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COMMUNICATION, LINGÜISTICS AND LITERATURE FACULTY  
MULTILINGUAL SCHOOL OF INTERNATIONAL BUSINESS AND INTERNATIONAL RELATIONS**

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**SENIOR DISSERTATION BEFORE COMPLETION OF THE MULTILINGUAL  
BACHELOR DEGREE IN INTERNATIONAL BUSINESS AND INTERNATIONAL  
RELATIONS**

**THE E-COMMERCE MARKET DEVELOPMENT OF CHINA AS THE BIGGEST  
IN THE WORLD AND ALIBABA AS A SUCCESSFUL MODEL OF A MARKET  
PLATFORM DURING THE YEAR 2015**

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## **DEDICATORY**

To God

To my mother Vicky, my sister Paulette and my father Adrián. There are so much things that you mean in my life that I don't know which the best words to say are. But what I know is that God from the eternity picked you for my life and he doesn't make mistakes. I am thankful for your lives.

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A Dios

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## I. THEME

### THE E-COMMERCE MARKET DEVELOPMENT OF CHINA AS THE BIGGEST IN THE WORLD AND ALIBABA AS A SUCCESSFUL MODEL OF MARKET PLATFORM DURING THE YEAR 2015

## II. ABSTRACT

In 2013, China became the biggest e-commerce market worldwide, where Alibaba has consolidated itself as the biggest company of the market. This is an exploratory study aimed to present an updated overview of the Chinese e-commerce state, and for this purpose, focused on the year 2015. Through an inductive research method, this investigation aims to analyze how the particular conditions that will be considered have contributed to the current development that the e-commerce industry has reached in China. The role of the political and economic environment is established as it influences the business scenario that the country provides for the e-commerce market. Alibaba's business model is analyzed in order to identify the implemented strategies that let it reach its current success. The theoretical foundation of this investigation is based in the concepts provided by Michael Porter to the Positioning School and the Strategic Management field. The hypothesis formulated for this investigation is "*China's economic reform oriented towards foreign investment and the rapid spreading of internet would favor the establishment of new companies such as Alibaba, which has currently gained an omnichannel presence in the e-tail market by implementing innovative strategies as a multisided platform*". The main findings show that China's economic reform in 1979 established the basis for its outstanding growth, becoming the second biggest economy worldwide and the rapid internet expansion that took place during the last decade was a key factor for the development of the e-commerce industry. Alibaba's success has been determined by a correct identification of the customers' needs and a rapid response to market tendencies, implementing cost-leadership and differentiation strategies throughout the different stages. Among the most relevant tendencies identified can be mentioned the consolidation of mobile phones as the principal internet access, online payments, and marketing channel, the influence of social media over customers, the importance of special buying occasions, such as Single's Day, and the potential that an omnichannel approach presents for the next years.

**Key words:** e-commerce, China, online platforms, online payments, internet.

### III. RESUMEN

En el año 2013 China se convirtió en el mercado electrónico más grande a nivel mundial, donde Alibaba se ha consolidado como la compañía más grande del mercado. El presente estudio es de tipo exploratorio y tiene la finalidad de presentar una visión general actualizada del estado del comercio electrónico en China, motivo por el cual está enfocado en el año 2015. Por medio de un método inductivo, esta investigación busca analizar cómo las condiciones particulares que serán consideradas han contribuido al actual desarrollo que la industria del comercio electrónico ha alcanzado en China. El papel del entorno político y económico es definido debido a la influencia que ejerce en el escenario comercial que el país provee para el mercado de comercio electrónico. El modelo de negocio de Alibaba es analizado con el propósito de identificar las estrategias implementadas que le permitieron alcanzar su actual éxito. El fundamento teórico de esta investigación está basado en los conceptos proporcionados por Michael Porter a la Escuela de Posicionamiento y el área de Administración Estratégica. Los principales hallazgos de la investigación muestran que la reforma económica del año 1979 estableció las bases para su destacado crecimiento hasta consolidarse actualmente como la segunda economía más grande del mundo y la rápida expansión del internet que tuvo lugar durante la última década fue un factor clave para el desarrollo del comercio electrónico en China. El éxito de Alibaba ha sido determinado por una correcta identificación de las necesidades de los consumidores y una pronta respuesta a las tendencias emergentes del mercado implementando a lo largo de sus diferentes etapas estrategias de liderazgo de costos y diferenciación. Entre las tendencias más importantes que se han identificado se puede mencionar la consolidación de los teléfonos móviles como el principal medio para acceder a internet, para realizar pagos en línea y como principal canal de marketing, la influencia de las redes sociales en los consumidores, la importancia de ocasiones especiales de compra como el Día del Soltero y el potencial que un enfoque multicanal presenta para los próximos años.

**Palabras clave:** comercio electrónico, China, plataformas en línea, pagos en línea, internet.

#### IV. RIASSUNTO

Nell'anno 2013 la Cina si è posizionata come il mercato elettronico più grande a livello mondiale, dove Alibabá si è consolidata come la compagnia più grande del mercato. Il presente studio è di tipo esploratorio ed ha la finalità di presentare una visione generale aggiornata dello stato del commercio elettronico in Cina, motivo per cui è focalizzato nell'anno 2015. Attraverso un metodo induttivo di ricerca, questa investigazione cerca di analizzare come le particolari condizioni che saranno considerate hanno contribuito allo sviluppo che l'industria del commercio elettronico ha attualmente raggiunto in Cina. Il ruolo del contesto politico ed economico è definito dalla influenza che esercita sullo scenario commerciale che il paese offre per il mercato di commercio elettronico. Il modello di commercio di Alibabá è analizzato col proposito di identificare le strategie implementate che gli hanno permesso raggiungere il suo attuale successo. I fondamenti teorici utilizzati per questa investigazione si basano sui contributi fatti da Michael Porter alla Scuola di Posizionamento e al campo di Gestione Strategica. Le principali scoperte dell'investigazione mostrano che la riforma economica dell'anno 1979 ha stabilito le basi per la sua crescita accelerata fino a consolidarsi attualmente come la seconda economia più grande del mondo e la rapida espansione dell'internet che si è svolta durante nell'ultimo decennio è stato un fattore chiave per lo sviluppo del commercio elettronico in Cina. Il successo di Alibabá è stato determinato per una corretta identificazione delle necessità dei consumatori ed una pronta risposta alle tendenze emergenti del mercato, con l'implementazione di strategia di leadership di costo e differenziazione nel corso delle diverse fasi. Tra le tendenze più importanti che sono state identificate, può menzionarsi il consolidamento dei telefoni mobili come il principale mezzo per accedere ad internet, per realizzare pagamenti online e come principale canale di marketing, l'influenza delle reti sociali nei consumatori, l'importanza di occasioni speciali di acquisto come il Giorno del Celibe ed il potenziale che un approccio multicanale presenta per i prossimi anni.

**Parole chiave:** commercio elettronico, Cina, piattaforme online, pagamenti online, internet.

## V. INTRODUCTION

From 2013, China became the biggest e-commerce market worldwide and has maintained a dynamic expansion over the recent years. With a \$581.8 billion value in 2015, it represented 7% of the Chinese GDP, having Alibaba as the biggest company of the field. The fragmentation of physical retail channels posed an opportunity for development of the e-commerce industry in the country. This fact has been accompanied by the rapid growth of internet adoption through the last years.

The general objective that has guided the present investigation is to: *Determine the favoring factors for the rapid growth of the e-commerce in China and its current consolidation as the biggest e-commerce market in 2015.* This is an exploratory non-experimental study aimed to give an updated general overview of the state of the Chinese e-commerce market, explaining the particular conditions that favored its development. This investigation has both a quantitative and qualitative approach. The quantitative field will consider aspects such as internet penetration, sales amount, mobile devices usage, online payment transactions, and other indicators contributing to determine the size of the Chinese e-commerce industry. Regarding the qualitative field, an examination of the marketing strategies adopted by Alibaba to reach its current success in China will be made and the emerging tendencies of the Chinese consumers' behavior will be described too.

Through an inductive investigation method, an analysis of the previously detailed areas will be carried out in order to get a general vision of how they influenced the changes and development of the e-commerce industry in the country. This process looks to verify the hypothesis "*China's economic reform oriented towards foreign investment and the rapid spreading of internet would favor the establishment of new companies such as Alibaba, which has currently gained an omnichannel presence in the e-tail market by implementing innovative strategies as a multisided platform*". The investigation will be mainly focused in the year 2015, as this year can give an updated scope of the state of the e-commerce industry in China.

The investigation is structured in three chapters. The first chapter has the objective to *describe the current role of the economic and political environment*

*for the e-commerce development in China.* In this way, the chapter starts providing a general socioeconomic vision of the country, which currently has the second biggest GDP worldwide, and continues to grow at a higher speed than the global economy. China's economic transformation has its origins in the reforms that took place in 1979 under Den Xiaoping's direction, known as the "open door" policies, which progressively deregulated the economy previously controlled by the State. China's entrance to the World Trade Organization was the base for industrial development, exports growth, and the massive flow of foreign investments that the country has received, being the biggest receptor today. A current overview of the development state of the e-commerce market in 2015 is subsequently presented. The emergence of a consolidated middle class has promoted consumption growth in China, and consumers' willingness to spend is higher than in previous years. In this sense, the younger generations have a prominent position as they are perceiving higher incomes than other generations. The rapid internet expansion over the last decade has favored the rise of online sales and is actually growing at a faster speed than physical retail. Chinese buyers prefer third-party platforms to buy goods online and mobile phones have become the main internet access channel taking place in the majority of online payments through them. In response to the dynamism of the market, the Chinese government has constantly updated the legal framework in order to address the market needs in an adequate way. For this reason, the chapter describes the legal approach for e-commerce activities in the country, and some of the initiatives implemented by the government aimed to continue favoring its development.

The second chapter has the objective to *establish Alibaba's success while using its business model and marketing strategies.* A brief background of the events that led Jack Ma (Alibaba's founder) towards Alibaba's creation will be presented and the principles that guide Alibaba's operations under its mission "to make it easy to do business everywhere". Subsequently, Alibaba's business model will be described examining the strategies it adopted from its beginning to the current time that let it achieve the success it has in China. Two theoretical approaches will be used for this purpose; the positioning school and the marketing principles of Phillip Kotler and Gary Armstrong. Mary Coulter, Stephen Robbins and David De Cenzo (2015) define strategies as the plans formulated by an organization with the purpose of defining the way in which it will execute its activities, how it will effectively compete in the market and how it will attract its

target customers and address their needs. The positioning school had a strong emergence in the 1980s and is characterized by the importance given to the strategy per se, and not only to the formulation process.

From the positioning school point of view, there are a few key strategies that an enterprise can desire, which can be applied to any industry. They can be defended throughout time from current and future competitors and enterprises that implement them in a successful way, will have an advantageous position in the market perceiving higher profits than others in the same industrial field. They are referred to as "generic strategies" and the positioning school is focused on the selection of the right strategy, depending on the particular conditions of the market that an enterprise wants to enter. In this sense, the industry structure is the main driver to determine the strategic position for an enterprise, and this position provides the guidelines to establish the organizational structure. Michael Porter states that there are two basic type of competitive advantages that an enterprise can have, which are low cost and differentiation. When they are jointly analyzed with the target market of the enterprise, three generic strategies are obtained from which the company has to choose the more adequate one. They are cost leadership, differentiation and focus (Ahlstrand, Mintzber & Lampel, 2005).

Kotler and Armstrong define marketing as the process through which enterprises build profitable relations with its customers. Marketing is focused in attracting new customers and keeping the ones that an enterprise already has by offering them a superior value. For this purpose, a firm must first select the market segment that it wants to serve, it being defined as a group of consumers with common characteristics whose response to a specific group of market activities would be similar. To attract the potential market segment that the firm has selected, it has to be able to understand the needs and desires of its customers and have a clear comprehension of the forces that drive the industry in which the enterprise aims to operate. If the enterprise is able to identify and understand these influencing factors, it will be prepared to address them in a correct way, creating value for its customers. If customers are satisfied, the firm will get in return customers value in the form of sales, income or long-term assets (Kotler & Armstrong, 2012).

When Alibaba first started operating in China, internet was not very popular; however, Jack Ma identified the potential that it would have to connect Chinese sellers and buyers with each other and with the world. In this way, Jack Ma provided them with the technological capabilities that they lacked in order to give them the possibility to have presence on the web. The friendly user feature of Alibaba's platform was important as the users could easily join Alibaba.com and 1688.com (both focused on the business-to-business scope) without needing to have special technical knowledge. When Alibaba started operating in China it adopted a cost-leadership strategy under which an enterprise focuses in a low-cost production (Ahlstrand et al, 2005). Guided by this focus, it offered its services for free. This approach was especially relevant in its initial stage as the Chinese merchants were very cost-conscious.

Over the following years, an accurate identification of the customers' needs and an adequate response to them let Alibaba continue its expansion. Alibaba adopted what Porter defines as a differentiation strategy, which is focused on developing a service that can be distinguished from the competitors through a higher quality offer, a performance improvement in the services and/or by the introduction of special features (Ahlstrand et al, 2005). Under this focus, Alibaba worked on the implementation of different complementary tools. Alipay paved the way for the growth of online payments as the Chinese population initially doubted its safeness. The implementation of TrustPass; a certifying online mechanism for the enterprises, let sellers get more credibility and gave more security to buyers. Alibaba's early response to the emerging needs of the market let it build a competitive advantage and subsequently diversify its operational scope by entering other fields of the e-commerce market such as the consumer-to-consumer sector with Taobao, the business-to-consumer sector with Tmall and Tmall Global, and during recent years, it has extended its presence to other internet-related fields such as digital media, entertainment and cloud computing services. Alibaba aims to offer its customers an experience that transcends the mere activity of doing shopping on its platforms.

The third chapter has the objective to *identify the latent consumption tendencies of consumers' behavior in the Chinese e-commerce market*. Chinese consumers are characterized by their versatility. When looking for products, it is common among them to look for options through both online and offline channels. Two tendencies have been identified in this sense. Webrooming refers to the

investigation carried out on the web prior to acquiring a product in a physical store. Showrooming on the other side refers to the reverse process by getting to know more about the desired product in the physical store and then acquire it on the web. The popularity of mobile devices jointly with social media has turned online shopping into a socialized commerce process. Special occasions are also popular in the Chinese market, being Single's Day one of the biggest sales days in the e-commerce industry. Jack Ma has stated the importance for Alibaba to collect data in order to create a more personalized offer for the customers on the platforms. For this purpose it is developing its Big Data division, focused on the collection and analysis of data extracted from the operations that take place throughout the platforms. The next step is focused on physical stores; Alibaba is testing devices such as Wi-Fi sniffers and beacons to gather information and then combine this with the data extracted online in the cloud computing platform of the company. In this way, Alibaba looks to create more detailed consumers' profiles and personalize the offer.

The Chinese e-commerce industry is reaching a mature stage and urban zones of the country are reaching saturation. However, the rising demand of the rural area presents it as a potential growth engine for the next years. Alibaba has set up the Rural Taobao initiative in order to improve connections between the urban and the rural zone, and make it easier in the two-direction flow of goods, looking to innovate the agricultural sector and transform the rural sector. The size of the Chinese e-commerce industry and its dynamism has turned China into a potential market, receiving attention from foreign enterprises who have started to sell online in China. Tmall and Tmall Global represent a suitable option for enterprises willing to join the online sales sector.

The creation of the World Wide Web marked a transformation in the global economy. The internet made it possible to establish connections in a rapid and easy way with distant countries and people, and the rapid flow of information and the interaction of users has the power to influence market tendencies at a local, national and international level. The growing internet penetration was a key factor to boost the e-commerce industry in China and the size of Chinese spending turns it into a potential market for foreign enterprises. In this way, the motivation to investigate this topic is determined by the dynamism that the e-commerce industry has had in China as it can be considered a reference for other countries such as Ecuador, where e-commerce development is still at an early stage, and

the available information is limited. The reasons exposed evidence the relation of the investigation with the field of study of the Multilingual Bachelor degree in International Business and International Relations, specifically with the international business brand. This work can benefit students interested in the e-commerce industry by providing them a reference framework for similar studies that would be carried out focused on different regions. The investigation can shed a light on the most important aspects that should be taken into account by the students in order to analyze the business environment that a country of interest provides for e-commerce.

## **CHAPTER 1 A GENERAL VISION OF CHINA'S ECONOMY AND THE DEVELOPMENT OF THE E-COMMERCE MARKET**

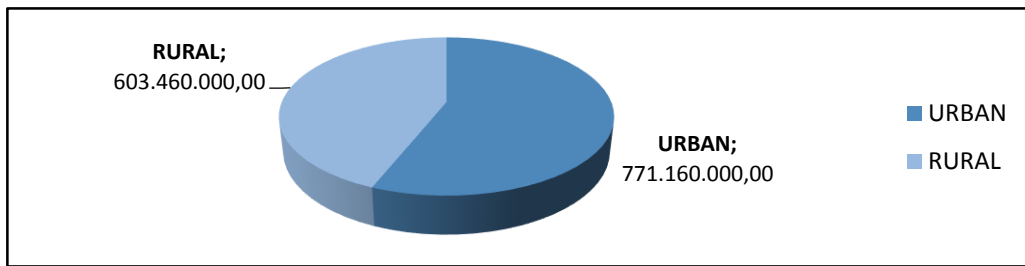
### **1.1. THE OPENNESS PROCESS OF CHINA LEADING TO ITS CURRENT ECONOMIC PERFORMANCE**

An overview of the Chinese socioeconomic situation will be presented in order to have a better comprehension of the business environment that the country provides. The reforms started in 1979 marked China's transition from a state controlled economy to give market forces the major role. The access to the World Trade Organization favored openness to foreign investment and international trade, which were crucial for the outstanding economic growth that China had until its current consolidation as the second biggest economy of the world.

#### **1.1.1. General socioeconomic vision of China**

The People's Republic of China had its origins in the 3rd century B.C. At that time, the Qin (Chin) rulers comprised the first dynasty that was established in the territory. In Chinese, the name is Zhonghua Renmin Gongheguo, with the abbreviation Zhongguo, which can be translated as "Central Nation". It has a communist state type of government and its administrative division involves 23 provinces, 5 regions with autonomous administration, 4 municipalities that are centrally administered and there finally are Macao and Hong Kong with a special administrative regime (CENTRAL INTELLIGENCE AGENCY [CIA], 2017). China is the third biggest country of the world with a territory extension of 9.6 million of km<sup>2</sup>, being preceded just by the Russian Federation and Canada and shares borders with 14 Sovereign States (IVACE, 2015). In 2015, its population was calculated in 1.37 billion people, from whom the 56.10% inhabit the urban area, while the 43.9% are located in the rural zone. The male population represented 51.2% of the total, while the female 48.8%. Regarding age, 16.5% are aged between 0 and 14 years, the 73% are between 15 and 64 years old and 10.5% are 65 years and older. (NATIONAL BUREAU OF STATISTICS OF CHINA [NBSC], 2016).

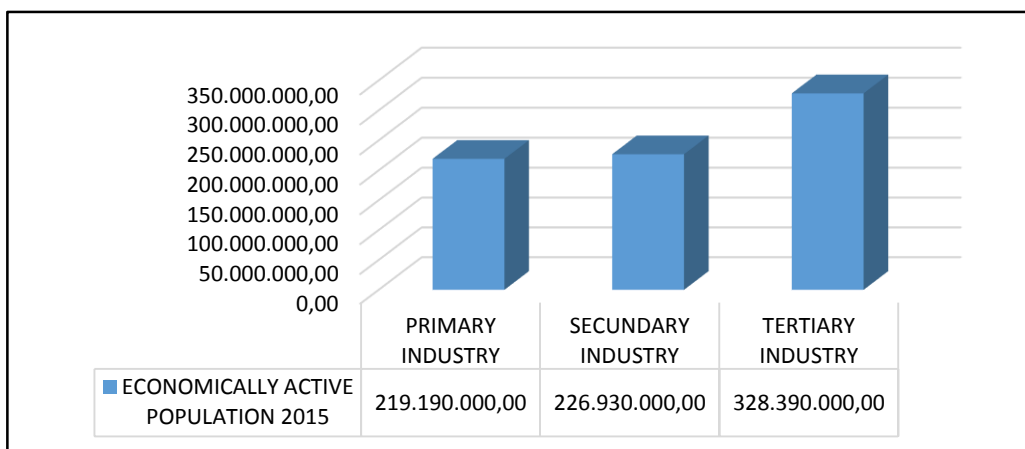
**FIGURE 1**  
**POPULATION GEOGRAPHIC DISTRIBUTION 2015**



Source: NBSC, 2016  
Author: Solange Hidalgo

With 775.5 million people registered in the economically active population, China had an unemployment rate of the 4.58% in 2015. Regarding to the distribution among the economic sectors, the 28.3% was employed in the primary industry, the secondary industry employed the 29.3% and in the tertiary industry was working the 42.4% of the working force (NBSC, 2016; WORLDBANK, 2017).

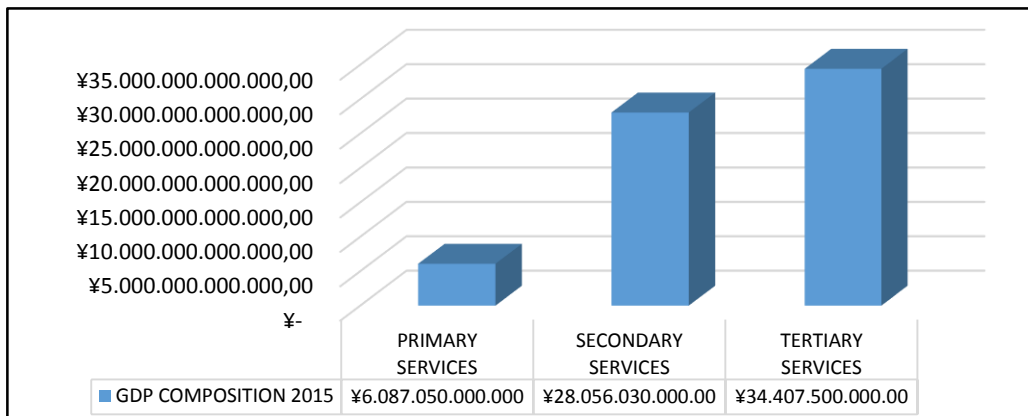
**FIGURE 2**  
**ECONOMICALLY ACTIVE POPULATION 2015**



Source: NBSC, 2016  
Author: Solange Hidalgo

China is the second biggest economy of the world, with a Gross Domestic Product of 68.6 trillion Renmimbis (RMB) (NATIONAL BUREAU OF STATISTICS OF CHINA [NBSC], 2016) or \$11.065 trillion dollars in 2015 (WORLD BANK, 2017), representing the 17.113% of the global GDP (INTERNATIONAL MONETARY FUND [IMF], 2017). The tertiary industry sector was the biggest component with a 50.19%, followed by the secondary industry sector with a 40, 93% and finally the primary industry represented the 8.88% (NBSC, 2016).

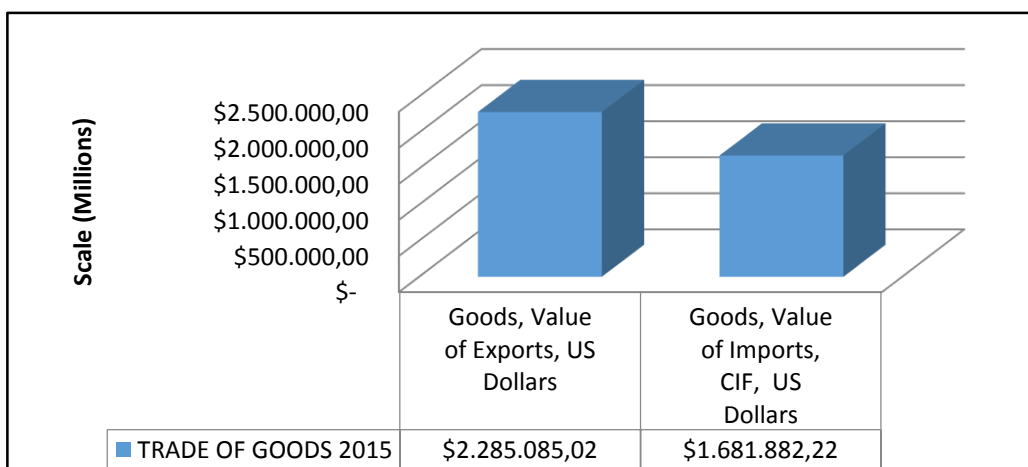
**FIGURE 3**  
**GDP COMPOSITION 2015**



Source: NBSC, 2016  
Author: Solange Hidalgo

In the year 2015, China's GDP had a 6.9% growth, a rate that was much higher than the world average (2.829 %) (WORLD BANK, 2017). The year 1979 marked the beginning of an economic reform which promoted the entrance of foreign enterprises that established operations in special economic zones created, with the aim of boosting the exports sector of the country. As a consequence, thousands of investors were attracted and a massive flow of foreign capital was directed into China. Foreign investment indeed was one of the main growth drivers of China from the beginning of the economic reforms, receiving higher amounts than the ones perceived by Japan, South Korea and other ASEAN members (Hofman & Wu, 2009).

**FIGURE 4**  
**TRADE OF GOODS 2015**



Source: IMF, 2017  
Author: Solange Hidalgo

The Economic Freedom Index has a close relation with the individuals' autonomy in a country, and its main concern is the freedom that they have to acquire and make use of resources and economic goods (Miller & Kim, 2017). China has a score of 52.7/100, having in this way the 139th place of 178 countries which makes it part of the category of *mostly unfree* countries. The Asia Pacific region has a 58.8 average (Miller & Kim, 2015). Regarding the corporative scope, the Doing Business Index is determined by an annual comparative study that analyses the regulations of a country that affect enterprises in the private sector (WORLD BANK, 2014). In 2015 China received a score of 62.58/100 having the 90th place of 189 countries (WORLD BANK, 2015). This implies a 6 places rise in comparison to the previous year (WORLD BANK, 2014). In this sense, the country has improved its business environment through several actions like measures to promote new entrepreneurships and the speed up of public processes. However it still has a considerable path to walk to increase its competitiveness and reach the first places of the ranking (WORLD BANK, 2015).

A main aspect to remark of the Chinese economy, is that currently, consumption is the biggest component of its GDP. In 2015, according to the National Bureau of Statistics of China (2016), it accounted for the 51, 6%, while fixed capital formation contributed in a 44, 9% and net exports in a 4, 3% (NBSC, 2016). Consumption is expected to remain as the most influential component of the economy revitalizing its dynamism after a backward motion that came as an effect of the 2008 global crisis. One of the main government objectives is by 2049 to reach the full development of the nation, providing its citizens with a similar standard of living to that of people in developed economies (Lawrence, 2013).

