engines

According to a survey conducted in 1998 by Georgia Institute of Technology, 85% of users found websites through search engines (Tri-Media). While many believe that "if you build it, they will come", the truth is, they can only come when they know about it. Therefore, the power of search engine optimization (SEO) and search engine marketing (SEM) should be used to drive targeted and qualified traffic to your website and improve visibility of your business.

2.3 Importance of distribution channels

Distribution do effect the operation in business activities, it integrated with the other 3Ps principle in marketing mix to regular the market, like Rosenberg (1997, 467) said:

1. Distribution channels affect sales. The process of products or services through the distribution channels is the path way that products or services meet the demand from the customer, according to different distribution channels. The products or services are shipped and added more value. The more value could add on the product or service the more sales could approach.

2. Distribution affects the profits and competitiveness. When the products pass through the distribution channels, the cost and profit margin is imputed to customer, and that's why the longer distribution channels, the higher price of the products/service. However, in some case, the producer need the intermediate to integrate the customer information, hence no need to assign it to extra job centre whereby saved time, labor and operation overhead, therefore, decrease the cost and increased the competitiveness of the companies.

3. Delivery is seen as a part of the product influences customer satisfaction. Distribution and its associated customer service play a big part in relationship marketing.

3 CHINESE E-COMMERCE MARKET ANALYSIS

3.1 Overview

Electronic business, commonly referred to as "eBusiness" or "e-business", may be defined as the utilization of information and communication technologies (ICT) in support of all the activities of business. Commerce constitutes the exchange of products and services between businesses, groups and individuals and can be seen as one of the essential activities of any business. Electronic commerce focuses on the use of ICT to enable the external activities and relationships of the business with individuals, groups and other businesses. (Wikipedia 2010)

3.1.1 Historical development of Chinese E-Commerce

Chinese first batch of e-business website was established in 1997. Therewithal, from 1997 to 1999 Alibaba, Taobao, Dangdang and other well-known e-commerce sites have arisen. Under the backdrop of internet burst (2000-2002), the expansion of e-business had also been severely affected. After experiencing depression, the profit model of e-business website achieved prudently development at 2003-2005. With the Improvement of internet environment, huge opportunities for development were brought to e-business in 2006-2007. Due to the financial crisis, the global economic environment deteriorated rapidly in 2008-2009. In order to expand domestic demand many small and medium enterprises were designed to e-commerce service provider. In 2008, Chinese B-B e-business market transaction volume reached approximately 300 billion Euros.

3.1.2 The main Chinese e-business types

There are many categories of e-business; Chinese e-business the same as other country's e-commerce, divided into three types: B to B e-business, B to C e-business, C to C e-business. Business-to-business (B2B) describes commerce transactions between businesses, such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer. (Wikipedia 2010)

Generally, the volume of B to B transactions is much higher than B to C transaction, due to B to B transactions has the technology of supply chain provider.

Business-to-consumer (B2C, sometimes also called Business-to-Customer) describes activities of businesses serving end consumers with products and/or services. (Wikipedia 2010)

Customer to customer(C to C) refers to the e-business activities between the customers, generally the trade company does not involved in. (Wikipedia 2010)

3.2 The current market opportunity of Chinese B to C E-business.

At present, the fully-fledged e-business has not yet been achieved by Chinese B to C e-business yet. In other words, 7 days a week, 24 hours a day have not yet implemented. Moreover the service level needs to be improved. Currently, online shopping and online auction are the largest two forms of business transaction. The number of network operators in China has been expanded to 63 million in 2009. (Zhou 2009)

3.2.1 The net citizen participation

As of 3rd quarter of 2009, the numbers of Internet users in China reached 359 million. Chinese net citizens who participate in the B to C e-business are highly-educated. There among, female account for 51% and male account for 49%. Furthermore, they are mostly white-collar workers who came from major cities.

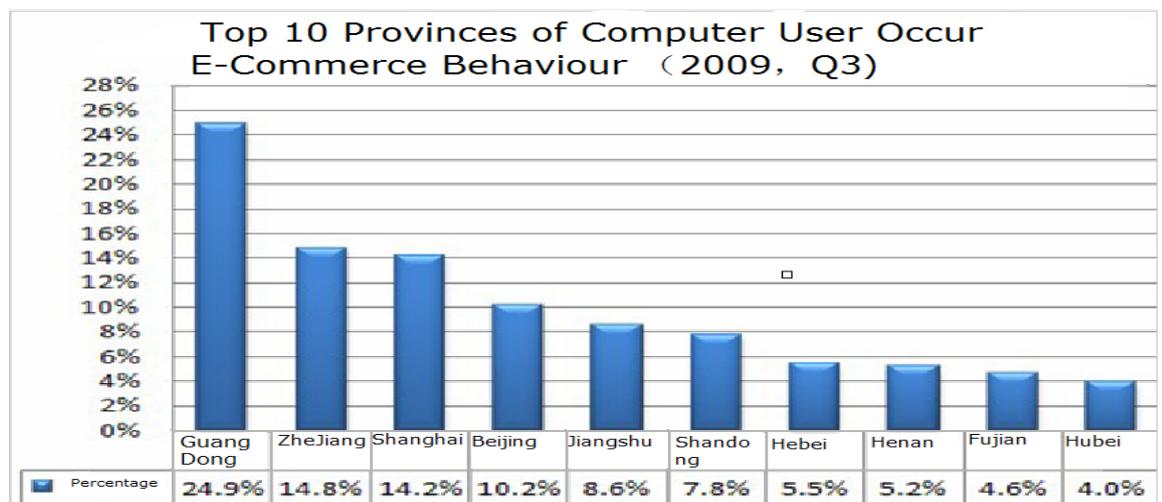


FIGURE 4. Top 10 provinces of computer user occurred e-commerce behavior (Market Avenue 2009)

Most net citizen involved in commerce track come from Guangdong province which account for more than 20% and followed by the well developed cities such as Beijing Shanghai. Additionally, these data are connected with the economic growth. Meanwhile, the current security of online transaction is extremely concerned by the net citizen in two key areas: business reputation and security of payment.

