

# E-commerce Environment Analysis in Chinese Market

## Based on Case Analysis of Amazon China

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MANAGEMENT OF EXPERIENTIAL VALUES

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## Summary

Electronic Commerce (E-commerce) has become an essential part for most of the people and people are now getting used to the new pattern of shopping. Under this background, the whole E-commerce market would be expected to keep growing and expanding, and Chinese market would be one of the largest E-commerce market in terms of transaction volume, number of online shopper and penetration rate. In this case, the US giant Amazon also hopes to expand its business to this new but potential market and it expects that the business there would be just as successful as that in US. However, the fact is that after entering Chinese market for 10 years, Amazon China still can not beat such local competitors as Taobao, Jingdong and Suning. There must be internal and external reasons to explain it. Starting from the theory of E-business and E-commerce, the thesis firstly tries to clarify the definition of E-business and E-commerce. Although in most cases people could use the two terms interchangeably, technically speaking there are some differences in the two terms. Then the thesis takes a quick view of the historical development of the E-business in China, hoping to

understand the essence and main features of E-business in China and compare them to that in global market. Secondly the thesis focuses on the analysis of the current E-commerce market in China and global market. Because of the difference of culture, technology, economy, and other factors, the pace of developing E-commerce in different areas would be different, and therefore in China there are some unique features. And in this part the thesis spends some effort to analyze the largest competitor—Taobao, in terms of market shares, online traffic, payment systems and supply chain. When discussing about the E-commerce market, Taobao is an unavoidable brand and all the E-commerce companies have to come up with some ideas to deal with it. By doing this, the thesis hopes to figure out the features of Chinese E-commerce market and then come up with some ideas for Amazon to gain more market shares in the local market. The third chapter is mainly about the current performance of Amazon China. The customer's purchasing behaviors would be different in each areas due to different reasons, and by analyzing the online shopping trends for customers on Amazon, the thesis hopes to understand the target customers for Amazon and what is happening on Amazon and therefore it might be possible to forecast what would happen in the future so that Amazon could set strategies accordingly. Also how does Amazon localize its business is also mentioned here, and the thesis hopes to follow the current strategies from the management and come up with something special and innovative. The next part is mainly about the SWOT analysis of the Amazon China and tries to estimate the strengths and weaknesses of Amazon China. The purpose of the thesis is to evaluate the current performance of Amazon in China and try to help it get more profits, so a SWOT analysis would help have a better understanding of the current position of Amazon and check if it is possible and needed for Amazon China to fight in the future. And the last

part mainly introduces the potential strategies that could be applied by Amazon China, such as the cross-border business and fresh-food market. The thesis hopes to conclude the analysis of global and Chinese market, the current performance of Amazon China and the SWOT analysis and then come up with some practical and feasible ideas.

**KEY WORDS:** Amazon China; E-commerce market; SWOT Analysis; Cross-border Business; Taobao; Online Shopping; Purchasing Behavior

<Inside Cover>

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## **Introduction**

Under the background of economic and information globalization, as a new and burgeoning trading pattern, E-commerce has greatly accelerated the exchange of information, goods, capitals and technologies among countries and individuals. Based on the Internet technology, E-commerce pattern mainly contains virtual trade other than cash trade or barter trade and it has greatly affected almost all the industries and changed the world trade pattern. As the E-commerce trading pattern has been widely accepted and developed among the world, transnational transaction is playing an important role in the business world, and in addition to that, E-commerce itself could be a business activity to break through the geographical and time limits. Therefore, E-commerce pattern must be the mainstream to do businesses in the future. Amazon, as the most popular online shopping website in US, would like to expand its business to China, which is commonly regarded as the biggest market for online shopping. However, when it found Amazon China in 2004, it unexpectedly failed to attract the local customers and had been struggling in the market for years. In 2014, the market share of Amazon in China was only 1.8%, whereas it succeeded in dominating the US market and gained a 22% market share. In spite of its own strategy, why did such an online giant fail to enter Chinese market? The paper is going to find out a solution to deal with it. Starting with a literature review of the E-commerce theory, the paper makes it clear that the core value of Amazon is to satisfy the customer and focus on the experiential value. Then, in order to analyze the various factors contributing to the situation, the paper explains the current global market trends, and analyze Chinese market from the perspective of economy, policy, geography, current competition, etc. After



that, the thesis tries to give a brief introduction of the current situation of Amazon China, and it hopes to dig out the strategies behind it. The thesis also presents the strengths and weaknesses of Amazon China, utilizing the SWOT analysis.

Amazon China has been struggling and losing great profits in the local market. Under this circumstance, finding a suitable business mode and coping strategy is imminent.

## **1. Literature Review**

This part provides an overview of previous research on the E-commerce business model and strategy by summarizing the definition of E-commerce and E-business, the historical development of Chinese E-commerce market and whether 'brick and click' would be an ideal strategy for E-commerce companies to promote its brand awareness and customer satisfaction.

### **1.1 E-business and E-commerce**

The short but drastic IT revolution has been mentioned too many times in the recent years, and as the process is accelerating, any kind of instruction would be obsolete (Manuel Castells, 2000). The E-business originated from information system and Internet technology, and as time goes by, the application of information technology and Internet technology was introduced into the business area, and therefore it contributed to the revolution of business activities. At the same time there were an increasing number of research on the theory of E-business. In nature, E-commerce refers to the

use of electronic means and technologies to conduct commerce (sales, purchase, transfer, or exchange of products, services and/or information), including within business, business-to-business, and business-to-consumer interaction. Delivery of product or service may occur over or outside of the Internet (Whinston, Choi, &Stahl, 1997). Currently, regarding E-business and E-commerce, there are four terms of definition (Amir Manzoor, 2010).

### **1.1.1. In terms of scope**

Due to the reasons of language, culture and history, each country has its unique way to use the phrases. 'E-commerce' is mainly supported by the government and organization, which 'E-business' is often used by companies and firms, and under certain circumstances, 'E-business' and 'E-commerce' can be used interchangeably (Amir Manzoor, 2010). However, 'E-business' has a wider scope as a business activity because it contains not only such operational activities as commercial trade but also some non-commercial activities, such as governmental issues or school education. 'E-commerce' means a certain way to use information technology to conduct business trade of service or products while 'E-business' refers to an application of information technology to commercialize business process, business system, etc (Whinston, Choi, &Stahl, 1997). It can be concluded into a formula: E-business=E-commerce+ Business Intelligence+ Customer Relationship Management+ Supply Chain Management+ Enterprise Resource Planning (Weill P, Vitale M., 2001).

### **1.1.2. In terms of contents**

E-business is a relatively new business method, and it helps redesign and reconstruct the company business. There are three levels of E-business: E-business in firms, E-business in market and E-business in society (IDC, 2005). Actually the most representative view about E-business and E-commerce comes from IBM. 'The term E-business contains intranet, extranet and E-commerce and it focuses on the combined application of intranet and extranet. Also, in order to maximize the effect of E-business, '3C' issues have to be deal with. The first 'C' is commerce, which means the trade on the Internet. The second 'C' means content, which means the information on the Internet. The last one is collaboration (G Boyce, 2002).

### **1.1.3. In terms of flow**

From the point view of business procedure, E-business refers to an application which caters to the automation of business and workflow (Ravi Kalakota & Andrew B, 1997). Also based on open network, E-business is a method to replace manual work with information to deal with different businesses. In any types of business activities, there must be four business procedures: commerce flow, information flow, material flow and capital flow (Gefen, David, and Detmar W. Straub, 2004). Commerce flow refers to the transfer of property ownership based on the concept of equal-value exchange. Information flow refers to the communication with the business partner before, during and after the business. Material flow means the movement of products from one place to another. Capital flow means the process of transferring the capital, which includes payment, transfer, etc. Based on this theory, E-commerce is still a part of E-business (Rayport, Jeffrey F.& Bernard J. Jaworski, 2000)

#### **1.1.4. In terms of technology**

The business and technology are the keys to understand the theory of E-business. E-business refers to an electronic way rather than a direct or indirect physical exchange or fact-to-face contact to complete any kind of business trade. The 'electronic way' includes Electronic Data Interchange (EDI), electronic payment method, electronic ordering system, electronic mailing, Internet, picture processing, etc (G Boyce, 2002). Also, Internet is the basis of E-business and E-business focuses on the combination of intranet, extranet and Internet and buyers, sellers, banks and other business partners have to work together on the electronic application based on the Internet environment (SONG ling, 2000)

### **1.2. Historical Development of E-commerce in China**

Information Technology has deeply affected people's way of living, producing, thinking, and managing, and E-commerce and/or E-business has evolved based on the development of Information Technology. Since 1993, E-commerce in China has been through four different periods (ZHENG Shurong, 2005).

#### **1.2.1 1993-1997: Exploration**

On the INET annual conference in 1993, Chinese computer specialists called for Internet access for the Chinese public as a whole, which received support from their overseas colleagues (SCIO, 2010). Also in 1994, the Education and Research demonstration net in the Zhongguan area could get access to the Internet. During this period, the E-business developed following the three aspects.

First of all, Internet infrastructure construction. The development of E-business relies on the scale of Internet infrastructure (LI Jing& YI Jianxiang, 2001). During 1997-2009, 4300 billion RMB has been invested on the construction of Internet infrastructure, 99.3% of the villages and towns and 91.5% of the administrative villages could get access to the Internet (Office of the Council of State, 2010). The completion of the construction of Internet infrastructure greatly help the application and development of Internet.

Then, it comes to the theoretical thinking. The International E-business forum held in Beijing in 1994 was the first step for 'E-business' to enter China. Then the E-business seminar held on October 1994 helped the development of concept of E-business. ISO, Global Information Infrastructure Committee (GIIC), major multinational companies, governments and scholars were coming up with the concept of E-business, and therefore a lot of research results were published. At the same time, Chinese government, research institute, and schools also held seminars, and forms to popularize the E-business knowledge (ZHENG Shurong & LV Qinghua, 2011).

Last of all, the application of theory and knowledge. In 1995 the Chinese Internet was commercialized, and Internet companies were found. In 1996, Chinese international electronic commerce center (CIECC) was found. In 1997, online advertisements were created and used, and Chinese Goods Ordering System (CGOS) started to run at the same year.

The features at this period are: the development of the Internet and E-business relies on the administrative control, and the government would encourage firms and individuals to use the Internet; it mainly focuses on the application of information products and technology, and

emphasizes the promotion and application of high-technology; governments at all levels, schools and research institutes take part in the E-business first and then firms could follow (XIANG Xin, 2000).

### **1.2.2 1998-2001: Prototype**

During this period, the Internet was for civil use. In 1998, the China Post invested 7 billion RMB and launched 169 multimedia communication networks and therefore the costs of using Internet decreased dramatically (DENG Shunguo & GUO Fan, 1998). There are three features in this period.

First of all, Internet companies having web portal are found. A web portal is most often one specially designed website that brings information together from diverse sources in a uniform way (Wiki, 2016). Depending on the type of service it serves, it could be divided into search portals, such as corporate portals, cultural portals, stock portals, etc (YU Miao, 2001). In 1999, Sohu opened its news and contents channel and it made the prototype of the portal sites in China. Then, Sina, Wangyi, Yahoo, Tencent were found and entered its market.

Then, it could attract investment quickly and therefore these company could go public. Since the number of Internet users were increasing dramatically, the portal sites provided a new way to operate the business and gain the profits, so venture capitals were quite interested in this new industry (WANG Danping, 2011). The Internet companies followed the development path of traditional companies and a lot of them went public in US market in 2000, and then the NASDAQ reached its peak on March, 2000 (M Ingebretsen, 2002).

In addition to that, some companies experienced the waves of failure. The definition of Network Concept Stock decided that these portal sites were not making a profit, and without the support of the profit, the stock price was essentially a bubble. And when the investors realized the fact, the 'Internet Bubble' busted. In 2001 the stock index decreased by 80% and 537 Internet companies went bankruptcy in the global area, and during 2000 and 2001, more than 75% of the E-business –model companies quitted the market in China, and most of them were either acquired or leaving (PAN Honggang & WU Jiyi, 2012).

### **1.2.3 2002-2009: Growth**

After the 'Internet Bubble', people started to have a deeper understanding of the Internet, and the E-business moved from the venture capital market to the physical market. Since then, some of the leaders in the industry showed up and they started to make some profits. The quality of E-business technology and platforms was greatly improved and the software and solution was localized. During this period, three main achievements were made.

First of all, broadband network replaced dial-up network. Until December 2009, the number of Internet user in China reached 100 million while the people using dial-up decreased by 3.3 million (DENG Shunguo & GUO Fan, 2011). The broadband network was faster and cheaper, and therefore in the E-business area there were diversified business application.

Secondly, diversified business applications were created. Different from those in the prototype period, companies in this period created more diversified applications, such as online chatting,

searching, online gaming, online advertisement, trip reservation, etc, and such companies as Tencent, Baidu, Shengda became the giants at that time. During this time, third-party platforms were becoming the mainstream and B2B, B2C and C2C were the core business patterns (Boyce, Gordon, 2002).

Thirdly, the ‘E-businessmen’ showed up. In 2004, Jack Ma, the CEO of Taobao, came up with concept of ‘E-businessmen’, who referred to such individuals as firm representatives, businessmen and business operators that use E-business model to do business activities. As the development of this idea, the industry chain was well-arranged and clear. This group showed up in 2003, became mature in 2006, rose in 2007, grew to be ecological in 2008 and social in 2009, and it proved that the trading pattern, trading rules, promotion methods, payment methods and delivery systems were stronger and better than that in traditional businesses (LI Qi, 2012).

#### **1.2.4 2010-2012: Popularization**

During 2010 and 2012, the E-business in China developed dramatically, and such applications as mobile Internet, online video, online chatting, online shopping became popular. In this period, three features could be concluded.

First of all, the size of the E-business was vast. It has developed through the period of exploration, prototype and growth, and therefore such factors as transaction volume, number of Internet user, Internet penetration, online shopping, number of website, online payment has reached a certain scale. For example, the transaction volume increased by four times from 2005 to 2012



(CHEN, Hailiang, 2015). Also, B2C online shopping has been popular among the Internet users. In 2012, the number of online shopper reached 242 million and it increased by 32.3% compared to that in 2011 (CAI Yin & XIE Ping, 2013).

Secondly, the E-business applications were upgraded. Large E-business firms developed from using such basic functions as online posting, procurement, online sales to more advanced ones, such online design among firms, manufacturing and planning management. Large firms having E-business systems accounted for more than 50%, mid-sized firms looking for suppliers online accounted for 30% and 24% of the mid and small sized firms would do online promotion campaigns (Office of the Council of State, 2010) because of its low cost, low barrier, diversified forms. Also, the E-business has evolved from a platform provider to a service provider, and a system with comprehensive service, digital certificate, electronic payment, logistic was formed.

Then, the mobile Internet became the new engine to expand the demand. In 2012, the number of user, application and market scale increased dramatically, thanks to the Sina Weibo, Baidu search engine, Taobao online shopping platform and Alipay. It would greatly affect the future online shopping trend and people's lifestyle (XING Linbo, 2010).

## **2. Review of Current E-commerce Environment**

In 1995, Amazon.com and eBay went online in US, and such retailers as Otto Group and Argos started to engage in E-commerce area in Europe. Since then, the world started to enter E-commerce era. Therefore, researching on the current global E-commerce environment helps to understand what

is happening in the world and forecast what will happen in the near future. Not only Amazon but also other E-commerce companies will be able to get a view of the whole industry and set the strategies accordingly.

Since the thesis aims at the E-commerce market in China, a comprehensive analysis of the China market from different perspectives is important. For example, a better understanding of the current economy helps to analyze people's spending power, and therefore these companies could better forecast the future growth rate. Or, different policies at different periods may affect the selling strategy and such business as cross-border selling could be available understand certain circumstances. On the other hand, the geography situation has something to do with the logistic part and the company would decide whether to use the local logistic companies or build its own logistic warehouse.

## **2.1 Global E-commerce environment features**

E-commerce market has been popular after the 21<sup>st</sup> century. In 2014, 16 E-commerce companies went public in different stock markets, considering the fact that the capital market was fully aware of the role these companies were playing at the business world. Also, it has been quite obvious that the mobile internet has been widely used by the customers and in the future it could be clear that mobile devices other than the desktops would be the mainstreams in the future and companies have to allocate more capitals to the mobile development. In addition to that, the 'sharing economy' might change the traditional consumption patterns and therefore the social resources could be better shared among

citizens. What is more, various types of shopping festivals should be a phenomenon that could not be ignored. For example, Tmall's 'single-day festival' created 91.2 billion RMB on 11th November, 2015, with 68% of the sales contributed by the mobile devices. In this case, a better understanding of the global trends helps to adjust to the E-commerce market and gain more market shares in the competitive market.

### **2.1.1 Matured capitalized market**

In recent years, E-business market has attracted great attention from the capital market and 16 E-business companies went public in 2014, with 6 companies from Europe, 4 companies from US, 4 from China, 1 from India and 1 from Australia (**Fig.1**). Also, the IPO firms scales up as time goes. For example, Alibaba and Jingdong became one of the biggest E-business companies since they went public.