### **1.1.2. The economic reform of 1979, a key factor for the Chinese openness to the world**

China is one of the most antique civilizations of the planet. Its unification as a political union took place for the first time in the year 221 B.C. Initially established as an empire, China made several contributions to the world in diverse knowledge areas with inventions and techniques like paper, bases for the press industry, the compass, fertilizers use, crops rotation and some more. Being marked by a period of dynasties and a complex history, by the end of the XVIII century China saw the end of its prominence period. Initially facing British pressures, the XX century marked a period in which China was a victim of the ambitious desires of Great Britain, Russia, Japan, the United States, and

Germany. Military confrontations started taking place in the year 1834 between the two sides (Debasa, 2012). These years were characterized by extortions to the Chinese government, looking occidental countries to get by force legal privileges, islands cessions, permissions to establish embassies and consulates and commercial advantages (Brum & Castro, 2009).

With these events as a background, the opium war took place in 1893 with Great Britain, Russia and Japan interrupting into different zones of the country. Furthermore, interventions from France, Germany and the United States took place as they looked to take advantage of the open doors policy with the objective to turn China into an influence area of these industrial economies. This period was marked by constant confrontations between China and the occidental world motivated by the intention of the latter to establish itself in the commercial market of China by force. The event closing this period took place in 1900 with the Boxers war as a group of young politicians emerged promoting the expulsion of foreign people from the country (Brum & Castro, 2009; Debasa, 2012).

Between the years 1910 and 1930, while the world was going through the Great War, the Great Depression and the rise of fascism and nationalism, China was facing a phase of internal political power struggle between two factions. In 1945, the United States response to the Pearl Harbor attack that was perpetrated in 1941, marked the Japanese collapse, which in combination with the resistance, put by both factions with guerrillas, resulted in the evacuation of the Japanese apparatus from China. The next four years were characterized by the continuous combat between the two factions that in 1949 eventually lead to the victory of the communist side, under the command of Mao Zedong, who was established as the leader of the Chinese Republic (Brum & Castro, 2009).

Though one of the main focuses of the Chinese Communist Party (CCP) was to achieve material growth since its establishment, results had not arrived, and its economic model of central direction was each time less effective. The objective was not being achieved and the CCP was not able to address population needs. In the year 1978, China started its way towards an important institutional change, which has been an effective process to promote economic growth of the country, and consolidation of its current international status under a market socialism model. Thirty years ago, it had been difficult to imagine the

social and economic improvements that China has achieved as a result of the adopted reforms known as the “open door” policies (Tisdell, 2009).

Deng Xiaoping, Mao’s successor, was a key figure, as he was the promoter of these changes; however, the subsequent leaders who kept the continuity of the process are equally important. A particularity to take into account is the progressiveness of the measures applied, as otherwise, his approach would have been perceived as being too radical by the CCP at that time. Through their implementation, China went from being a country in which market forces had almost no role in the economic activity of the country, to being the major player. It became the major foreign investment receptor, trade had an extraordinary development and the accumulation of foreign exchange reserves was high, being the two latter very high compared with the level of national production (Tisdell, 2009).

The reforms plan comprehended a governmental deregulation with the aim to reduce dependence of the economy and the population of China from state planning, which had been proven to be ineffective in other left wing countries (Chow, 2004). The reforms were concentrated over the economic activities of China, giving the government in this way pass to the privatization of several companies in diverse sectors and activities, while the state control was initially maintained on them which were considered essential. The agricultural policies involved one of the big changes that the country experimented as the lands collectivization production system and production quotas were eliminated through the implementation of a private system that integrated the farmers’ families. This made it possible to improve their life quality as they started perceiving higher incomes. The productivity of the sector increased and contributed to reduce the inflation and the scarcity issues that the country faced (Ashok, Ahenggen, & Sara, 2005).

The prices liberalization reinforced the changes made on the economic policies which favored the establishment of a market economy aimed at the improving of the work productivity. Complementarily, the elimination of the fixed prices system strengthened the attractiveness of the macroeconomic environment for the investors and incentivized the creation of several private entrepreneurships (Miller & Kim, 2015). Though some minor backward movements took place as an effect of the political pressures propitiated by

conservative groups of the Communist Party, Xiaoping's successors maintained its trade openness in favor of the growth of the private sector in China. In this way, the biggest enterprise privatization in the country's history took place during this reforms period. The industrial sector had historically been dominated by the state enterprises which were inefficient (Barnett, Blancher, Brooks & Fedelino, 2004).

Continuity was given to these reforms with the creation of special economic zones. They were established on coastal areas of the country and offered tax exemptions, lower regulations, and a special treatment for the enterprises that opened operations in them in order to attract foreign capital and potentiate the local industry. The industrial sector was previously weak because of the low infrastructure investment previous to the privatizations stage (Hofman & Wu, 2009). These economic zones attracted a wide variety of enterprises motivated by the low taxes, low state intervention and low operational costs which turned the country into the best option to transfer its production plants and which let China get positioned as the world factory (Bertoldi & Melander, 2015).

Deng Xiaoping's reforms are considered the success recipe of China as they boosted the production growth in all the economic sectors. The per capita income in terms of Purchasing Power Parity (PPP) grew in approximately a 50% rate between the years 1980 and 2004 (Ravaillon & Chen, 2004). This has never been seen in a modern economy. The income rise of the population has progressively increased the household consumption and currently, it is the highest contributor to the country GDP. In concordance with this tendency, the flow of foreign capital coming from all over the world had a positive impact in key sectors of the economy such as the industrial sector. Technological infrastructure was introduced into the country by developed countries as they established their production centers (Bertoldi & Melander, 2015).

### **1.1.3. China's accession to the World Trade Organization**

In the year 1947, China was one of the twenty three countries that adhered to the General Agreement on Tariffs and Trade (GATT), however in 1950 China decided to retire pursuant of its internal legislations and arguing that this was an "unequal contract". In 1986, China notified its will to recover its status of being a contracting part of the GATT, with this request rejected in 1987.

Nonetheless, there was created a group in charge of examining China's application and the possibility of becoming a participant. Between 1987 and 1994, nineteen meetings took place in Geneva, emphasizing China in them its position regarding the importance of commerce in its long term goals (Manassero, 2008).

In 1993 China assumed several commitments among the most important: to restrict the use of importation quotes imposed over agricultural products and to adequate its application for the internationally accepted uses, to unify the exchange rate, to eliminate the internal controls over prices and to work under the internationally accepted laws regarding animal and vegetable quarantine. Another important aspect was the commitment to widen the national treatment for foreign investors and to open the local and international commerce systems to the participation of external capital as the financial and services sector was a monopoly in hands of the state (Manassero, 2008).

The World Trade Organization was established on 1996 as a consequence of the Doha Round agreements, expressing China again its interest to join the organization. In May 1997, new agreements were reached between China and other WTO members regarding commercial rights of the Chinese enterprises and the state control over them. Moreover, there was established a negotiating agenda related with several aspects of the commercial regime like non-tariff measures, state prices, subsidies, safeguards and prices comparability. There was also accepted the non-discriminating treatment and China also offered to eliminate the difference of treatment between the merchandises to be sold outside and those sold inside China. For the year 2000, China had reached agreements with 35 of 37 interested countries. In November, more advances were possible in specific aspects like judicial revising mechanism, uniform administration, quotes administration, duties, and quantitative restrictions for importations, technical barriers, agricultural politics and intellectual property rights. In January 2001, the process for China's access to the WTO was reviewed and on November 11, was finally made effective the addition protocol, with China becoming part of the organism since December 11 (Manassero, 2008).

The gradual liberalization process to foreign investment that took place in China started in the year 1979 with the creation of the first Economic Zones and was especially enforced in the year 2001 as a result of the compromises that China had to accomplish to be part of the World Trade Organization. Until the

mid-90s, in the first reforms stage, the open door policies were applied in agriculture, industry, army, science and technology, having the objective to create in a progressive way spaces of economic activity. In the financial aspect, the objective was to attract foreign capital and technology that would make it possible to modernize the industrial sector. In the commercial field, the main focus was to boost the manufacturing sector exportations. The second stage of this economic process started at mid-90s and was characterized by deeper measures looking for the establishment of a market economy. This process has taken place in a gradual and experimental way in three aspects. Geographically, with the progressive creation of free trade areas; sectorally, with different productive activities and by investing modalities, according to the type of enterprise (Salvador, 2011).

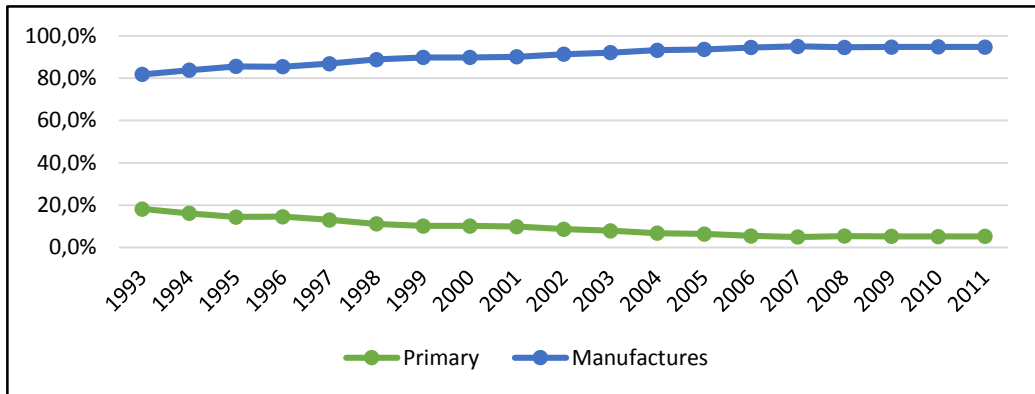
In 1979 was created the first industrial park in Shekou, a measure which was soon followed by the concession of several economic privileges in selected areas of the country south. Some months later four Special Economic Zones were established: Zhuhai, Shenzhen, Shantou and Xiamen. The purpose of these areas was to attract FDI and to be experimental laboratories that would let the authorities study the impact of them in the economy. Being located these four free trade zones in the coast, they were provided with adequate structures to commercialize through ports and land transport. An important aspect of these trade zones was the fact that apart from the common advantages that this type of areas usually offers like lower taxes and simpler custom processes, local governments had major autonomy over them. At mid-90s, in the year 1984 started a second period of reforms, having as the first step the creation of 14 Open Coastal Cities and the Economic and Technology Development Zones offering similar benefits to Special Economic Zones. Later, this tendency was extended to the interior of the country and even rural areas. In 1987, the Hainan Island and Pundong became places with the same measures applied. Later, a third reforms period came with the creation of the High Technology Development Zones, which offered extra fiscal concessions to the sectors related to high technology industries. In this same period were established the two first Free Trade Zones for enterprises to import and export freely (Salvador, 2011).

Among the most signifying changes introduced by the General agreement on trade in services (GATS), and the Agreement on trade-related investment measures (TRIMS), could be mentioned the elimination of several requirements

that China had for foreign investors like the obligation to export and, for some enterprises, the obligation to acquire the equipment and raw materials in China. During this process, the laws related to the different forms of FDI were reformed. The Joint Venture Law determines two type of mixed enterprises: the equity joint venture which is regulated by the law of March 15 2001; Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures, and the contractual or cooperative joint venture, which is regulated by the law of October 31 2000; Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures. On the other hand there is the Law of the People's Republic of China Operating Exclusively with Foreign Capital, which had its last reform in 2000, and its implementation rules were published in April 2001. The Chinese government classifies the investments in four sectors: prohibited, permitted, restricted, in which the foreign participation is restricted and should have the central government approval, and encouraged (Salvador, 2011).

The agreements formulated when China entered the WTO were beneficial for the country's development, being the industrial sector one of the most favored ones. The gradual reduction of its subvention policies for the acquisition of capital goods helped the country to incorporate new technologies proceeding from developed countries, which made possible the transformation of the Chinese industrial centers. The development of the industrial processes that came with these measures promoted international trade, boosting in this way exportation, especially of manufactured goods, as the production costs were low. While the commercial balance kept growing in China's favor, the country continued to diversify its exportable offer, going from the fabrication of toys and textiles, to machinery production. The graphic below illustrates the exports evolution by product type; it remarks the decreasing tendency of the primary sector and the increasing of the manufactures sector, which has had a considerable growth from 1993 (Gambrill, 2015).

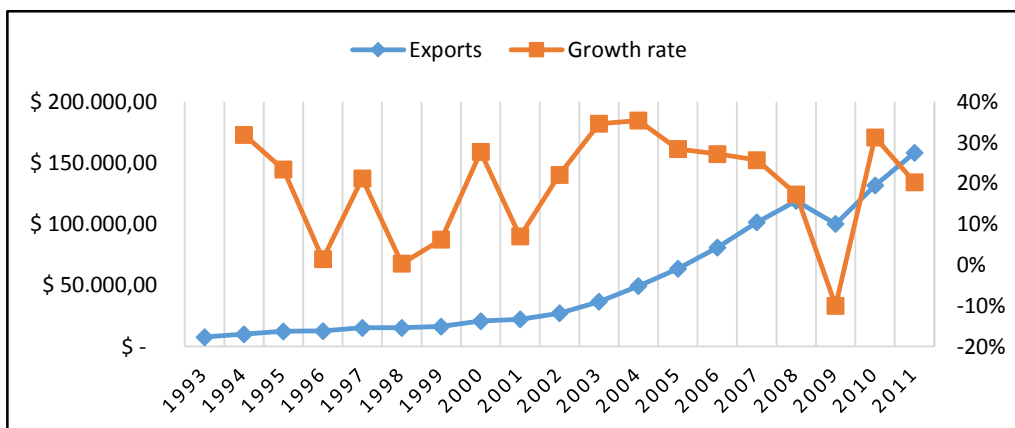
**FIGURE 5**  
**EXPORTS EVOLUTION BY PRODUCT TYPE**



Source: Gambrill, 2015  
 Author: Solange Hidalgo

In the years following the WTO entrance, the Chinese government kept on updating the country regulations in several fields like international trade, fiscal regulations, and antidumping tactics. China had to align its guidelines with those of the international organization in matters of tariffs, taxes and any other non-tariff measures that would affect free trade between its members. The next figure shows how the exportations maintained a constant growth between the year 1993 and 2001 and how it was boosted from 2001 with China's entrance to the WTO. Since that year, the exports growth rate surpassed the 10% and continually rose over time without abrupt variations. An exception is seen in the year 2009 when the housing crisis originated in the United States, and had effects in the global economy, especially in its principal trading partners, among which China is comprised (Gambrill, 2015).

**FIGURE 6**  
**EXPORTS GROWTH**



Source: Gambrill, 2015  
 Author: Solange Hidalgo

Despite the limitations imposed by the WTO on the subventions aspect, the Chinese economy has been dynamic and versatile to adapt its environment to the emerging market tendencies. This has let its transition from a primary products exporter to a country with expectations to compete in the high-technology scope. China's access to the WTO opened the door to a wide number of countries, especially to the European market and the United States market, which have a large amount of consumers with a high purchasing power. The set of measures adopted by China with the reduction of tariffs, an equitable corporate treatment, lower government intervention and lower tax preferences favored the flow of foreign investments into the country, with a particular focus on the special economic zones (Gambrill, 2015).

## **1.2. A current scope of the e-commerce in China and favoring factors for its development**

It's important to understand how China's economic growth gave way to the consolidation of a middle class, as it fuelled consumption growth in the past decade. However, during the next years, the retail market will be sustained by an emerging upper-middle and affluent class. An overview of the state of internet penetration in China and the e-commerce market will be given in order to have a clear vision of the most important tendencies, among which figure the key role of millennials as tendencies drivers, the high usage of mobile internet and the popularity of third-party platforms.

### **1.2.1. The growing consumer market of China**

China's economy is facing a phase of structural change. Economic growth is not having the same speed it had during the booming years, especially between 2002 and 2010. However, China's consumption trend continues to be highly dynamic. Consumers have remained confident and optimistic as salaries have continued to increase over the years and unemployment has remained low. According to projections, the Chinese consumer market would expand to \$6.5 trillion USD by the year 2020, approximately doubling the size of 2015. This means that over the next five years, the consumer market will grow in a \$2.3 USD trillion value. In other words, it can be understood as adding to China a consumer market whose size is 1.3 times larger than the current consumer market of Germany or the United Kingdom (BCG, 2015; Chen, Gong & Zipser, 2016).

Willingness to spend among the Chinese population has kept a steady growth. A decade ago, consumption comprised the 30% of the GDP rising over the years to reach more than the 50% in 2015, which was the first time that it surpassed the business investments' component in the economy. A survey carried out by The Nielsen Company (as cited by Cheng et al, 2016), states that according to the Consumer Confidence Index, willingness to spend in China rose from a 38 in 2012 to 48 in 2015 (0-100 scale), and the willingness to save or invest diminished from 70 to 64 during the same years. China's total retail sector had a RMB 30.1 trillion amount on 2015 (about \$4.61 trillion USD). This represents about 20% of the world total and a 37% global growth contribution during the mentioned year. The annual growth rate was of 10.7%, compared with a less than 5% for North America and Western Europe. The Chinese retail market is expected to replace the United States as the biggest of the world in 2019 (DELOITTE, 2016).

There have been three particular factors that have propelled consumption growth and that will continue to give an impetus to sales, which, if examined with attention by sellers; good advantages would be taken from them. In the past decade, the consumption market of China has been boosted by the people ascending from poverty to join an emerging-middle class, whose disposable income is comprised between \$10,000 and \$16,000 USD yearly, and by the middle class; with an annual disposable income between \$16,001 and \$24,000 USD. However, China is currently entering a new phase. In the years to come, this increment will be propelled by the upper-middle class and affluent class expansion, which includes households with an annual disposable income between \$24,001 and \$46,000 USD in the former case and more than \$46,000 USD in the latter (BCG, 2015).

According to projections: in 2020, the 30% of the urban area will be composed by upper-middle class and affluent households, compared to a 17% in 2015 and just a 7% in 2010. The rising consumption rate among them is currently at 17% per year, a cipher that by 2020 will mean a \$1.5 trillion USD worth. Within the next 5 years, these two sectors will be responsible for the 55% of the urban consumption and the 81% of its growth. However, in this point, it is important to mention that these two income categories will continue to expand far beyond the traditional Chinese metropolitan areas reaching more than 2,000 cities. More than half of the 46 million additional households within these income groups that

will emerge by 2020 will be situated in other cities not considered in the top 100 cities of the Chinese territory, which are known as tier 4 cities or lower. Estimates show that companies will have to extend their presence to 430 cities in order to catch the 80% of this market by 2020. Tier 1 cities like Guangzhou, Beijing and Shanghai will have a 10% annual growth of the upper-middle class and affluent population, with a 30 million total households (BCG, 2015).

The “younger generation” of China will have a key role during the next years as the consumption dynamism will continue to be propelled by them; those who are 35-year-old and younger. They are approximately 400 million people. Aside from the fact that they perceive a higher income and have low debts, their consumption orientation is stronger than that of the older segments of the population. Contrasting with the generations born before the 1980s, Chinese consumers currently have access to all the same products their peers in other parts of the world do. It is also important to take into account the fact that they are characterized by being web-savvy and make a high use of modern technology. Moreover, the younger generation is not as thrifty as their older relatives. The consumption growth rate among them is currently defined at an annual 14%. On the other side, the consumption rate among the population 35-year-olds and older, also known as the “last generation”, is just at a 7% a year. The younger generation segment, by 2020, would represent the 53% of the overall consumption in China, up from a current 45% (Iskryan & Stanberry Churchouse Research, 2016; ECONSULTANCY, 2014).

In concordance with the rising living standards; premium products demand is increasingly expanding. Currently, the 50% of the consumers look for the best and most expensive product, which is a substantial growth over the years. Meanwhile, the consumption growth in the food and beverages categories is decelerating, being close to stagnation. There actually are some categories in which the growth of the premium subdivisions is surpassing the average overall growth of the category. One example can be seen in the skin care field; premium products had an annual growth of more than the 20%, while overall growth average of the industry was a 10%. Luxury SUV cars reflect as well a sign of this trend as the annual growth rate was of a 20% while the standard family models had 10% annual growth (Atsmon & Magni, 2012; Chen et al, 2016).

Another notable pattern related to the wealthier economic conditions of the Chinese customers is the loyalty to brands. The proportion of consumers who are becoming loyal to a short group of brands or even to a single one is rising. For instance, the amount of people that would consider a brand that is not part of their "short list" decreased between 2011 and 2015, going from 40% to 30% (Chen et al, 2012). Specifically regarding the young generation, the 49% says that they trust brands. Moreover, the Chinese consumers' emotional connection with brands is significant. A considerable proportion of the people between 18 and 25 years said that when buying skin care products; they like brands that "fit their personality" and give the message of being "young and energetic" (BCG, 2015).

It is necessary for retailers to take into account the changes in the customers' consumption patterns that have taken place, especially during the last years, in order to be able to address their new demands. Companies used to offer similar value propositions, being mainly focused on the products functionalities and benefits, and targeted to a wide spectrum of consumer types. Nonetheless, for the incoming years, an adequate distinction of the varied categories that are emerging will be especially important, being necessary a suitable understanding of the differences among groups of consumers and their individuality sense. Companies will have to make an important effort into offering a more tailored value proposition to gain more specific consumer segments. Companies' portfolios should be adapted through the implementation of more targeted brands or sub-brands that let them connect with narrower consumers groups (Atsmon & Magni, 2012).

Finally, e-commerce itself will have a key role. Over the last five years, the Chinese retail market has slowed down. However, the online retail segment has maintained its growth trend and has actually become the major driver of the Chinese retail market. In 2015, it had a 34.7% contribution to the overall growth, nearly twice the 2012 cipher that was of 19.65%. Private online consumption is expected to grow at a 20% annual rate, contrasting with a 6% of the off-line division. In concordance with this trend, 42% of the private consumption rise will come from the online retail accounting for the 24% of the overall retail and a \$1.67 trillion amount. Although the overall retail growth rate has decreased throughout the last years, the online sector will continue at a much higher speed than the overall retail market of China. With a 36.2% year-to-year rise in 2015,

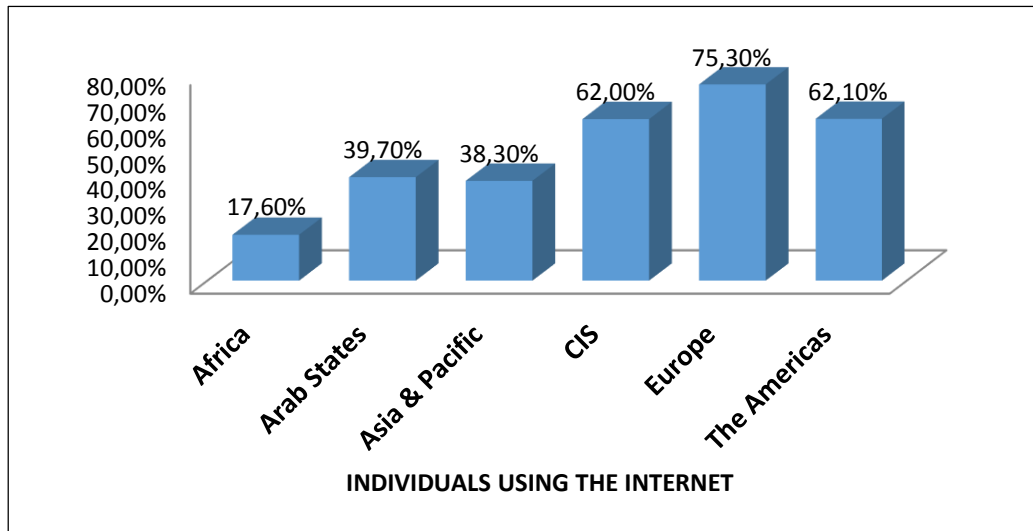
the Chinese e-retail market and a 46% global growth contribution, accounted for the 35% worldwide. In this way China has become the major developing force for the online retail sector. Forecasts based on the current trends consider China will represent over a 50% of the global total in 2019 (BCG, 2015; DELOITTE, 2016).

### **1.2.2. Chinese internet development state**

During the last 15 years, the Information and Communication Technologies (ICTs) have had a leader role for the global development. Constant technological advancements, infrastructure implementation and prices reduction have contributed to an unexpected rise in the access and connectivity to ICTs by billions of people in the world. By the end of the year 2015, according to the annual Facts & Figures released by the International Telecommunications Union (ITU), an estimate of 3.2 billion people at a global level were using internet, being 2 billion of them located in developing countries, which in other words can be described as for each internet user from a developed country; there are two in the developing world (International Telecommunications Union [ITU], 2015).

Despite these achievements; there still remain 4 billion people living in the developing countries who remain offline and who represent the two thirds of its residents (ITU, 2015). Currently, more people access the internet making use of smartphones and internet-enabled mobile phones rather than through computers with-fixed line connections. The GSM Association (GSMA) reported (as cited by FACEBOOK, 2016) that in 2015, there were 3.2 billion mobile internet subscribers. This majority can be partially elucidated by the wider availability of mobile broadband networks in comparison with the fixed broadband ones, having the latter weak coverage in developing countries. Mobile phones have been to a certain point an equalizer for developing countries, by giving the possibility to navigate the internet to millions of people who otherwise wouldn't have access to it. In 2015, the mobile broadband penetration global rage was calculated in a 47%, which implies a 12 times growth from 2007 (FACEBOOK, 2016; ITU, 2015).

FIGURE 7  
REGIONAL INTERNET ADOPTION 2015



Source: ITU, 2017  
Author: Solange Hidalgo

Europe is the region with the highest internet adoption rate with a 75.3%, while the Asia Pacific region has a 38.3% reported in 2015. However, the Asia Pacific region has the biggest online population with approximately 1.6 billion users in 2015, accounting for the 49.67% globally, according to the database from the ITU, which can be understood taking into account its territorial and population size. Over 90% of the people who aren't still connected to internet are located in developing countries. For least developed countries (LDCs), there was identified just a 10% people using the internet. In September of the same year, the post-2015 development agenda and the Sustainable Development Goals (SDGs) were adopted by the United Nations member states. As part of the SDG 9c, it's emphasized the necessity to eradicate the barriers that prevent people from using internet, highlighting the importance of actions focused towards making connectivity available and affordable at a global level. Internet is also recognized as a mean contributing to reduce inequalities and favor development (FACEBOOK, 2016).

TABLE 1  
INTERNET USERS GEOGRAPHICAL DISTRIBUTION 2015

INTERNET USERS 2015 (MILLIONS)	%
Africa	5.24%
164	
Arab States	4.83%
151	
Asia & Pacific	49.67%
1.552	
CIS	5.56%
174	
Europe	15.11%
472	
The Americas	19.59%
612	

Source: ITU, 2017  
Author: Solange Hidalgo

China represents 44.34% of the online population in the Asia & Pacific region, with approximately 688.3 million netizens registered and a 50.3% penetration rate in 2015, according to the China Internet Network Information Center (ITU, 2017; CHINA INTERNET NETWORK INFORMATION CENTER [CNNIC], 2016). Mobile devices are the most important way to access the internet currently in China. A 90.1% of the netizens of China connected accessed internet making use of a mobile phone in 2015. When looking at the fixed-broadband line subscriptions expansion in the country, the coverage is much lower, with an 18.56%. In this way, mobile devices have a key role for internet to continue expanding around the territory, 71.5% of the new internet users navigated on the internet through a mobile device, in contrast to a 39.2% that used a desktop computer and just the 7.5% who used a laptop computer (CNNIC, 2016).