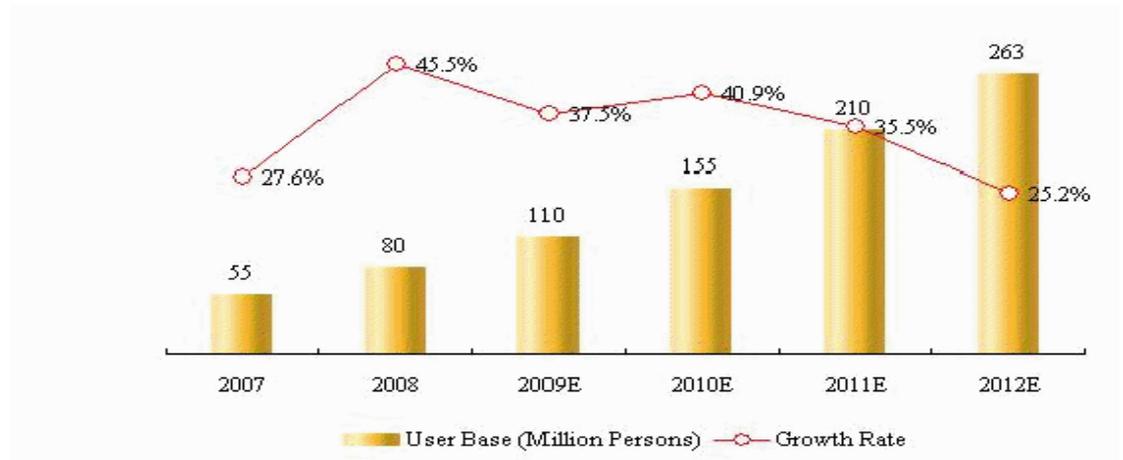


FIGURE 5. China online shopping user base 2004-2011 (Market Avenue 2009)

By the end of 2008, the online shopping user base (total user that had bought something online at least once over the past year) in China had amounted to 80 million, which is up to 45.5% of Chinese internet user base. It is expected that the proportion of the online shopping user among the internet users will exceed 40% by 2010 amid the fast growth of online shopping.

3.2.2 Online shopping transaction

The online payment can be defined as online payment service allows buyers to use a credit card or electronic bank transfer to pay for goods or services purchased online. To use an online payment service, the buyer and seller generally set up accounts that allow them to make or accept payments. Buyers provide payment information, like bank account or credit card numbers, and sellers give information about where payments should be deposited. In some cases, sellers do not have to create an account with the online payment service to receive funds. To complete a transaction, the buyer tells the online payment service to direct appropriate funds to the seller. The seller then gets immediate

access to the funds. Most online payment services charge the seller to receive the funds, but some payment services charge the buyer. (Wikipedia 2010)

Third-party payment as used in the “2009 Annual Report on China Third-party payment market” refers to the action by which institutions or individuals use communication network-based electronic equipment to indirectly issue transaction to transfer funds. In this research, it uses several different perspectives to describe the feature of current Chinese third-party payment. (Chinacm 2009)

1. Third-party electronic payment transactions maintained high growth. Despite a slowdown in economic growth in 2008, third-party payment transactions in China continued to show a momentum of accelerating growth. During the year, total transaction value reached 281.3 billion Yuan, increase 178.8% year on year. The number of register third-party electronic payment user stood at 107.30 million. (Chinacm 2009) In addition to continuously rising personal users, the growth of enterprise users and the promotion of industry applications have also become powerful driving forces for the increase in third-party payment transaction values.

2. Progress in policy and regulation system building was slow. A sound legal system has yet to be developed for the market. The administrative measure of payment and liquidation organizations the focus of attention for many enterprises, has undergone an opinion solicitation stage in the past three year or so. But this document has not been officially released. Various issues, such as entity status, scope of business and ruling over dispute have yet to be specified. (Chinacm 2009)

Consequently, in an attempt to avoid policy risk, some enterprises have greatly narrowed their products and services scope, while others have operated

business on the fringes of the law, leaving risk and hidden dangers behind. Currently, China's third-party payment market is still in a stage of fast growth. However, lack of sound policies, law and regulations continue to restrict market innovations, standardization and progress.

3. Dependent third-party payment services continued to get more market share.

Currently, there is no significant functional gap between dependent third-party payment platforms and independent third-party payment platforms.

Dependent third-party payment platforms have actually gained certain advantages in terms of transaction volume and user number growth. They look set to expand their leading advantages. In 2008, dependent third-party payment platforms accounted for 73.4% of the transaction value in the market. In 2011, the figure is expected to reach 77.2 %.(Chinacmm 2009)

In 2008, Chinese online shopping market continued explosive growth in 2007, and reached an aggregate market size of RMB 128.2 billion, an increase of 128.5% year on year.



