



CHINESE E-COMMERCE MARKET SUCCESS EVIDENCE FROM TAobao

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Abstract:

China's E-commerce market has grown by 50% per year since 2011, and it's expected to be worth 1 trillion dollar by 2019. Companies looking to sell their products to Chinese customers should seriously consider e-commerce as a viable and cost effective channel to market. In addition the great changes in the economic world has allowed china to develop unique application,C2C Taobao is one of China's premier customer to customer place established in 2003, which allows small business, entrepreneurs and customers to buy/ sell a variety of goods in China.

This paper discusses Taobao marketing strategies, success stories and SWOT analysis and some important lessons that were carried out by Jack Ma to achieve success in this complex world of online trading.

Keys words: China; E-commerce; Taobao; Alibaba.

ملخص:

شهد سوق التجارة الالكترونية في الصين نموا متسارعا قدر بنحو 50% سنويا منذ سنة 2011، ومن المتوقع أن يصل إلى 1 تريليون دولار بحلول عام 2019. وبذلك وجب على الشركات التي تسعى لبيع منتجاتها للزبائن الصينيين ان تنظر وبجدية الى التجارة الالكترونية كأداة جد فعالة وغير مكلفة. بالإضافة إلى ذلك ، فقد سمحت التغييرات الكبيرة في العالم الاقتصادي للصين بتطوير تطبيقات فريدة من نوعها في مجال التجارة الالكترونية، ويعتبر تطبيق تاوباو والذي انشئ سنة 2003، من أهم التطبيقات الرائدة في الصين والذي يسمح لكل من الشركات الصغيرة ورجال الاعمال الناشئين وكذا العملاء لشراء وبيع مختلف انواع السلع في السوق الصيني.

واعتبارا لهذا النجاح الذي حققته تاوباو، تناولت هذه الورقة البحثية قصة نجاح التجارة الالكترونية في الصين من خلال الاستراتيجيات التسويقية التي اعتمدت في تاوباو والتي تعتبر الرائدة في مجال التجارة الالكترونية المحلية تحت ادارة مؤسسها جاك ما ، إضافة إلى تحليل سووت وكذا اهم الدروس المستفادة من التجربة الصينية.

الكلمات المفتاحية: الصين. التجارة الالكترونية. تاوباو. موقع علي بابا.

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1. INTRODUCTION

China is one of the biggest countries in the world, according to China internet network information center (January 2017) China had 731 million internet users , with a yearly increase of 42.99 million, the internet penetration rates reached 53.2% up by 2.9 percentage points from the end of 2015.as of December 2016 the number of mobile internet users in china reached 695 million accounted for 95.1% of the total net population, while the chinese netizens accounted for 27.4% of the national total reaching 201 million up by 5.26 million from the end of 2015. (CNNIC 2017)

These days the fast development of the internet in China has opened a new business opportunities, while E-commerce being the most promising online business module in the world's largest consumer base, the growth rates in the e-commerce market are still very high & China becomes one of the most fascinated e-commerce markets.

E-commerce in China provides a huge different of available choices for chinese consumers, many chinese now have access to a different foreign and domestic products which were unavailable before. The chinese people now spend up to 27% of their incomes on online purchases, where the electronic products come on the top of their purchases & others include cosmetics, clothes body care products ..etc

In the different provinces of china we recognize a development gap between the different areas, Shanghai, Beijing Guangzhou & Shenzhen ranked in the top , the difference has been widened by the development rates of each area, which means that there is a big potential for future growth in chinese E-commerce. So now millions of Chinese people can access into the internet and buy several types of products, thus e-commerce creates a new opportunities for doing business.

Alibaba as one the big players is providing online marketplace for B2B, B2C as well as C2C sectors, it makes simple for everyone to buy or sell anything online anywhere worldwide. Alibaba was founded in 1999 at hangzhou by YunMA, who aspired to help make the internet reachable and useful for everyone.

Alibaba has total of seven business groups namely Alibaba small business operations, Taobao,Tmall, Alibaba internation business operations, Juhuasuan,eTao and Alibaba cloud computing (R.Yazdanifard & others2014.)

Like eBay, Taobao does not sell anything itself, it simply matches buyers and sellers, it has a firm foothold in china because many parts of the country still have a poor transportation and some local authorities favor their own government owned outlets making the retailing system inefficient (New York Times 2009).