Connectivity, notwithstanding, is not the only aspect that influences people's capability to take advantage of the opportunities that internet provides. It must also be relevant for people and they should have the ability to use it. In a study made by The Economist Intelligence Unit (2017), an Inclusive Internet Index was developed in order to give a comprehensive panorama of internet inclusion around the world. An inclusive internet is defined as broadly accessible, affordable and allowing people a usage that contributes to the consecution of favorable social and economic outcomes. The Inclusive Internet Index analyses

the conditions that affect the adoption and beneficial use of internet around the world, taking into consideration data from 75 countries. The Index is composed of 4 categories which are subdivided into 11 subcategories, taking into account a total of 46 indicators. A country is rated over 100 in each one of these categories which are Availability, Affordability, Readiness and Relevance. There is a clear relation perceived between economic affluence and a better quality in the digital infrastructure of a country, the affordability of its prices, the relevance of the available content and a good knowledge of the digital tools. The developed countries of Europe, Asia and North America receive the highest ratings both in the overall value as in the four pillars separately evaluated (THE ECONOMIST INTELLIGENCE UNIT [EIU], 2017).

In the overall index rate, China has a 69.7 /100 score being in the world ranking in the 29<sup>th</sup> place and the 9<sup>th</sup> place among the 21 Asiatic countries that are taken into account. Singapore has the first place of the region with a 90.3 score, being actually the first in the world as well. The overall index is the result of the four categories combined. In a more detailed way, the Availability category reflects the quality of the infrastructures needed for internet access and its territorial reach. The Affordability category analyses the cost that internet has for the users and contemplates as well the actions and initiatives taken by both the private and public sector in order to lower prices and make it more accessible. Relevance refers to the meaning that having internet connectivity can represent to people, related to aspects like the existence of relevant and local content and helpful services. Finally, readiness evaluates the degree to which the internet users of the country have developed the needed skills that let them take advantage of the opportunities that being online can bring (EIU, 2017).

TABLE 2  
CHINA INCLUSIVE INTERNET INDEX 2015

	Score / 100	Rank / 75
OVERALL	69.7	29
1) AVAILABILITY	61.2	31
2) AFFORDABILITY	73.0	38
3) RELEVANCE	77.5	26
4) READINESS	78.1	26

Source: EIU, 2017  
Author: Solange Hidalgo

If a closer look is taken at The Economist Intelligence Unit Database (2015), some relevant aspects come to light. Analyzing the coverage range of internet in the territory, it's necessary to take into account that 3G is the minimum required technology for users to have an internet experience through mobile devices. In China, the 57.4% of the population is within the range of a 3G mobile-cellular signal while the 28.20% is within the range of a 4G mobile-cellular signal. China can be considered a country with a high mobile internet speed when analyzing the average mobile latency, which is one of the indicators included in the availability category, as part of the infrastructure subcategory. Average mobile latency is an indicator of how long data takes to go from its source to a destination. China has the 10<sup>th</sup> place worldwide and the 4<sup>th</sup> place of the 21 countries considered from Asia.

### **1.2.3. The evolution of the web**

The World Wide Web had its origins in 1989, being created by Tim Berners-Lee and implied the biggest revolution in the way to transmit and transform information. Throughout the years it has gone through a process of constant evolution, which continues to the current days. During its first generation, known as Web 1.0, the web was basically a "read-only" web. It was a place where businesses could publish their information and make it available to people. The users had no option to interact with each other or make contributions to the content that was published (Aghaei, Farsani & Nematbakhsh, 2012).

In the year 2004, the next development phase of the web was called Web 2.0. This stage was characterized for the transformation of the web into a platform. This involved a transition from a mono-directional to a bi-directional web, where people could read and write, in other words interact with each other and collaborate (Aghaei et al, 2012). In this sense, the internet turned into a meeting place where people can form communities as a result of a user-centered approach, with the implementation of social and networking sites that enabled interoperability among people. Through them, they are able to share information, keep in contact with other people making use of applications like social media, blogging and microblogging, watch videos, play games and buy goods. An important aspect to take into account is the dynamism in the information

production, as the developed tools enable a constant update of the contents shared (Prabhu, 2016).

Web 2.0 marked a transformation in the computing industry as software went from being a tool of client service to the development of software-as-a-service model, which meant the creation of them with different specific purposes (Prabhu, 2016). The context in which the term Web 2.0 is introduced is one in which a leading role has been given to the Information and Communication Technologies (ICT), being them considered development and progress engines. This scenario is what is currently called the Information Society; where ICT have received a protagonist role in a wide scope of the society activities, being established routes of action especially in fields like economics, productive processes and education. The Web in this sense is considered a platform that offers a wide variety of services. One of the characteristic factors of the Web 2.0 is the possibility that it gives to enterprises to orientate towards big volumes of users having as starting point the social networks existing between them. Furthermore they give support to a big number of users through self-managed systems and the applications that enterprises create are not exclusive to just one specific platform (Pérez, 2008).

This techno-social development has simultaneously shaped a new class of customers. As people have progressively integrated the internet to their daily life, social media has affected the way in which people communicate, socialize, entertain themselves, learn and even do the shopping. Web 2.0 influences both individual and group behavior, which has had an effect over the power structures of the marketplace. In this way, a substantial amount of market power has passed from the enterprises to the customers. This shift has been propitiated by the wide amount of available information that customers regarding to the diverse products and the big number of options they have to pick from. From the other side, Web 2.0 has given enterprises the easiness to stay in touch with their clients and constantly learn about their needs and opinions and social media has become a marketing tool for all kind of enterprises big and small. These tendencies have gained big relevance throughout the years and are currently considered an important part of marketing plans (Constantinides & Fountain, 2007).

All the people interacting in social media are generating a huge amount of information, being the processing of it complex and a critic aspect for the

management of the organizations and the projects they plan. In the year 2006, John Markoff suggested the term Web 3.0, which Tim Berners-Lee also calls the semantic web. The main objective is to configure a data structure that makes it easier to discover, link and integrate the information from different sources with major precision and reuse these data in different applications, collaborating in the web in a more organized way. The concept of Knowledge Internet refers to a better structure given to the information with the aim of making it more significant for people according to their needs providing more knowledge and value (Vinagre, 2011; Prabhu, 2016).

In the Web 3.0 technology and systems cooperate with people in the process of interpretation, recovery and interconnection of the information (Vinagre, 2011). Web 3.0 emphasizes the machine-facilitated understanding of information with the aim of promoting a more intuitive and productive experience for the user, it aims to transform information into knowledge. This trend is underpinned by the emergence of several major complementary technology trends among which are comprised natural language search, data mining, recommendation agents and artificial intelligence. Here it is important to remark the versatility given to the web, being it adapted to be more accessible through different devices like mobile cellphones, tablets and televisions. Web 3.0 is focused on making the data and information on the web readable for machines and not only for humans, in a way that they can take decisions by themselves (Aghaei et al, 2012; Prabhu, 2016).

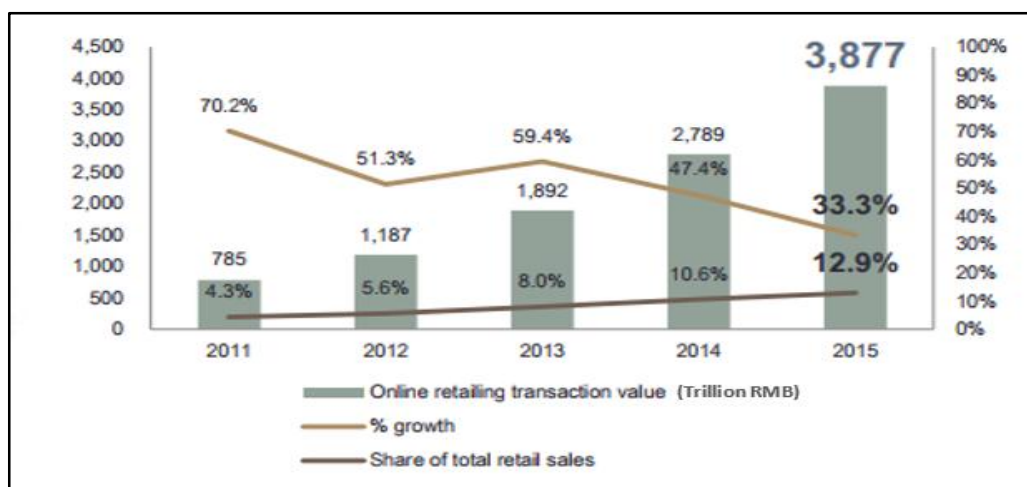
The Web 3.0 aims to incorporate the people's intelligence and points of view, making use of the social media and giving a semantic nature to the contents, in a way that it can enhance their capacities. An adequate classification of the information and data on the web makes it easier for people to look for content and products with more precision. Among the benefits that emerge from the Web 3.0 can be seen the increased capability of informal learning, knowledge management, collaborative working between professionals but also the way in which they establish relationships with their customers or build their mixes of products or online services (Vinagre, 2011).

#### 1.2.4. State of e-commerce in China (2015)

From 2013, China consolidated as the biggest ecommerce market in the world. Within its large territory, a long period of economic growth and social development has been taking place. An important characteristic of this country is that it can be considered a joining of several markets rather than a single one. This situation has been an influential factor for the fragmentation of traditional retail channels, which still remains an important issue. With these latent limitations, e-commerce represents an opportunity that makes it easier for retail companies trying to reach a national presence, and favors the development of the market at the same time (SOVEREIGN GROUP, 2016).

With a sector rise that went from \$20 billion USD in 2008 to about \$581.8 billion USD (3.8 trillion RMB) in 2015, e-commerce in China, currently represents the 7.05% of the country GDP (DELOITTE, 2016; ECOMMERCE FOUNDATION, 2016; SOVEREIGN GROUP, 2016). Bain & Company (2013) surveyed a heterogeneous group of online shoppers from different city tiers, ages, education levels and incomes, composed of more than 1,300 people. One of the main findings that came up from the study was that digital retailing is actually a big influencer when making a purchasing decision. A 70% of the respondents said that without mattering if the purchase was finally done in the physical store or the electronic one, they often look for the desired product on the web in order to compare prices.

FIGURE 8  
ONLINE RETAIL MARKET GROWTH (RENMINBIS)



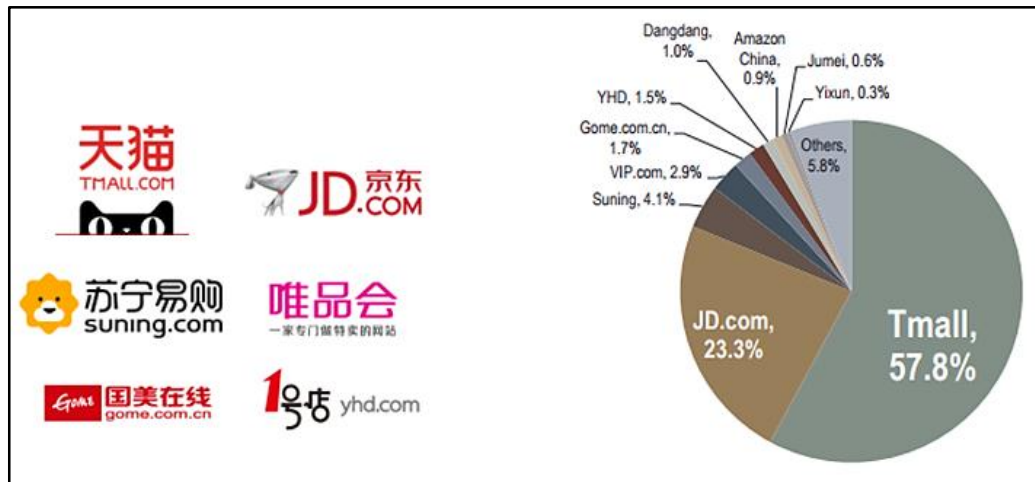
Source: SOVEREIGN GROUP, 2016  
Author: SOVEREIGN GROUP

The staggering development of the ecommerce market in China can be understood after examining some principal factors. As far as the technological landscape is concerned, the users (netizens) population was calculated in 688 million in 2015, reaching a 50.3% internet penetration (CNNIC, 2016). In parallel, online shoppers population has been growing at a quick pace throughout the recent years, going from 74 million in 2008 to 413 million in 2015 (FUNG BUSINESS INTELLIGENCE CENTER [FBIC], 2016; SOVEREIGN GROUP, 2016).

The roots for the explosive growth of the online sales in China are found on the consumer-to-consumer (C2C) model, from which through a maturity period it has reached a more adequate standardization, quality, and diversification. Following this trend, the business-to-consumer (B2C) model maintained a continuous growing proportion, overcoming for the first time in 2015 the participation of the C2C sector with the 52.2% of the e-retail transactions. In the mentioned year, the B2C had a 56.6% rise in comparison to a C2C 19.5% (DELOTTE, 2016; FBIC, 2016).

There's a noteworthy characteristic of the e-commerce market in China that makes it different from the majority of the other countries; marketplaces/third-party platforms have dominance over the stand-alone websites as Chinese consumers find them more trustworthy. An e-commerce marketplace is a "platform where products are listed by multiple parties and the transactions are facilitated and processed by the marketplace operator" (SOVEREIGN GROUP, 2016) Alibaba Group has dominance over both C2C and B2C segments with Taobao and Tmall respectively. Taobao; created in the year 2003, is a platform where people can post goods for sale, used or new. Commission fees or transactions are not charged. It holds the 80% of the Chinese C2C market. Tmall, on the other hand was formed in 2008 and is a business-to-consumer platform. With its unique "mall experience", retailers have the possibility to create their own websites within the platform. A deposit must be paid to display the products and a commission is added on each transaction made. It holds the 57.8% of the B2C market. In this point, it is adequate to mention that Chinese online shoppers have a preference for local third-party platforms. The Chinese language and the acceptance of Chinese payments are key features to take into account (EWW, 2016; FBIC, 2016).

FIGURE 9  
B2C PLATFORMS MARKET SHARE 2015

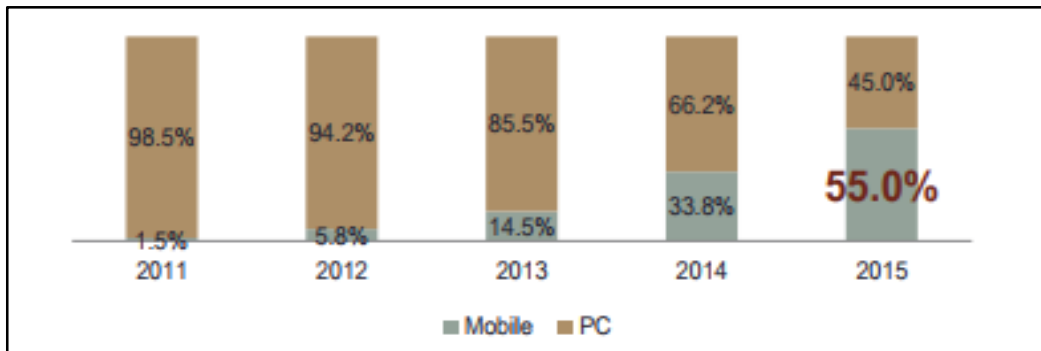


Source: SOVEREIGN GROUP, 2016  
Author: SOVEREIGN GROUP

Mobile terminals have had a key role in the dynamic development of online sales. Smartphone participation has been important especially during the recent years; between 2012 and 2015, the transactions amount made using mobile terminals was over 200 percent higher than the overall growth. Between 2014 and 2015, the penetration of these devices had a dramatic growth, particularly boosted by major investments made in 3G and 4G technologies by mobile network companies. Since the spread of broadband remains low in the country, the China Internet Network Information Centre (As cited by eCommerce Worldwide, 2016), has stated that mobile internet will become the “main driving force for the growth of internet users in China”. In 2015, the sales scale that took place through mobile terminals was of RMB 2.1 trillion (About \$322 billion USD<sup>1</sup>), which represents the 55% of the overall market. Following this tendency, mobile commerce (m-commerce) popularity continues to increase; being worth to remark the possibility of “any time” shopping that comes with it (DELOITTE, 2016).

<sup>1</sup> The transactions value has been converted to American Dollars (USD) using the exchange adopted by Deloitte Company, which was of 6.5315.

FIGURE 10  
ONLINE RETAIL STRUCTURE: MOBILE VS PC



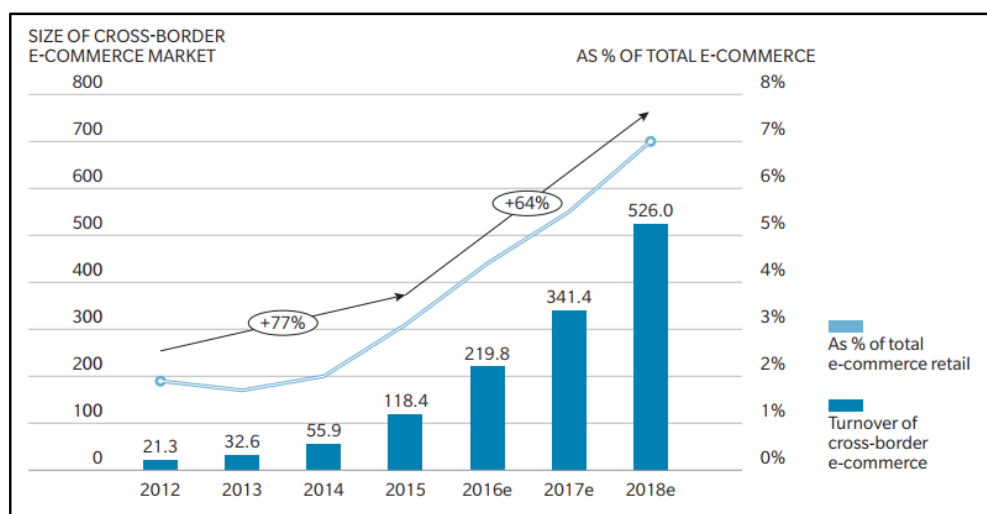
Source: SOVEREIGN GROUP, 2016  
Author: SOVEREIGN GROUP

This expansive growth of the e-retail market has simultaneously boosted the logistical services demand, growing at a quick pace as well. This factor has motivated many e-commerce companies and Internet players to work in the expansion of their logistic capabilities and offered services, being especially notable the rural and cross border e-commerce (CBEB) needs. Several leaders of the sector have built up a national coverage logistics network, with the implementation of advanced technologies, in order to enhance logistic procedures (FBIC, 2016). Regarding foreign demands, for low-value products, there currently are several mail services established, while traditional couriers are available for the more expensive ones. Moreover, some warehouses have been installed abroad as an answer to faster delivery requests. To meet internal demands, local couriers and businesses have implemented varied strategies like the implantation of their own delivery centers, shipment teams, contracts made with logistics service suppliers, and arrangements with insurance corporations, in order to guard buyers and sellers interests (ECOMMERCE FOUNDATION, 2016).

As far as the most popular products are concerned, it could be said that the Chinese online sales market is concentrated over a relatively short number of goods categories. The six most relevant ones are apparel, consumer electronics & home appliance, beauty & personal care, baby & mother, food and homecare. They accounted for the 60% of the online market in 2014. For the next years, the online retail penetration is expected to continue growing across all these popular products, though a maximum rise is foreseen in some standardized groups like home appliances and consumers' electronics. When it comes to areas

like packaged foods and several low-cost products, their penetration will be more affected by the advances reached in “last-mile” delivering capabilities (Ding, Lannes, Han & Yao, 2015). In general terms, it could be said that the online retail market has reached a relative mature stage of development in China. Nonetheless, the cross-border e-commerce (CBEC) sector and rural e-commerce have still a big uncovered scope, consequently emerging as new developing pillars for the e-retail industry with a maintained growing forecast trend over the next years (DELOITTE, 2016).

FIGURE 11  
CROSS-BORDER E-COMMERCE GROWTH



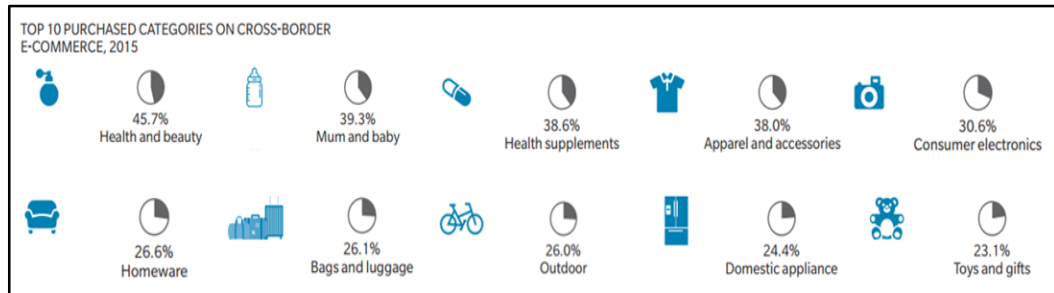
Source: Chan et al, 2016  
Author: OLIVER WYMAN

As CBEC expansion speed started to increase, in 2013, the Chinese government created several experimental CBEC zones in order to regulate the sector in a better way. Import e-commerce participation is still low, with a 3.1% penetration rate, which in 2015 approximately implied a RMB 120 billion total. (About \$18.4 billion USD<sup>2</sup>). However, it has had an impetuous expansion during the last two years favored by factors like policy support and a latent consumer demand. According to iResearch studies (as cited by Deloitte, 2016), in 2015, import e-commerce sales rose by 111.9%. One out of every five online purchasers bought a product from overseas, which implies the doubling of 2014 proportion. In this way, it can be inferred that there’s still plenty of scope for its development in the years to come. CBEC is expected to account for the 15% of

<sup>2</sup> The transactions value has been converted to American Dollars (USD) using the exchange adopted by Deloitte Company, which was of 6.5315.

China's total e-commerce by 2020. (BCG, 2015; Chan, Wouters & Wu, 2016; DELOITTE, 2016).

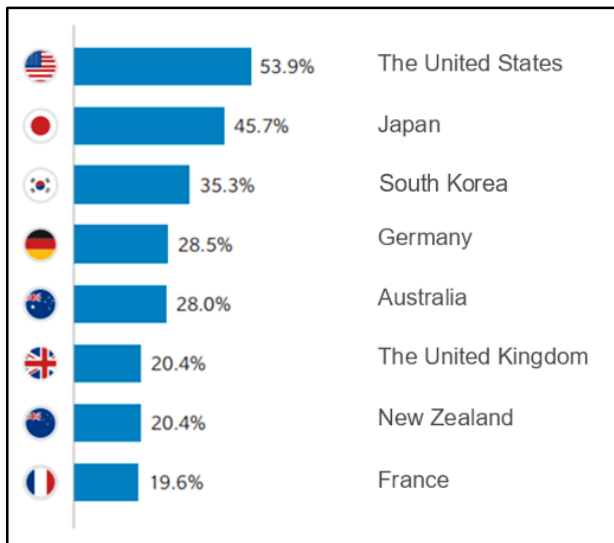
FIGURE 12  
CROSS-BORDER E-COMMERCE MOST POPULAR CATEGORIES



Source: Chan et al, 2016  
Author: OLIVER WYMAN

The 5 principal categories of products acquired through CBEC are health & beauty, mother & baby, health care supplements, apparel & accessories and consumer electronics. Paying closer attention to these groups, it can be noticed that they are traditionally outstanding e-retail categories whose purchase rates are high. In this way, Chinese consumers are focusing on finding better prices and quality. The most popular countries from which online international purchases are made in China are the United States, Japan and Korea. China is probably the country whose customers are the most digitally connected. They frequently carry out diligent researches in order to identify the best options. Moreover, as travelling is gaining popularity among the population, they are more aware of the offline prices in the world (Chan, Wouters & Wu, 2016).

FIGURE 13  
CROSS-BORDER E-COMMERCE MAIN COUNTRIES OF ORIGIN



Source: Chan et al, 2016  
Author: OLIVER WYMAN

When it comes to the rural area; in 2015, the sales amount coming from the countryside was of RMB 353 billion (About \$54 billion USD<sup>3</sup>), which means a 94.3% growth from the previous year. This shows a much faster increasing tendency than the overall e-retail market (DELOITTE, 2016). Regarding payment methods, China has a historical background of low penetration of credit cards and a preference for cash-on-delivery payments. Throughout the years, payment systems have been developed in response to the rapid expansion of the e-commerce market having third-party-payment platforms high adoption rates among Chinese consumers. Online payments in the country are dominated by Alipay platform, with an 86.7% market share. It was launched by Alibaba Group in 2004 with the aim to give their purchasers a reliable payment mechanism and simplify the process of making and receiving payments for buyers and sellers. The adoption of payment platforms has also had an influential role in allaying customers' lack of trust related to financial security. As the e-retail industry has moved forward; credit and debit cards adoption has had a thriving growth to reach a current 63% rage, which is almost parallel to the 62% of third-party online payment platforms. On the other hand, though its popularity is declining, cash-on-delivery still remains an option for the 32% of the online purchasers (EWW, 2016).

<sup>3</sup> The transactions value has been converted to American Dollars (USD) using the exchange adopted by Deloitte Company, which was of 6.5315.

### **1.3. Regulatory environment**

It is important to study the legal framework in order to comprehend how the government has constantly updated regulations in order to keep up with the growth of the e-commerce market and its emerging tendencies. The Chinese government is taking boosting measures to continue developing the e-commerce industry as it is perceived as a highly potential sector to generate economic growth during the next years, reason for which measures have also been implemented to increase internet penetration. Being Intellectual Property protection one of the challenges that enterprises can face in China, an overview of the laws and recommended protective measures is given.

#### **1.3.1. Legal framework for e-commerce in China**

The National People's Congress is the most important legal institution, with the jurisdiction to approve the different laws formulated by important departments formed by the Chinese administration. Local governments have also established guidelines and regulations that are applied within those individual localities. When a foreign company is established and running businesses in China, taxes are paid according to the Chinese Tax Law. From the 1990s, when the surge of ecommerce started, there has been a process of constant legal modifications trying to adequate the business environment for the sector's development. Guidelines defined by the MOFCOM (Chinese Ministry of Commerce) and the MIIT (Ministry of Industry and Information Technology) play a crucial role in the government of the online selling sector of China (EWW, 2016).

The MIIT was designated as the government department in charge of supervising the telecommunications sector and its related activities in China in September 2000. The same day were released the *Administrative Measures on Internet Information Services (Order 292)*, being the first administrative regulations focused on profit-generated activities that take place through internet. Internet Information Services (IIS) refers to activities involving information provision through internet. They are classified into commercial and non-commercial services. Commercial IIS providers should have an Internet Content Provider (ICP) license given by the MIIT and, if foreign investment will be received, the MIIT approval should be solicited prior to the establishment of the services. Based on the changes that the e-retail market has had from that year,

in 2012, the MIIT and the State Information Office released the Revision Draft of Administrative Measures for Internet Information services, being public opinions solicited (China Briefing, 2013).