FIGURE 6. China online shopping transaction scale 2007-2012 (Market Avenue 2009)

The per capita online shopping amount has kept growing quickly in recent year in China. It increased from RMB 127.6 in 2003 to RMB 1,020 in 2007 and RMB 1,602.3 in 2008

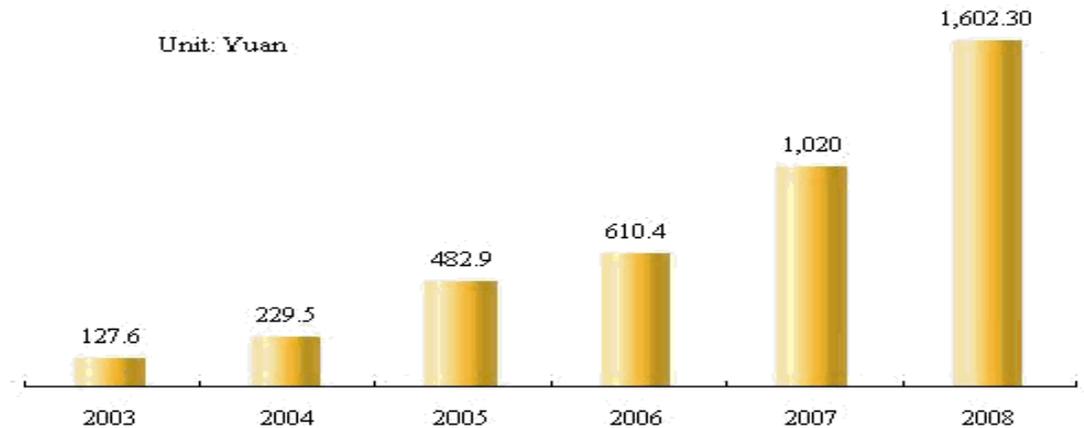


FIGURE 7. China per capita online shopping amount 2003-2008 (Market Avenue 2009)

In 2008, garments and ornaments were the most popular commodities bought by Chinese online shopping users. In addition, cosmetics, furniture products, jewelries, ornaments, small home appliances and other commodities gradually became the hot selling item on the internet.

3.2.3 Chinese e-commerce potential market

E-commerce development is based on the universality of the internet-based applications. In the past decades, internet is quite strange to most Chinese people. At present, the internet and related IT industry have already come into thousands of Chinese family, and it has covered most of the daily life.

Network developed the first generation of browser when only 50sites worldwide, for now it has increased up to over millions. E-business' sales in

1998, is only 3.9 billion, but now the unit has not calculated million to 10 but to calculate a billion trillion as units. (Weng & Lee 2009)

Comparing with developed e-commerce, like in US, Chinese e-commerce is relatively backward, however, China by superiority of the biggest population bases owed the greatest potential e-commerce market. Meanwhile the great effort to develop e-logistics and distribution channels in China's is also very important to affect the economic development.

The statistics had been disclosed by "International E-Commerce Conference" April 2005 that in China the development of e-commerce grow rapidly at an average annual rate of 40%. According to the authority of the consulting firm ID issued by the Chinese e-commerce data in 2005, it has reached to RMB 680,000,000,000 and sequential growth at 41.7% to 2004. (Zhou 2009)

For now, there are over 3,000 large companies and more than 40,000 small and medium-sized enterprises are engaged in e-commerce.

3.2.4 The prevalent commodities on the internet

So far the main trading commodities of Chinese B to C e-business are books, computer software, videodisc, family electrical equipment, fresh flowers, clothes, and so on. While the trading volume of daily necessities and food is mighty low. On the contrary, daily necessities and food became the hot item in the United States. According to the survey, the majority of net citizen will primarily purchase more computer products and household appliances in the future.