Through the Taobao Data cube Platform (<http://data.taobao.com>), a small business will be able to obtain direct insight such as macro-level industry trends, a market survey of its own brand, and a survey of consumer behavior. However , the data of specific competitors will not be provided, in addition the small business can also contract directly with third- part research consultancies to commission data analysis that will help inform better business decisions such as merchandising, advertisement strategies and inventory (Alibaba group 2010).

From the standpoint that Taobao successes to make buying/selling operations much easier for the Chinese consumers and make a profitable business as well, This paper discussed the main success factors that drive taobao to be the top C2C online shopping website as following; what is the key market strategy adopted by Taobao in online marketing? Are there any special characteristics for the Chinese market that support Taobao? How did the online payment system make shopping online easier? Did Taobao and other E-commerce retailers got any government support for this huge success ?

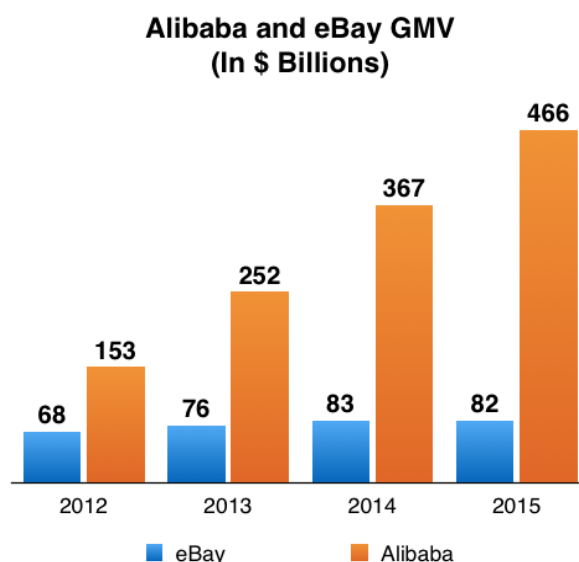
2. Literature review

An online market is a virtual marketplace where buyers and sellers can meet, offer their products, search for products and negotiate prices, the market player serves as the intermediary to aggregate three services for market participants, as a place to make business rules to guide and control trading & infrastructure to support trading . C2C trade is the most successful online business which allows all people to access online, offer products and do their trading, so they can quickly joined the online trading with the hope to increase their online financial transactions.

Taobao marketplace decided to provide a unique offering to small business owners and entrepreneurs; they immediately offered a variety of different options which included free listings. A number of website features and instant messaging to bring a new business in order to push eBay out. They created a unique escrow-based payment system.

Alibaba had a much faster growth in GMV¹ than eBay from 2012 to 2015. (Figure1) In 2012, Alibaba GMV was \$153 billion and eBay GMV was \$68 billion. So, in 2012, Alibaba GMV was 2.3-times more than eBay GMV. In 2015, Alibaba GMV reached \$466 billion, whereas eBay GMV reached \$82 billion. So, in 2015, Alibaba GMV was 5.7-times more than eBay GMV.

Figure 1 eBay Vs Alibaba Gross merchandise volume



Source: Alibaba vs eBay – Comparing The Platforms Size And Growth. Available at <https://revenuesandprofits.com/alibaba-vs-ebay-comparing-the-platforms-size-and-growth/>

Alibaba Group's e-commerce subsidiary Taobao, or "treasure hunt" in Chinese, has become increasingly popular and successful. In late 2013, there were only 15,000 active merchants on the Taobao site, which is commonly referred to as a Chinese equivalent of eBay. (May Lim2015) The Taobao marketplace became the undisputed leader within two years in the Chinese marketplace, and eBay was eventually pushed out of the market in 2006.

The fast growth of China's e-commerce and Taobao.com not only provides customers an easier way to purchase the goods they want, but also provides new opportunities for individual entrepreneurs and small- and medium-size firms. Through Taobao, sellers can sell their products without a physical store (and hence there is no rent to pay) and with very few or no employees than themselves. Also, Taobao doesn't charge the seller a fee to open a store and doesn't take a cut from

¹Gross merchandise volume or **GMV** is a term used in online retailing to indicate a total sales dollar value for merchandise sold through a particular marketplace over a certain time frame.

the transactions completed on its website. (Jiaqi Qi2018). The internet has provided more convenient way for farmers to distribute their farm products to urban areas which has greatly increased the farmers' incomes.(Teresa Lam, Chrity Li2016).