The conditions under which online platforms should operate have progressively been clarified throughout the years. In 2005, the CECA (China E-commerce Association) published the Standards for Online Transaction Platform Services (OTPS Standards), which determines the general guidelines for e-commerce within the country, particularly emphasizing the responsibilities of the online transaction platform providers. Among the most important aspects contemplated are that online transactions platform providers (OTPPs) should formulate transaction procedures in accordance with the Chinese contract law, and respect and guarantee the protection of customers' rights. In accordance with Order 292, adequate measures should be implemented for a correct platform functioning, included here the supervision of the information released through them. OTTPs have to provide safe conditions for transactions, being in this aspect comprised customer privacy. Additionally, actions to restraint spam and defend intellectual property should be taken (EWW, 2016).

Operation requirements for OTTPs were defined in a more detailed way in 2009 by the MOFCOM through Announcement 21, which establishes Specifications for E-Commerce Model and Standards of Online Transaction Services (OTS Standards). They should be able to offer payment options for e-commerce transactions through banking institutions or non-financial enterprises that have the State department's approval. It's their responsibility as well to guarantee safeness and effectiveness of the payments with the adequate management of registration data, complaints handling and backup procedures. The transaction parties should provide real identities and valid documentation for verification procedures. A physical address and contact information is required as well (China Briefing, 2013).

Measures taken in 2010 have contributed to lessen bureaucracy for enterprises looking to get involved in online operations. The Circular on Several Issues Concerning the Approval and Administration of Foreign Investment in Online Sales and Automatic Vending Machines determines that online sales are one more of an enterprise's activities. This means that foreign-invested companies which are already operating in China can directly get involved in the

online sales sector without having to ask for MOFCOM approval. Additionally, the jurisdiction to approve new foreign invested enterprises selling exclusively through internet was transferred by the central commerce department to the provincial commerce departments, which has made the process faster (EWW, 2016).

Guidelines for commodity transactions and services provided through online channels were specified with deeper detail the same year when the SAIC (State Administration of Industry and Commerce) SAIC launched the Interim Measures for the Administration of Online Commodity Transactions and Relevant Services. Service providers and commodity vendors have the obligation to present all the necessary information related to names, quality, categories, prices, and quantities, payment options, shipping fees and exchange or return procedures. Their activities should be monitored too, reporting any irregularity to the SAIC and taking measures to stop them. Moreover, information records should be kept with all the data from the last two years at least (China Briefing, 2013).

Based on the latter, a complementary guidance was released one year later; the Service Standards for Third-Party E-Commerce Trading Platforms stressing the requirements for platform providers to regulate participants operations. Contemplated aspects include vendor registrations, an accurate guidance for the establishment of transaction contracts, the formulation of a conduct code for the vendors, an adequate management of the information provided in the transactions, orders supervision, mechanisms to handle transaction mistakes, processes for returns and exchanges and the necessary measures to look after intellectual property rights (China Briefing, 2013).

Regarding to the taxation framework, importing goods into China may include several bureaucratic formalities and complex customs processes. To address this situation, in 2012, the cross-border B2C e-commerce “Pilot Project” was formulated and applied in 7 cities including Shanghai and Hangzhou. It was lately extended in 2016, being currently 10 the cities authorized to carry out cross-border e-commerce services (Rödl & Partner, 2016). The formulated guidelines were aimed to handle the direct purchases made in overseas e-commerce retail platforms (Baker & McKenzie, 2016).

B2C cross-border e-commerce products under the Pilot Program were taxed according to the Personal and Postal Article Tax (PPT) before 8 April 2016, which had originally been designed for carry-on luggage and private packages intended for personal use arriving through courier and postal services. The charged value consisted of a single duty varying among 10% and 50% according to the good category and if the total amount to be paid was below 50 RMB (\$8) it was exempted. On 24 March 2016, the MOF (Ministry of Finance), the GAC (General Administration of Customs) and the SAT (State Administration of Taxation) released the “Tax Policy for Cross-Border E-Commerce Retail Imports” with the purpose of making adjustments in the tax policies for the B2C cross-border e-commerce imported products entering through the bonded warehouse and direct mailing modalities. From April 8 onwards, all the admitted goods in the Pilot Program have a temporary custom duty exemption but are charged with the VAT and for determined categories a consumption tax (excise) (Baker & McKenzie, 2016; Rödl & Partner, 2016; SWISS BUSINESS HUB CHINA, 2016).

A permitted goods list was published too, accompanied by updated guidelines that deepen details for aspects like operational guidance, logistic processes supervision, returns management, goods clearance and tax collection (PWC, 2016) Several specifications are relevant under the updated rules. The registration must be made prior to the importation of the products and all the purchase information including the good’s price, the name and residence address of the buyer has to be provided to the custom authorities. The role enhancement of “withholding agents” must also be taken into account. Third party logistic agents (3PL) e-commerce platforms, subsidiaries of the foreign sellers, business partners and other e-commerce agents who participate in the delivering and supply of goods imported through cross-border e-commerce are identified as “withholding agents”. They have the obligation to retain the import taxes paid by the end customers and transfer it to the custom authorities. Additionally, they are responsible to fill the import declaration, which involves the provision among other information of tariff codes and the dutiable rates for the products entering the country (Baker & McKenzie, 2016; Rödl & Partner, 2016).

Transaction limits are also part of the new policies. Each transaction made by a person has a 2,000 RMB limit (\$300 - \$320) with a 20,000 RMB (\$3 000 - \$3 200) annual threshold. If the shops made by an individual are comprised within these limits, the imposed tariff will be 0%, while the VAT and the consumption tax

will be charged at a 70% of the traditional taxable values. If a transaction surpasses any of the two established limits, the good acquired will be taxed according to the general trade guidelines (SWISS BUSINESS HUB CHINA, 2016). In this field, it is important to mention that consumers are allowed to continue making purchases on platforms not included in the Pilot Program, via the conventional courier and postal channels as long as they accomplish with the value and quantity conditions to be considered “personal articles”. Simultaneously to the releasing of the new Pilot Program regulations, amendments were made for the Personal Article Program by modifying the PPT schedule and started to rule from April 8 as well. This involved the reduction from four categories (10%, 20%, 30% and 50%) to three higher rate categories (15%, 30% and 60%) according to the imported good (Baker & McKenzie, 2016).

The permitted goods to be imported through the B2C e-commerce modality were detailed in the “List of Imported Commodities for Retail in Cross-Border E-Commerce”, jointly issued on 7 April 2016 by eleven ministries and commissions. 1142 tariff lines are included and cover categories like food and beverages, clothing, hats, footwear, cosmetics, home appliances, cosmetic products, children toys, diapers and other categories of interest for the Chinese population. A second complementary part of this “Positive List” followed on 15 April containing 151 more categories which include meat, grains, fruits, cooking oil, dietary supplements and medical devices (SWISS BUSINESS HUB CHINA, 2016).

It is important to mention that previous to the law changes, there were no specifications regarding the China’s product regulatory requirements for goods entering under the Pilot Program. Whilst the two positive lists include most of the principal goods bought overseas, some new conditions to be fulfilled are important to be taken into account. Considered “Special Products” like milk formula, cosmetic products, medical formula products, medical devices and other categories are subject to accomplish with similar registration and approval processes prevailing for the ordinary commercial importation practices. Moreover, under the “bonded sale” modality, imported goods should pass commodity inspection and quarantine (CIQ) procedures, carrying this measure attention to aspects like labeling, laboratory testing and other considerations that be part of the Chinese standards (Baker & McKenzie, 2016). After the releasing of the new regulatory policies, CBEC platforms stated concerns especially

referred to the issued positive lists and requisites for products clearance. As a response to the private sector expressions, a one-year grace period was conceded for the products that had already arrived to bonded warehouses or through shipments to be treated according to the status quo. In this way, the goods entering the country by these modalities weren't required to go through the customs clearance process, import authorization, registering procedures or record-filling demands until May 2017 (UNITED STATES DEPARTMENT OF AGRICULTURE, 2016).

### **1.3.2. Government incentives**

Relevant attention is given to the internet sector within the considerations of the 13<sup>th</sup> Five-year program. It has the vision to integrate internet to the other traditional sectors conforming the economy and to stimulate and exploit the potential that it has as a source of innovation. The core objective that the government pursues is to make internet a source of economic growth involving as well the other sectors related to it. The focus is put on the need of identifying new means to propel economic growth, taking into account the current and future trends at a national and international level. The goal pursued is to take the maximum advantage of the opportunities arising from the revolutions in the technological and industrial sectors as the demands on quality and industrial efficiency continue to grow. According to the government targets, China pursues the expansion of the fixed broadband penetration in the territory with a 30% growth between 2015 and 2020, going from a 40% to a 70% coverage ratio, while the mobile broadband penetration is expected to have a 28% increase going from a 57% to an 85% subscription rate on the same period. Research is also contemplated in the plan, with special attention given to technologies like 5G and ultra-wide band and the intention to start commercializing 5G is stated. Especially the area of information technology will receive the government support as a strategic emerging industry. (ACCENTURE, 2016; KING & WOOD MALLESONS [KWM], 2016).

One of the programs implemented by the Chinese government is the "Broadband China" national plan, which is focused on the broadband advancement at a general level around the country, being especially important the network acceleration, with the aim to consolidate a strong and safe next generation information infrastructure at a national level. It was formulated as a

response to the challenges identified regarding internet access within the country. A wide difference exists when comparing China and the developed countries in terms of broadband penetration and speed. Moreover, concerns started to grow about the existent gap between the urban areas and the rural ones, which represents a holding back for the economic development of the latter (CHINA ACADEMY OF INFORMATION AND COMMUNICATION TECHNOLOGY [CAICT], 2015).

Broadband connectivity has become an important affair at an international level as governments have paid closer attention to it. More than 100 countries have adopted a broadband plan/strategy. As several longstanding issues started to arise, the government realized that a broadband strategy was needed. The idea started to be a common mention in high level meetings and started to be present in major policy documents as well. In this way in 2010 and 2011, preliminary studies were carried out to later consolidate a working group of experts in February 2012. During the next month, a field research was deployed along 31 Chinese provinces. With the collected data, a draft was elaborated by May and after receiving the evaluation of five experts, was finally approved in July. Feedback was also received from several ministries and after two submissions it was finally approved by the state council, being published in August 17, 2013 (CAICT, 2015).

By the end of 2014 a rapid growth was seen in the FTTH (Fiber To The Home) sector, reaching 256 million households covered, which boosted the growth of FTTH subscribers, with 68.32 million subscribers registered in the same year in comparison to 167.19 million households covered and 40.82 million subscribers in 2013, while in 2011 there were 43.5 million houses under coverage and 5.27 million subscribers. Regarding the total fixed broadband subscribers, 200 million subscribers were registered, which can be translated as a 14.6% penetration of broadband in China. When it comes to broadband access speed, a transition process can be identified from 4 Mbits/s towards 8 Mbits/s, which can be seen as the entrance to a high speed era. By the end of 2014, 88% of the broadband subscribers had a speed of 4 Mbits/s or higher and the 41% were using an 8 Mbits/s speed or higher (CAICT, 2015).

Looking at the mobile trends, a growth in the adoption of 3G and 4G technologies can be seen. By the end of 2014, 582.3 million households were

registered to be subscribed to 3G and 4G, reaching a 43.5% penetration rate and just a few months later, by March of 2015 the penetration rate rose to 47.4%. 2G technology growth on the other side stagnated and in 2013 it actually saw a 50 million subscribers reduction, passing from a 67.3% mobile users proportion on that year to a 54.7% in 2014. LTE users for their part reached 97.28 million households on 2014 (CAICT, 2015).

Another program that has been implemented by the government is the Internet Plus initiative. It was presented for the first time in March 2015 by Prime Minister Li Keqiang in the Government Work Report. Its aim is to integrate the internet with the traditional industries of the country. The purpose of the initiative is to favor the innovation of the ICT industry in a way that it can connect mobile internet, big data, cloud computing and storage, and internet of things to work simultaneously with those traditional sectors. Its conception pursues the consolidation of a healthy e-commerce ecosystem through the interaction of industrial and mobile internet connections, being them as well a mean through which the leading business of the country can participate in the international market. It is now the point of reference of innovation-driven development of the country. Support given by the government has an important role boosting the development of the internet and the country's traditional industries such as agriculture and manufacturing while special attention is given to the services field. Li announced that a 40 billion RMB budget had been designated for this program (SECONDED EUROPEAN STANDARIZATION EXPERT IN CHINA PROJECT [SESEC], 2015).

In the 2015 Government Work report, it has also been stated the intention to transform several emerging industries of China into leading industries of the country. Especially between 2013 and 2015, with the steady development of the mobile internet, these new technologies have been penetrating in some areas related to people's everyday activities like taxi-hailing, finance services, and conventional manufacture industries, such as household applications. A transition process from the PC internet towards the mobile internet has been taking place and a closer integration between "informatization" and industrialization. Internet Plus is conceived as a new economic form in which internet has a guiding role in the optimization of resources allocation for production and an innovative role for the economy. It constitutes a development model under which internet represents the principal tool (SESEC, 2015) In July

2015 the Guiding Opinions on Promoting the Development of Internet Plus was released by the State Council looking to enlighten the way towards the consecution of the discussed goals. This was also accompanied by the publication of the Guiding Opinions on Promoting the Healthy Development of Internet Finance, which represents a relevant step for a better clarification of the legal framework under which enterprises of the field have to carry out their activities. In this way they, have more certainty about the environment and growth is facilitated (KWM, 2016).

### **1.3.3. The protection of intellectual property**

As the internet use continues to spread throughout the Chinese territory, it has also become a mean by which counterfeit goods can be sold in an easy way, infringing Intellectual Property (IP) rights. According to the World Intellectual Property Organization (2017), the term intellectual property refers to "creations of the mind". In this sense, it covers a wide range of areas among which figure artistic and literary works, inventions, designs, and names and symbols intended for commercial use. The previously mentioned creations can be protected by law making use of different resources like patents, copyright and trademarks, according to the category they are related to (WORD INTELLECTUAL PROPERTY ORGANIZATION [WIPO], 2017). IP rights have been recognized in China since 1979; subsequently, the WTO joining in 2001 started a process of constant adaptation of the legal framework in order to be aligned with international standards. At the current time, it could be said that IP protection challenges in China are more a matter of implementation rather than legislation quality. With this scenario, international enterprises need to consider several issues which are specific to the internet retail field (ICEX, 2014; Tarrant, 2015).

A solid trademark can have an important role to gain new customers when introducing a new brand in the Chinese market. In this point, it is necessary to remark that China works under the "first-to-file" system; this implies that a company can lose legal protection if a similar mark has already been registered by someone else. Being well-known trademarks an exception; a trademark can only be under protection once it has been registered in China. For this reason, it is crucial to register a trademark prior to its introduction into the country, as in this way the risk of having it registered before by any other person, a process which is called "hijacked" can be reduced (IPR SME HELPDESK, 2016). In December

1984, China adhered to the Paris Convention, which implies that within the six next months from the date a trademark is first filled in its country of origin, the member states have the priority to register their trademarks in other countries. However, if a trademark is not used during the next three years after being registered, it could be cancelled (THE ECONOMIST, 2012).

There are several elements that cannot be registered, among which are comprised countries flags and emblems, names of goods that are generic, symbols or words that imply a direct reference to the nature of the product, any expression considered “detrimental to socialist morals or customs or having unhealthy influences”, names of popular foreign places, and names of any Chinese administrative district (THE ECONOMIST, 2012). The registration process can take up to 12 months, so it’s better to begin it as soon as possible. The China Trade Mark Office (CTMO) has its official online database in which the registered trademarks are listed including preliminary approvals, approvals, renewals and modifications (CHINA IPR SME HELPDESK, 2016).

Trademarks should be registered through the Trademark Office, which is under control of the State Administration for Industry and Commerce. Enterprises which are already having operations in China can do it directly, while the ones located in overseas countries have to do it with the intermediation of a Chinese trademark agency. In this aspect, it is recommendable to consider taking legal advice of foreign laws with experience on the Chinese territory in the process of preparing the required documentation, and leave the national agent just the responsibility to fill the prepared documents (THE ECONOMIST, 2012).

It is important to take into account that a trademark registration that is made in roman characters doesn’t automatically protects it from the registration of a similar or the same trademark in Chinese characters. For this reason, it is better to include in the registration the Chinese character name and the Chinese pinyin name as well. Besides, there is a high probability that the local customers will adopt a Chinese name if there is not an official one available (CHINA IPR SME HELPDESK, 2016; US CHINA BUSINESS COUNCIL, 2015).

The Implementing Rules of the Trademark Law, released in September 2002, elucidate among other aspects, the process that foreign companies have to follow in order to register a trademark in the Chinese territory (THE

ECONOMIST, 2012) In the CTMO web site, the qualified trade mark agents are enlisted. The right to make exclusive use of a registered trademark contemplates only similar or identical products. China works with the International Classification of Goods and Services. According to it, there are 45 different classes in which products can be placed. However, China has the particularity of additionally dividing them in sub-classes. For this reason, an enterprise should be careful enough to register its products in all the sub-classes in which products that could be relevant to its activities are present, even if they only have a marginal relation with them. Enterprises have to fill an individual application for each products class in which the protection is desired. Ten items are contemplated in each individual application with a RMB 600 (approximately \$100) fee and an extra RMB 60 fee per additional item. Businesses can also take the alternative of a multi-class application, which enables them to register their goods and services in several classes (CHINA IPR SME HELPDESK, 2016).

A rigorous evaluation must be made before reaching an agreement when working with business partners, and it's recommendable to continue doing it periodically afterwards. It is necessary to comprehend the perception that they have about IP. Protection clauses should be included in contracts making sure that both parts understand the obligations they imply. Even after having the trademark registered, active preventive measures are beneficial for enterprises to protect themselves against infringement. It is adequate to monitor IP publications made, being here comprised the Trademark and Patent gazettes issued by the PRC for new applications in order to detect if IP infringement is intended. Internet surfing is equally important to identify possible infringements of domain names and a constant checkup of e-commerce platforms lets an enterprise detect the selling of counterfeit products (US CHINA BUSINESS COUNCIL, 2015).

According to the last amendments made to the Trademark Law, taking effect on December 2001, it is determined that the fine for a trademark violation can be up to 300% of the turnover, which previously was of a 50% maximum. It also establishes that counterfeit products and the equipment involved in their production or manufacturing can be confiscated and destroyed by authorities and courts. Brand owners have the right to require a compensation for legal costs and a monetary recompense up to 500,000 RMB (Approximately \$80,500) if the exact damages amount can't be determined (THE ECONOMIST, 2012).

If an infringer is detected, a cease-and-desist letter can be an effective low-cost solution for some cases, especially with small infringers. In the case that IP violation continues, it is important for enterprises to build a solid case against the infringers. In China, documentary evidence has more weight than other means like oral testimonies and documents that are not official, like marketing materials. In this way, before legal action is taken, it is adequate for the company to have an internal review process that helps it gather information whether physical or electronic that lets it prove the infringement has taken place and specific evidence to prove it. The data related to the infringed trade mark must be clear, being comprised the registration status and the extent to which it is used within the country, the channels through which products are distributed and the reach of the infringements (products sold). It is highly advisable to use the services of investigative firms who can look after the process, and ensure that the adequate evidence is collected. All these documents must be legalized and the original copies must be provided as well (US CHINA BUSINESS COUNCIL, 2015; CHINA IPR SME HELPDESK, 2016).

The Trademark Office works under the control of the SAIC and is in charge of the trademarks registrations, while the Trademark Review and Adjudication Board are in charge of handling disputes. The SAIC and the local bureau representing it are the only authorized government entities with the faculty to investigate possible infringements within their ordinary responsibilities. Appellation to the administrative decisions taken by the SAIC and the NCAC (National Copyright Agency of China) can be presented through the court system (THE ECONOMIST, 2012). It is important to mention that for e-commerce platforms, in the case that an enterprise detects that its IP is being infringed, a letter can be sent requiring the Internet Service Provider (IPS) to take down the link after the complaint has been revised. As an example, Taobao has the website Ali Protect for this kind of processes. A request for taking down counterfeit merchandise can only be made if the IP has been registered, as for presenting the denunciation, IP ownership should be proved by the complainant (Tarrant, 2015).

Concluding this chapter, there are several findings worth to remark. Even though China is currently the second biggest economy of the world, there are still modifications that should be made in the legal system to improve its business

environment as the economic freedom and doing business indexes show. The reforms started by Deng Xiaoping in 1979 established the base for China's economic outstanding growth giving to market forces the main role in the economy and favoring the productivity improvement. The accession to the World Trade Organization opened the door to international trade and industries development. The economic growth of China gave origin to a middle-class that has maintained an increasing consumption tendency in which millennials will continue to have an important position as the wealthier sector of the population and because of its bigger willingness to spend. The rapid internet expansion of the last years has also been an important factor to promote the growth of the e-commerce industry. Being mobile phones the main internet access and online payments channel, this gives them a protagonist role during the next years jointly with local third-party platforms as the most popular sites among Chinese consumers to buy online. Regarding the regulatory scope, the government aims to support the continuous development of the e-commerce market and for this reason has constantly updated the regulatory framework and has also worked on initiatives to increase internet adoption like China Broadband Strategy and Internet +. However, challenges remain to protect intellectual property, being for this reason crucial to take the necessary preventive measures. Based on the presented arguments, it can be stated that the particular objective established for this chapter which is to: *“describe the current role of the economic and political environment for the e-commerce development in China”* has been accomplished. The next chapter will be focused on Alibaba's business model and the adopted strategies which let it gain the market leadership.

## **CHAPTER 2**

### **ALIBABA AS A SUCCESSFUL MODEL OF E-COMMERCE PLATFORM**

#### **2.1. General vision of Alibaba**

The next section will introduce Alibaba by offering in the first place a brief overview of the background that led to its creation. The diverse business units of the company will be described in order to have a clear panorama of its activities scope. The company corporate values will be presented as well; it is adequate to know them as they guide a company's operations and represent a base over which it can formulate its strategies.

##### **2.1.1. Brief history of Alibaba**

Alibaba was founded in 1999 in Hangzhou, the capital city of Zhejiang province, located in the south east region of China. Alibaba's founder is Ma Yun, who is internationally known as Jack Ma (López, 2014). Jack Ma was born in the same city in the year 1964; when he was 12 years old, Jack Ma started developing a passion for the English language. Continuing his walk through this path, in 1988 he obtained a degree in English from the Hangzhou Teacher's Institute and became an English and International trade teacher of the Hangzhou Electronic and Engineering Institute. Later in the year 1992, he set up an agency – Haibo<sup>4</sup> - offering translation services, which because of his skills, could rapidly gain a good reputation (Deresky, 2013).

The idea of establishing the company that today is Alibaba had its origins in 1995 when Jack Ma was 31 years old. That year he embarked on his first trip to the United States, providing his translating services to a company through Haibo; the agency he had founded. While visiting a friend in Seattle, Jack Ma had his first contact with the internet and utilized a personal computer. During this encounter, he typed the word beer in the search engine and among the results obtained appeared German beer, American beer, Japanese beer and others. However, there were no results related to China when he tried typing the words

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<sup>4</sup> Haibo's name in English is Hangzhou Hope Translation Agency, registered at Hangzhou Municipal Administration for Industry and Commerce in 1994. It was the first translation agency of the city and has been designated as the translation agency of the notary public office of Hangzhou. Throughout the years it has gained a good reputation and the appreciation of several notary public offices. It has partnered with other entities like the Notary Public Association and the Judicial Department of Zhejiang.

<http://www.haibofanyi.com/aboutus.asp>

"beer" and "China" together (Deresky, 2013; López, 2014). This fact is what brought to his mind the idea to give Chinese products a presence on the web. Back in Huangzhou, Jack Ma founded China Pages which was an online directory and the first commercial website of the country. It gave the Chinese companies the possibility to be listed on the web, making it in this way easier for the foreign public to find and contact the different enterprises operating there (Deresky, 2013). Though this process was not easy at the beginning, it could be considered a door opening step for the posterior arrival of Alibaba. Jack Ma had been told by a friend of his that if he wanted to be able to publicize his website, he should ensure that People Daily, the main diffusion Chinese organ, would have an online version. After 6 months and several visits to Beijing in which meetings with the ones responsible were held, People Daily had finally come up with a digital version. The launching of the site attracted the attention of CCTV, the national television chain. During this coverage, Jack Ma was interviewed and was finally enabled to promote his website and additionally give an introductory reflection of the importance of the internet for China (López, 2014).

In 1999, Alibaba was coming to light in Jack Ma's apartment. Gathering a group of 18 people composed of friends and relatives, he was able to collect 60 thousand dollars (López, 2014). The first website set up in English was Alibaba.com, which is a global wholesale marketplace. At the same time, for domestic wholesale activities was launched 1688.com. Alibaba is currently the largest retail commerce company at a global level. It is composed of several e-commerce platforms that connect buyers with sellers. Throughout the years it has expanded its activities to sectors like cloud computing, digital media and the entertainment industry. Additionally, arrangements have been agreed with affiliated companies to provide payment and logistic services in the different platforms (ALIBABA GROUP, 2017).

Alibaba's foundation is underpinned by the belief that the internet can be a mean by which the playing field can be leveled. In this way, small enterprises can have access to technological innovation, the opportunity to grow, and the possibility to compete with more effectiveness at a domestic and global level. In order to get a general view of Alibaba, there are several ciphers worth considering. By the end of the fiscal year 2017 (ending in March 31), with 50,097 employees, there was registered a \$547 billion Gross Market Value (GMV), coming the 79% of it from mobile devices. The annual revenue value was \$22.9

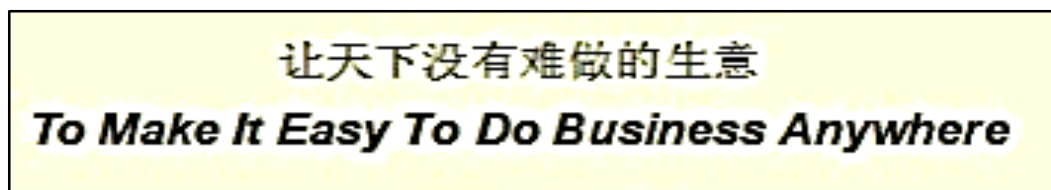
billion worth, which implies a 56% year by year growth. There were registered 507 million monthly active users, from whom 454 million were annual active buyers. More than 100.000 brands were selling products on Tmall (B2C platform) with more than 1.5 billion products listings. "Alibaba's long-term strategic goal is to serve two billion consumers around the world and support ten million businesses to operate profitably on our platforms" (ALIBABA GROUP, 2017).