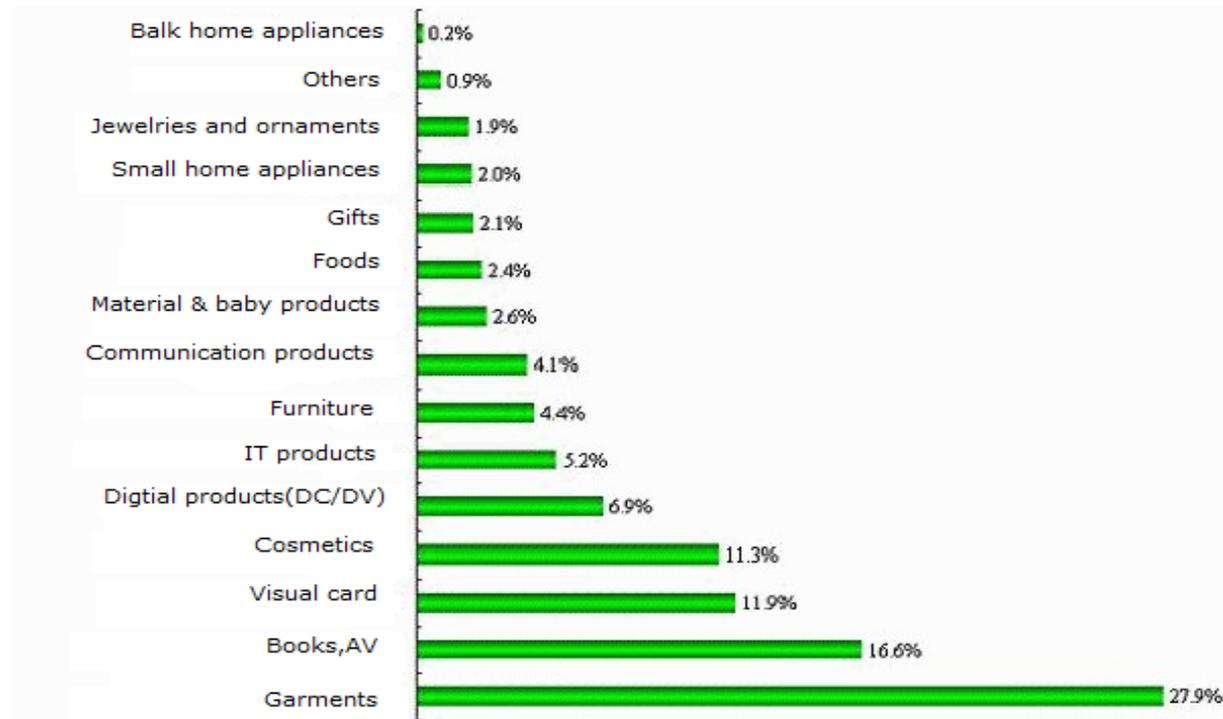


FIGURE 8. Commodities most frequently bought by Chinese online shopping user in 2008(Market Avenue 2009)

3.3 Online customer groups

By referring the data base from 'Forrester limited Company' in US, the Chinese online consumers are divided into 10 separate groups (Yehehw 2007).

1. Fast Forwards

This is a group of people with high entrepreneur spirit and specializes in science and technology also has handsome salary. They are most careerist and with double paid busy life. In hence, they are the primary consumers of business software.

2. New Age Nurture

This is a group of people who have great finance fundamental. They unswerving believe that science and technology are able to benefit their

education and families. Furthermore they are a group of high technology supporter who are easy to be ignored.

3. Mouse Potatoes

This is a group of people that get highly interested in high-tech entertainment, and who love network interaction.

4. Techno-strivers

These people are almost the student and young professional, they have lower paid but with the highest rate of owning personal computer.

5. Digital Hopeful

They are home seeker and technology lover with low paid. Moreover they are also the potential customer of low price computers.

6. Gadget Grabbers

They are totally gamers who have little salaries. Meanwhile those people wallow in virtual world so that they are the main customer of cheap game software.

7. Handshakes

These people are the successful men but with low attention of technology, and they are interested in face to face talk, like managers or administrator of companies.

8. Traditionalists

This is a group of people that doubt with internet technology, and not good at using computers.

9. Media Junkies

These people have high income, and seek for entertainment but cannot use the personal computers. Mostly, they are the consumers of optic products.

10. Sidelined citizens

These people have low payment and fear of technology. Mostly they are the worst accommodator of any high-tech.

According to the survey of payment email consumption from internet studio shows: among the payment email user, the customer with graduate background take up 12%, masters take up 7.3%, undergraduate take up 6.1% and senior high school level just only 2.9%. The proportion of using the payment email increase followed by the raise of the educated level. (Chinacm 2009)

There is a evidence shows that, the primary consumption group is aged between 18~35, which should reduce to Fast Forwards, New Age Nurturers, Mouse Potatoes, Techno-strivers and Gadget Grabbers.

Due to this group of consumers own powerful consumption abilities and sufficient demand, which make them thirsty in purchasing, usually, they would do some comparisons before deciding to purchase their target products. Therefore the characteristic of Chinese consumption is combined with rational consumption and impulsive consumption. So like that, the e-commerce in China would integrate stimulus-spending with rational contents, and build a steady health e-commerce environment in order to maintain the market confidence of the e-consumers.

3.4 Political and legal influence

Political and legal forces can influence marketing decisions by setting the business rules which the marketing should follow. For example, smoking bans in public places can have dramatic short and long-term effects on the demand for cigarettes. Because politician's power can affect business activities, so companies always try to cultivate close relationship with them.

In China, the major e-business law has three aspects:

- (1) Regulations that ensure the e-commerce market could health develop.
- (2) Due to the Chinese e-business development is relatively backward, so stimulate the IT import could help Chinese e-commerce assimilate advance technology and operational concepts.
- (3) Protect Chinese consumers from maliciously attacking by some outside IT companies and stopping numerous funding flows out.

E-commerce marketing management must be aware of constraining on its activities made by the political and legal environment.

3.5 The problems of Chinese e-commerce exist

3.5.1 Conversion and application of traditional 4Ps principle under the e-commerce in China

Under the traditional business condition, 4P principle, which includes Product, Price, Place, and Promotion as known as marketing mix model, which are widely used to assist in implementing the marketing strategy. Whereby, in some definition that many marketers learn as they start out in the industry is: putting the right product in the right place, at the right price, at the right time.

Following the development of the e-commerce, more and more universities and research institutes started to research the scientific method that could conduct and regular the development of this new industry (Rayport & Jaworski 2004, 11).

Traditional 4Ps is a classical market theory merited to be applied to study the e-commerce, however, by owing to specialties, traditional 4Ps performs inelasticity when it applied to online business environment. Thus, traditional 4Ps is conversed to another strategy that specializes on e-commerce and shifts the 4Ps principle into a method's processes of operating online business.