In addition, the private equity market was transferring its attention towards O2O and mobile E-business and they became the main targets for venture capitals. More startup companies successfully got support from the venture capital and many companies entered 'unicorn club' within the first years of their foundations.

| IPO E-BUSINESS COMPANIES IN 2014 |                |                      |             |                              |                  |
|----------------------------------|----------------|----------------------|-------------|------------------------------|------------------|
| No.                              | Company        | Business pattern     | Location    | Corporate Value (\$ million) | Listing location |
| 1                                | Alibaba        | Online shopping      | China       | 263400                       | NYSE             |
| 2                                | Jingdong       | Online shopping      | China       | 32800                        | NASDAQ           |
| 3                                | Zalando AG     | Fashion E-business   | Germany     | 5900                         | Frankfurt        |
| 4                                | Cnova N.V.     | Online shopping      | Netherlands | 3200                         | NASDAQ           |
| 5                                | Grubhub        | Food ordering        | US          | 2900                         | NYSE             |
| 6                                | Justeat        | Food ordering        | UK          | 2800                         | London           |
| 7                                | JUMEI          | Costmetics           | China       | 2000                         | NYSE             |
| 8                                | Truecar        | Car E-business       | US          | 1800                         | NASDAQ           |
| 9                                | Warfair        | Furniture E-business | US          | 1600                         | NYSE             |
| 10                               | Coupon.com     | Coupon               | US          | 1400                         | NYSE             |
| 11                               | Boohoo.com     | Fashion E-business   | UK          | 700                          | London           |
| 12                               | Tuniu          | Online traveling     | China       | 600                          | NASDAQ           |
| 13                               | Bravofly Rumbo | Online traveling     | Switzerland | 220                          | Switzerland      |
| 14                               | Mysale.com     | Fashion E-business   | Australia   | 200                          | London           |
| 15                               | eDreams Odigeo | Online traveling     | Luxembourg  | 190                          | Madrid           |
| 16                               | Koovs          | Fashion E-business   | India       | 60                           | London           |

Figure 1 IPO E-Business Companies in 2014 (based-on own research)

### 2.1.2 Mobile-oriented Business Era

Since the smartphone was sold in 2007, the mobile Internet technology are getting mature and well-developed, and 2014 was a watershed year, with a clear before and after. According to the data from We Are Social (2014), the penetration of individuals using mobile devices reached 50% of the world population in September, 2014. Also, the number of mobile devices getting access to the Internet was 7 billion. On the other hand, Goldman Sachs forecasted that the transactions on mobile devices may account for 27.2% of the total transaction amount in 2014 and the number would reach to 40.5% in 2015. In addition to that, according to the data from Criteo, the transaction volume made by mobile devices in 4<sup>th</sup> quarter accounted for 30% of the total online retailing ones.

It also can not be ignored that the countries in South Asia areas led the trend to use mobile devices and the transactions made by mobile devices accounted for 50% of the total retailing transaction volume in China, Japan and Korea in 2014, and therefore the mobile channel became the

mainstream (Fig.2). In the 4<sup>th</sup> quarter in 2014, the mobile devices contributed 49% and 45% to the total online retailing transaction volume in Japan and Korea respectively. Also it is clear that in the future the mobile-end would play a more important role in the E-business era and someday this method would replace the pc-end to become the most popular one.

Not only Asia areas, but also people from North America and West Europe tried to catch up the trend. Based on the data from Criteo, the mobile devices contributed 41% to the total online retailing turnover in UK and the it contributed more than 20% in Spain, US, Germany, Italy, etc.

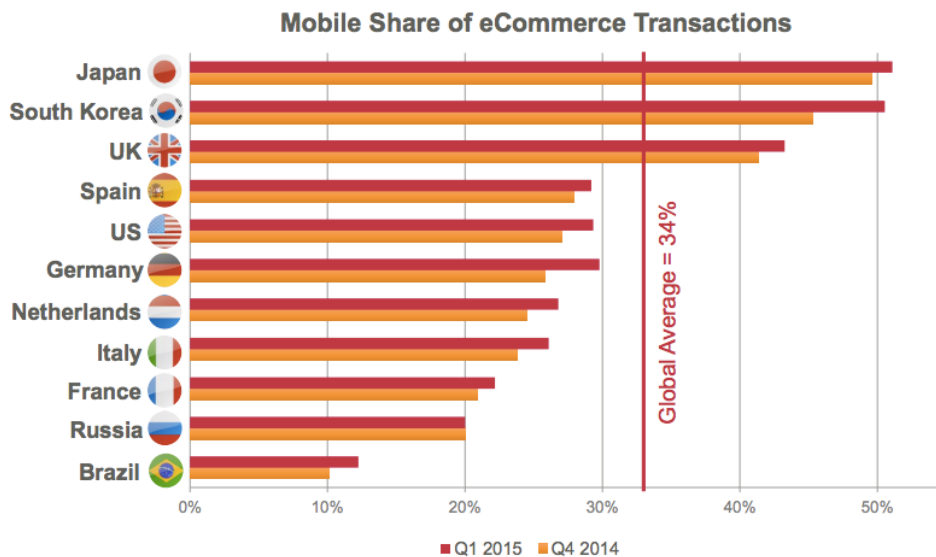


Figure 2 Mobile Share of E-Commerce Transactions  
 (source: <http://www.slideshare.net/CriteoReports/criteo-state-of-mobile-commerce-q1-2015>)

### 2.1.3 The development of Sharing economy

The financial crisis in 2008 deeply affected people’s consumption patterns. The old patterns focused on the individual spending and a large proportion of the social resources were wasted. Under this circumstances, a new economy pattern called ‘sharing economy’ became popular. Sharing economy, also known as share economy or collaborative consumption, is a hybrid market

model (in between owning and gift giving) which refers to ‘peer-to-peer-based sharing of access to goods and services which is coordinated through community-based online services’ (Wiki, 2015). In this case, ‘what is mine is yours, for a fee’ is the core value of the new pattern. This sharing economy is a new market, a new method of development which promotes the efficiency of social resources.

Car renting application Uber and house renting application Airbnb are the classic representatives of sharing economy, both of which became the most popular application in its own industries. Also, Amazon released its Amazon Website Service recently and it would rent its servers to other companies and provide different kinds of web service. For now, the revenue of AWS enjoys the fastest growth rate and it is expected by Trefis (2016) that in 2016 the AWS would generate \$3.5 billion, which accounts for 28% of the total revenue (Fig.3).











| Rank by Revenue | Company   | Industry   | Revenue (\$B) | FY   | Employees | Market cap (\$B) | Headquarters               |
|-----------------|---|------------|---------------|------|-----------|------------------|----------------------------|
| 1               |  Amazon          | E-commerce | \$88.99       | 2014 | 154,100   | \$175.22         | Seattle, WA, USA           |
| 2               |  Google          | Search     | \$66.01       | 2014 | 53,600    | \$502.89         | Mountain View, CA, USA     |
| 3               |  JD.com          | E-commerce | \$18.50       | 2014 | 62,061    | \$39.76          | Beijing, China             |
| 4               |  eBay            | E-commerce | \$17.90       | 2014 | 34,600    | \$69.81          | San Jose, CA, USA          |
| 5               |  Tencent         | Social     | \$12.89       | 2014 | 25,517    | \$144.24         | Shenzhen, Guangdong, China |
| 6               |  Facebook        | Social     | \$12.47       | 2014 | 9,199     | \$222.6          | Menlo Park, CA, USA        |
| 7               |  Alibaba         | E-commerce | \$8.57        | 2014 | 26,000    | \$246.02         | Hangzhou, Zhejiang, China  |
| 8               |  Priceline Group | Travel     | \$8.44        | 2014 | 12,700    | \$63.82          | Norwalk, CT, USA           |
| 9               |  Expedia, Inc.   | Travel     | \$5.76        | 2014 | 14,570    | \$11.87          | Bellevue, Washington, USA  |
| 10              |  Rakuten         | E-commerce | \$5.6         | 2014 | 10,867    | \$13.06          | Tokyo, Japan               |

Figure 3 The largest Internet companies in 2013 by revenue (wiki)  
 (source: [https://en.wikipedia.org/wiki/List\\_of\\_largest\\_Internet\\_companies](https://en.wikipedia.org/wiki/List_of_largest_Internet_companies))

Generally speaking, the development of sharing economy has a great impact on the traditional economy order in society, and the traditional firms held a negative attitude towards this new economy patterns and claim it is illegal and it would destroy the industries. In addition, the government departments are quite strict with these new companies, such as the tax issue and

operations. So, in order to develop further, firms applying this new sharing economy have to adjust to the policy and try to avoid legal dispute.

#### **2.1.4 The emergence of online shopping festivals**

Two online shopping festivals are the symbols of the development of E-business: Cyber Monday in US and ‘single-day festival’ in China.

November and December are the Christmas Shopping period, and the sales revenue in this 61 days in 2014 reached \$616.9 billion, with the major proportion contributed on Black Friday, Super Saturday, Thanksgiving day, Cyber Monday, Green Monday and Free shipping day. Among them, Super Saturday, Black Friday and Thanksgiving day festivals still focus on traditional shopping, while the online part contributed 20% of the sales to the total amounts in 2014, according to ShopperTrak (2015).

On the other hand, Cyber Monday, Green Monday and Free shipping day mainly apply the online-selling patterns. According to comScore, Cyber Monday is the biggest online shopping festival, and the sales amount in 2014 was \$2.585 billion. In addition, the sales amount on ‘Black Friday’ and Thanksgiving day was \$1.941 billion and \$1.37 billion respectively (**Fig.4**).

The ‘single-day festival’ is a relatively new shopping festival found by Alibaba, China. Although only people in China would be able to enjoy the huge discounts at that day, no other festivals could beat the ‘single-day festival’ in terms of daily business transaction. As mentioned above, Tmall’s ‘single-day festival’ created 91.2 billion RMB, or 15 billion dollars, on 11st November, 2015. Also, Jingdong, another online retailing giant in China, created more than 20 million orders in a single day,

and the mobile-end devices contributed more than 70% to the total sales. During the festival, almost all the commercial products sold on Taobao would have a 50% discount and in most cases the customers do not have to pay for the shipping fees, and all the Chinese customers just can not deny that. However, compared with Taobao or Jingdong, Amazon China does not really put much effort to the ‘sing-day festival’, or at least the customers could not get a big discount on that day. On the contrary, Amazon China opens its cross-broader shopping business.

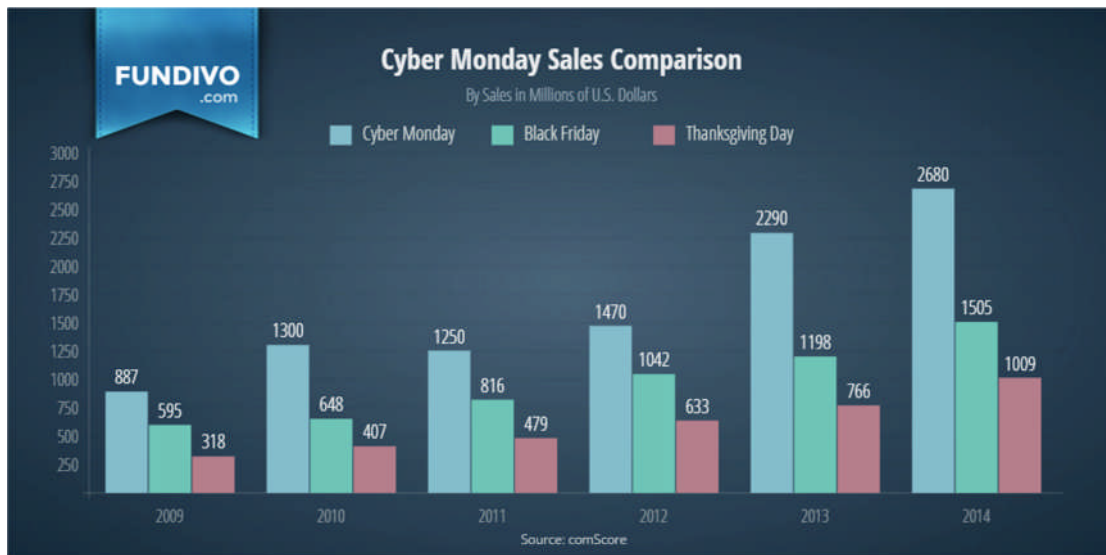


Figure 4 Cyber Monday Sales Comparison  
(source: <http://knowyourmeme.com/photos/1048038-cyber-monday>)

## 2.2 Chinese E-commerce environment

Generally speaking, Chinese E-commerce market became a non-negligible part for all the investors and competitors in the world. Resulting from the high economic growth and government’s encouragement policies, the E-commerce pattern has contributed greater to the retailing industries in China. According to the research report from Macquarie Research (2014), the total retail E-commerce sales in China reached \$194 billion, \$15 billion lower than that in US in 2012.



However, since 2013, the retail E-commerce sales in China enjoyed a greater growth and the amount reached \$265 billion, which was higher than \$230 billion sales in US. What is more, the sales gap between China and US will be bigger and Chinese E-business market will still enjoy a 30% annual growth in the near future (Fig.5).



Figure 5 Quarterly GDP Growth

(source:

<http://defenceforumindia.com/forum/threads/imf-world-economic-outlook-weo-april-2014-released.59901/>)

In addition, the distribution of online spending by China online shoppers could be another issue. Considering the large base of population and the growing GDP, the spending power of the online shopper will be stronger in the future. Geographically speaking, which cities contribute most to the online retailing sales? What kinds of products do they prefer? These issues should also be taken into consideration when a retailing company sets strategies regarding logistic and location issues, especially for a foreign company. Also, should a company focus on the mobile end or the pc end? How to defeat a local competitor? If the questions could be solved, the company may be on the way to success.

Lastly, when talking about Chinese E-business market, Taobao is a brand name that could not be ignored. Any new comer who wants to enter Chinese market has to think about how to ‘steal’ some market shares from Taobao. Since this thesis aims at entering Chinese market and it mainly talks about Amazon, it mainly analyzes Taobao’s weaknesses and hopes to find some opportunities for the outsiders.

### **2.2.1 The growing E-commerce market scale**

Chinese E-commerce market started booming since 2010. Thanks to Jack Ma and his Taobao, Chinese began to change the traditional purchasing habit and they started to enjoy the experience and huge discounts provided by this magical online shopping website. In 2011, the Chinese online retailing market firstly exceeded Japan and therefore it became the second largest market in the world. Since then, the America realized the Chinese market could not be ignored and they started to feel the threat, and that explained why such firms as Walmart, eBay and Amazon strongly desired to enter Chinese market. On the other hand, the growth rate of the Chinese online retail market is quite impressive. According to *China’s e-retail revolution: Online shopping as a catalyst for growth* by McKinsey Global Institute, the compound average growth rate (CAGR) of Chinese online retail market was 120% from 2003 to 2011, while the CAGR in US was only 17% and that in Japan was 27% (**Fig.6**). Therefore, it could be easily judged that the potential of Chinese market is huge and dominating the local market would bring a great amount of sales revenue.

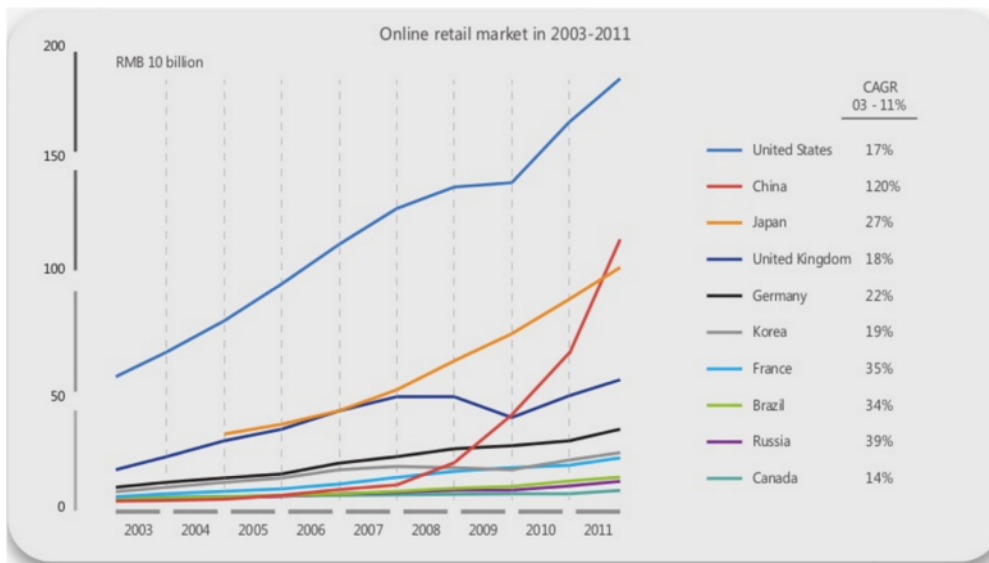


Figure 6 McKinsey Global Institute, China's e-tail revolution: Online shopping as a catalyst for growth  
 (source:  
<http://www.amcham-shanghai.org/NR/rdonlyres/8D451012-FF51-4F2F-BCB9-D7FED8866423/21419/FrankLavinExportNowMarch2014.pdf>)

Domestically speaking, China online retail sales contributes greater to the total retail sales since 2014. According to eMarketer (2015), the E-commerce sales was 7.9% of total retail sales in 2015, while it was only around 6% in US. Also, it is expected that the number would increase from 7.9% to 10.9% in 2016, and the percentage would double that in 2015 and therefore 24% of the total retail sales would come from online retailing area. Regarding the E-commerce sales amount, in 2015 the total sales amount reached 333.39 billion dollars and it will increase to 505.74 billion in 2016 and 1410 billion in 2019.