### 2.1.2. Corporate overview

The name Alibaba finds its origin in the tale of "Alibaba and the 40 thieves" from the "Arabian Nights". The reason for Jack Ma to pick this name lies in the fact that the tale is globally known and is easy to spell (Ballew, 2014; Deresky, 2013).

#### **Mission:**

IMAGE 1  
ALIBABA'S MISSION



Source: Song, 2012  
Author: ALIBABA GROUP

Alibaba aims to transform the way in which enterprises carry out their operational, selling and marketing activities. As a marketplace, Alibaba provides them with the necessary technological capabilities and marketing reach, so that by making use of the internet, businesses and merchants in general are able to cultivate good relations with their customers and users (ALIBABA GROUP, 2017).

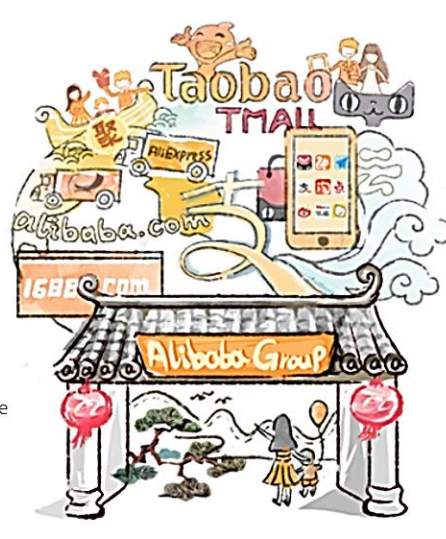
## Vision:

### IMAGE 2 ALIBABA'S VISION

**OUR VISION**

We aim to build the future infrastructure of commerce. We envision that our customers will meet, work and live at Alibaba, and that we will be a company that lasts at least 102 years.

- **Meet @ Alibaba**  
We enable hundreds of millions of commercial and social interactions among our users, between consumers and merchants, and among businesses every day.
- **Work @ Alibaba**  
We empower our customers with the fundamental infrastructure for commerce and data technology, so that they can build businesses and create value that can be shared among our ecosystem participants.
- **Live @ Alibaba**  
We strive to expand our products and services to become central to the everyday lives of our customers.
- **102 Years**  
For a company that was founded in 1999, lasting at least 102 years means we will have spanned three centuries, an achievement that few companies can claim. Our culture, business models and systems are built to last, so that we can achieve sustainability in the long run.



The illustration depicts a traditional Chinese gate structure with a sign that reads 'Alibaba Group'. Above the gate, there are several logos and icons representing Alibaba's ecosystem: 'Taobao' with a cartoon bear, 'Tmall' with a cat, 'alibaba.com' with a smartphone, and '1688.com' with a truck. A person is walking through the gate, and there are red lanterns hanging from the structure.

Source: ALIBABA GROUP, 2017  
Author: ALIBABA GROUP

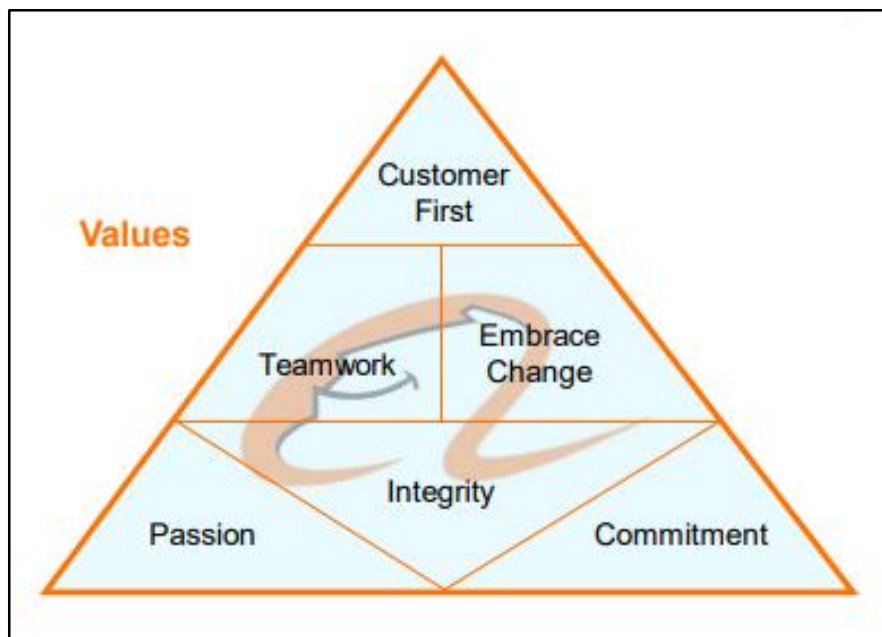
Alibaba's ecosystem is composed of several platforms and services offered. Its core business is identified in its business-to-business (B2B), consumer-to-consumer (C2C) and business-to-consumer (B2C) platforms where people can trade every kind of good. Additionally, several services are offered in order to make the operations more agile, among which are comprised the payment services of Alipay, the logistics capabilities with Cainiao, advertising management with Alimama and more recently has been developed Aliyun with its cloud computing services (ALIBABA GROUP, 2016). Throughout its different platforms, Alibaba enables sellers and buyers to get connected and interact with each other (Huang, Lu & Pan, 2008).

The conception behind these vision statements is to give the users an experience that goes beyond just shopping. Through the buys and content consumption that take place in the platforms, Alibaba is able to collect consumer data, being in this way enabled to get a more precise understanding of them. The digital and media entertainment sectors have been gaining bigger attention from Alibaba during the last years. Within this scope, it has progressively launched different services and products among which are comprised music, video and

games. Alibaba's marketplaces number of users is close to 500 million while the digital media and entertainment sites are reaching an audience that has an almost similar size. Under these conditions the pursued goal is to combine the interaction of users on both sides through the creation of value for customers (Brennan, 2017).

### Corporate values

GRAPHIC 1  
ALIBABA'S CORPORATE VALUES



Source: ALIBABA GROUP, 2015  
Author: ALIBABA GROUP

Alibaba has worked to build an ecosystem in which all of its participants, whether they are consumers, sellers, third-party services or any other kind of participant, are given an opportunity to prosper. The success sources of Alibaba have been an entrepreneurship spirit, constant innovation and a deep focus on the customers' needs (ALIBABA GROUP, 2017).

#### 2.1.3. Services offered by Alibaba; a diversified commerce ecosystem

Alibaba operates several businesses and also receives supporting services from the activities carried out by related and affiliated companies. The

major businesses of Alibaba Group and those of related companies are presented below.

IMAGE 3  
ALIBABA'S CORE BUSINESSES



Source: ALIBABA GROUP, 2017  
Author: ALIBABA GROUP

### **Alibaba.com (B2C)**

A wholesale marketplace focused on global trade. Is aimed to serve wholesalers, trade agents, manufacturers, trade agents and small and medium enterprises engaged in importation and exportation activities. Furthermore, supply chain services are provided, among which are comprised customs clearance, financial assistances, VAT refund and logistics capabilities are supplied as well. Alibaba.com currently serves people located in more than 200 countries around the world (ALIBABA GROUP, 2017).

### **1688.com (B2B)**

Alibaba.com Chinese domestic version. It was designed to address the needs of the buyers and sellers insider China who trade different kinds of merchandises going from electronics and apparel, chemical and agricultural products, to industrial components and raw materials. It represents a wholesale

channel for people carrying out involved in commercial activities inside China (ALIBABA GROUP, 2017).

### **Taobao.com (C2C)**

It is a social commerce marketplace aimed to give the Chinese consumers a personalized shopping experience, making an adequate use of big-data information. Real-time updates lets consumers learn about the products they are willing to acquire. They are also enabled to have interactions among them in Taobao. This platform is primary focused on serving individuals and small businesses. In March 2015, the Taobao's mobile app was the No.1 e-commerce app of China (ALIBABA GROUP, 2015, 2017).

### **Tmall.com (B2C)**

Aimed to serve that segment of the Chinese population demanding branded products. A considerable number of well-known international and domestic brands have opened an online store on Tmall. In 2014 iResearch reported Tmall had been the platform with the biggest gross merchandise volume (ALIBABA GROUP, 2015, 2017).

### **AliExpress.com (B2C)**

It is a global marketplace focused on the retail sector. It connects Chinese distributors and manufactures with consumers around the world. Among the top buyers of AliExpress figure Brazil, Russia, France, the United States, the United Kingdom and Spain (ALIBABA GROUP, 2017).

### **Alimama.com**

It is a marketing virtual platform that allows the merchants of the different marketplaces of Alibaba to make use of several available formats and place them on any of these marketplaces, in order to be displayed whether through personal computers or mobile devices. With the affiliate marketing program, the service users are also able to place their marketing display in other websites outside Alibaba, being helped in this way by Alimama to reach a wider public (ALIBABA GROUP, 2015, 2017).

### **Ant Financial Services Group**

It serves consumers and micro and small enterprises as well. It is focused on establishing an ecosystem in which the internet of thinking and the existing technologies are open. It jointly works with several financial institutions in order to offer financial support to the society needs emerging in the future. Among the comprised businesses of Ant Financial are Alipay, Zhima Credit, MYbank and Ant Fortune (ALIBABA GROUP, 2017).

### **Cainiao Network**

Through its logistics data platform, Cainiao connects buyers, sellers and logistics providers in order to meet in an efficient way the large scale demand generated by the Chinese online and mobile commerce. Through the analysis of its data insights, it aims to improve the efficiency of the different logistics participants conforming the value chain (ALIBABA GROUP, 2017).

### **Alibaba Cloud**

Cloud computing services, being currently considered the largest of China according to IDC and among the top three at a global level, according to Gartner. Alibaba provides this services to different clients going from merchants on Alibaba's market platforms to corporations and government organizations (ALIBABA GROUP, 2017).

Alibaba has been expanding throughout the years its activities to other sectors which will be presented later in this chapter. The graphic below gives an overall vision of all the e-commerce fields in which Alibaba participates (ALIBABA GROUP, 2016).

## GRAPHIC 2 ALIBABA'S E-COMMERCE ECOSYSTEM



Source: ALIBABA GROUP, 2016  
Author: ALIBABA GROUP

### 2.1.4. Alibaba's financial performance and current state in the year 2015

The information presented in the table below has been extracted from the Fiscal Year Results published by Alibaba Group of the years 2015 and 2016. It is important to mention that the fiscal years end in the month of March (ALIBABA GROUP, 2015, 2016).

TABLE 3  
ALIBABA FINANCIAL HIGHLIGHTS FISCAL YEARS 2015-2016

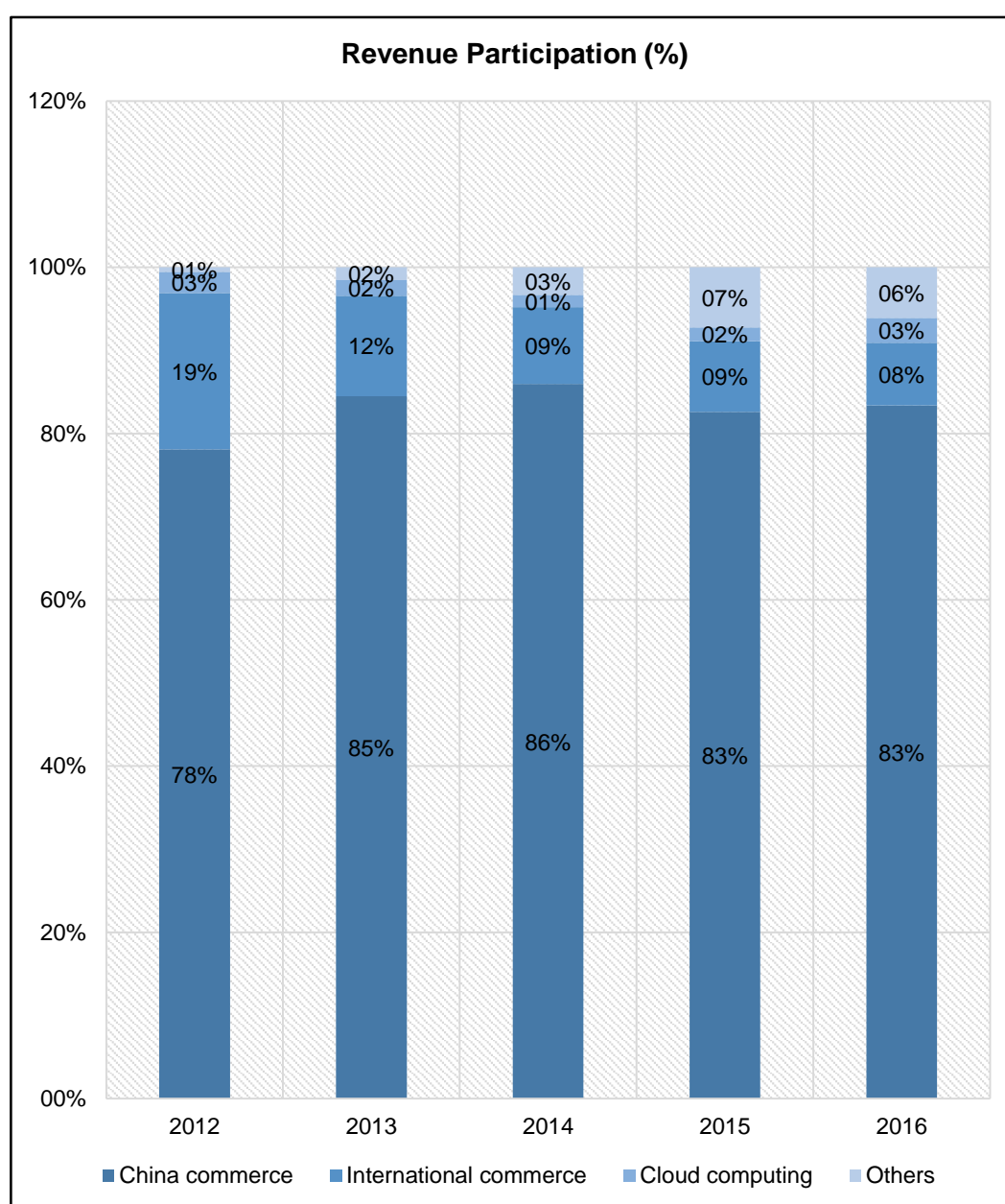
ALIBABA FINANCIAL HIGHLIGHTS FISCAL YEARS 2015 - 2016						
	FY 2015			FY 2016		
	RENMINBIS (RMB)	US DOLLARS (USD)	YoY GROWTH	RENMINBIS (RMB)	US DOLLARS (USD)	YoY GROWTH
<b>Total revenue</b>	76.204	12.293	45%	101.143	15.686	33%
<b>Mobile revenue</b>	17.840	2.878	514%	50.337	7.807	182%
<b>Mobile revenue as % of China commerce retail revenue</b>	30%			63%		
<b>Free cash flow</b>	48.121	7.763		51.279	7.953	

Source: Alibaba Group, 2015, 2016  
Author: Solange Hidalgo

Alibaba has maintained a continuous growth during the last years. Even though the growth speed has reduced, its year on year revenue has continued to rise. It is clearly visible the explosive development that the mobile commerce has had by more than doubling its participation in the electronics sector between 2015

and 2016. In addition, it is adequate to mention that in 2014, it accounted for just a 7% of Alibaba's revenues to become in 2016 the principal revenue area (ALIBABA GROUP, 2015, 2016). The annual report of the year 2016, which is presented to the United States Securities Exchange Commission, evidences that China is the market where Alibaba's operations generate the biggest revenues, accounting for the 85% in the years 2015 and 2016. As the figure below shows, this tendency has remained stable throughout the years with values ranging around the 80% (ALIBABA GROUP, 2016).

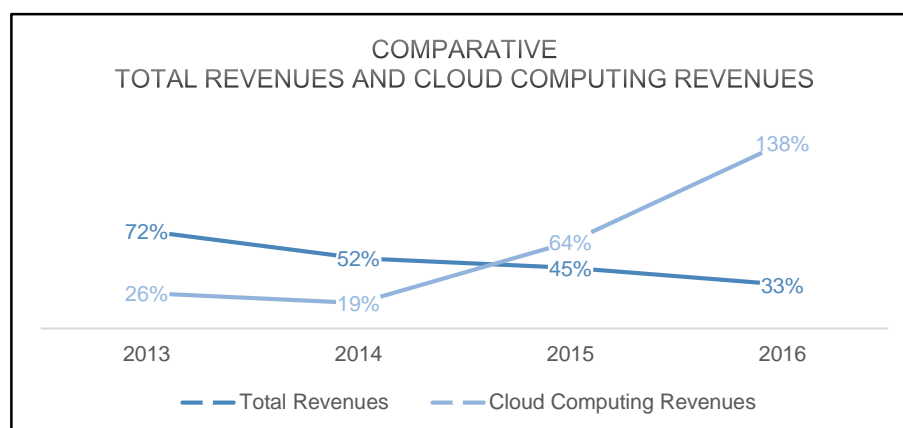
FIGURE 14  
ALIBABA'S REVENUE PARTICIPATION



Source: ALIBABA GROUP, 2016  
Author: Solange Hidalgo

Alibaba has been expanding its activities to different internet-related sectors throughout the years. In this sense the cloud computing services are emerging as a potential division for the next years. As the previous figure shows, the contribution made by the cloud computing division to the company's revenues is still low, accounting for just the 3.5% of Alibaba's revenues in 2016. However, during the last years, it has maintained a rising tendency with a higher growth rate than the overall growth rate of Alibaba's revenues. As the figure below shows, while in 2014 the cloud computing division grew in a 19%, in 2015, the division's size increased three times (64%); a highly dynamic growth speed, which in 2016 rose even more with a 138% growth rate, meaning this that its participation in Alibaba's revenues increased twice more (ALIBABA GROUP, 2016).

FIGURE 15  
ALIBABA'S COMPARATIVE OVERALL VS CLOUD COMPUTING GROWTH

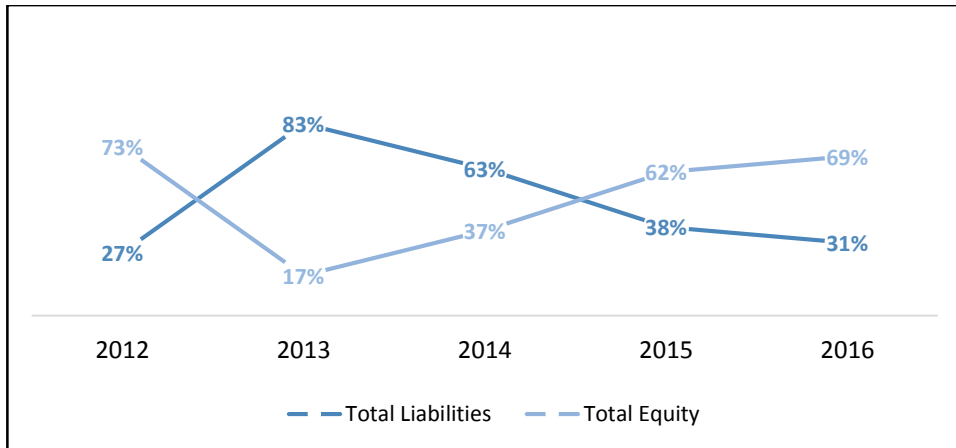


Source: Alibaba Group, 2016  
Author: Solange Hidalgo

Alibaba has maintained an optimum financial leverage. In the year 2013, a restructuration program took place. It can be seen a reduction in the total equity because of the rebuying of actions from Yahoo, a debt was acquired to finance this operation. This operation is reflected in the asset financing figure. During the year 2013, the total liabilities accounted for the 83% of the asset financing and the total equity for just a 17%. However, just two years later, Alibaba returned to its financial stability accounting the total equity for the 62% of its asset financing and the total liabilities for the 38%. Finally, in 2016, the asset financing structure returned to similar levels to those of 2012, prior to the rebuying operations. Being approximately the two thirds of Alibaba's operations financed with resources of

its own, the company's exposition to financial risks is reduced in a considerable level (ALIBABA, 2016).

FIGURE 16  
ALIBABA'S ASSET FINANCING



Source: ALIBABA GROUP, 2016  
Author: Solange Hidalgo

With regard to the investors, there are two aspects that can be examined: capital change and dividends. The capital change refers to the increase or reduction of the market price of the acquired actions. The dividends on the other hand refer to the distribution of the net profit of the fiscal exercise, divided by the number of actions circulating (Jaffe, Ross & Westerfield, 2010).

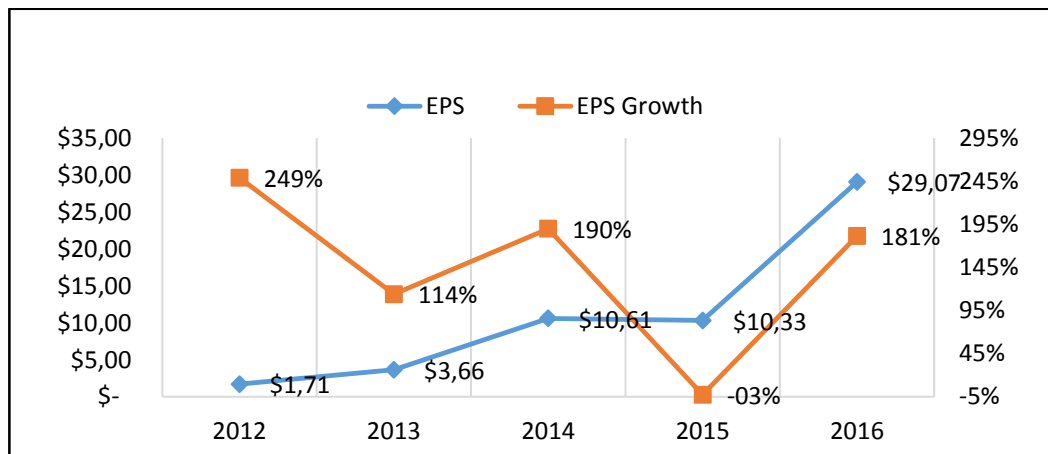
FIGURE 17  
ALIBABA'S SHARES PRICE EVOLUTION



Source: ALIBABA GROUP, 2016  
Author: Solange Hidalgo

As the previous figure shows, Alibaba's Initial Public Offering (IPO) had place in 2014, with an initial price of \$93.19 USD. By May 2017, it reached a \$121.11 USD price. This implies that the shares value increased in a 29.96% during the analyzed period (INVESTING.COM, 2016). Regarding dividends growth, the figure below evidences that a positive growth tendency has been maintained throughout the years (ALIBABA GROUP, 2016).

FIGURE 18  
ALIBABA'S EARNINGS PER SHARE



Source: ALIBABA GROUP, 2016  
Author: Solange Hidalgo

The previous figure shows that in 2012, each share of Alibaba generated \$1.71 USD, by 2016, Alibaba generated \$29.07 per each share. This means that among the analyzed years, the earnings per share had a 1700% growth (ALIBABA GROUP, 2016).

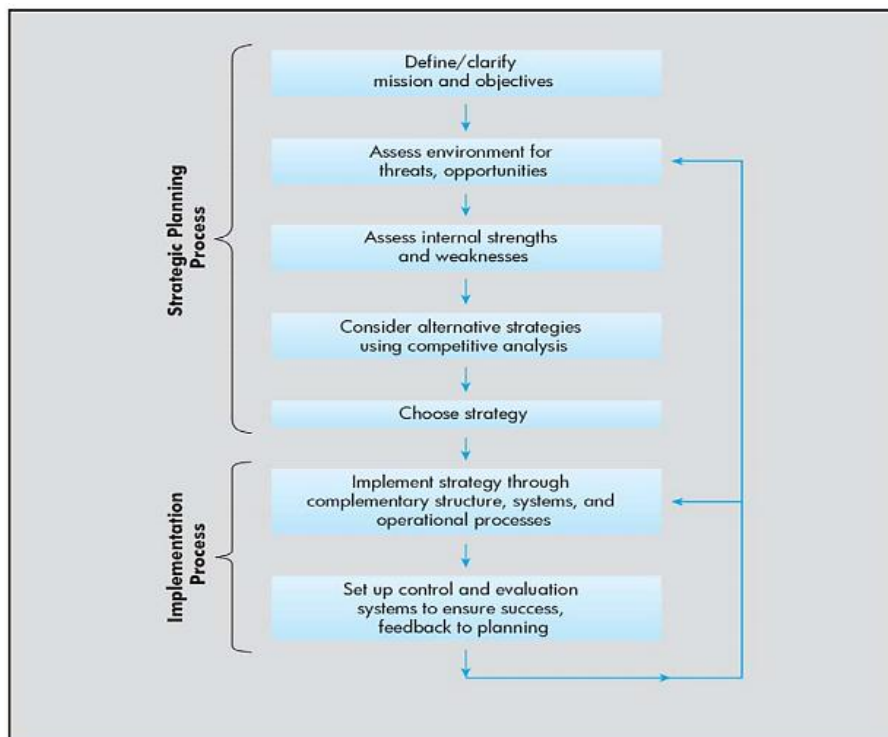
## 2.2. The strategic process to consolidate Alibaba

The next section will present in a detailed way Alibaba's evolution from its beginnings to the present time. Throughout this process, the strategies adopted by Alibaba will be analyzed from the point of view of the Positioning School and the marketing principles of Phillip Kotler and Gary Armstrong. These theoretical approaches will explain how Alibaba has addressed the market needs and tendencies throughout the time until its consolidation as the market leader.

### 2.2.1. The strategic formulation process

Coulter, Decenzo and Robbins (2015) define strategies as the plans that organizations delineate in order to establish how they will execute their business activities, how they are going to compete in an effective way, and how they will attract the desired customers and meet their needs. An adequate approach to these variables determines whether a company reaches in a satisfactory way its goals (Coulter et al, 2015). The strategic formulation process is part of the strategic management process, which is composed by two phases; the strategic planning phase and the implementation phase. A firm has to adapt to the environment in which it develops its activities to survive, and that is the purpose of strategic management (Deresky, 2013).

GRAPHIC 3  
THE STRATEGIC MANAGEMENT PROCESS



Source: Deresky, 2013  
Author: Helen Deresky

The planning phase starts with the company establishing in a clear way its mission and overall objectives. This step should be followed by an evaluation of the external environment in order to comprehend the challenges that the enterprise can face at the current time and in the future and an analysis of the

internal capabilities that the company has to compete in that environment. With the obtained information, a comparative examination lets the company evaluate the possible alternatives formulated and finally, one of them is selected being this the base to elaborate a plan (Deresky, 2013).

The accurate implementation of the selected strategy is crucial for it to be successful. For this reason, the implementation phase involves the adequate selection of the structure, processes and systems that can make the strategy work for the company (Deresky, 2013). There are three types of strategies that managers need to combine. The *corporate strategy* is aimed to specify the business areas in which an enterprise participates and what the reason of being of the enterprise is. The *competitive strategy* determines “how an enterprise will compete in its business scope”. It is built upon the things that the enterprise can do and others don't or on the ones that it can do better than its competitors, which are the company's *core competences*. In this way it creates *competitive advantage*, which represents its distinctive edge. The *functional strategies* are a support to the competitive strategy and concern diverse functional departments of the enterprise such as operations, human resources, finance, manufacturing, marketing and research and development (Coulter et al, 2015).