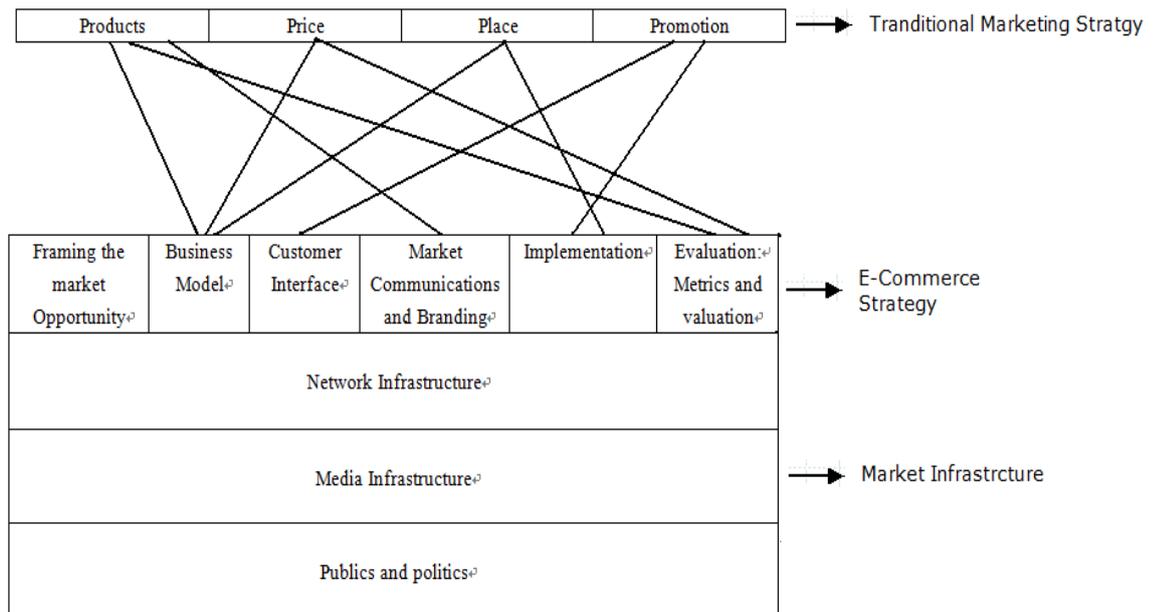


FIGURE 9. Framework for e-commerce (Rayport & Jaworski 2004, 11).

3.5.2 Inelasticity of traditional product in e-commerce

Traditional product is identified under the condition of traditional business model. It is not only the derivative instrument from those tangible products,

but also more points of matching the demand of customer in the market, which includes tangible product, service, credit, consciousness and so on.

Meanwhile, it is made up by core products, actual product, expected product, augmented product, and potential product, these five different administrative levels. Thus the traditional products express much maladjustment under the e-business model.

Every Business to Business and Business to Consumer company must make fundamental choices about how to compete in its chosen market. Some of these choices represent the traditional blocking and tackling of business strategy, like: “How do we segment our market?”, “Does our offer add value to these target customers?”, and “How do we outperform competitors in our chosen markets?” A number of strategic choices are only adequate for the new economy. So what makes an e-commerce business unique or different from a traditional brick and mortar business should be considered first.

Like other business, e-commerce also is based on profitable motivation, as the fundamental stimulation of a new business model, the profits earned by e-business tend to be more disguised. By differing from the traditional products, the costing system for e-business is much more elaborate. Thus, it can be seen that the online shop always could sell certain products much cheaper than they are sold in traditional retailing shop.

However, not every commodity is worth to be sold on the internet. For instance, if the price of a bottle of mineral water in supermarket is \$ 1/600ml, when it sells on the internet it probably makes a loss, assuming the price is still \$ 1/600ml or little bit cheaper. But this added value for the mineral water is quite low. Therefore, value propositions and value clusters as the premise of operating online business must be considered. Thus, it is inferred to other

concepts of e-commerce which include: additional value deliver, shopping experience, and dependent coefficient of logistics system.

3.5.3 Lack of Innovation—missing concept: benefits delivery

Additional value delivery also can be identified as the benefit delivering. The first step of a line business model is to make the value proposition for the business clearly. Construction of a value proposition requires management to specify three things:

1. Target segment.
2. Focal customer benefits.
3. The key resource the business has that can help it deliver the benefit package in significantly better way than its competitor.(Rayport & Jaworski 2004, 116.)

A value proposition can be considered the smallest level of benefits and resources a company offer to consumers (Rayport & Jaworski 2004, 112). However, online business has acquired customization capabilities which allow them to address multiple customer segments and offer a variety value cluster approach, in which the value proposition is no longer singular but cluster composed of three parts:

- 1) The choice of target customer segment.
- 2) A particular focal combination of customer-driven benefits.
- 3) The rationale for why this firm and its partners can deliver the value cluster in a significantly better way than competitors.

This means the firm can serve multiple groups of customers with different value proposition. For example, Amazon can serve the textbook market with

one value proposition and the trade-book market with a different value proposition. (Rayport & Jaworski 2004, 112.)

In China, following the development of internet technology, the online business gained sufficient technical support, and lacking of technology support no longer restricts development of online business. Moreover, the most problems were transferred to the fundamental concepts of e-commerce which mainly exist in the value creation and the combination of customer-driven benefits.

Many Chinese online businesses now have the common feature: unity of products or services apply and singular value proposition. Most new born online businesses all tend to be high profit e-commerce projects. An uncompleted statistics show: most existing e-business companies are focusing on online game development. The reason is simple, online game based on its characteristic, own the most profit margins. Comparing with those well experienced companies, the new comers have the lower competitive position in marketplace and customer base. Nearly all the new online businesses tend to copy the one or two successful business models, which lead most of the e-business in China to become simplistic and lack in innovation. In consequence, most Chinese e-business companies use the “red ocean” strategies. Thus, such phenomenon causes the online business to lose their profit and meanwhile limits the development of Chinese e-commerce.