### 2.2.2 The spending power of China online shopper

As the whole economic situation in China is getting clearer and better, the number of online shopping user in China has been increasing dramatically, and the spending power of the China online shopper is also getting stronger and stronger (Willcocks, Leslie, and Valerie Graeser, 2013).

On one hand, the number of online shopping user is increasing. Based on the data from Nielson (2015), the number of online shopping user in 2010 was 303 million and it increased by 15% in 2011 and then the number increased from 500 million in 2013 to 557 million in 2014, and the number will be expected to keep increasing in the future, considering that people in relatively poor areas would be able to use Internet more frequently and that the logistic companies could get more access to these areas. It should also be noticed that the number of mobile Internet user is increasing faster than the users using desktop ones. In 2010, about 50% of the online shopping users would choose to use mobile devices for shopping, while in 2014, 70% of the online shopping users would use mobile Internet (Fig.7). That is another point worth researching.

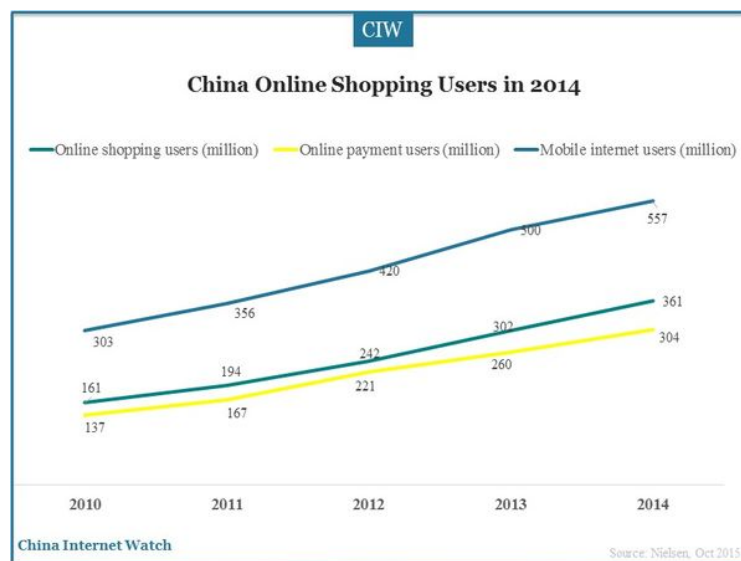


Figure 7 China Online Shopping Users in 2014

( source:<http://www.chinainternetwatch.com/15361/online-shopper-insight-2015/> )

On the other hand, the Chinese online shoppers’ per capita consumption is getting higher than before. According to *2012 Online Shopping Market in China Research Report* by CNNIC, the shoppers’ per capita consumption was RMB 5023, or \$850, with an annual growth rate of 25%, and

22.6% of the users would spend RMB 2,001-5,000, and users spending over RMB 5,000 accounts for around 17% of the total users (Fig.8).

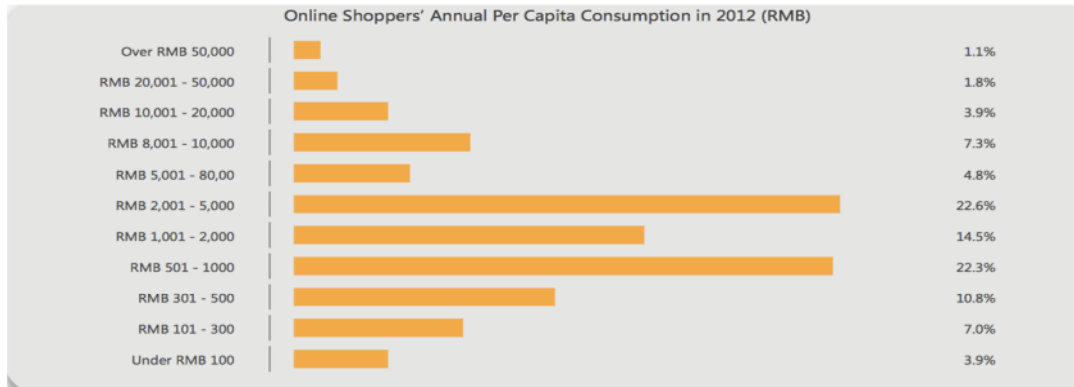


Figure 8 Online Shoppers' Annual Per Capita Consumption in 2012 (RMB)  
(source: CNNIC, 2012 Online Shopping Market in China Research Report”, March 2013)

In terms of age group, people aging between 25 and 44 are responsible for 60% of the total online retail sales amount while people aging over 45 contribute less to the total sales (Fig.9). One of the most serious social problems in China is the aging society phenomenon, and since the average age of Chinese citizens is getting older and the average revenue is increasing, it could be forecasted that there is still some room for online shoppers' per capita consumption.

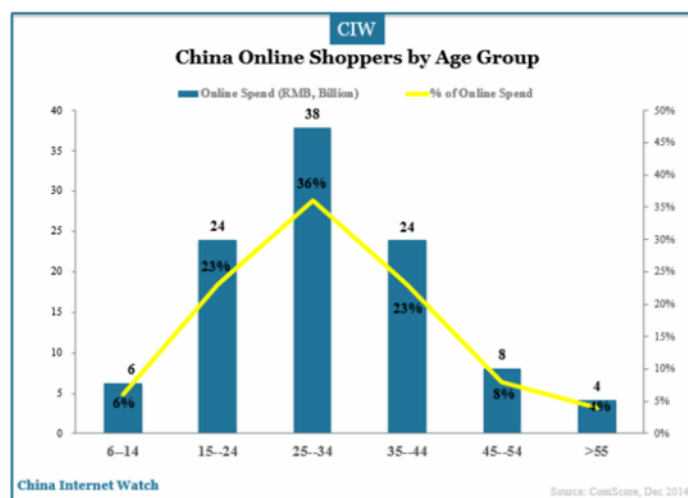


Figure 9 China Online Shoppers by Age Group

( source:<http://www.chinainternetwatch.com/15361/online-shopper-insight-2015/> )

### 2.2.3 Mobile shopping market surpassing the PC client

In correspondence with the global trend, Chinese online shoppers prefer mobile devices when they go shopping online. In Japan, the mobile shares of E-commerce transaction exceeded the pc client in Q1, 2015, and the online shoppers in China tried to keep up with the trends and developments and the mobile shares increased from 47.6% to 50.8% in Q2, 2015 (**Fig.10**). Also, the mobile shares will be expected to keep growing, considering the fact the mobile phone penetration rate in the rural areas is increasing. In addition, the promotion of Alipay brings convenience to the customers and it greatly helps the sales in Taobao. When the online shopper hopes to buy something on its website, all he or she has to do is to take out the phone and click the ‘purchase’ button on the screen. In this case, the whole purchasing process will take less than one minute, which improves the customer experience.

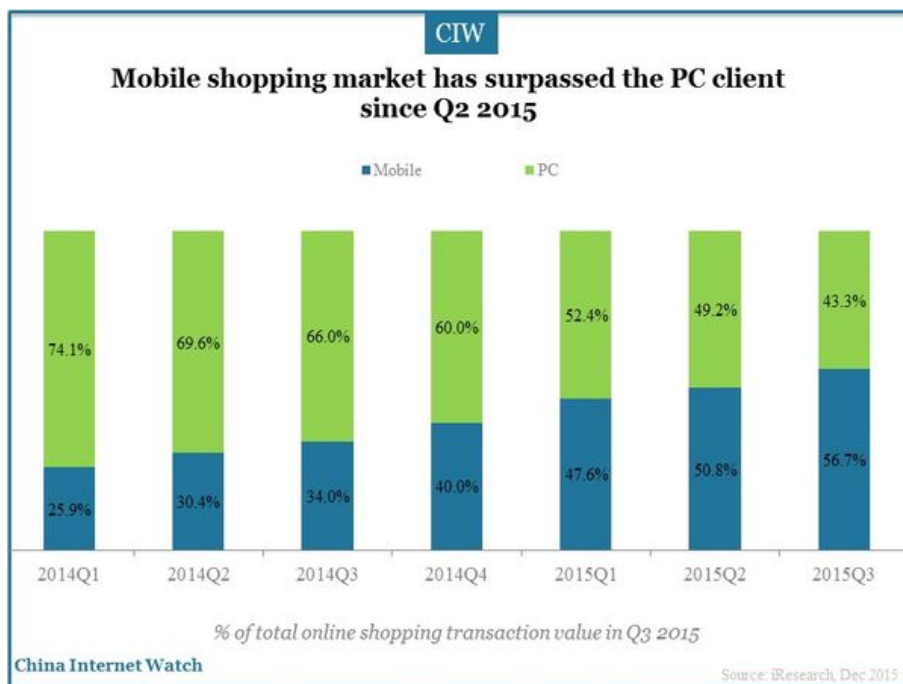


Figure 10 Mobile Shopping Market vs PC Client

(source: <http://www.chinainternetwatch.com/16540/mobile-online-shopping-q3-2015/>)

Some analysts might argue that even if the online shoppers are transferring to use mobile devices, will they spend the amount of money they would do via PC client? Are they afraid of the security issue? The fact is that, the number of mobile shopper increases dramatically, and the amount of money they spend via mobile phone increases too.

As mentioned above, 2014 was a watershed year. According to the report made by iResearch on December 2015, the transaction value of mobile online shopping market in Q1 2014 was 13.51 billion yuan in China, and amazingly the amount almost doubled in Q3, 2014 and it reached 38.02 billion yuan in Q4, 2014. What's more, in 2015 the amount kept increasing and in Q3 2015 it reached 52 billion yuan (**Fig.11**). The growth rate kept at a 30% standard in two years, which was unpredictable for the outside investors.



Figure 11 Mobile Shopping Transaction Sales and Growth Rate  
 (source:<http://www.chinainternetwatch.com/15361/online-shopper-insight-2015/>)

#### **2.2.4 Urban versus rural**

It is reasonable that people in urban areas would spend more than people living in rural areas, considering that the income gap between the two areas could be huge. Top 10 provinces with the highest average online shopping spends on Taobao are Shanghai, Zhejiang, Jiangsu, Fujian, Guangdong, Xinjiang, Sichuan, Tianjin, Beijing and Liaoning according to Taobao based on data from October 2014 to September 2015. Provinces with the lowest average spends are Gansu, Qinghai and Tibet. (2016)

Among them, Jiangsu, Zhejiang and Shanghai in total account for 15% national delivery packages on Double 11 shopping festival (or single-day festival) in 2015. The reason behind this situation was that in most cases, online shoppers living in these areas don't have to pay for the shipping fee and the sellers will cover the expense. It looks like a promotion method, but it seems to be a tradition and or a rule on Taobao. Also, these provinces could be called the most advanced provinces in China, with the most GDP contribution.

However, recently the biggest online shopping companies are trying to transfer its business focus from urban areas to rural areas. Accordingly, the logistic companies are setting the warehouses in the west areas in China, hoping the orders from these areas would increase. Actually, the traditional commerce in some north-west areas was not as developed as east areas, so people living there would rely heavily on the online channel for buying daily supplies. In 2013, the number of online shopping users in rural areas was around 45 million while it increased to 60 million in 2014 (**Fig.12**), and the number is expected to increase to 85 million in 2016. Since the demand for the



online shopping channel is huge in rural areas, such companies as Amazon could consider to move its business focus to the areas.

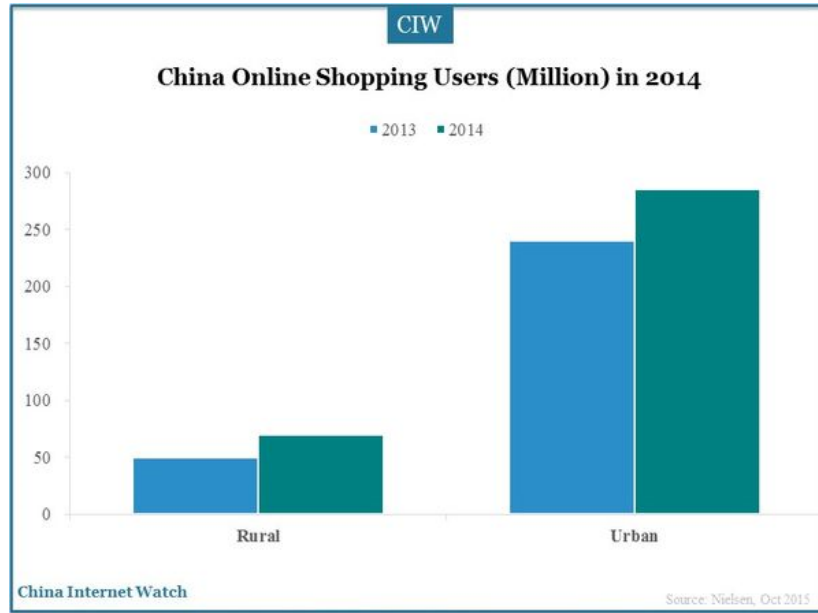


Figure 12 China Online Shopping Users (million) in 2014  
(source:<http://www.chinainternetwatch.com/15361/online-shopper-insight-2015/>)

### 2.2.5 The Chinese E-business giant: Alibaba

Taobao is an E-business platform created by Alibaba group in 2003, and Alibaba went public in 2014, with a \$68 per share initial price. Its success in Chinese market and future strategy in internationalization helped it attract many foreign investors and they really held a positive attitude towards Alibaba's future performance in the global market. As a result, the price per share increased by 38.07% on the first transaction day and therefore the price per share became \$93.89. This IPO helped Alibaba gain more than \$21 billion capitals, which became the biggest IPO case in US (Fig.13).

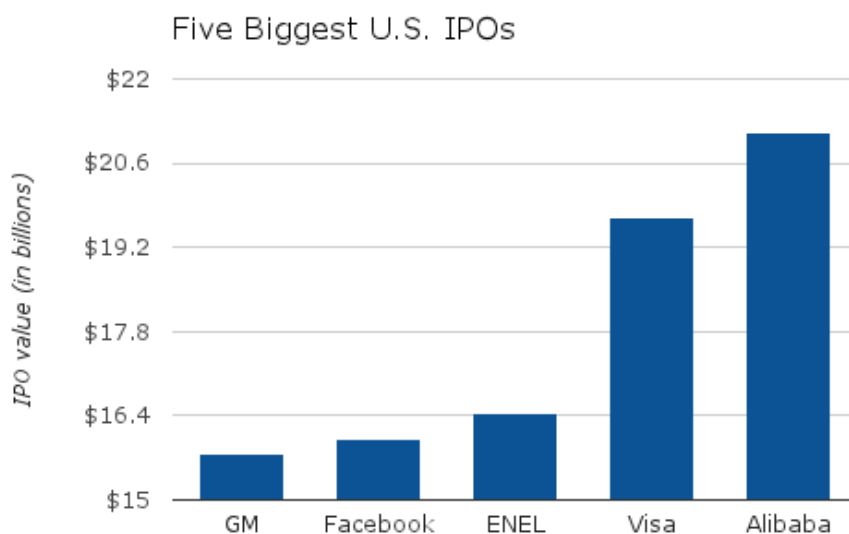


Figure 13 Five Biggest U.S. IPOs

(source: <http://www.hotstockmarket.com/t/279404/baba-alibaba/20>)

Considering the fact that the Chinese E-business market will surpass \$1trillion in the near future, Alibaba's 57% market share in the current market would help bring in a huge amount of capitals, which helps Alibaba invest more on different business areas and improve its growths. Unlike Amazon, Taobao mainly serves as a platform for dealers and buyers, and it does not sell goods under its brand, while Amazon itself owns the products and services under Amazon's brand, such as Kindle and Amazon Website Service (AWS). However, as one of the oldest E-business platform, Taobao succeeded in dominating the local market by providing cheaper price, diversified categories, and localized website design. Taobao's business mainly relies on customer to customer (C2C) area and it accounted for 95% in the C2C market (2015) while its business to customer area (B2C) accounted for only 58% in the B2C market (**Fig.14**). Because of its dominating position in the local market, outsiders would find it quite difficult to compete with Taobao.

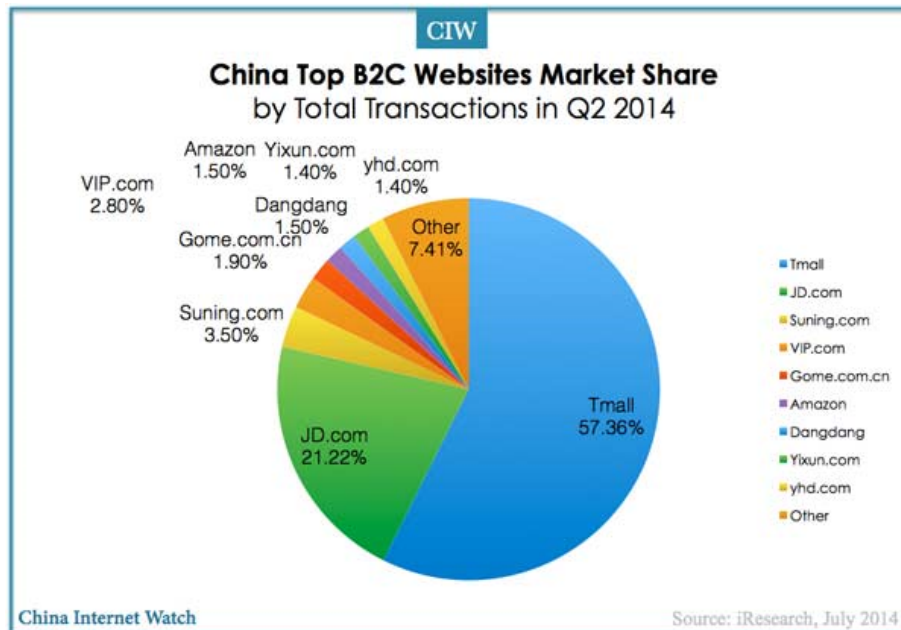


Figure 14 China Top B2C Websites Market Share  
 (source: <http://www.chinainternetwatch.com/8021/b2c-q2-2014/>)

However, Taobao is not really unbeatable. Chinese analysts and customers have been discussing about one problem for a long time: counterfeit products. In 2015, Alibaba had gotten criticism from China’s regulatory authority SAIC (State Administration for Industry and Commerce) for not doing enough to curtail illegal activities on its Taobao marketplace, and customers have been worrying about buying counterfeit products from the sellers online. Since the platform mainly provides C2C business service, and there are around 7 million sellers on the platform now, it is really difficult for Taobao to manage all the sellers and clear all the counterfeit. In this case, it is easy for Taobao to get involved into lawsuit issues regarding counterfeiting or trademark. If this situation keeps going in the future, the customers may not trust the shopping website anymore and Taobao would probably encounter with more lawsuits and therefore this company has to put much effort and money to deal with it.