Michael Porter has been one of the biggest contributors to the strategic management field (Ahlstrand et al, 2005). In 1979, he published in the Harvard Business Review his article called "How Competitive Forces Shape Strategy". It described how an industry and the level of competition in it is determined by five forces. The collective action of them has a direct effect on the profitability that the industry presents (PORTER, 1979). In 1980, these concepts were further developed in his book "Competitive Strategy", which provides techniques to analyze the competition at an industry level. Later in 1985 he released a complementary book called "Competitive Advantage", which analyses competition from a firm's-eye view and presents a framework and tools that a firm can use in order to create and maintain a superior performance in the industry (THE ECONOMIST, 2008).

With “Competitive Strategy”, Porter boosted the positioning school during the 1980s. One of the main characteristics of it is the importance it gave to the strategies per se and not only to the process followed to formulate them. The positioning school argues that there is a reduced group of key strategies that an

enterprise can desire in any industry. These are strategies which can be defended from the competitors both at the present time and in the future. If a strategy is easy to defend, it means that the enterprise involved on it will have higher profits than other enterprises in the same industry field. This condition at the same time provides the enterprise with resources with which it can continue to expand and maintain and consolidate its position. In this way the positioning school established a reduced number of categories of strategies which are referred to as "generic". In concordance with this principle, a successful strategic managing lies in an adequate analysis that leads to the correct identification of the strategy that is better for an enterprise, according to the field in which it will operate. The positioning school states a hierarchy under which the industry has the first place in the sense that it drives the strategic position and the latter is the driver of the organizational structure (Ahlstrand et al, 2005).

From an overall view, the positioning school premises can be summarized in five points:

- 1. Strategies are generic, specifically common, identifiable positions in the market place.*
  - 2. The marketplace (the context) is economic and competitive.*
  - 3. The strategy formation process is therefore one of selection of these generic positions based on analytical calculation.*
  - 4. Analysts play a major role in this process, feeding the results of their calculations to managers who officially control the choices.*
  - 5. Strategies thus come out from this process full blown and are then articulated and implemented; in effect, market structure drives deliberate positional strategies that drive organizational structure.*
- (Ahlstrand et al, 2005: 85).

In the following sections, an analysis will be presented determining how Alibaba has developed its market ecosystem throughout the years, using the concepts presented by the positioning school.

### **2.2.2. Nascent stage: Alibaba's beginning in the B2B market**

Prior to Alibaba's arrival, small and medium enterprises (SMEs) did not have many available alternatives regarding sale channels, especially to sell overseas. If they wanted to have the opportunity to present their products to international buyers, the closest accessible option was taking place in trade exhibitions. However, the cost of participating in them represented a high expense. Moreover, these fairs gave them access to just a reduced group of potential buyers. As they had realized the business opportunities emerging as a

result of the economic reforms and the Open Policy, taking part of these benefits was among their interests (Tan Hunn Li & Yazdanifard, 2014).

It was previously stated that the formulation strategy process begins with establishing a mission. The mission of a company is the reason for being or the function it aims to accomplish as part of the society. The mission is a direction determinant for the company's actions and it also establishes a base for the strategic decision making. The mission remarks as well the cultural values that are considered important by the company. The overall objectives a company has are derived from its mission and both of them provide a reference framework when formulating the corporate strategy (Deresky, 2013).

The external analysis must consider all the environmental conditions that can influence the business operations. Among them are comprised the economic and political factors, demographic structure, legal framework, sociocultural characteristics, technological development and global tendencies. This process enables an enterprise to identify the opportunities that it could take advantage of and the threats that it has to overcome (Coulter et al, 2015).

In 1999, when Alibaba started its operations, internet penetration in the country was very low and the trade market was still at an early stage; the internet was basically just a source of information. The concept of online retailing was new for the merchants of China. Through its innovative strategies centered in the customers, Alibaba could catch a big market share and gain their trust. Alibaba China (1688.com) was launched focused on the B2B sector of the country, in Chinese language, to serve the domestic needs. For the international demands on the other hand, was launched Alibaba International, in English language, in order to connect Chinese SMEs with foreign buyers (Tan Hunn Li & Yazdanifard, 2014; Kwan, 2015).

During the internal analysis, a company gathers information regarding its resources and capabilities. Company resources can be physical, financial, human and intangible. They enable the enterprises to develop and provide products and services to the customers. They refer to "what" the company has. Capabilities, on the other hand refer to the skills needed for the activities that the company carries out in its field. The capabilities that let a company create value the most are its *core competences* (Coulter et al, 2015). As the firm distinguishes

where it has these distinctive competences, they are able to identify where its strategic advantage may come from and clarify the direction to be followed to build a *competitive advantage* (Deresky, 2013).

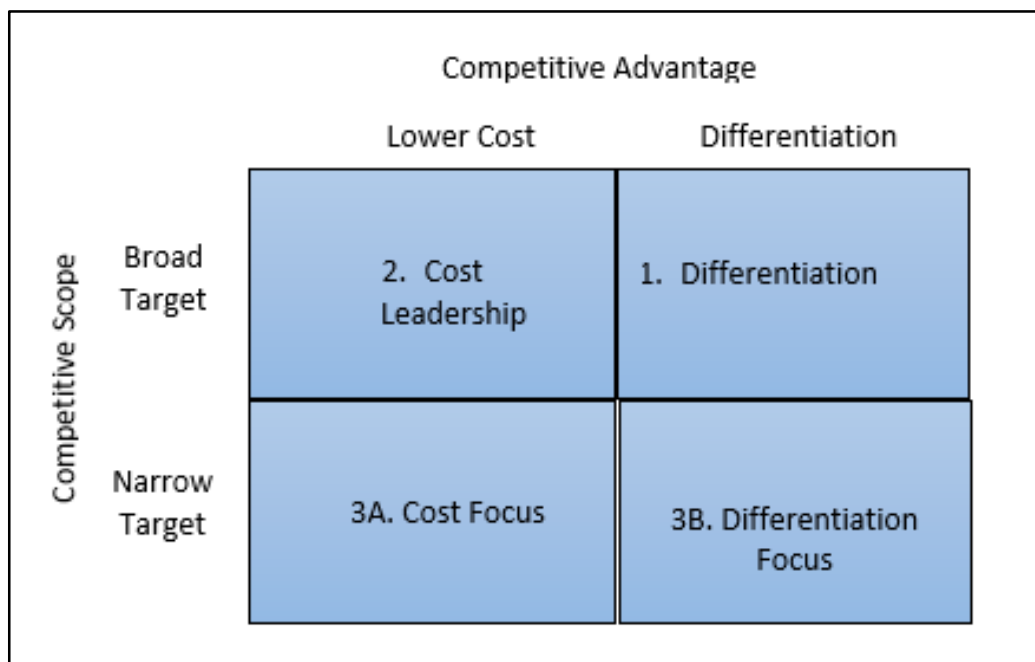
The core of formulating competitive strategy is to relate the enterprise to the environment. While there is a wide scope of economic and social factors that influence an economy, the main field that must be evaluated of a firm's environment is the industry or the industries in which a company participates. The competition level that an industry presents is based in its economic structure, which is not only limited to the behavior of the competitors present in it. Customers, suppliers, potential entrants and substitute products affect it too to varying degrees depending on the industry. The competitive rules of an industry are widely determined by its structure and the adequate comprehension of this structure helps the enterprise identify potential strategies. The collective action of the former mentioned forces shapes the profit potential that an industry presents. Competitive strategy is aimed to provide the enterprise a position in the industry where it can defend itself in the best way from these forces or influence them in a way that they favor the enterprise (PORTER, 1980).

Phillip Kotler and Gary Armstrong (2012) define marketing as the process of building profitable relationships with the customers. The goal of marketing is to attract new customers by offering them a superior value, while keeping the ones an enterprise already has by satisfying their needs. When companies succeed to create value for the customers, they receive the customers' value in the form of sales, income or long-term assets. In order to attract the desired market segment, enterprises must comprehend the customers' desires and needs and the market in which they are operating. The term market segment refers to a group of consumers who are prone to have a similar response to a specific group of marketing activities (Armstrong & Kotler, 2012).

Alibaba's objective was to establish itself as the main B2B platform used by the SMEs of China. It focused on becoming a two-sided platform that would make it easy for sellers and buyers to get connected and interact with each other. Taking their needs into account, Alibaba provided SMEs with the technical capabilities that made them able to enter the online field. In this way SMEs, had the possibility to expose their products and promote their companies on the web (Huang, Lu & Pan, 2008; Song, 2012).

Michael Porter states (as cited by Ahlstrand et al, 2005:102) that there are but two “basic types of competitive advantage a firm can possess: low cost or differentiation”. When these two conceptions and the markets segments targeted by a company are looked at together, three *generic strategies* are obtained that a company can implement in order to have an above-average performance in the field in which it operates. These are: *cost leadership, differentiation and focus* (Ahlstrand et al, 2005).

GRAPHIC 4  
PORTER'S GENERIC STRATEGIES



Source: Ahlstrand et al, 2015  
Author: Solange Hidalgo

Aligned with the “customer first” principle of Alibaba, one of the main aspects to take into account is the no-fee subscription, which clearly shows that Alibaba entered the market through a cost leadership strategy. In this way, sellers could have access to the online services for free, and buyers receive information related to their needs in concordance with the diverse enterprises and the different characteristics of the industries. The free services feature of the platform was very important for Alibaba's adoption, especially at that time, as SMEs were very conscious about costs and didn't have knowledge about the e-commerce market (Kwan, 2015).

The user friendly feature of Alibaba was helpful for SMEs, who didn't have the knowledge or capabilities to publish and promote their products in a virtual way. In this way, Alibaba made it easy for enterprises to get online presence without facing technical difficulties (Huang et al, 2008). The management functions provided through the platform, such as products photos accompanied by the respective descriptions, and the organization by categories, gave enterprises the advantage of practically constructing a "mini website". Their companies' profiles would be displayed being included their contact information and a virtual showroom of the offered products and services (Kwan, 2015).

Later in the year 2000, Peter Erisman was hired by Jack Ma as the Vice President. With his experience in the foreign sector, he led the company towards globalization. At that time the linkage with foreign expertise was especially necessary as the management field had still a short development in China (Tan Hunn Li & Yazdanifard, 2014).

The lowering of the participation barriers made it possible for Alibaba to get a big amount of SMEs involved with the platform. Moreover, Alibaba could consolidate itself at the center of value creation through its value proposition. Having this central role let Alibaba identify in an easier way its customers' needs, as it had the advantage of being enabled to gather direct feedback from the entities and users carrying out activities in the platform. In addition, the central positioning of Alibaba in regards of the organizational scope facilitated a faster response to the users' needs (Huang et al, 2008).

In this initial stage, at a corporate level, Alibaba worked under a stability strategy, which is focused on maintaining the offered services and keeping the market share that a company has, giving adequate support to its business operations (Coulter et al, 2015).

### **2.2.3. Formative stage**

During this stage, Alibaba adopted what Porter defines as a *differentiation strategy* which basically refers to developing higher quality products or services, improving its performance or offering new and special features (Ahlstrand et al, 2005). The technical expertise that had been obtained throughout the process of developing China Pages gave Alibaba the knowledge required to construct an

adequate value proposition for their users making the right improvements to their existing technological infrastructure. In 2002 was created TrustPass<sup>5</sup>, which is an online certification designed to prove the identity and legitimacy of the suppliers. Merchants can obtain it if they want to have more credibility in the platform. If a business wants to be a TrustPass member it has to go through a process of verification and authentication that is carried out by a third-party agency. In this way, by looking for TrustPass members, customers can have the certainty that they are contacting a legitimate company. This authentication, enabled consumers to buy without the worry of being victims of frauds as this has been one of the main issues during the development course of the e-trade sector in China (ALIBABA GROUP, 2017; Huang et al, 2008; Tan Hunn Li & Yazdanifard, 2014).

Looking for a TrustPass registered member when doing business gives the buyer some advantages. TrustPass members display more detailed information regarding to aspects like standards, possessed certifications, management information and other specifications that the buyer would like to know. Moreover, in a TrustPass member profile it is shown the time that as a supplier has been on the platform, giving a more accurate idea of the experience that it has. In this way customers can have a clearer background of a supplier before contacting it. On the other side, the sellers who decide to get the TrustPass certification have certain benefits that the free membership doesn't bring like an unlimited number of products to be posted online which, at the same time, gives the buyers a wider field of options from which they can choose (ALIBABA GROUP, 2017).

In January 2003, eBay was going through the acquisition process to own EachNet, which at that time was the leading C2C auction website of China. eBay had initially started its activities in the C2C sector in the United States to later engage in the B2B field. Identifying the possible competition that would come from it, Alibaba took early action. The engineers' team started the development of a consumer-oriented platform for Alibaba. The result came up some months

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<sup>5</sup> The TrustPass program looks to improve the buyers' safeness on Alibaba's platforms and aims to give more exposition to sellers and increase their business opportunities. Through it enterprises can obtain the Gold Supplier status, which is Alibaba's premium membership. To obtain the Gold Supplier status, Chinese sellers must pass an Onsite Check process, under which Alibaba's staff verifies that the company has operations in China, and its legal status is confirmed by a third-party verification agency. International sellers have to go through Alibaba's A&V (authentication and verification) Check, under which Alibaba or a partner agency verify the legal existence of the enterprise in the displayed country of origin and that the contact information is correct.

later in May 2003 with the launching of Taobao, with the meaning "searching for the treasure". By October 2004, Alibaba had already equaled eBay with a 45% market share, who just a year earlier had the 85% of the market and on 2007 eBay was announcing its exit from China (Ballew, 2014).

A company's ability to keep customers and make its business grow depends on the establishment of solid relationships with them by providing them with a superior value in a consistent way. When customers have to pick between different market offers, they form self-conceptions regarding the value and satisfaction that the different available options could provide them. As a consequence they make decisions according to this conception which is called *perceived value* (Armstrong & Kotler, 2012). Several were the business principles taken into account by Alibaba when developing strategies that let it gain the battle against eBay by creating a higher value offer and creating a higher perceived value from the users' point of view at the same time. In the first place, Alibaba publicized Taobao through the most accurate channel. In 2004, the fraction of the population that had internet access was of just a 7%. On a short budget of approximately 1 million RMB (About \$120,500 USD), Taobao was advertised on television, as the 90% of the Chinese population owned them. eBay, on the other hand, spent \$100 million in major internet portals like Sohu and Sina. The difference gap in the results obtained was clearly visible. While eBay had reached 70 million people, Taobao had reached 1.17 billion (Ballew, 2014).

The correct identification of the customers' concerns and meeting them in an adequate way gave Taobao another advantage point. New participants of the online trading market faced sometimes challenges related to the logistics area, which would lead to mistrust from one of the parts when doing businesses. Alibaba dealt with this issue by implementing a new tool called Aliwangwang in July 2004. It is a computer tool designed for instant messaging that enables buyers and sellers to hold real time communications with each other through texting, audio and video. Through the incorporation of real time communication capabilities, it was easier for the parts to talk to each other in order to clarify doubts and make inquiries (Hung et al 2008; Kwan, 2015).

Taobao brought to the customers a platform that emulated the sensation of shopping in a departmental store rather than browsing through a website. Articles were organized according to categories that were already familiar for the

Chinese shoppers, in a similar way to the physical stores. The focus is to transmit the same sensation that people have while window shopping at a mall. The great variety displayed was an invitation for customers to wander round the different online shops and take a look at the products. In this way, customers would have a more friendly perception of Taobao. Furthermore, Taobao was smart to market itself as a local company. For example, screen moderators received names from famous Kung Fu novels of the country. Another of the initiatives was to present Taobao through Chinese media outlets. EBay, on the other hand, conserved its foreign image. In 2005, Alibaba was granted the right to sell through auctioning the props used in two of the most successful Chinese movies at that time, which resulted in millions of young people visiting the site (Ballew, 2014; Kwan, 2015).

Alipay was another important tool, as its implementation represented a mean by which mistrust about online transactions could be dispelled among the Chinese buyers. It was launched on December 2004, and currently is the most used online payment service of China (Huang et al, 2008). Alipay is a payment platform that puts the received money in an escrow account until a confirmation is received by the buyer confirming the reception of the goods in a satisfactory state. In this way Alibaba succeeded in making online payments secure and easy for the customers who were still new to the electronic market. In addition; options like cash on delivery were complementary tools that let customers get used to buy online while being secure. Alipay continued to grow and is currently consolidated as a financial services provider. Its offer goes from money transfers at international level, saving services, investments in the stock market and even outside enterprises not registered in Alibaba make use of Alipay to handle payments (Kwan, 2015).

EBay, on the other hand, worked integrating two systems. On the one hand was PayPal, which doesn't hold people's money in an escrow account but sends it directly to the seller account. In an attempt to solve this issue, AnFuTong, a complementary escrow system was implemented. However, confusions were constant among the buyers as misunderstandings started to be present when they thought that errors had occurred in the transactions while the money was just being moved from PayPal to AnFuTong. This was a cause of frustration for them and a factor that motivated sellers to adopt Alipay, which was the first step towards switching the platform, starting to sell on Alibaba (Ballew, 2014).

Alibaba has also given an important attention to the evaluation system by enabling both buyers and sellers to leave comments and feedback in order to provide the community with references about the platform members. This information appears on the user's website and helps the potential business partners to have a clearer reference about each other. Feedbacks have a big relevance for the business ecosystem as they contribute to counteract dishonest behavior and favor the transparency and reliability of the transactions. Customers' privacy was taken into account as well as buyers don't have to expose their personal information by using Alipay. With these resources that were made available to the platform users, Alibaba could provide a tailored offer that met the needs of the huge SME market (Huang et al, 2008; Tan Hunn Li & Yazdanifard, 2014).

Later in 2007, Alimama came to the picture, focused on the online advertising exchange. It made it possible for web publishers and advertisers to trade online advertising inventory. At that time, the 80% of the web traffic was not monetized in the country. Alimama constituted a way through which small and medium-sized publishers had the opportunity for monetization in a market environment that was fragmented, by facilitating a system that guarantees the transparency between publishers and advertisers (ALIBABA GROUP, 2007).

Under Alimama's working model, the first step that publishers must take is the registration on the website Alimama.com. Once they are present on the platform, they present a description of the advertising space that is available to be acquired and the pricing according to the different options available, like for example, the number of clicks. Companies wishing to advertise then review the options offered by the diverse publishers, in which is also included information related to the traffic data of the independent website. Once they have made a decision, they simply have to select the "purchase" option and explanations are provided in order to make them able to upload their ads. The advertisers registered on this platform vary from big companies like the Bank of China to small ones like shops and restaurants (ALIBABA GROUP, 2007).

In this stage, at the corporate strategic level Alibaba implemented a growth strategy, specifically a concentration strategy defined as the company's expansion based on the primary business field in which the company operates by offering a bigger group of products or by serving a wider scope of markets

(Coulter et al, 2015). It worked in the development of new services that could lead wholesalers to carry out negotiations with suppliers in Alibaba.com and 1688.com through the implementations of the new tools such as Aliwangwang, Alipay, the TrustPass certification and Alimama (Ballew, 2014; Huang et al, 2008; Kwan, 2015).

The creation of Taobao, on the other hand, is an example of what Coulter et al (2005) within the same growth strategies field define as a diversification strategy. In more specific terms, it is a related diversification strategy as the company took operations in a different industry which was the C2C market, but related to the company's business as it is another area of the e-commerce activities (Ballew, 2014).

#### **2.2.4. Mature stage**

In 2008, Alibaba expanded its activities to the B2C field with the launching of Tmall. Retailers practically create their own website inside the platform, in which they can display their products. An annual deposit is paid for the subscription and a commission is charged over the transactions, varying between 0.3% and 5% according to the product category (EWW, 2016) Putting its current consolidation as the leader B2C platform of China in ciphers means that in 2016, it had 334 million active buyers and more than 70,000 stores. An enterprise can join Tmall if it has a physical presence in China. Moreover, the product stock should be in the country as well in order to accomplish with the maximum delivery time of 72 hours and 7 days devolution period. However, many enterprises around the world, seeing the popularity of the marketplace, wanted to access it. To cater to this demand, on 2014 Alibaba launched a "sister" platform for Tmall called Tmall Global, stimulating the cross-border e-commerce too. Through it, sellers don't need to have physical presence in China or have the products there, but can send them from overseas. In addition, payments can be made in the local currency (ICEX ESPAÑA EXPORTACIÓN E INVERSIONES & EMARKET SERVICES SPAIN [ICEX], 2016). Several international brands agree on the affirmation that these portals constitute a valuable gateway to access the Chinese market due to the huge popularity they have reached (Kwan, 2015).

Alibaba's success is underpinned in a big proportion by its technological capabilities and constant development and improvement of them. In 2009, took

place the foundation of Alibaba Cloud, followed by the opening of R&D centers in Hangzhou, Beijing and Silicon Valley (ALIBABA GROUP, 2017). Currently being the leading cloud services provider, Alibaba Cloud has the 40% of the market share of the country. From a \$1.5 billion value estimated for the cloud market of China in the year 2013, a report published by the International Trade Administration (As cited by Gray, 2017) forecasts a huge rise for the years to come. With an estimated 40% annual growth rate average for the close future, by 2020, the cloud computing sector of China is expected to reach a \$20 billion value.

Among the services offered by Alibaba Cloud are included data storage, big-data processing, content delivery networks, relational databases and information protection. Furthermore, Alibaba Cloud has an established research and development approach aimed to developing database systems and big data technologies. Among the current focus areas figure Internet of Things (IoT), smart homes, information and networking systems for the automotive industry, virtual reality and operating systems for mobile devices with a cloud base. Alibaba Cloud international operations center headquarter is located in Singapore and has established international teams in several cities around the world, among which are comprised London, Paris, Tokyo, Frankfurt, Sydney, New York, Hong Kong, Dubai, Seoul and San Mateo (ALIBABA GROUP, 2017).

In 2010, Alibaba took the next step into the developing mobile sector of China. Taobao mobile was launched for smartphones and is currently the largest e-commerce app. Mobile devices have become the main way to access internet in the country and Taobao Mobile has taken advantage from this tendency. Daniel Zhang, the company's CEO, mentioned during a speech that 7 accesses are daily made to the Taobao Mobile app by an average user with an estimate of 20 minutes spent on it, which is considered high for a shopping app, Amazon Mobile for example shows a 9 minutes average time spent by customers on it. Moreover, as brands generate their own content in order to build good customers relations, Alibaba's platforms are also perceived as content destinations (Brennan, 2016). From a marketing perspective, the path that guides an enterprise is based on the customer. In this sense, it's a matter of finding the right product for the customers segment rather than the right customers for the product. In this way, long-lasting relations are built with the right customers having as a base their satisfaction and value (Armstrong & Kotler, 2012).

Big efforts have been dedicated to generate users' engagement with Taobao Mobile. Alibaba has worked to develop its marketplaces into lifestyle channels. If consumers spend more time on its marketplaces, the possibility for their spent amounts to grow is higher. In this way, they have added features that give the users access to more activities than merely shop. Buyers can browse across the different products offered by the diverse brands present on the platform, but additionally they are able to interact with them and with other buyers (Brennan, 2016). Consumers in China prefer a social buying experience, which is a characteristic that is also present in the online market. Taking this into account, Alibaba incorporated in Taobao social networking features and other activities like gaming. Alibaba has also given importance to the personalization of the offer. Products are recommended based on the user profile and banners are displayed according to their preferences (Cai, 2016).

From 2014, the digital media and entertainment industry started to receive important attention from Alibaba. The objective to continue developing its participation in the industry was remarked by the CEO of the Digital Media and Entertainment division Yu Yongfu in the company's second annual Investor Day of 2017. The focus has been to carry on a transitioning process from e-commerce to a bigger development and participation of this area too, in concordance with one of the company's principles "live Alibaba". The course of this initiative started with several acquisitions made and some business launched such as the mobile browser UCWeb, the video-streaming site Youku Tudou, Alibaba Pictures and the ticketing agency Damai. Alibaba is currently working on its expansion under a strategy based in three pillars; "consumers, content and commercialization". Alibaba looks for the integration of these sites with its e-commerce marketplaces in order to continue creating a bigger customer value (Brennan, 2017).

Alibaba's orders scale has been a key driver for the development of the logistics industry in China. Through strategic alliances, Alibaba has been able to develop efficient delivering capabilities. In the year 2013, the transactions that took place on Alibaba's retail marketplaces generated 5 billion packages to be delivered, accounting for more than the 50% of the 9.2 billion packages delivered around China (ALIZILA, 2017).

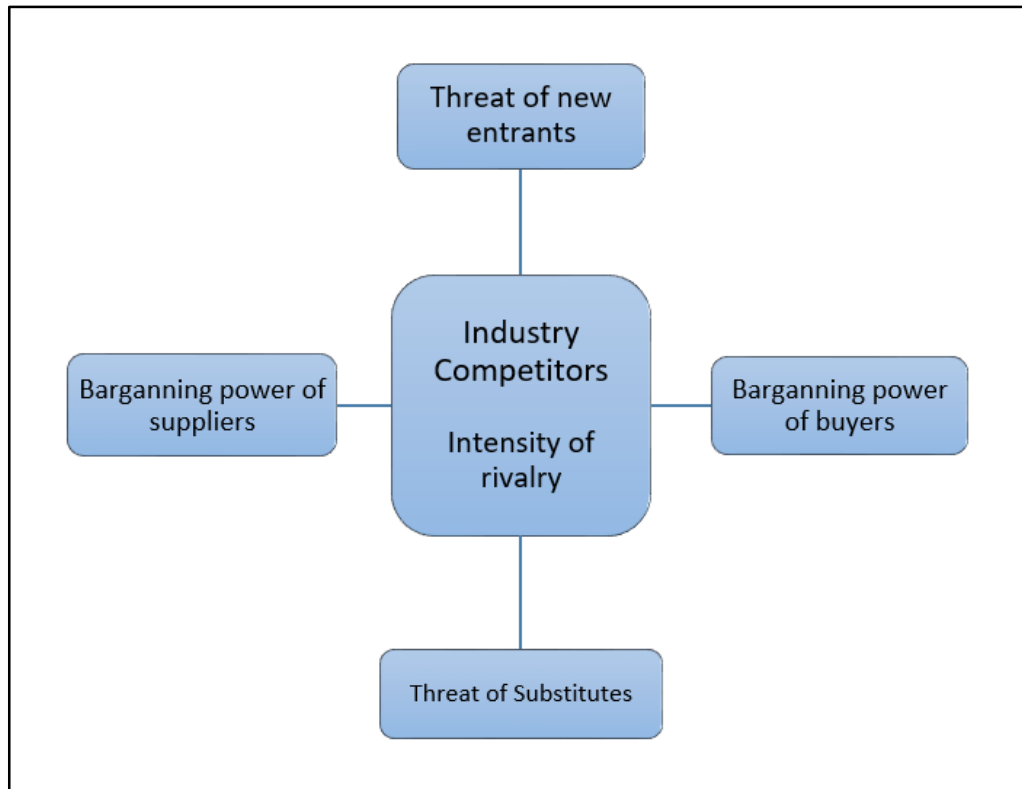
Alibaba doesn't own a delivery service but works with third-party partners, who assist it. The company has an established network of logistic providers

across the country, which has enabled both buyers and sellers to reach a cost-effective, flexible and responsible service that meets the customers' demands according to the big orders' scale generated. In 2013, Alibaba founded a joint venture in conjunction with other partners and five of the biggest express delivery companies like SF Express and Shengtong Express of China, which is called China Smart Logistics. The network comprises 14 strategic delivery partners that have a national network. By 2014 in March, 1 700 distribution centers had been established and more than 100 000 delivery stations as well. Over 950,000 people work for this network in 31 provinces of the country across more than 600 cities (ALIZILA, 2017).