Alibaba subsequently signed strategic partnership agreements with various levels of government in different provinces to promote rural e-commerce as well as poverty alleviation programs. As of March 2017, Rural Taobao has established its presence in 29 provinces, covering more than 600 counties and 30,000 villages(Anthony H. F. Li 2017).

The local government also promoted supportive policies for Taobao villages in all Chinese provinces, they are gradually transferring from the stage of completely barbaric development like grass roots into the stage of entry to the market and coordinated development with the government, the central government leaders also visited Taobao villages for survey and inspection five times within a year, the Premier of the state council LiKeqing showed up in Qingyanlin village, Yiwu. Zhejiang province on November 2014. He met with representatives of the young online merchants in the village and said that the online shops played a significant role in serving the entity economy in the virtual space and expanding the huge market, he also referred to the village as "the first village of online shops".

Chinese central government requires each level of government to reserve land for logistical warehousing in town planning, to plan for land utilization and supply, to guide social capital to invest in the construction of storage facilities, and to encourage express enterprises' to take "warehouse distribution integration" services. The government focused on the development of E-commerce in the field of agriculture especially by establishing agricultural chain logistics and carrying out E-commerce demonstration pilot projects in rural areas.(Yue Hongfei2017)

The Chinese government leaders mentioned to make innovation and have hold ideas regardless of hardships, contributing to the online tread of entrepreneurship and innovation, therefore due to the great role that Taobao villages played to increase those online merchants' incomes which created more jobs opportunities and realized poverty alleviation with the help of e-business.

3. TAOBAO Market Strategy

1.1 Free of charge strategy

The strategic alignment is an ongoing process, there is no single strategy or single combination of activities that will enable a firm to achieve a sustainable growth. Taobao choose a *free of charge strategy*, where the vendors are not charged for any listing fees or transactions fees in the first three years of activity, providing free services id the key to gather population in a short time and attract a good number of sellers and customers.

In order to compete with eBay China Taobao provided free services, As a result: it successfully replaced the position of eBay to become the biggest retailer in C2C marketplace in china.

1.2 Market positioning strategy

Another strength of Taobao Market 'strategy is focusing on market positioning/ *market positioning strategy* , for that Taobao chose fashionable younger females as the target customer, this market positioning proved more suitable for Chinese market compared to other websites. For example, Taobao's customer target positioning in the low- income stage. Therefore Taobao didn't choose competition with the existing market, and it accounted for 80% share of C2C market while its market positioning is the fashion, female, small shops patterns crowd. In contrast Taobao' positioning is more suitable for China (Yunxiu,Niopat 2017).

1.3 Taobao business updates

The third strategy followed by Taobao is *Core commerce- Taobao business updates*. The Taobao application highly relevant and engaging content continuous to drive robust growth in active users.

This strong mobile users growth reflects Taobao' efforts to establish the Taobao App as a destination platform not only for shopping, but also for sharing knowledge of products and lifestyle content.

Taobao has also strengthened its illegal violations of the crackdown, when doing the cooperation with the authoritative departments. This cooperation has greatly enhanced the popularity of Taobao. (Yang Lixia , Liu Xun 2009)

Therefore Taobao lunched new features and content, continuing to offer enhanced and a unique user experience on Taobao App. For example the digital mirror feature on the Taobao App allows consumers to virtually apply different shades of makeup (Alibaba group2017).

1.4 The credit rating system of Taobao

The indicators with the mark* - as mentioned on (Figure 2) below are especially been much accounted of credibility and reliability in trading on Taobao website, and are supposed to be the unique characteristic different from other same e-commerce company.

Taobao members can evaluate the credit of transaction partner after finishing each transaction through "Zhifubao" payment platform. The comments include "positive", "neutral" and "negative". If "positive" the partner will get one score (credit); if "neutral" then zero; if "negative" a negative one score will be receive. It is without doubt that the traders with higher total credits (score), receive more trust and more partners, therefore more transactions and profits.

Figure 2 Taobao sellers' credit rating system



Source; Taobao webpage available www.taobao.com

1.5 Taobao success stories

There are a few stories of farmers aged over 60 opening an online Taobao store, rapidly growing their ecommerce and saving their entire community from poverty. Luo Bishui who was a potato farmer is now opening an eight-room guesthouse for tourists. (New York Times 2009)This particular case shows the real potential that Taobao villages have and also that it can go beyond selling produce online but also developing ecotourism in the Chinese country side.