In addition to that, it should be noticed that the Chinese E-business market has a trend to focus more on B2C market rather than C2C market. In 2010, C2C part accounted for 86.3% of the total

online shopping area while B2C part accounted for only 13.7%. Since then, the share of C2C part has been decreasing and in 2017 it would be expected to decrease to 47.3% in 2017. On the other hand, regarding the B2C market, the share will be expected to increase to 52.7%, which means that B2C market would probably surpass C2C and therefore it would become the main business segment in the market (Fig.15). However, it may not be a good news for Taobao. Since it mainly focuses on C2C segment, B2C segment might be a weakness for Taobao and transferring from C2C to B2C can be costly and low-efficient. As a result, the total market share of Taobao in Chinese E-business market could drop dramatically in the future due to its ‘C2C burden’ and there might be some opportunities for other E-business companies to gain more shares by following this trend and moving faster.

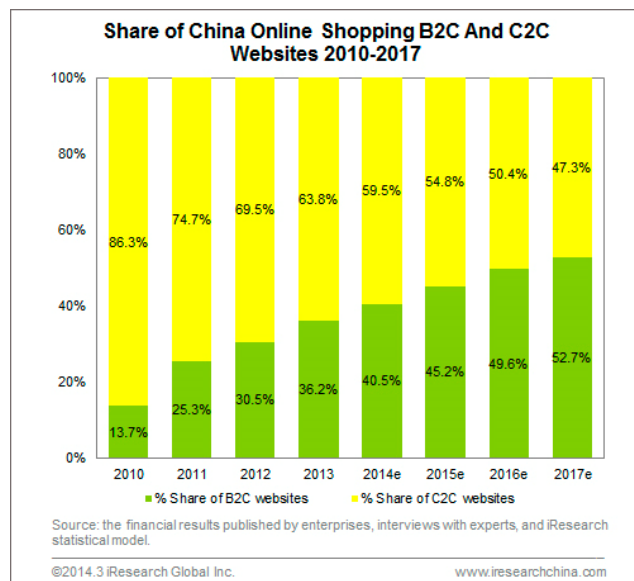


Figure 15 Share of China Online Shopping B2C and C2C Websites 2010-2017  
(source: <http://www2.alizila.com/chinas-b2c-market-grew-65-percent-2013-charts>)

### **3. Review of the current situation of Amazon China**

Starting as an online book seller in 1994, Amazon has been through ups and downs in US and finally it became one of the most famous online shopping website in the world. Generally speaking, Amazon is well-known as a book seller. However, recently it prefers to call itself a ‘technology company’, because Jeff Bezos, the founder and CEO of Amazon.com, insists that the core values of Amazon are ‘customer satisfaction’ and ‘innovation’, and therefore he keeps seeking more opportunities to satisfy its customers and selling books alone could not meet the requirements. As a result, in 2007 Amazon launched its Amazon Website Service (AWS), which provides such services as servers-renting, consulting, etc. In addition, Amazon started to sell its own electrical devices in 2007, and the sales of Kindle and fire phone take up a large proportion of the whole sales revenue. Because of the constant effort by the whole company, the market capitalization increases to \$150 billion in 2014. **(Fig.16)**

In order to expand its business border and globalize its brand, Amazon acquired Joyo.com, who used to be the main online book dealer in China, with the investment of \$75 million in 2004. However, although Amazon hoped to make up for the losses in global market by making more profits in Chinese market, as an outsider, it actually failed to ‘steal’ the market shares from such competitors as Taobao and Jingdong, and the market share has been below 2% for a few years. Since Amazon’s financial statement only reveals the sales of international segment rather than Chinese ones, the thesis assumes the transaction volume to be 30 trillion RMB and the market share of Amazon to be 0.9% based on the report by IResearch (2015), and therefore the sales of Amazon

China are expected to be \$4.5 billion and it may account for 10% of the international sales. In this case, considering the huge transaction volume in Chinese market, if Amazon China could succeed in increase its market shares to around 5%, it might greatly contribute to the international sales and more profits could be earned.

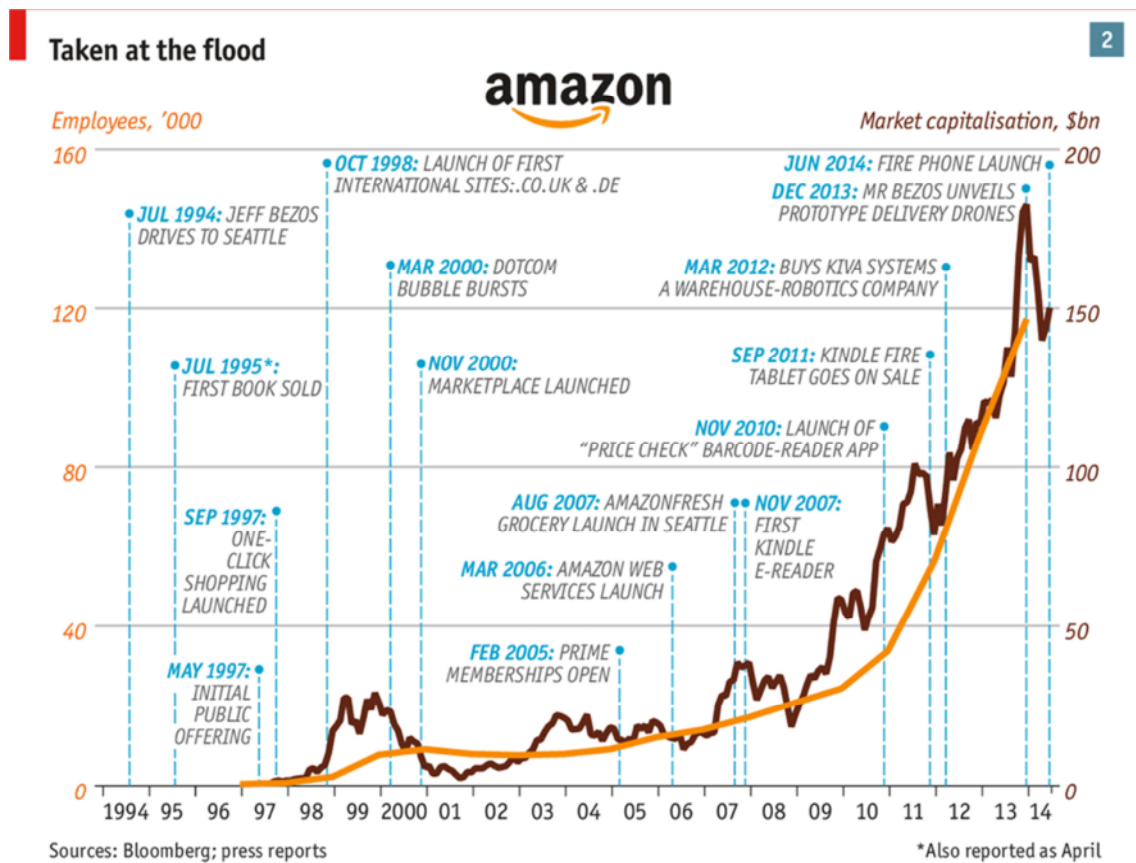


Figure 16 Timeline of Amazon

(source:

<http://www.economist.com/news/briefing/21604559-20-amazon-bulking-up-it-notyetslowing-down-releantlesscom>)

### **3.1 Online shopping trend on Amazon China**

Amazon China will release the online shopping trends every year so that it could follow the trends and set strategies. In general, it concluded the trends from the perspective of aging, geography, product category, and shopping time. Since the E-commerce still takes up the largest part of the revenue, focusing on the shopping trend could be essential. And in the next chapter, the thesis will try to find the opportunities to gain more profits in Chinese market, based on the current shopping trend in China.

#### **3.1.1 Customers are younger and more well-educated**

As mentioned above, the number of customer aging below 35 accounts for 65% of the total ones in Chinese E-business market, while on Amazon, the number of customers aging below 35 accounts for more than 80% of the total ones, and customers aging below 25% takes up 35%. In addition, in terms of education level, people holding bachelor degree or above takes up more than 90% of the total ones. The situation is quite unique and special, because it means that well-educated customers are willing to shop on Amazon. Although it is hard to collect the relevant data of Taobao due to the large base, it still can be concluded that Amazon could be really attractive to well-educated people. The situation might be explained by the fact that Amazon is famous for selling such products as book, game, video and other digital goods, which are more favored by well-educated people.

### **3.1.2 Online shopping penetration rate is increasing**

Although such first-tier cities as Beijing, Shanghai, Guangzhou and Shenzhen contribute greatly to the total sales in China, the sales from second-tier and third tier cities contribute even greater and the sales account for 65% of the total amount. In addition, the fastest growing comes from Nanjing, Suzhou, Jinan, Hefei and Kunming, and north area contributes more than south area does.

As mentioned above, the biggest online shopping companies are trying to transfer its business focus from urban areas to rural areas. Therefore, it could be expected that the third-tier cities or even fourth-tier cities would be business focuses for Amazon.

### **3.1.3 Desired products are diversified and internationalized**

According to the White Paper by Amazon (2016), imported products become the customers' new favorites. For example, the sales of imported wine have increased by 6 times in 2015 compared to that in 2014, and the sales of fresh food have increased by 5.5 times. Among the 'top 100 favorite food' list, the number of imported food accounts for 47%, and 70% of the 'top 100 fresh food' come from overseas areas. What's more, regarding the wine part, more than 60 types come from countries other than China.

In addition, 'the eight best-selling categories on Amazon China in 2014 were alcoholic beverages, Kindle and accessories, musical instruments, pet products, foods, sports & outdoors and shoes as well as personal care. Five out of eight categories are new on the list', said by RetailAnalysis (2015).



Compared to the same products sold on Taobao, the price of the products sold on Amazon are higher and the customers have to pay for the shipping fee. However, the customers seem to prefer Amazon when they want to buy these categories, and maybe it could be explained by the fact that Amazon is an international brand and it could be trusted when it comes to imported goods. Amazon has overseen this situation and it starts the business so that customers could be able to buy products from overseas websites.

#### **3.1.4 Mobile shopping are becoming the mainstream**

It could be predictable that customers start to use mobile device to go shopping online. Also, it should be noticed that the peak shopping time are from 11am to 1pm and from 8pm and 11pm, and the sales during these periods account for 40% of the total sales. It is an interesting finding because from the data it could be found that customers start to go shopping in leisure time. In addition, the traffic coming from new social media increases by 35% and the sales amount increases by 81%.

#### **3.2 A response to the Chinese market by Amazon**

It has been more than a decade since Amazon entered Chinese market. During this period, Amazon has done much efforts to attract the local customers. However, after the 'honeymoon period', Amazon started to struggle and tried to survive under the pressure from local competitors like Taobao and Jingdong. Generally speaking, the localization process has been slow from the very beginning due to the conservative management style, but after 2010, when everyone realized how

big the Chinese E-business market could be, every company hoped to adjust itself to the local market, and so was Amazon.

For Amazon, a company started as an online book seller, it relies on its media (books, dvds, and music) for making revenue (Fig.17). And as time goes by, when Amazon has developed itself to a certain level, third party sellers start to sell their products on Amazon, and the electronics and general merchandise take up the largest proportion in the total sales. In 2015, the net income of this part accounted for more than 70% of the total incomes, and the Amazon Website Service owned the largest margin. In order to give a brief introduction of Amazon’s strategies, some examples will be referred and analyzed.



Figure 17 Amazon’s Business Segments and Sales Revenue

(source:[http://www.trefis.com/stock/amzn/model/trefis?easyAccessToken=PROVIDER\\_c0f663352356827f87091d2164ed90f2cc253a52&from=widget:forecast](http://www.trefis.com/stock/amzn/model/trefis?easyAccessToken=PROVIDER_c0f663352356827f87091d2164ed90f2cc253a52&from=widget:forecast))

### 3.2.1 Kindle unlimited service

In order to boost its media sales in China, Amazon started to open a new subscription service that offers all-you-can-read books for 12 yuan per month in 2016. For now, more than 40,000 Chinese books and 3,500 foreign books are available for the readers, and the number is expected to increase in the near future.

Kindle is a digital book reader found by Amazon and it has been put on Chinese market in 2013, and the e-book shop store was opened at the end of 2012. Since then, the number of readers who are willing to pay for contents has increased by 37 times by the end of 2015. Actually Chinese book industry has been strongly damaged by the pirated book and copyright issues, and most customers are not willing to pay for the books they want to read. Under this circumstance, Amazon released its digital book reader at a relatively low price and hoped to change the traditional thought. Compared with other book reader at that time, the price of Kindle was quite cheap and Amazon did not expect to make a profit from the very beginning. On the contrary, Amazon hoped to make some profits from the digital books it sold on its online store, which accounted for around 17% of the total profits.

However, will this unlimited service be effective in China? Since this service is relatively new in China, it might be better to research the result in US market. Josh Centers (2014) once did a research on how many books are available for the service subscribers, and tried to compare it to Oyster, Scribd and the overdrive at private library (**Fig.18**).

| Title   | OverDrive  | Kindle Unlimited | Oyster | Scribd | Kindle Purchase Price |
|---|------------|------------------|--------|--------|-----------------------|
| <i>50 Shades of Grey</i>                                    | No         | No               | No     | No     | \$4.99                |
| <i>American Gods</i>  | Yes (hold) | No               | Yes    | Yes    | \$4.99                |
| <i>An Object of Beauty</i>                                  | No         | No               | No     | No     | \$9.99                |
| <i>Capital in the Twenty-First Century</i>                  | No         | Yes              | No     | No     | \$21.99               |
| <i>Creativity Inc</i>                                       | Yes (hold) | No               | No     | No     | \$11.84               |
| <i>Diamonds Are Forever</i>                                 | No         | Yes              | No     | No     | \$7.99                |
| <i>Dodsworth in London</i>                                  | No         | No               | No     | No     | \$3.70                |
| <i>Fear and Loathing in Las Vegas</i>                       | No         | No               | No     | No     | \$7.99                |
| <i>Flow: The Psychology of Optimal Experience</i>           | No         | No               | No     | Yes    | \$8.99                |
| <i>Garlic and Sapphires</i>                                 | Yes        | No               | No     | No     | \$11.34               |
| <i>Harry Potter and the Sorcerer's Stone</i>                | Yes (hold) | Yes              | No     | No     | \$5.99                |
| <i>Iceland Defrosted</i>                                    | No         | No               | Yes    | Yes    | \$6.99                |
| <i>Neuromancer</i>  | Yes (hold) | No               | No     | No     | \$6.83                |
| <i>Orange is the New Black: My Year in a Women's Prison</i> | Yes (hold) | No               | No     | No     | \$5.99                |
| <i>Packing for Mars</i>                                     | No         | No               | No     | No     | \$9.99                |
| <i>Rendezvous with Rama</i>                                 | No         | Yes              | Yes    | Yes    | \$5.69                |
| <i>Slaughterhouse-Five</i>                                  | Yes (hold) | Yes              | Yes    | Yes    | \$4.83                |
| <i>Slaying the Badger</i>                                   | No         | No               | No     | No     | \$10.85               |
| <i>Socceromics</i>  | No         | No               | Yes    | No     | \$2.99                |
| <i>Speaker for the Dead</i>                                 | No         | No               | No     | No     | \$4.59                |
| <i>Steve Jobs</i>   | Yes (hold) | No               | Yes    | Yes    | \$6.99                |
| <i>The Beekeeper's Apprentice</i>                           | No         | No               | No     | No     | \$7.99                |
| <i>The Eye of the World</i>                                 | No         | No               | No     | No     | \$4.99                |
| <i>The Hunger Games</i>                                     | Yes (hold) | Yes              | No     | No     | \$4.99                |
| <i>The Lies of Locke Lamora</i>                             | Yes (hold) | No               | No     | No     | \$4.59                |
| <i>The Omnivore's Dilemma</i>                               | Yes        | No               | No     | No     | \$8.99                |
| <i>The Rook</i>   | No         | No               | No     | Yes    | \$9.99                |
| <i>The Sun Also Rises</i>                                   | Yes (hold) | No               | Yes    | Yes    | \$8.06                |
| <i>Young Men and Fire</i>                                   | No         | No               | No     | No     | \$9.99                |
| <i>Zealot: The Life and Times of Jesus of Nazareth</i>      | Yes        | No               | No     | No     | \$6.99                |

Figure 18 Books Available on Each Booksellers  
(<http://tidbits.com/static/html/TidBITS-1234.html>)

30 books with different ages and themes are listed for researching. Judging from the result, it is clear to find out that 6 out of the 30 books are available if the subscriber uses kindle unlimited service, while 7 books could be found by using Oyster and 8 are available by using Scribd. In addition, from the financial perspective, the value of all the books found on kindle unlimited would be \$51.48, while that found on Oyster is \$40.54 and that found on Scribd is \$56.53. In conclusion, considering that the subscription fee is \$9.99 per month, if one thinks he or she could finish reading more than 5 books within a month, it worth the money. On the other hand, if only 3 or less books could be finished within a month, it does not worth it.