4. CASE: TAOBAO.COM

4.1 Taobao.com background

Launched in 2003, Taobao (www.taobao.com) is the largest Internet retail website in China with 82.5 percent of the Chinese-domestic online consumer market*. It provides the most comprehensive product offering and served more than 170 million registered users as of the end of December 2009.

In 2009, Taobao introduced a series of features and services to further enhance customer experience on the platform. These developments include the launch of Taojianghu, a social networking service; the introduction of Taobao Open Platform, which welcomes third-party developers to create applications for Taobao members; and the integration of Koubei.com to further extend lifestyle guide services on Taobao. Transaction volume on Taobao (gross merchandise volume or GMV) exceeded RMB200 billion (US\$29 billion) in 2009. (Alibaba 2010)

According to government statistics, online retail equaled approximately 1.98 percent of China's total retail trade in 2009. Moreover through Chinese government statistics: Taobao's GMV equaled approximately 1.4 percent of China's total retail trade in the first half of 2009. Taobao had become the largest e-commerce trading platform in China also the largest e-commerce shopping centre in Asia. Furthermore, its power has influenced the whole industry, even the internet.

It was showed on the rank of the ALEXA in 2004, and gained the 18th rank place worldwide.

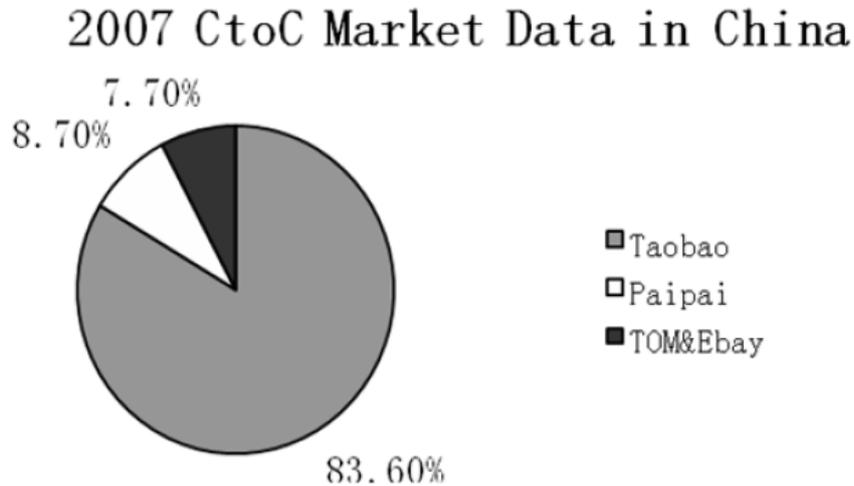


FIGURE 10. C to C Market Date in China (Yang & Liu 2009)

4.2 Company strategy

Taobao become the leader of the Chinese e-commerce within a short time, the miracle of Taobao's story reflects the development of Chinese e-commerce. However, it was also affected by the influence of the internet economy and strategy of the company. The business strategies of Taobao.com involve two branches: operation strategies and service strategy.

4.2.1 Operation strategy

1. Capturing the market by no fees

Comparing with the mature foreign online business such like eBay, Taobao.com is comparatively backwards in e-commerce concept awareness. So it made a plan that would not charge any transaction and listing fees in the

first three years, in order to take the market share. Because, if there is more benefits could deliver to the users, Taobao.com would gain more loyalty from the customers, thus, there will be more network dealers.

Under this awareness, Taobao.com captured over 60% market share rapidly in two years. Indeed, Taobao without considering the normal operation overhead and free for users is a big step attempt. But the consequence was, Taobao reduced the threshold of the personal transactions and protected the interests of both sides.

2. Strengthening the comprehensive cooperation with banks

On October 27, 2003, Taobao.com had made a commitment with the ICBC (the Industrial and Commercial Bank of China) which indicate the integrity of online payment had been guard against default and fraud. Hence the new mode of payment and settlement of online bank was born in China.

Banks as the new intermediaries joints the internet and e-commerce, and this third party payment makes an outstanding credits guarantee in business cooperation. It also set up a based infrastructure of Taobao's development.

3. Building the shopping platform by associating with strong enterprise

Taobao.com had announced an alliance with the Chinese internet portal 21 CN and launched a big shopping site on April 5, 2004. These two websites give consumers more service over the online distribution channels, such as e-mail, messaging, and other market activities.

On April 12, 2005, Taobao.com and sohu.com set an alliance strategy, thus in order to share consumer data base, and get the integrative resource system done, whereby enhance to promote the progress of Chinese E-Commerce develop. (Yang & Liu 2009)

4. Establishing an identify secure trading platform

In July 2004, Taobao.com gained an agreement with the ministry of public security, and set up a “national citizen identification number enquiry service centers”. Hence Taobao.com has owned the more secure trading environment.

4.2.2 Service Strategies.

There are two major characteristics of the consumption behavior of Chinese people: 1. They prefer purchasing the tangible goods. 2. They strongly doubt online payment. After the sufficient analysis of consumption behavior of Chinese customers, Taobao.com decides to launch the corresponding tool ‘Taobao Wangwang’ and ‘Alipay’. In this way, Taobao set up a fundamental communication platform to link ‘business’ and ‘customers’ together. Thus they become the own feature of Taobao.com.

1. Taobao Wangwang

Taobao Wangwang is communication tool software that is similar to the facebook. Taobao Wangwang providers a convenient platform for providers and buyers, through the Taobao Wangwang, both sides can make a deal on the trading purpose which include the quality of goods and the consulting about the price. In this way, Taobao Wangwang makes the online trading much more convenience and flexible. That’s why Taobao Wangwang is a successful innovation of online business in China.