This group of logistics providers is linked through Alibaba's logistics information platform, under the control of China Smart Logistics. In this way, a world class logistics information platform has been consolidated, making it easy for buyers, sellers, and logistics providers to be connected. Millions of packages are tracked through the platform daily. Both buyers and sellers have access to real time information regarding delivery status, order details and feedback on deliveries made. The platform has been tailor designed for Alibaba's marketplace model, taking into account the geographic characteristics of China, which made the customers to be dispersed around the country (ALIZILA, 2017). With Alibaba's efficiency, a collaboration was established on the same year with the national mail service; China Post. Through it, access was given to 100, 000 service points located in different parts of China, with the aim of reaching out the customers living in the rural and outlying areas (Kwan, 2015).

Michael Porter established a tool through which an enterprise can have a clearer view of its competitive position in the industry in which it participates. The *five forces model* contemplates five principal dynamics that influence the competitive position of an enterprise (Deresky, 2013).

GRAPHIC 5  
PORTERS MODEL OF COMPETITIVE ANALYSIS



Source: Ahlstrand et al, 2005  
Author: Solange Hidalgo

Intensity of rivalry among competitive firms: Alibaba's principal competitor is JD.com. It is the second B2C online retailer of China. It works under a different model from Alibaba buying the offered products from different fabricants and distributors maintaining in this way its inventory in its own warehouses from which the products are sent once the customers have posted the orders. A characteristic commonly highlighted of JD is the developed logistics network of its own. In addition, it established a strategic alliance with WeChat, a popular messaging app of China as the 18% of its orders take place through mobile devices (ACERA, 2015).

Threat of new entrants: The internet sector as was stated in chapter 1, is receiving important attention from the government as it is now considered a potential economic growth source. Broadband China and Internet Plus strategies are a proof of the big impulse that the Chinese government is giving to it looking for its development (CAICT, 2015; SESEC, 2015). This is a condition that favors the interest of investors in the e-commerce field, which would increase the highly competitive environment of the online commerce industry in the country.

Bargaining power of buyers: The bargaining power of buyers in China is high, especially from the "younger generation" whose income is growing in comparison to the older generations of the country. This has favored the demand for better quality products. In addition, their familiarization with the internet and technological field is high (Iskryan & Stanberry Churchouse Research, 2016; ECONCONSULTANCY, 2014). This implies that big efforts have to be made in order to keep them buying on Alibaba.

Threat of substitutes: In this case traditional commerce would be considered the substitute of e-commerce. In this sense it could be considered that the threat is low because of its fragmented retail channels in a country with such varied demographic characteristics (SOVEREIGN GROUP, 2016).

Bargaining power of suppliers: Alibaba has a matchmaker role between sellers and buyers. It doesn't have to deal with the buying and storage process. In addition, the technological capabilities with which Alibaba operates depends just on the company. Finally, the strategic alliance with China Smart Logistics is beneficiary for the logistics capabilities providers because of the large sales scale that takes place through Alibaba's marketplaces. In this way, they don't perceive Alibaba as a competitor. Based on the previous arguments, it could be inferred that the bargaining power of suppliers in Alibaba's case is low (ALIBABA, 2017). In this sense, JD could have a disadvantage, as it has a big quantity of suppliers that provide their warehouses with the products that are sold in the platform.

During this stage at the corporate level, can be identified both a related diversification strategy and an unrelated diversification strategy, which involves the expansion into areas that are directly related to the traditional businesses of a company (Coulter et al, 2015). The implementation of Tmall and Tmall global imply a related diversification strategy as the B2C field is another area of the e-commerce third-party platforms. The unrelated diversification strategy on the other hand lies in the several sectors to which Alibaba has entered during the last years such as the mobile devices field with the Taobao Mobile App, the social networks area, the cloud computing services and all the divisions of the digital media and entertainment industries (ICEX, 2016; ALIBABA GROUP, 2017; Brennan, 2016, 2017; Cai, 2016).

At the operational level, the strategic alliances created through the establishment of China Smart Logistics represent a functional strategy. Alibaba is able to provide to the buyers a high-performing logistics service through its big network of providers (ALIZILA, 2017; Coulter et al, 2015).

### **2.3. Challenges faced**

The following section will present two of the biggest challenges faced by Alibaba. On the first place, its intellectual property practices will be defined as this field remains one of the main aspects that enterprises should take into account when entering into China. Subsequently, Alibaba's Initial Public (IPO) Offering will be described. Despite of having a VIE structure (Variable Interest Entities) model, which was created to circumvent the governmental restrictions, Alibaba's IPO was one of the biggest IPOs in the United States history.

#### **2.3.1. AliProtect and intellectual property practices of Alibaba**

The first step taken by Alibaba regarding IP protection was in 2002. Right-holders were enabled to submit related complaints through email. Throughout the years, as it gained experience two protection platforms were implemented. Complaints related to Alibaba.com, 1688.com and AliExpress could be submitted on AliProtect, created in 2008, while TaoProtect, established in 2011 was destined for Taobao and Tmall complaints. Later, in 2013, the unification of them both came with the IP Protection Platform (IPP platform). In it IP rights infringements discovered on any of the five sites can be reported. In addition, rights-holders are enabled to track the complaints status and can review the seller's response to it (ALIBABA GROUP, 2017).

On IPP, a removal request can be made by a right holder through a notice and take down process. The rights-holder or its representative agent must submit the complaint in the IPP platform. To be able to get registered on the platform, the rights-holder must proof its identity by providing an ID card for individuals or a copy of the business license in corporate cases. Ownership of the trademark rights, copyrights or patent rights must be proved by submitting the respective certification. Agents must additionally include the authorization document that enables them to enforce IP rights. The other part has three working days to present an appealing followed by three more days for the complainant to review

the response. If the infringement is verified, the listing is taken down from Alibaba. IPP platform services are provided for free (ALIBABA GROUP, 2017).

Alibaba has set up a point-based penalty system. If a seller violates IP rights, penalty points will be allocated to the store operated by this and sanctions will be applied according to the infraction. Among these figure searches ranking reduction, temporary or permanent blockage on the listings of the platform and limitations imposed on the advertisement tools. As a complementary measure, Taobao is ruled under the "Three Strikes Out" principle, while for Tmall applies the "One Strike Out" rule (ALIBABA GROUP, 2017). Furthermore, for several special categories a certification must be presented for them to be allowed to open the store in the platform. Between the comprised products figure books, music, magazines and newspapers, movies, television and audiovisual products, lotteries, travels and insurances. For example, in the case of books and audiovisual products sellers, they should have a "license to commercialize in the editorial field" and an "individual enterprise commercializing license" issued by the Chinese authorities. For Tmall, on the other hand, a measure taken involves a caution system under which stores owners must deposit a caution value prior to its opening. If it's anytime proved to be selling counterfeit products, the caution will be confiscated and the store closed (Liang, 2014).

In 2011, the "mystery test buy" mechanism was formally set up in Taobao. This program is a preventive control system against infractions. Through it, several samples of different products are submitted to inspections carried out by independent quality inspection organisms or by the trademark owners. If the results show that the product quality is not good or the articles are counterfeit, Taobao will impose sanctions to the seller and if the case calls for more serious measures, it will be directly reported to the competing authorities. Strict norms have been established for each stage of the process starting from the identification of the product, buying, and presentation of the products for inspection, sanctions applied and information about them. The random sampling is currently consolidated as a routine activity on the Taobao platform. Notary-certified techniques have been introduced in the system and are recognized by the government (Liang, 2014).

On July 2016, the Intellectual Property Joint-Force system was introduced with the objective of making it easier for brands to fight counterfeit activities found

on Taobao and Tmall. Through the portal, brand owners will be able to confirm IP violations found during the monitoring operations run by the Alibaba team. The purpose of this system is to work together with the brand owners, making it easier to combat counterfeiters (Brennan, 2016).

This cooperation approach has been being developed from 2010, year from which Taobao started to maintain periodical meetings with the Louis Vuitton representatives. Later in 2013, a Memorandum of Understanding was signed in Paris with the aim of establishing a cooperation mechanism to protect IP and combat the online transactions of counterfeit products. At the end of 2013 Alibaba had cooperated with 1060 domestic and national marks among which are comprised Pernod Ricard, Lacoste, Philips, Jack Jones, Bosch, Swatch, Only, Unilever, Vero Moda and Burberry (ALIBABA GROUP, 2014; Liang, 2014).

In April 2013, in Hangzhou was announced the beginning of a close cooperation with several government law enforcement entities between which are comprised the Public security bureau, the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), the State General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), the State Administration of Industry and Commerce and the State Intellectual Property Office. Furthermore, trade associations have been established with the Motion Picture Association of America (MPAA), the Quality Brands Protection Committee (QBPC) and the International Anti-Counterfeiting Coalition (IACC) (ALIBABA GROUP, 2014).

### **2.3.2. Alibaba's millionaire IPO and the Variable Interest Entities structure; advantages and disadvantages**

The foreign direct investment sector of China is not totally open to all existing categories. People's Republic of China (PRC) has imposed restrictions in several of its economic sectors. When Deng Xiaoping undertook the economic reforms process in 1978, the Open-Door policy was aimed to attract foreign investment to China. However, several restrictions remained on industries considered sensitive, being the Internet comprised in this group (Johnson, 2015).

FDI guidelines in China are specified in the Catalogue for the Guidance of Foreign Investments Industries. Investment sectors are divided in three categories which classify foreign financing as "encouraged", "restricted" and

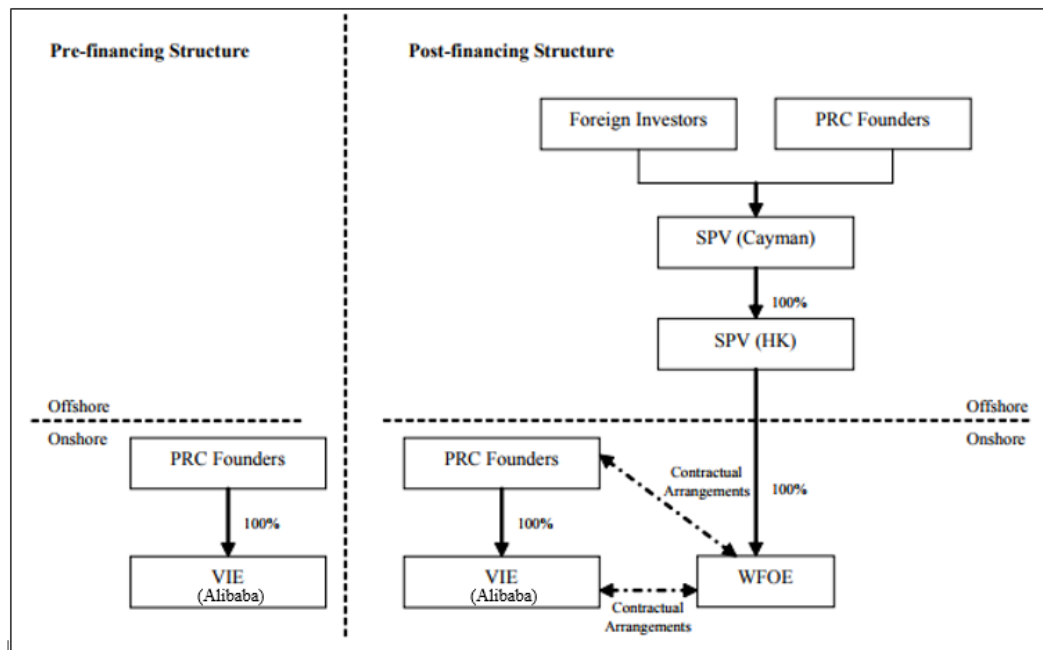
prohibited, while the sectors that are not expressly mentioned in the catalogue are implied to be permitted. There basically are two reasons for a sector to be comprised in the Prohibited group. It can be considered a strategic or emerging industry of the economy or the activities related to it are perceived as sensitive regarding the political or national security (Johnson, 2015). Among these are comprised value-added telecommunication services, direct sales, mail order and online sales (EIGER LAW, 2015).

The Chinese companies carrying out activities in the internet sector have been able to circumvent the strict regulatory conditions that make difficult the participation of foreign investors through the use of Variable Interest Entities (VIE). More than one hundred companies have established their offshore listings using the VIE model in order to bypass the restrictions imposed by the government (Johnson, 2015). The term Variable Interest Entity (VIE) is used under the United States Financial Accounting Standards Board (FASB). It defines an entity in which (as cited by Eiger Law, 2015) "the investor holds a controlling interest that is not based in the majority of voting rights". Through the VIE structure, the PRC approval is not needed by foreign investors as they don't have equity ownership in the company of interest. Nonetheless, they are still enabled to operate it and benefit from the revenues by it generated (EIGER LAW, 2015).

Under the traditional model, an investor or an offshore holding company buys equity shares from a company founders and acquires a partial ownership of the company listed in the stock exchange market. Nonetheless, in the Chinese case, a new wholly foreign owned subsidiary (WFOE) is formed in the country. The WFOE constitutes the connector between the Chinese company (VIE) and the foreign investors. Through it, the latter are able to exert control till some degree and receive the economic benefits that it produces by formulating and establishing several contractual arrangements (Hall & Roberts, 2011).

The VIE maintains as its shareholders of record Chinese individuals or companies. They are the holders of the licenses and assets over which the restrictions are imposed by the Chinese government to be owned by foreign participants. This structure enables the offshore holding companies to include the VIE financial activities within its consolidated financial statements, being enabled to apply the standard accountable principles (Hall & Roberts, 2011).

GRAPHIC 6  
VARIABLE INTEREST ENTITIES (VIE) STRUCTURE



Source: Halls & Roberts, 2011  
Author: Halls & Roberts

While the contracts arranged look to create conditions that equal the equity ownership conditions, investors are not actually conferred ownership over the operating enterprise. The operating control remains with the Chinese enterprise being in this way the contractual arrangements the only source for the foreign investors to receive benefits that results from the Chinese enterprise operation (Johnson, 2015).

The legal state of the VIEs structure was still ambiguous in the country. However it also was the only available option that enables foreign investors to participate in the internet sector (Johnson, 2015). The Alibaba prospectus warns investors that there's the possibility that at any time the Chinese government would considerate that the VIEs arrangements do not comply with the country's guidelines for licensing, registration or any other regulatory requirement that would be adopted at any time (EIGERLAW, 2015). However, in 2015 the Ministry of Industry and Information Technology (MIIT) lifted the restrictions on foreign shareholding. In June 2016, the company Heiwado from Japan was issued the first e-commerce license for a wholly foreign-owned entity in China (SEYFARTH SHAW, 2016).

Under the VIE structure, Alibaba listed in the New York Stock Exchange in 2014, becoming one of the biggest Initial Public Offerings (IPO) in the story of the United States, raising approximately \$25 billion (Johnson, 2015). Alibaba's shares had initially been priced at \$68 USD; however, soon after they started being traded in the New York Stock Exchange, by the next day, they had reached a \$92.70 USD which implied a 36% growth from the original price. With that opening price, in 2014 Alibaba's was valued at an overall level in almost \$230 billion USD, being this cipher bigger than eBay and Amazon together (Luckerson, 2014).

This chapter has explained in a detailed way Alibaba's business model and the strategies that it has implemented through every stage until reaching its current position in the market. At the beginning, seeing that China did not have presence on the web, Jack Ma provided small and middle enterprises with the necessary technological capabilities that they needed to do it. Alibaba made it possible for sellers and buyers to connect with each other inside and outside China. The cost-effective strategy adopted at the beginning let Alibaba generate a high perceived value. During the next years, the constant introduction of complementary tools such as Aliwangwang and Alipay and new services as TrustPass and Alimama let it maintain its competitive advantage under a differentiation strategy. In this way Alibaba was able to continue its expansion and diversify its business scope over the next years with the entrance to B2C, C2C, digital media, entertainment and cloud computing services. Through the implementation of the IPP and other protective measures Alibaba watches over the enterprises and buyers security. Its success and the central position achieved in the Chinese e-commerce market let it become one of the biggest IPOs in the United States. Based on the presented arguments it can be stated that the particular objective defined for this chapter which is to: "*establish Alibaba's success while using its business model and marketing strategies*" has been accomplished. The next chapter will focus on the customers' current consumption tendencies and the opportunities that could derive from them for the enterprises who operate in the e-commerce industry or have the intention to enter.

## **CHAPTER 3 CONSUMER BEHAVIOR TENDENCIES AND OPPORTUNITIES IN THE CHINESE MARKET**

### **3.1. Rising tendencies of the e-consumers in China**

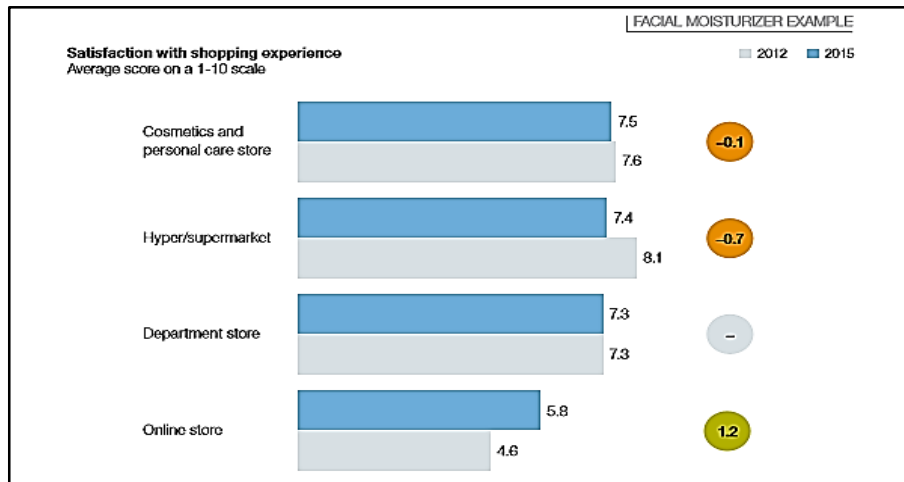
This section will examine the most important tendencies that have gained momentum in the Chinese e-commerce market as they will continue to propel its dynamism over the next years. Though online sales grow faster than the physical retail sales, Chinese consumers are characterized by looking for products options and interacting with both channels. Social media and mobile devices have promoted the socialization of commerce. Single's Day is one of the most important sales day for the Chinese e-commerce industry.

#### **3.1.1. The importance of online to offline strategies; showrooming and webrooming**

According to forecasts made by McKinsey & Company (As cited by EConsultancy, 2014), by 2022, China's upper middle class will represent more than 50% of the consumption generated in urban households. Millennials or the younger generations of China are actually in the course of consolidating as the dominant composers of the middle class. Estimates expect them to account for more than 50% of the cities' population in 2022. Moreover, from a 15% share participation in the urban area demand registered in 2012, within a ten years period, they are expected to account for more than the 30% of it. There are two principal characteristics that sellers should take into account about the Chinese millennials: they are brand conscious and they are driven by emotions (ECONSULTANCY, 2014).

Even though China is the largest online market of the world, the physical stores of the country still remain important. It has been evidenced that brand engagement in China is built through both physical and online channels. Taking facial moisturizing products as an example, signs are evident that consumers' satisfaction with physical stores is still higher than with online stores. However, the gap is currently decreasing (McKinsey & Company, 2016).

FIGURE 19  
SHOPPERS' SATISFACTION: PHYSICAL VS ONLINE STORES



Source: McKinsey & Company, 2016  
Author: McKinsey & Company

Two big trends have emerged in the Chinese online retail market, which can find its origin in the brand consciousness of the Chinese millennials, who are also known as generation Y. These two trends are showrooming and webrooming. Webrooming refers to the habit that consumers have to search for a desired product on the web prior to visiting a physical store in order to buy it. Showrooming on the other hand would be understood as the reverse process. Consumers first visit the brick-and-mortar location to take a close look at the product they are willing to acquire and subsequently look for online options through their mobile devices in order to get more information, to finally purchase them online (ECONSULTANCY, 2014).

Showrooming is in fact gaining prevalence as for young consumers, social acceptance from their friends and other online buyers is important when looking for brands and products that would interest them. Generation Y has a big trust in friends and is prone to interact through social media and use search engines when looking for information about a product or brand that calls their attention. In addition, they also give importance to the brand values as they try to look for brands with which they feel identified before they make a purchase decision. The trust level that Chinese consumers have in people who are similar to them is higher than the one they have in CEOs or other experts. In 2012, estimates showed a 71% degree of trust from Chinese consumers in ordinary people, surpassing the 61% global average (ECONSULTANCY, 2014).

During the recent years, between 2011 and 2015, the physical retailing sector has seen a cooling tendency having the online retail a 36.2% growth rate in comparison to a 10.7% of the overall retail market. As a consequence, the implementation of an omnichannel approach has been deemed by traditional retailers to represent an accurate path to gain growth momentum. Online retailers on the other hand perceive it as a potential measure that would help them address development challenges like for example arriving with their products and services to distant zones of the country. Under these conceptions, retailers on both sectors have established cooperative relations connecting online and offline activities in order to get competitive advantage and catch market. Two examples of these actions took place in August 2015 (DELOITTE, 2016).

On one side, JD.com acquired shares of Yonghui Superstores. As it was previously stated in Chapter 2, Jindong Daojia is Alibaba's main competitor, with a 23.3% market share in 2015. However its working model differs from Alibaba's; the enterprise acquires the products sold in its platform to diverse sellers and keeps inventory in warehouses, while Alibaba does not buy the products but has an intermediation role between sellers and buyers. Through this process Yonghui could benefit from the online sells channels of JD.com, while the latter got support for the fresh food area. On the other side Alibaba established cross-holdings with Suning Commerce (DELOITTE, 2016). Suning Commerce is a retail company involved in the household appliances sector that also offers communication and digital products. In addition it carries out activities in the logistics field and in the financial area it is engaged in the payments business (REUTERS, 2017). It has presence in 600 cities of the country with a chain of 1.600 stores and provides its services through computers and mobile devices, physical stores and smart TVs (SUNING CORPORATION, 2017). Through this ten-month cooperation the two companies carried out joint activities in several areas such as membership and logistics while improving the flow of information that would let them work with customer generated data and favor the market expansion at a general level (DELOITTE, 2016).

Digital channels have reduced to a huge degree the limits between time and space. Users are now enabled to get information about products very fast making use of computers and mobile devices. As a consequence, the implementation of online to offline (O2O) strategies gains a big importance, especially at the current time, as Chinese customers are characterized by looking

for options and comparing prices and products characteristics between online and offline channels prior to making an acquisition. A potential alternative would be the digitalization of stores through the implementation of mechanisms like wireless networks and sensors installed in physical stores. These alternatives would let companies gather more accurate data about the target consumers making it easier for them to cater their needs and demands, classifying them in groups according to their diverse characteristics. Furthermore, the integration of both channels would contribute to the development of the buying process as a whole experience rather than just a transaction made on a platform or a brick-and-mortar store (DELOITTE, 2016).

The explosive growth of the online retail market of China has been a driver for companies to adopt new O2O initiatives both in the goods and services sectors. Efforts have been put into creating consumers experiences that integrate both channels. Among the possible strategies that could be adopted for this purpose are included the implementation of data analytics technologies that enable sellers to formulate a more tailored marketing and increase the personalization of the services, new options for picking up products and strategic alliances established to jointly work with internet companies and the strengthening of in-store payments (FBIC, 2016).

Several leader companies of the online commerce panorama have taken these initiatives to a wider scope with the aim to create an O2O shopping experience for the customers. Businesses of the pure-click division have worked to extend their presence to the offline sector as well. One example can be seen in Dandang, which is the biggest online bookstore of the country. In 2015 it announced its intention to open 1,000 physical stores. The first one was inaugurated in Changshai, province of Hunan in the Better Life Group's shopping center and according to the plan by 2018 the goal should be totally accomplished. It is important to remark that the books' prices are the same for both physical and online stores (FBIC, 2016).

This O2O tendency has also been utilized in the services sector. Several categories are comprised figuring on-demand services, which involve fresh food, supermarket delivery and similar sectors, in-store O2O services, being here included movies, beauty services, etc., some examples of to-home O2O services

are manicure and home cleaning and finally, travel O2O services contemplate all the involved aspects from transportation tickets to touring activities (FBIC, 2016).

### **3.1.2. Social media and mobile devices**

The widespread use of mobile devices among the Chinese consumers has given them a protagonist role as a sales and marketing channel. The number of online transactions that take place through mobile devices has rapidly increased during the last years. In 2011, they represented just the 1.5% of the total online transactions while in 2015 they accounted for more than the half of them with a 55.5%. According to iResearch (as cited by FBIC, 2016), in 2018 the 73.5% of the online market sales will take place through mobile devices, with an approximate amount of 5.5 trillion RMB (FBIC, 2016).

The consolidation of mobile devices as the main shopping channel has fostered the socialization of shopping online. Millennials are especially prone to be influenced on social networks by their friends and some "opinion leaders" (DELOITTE, 2016). According to estimated numbers, in 2015 there were 597 million active users among the different social networks of the country. A 58% of the Chinese internet users make use of at least one social network. Furthermore, the average daily time spent by a Chinese netizen in social networks is of 90 minutes (EWW, 2016).

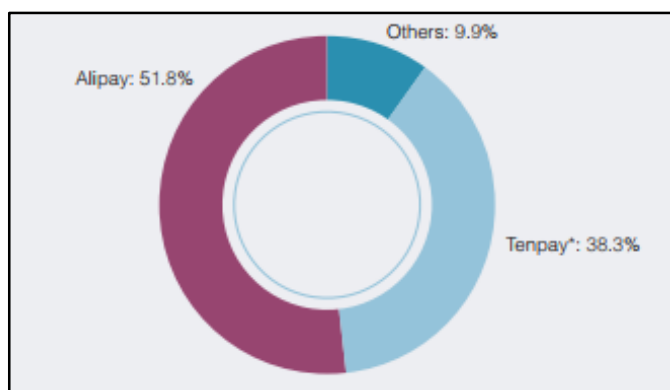
The consumers' tendency to socialize through platforms when making purchasing decisions reflects a sense of community among participants in the online retail industry. People join diverse communities depending on their preferences and taste, which in the online field translates into purchase intention and products acquired. Retail companies should give particular attention to the variety of communication possibilities that digital channels and mobile devices provide. Consumers are willing to be able to interact with the brands that call their attention and this actually increases the opportunities they have to influence the customers' decisions. In fact, social media influence over offline decisions of people is growing and is currently affecting in store purchases in a 33% (DELOITTE, 2016).