The situation could be similar in Chinese market. Since it is a new service and currently the number of books available is limited, plus that Chinese customers are quite cautious and conservative when it comes to pay for reading, it might take some time for the new business to attract more customers and make an influence in the local market.

### **3.2.2 ‘Cross-border purchasing’ service**

For Chinese customers, Amazon has been seen as an outsider and therefore products from the outside area could be quite attractive. Before Amazon starts the business, customers have to look for overseas purchasing agents on Taobao if they want some foreign brands, but on the other hand they also worry about the quality and cost of the product.

After the Free Trading Area (FTA) has been built up by the Chinese government in Shanghai, Amazon China decided to open its cross-border purchasing business so that customers could directly purchase the products sold on its US websites and Amazon would be responsible for the logistic part. In order to ensure the efficiency and quality of the business strategy, on one hand Amazon would firstly ship the goods from US market and then store its products into the warehouse in FTA and when the customers make the orders, Amazon would send them to the customers by the domestic logistic system. On the other hand, local customers would be able to check the US Amazon website and make orders from it. After that, Amazon would be responsible for shipping the goods from overseas and sending the products to the customers.

According to 100ec.com (2014), the transaction volume of Chinese ‘cross-border purchasing’ market will be expected to grow to 1 trillion RMB in 2018 and 35.6 million customers will be involved into this new business segment. In this case, a lot of local E-business companies are trying to expand their business to this area. For example, Alibaba released its ‘Tianmao International’ website, which mainly aimed at oversea products, Jingdong also opened its oversea purchasing channel, and Suning started its global purchasing activity recently. However, almost all of these Chinese website purchase the products from the wholesalers or local distributors, while Amazon’s products come from the oversea plants or are bought at the original place. As a result, the quality of the products could be guaranteed and the brand might be trusted, and the deliver days would be shortened to 6 to 8 days, which is beyond customers’ expectation.

However, on the other hand, whether Amazon could succeed in integrating its resources in Chinese market and US market remains doubtful.

### **3.2.3 Official flagship store in Taobao**

In 2015, Amazon opened the official flagship store on Taobao, and the store mainly sold food, shoes toys, etc. For the outsiders, they might feel quite surprised and could not understand why Amazon would be willing to open its store on its competitor’s website. However, from Amazon’s perspective, it should be understandable.

For Amazon, the international section accounted for 48% of the total revenue in 2009, while it dropped to 38% in 2014, and it means that Amazon is losing this competitiveness on international

market. What is more, Amazon has been doing poorly in Chinese market and the market shares have been remaining at around 2%. In this case, for Amazon, whose first goal is to keep its footing rather than making the most profits, traffic would be essential. In this case, choosing Taobao, whose market shares are more than 50% in the local market, would be an efficient and effective way to increase the traffic and attract more customers to use Amazon's service. Also, it also helps localize its brand in China.

#### **4. SWOT analysis of Amazon China**

In the last few parts, the thesis aims at analyzing the characteristics of global and Chinese E-business market, hoping to find out the future trends of the E-business market. Some characteristics in Chinese E-business market are quite clear and easy to follow, while whether Amazon, the global E-business giant, is really ready to fight in this competitive market remains a question. That is to say, is Amazon really eligible for taking a piece this 'big cake'?

To answer this question, the thesis tries to adopt the SWOT (strength, weakness, opportunity and threat) analysis to evaluate the current Amazon China and hopes to give some feasible solutions to deal with the current dilemma in Chinese market.

##### **4.1 Amazon's strengths in Chinese market**

As an outsider who is the industry leader in US market, Amazon has gain this advantages in recent decades by its great innovation and customer-focus strategy. For example, Amazon is holding huge amounts of capitals and therefore Amazon is able to invest in different areas to expand its

business border. Also, in order to ensure the efficiency and accuracy of its business, Amazon has its self-support logistics and it invests a huge amount of money to build the logistic system which includes the warehouse and the automatic logistic machine, etc. What's more, as mentioned above, Amazon started its business as an online book seller and the media segment is still taking up about 20% of the total revenue. In the recently 20 years, Amazon has successfully made it a trustworthy book dealer and it has become the first choice when the customers are trying to buy the books online. Lastly, Amazon takes advantages of its global resources and it provides cross-border business which greatly attracts the local customers, and Chinese customers could be able to not only buy the goods from overseas but also open their own shops on the global Amazon websites so that they could sell their own goods to the global market. From that, Amazon could increase its brand reputation and sales revenue.

When Amazon entered Chinese market, these strengths should also be utilized to maximize its market share in the local market, but these features are not fully realized and utilized for now.

#### **4.1.1 A large capital accumulation**

Since Amazon went public on 15<sup>th</sup> May 1997 with an initial stock price of \$18 per share, it has gained great capitals from the market. Also, Jeff Bezos, the CEO of Amazon, kept in mind that the core value of this company was to satisfy its customers with innovation and thoughtful services. Therefore, in order to maintain its competitiveness and expand its business border, Amazon spent most of its revenue investing on different industries (**Fig.19**). According to its financial statement in 2015, the sales revenue increased from \$89 billion to \$107 billion while the net income after all the



expense was only \$596 million. That is to say, the profit rate was nearly 0. In this case, it is pretty clear that Amazon is willing to pay for maintaining its business and explore different areas.

| Price of selected acquisitions by Amazon from 1999 to 2014 |      |                   |
|--|------|-------------------|
| Company name   | Year | Price (\$million) |
| Zappos   | 2009 | 1200              |
| Twitch   | 2014 | 970               |
| KIVA Systems   | 2012 | 775               |
| Quidsi   | 2010 | 545               |
| Lovefilm   | 2011 | 312               |
| Audible  | 2008 | 300               |
| Alexa  | 1999 | 250               |
| Goodreads  | 2013 | 150               |
| Woot!  | 2010 | 110               |

Figure 19 Price of Selected Acquisitions by Amazon from 1999 to 2014  
(Data collected from the Internet)

Amazon has successfully entered different markets by acquiring several companies in US, and it has turned from a single book seller to a comprehensive Internet company. So, if Amazon really want to take a place on Chinese market, acquiring some competitive Chinese companies could be an option. By doing so, Amazon could get strong local human resource, which is very rare and hard to recruit in local market. Also, local channels and other resources become possible.

Interestingly, in 2014, Amazon invested \$20 million to Yummy 77, a fresh food seller in Shanghai. The purpose is pretty clear, and Amazon is aiming at Chinese fresh food market. This is an example to show the strength of Amazon. That is, if Amazon is willing to invest and increase its market share in China, it could afford to do it.

#### **4.1.2 High efficient fulfillment centers**

To ensure fast and accurate delivery, Amazon adopted its fulfillment network strategy. Therefore, a large proportion of the expenses come from different size and style of fulfillment centers. As of March, 2016, Amazon has been operating 154 different distribution infrastructure, which include 72 fulfillment centers and redistribution centers, 23 sortation centers, 59 prime now hubs and fresh delivery stations, and the total active square feet is more than 66,322,900. As a result, the total sales revenue of EGM (Electronics and General Merchandise), which are mostly distributed by Amazon logistic system, will be expected to be \$58.9 billion and account for more than 50% of the total revenue, and the fulfillment centers must contribute greatly to it.

Also, by adopting the FBA (Fulfillment By Amazon) service, Amazon could be able to partly offset its operating expense because the third party has to pay for the permission fee. To be specific, when the third party ships and stores its products at Amazon fulfillment center, they would be classified into different categories and stored safely. Then, if some customer buys the product on Amazon, the fulfillment center would be responsible for packing and shipping, and then the third party shipping company would take charge of the rest shipping job. In this case, when Amazon gets the permission fee from the third party seller, the strategy itself is helping Amazon gain some extra profits.

So, the same logistic model could be applied in Chinese market. If Amazon's logistic system could cover most of areas in China and run smoothly and efficiently, it would be able to expand its business and gain more sales revenue. For now, there are 16 fulfillment centers in China, with a total

area of 7,486,700 square feet. By doing so, Amazon might be able to copy its fulfillment model from US and expand its EGM business. Also, not only the physical building, but also the management experience and system are its strengths. For now, Amazon is operating 154 fulfillment infrastructure and trying to cover every corner of US, but it seldom makes mistakes and it could ship the products to the customers within 3 days. This accumulated management experience could also help Amazon maintain its logistic advantage and expand its business to farther areas.

#### **4.1.3 Accumulated media resources**

After 20 years' development, Amazon has grown to be one of the strongest E-business companies in the world, and therefore the brand has been popular all over the world. When asked 'what occurs in your mind when it comes to Amazon', most customers would respond automatically by saying 'it is a place for buying books'. Although for now Amazon is more like a technology company rather than an online-shopping one because it releases its website service and acquires a lot of companies from different industries, for customers Amazon is just a trustworthy brand for buying books.

The media segment is expected to account for around 15% of the total revenue for Amazon in 2016, and considering the huge potential in the Chinese media market, it should become an unnegligible weapon for Amazon. In 2012, when Amazon China opened its online digital bookstore, there were only 25,000 books available for customers, but in the next 3 years, Amazon started to take advantage of its accumulated book resources and a huge amount of Chinese digital books hit the shelves. As a result, the number of books available for customers have increased by 12 times and for

now there are around 300,000 digital books available to be chosen. In addition to that, a few years ago, the common fact was that customers were only able to read the paper book, and the digital books were only available 3 or 4 months later. That would be terrible for both the customers and the publishers because for those reader who prefer to read on digital devices, they could not read the book the first time, and it could be chance that they would be spoiled. But, in 2015, there were some cases that both the paper books and the digital books were published on Amazon at the same time, and it caused sensation. As a result, after the digital version was released, the good quality of the content might cause word-of-mouth effect among the readers and it help increase the sales of paper books. Also, those who preferred digital books and those who liked paper books might form a complementary relationship, so Amazon and publishers would be able to see a win-win situation in both digital market and paper market. It was caused by the huge resource advantage and only Amazon would be able to do it.

#### **4.1.4 Cross-border shopping business preparation**

As an outsider, it is understandable that Amazon might have some weaknesses in competing with the local players, such as the human resources or the supply chain. However, on the other hand, as an outsider, Amazon also has its natural advantages that could be fully taken in Chinese market. Among these, Amazon could be able to make some aggressive moves in the cross-border business, and it has already done it.

First of all, Amazon is on the way to become the its own shipping company, and Amazon China has earned its ocean shipping license. That is to say, Amazon is able to manage the shipping method,

paper work and other issues on their own in terms of global delivery. Basically speaking, shipping expenses are of a great burden for Amazon and according to its financial statement in 2015 the outbound shipping costs were \$11.54 billion while the shipping revenue was only \$6.52 billion. By using its own ocean shipping service, Amazon China would be able to save huge expenses and ensure the safe and efficient delivery when it comes to cross-border business. In comparison, for now such Chinese competitors as Jingdong and Suning also opened their cross-border business. However, they can only choose the third-party shipping companies such as EMS or Yamato, but the quality can not be ensured and there are cases that the delivered products are broken during the delivery process.

Secondly, Amazon provides diversified categories of products, and for now more than 2 million products from about 30,000 international brands are being sold on its Chinese website. Early on August 1995, when Amazon.com was just found by Jeff Bezos, customers from Beijing started to try cross-border shopping on its US website. After that, when Amazon opened its shopping website in Germany, UK, France, Japan, Canada, Italy and Spain, Chinese customers would follow its step and explored different products from different countries. That could be a fact to show how enthusiastic Chinese customers are when they do cross-border shopping on Amazon. So, Amazon did great preparation in terms of product categories, taking advantage of its global product bases and channels. As a result, in 2015, the amount of sales of its cross-border business is far more than the sum of the sales in the last 20 years, and its diversified categories greatly contributed to it.

## **4.2 Amazon's weaknesses in Chinese market**

It is never easy for an outsider to enter the local market, because the supply chain could be quite different, because such issues as cultural or political environment could be different, or simply because this company has not prepared for entering a different market itself yet. For Amazon, there are so many challenges to deal with. The whole business environment in US and China are quite different. Firstly, the customers in different countries have different purchasing preference and habits, and customers in US rely heavily on the retail shops while Chinese ones would like to do online shopping (2015). Also, due to the economy gap issue, customers in US and China would have their own budget and therefore shopping companies have to set proper categories to cater to their customers. In addition to that, how to localize and deal with the current competitors would be another issue, and it has to set its own network. All of these things could be significant when Amazon wants to enter Chinese market, and it is clear that Amazon has its own weaknesses.

### **4.2.1 Taobao's incomparable advantage of online traffic**

As mentioned above, Taobao takes up 57% of the E-business market in terms of transaction volume, and Amazon's market share is still below 2%. It could be partly explained by the fact that the gap of the number of active users between the two websites could be greatly huge (**Fig.20**). It should be noticed that it is not always the case that fewer numbers of active users would lead to lower sales revenue, and on the contrary if more traffic is perceived, more sales revenue could be expected. However, generally speaking, considering the purchasing power between the customers using

Amazon China and those using Taobao could be similar, Amazon China's weakness in the online traffic could be a problem that could not be neglected.

According to the public information on the official website of Amazon.com and Alibaba, the number of active buyers on Taobao and Amazon.com are listed and compared. It should be noticed that the data of active buyers on Amazon.com refers to the number of customers using Amazon.com rather than Amazon China because the number of users on Amazon China is untraceable. However, even when the total number is used to compare the number of active buyers on Taobao, it is clear that Taobao attracts more traffic. It is amazing to find that the number of active buyers on Taobao doubled from 2013 to 2015, and it mainly resulted from the mobile penetration in the E-business market and the whole economic environment. On the contrary, assuming the number of Chinese customers might account for 10% of the total one on Amazon, it could be concluded that the number of active buyers on Amazon China does not increase a lot in the recent three years, let alone the actual percentage could be much lower, considering that Amazon UK and Amazon Japan contribute larger to the international segment.

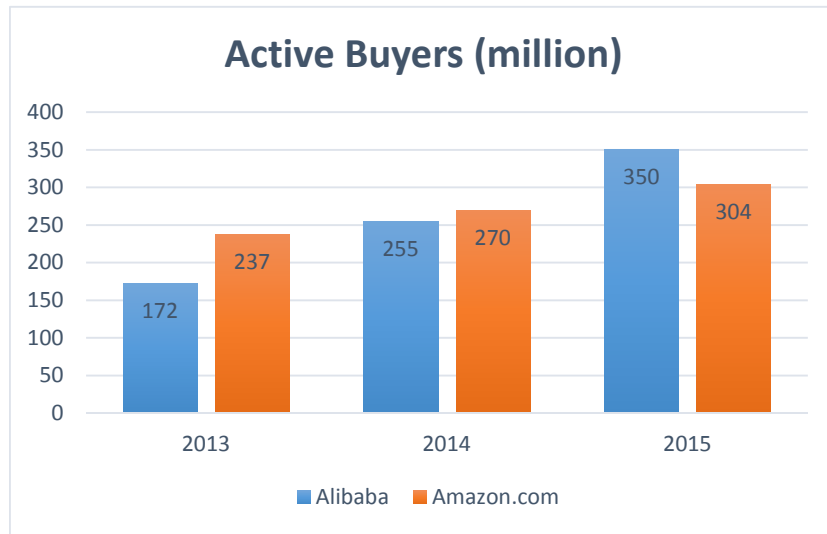


Figure 20 Number of Active Buyers of Alibaba and Amazon  
(Data collected from the Internet)

Some reasons could be used to explain this situation. First of all, Amazon is a late comer in Chinese market, and for Chinese customers they do not have the reasons to change their shopping habit, and it might even increase their shopping cost. To be specific, in most cases customers living in the Shanghai and Jiangsu areas do not have to pay for the shipping fees no matter how much money they would pay for the product and the sellers would cover the expense. It could be called a promotion method but Amazon does not provide this kind of service unless the customers are willing to pay for the ‘prime’ service or the value of the orders reaches a certain amount. Or, Alibaba actually provides its own payment application-Alipay, and customers could be able to use Alipay to pay for almost everything in China, such as taxi, oil expense, etc, and sometimes they would get some extra points which could be used as cash on Taobao. In this case, customers just do not want to give up the points they have on Taobao. Although Alipay could be used on Amazon, they need to create a new account and the points they get by purchasing on Taobao could not be used on Amazon. Secondly, Amazon China is actually quite quiet it seems that Amazon China does not make a lot investment on the public



promotion activities, and therefore the new customers do not even know the brand Amazon. Compared with Amazon China, Taobao is willing to make a huge investment on its campaign, and customers could be able to see different advertisement or information on the street or on the social media, for example, Taobao provides the 'red pocket' activity during the Chinese new year. Talking about Alipay again, it actually provides a social service and customers could be able to add their friends on Alipay and they could exchange their shopping experience and share the links they want to share, and Alipay provides a better way for communication. Compared with that, Amazon application only functions as a mobile shopping website but it does not act as a social application, and that could be a huge weakness at the moment, when the customers emphasize on the importance of communication and convenience.