Liu Dongdong, from Yonghe, Taiwan, working into a building and decorating firm that returned to his native village to create an online business of selling Chinese red dates. He's reported to make even more than he used to in Taiyuan, Shaanxi (around 20,000 Rmb a month, \$3,000) and even

during the off season. Reports from AliResearch also showed that the e-farmers that make money through Taobao villages also tend to purchase supplies and fertilizer online, creating sort of rural ecommerce ecosystem further pampering the growth of the country side economy.

Yang Fugang's online store is listed on Taobao.com, a Chinese company that generated nearly \$15 billion in sales last year. Yang Fugang spent most of his days away from campus, managing an online store that sells cosmetics, shampoo and other goods he often buys from local factories. Today, his store on Taobao.com — China's fast-growing online shopping bazaar — has 14 employees, two warehouses and piles of cash.

"I never thought I could do this well," said Mr. Yang, 23, who earned \$75,000 last year. "I started out selling yoga mats and now I'm selling a lot of makeup and cosmetics. The profit margins are higher."

Taobao fever has swept Mr. Yang's school, Yiwu Industrial and Commercial College, where administrators say a quarter of its 8,800 students now operate a Taobao shop, often from a dorm room.

4. DISCUSSION AND RESULTS

A report called China's connected consumer 2016 which surveyed the online shopping habits of 2560 Chinese consumers as part of a global survey of 56 countries, a total of 48.5% of Chinese consumers bought a product online at least two of three times a month in 2015.

The report found that Chinese shoppers do extensive research before making an online purchase, with 60.8% saying they search online for reviews and recommendations – a much higher rate than that of US consumers (39.4%) (Liz Flora 2016).

Taobao SWOT analysis

1.1 Strengths

Like other online shopping business the extensive accessibility is the main strength of Taobao, where buyers/sellers can browse, offer and buy their product without physically moving with low prices. In addition ; Taobao is an acknowledged leader in both C2C online shopping market in China. Taobao analyzed China online shopping market at the beginning of its business. Different from other online shopping websites which prefer older white-collar workers with higher salaries or people who like collecting and sharing, Taobao chose fashionable younger females as the target customer. It has built a strong brand and is recognized by more Netizen The company is well-thought-of by customers which gives Taobao more advantages in competition. This market positioning proved more suitable for China market compared to other websites. This is one of the reasons that the growth rate of Taobao is much higher than other competitors.

In terms of online transaction and payment security, On October 27, 2003, Taobao and Zhejiang branch of ICBC (the Industrial and Commercial Bank of China) signed a comprehensive cooperation agreement. The introduction of this service has greatly increased the users' confidence on the credibility of online payment, and it also laid a solid foundation for business development of Taobao.(Yang Lixia, Liu Xun2009)

Taobao combines its three segment businesses effectively to enlarge its customer base. Take Alipay as an example, it is a third-party online payment platform, provides a simpler, efficient and safe payment service for both customers and sellers. This service not only ensures the transaction security but also reduces the transaction risk for online consumers, as it enables buyers to confirm the quality of goods before releasing funds to sellers. This service helps Taobao to attract more customers.

In addition, another type of service called Aliwangwang – which I have personally use it, that makes the communication between buyers and sellers easier. Moreover, this service enables the bargaining power for the buyers which is the preference of Chinese customers.

1.2 Weaknesses

Focusing on local market

The business limitation is the main weakness challenging Taobao, while certain products can sell themselves online, other products is difficult to be sold. The customer in this case need to check the quality by himself, which increase the customer distrust in some products or shops as a result of low fast efficiency feedback.

Taobao services for only local market

The design of Taobao website and other supporting services were based on China's local market. The website is in Chinese language which makes it more difficult for those who are not Chinese language speakers to deal with it , this limits Taobao to the Chinese market and therefore lack of presence in the global market.

1.3 Opportunities

A huge demand for online shopping in China

According to China’s connected consumer survey and as the data above shows, more people in China prefer to buy products online. Convenience and various choices could be two main reasons. Limitation of shopping time for most Chinese people increased the growing demand for online shopping contributed to the growth of Taobao. For that Taobao came on China’s top shopping websites (Table1)

Table 1 Top 10 most used Websites in China

Ranking	Type of Site	Site Domain
1	Portal Sites	qq.com
2	Search Engines	baidu.com
3	Portal Sites	sina.com.cn
4	Search Engines	so.com
5	Online Shopping	taobao.com
6	Portal Sites	sohu.com
7	Portal Sites	ifeng.com
8	Online Video	youku.com
9	Online Video	iqiyi.com
10	Others	360.cn