2. Alipay

“Alipay” is a particular secure online payment service. It is built up by corresponding with Chinese banking system, which including ICBC (Industrial and commercial Bank of China), ABC (Agriculture Bank of China), CBC (Construction Bank of China), BC (Bank of China), and other domestic financial institutions. Thus Taobao.com builds its own credits with the third -party payment and completes a successful transaction model for online business.

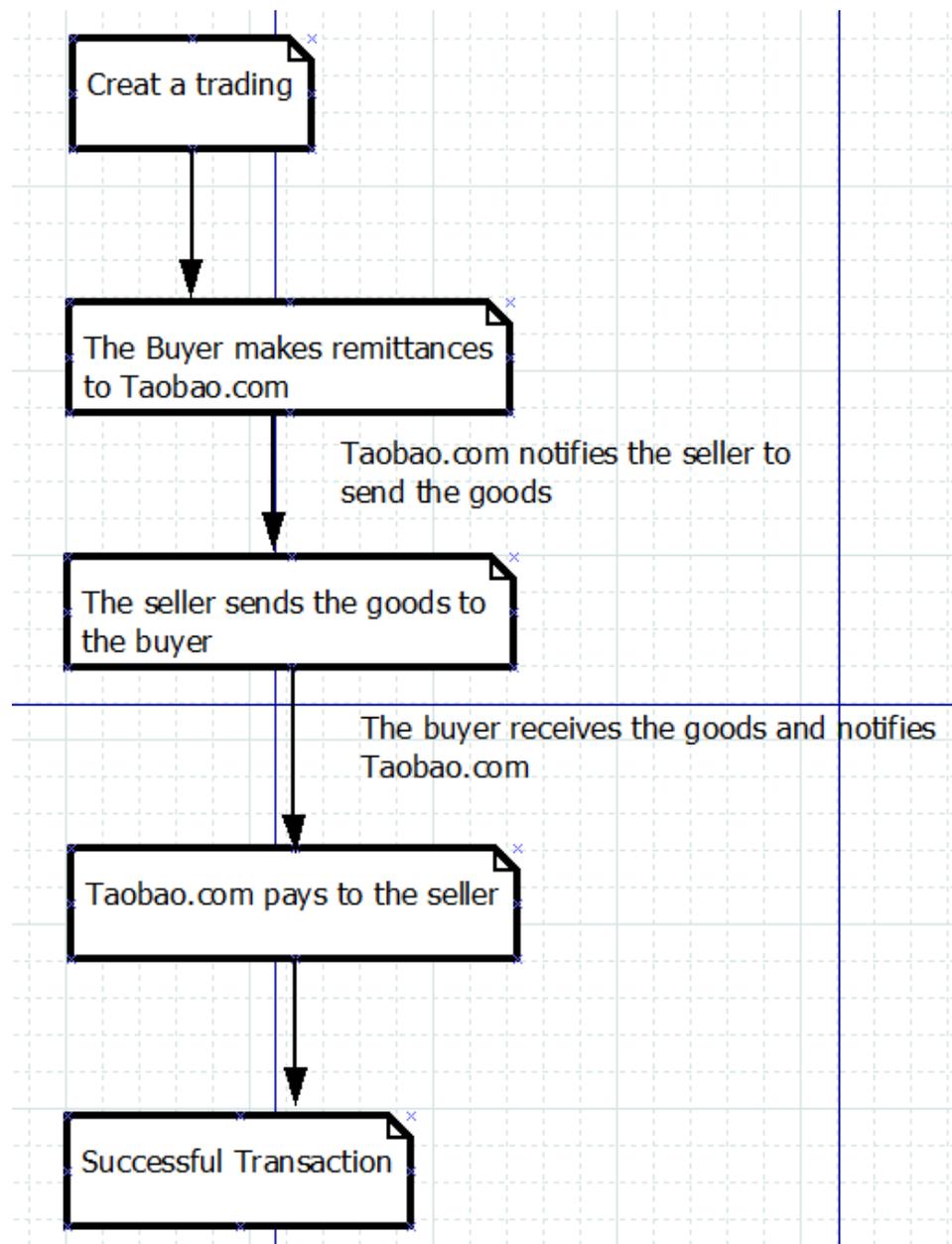


FIGURE 11. The process of transaction of “Alipay” (Yang & Liu 2009)

4.2.3 New products strategies

From mid-April 2009, excellent clothing treasury network has become a hot word, it is not just a talent only familiar with the Shanghai apparel brand in Japan, and now, from online to offline, from the first-line cities to 23 markets, Taobao.com excellent network of direct sales clothing so that the Treasury was as Giordano, ZARA, H & M as the public know. (Taobao 2009)

Taobao.com is now the largest retail network platform with hundreds of millions of users of high-quality resources and coverage of China, the radiation edge channels in Asia.