Even Jingdong, another local E-business shopping website, reported a 58% increase in its number of active users, and in 2015 the number reached 100 million, which was far more than the number on Amazon, and that could partly explain why it could become the second largest online shopping mall in Chinese market. In this case, Amazon lacks competitiveness in its online traffic.

#### **4.2.2 Amazon's slow localization process**

When competing on the global market, how to make a balance between localization and internationalization is always an issue for a global player. That is to say, when one company enters the local market, whether the company should keep the core culture and working style or it should localize its product or service is something that the managers should be concerned about. If the subsidy is more like local style, the headquarter would endure the risk of losing the reputation of its

brand because the management style or service are totally different that in the headquarter. On the other side, if the headquarter insists that the design and management style of the local subsidy should be the same as that of the headquarter, the subsidy could fail to make a profit because the style using on one market may not be accepted on another one. Regarding this issue, it seems that the headquarter of Amazon reacts slowly and they prefer to keep the US style, which is hard for Chinese customers to accept.

For example, November 11st, or Chinese single's day, has become the most popular online shopping festival in China, and it was originally a promotion activity created by Alibaba. On November 11st, 2015, Alibaba made \$14.3 billion and Chinese customers have got used to spending more money shopping on that day because of the discounts. However, Amazon China still follow the headquarters' step and it seldom has localized promotion activity as Alibaba did. Even on single's day, when everyone knows it is time to shop online, Amazon China has no promotion events or discount actions. On the contrary, Amazon China holds its 'Black Friday' event and 4 million types of products from 27 categories on Amazon sites are available, and some discount coupons are given to customers if they are willing to buy more. According to XU Yvonne (2015), sales of Black Friday was nine times that of Single's Day, and the number of weekly new unique visitor increased by four times from a year ago. However, even Amazon is holding its own online shopping festival, it is not really helping Amazon China, because the effect of single's day is too huge to neglect, and both the single's day and Black Friday are on November while single's day is two weeks before the Black Friday. Generally speaking, Chinese customers are quite sensitive to the change of price and price

difference could be the first standard when they decide where to buy a certain product or service. In this case, most Chinese customers would prefer to purchase what they want on single's day to enjoy the huge discount and early delivery, and honestly they have no reason to wait for another two weeks to buy the same products while there is no big discount.

Customer's shopping experience could be another issue. There are third-party sellers on both Alibaba and Amazon and customers could be able to purchase the products by the third-party sellers. However, sometimes customers would have some concerns or questions when they want to buy a certain product. In this case, customers on Alibaba would be able to talk directly to the third-party sellers through Aliwangwang, an instant messaging application provided by Alibaba, while customers on Amazon could only send a message to the seller and wait for its reply. Since this conversation is not instant, the customer would just choose another product if his or her questions could not be answered. Also, the website design of Amazon China is basically the same as that of Amazon US, so the major colors are black and white, while the websites of Alibaba and Jingdong are more colorful, and it caters more to the local customers.

Since Amazon is an outsider whose headquarter locates in US, the whole decision-making process could be quite slow and delayed due to the business system. It has always been complained that when the local office wants to make a decision and have some actions, it must get the approval from the US headquarter, which means it might take weeks before it gets the approval. Also, at first Amazon decided to keep its US style when it entered Chinese market, and that was why it had Black Friday shopping festival and US-style website, etc. However, Amazon realized the US-style

operation method could not be applied in Chinese market, and that is why Amazon starts to take steps to localize its business. For example, it cooperated with Baidu, the search engine giant in China, to better promote its digital device, and it decided to operate its shopping malls under Alibaba's website. By these actions, Alibaba hopes to attract more traffic from the major websites and promote its brand name, even if it looks like Amazon has surrendered to Alibaba. But it is far from enough. When Walmart, the shopping giant in US market, entered Chinese market, it also lacked localized product portfolios because considering that customers at different areas would have their unique shopping demands, Walmart found it quite difficult to make unique portfolios for 117 cities in 25 provinces. As a result, Walmart suffered great losses and it decided to close 5 supermarkets in 2012, 15 in 2013 and 25 in 2014 at first-tier cities. In this case, knowing Walmart itself needed more localized service and products, it sought for alternatives in the local market. Finally, Walmart found that Chinese customers have a preference to make cross-border purchase in recent years, and it decided to provide localized cross-border service to cater to local customers, and therefore Walmart would become another direct competitor for Amazon, when the cross-border business would become the new business focus in Chinese market.

Under this circumstance, Amazon China also has to try harder to cater to local customers, and maybe celebrating the single's day could be a good start.

#### **4.2.3 Different attitudes to Email marketing promotion**

In US market, Amazon mainly relies on its individual email delivery for promotion. To be specific, Amazon would collect data of each customer and analyze its purchasing behavior and try to

figure out its shopping preference. After that, Amazon would send an individual Email, which mainly contains information about the similar products or services, to the customer and try to promote them. Also, when the customers visit Amazon.com, there will a program called ‘the things you might be interested’, and the customer would probably click and order it because it is exactly what he or she wants. Basically it works quite well in US market because the customers there are quite familiar with Email and it is said that there will be 216.6 million US email users, representing 89% of total Internet users, and 95% of online consumers use email (2014), Also, according to Forrester, 88% of B2C firms currently use Email marketing and another 10% planning to use before December 2011.

However, things are quite different in China. First of all, the Email usage rate in China is much lower. It was expected by BNP PARIBAS GROUP that the penetration rate of Email was below 60% while by contrast, the penetration rate of instant message was more than 85%. (2014) That is to say, the amount of potential target of Email marketing is less. What is worse, only 20% would open the Email and 5% click the link. That is to say, although the costs might be low when it uses Email marketing, the method is actually not as efficient as in US market. On the other hand, Taobao does not really focus on Email marketing, and it mainly focuses on the social media. It releases advertisement and product information on its social network site and cooperate with famous social media accounts to attract targeted customers. Those are two different marketing strategies, and it seems that Amazon is more good at Email marketing, using its big data resources. However, when it

comes to Chinese market, whether it would be a good method or not remains a question, and how to take advantage of the social media site and attract local customers is a problem.

### **4.3 Amazon's opportunities in Chinese market**

It seems that Amazon would suffer a nasty slump in Chinese market because of its own weakness and the whole E-business market in China, but it still has some opportunities, and if it could seize the opportunities, Amazon might be able to take an even bigger slice of Chinese market.

For example, the whole Chinese E-business market has a trend to transfer from C2C to B2C, while it could be a weakness for Taobao because the revenues mainly come from its C2C service, as analyzed above, and Amazon has been putting effort on its B2C segment for years. Also, online fresh food market is skyrocketing and it is expected that the market shares in 2015 will be 5 times that in 2011 (2015). It is a relatively new E-business segment and Amazon could utilize its strong warehouse and delivery strength to increase its market share in this area. What is more, considering that Chinese customers are more willing to read E-books and pay for it, Amazon could take advantage of its strong media resources and focus on its E-book part. Lastly, there are always a lot of complaints about the quality of products sold on Alibaba, and customers are worried that some products sold online are actually counterfeits. On the contrary, Amazon is always famous for its high quality. All of these facts could be the turning point for Amazon and even 1% increase in Chinese market would mean a lot, if the headquarter could understand how big the market could be.

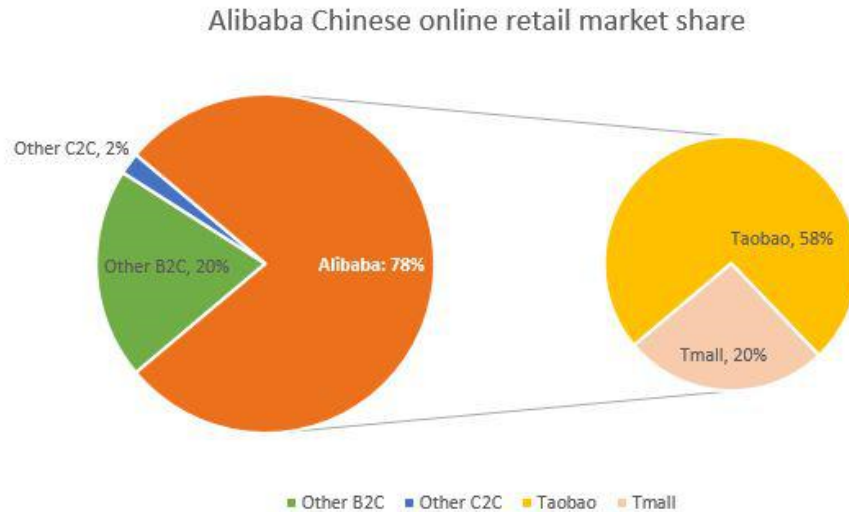
#### 4.3.1 the future trend: C2C to B2C

When the thesis discusses about Taobao' weakness, it has brought up that the market share of B2C is increasing since 2013 and it has surpassed the market of C2C market. Chinese online shopping market is becoming more mature and therefore customers' decision making would be greatly affected by the quality of the product and services. In this case, it would also accelerate the development of B2C market.

However, the Chinese online giant Taobao, mainly relies on its C2C platform and its B2C platform Tmall accounts for fewer sales revenues. According to the market research by IbisWorld, the total market shares of B2C and C2C of Alibaba accounts for 78% in Chinese market, while among the 78%, Taobao.com would account for 58% and its B2C website Tmall only accounts for 20% (**Fig.21**). Alibaba does not own its own brand and therefore it has no inventory warehouse and logistic service. In this case, it mainly serves as a 'mid man' between the seller and buyer, and the revenues mainly come from commission fees and advertisement. Considering the scale of its C2C coverage, it might tricky for Alibaba to react to this market trend. Although Alibaba also owns Tmall, a B2C online shopping, but for now there are only 140,000 sellers on Tmall, while the number of C2C sellers is exceeding 8 million.

On the other hand, although Amazon also has its C2C service, its own brand is much more popular and reliable for customers. In this case, it could be judged that Amazon is more experienced in managing business sellers and promoting them to the customers, and also, Amazon itself is a huge B2C service provider, and it has invested a huge amount of capital on its warehouse and logistic

system in China. That is to say, it is possible that Chinese customers would transfer its shopping location from Alibaba to Amazon, if Amazon gives them enough reason to do it. So it could be a huge opportunity.



Source: IbisWorld

Figure 21 Alibaba Chinese Online Retail Market Share  
(source: <http://seekingalpha.com/article/2784645-the-long-case-for-alibaba-group>)

### 4.3.2 Growing Chinese E-book Market

Amazon started its business as a book dealer. Its business area ranges from paper books to digital books as time goes by, and it released its own reading device- kindle. In US e-book market, among all the strong competitors such as Apple ibooks, Kobo, GooglePlay Books, Amazon has always been a major player, and in 2010 Amazon owned 54% of the digital books market in US while Nook had 26% and the Sony Reader Store had around 10%-12%. However, in 2012, Amazon increased its market share to 65% while Nook decreased to 20% and Kobo decreased to 8%. When it came to 2015, Amazon started to dominate the market and became the giant. According to the research on Goodereader (2015), Amazon.com had around 74% market share in the US E-book



market while the second player Apple iBooks had only 11% (Fig.22). In terms of revenue, the sales revenue from media segment has been stable and it accounts around 18% of the total revenue in 2015. Also, the sales from E-book part has been increasing, according to the data from Statista.com.

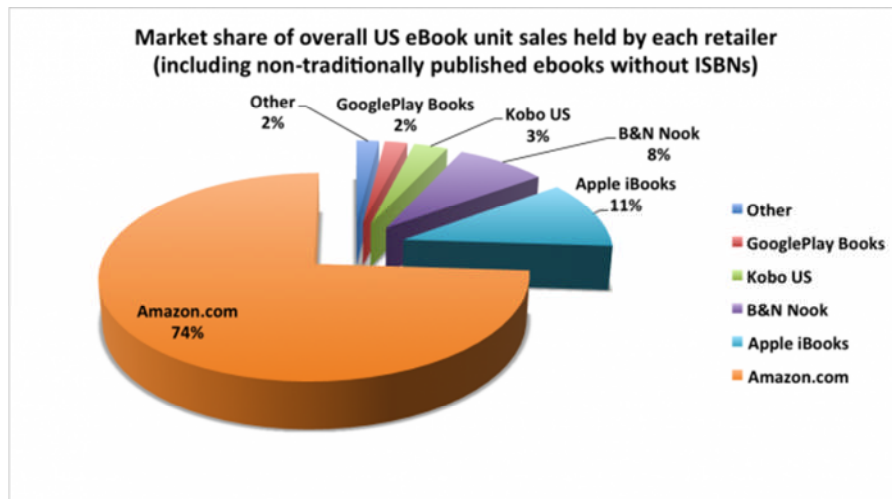


Figure 22 Market Share of Overall US Ebook Unit Sales Held by Each Retailer

(source:

<http://authorearnings.com/report/october-2015-apple-bn-kobo-and-google-a-look-at-the-rest-of-the-ebook-market/>)

However, when it comes to Chinese E-book market, situation is quite different and is tough. Chinese E-book market is still under development and actually it has a problem of deficient regulation from the government. Because of that, pirated books are quite popular in China, which means local customers could easily get the books they want with the least costs, and therefore it greatly affects the local publishers and sellers. On the other hand, Chinese customers did not have the habit of paying online for reading because they could just illegally download what they want from the Internet, which is also caused by the regulation problem. In this case, when Amazon China opened its online book shop and released its Kindle device on Chinese market, some analysts held a

negative attitude to it and argued that if the online bookstore could survive long enough, it might take 15-20 years for it to be profitable for Amazon China.

But the fact is that, since the government has paid great attention to the Intellectual Property (IP) issue, the amount of pirated book and other media has been greatly reduced and therefore Chinese customers could barely get access to the illegal resources. Also, with the development of individual revenue, Chinese customers could be able to spend more money on the entertainment, and they focus more on the quality and whole experience. As a result, they prefer to pay for the service, in order to get higher quality of experience. In terms of E-book market, in 2014 each Chinese would read 4.56 books per year. Although the amount is not comparable to that in Russia, where exists customers with the most amount, it still increases a lot, compared with that in 2013. In addition to that, for now 58.1% of Chinese prefer to read digital books rather than paper books, and each person would read 3.22 E-books in a year. What is more, they are willing to pay for it. On average, each person would like to spend 16.47 RMB buying E-books, which is a great progress. All of the facts are the evidences to show that the E-book market in China is becoming mature and well-managed, and more local players may enter this market to compete against Amazon.

Relying on its accumulated book resources and E-book reader, Amazon has been putting great effort to promote its bookstore service in Chinese market, and it hopes to dominate the local market, just as it did on US market. The performance was not optimistic in the recent years due to the whole market situation and regulation issue. However, thanks to the effort made by the government and to the change of purchasing concept, the situation has greatly improved. Customers are turning to the

copyrighted books, and they are willing to pay for it rather than download it from the Internet. Also, the local publishers realize the importance of E-book resources and they prefer to publish digital edition of books so that more resources could be found on Amazon's bookstore. Based on this situation, Amazon China wants to provide more services to attract customers. For example, Amazon China released a service called kindle unlimited. Customers have to pay for a monthly subscription fee of 12 RMB (\$2) so that they could be able to read more than 40,000 Chinese books and 3,500 English books for free. Compared to the price in UK or US, the expense is quite low and the amount of books available is still increasing. By doing this, Amazon China expects that more new readers would come to use its service and it would have incentives to manage the supply chain to gather more local resources.

Not only the E-book resource itself, but also the digital device could be the hot spot. Amazon's strategy is to trade the profit of E-books for that of kindle devices. That is to say, Amazon China is willing to sell its E-book resources even if it knows it is not a profitable business, but the customers must need an E-book reader so that they can read it. In this case, they should put more effort to promote its kindle devices, which is one of Amazon's flagship products. There are currently 4 types of kindle reader for Chinese market: kindle, kindle paperwhite, kindle voyage and kindle oasis. The purpose of putting 4 different types of E-book readers is to aim at all the customers with different demand because all types have different features, price and size. In 2015, kindle has been the hottest E-book reader in Chinese market.

The trend is still continuing. Since the E-book price on Amazon is quite low and sometimes much lower than the paper version, it could be expected that Chinese E-book readers would spend more on E-book itself and relative devices and therefore the E-book segment could contribute more to the whole sales revenue in Chinese market. For Amazon, it could be a great opportunity and how to respond to the market demand would be essential.

#### **4.3.3 The Last Cake on Chinese Online Market: Fresh Food Market**

Online fresh food business is always called the ‘last cake’ on Chinese online business. In the recent decade there are an increasing number of social issues regarding food security and customers are starting to focus more on the quality of daily food. Therefore, the online fresh food market starts to expand its scale. The first online fresh food dealer ‘Yiguo’ released its service on 2005 and five years later, the development of social media greatly improved the promotion method, which helped increase customers’ awareness. Since then, Chinese online business giants also wanted to enter its new market. For example, Jingdong Fresh Food went online in 2012, Baidu made an investment on ‘Womai’, a local fresh food dealer, in 2015, and Tmall also started to provide related service on 2013. That could be a clear evidence to show the market potential.