Source:iResearch report

According to Alibaba, Chinese consumers are using Mobile Taobao 7.2 times a day per active user, and view an average of about 19 products in a 24-hour period. They also like to share their experiences with these products, posting 20 million reviews each day. Fifty-one percent of Mobile Taobao’s users are female, and three-quarters of all users are under 35 years old—a group that is becoming a major driver of consumption in China, Over the next five years, their share of total consumption will grow to 53 percent from 45 percent now (Tom Brennan 2016)

Government support

As a helpful enabler, the state's single most important role has been to ramp up the inputs to innovation – aggressively. Total investment in R&D (as a proportion of GDP) grew from 0.9% in 2000 to 2.0% in 2015 and is on track to reach a targeted 2.5% by 2020. At 20%, China's share of global R&D expenditure in 2015 was well above Japan's at 9% or Germany's at 6% and second only to that of the U.S. at 26%. This gave online shopping companies strong support for future developments. (Anil Gupta & Haiyan Wang 2016)

A useful payment systems for online transactions

The improved online payment systems play an important role in the growth of Chinese online shopping markets. There are more flexible payment systems for customers to choose. TaoBao.com invented a special payment function called “Zhifubao”. Zhifu means to pay in Chinese while bao means something convenient and useful. This third-party payment platform enables Taobao customers avoid to pay the seller directly online. Instead, they first pay to the Zhifubao. After they make sure of the product receipt, the customers then authorize the right of payment to Zhifubao. The sellers get the bank transfer via Zhifubao.

1.4 Threats

Apart from the above favorable opportunities, the unexpected and inevitable economic crisis and depressed economy affects e-commerce negatively by reducing customers' purchasing power and decreasing profits of certain electronic companies like Taobao. Furthermore, the fierce competition in the e-commerce market is a potential threat to all firms. The prime external threat of Taobao is the fierce competition from the three big and competitive websites Sina, Sohu and Netease. They occupied approximately all the Chinese website traffic. Taobao is excluded from the advertising platform by the big three. Meanwhile the successful test operation of a similar firm named paipai which also provides free trade, full compensation and online payment service reminds Taobao of the replacement threat.

The threat of other different competitors is clearly recognized such as Amazon, 360buy, QQmall and the online payment system like Baifubao by Baidu. In addition to the monopolies and low market entry barriers the challenges become more serious, while the online industries products and services can cater the countries that rises a potential for monopolies which can't worry only Taobao and the other Chinese online industries but even the government regulations.

5. CONCLUSION

The various factors including economic development, consumer demands, government policies and capital market, the fast-growing market segments have emerged in the online retail market. As the overall online retail market stepped into a relatively mature stage of development, cross-border e-commerce and rural e-commerce are becoming new growth points for the online retail market and will maintain continuous growth for some time to come.

The Chinese government affects the e-commerce ecosystem through policy and trade measures, such as important regulations, tariffs and testing requirements, the GACC (General Administration of China Customs) and SAIC (State Administration of Industry and Commerce) are the two main bureaus foreign e-commerce companies should be aware of.

Many lessons can be learned from this Chinese case; in terms of strategy use, Taobao's free ride strategy and strong incentives clearly influenced the users, and help to lower prices and expand its customer's base successfully. While for the website design and functionality, Taobao.com seemed so helpful in passing adequate and updated information to the users.

In order to keep the leadership position, technological innovation is crucial for Taobao. Taobao may focus on continuous improvement of its online payment system, which is also one of its strengths,

particularly in the aspect of transaction's (should be transactions, without apostrophe) reliability and security. Moreover, website functions, Internet stability and high-speed access to websites are also important in providing a better user experience, which may help to attract more customers.

In addition to the government supports which make the construction of E-commerce platforms strongly, by reducing capital registration, market entry barriers to create a real competitive environment for all online industry investors. Authorities are supporting the establishment of logistical terminals and intelligent logistical platforms, promoting the construction of trans-regional and cross-industry logistical platforms, supporting infrastructure construction of express distributing stations, and encouraging community management systems, village information service stations, as well as stores to provide express delivery services.

Finally we can say the online business is not new to everyone since few years ago but JackMa had a vision which was the perseverance and dedication that raised him into his successful business. He succeeded to create a miracle that gives China a huge impact until today, the e-commerce in the 21st century has become the largest online trade platform in the world.

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