On April 16, excellent clothing Taobao.com library officially opened the flagship store. Opening on the same day, it reached nearly 3,000 transactions. Wrapped carry the most fashionable trend of the international trend, excellent library Taobao.com clothing got out of hand.(Taobao 2009)

Statistics show that from April 16 to April 26, 43 million people have been logged on to the treasury Taobao.com clothing store, which means a daily average of 40,000 people on the go Taobao.com clothing excellent library. It is equivalent to excellent library in the clothing China daily traffic stores all entities combined. This is also equivalent to large-scale shopping malls every day Wal-Mart traffic. (Taobao 2009)

4.2.4 Innovation strategy

1. New Platform to Build Consumer Brands

Additionally, companies who previously functioned as original design manufacturers for international brands destined for export have reported

success in sales of home-grown branded products on Taobao. An example is Qilong Trading Company in Hangzhou, which had long served as a textile manufacturer supplying famous American and European labels. Qilong has since launched Top Kor, its own original brand of female apparel targeting professional women in their twenties and early thirties that is sold exclusively on Taobao.com. More and more of these contract manufacturers are realizing that the long-term growth of their business depends on developing a brand identity for products that is separate from their OEM work as they take advantage of rising domestic consumption within China.(Zhou 2009)

2. New Channel for Established Brands to Reach More Consumers

Taobao.com is also helping prominent global mainstream brands to make inroads across the country, especially in second- and third-tier cities where these brands may not have a retail presence. Well-known global brands joining Taobao.com Mall, the corporate retail section of the online shopping platform, include Dell, Lenovo, Proctor&Gamble and Uniqlo as well as many famous Chinese domestic brands. (Zhou 2009)

According to Taobao.com sales statistics, transaction volume on Taobao.com Mall for established brands has shown strong acceleration, tripling the level achieved in 2008. By June 2009, dozens of corporate online retail stores on Taobao.com sales statistics, transaction volume on Taobao.com Mall for established brands has shown strong acceleration, tripling the level achieved in 2008. By June 2009, dozens of corporate online retail stores on Taobao.com Mall were reporting average monthly sales exceeding RMB 1 million (US\$ 146, 0001). In July, the official Lenovo.com flagship online store achieved record sales of more than RMB 10 million (US\$ 1.5million) for the months. (Zhou 2009)

5 CONCLUSIONS

Chinese e-commerce relies on the tremendous population bases, gaining the sufficient online marketplace. Associated with the economic development in China, more market opportunities have emerged through all the online business. Nevertheless, Chinese e-commerce still stays in the low level of value chains. Comparatively, Chinese e-commerce has several outstanding problems that restrict the development of the online market.

First of all, the inelasticity of the traditional products has shown up during the development of Chinese online market. It must pay attention to that in the online sale channels, products not only distributed from the seller to customers. There are much missing cost and added value associated with the products through online channels. Hence, not every product owns the characteristics that can be promoted in the network section. High added values products need be sought out by Chinese e-commerce for healthier development. For example, the companies need to adopt more combined promotion to associated products with relative services.

The other significant point is the lacking of the e-commerce concepts. Due to the fact that the concept of electronic commerce came into China no more than 10 years ago, the cognitions of e-commerce for Chinese business are fairly insufficient. So most of the Chinese online businesses still rest on the simple network trading, and miss the benefits that companies could deliver to the customers.

By these consequents, the e-commerce companies in China need to focus their strategies on how to create more benefits to customers rather than keeping eyes on how to create more profit.

Then by using the case Taobao.com, from the micro historical view to analyzing the successful experience that they had gained. Thereby its successful experience reflects how the e-commerce theories have been used in its company implementation.

In the case study, firstly Taobao.com uses 'Alipay' as a payment system to bind with bank systems. Secondly, Taobao.com emphasizes the new service innovation. With these two strategies, Taobao.com could take up most online market share in China. From native aspects, the success of Taobao.com is benefited from the scientific combination between e-commerce theories and characteristics of Chinese online market.

Moreover here are some findings for the development of Chinese e-commerce in the future.

1. New Platform to Build Consumer Brand

Online companies who previously functioned as original design manufacturers for international brands for export have reported success in sales of home-grown branded products on those new platforms. For example, household goods has become the top selling category by total sales transaction value for the first time, signaling a definitive shift in consumer perception of Taobao.com as a primary destination for essential daily products in addition to high-value goods such as laptops and cameras.(Taobao 2009)

2. Develop the varieties of the online distribution channels.

Increase the distribution channels to promote brands to customers, thus enhance the online consume power. Besides, varieties of promoting channels could help to prominent global mainstream brands on a national scale, particularly in the small city and town.

3. Reinforce the logistic system.

The logistic system is the strongly supportive element that affects the development of Chinese e-commerce, since delivering products to the customers has been considered as one of the implications that consumers measure their target online business. Reinforcing the logistic system and creating a comparatively higher speed than competitors will be the important strategic operation that most e-commerce should take into account. Also accelerating the speed of delivering helps to increase the ‘click-rate’, assuming, the customers will quickly start the next purchase once they receive their previous orders. Furthermore, cooperating with the national delivery firm can encourage the Chinese e-commerce to exploit overseas markets, and join the global online market.

SUMMARY

E-commerce based on a global scale is developing rapidly. Nowadays it is quickly changing the original economic structure, traditional economic growth model as well as operation mode. Chinese e-commerce based on its great population and fundamental economy support, demonstrates a huge potential in the future years.

The old physical distribution does not satisfy the loading the products information in the model life. Therefore the online distribution came into people's daily life. Based on its characteristics, online distribution has been developed into a complex logistics web. The development of the e-commerce, from another side is followed by the innovations of the online distribution channels.

Chinese e-commerce development is based on the comprehensive application of internet. In the past decades, internet is quite strange to most Chinese people. But nowadays, the internet and related IT industries have already come into thousands of Chinese families, and covered most people's daily lives. In the past few years, the scope of Chinese online businesses has extended from simple online promotion to the set up of the third-party payment.

Taobao.com as the largest online shopping platform in China, has presented its power and the advantages in its scientific operation strategies. By relying on the Chinese e-commerce market, Taobao.com will get more achievements and make more contributions to lead the Chinese B-C e-business and explore a new version for the next generation.

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