Chinese online fresh food market is a segment of the huge retailing industry, and the market scale could be hundreds billion RMB (iiMedia Research) (**Fig.23**), but on the other hand the penetration rate is still below 1%. In this case, the online fresh food market is relatively small in scale but large in potential. In addition to that, even there are more than 4,000 players in the local online fresh food market, only less than 50 companies are making a profit, and there is no giant in

this industry. That is to say, most of the current players are losing profits. That could be an opportunity for Amazon.

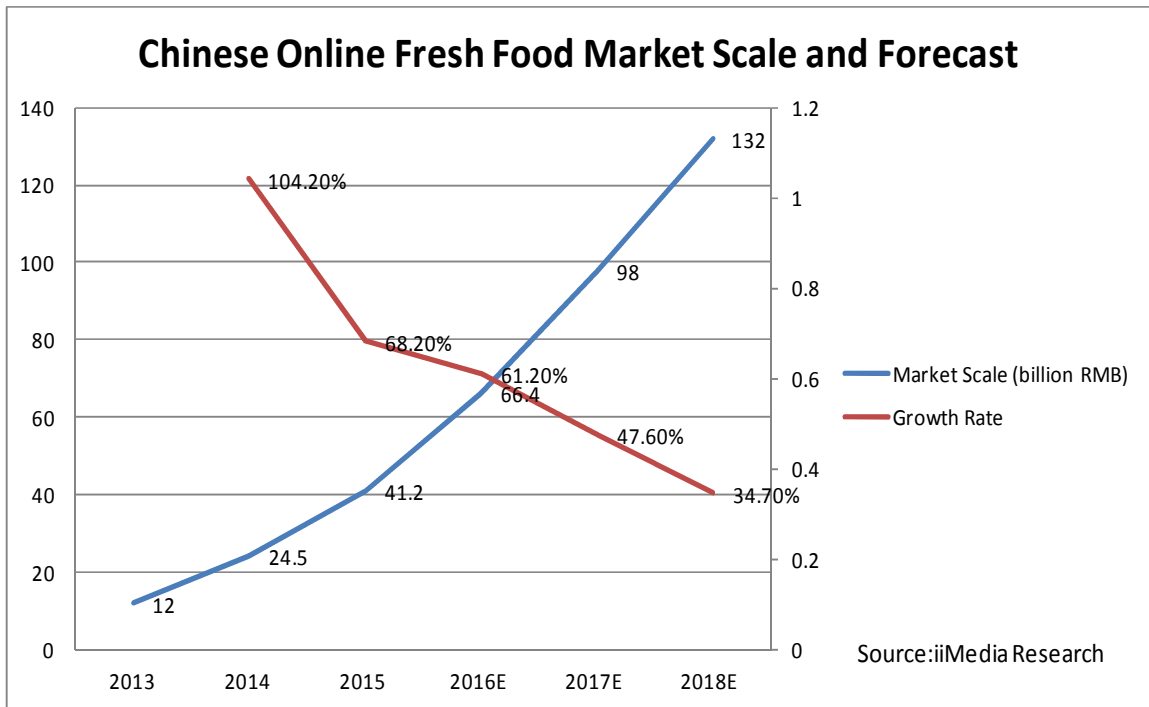


Figure 23 Chinese Online Fresh Food Market Scale and Forecast  
(Data gathered from iiMedia Research and made on my own)

In the current online fresh food industry, there are several types of players: comprehensive platform, vertical segments, online-offline supermarket, community O2O, etc. According to iiMedia Research, 42.5% of the customers would like to use big platforms, and 36.2% would like to choose vertical segments business service (**Fig.24**). For such platforms as Amazon, the strengths and weaknesses are quite clear. First of all, there could be a great number of users. Then, the payment systems are better and more secure. In addition to that, the brand itself could be another strength. But there could also be some weaknesses. For example, it is quite tough for the platforms to manage all the dealers with the same standard, and the quality and delivery logistic can not be guaranteed. For

most traditional customers, they might prefer online-offline supermarkets for buying fresh food. For these supermarkets, their locations are relatively closer to the distribution center, and they have cold storage warehouse, which helps guarantee the quality of food. Also, considering their experience in managing the supply chain, they should have a stable and great relationship with the suppliers. But on the other hand, regarding the financial issue, they would have extra delivery expense, human resource expense, and operation expense for maintaining the platform, which could be a great burden for them.

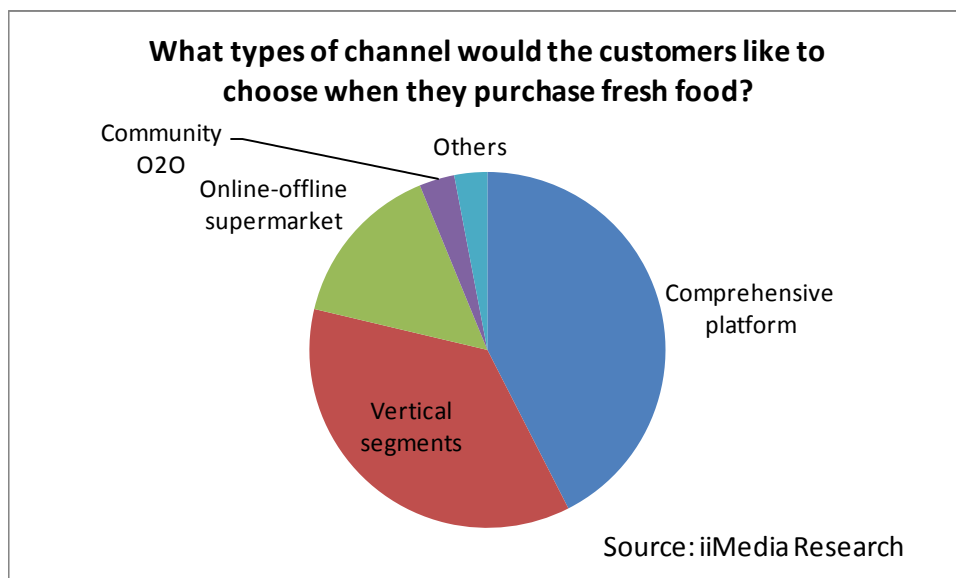


Figure 24 What Types of Channel Would the Customers Like to Choose When They Purchase Fresh Food  
 (http://ir.library.oregonstate.edu/xmlui/bitstream/handle/1957/20443/em8921.pdf)

When we take a closer look at the customer purchasing behavior analysis, there might be some opportunities for Amazon. According to a report regarding Chinese online fresh food market by iiMedia Research, around 90% of the customers have bachelor’s degree or higher educational level (Fig.25), and around 84% of the customers’ revenues range from 3,500 RMB to 10,000 RMB

(Fig.26). That is to say, customers who have relatively higher revenues and educational background are the majority of this market. In the meantime, as mentioned above, customers who prefer to shop at Amazon are also those with relatively higher salary and social status. In this case, it is very possible that if Amazon decides to allocate more capitals for expanding its fresh food business, those who purchase regular goods on Amazon could also be buyers of the fresh food. That is what is called ‘platform strength’.

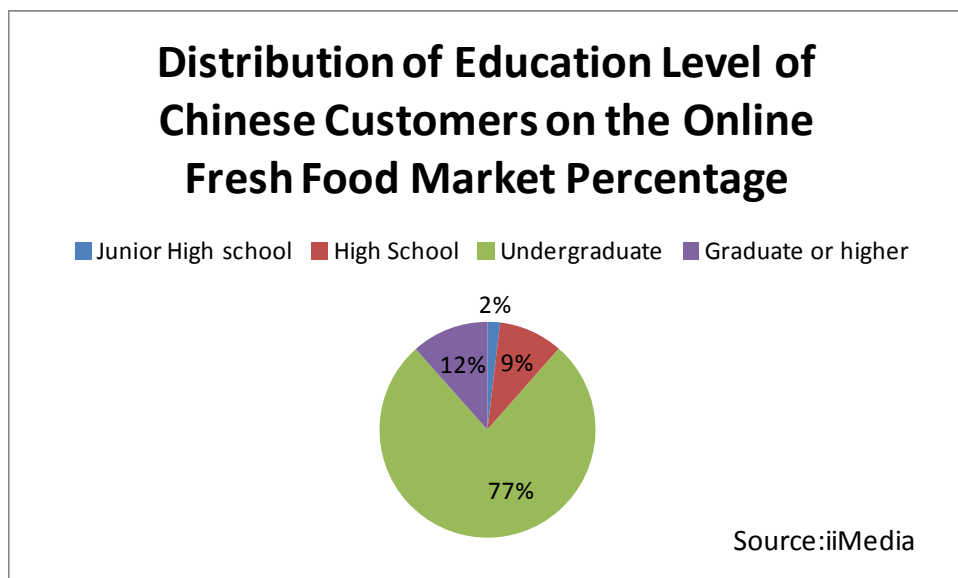


Figure 25 Distribution of Education Level of Chinese Customers on the Online Fresh Food Market Percentage

(source:[http://www.ccilc.pt/sites/default/files/eu\\_sme\\_centre\\_report\\_-\\_the\\_food\\_and\\_beverage\\_market\\_in\\_china\\_update\\_-\\_july\\_2015.pdf](http://www.ccilc.pt/sites/default/files/eu_sme_centre_report_-_the_food_and_beverage_market_in_china_update_-_july_2015.pdf))

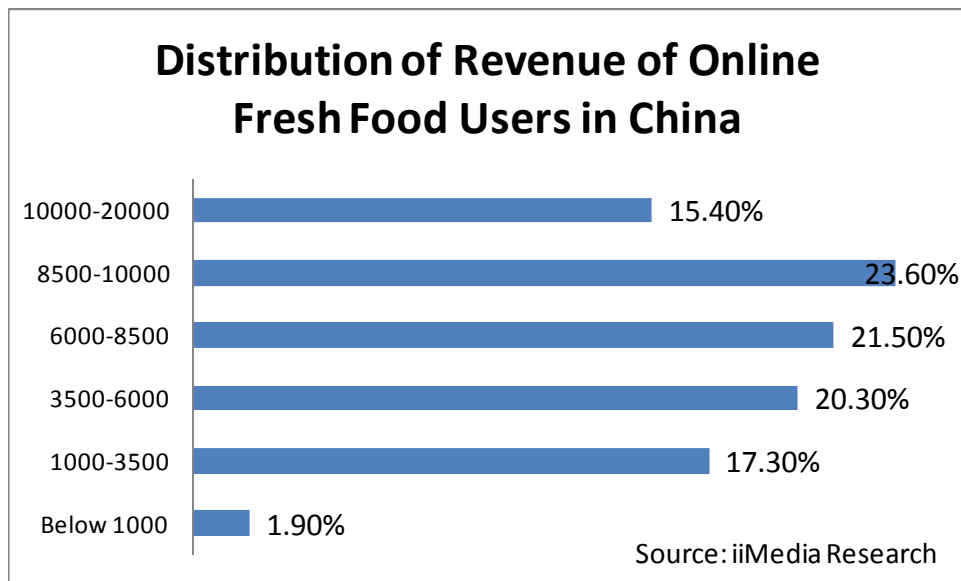


Figure 26 Distribution of Revenue of Online Fresh Food Users in China  
 (source:[http://www.ccilc.pt/sites/default/files/eu\\_sme\\_centre\\_report\\_-\\_the\\_food\\_and\\_beverage\\_market\\_in\\_china\\_update\\_-\\_july\\_2015.pdf](http://www.ccilc.pt/sites/default/files/eu_sme_centre_report_-_the_food_and_beverage_market_in_china_update_-_july_2015.pdf))

When asked why they would like to purchase fresh food online, there are some different reasons. According to a research done by iiMedia Research in 2015, 61.7% of the customers would take price issue into consideration, and they think there would be more discounts online, and/or the price of certain product is cheaper. Also, 42.6% of the customers feel it more convenient to shop online, 36.2% feel that more categories are available online, and 25.5% of the customers feel it more important to get access to imported products online. Also, in another research about how the customers choose the brand, 74.5% of the customers care the most about if the products would be delivered in time, 66% of the customers focus on the quality of the food. That is to say, if the food is really ‘fresh’, and 51.1% of the customers care about the price. In conclusion, price, convenience and diversity are the three driving forces for customers to choose online fresh food service. So,



Amazon could utilize its strong resource of in-time delivery service, cross-border business and pricing to expand its effect in this industry.

In terms of brand awareness, Amazon Fresh is relatively weak due to its delayed step. Such local players as JD Fresh, Tmall Fresh and Womai.com have the most brand awareness (**Fig.27**). But generally speaking comprehensive platforms are well known because of their accumulated user base and loyalty. The second place goes to the vertical firms, and most of them have transferred their business focus from offline to online one. However, in this industry, such factors as logistic ability, storage ability and food quality are the most important factors to win the competition, and these are the strengths of Amazon, because it owns large warehouses in China, cross-border resources to ensure the quality and capital bases to keep improving the quality. In this case, since most of the competitors are not making profits, the market has a great potential and Amazon has accumulated resource strength, it would be a great place for Amazon to break the ice and win the marketplace. Although in the next few years it is unlikely that Amazon could make a profit in this market, the main purpose should be to attract new customers, build brand awareness and prepare for further expansion. For Amazon, a company focusing more on the sustainability and brand effect, short-term profitability is always not in the first place, isn't it.

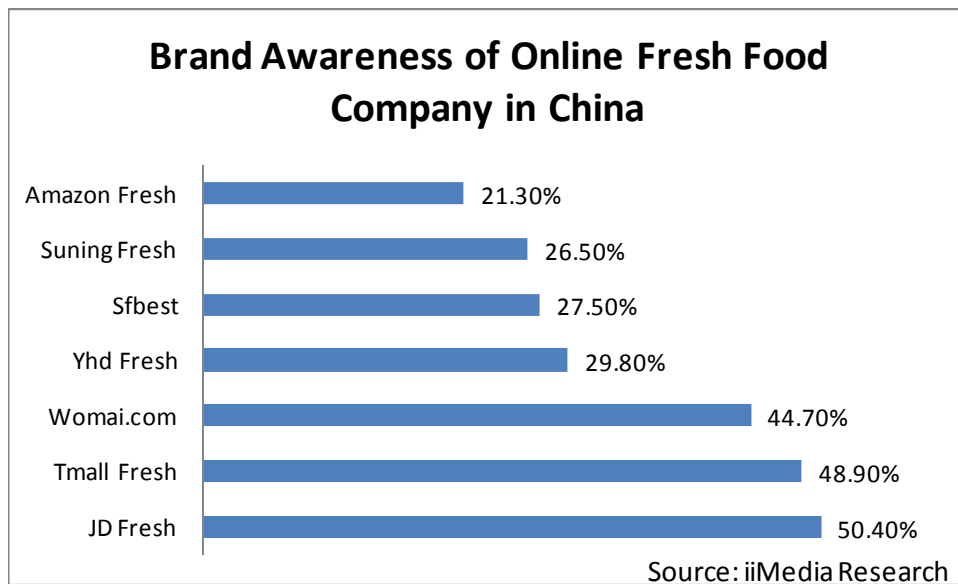


Figure 27 Brand Awareness of Online Fresh Food Company in China  
(source: data collected from reports by iiMedia Research)

#### 4.4 Amazon’s threats in Chinese market

There must be reasons to explain why Amazon China now is seen as a ‘loser’ in Chinese market, both subjectively and objectively. Some analysts argue that Amazon China has not made much progress because Amazon does not want to, because Amazon would move its focus from China to India, or because it is its strategy not to make profits. On the other hands, some analysts are holding a relatively negative attitude to the current performance of Amazon China, and they believe the current threats now in China are strong and big enough to stop Amazon China from taking one step in the competitive market. The threats could come from the government, the customers, the local competitors, and Amazon headquarter itself.

A deep understanding of the threats of Amazon China could help get a clear view of the current situation and analyze the future performance and business strategy.

#### 4.4.1 New taxes policy on cross-border e-commerce retail imports

As introduced above, according to Information Website of the China State Council Development Research Center (2014), the amount of transaction related to cross-border business reached \$650 billion in China in 2014. In this case, considering the huge market scale and the potential growth rate in the future, cross-border business could be one of the most powerful strengths of Amazon and it could be a stepping stone to success. However, no matter how good or attractive this business could be, there is no hope to succeed without the support from the government. But this time, there might be a potential threat to the cross-border business made by the government.

In order to take control of the loosely regulated cross-border E-commerce market, on March 3<sup>rd</sup> 2016, the Chinese government released a circular (*“Cai Guan Shui [2016] No.18”*), which is reported by some media as ‘the end of happy tax holiday for cross-border ecommerce retail import’, to clarify import tax policy for goods imported under the cross-border business model, and consumers who would like to purchase products under either direct shipping model or the bonded warehouse model must pay imported taxes including tariffs, import value-added tax, and consumer tax. Here is a comparison chart of the Postal Composite Rate (PCR) in the previous version and the new one made by Daniel Chan.(**Fig.28&29**)

| No. | Item  | PCR (before 8 April 2016) |
|-----|---|---------------------------|
| 1   | Books, magazines, educational movies, furniture, computers, toys                                      | 10%                       |
| 2   | Textile and garments, video camera and other electronic home appliances, bicycles, watches and clocks | 20%                       |
| 3   | Golf and golf appliances, luxury watches  | 30%                       |
| 4   | Cigarette, cosmetics and alcohol  | 50%                       |
| 5   | Others  | 10%                       |

Figure 28 Previous version of cross-border tax policy

(source: <https://www.dlapiper.com/en/us/insights/publications/2016/04/china-increases-taxes/>)

| No. | Item  | PCR (after 8 April 2016) |
|-----|---|--------------------------|
| 1   | Books, magazines, educational movies, computers, digital camera and other digital product, food and beverage, gold and silver, furniture, toys, gaming products, holiday or other entertaining products | 15%                      |
| 2   | Sports product (excluding the golf and golf appliances), fishing product, textile and garments, video camera and other electronic home appliances, bicycles   | 30%                      |
| 3   | Cigarette, alcohol, precious jewellery and jade, golf and golf appliances, luxury watches, cosmetics  | 60%                      |
| 4   | Others  | 30%                      |

Figure 29 Current version of cross-border tax policy

(source: <https://www.dlapiper.com/en/us/insights/publications/2016/04/china-increases-taxes/>)

It is pretty clear that the PCR increases dramatically compared to the previous version. The PCR would raise to either 15%, 30% or 60% accordingly. That is to say, customers have to pay more for the same products. For example, the cost of purchasing a book from overseas would increase by 5% due to the new policy, and purchasing such luxury goods as jewelry or watches would result in 60% PCR, which is a disaster for the foreign exporters engaging in the cross-border business.

What is worse is that, the government also set the limit for the value of orders, and the value of a single order can no more than RMB 2,000 and the accumulated yearly value must below RMB

20,000, or the customers must endure the high tax rate. This policy would strongly prohibit customers from choosing cross-border business as they always did before the policy is released. As known, the value of imported products is higher than the local ones in most cases, and the customers hope to purchase as much as possible once to save the delivery fees. Therefore, the value of a single order often exceeds RMB 2,000, and there is no need to mention that if the customers want to buy such expensive products as watches, television or other things, they often have to pay more than RMB 10,000 once (Fig.30). So, after the new policy is released, customers have to pay a much higher price for the same product, and considering the fact that a majority of Chinese customers are price-sensitive, it is highly possible that the companies engaging in cross-border business will face losses in both client numbers and profits.

| Transaction value  | Customs duty                                    | Import VAT                                | Consumption tax                                   |
|--|---|---|---|
| Transaction value < RMB 2,000 and accumulatively within the annual quota of RMB 20,000 for each individual Chinese buyer | 0%  | 70% of the standard rate (ie about 11.9%) | 70% of the applicable rate (eg 21% for cosmetics) |
| Transaction value > RMB 2,000, or accumulatively over the annual quota of RMB 20,000 for each individual Chinese buyer   | Payable at standard rate (eg 10% for cosmetics) | The standard rate 17%                     | The standard rate (eg 30% for cosmetics)          |

Figure 30 Comparison of tax amount on different transaction value  
 (source: <https://www.dlapiper.com/en/us/insights/publications/2016/04/china-increases-taxes/>)

For the business companies, it is still not the worst part. The government also sets a list of imported products which could be bought and shipped from oversea areas by law, and the categories mainly include food and beverage, clothing and shoes, household appliances, a particular part of

cosmetics, diaper, toys, etc. It should be noticing that fresh food and liquid milk are not included in the list, and the government set the barriers for the formula milk and cosmetics. According to the new policy, the cosmetics can not be first-time imported and the formula milk must pass the Food Safety Law. In this case, all the companies engaging in cross-border business have to pull all the unlisted products from the shelves and check the current quality of all the milk products to prevent themselves from being punished. It has been reported that some orders regarding the unlisted products from the customers have been blocked by the systems because of the new policy.

It might be a good thing for the cross-border business market, or for the country, because customers would choose to spend RMB 1,000-2,000 to maximize their profits, and therefore the average spending in the cross-border E-commerce will increase. However, for Amazon China, it would be a threat. The new tax policy would bring a great burden to Amazon in terms of costs and online traffic. The average price of almost all the categories in the cross-border segment would increase to cover the increasing tax expense, and such categories as milk and cosmetics have to be seriously checked to ensure legality and security. Since the policy is just released without any warning or sign, the E-commerce companies are not well-prepared for it and they would need a certain period of time to adjust to the new policy, and things are the same for Amazon. If Amazon China fails to follow the new policy and can not have a good relationship with the local government, not only the cross-border business but also other businesses would be affected.

#### **4.4.2 Local competitors and mobile era**

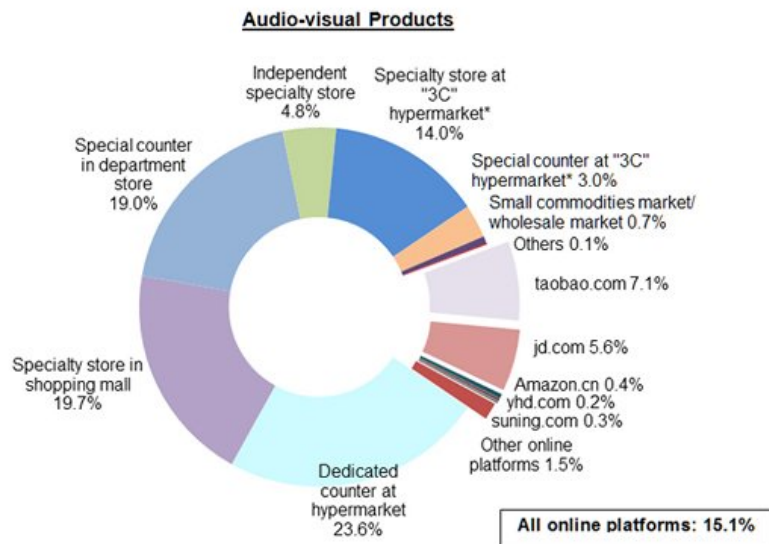
Everyone in China knows Taobao dominates the local market and even when China's economic growth rate slowed to a 25-year low of 6.9% in 2015, the sales growth of Alibaba in Q1 2016 still increased by 39% to \$3.72 billion (Taiwan Times, 2016), and when considering the base of the sales amount, 39% is still an unbelievable number. Also, in the cross-border business area, Zhang Hui (2016) mentioned that in 2013, on the Alibaba's platform, the number of daily orders in the cross-border E-commerce segment would reach more than 10,000, with the total value of \$30 millions, and the number of customers also increased by 10 times

Apart from Taobao, there are a lot of local competitors who are much better than Amazon in terms of market share by sales, such as Jingdong, Suning, Yhd, etc. Each competitor has its own strengths and focus areas, for example, Suning is famous for selling electronic devices, Dangdang has brand image as a book seller, and customers would like to purchase foods on Yhd.com, etc.

Amazon started its business as a book dealer, but for now it becomes a comprehensive online shopping website, which provides such categories as home appliances, kitchen & dining, books, DVD, clothing, games, electronics, etc. The problem here is that since Amazon hopes to expand its size by covering almost all the categories in E-commerce industry, those who solely focus on one specific area might also become Amazon's competitors and therefore it would bring a great burden in terms of supply chain management and unnecessary capital investments. For example, according to Economists' Pick (2015), when customers are asked where would they choose if they want to buy small kitchen appliances, 17.7% of the customers would choose the online platforms, while among

the 17.7% of the customers, only 0.8% would choose Amazon.cn but 7.4% and 5.5% would choose Taobao.com and JD.com respectively. Also, in terms of audio-visual products, 7.1% of the customers would choose Taobao.com and 5.6% would choose JD.com, but only 0.4% would choose Amazon.cn (Fig.31). Regarding E-books and other media market, since such local players as Taobao and Dangdang also cover this area and they have a better relationship with the government and local suppliers, Amazon has not won this segment yet.

**Place of Latest Purchase of Consumer Electronics and Electrical Appliances**



\* Including "3C" (i.e. computer, communications and consumer electronics products) hypermarket and digital products market.

Figure 31 Place of Latest Purchase of Consumer Electronics and Electrical Appliances  
 (source:<http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/Surge-in-Online-Sales-of-Electronics-and-Electrical-Appliances-in-China/rp/en/1/1X000000/1X0A29XC.htm>)

Not only the local competitors, but also the whole business trend would be a threat to Amazon.cn. As analyzed before, mobile market would exceed PC market in the near future and the mobile side has shown great strengths in terms of convenience and payment methods, etc. However, in this mobile era, Amazon fails to catch up with other competitors. According to iResearch China,



in terms of market share of China mobile shopping enterprises by GMV (gross merchandise volume), Taobao wireless accounted for 84.5% in the local market, which means all other E-commerce enterprises would share the left 15.5%. And among the 15.5%, mobile JD would account for 5.2%, and Amazon China had less than 1% of the mobile market (**Fig.32**). It is because Amazon is a latter comer in this market, and Taobao has its own payment application—Alipay, which enables customers to enjoy discounts and convenience. And it is highly possible that Taobao would keep dominating this mobile market in the near future, considering the fact that currently Taobao has formed a market scale and the switching costs could be a concerns for customers.



Figure 32 Market Share of China Mobile Shopping Enterprises by GMV Q1 2014-Q1 2015 (source: data calculated based on the financial results published by enterprises and interviews with experts by iResearch statistical model)

From Amazon China's perspective, since the trend would continue in the near future and for now Amazon does not have any strength in the mobile shopping segment, if it can not find any solution to deal with the it, it would be huge threat. On the other hand, there might be a bad news for Amazon: Walmart, one of the most competitors in the US market, has involved itself in the cross-border business in Chinese market. In this case, the threats come from not only local players but also US competitors.

## **5. Suggestions on the Future Action for Amazon China**

One of the main purposes of using SWOT analysis is to list all the advantages and disadvantages of one particular event or plan, and to evaluate the feasibility of it. In this thesis, some of the strengths, weaknesses, opportunities and threats of Amazon China are listed, and it aims to evaluate the current situation of Amazon China and estimate the future growth based on the current trend, and the next step should be to give some feasible suggestions which might help Amazon China expand its market shares in the local market. Actually some of Amazon's current strategies should be kept and expanded in scale, and what happens to Amazon US could also be applied to the Chinese market, such as the bricks and clicks strategy, which 'helps achieve the highest conversion rate' (2016).

### **5.1 'Brick and Click' strategy**

According to Weebly.com (2016), 'Brick and Click organizations are the type of business which have land based offices (Brick) as well as an online offices (Click),' and this kind of business

model merges both online and offline operations so that it could be able to provide a better organizational system for the business. One of the strengths of offline stores is that the company would be able to provide in-person interactions with the customers so that it helps build the brand loyalty and trust among the customers, which could be much harder to be done online. Amazon just had its first trial 'brick and click' shop in US last year, and it mainly served as a bookstore and after-service center. In the shop, the top 50 popular books would be listed on the bookshelves and customers would be able to try the kindle devices. In addition to that, some interactive salon activities can be held there and customers could exchange their thoughts and experience when they read or listen to music. This kind of social and emotional experience can be hardly attained online, and that could help explain why a lot of E-business companies are going to launch their offline offices or shops.

For Amazon China, the strategy to launch an offline shop might also be feasible. First of all, delivery quality has always been one of the strengths and symbols for Amazon China because of the efficiency and security. However, since China is such a huge and scattered market, some small retailers could utilize its shop advantages and set up a delivery network for saving the cost and improving the efficiency. In this case, Amazon has to respond by competing against offline retailers. Taking the 'bricks and clicks' strategy could be one solution to solve the problem because the actual shop would also be used as a small warehouse which is located in the rural area. Therefore average delivery time could be reduced in the surrounding areas. Secondly, although the customers could be able to purchase almost all the categories on the Internet, sometimes a certain number of categories

could be more popular when they are sold offline. For example, when a customer wants to buy a television or a headphone, the customer would hope to take a try before ordering it to evaluate the product, which is a normal logic. Same thing would happen to Amazon Kindle product and Amazon Fire series. In this case, an actual Amazon Shop could improve the quality of purchasing experience and gather more data about customers. Lastly, as mentioned before, it could also serve as a after-service center and if customers are not satisfied with some Amazon product or want to get it repaired, an actual shop is much better than an online one.

Customer experience is always the most important target for Amazon, so maybe someday Amazon China would have its actual shops in China too.

## **5.2 Cross-border business being the main weapon**

Researchers Yang Jianzheng (2015) thinks that most of Chinese firms which are involved in the cross-border business would like to choose the third-party platform, and the factors that might affect the whole experience include Internet access, payment terms, customs terms, regulation and cross-border logistic, etc. Amazon has been involving itself in the cross-border business for years and it has a set of mature system to manage the whole cross-border business process, which helps rank it the top global E-commerce dealer.

The thesis tries to analyze the current online cross-border market and currently the total volume of Chinese cross-border business would reach 6.5 trillion RMB in 2016, which accounts for 18.5% of the total foreign trade volume. Considering the current market scale and the future growth rate,

there is no reason not to enter this market. As introduced above, Amazon has its own strong strengths in terms of delivery, category, branding, recognition, mature management system, etc., in this case Amazon should try to localize its business style to attract more customers from the current competitors by promoting on singles' day or changing the website design to adapt to the local taste, etc.

The latest taxation regulation regarding the cross-border business had a great hit to the local small-scaled business firms because the average costs of importing one product from oversea areas increased dramatically and therefore it brought a great burden to their financial side. Also, a great amount of products have been left in their warehouses and unable to be sold to the customers since some categories are not allowed to be sold to the customers unless the firms finish the legal process to register for them. On the other hand, due to its business model, Amazon has not suffered a lot from that, and the main issue here is that Amazon China has invested to local logistic chain and got the license to own its own cross-border logistic company to help with the import and export issues, and therefore the related expense would be much lower and it makes the business more profitable and easily managed. In addition, in the future Amazon China might be able to be responsible for the delivery service for the local competitors, which might bring a great profit and invisible strengths to Amazon China in terms of cross-border business.

### **5.3 Cooperation with local competitors**

In the book *The Way to Win in Cross-Border Alliances* by Joel Bleeke and David Ernst, they offered offer the unconventional lessons of studies of 49 cross-border alliances. For example,

alliances between a weak and a strong company usually don't work; but fifty-fifty ownership of joint ventures actually improves decision making. Considering the fact that Taobao could be hardly beaten in the near future, maybe cooperation with the local competitors might be an effective to attract the traffic. Actually Amazon opened its shop on Tmall in 2015, and some analysts held negative attitudes towards this decision and they thought Amazon was giving the impression of weakness and it surrendered. But when we analyze the business model of Amazon and Taobao, it is actually an understandable action. Although Amazon provides third-party service and other dealers are able open shops at Amazon, the basis business of Amazon is self-operated business, and Amazon owns large warehouses and logistic networks to operate its own products which has an 'Amazon' brand. While on the other hand, Tmall has no self-operated business and it only serves as a platform. In this case, Tmall and Amazon are totally different in terms of operating model, added value and other 'soft' factors. For now, Taobao and Tmall account for more than 50% in the market in terms of transaction value, and they are the largest platforms in terms of online traffic. Therefore it is really unpractical to neglect such an online giant when running E-commerce. For Taobao, it always has a bad reputation for 'fake' product and it performs bad in the global market, and it can be shown from its dropping stock price in the US market. In this case, Taobao also needs a chance to promote its global image. That is why 'coopetition' or cooperative competition exists.

In the future, since each local player has its own strengths and weaknesses, it would be a tiring and long-term competition, which causes huge losses of human resource and capitals. So such win-win strategies as 'coopetition' might be a ice breaker in the Chinese market. Now Amazon is running its business shop at Taobao, and in the future it is still possible that Amazon would seek for

cooperation with some other competitors, such as Dangdang.com, who is famous as a book dealer in China and who also has a business shop at Taobao, for expanding its media business. In addition not only online firms, but also offline companies or big shops could become its partners in terms of supply chain, wholesalers, and others. As mentioned, Amazon could use the 'brick and click' strategy and create its own offline shops to expand its business, and it is a good way to help interact with customers and have more channels to deal with local logistic and selling. But compared with cooperating with local competitors, this strategy might be costly and time-consuming. If Amazon could cooperate with large offline electronic-related shoppers, it would be a big opportunity to get exposure and increase its brand awareness, so maybe Suning could be the next potential partner.

## **6. Conclusion**

China's market economic construction has made great achievements since the reform and opening, and the E-business has contributed more to the total economic growth. For now the total market scale has reached around \$300 billion and it has an average growth rate of 30%, which has a great potential in the near future. The spending power of China online shopper is increasing, thanks to the economic growth in China, and therefore the total sales regarding online shopping could be expected to have a strong increase. Also, mobile shopping market has surpassed the PC client, and more and more customers are willing to use mobile phones for purchasing, which becomes the mainstream now. In addition to that, the development of rural areas also causes the issue of distribution of customers online and online shopping companies are focusing more on the rural areas and therefore more capitals are allocated to invest on logistic systems and basic infrastructures.

Although the local competitors have dominated the market and Taobao is undoubtedly the No.1 E-commerce giant in China, it is still possible for Amazon to get some market shares by enhancing its advantages and avoiding disadvantages. For example, the cross-border business should undoubtedly become the business focus for Amazon, using its global brand and resources. Also, the self-operated warehouse and brand could help improve efficiency and customer satisfaction. On the other hand, new opportunities are coming, such as the fresh food market and popularity of E-book. These opportunities can be the stepping-stone for Amazon to break the 'ice' in the Chinese market. Of course there are also a lot of difficulties, such as the slow localization process and campaign strategies, but considering the B2C trend and the scale of market, even 1% increase in market share means a great success.

All the conclusions are draw based on theoretical thinking, and the actual effects of the situation remains further research and discussion.



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