Personalization features and an interactive approach are key aspects to take into account when generating users' content and promotion activities over

the different platforms. The marketing process has to become a form of dialogue with the customers rather than a one-way communication. There are different options available for online retailers to set up a dual approach with consumers such as websites and mobile apps. In addition, for brick-and-mortar stores there are resources like interactive devices that enable enterprises to collect more accurate information regarding to customers' demands and consequently adjust their offers. Optimized designs should enable users a more personalized experience, receiving then information consistent with their interests. Among the different customizing options that would be adequate to offer to users figure personalized receiving mode, the frequency with which the information is received and the time of the day when it is received. Through a better understanding of buyers, enterprises are capable to serve them in a better way (DELOITTE, 2016).

China's explosive rise has also been boosted by the steady growth of third-party payment platforms. Estimates made by iResearch (as cited by FBIC, 2016) say that in 2015 the quantity of money moved through third-party payment channels amounted to a total of 9.5 trillion RMB. Three are the main categories that participate in the payment providing services: online payment channels from companies who carry out wider activities in the internet field, such as Tenpay and Alipay, payment services provided by traditional institutions of the financial field, like UnionPay and finally platforms that purely focus on providing payment services like Yeepay. In the mobile online transaction market, the principal payment services provider is Alipay, having Tenpay the second place (FBIC, 2016).

FIGURE 20  
2015 THIRD-PARTY MOBILE PAYMENT COMPANIES MARKET SHARE



Source: DELOITTE, 2016  
Author: DELOITTE

TABLE 4  
CHINA'S MOST POPULAR SOCIAL NETWORKS 2015

Social network	Nº. users	Role
Tencent QQ	830m	Social networking site (SNS) with instant messaging, social gaming, voice, groups and other functionality
QZone	755m	SNS allows users to write blogs, keep diaries, send photos, listen to music, and watch videos.
Sina Weibo	600m	Micro blogging SNS
Wechat	486m	Micro messaging SNS with voice app
Pengyou	260m	SNS focusing on real names with an emphasis on real friendships, and allows users to register with any valid email address
51.com	200m	SNS aimed at gaming community
Renren	195m	SNS similar to Facebook
Jiayuan	120m	Dating website
Kaixin 001	113m	SNS similar to Facebook
Douban	75m	Site allowing users to comment on music, books, films and wider culture

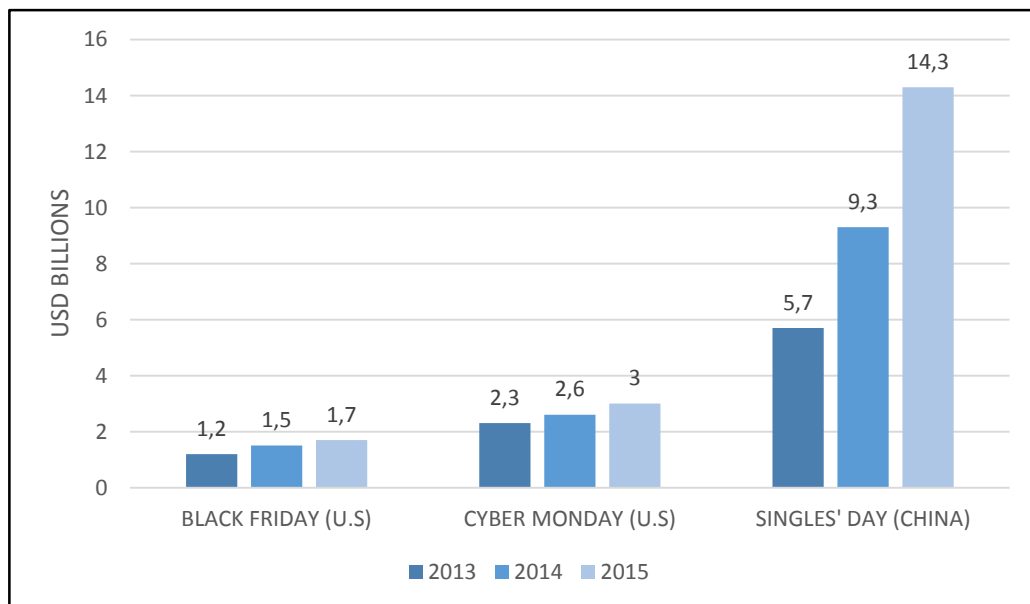
Source: ECOMMERCE WORLDWIDE, 2016  
Author: ECOMMERCE WORLDWIDE

### 3.1.3. Single's Day and the importance of special buying occasions

Alibaba identified between the tendencies of Chinese consumers their interest for discounts and special promotions. Taking advantage of this, promotional activities have been launched that take place throughout different special occasions of the year. Some of them comprise the Teacher's Day, the Secretary's Day, National Day, Singles' Day, Christmas and Thanksgiving. Singles' Day represents an outstanding example of how Alibaba has been able to boost sales leaning on celebrating special days. This particular celebration takes place on November the 11<sup>th</sup>, reason for which is also known as the 11/11. It was celebrated for the first time in the year 2009 as an informal way for students to celebrate their singlehood as opposed to the celebration of Valentine's Day. Important discounts are offered by the stores during 24 hours. The outstanding success of this new celebrating occasion motivated online and offline retailers to join the celebration (Kwan, 2015).

In 2015, a sales record was reached of \$14.3 billion dollars, an impressive 60% growth in comparison to the \$9.3 billion sales of 2014 (CRITEO, 2016). An extra initiative was a key driver for this sales rise. Merchants had started to announce the special prices that goods were going to have from October. Deposits were accepted early, however, the payments processing and goods delivery were executed on the Singles' Day. In 2009, 27 sellers participated in the Singles' Day celebration, while in 2014, 27 000 sellers had joined the special occasion (Kwan, 2015). In the United States, on the Cyber Monday, the biggest online shopping occasion of the year, there was registered a sales amount of \$3 billion dollars in 2015 (CRITEO, 2016).

FIGURE 21  
ECOMMERCE SPENDING ON HOLIDAYS 2015



Source: CRITEO, 2016  
Author: Solange Hidalgo

### 3.2. Alibaba's current expansion areas in China

This section will describe how Alibaba is addressing two important tendencies that are emerging in the Chinese market. The Big Data sector, focused in the extraction and analysis of data generated through the transactions of the platforms, enables Alibaba to create more accurate customer profiles. As the e-commerce industry reaches a mature stage in the urban zone, the increasing demand of the rural area shows high expansive potential over the next years. Alibaba has created the program Rural Taobao aimed to improve the interactions and products sales between the rural and the urban areas.

### **3.2.1. Data collection; key concern for Alibaba**

During the Investors Day at a meeting held in 2016 in Hangzhou, Jack Ma remarked three principal edges that are guiding Alibaba's activities during the next years. These are: globalization, the expansion towards the rural zones of the country and a special attention in the development of technologies, which according to Jack Ma's opinion are going to drive the changes of the sector (AGENCIA EFE [EFE], 2016).

Jack Ma explained in the course of the encounter that Alibaba's strategy on the years to come is not focused on sales volume anymore but on the recompilation of customers' data. This works under the simultaneous intervention of two technological applications. On one side is the cloud computing sector with huge virtual servers, and on the other side are the activities designated to the massive processing, storage and analysis of the data got throughout the different platforms of Alibaba in conjunction with the real-time monitoring of the activities and transactions made by the users, being this information known as "Big Data" (EFE, 2016).

Although the online retail is rapidly growing; the physical retail sector still remains the one that generates more sales, with the 88% of the total spending made by the Chinese population in the retail sector. Danfeng Li, Alibaba's Director of the Big Data and Technology division, says that an effective management of the data generated by customers will unlock new opportunities in the country for the whole retail sector and not only for the online participants. (Hamill, 2016).

Alibaba perceives itself as the bridge that can connect both sectors. Alibaba is searching to locate itself at the center of the panorama and in this way foster the online-to-offline (O2O) revolution of China. Li believes that an adequate data analysis will not only drive Alibaba's future activities and success but also represents a growth gateway for the retail sector. He claims that the current technology was shortened to an important degree the gap between the online and the offline channels. It has made it easier to locate customers in physical stores. (Hamill, 2016).

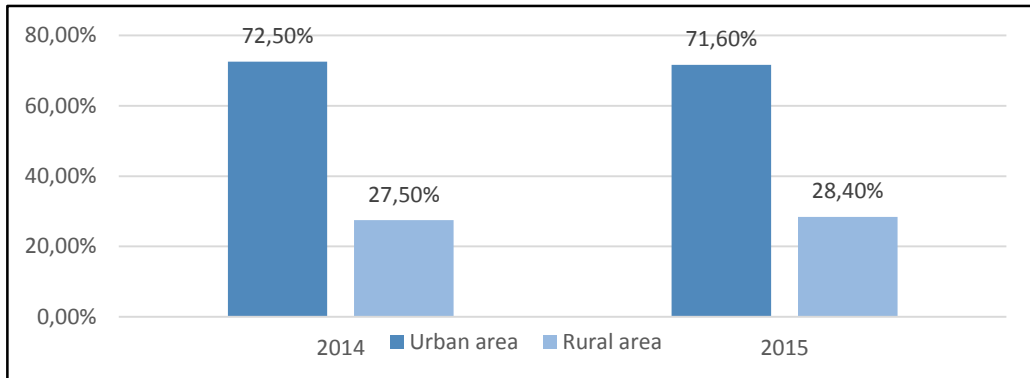
Cellphones have consolidated as the biggest data source. The use of Wi-Fi sniffers and beacons makes it possible for Alibaba to collect data from the different stores that are participating in this new strategy. Among the principal information that can be extracted in this way is comprised the traffic flow of the stores; it is easier to determine which are the areas that count with a longer engagement from customers and even the numbers of customers that leave stores after a short time (bounce rate). Throughout the compilation of first data (physical stores) and third party data (online channels), Alibaba has the tools to generate more accurate customers' profiles. It currently has developed around 20,000 different profiles taking into account diverse behavioral and demographic characteristics, comprising some of these profiles up to 1 million people (Hamill, 2016).

In a paradoxical way, cellphones are also the most underused devices in brick-and-mortar stores. Through beacons, which can connect via Bluetooth to smartphones through an app, stores would be able to locate customers inside the store in real time. Wi-Fi sniffers on the other side make it possible to gather information related to the visit length and visitors interactions, which can then be compared to sales data. Alibaba's mobile apps enable it to connect the MAC direction of mobile cellphones, which is unique for each device with a Taobao account, which is also connected to the cookies that remain on them while customers navigate online. In this way, Alibaba can collect information related to the web surfing habits of its users from one side and identify consume patterns from the other with accurate precision. All the information collected from both channels is the jointly analyzed in the cloud computing system and subsequently used to build consume profiles (Planelló, 2016).

### **3.2.2. The growing demand of the rural area as a potential growth engine for the e-commerce market over the next years**

After years of explosive rise in the urban area, the online retail commerce of China is reaching saturation, becoming the rural sector in this way the new growth source (FBIC, 2016). According to the China Internet Network Information Center (2016), the online shoppers located in the rural China represented the 22.4% of the total e-commerce customers in the country in 2015. During the first three months of the year, the 9.6% of the orders made on Alibaba's platforms Taobao and Tmall came from the rural zone of China (FBIC, 2016).

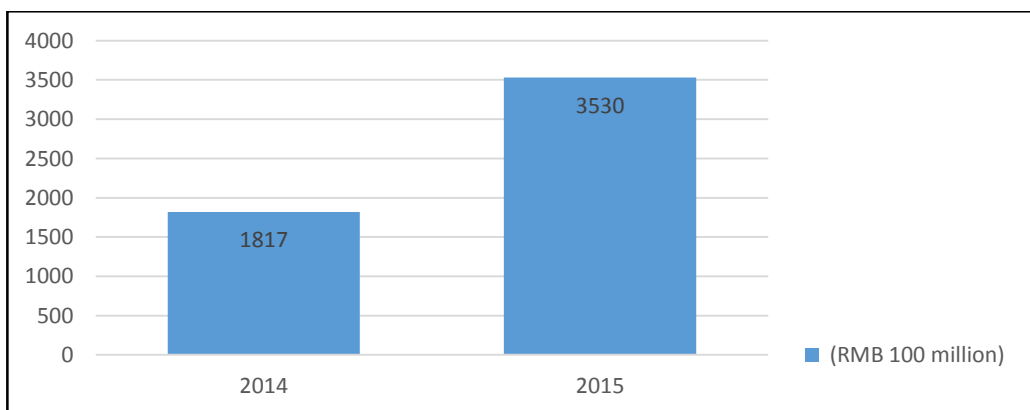
**FIGURE 22**  
**CHINESE NETIZENS STRUCTURE**



Source: DELOITTE, 2016  
Author: Solange Hidalgo

The growth of the rural online market has received support from the government through the formulation of several policies focused in the sector among which are comprised documents and guidelines aimed to promote its development. Moreover, the big retail companies of the country such as Alibaba, JD and Sunning have taken active participation and implemented several initiatives to favor the expansion of the online commerce in the rural zone. In 2015, the value of the rural e-market reached 353 billion RMB (about \$54.3 billion USD), which represents a 94.3% year-on-year rise, a growth speed much faster than that of the overall online market of China (DELOITTE, 2016).

**FIGURE 23**  
**CHINA RURAL SHOPPING MARKET**

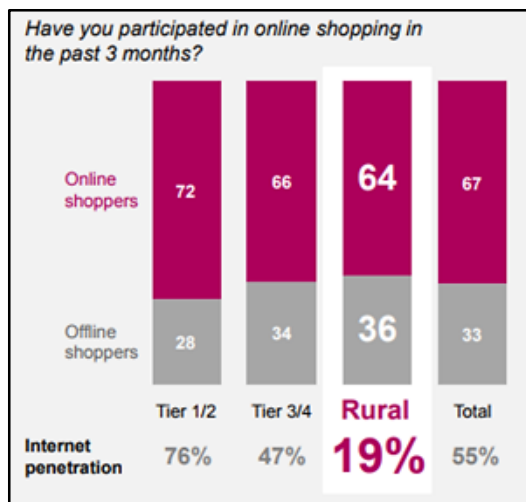


Source: DELOITTE, 2016  
Author: Solange Hidalgo

Despite the considerable gap existent in regards to the internet penetration between the urban and the rural zone, the 60% of the netizens in the

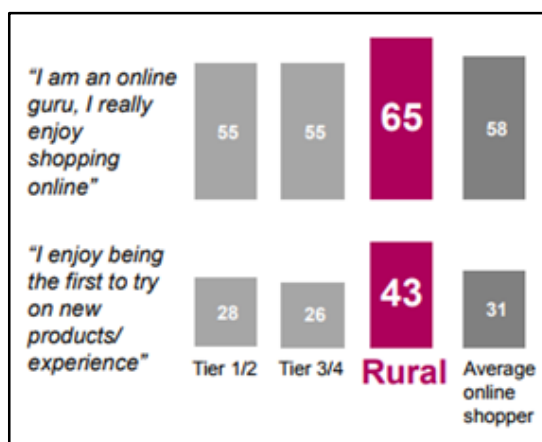
rural China are engaged in online shopping, having a pretty similar level of activity as the urban population. According to a survey made by McKinsey & Company (2015), the cipher of rural online shoppers who perceived themselves as “online gurus”, with a higher disposition to try new products before others, was 25% larger than the one reported for the customers living in tier 1 and 2 cities. Mobile phones are the main internet access channel in the rural China as the 85% claim to be more likely to surf the web through them (Lau, Chi, Gong, Li & Liao, 2015).

FIGURE 24  
ONLINE SHOPPING PENETRATION URBAN VS RURAL AREAS 2015



Source: Lau et al, 2015  
Author: iCONSUMER CHINA

FIGURE 25  
CHINA SHOPPERS DISPOSITION TO BUY ONLINE AND TRY NEW PRODUCTS



Source: Lau et al, 2015  
Author: iCONSUMER CHINA

The rural zone of China currently represents both a selling and buying market (DELOITTE, 2016). Especially during the last three years, the rural online consumption has rapidly increased in China. According to forecasts, in the following 10 to 20 years, the e-commerce market of the rural zone is expected to become larger than that of the urban zone (FBIC, 2015).

The dynamic growth of the rural online market is underpinned by two important factors. From one side; the growth in the farmers' disposable income has played a key role for the development of the online shopping tendency. In 2014, urban Chinese consumers had a disposable income of 28,844 RMB (about \$4,436 USD) which implied a 7% rise in comparison to 2013, and 31,195 RMB (About 4,800 USD) in 2015 that represents a 6.6% annual growth. Rural consumers had a 9% growth of their disposable income in 2014, reaching it 10,489 RMB (About \$1,614 USD) and a 7.5% annual growth in 2015 reaching 11,422 RMB (About \$1757 USD) (FBIC, 2016; INTRACERN, 2016).

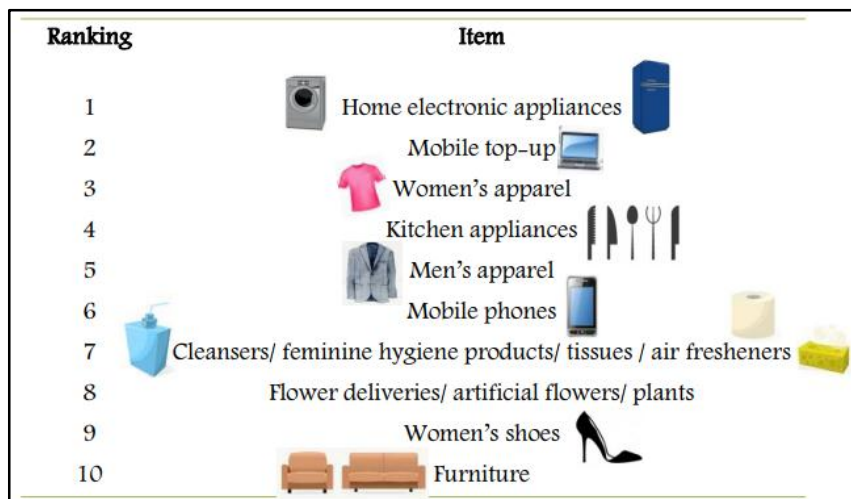
From the other side, the weaknesses of the traditional retail sector have led rural consumers to opt for online channels, increasing in this way the demand of the e-market. Online channels give the rural consumers access to a wider number of options. Moreover, they are also able to find better prices; the International Trade Centre (2016) states that according to the category, the price of goods can be a 6% to 16% lower in online platforms than in physical stores (INTRACERN, 2016). Finally, the online market platforms bring consumers the advantage that they can buy at any time of the day (FBIC, 2015). It is worth mentioning that the competitiveness of the online market has been a stimulus for the demand of higher-quality products among the rural buyers (INTRACERN, 2016).

China's bigger online retailers are taking action to address the needs of the emerging rural market and exploit its potential. Operations have been established in counties in order to make it easier for products to arrive to the rural zone and to bring the farms products to the urban zone (Lau et al, 2015). Efforts have been put on the development of the logistics services and technology education, work talent has also been recruited and trained and financial support has been provided as well (DELOITTE, 2016). Alibaba, Suning and JD have set up service centers in the rural China and the enrollment of promoters located in

these areas has been a part of the strategies implemented to serve the sector (CNNIC, 2016).

The future expansion of the rural market will depend in an important proportion on an adequate infrastructure implementation, the enhancement of the logistics capabilities and effective allocation of the personnel working in the involved areas. A correct fulfillment of the rural needs in conjunction with the government measures are expected to favor the integration of the rural zone as an integral part of the online market of China (DELOITTE, 2016). There is a potential for brands and enterprises who are capable of establishing an integrated mobile shopping experience as one of the main difficulties that rural customers face is the distribution challenges (Lau et al, 2015).

FIGURE 26  
TAOBAO TOP SELLING CATEGORIES



Source: FBIC, 2015  
Author: FBIC

### 3.2.3. Taobao villages and the importance of an adequate logistics model

The amount of orders generated on Alibaba's platforms has been an important booster for the development of the logistics industry of the country. In 2013, there were 5 billion packages delivered to different zones of China. In order to improve the delivering process of goods, Alibaba and some partners jointly set up Cainiao Network Technology Co. being implemented the "China Smart Logistics Backbone Network Initiative" as well. This initiative is made up of the combination of simultaneous efforts in three especially important areas of the logistics services. In the first place, it looks to establish large warehouses in the

biggest cities of the country and consolidate a central network to facilitate the transportation of e-commerce goods to different areas of China. The implementation of a logistics online platform in the second place aims to streamline the sharing of real time information among all the participants in the logistics and transportation services sector in an open and transparent way. Finally, the participation of qualified personal facilitates the reaching of distant areas of China and makes it possible to build a "last kilometer" system. The correct functioning of each one of these three areas, makes it possible to establish win-win relations that benefit the participants in it; consumers, e-entrepreneurs and manufactures, logistics companies and third-party service providers (ALIRESEARCH, 2017).

Rural Taobao is an initiative that was set up by Alibaba Group in order to improve the connections of the rural areas with the urban areas of China, looking for the innovation of the agricultural sector and a transformation process of the rural zone. This program aims to invigorate a two-direction flow of goods; from one side it is easier for the people in the rural areas to acquire goods produced in the urban zones, and from the other side the selling through online channels of the agricultural goods cultivated in the rural areas, makes it easier for farmers to sell them to the urban area. (ALIRESEARCH, 2017).

The term Taobao Village refers to a group of people of the rural zone in which at least the 10% of the households conforming it have participation in e-commerce activities, and registers a transaction value of at least 10 million RMB (about \$1,6 USD) in a year (Cheung Kong Graduate School of Business [CKGSB], 2015).

In 2013, there were registered 20 Taobao Villages; by the end of 2014, this cipher grew ten times and reached 211 villages, being engaged in e-commerce activities around 70,000 merchants. According to estimates, with the establishment of these villages and the engagement of rural dwellers in the online market, 28,000 new jobs were created in the rural zone of China that year (CKGSB, 2015). This steady growth reached in 2015 a total of 780 villages (INTRACERN, 2016). A 65% YoY growth in the commercialization of agricultural products through Alibaba's online market platforms was registered. Shipments made in both directions amounted to a total of 7 billion parcels during this year.

An 80.69% revenue growth was reached in 832 counties considered poor, with a value of 21,566 billion RMB (DELOITTE, 2016).

In the year 2014, measures were announced by Alibaba focused on three main areas. Taking into account the economic scope, a credit support system was formulated and several financial plans were introduced. In order to provide to people the necessary knowledge to participate in e-commerce activities, a training plan was set up being included in this initiative the creation of rural online learning platforms. Sellers were helped in the promotional area through several events that were held focused on them (INTRACERN, 2016).

The Taobao Villages program is structured under two networks at two different levels; a county network and a village network. The county-level network is composed by express companies with a wider territorial coverage, while the village-level network reunites smaller local companies that cover the different villages in which they are located. Goods transportation to the rural area is carried out in two steps. They are first delivered by the express companies to the county-level centers established by Cainiao. Subsequently, the goods are picked up from them by local logistics companies from the rural zones which deliver them to the centers located at the villages, where customers are able to pick them up (ALIRESEARCH, 2017). In the service stations, rural dwellers are provided the technological facilities to surf Alibaba's online marketplaces and post their orders. After some days the products acquired arrive to that same service center (PROCHILE, 2016).

In 2014, stronger impulse was given to this rural initiative with the launch of its Qian Xian Wan Cun plan. Through it Alibaba has the intention to reach 1,000 centers established at the Chinese counties and 10,000 centers in villages by 2019 in order to continue improving its logistics capabilities. In April 2017 there was a total of 500 county-level service centers and approximately 30,000 village service centers established. (INTRACERN 2016; ALIRESEARCH, 2017). To foster the effective implantation of the plan, a complementary system known as Rural Taobao partners was set up in order to recruit rural entrepreneurs interested in selling their products online. They are provided by Alibaba with the necessary equipment such as computers and televisions, and the knowledge to engage in online commercial activities through training programs. The participants in return have the responsibility to promote the online market and

provide purchasing services to the rural dwellers. They are also given a commission for these activities (INTRACERN, 2016). In addition, in February 2016, an agreement was established between Alibaba and the National Development and Reforms Commission with the purpose of boosting the e-commerce activities in the rural zone of the country as part of a plan aimed to reduce poverty in the current economic context. Pilot projects have been set up in this area of the country aimed to develop e-commerce in it (INTRACERN, 2016; PROCHILE, 2016).

### **3.3. Alibaba as an opportunity to sell to the Chinese market**

The following section will compare the selling alternatives that enterprises with the intention to enter the Chinese e-commerce market have. A general overview of Tmall and Tmall Global will present the potential benefits that enterprises would have entering the Chinese e-commerce industries through one of these platforms through the description of examples from Australia and Spain.

#### **3.3.1. The model alternatives for selling online in China**

It was previously remarked in Chapter I the popularity of third-party platforms in the Chinese e-commerce market. In this sense, Tmall is Alibaba's biggest platform, with its international version Tmall Global for enterprises without physical presence in China. Foreign companies that want to sell their products through online commerce to China have basically four different options available. The first two options refer to different type of standalone websites; inside China or outside of the country. The other two options refer to the carrying out of their activities through third-party platforms, being them located outside or inside China as well (EWW, 2016).

Stabling a standalone website outside China can be seen as the easiest method to start selling into the country; however, its effectiveness has not been the highest when targeting the Chinese customers. A retailer that picks this model has to take into account some minimal considerations. They will need to develop a Chinese version of their website and they will also have to arrange payments through any third-party payment platform. The establishment of delivering logistics would also be an important challenge. Furthermore, it is important for sellers to take into account that their websites would be blocked by the Chinese

government as they do not hold an ICP license. Standalone websites inside China can be an option if the enterprise that plans to launch it has already operations in China (EWW, 2016).

Through third-party platforms enterprises do not have to face big issues with regards to technological capabilities. In this point it is important to mention that Chinese consumers prefer to acquire products through domestic platforms having them a huge popularity in the territory, which would make them a best option than standalone websites. Moreover, enterprises do not face the same high costs of cross-border logistics services and customers do not have to wait long times to receive their goods (EWW, 2016).

Tmall was created in 2008 with the aim to fulfill the demands of an emerging sector of consumers looking for premium products. Buyers have confidence in Tmall when looking for both national and international brands. The careful process to register a store on Tmall has let it gain validation from the customers. Several global well-known brands have opened stores in Tmall to reach the emerging middle class of China, among these figure Nike, Estee Lauder, Under Armour, Godiva, Calvin Klein, GoPro and Burberry (Ramírez, 2015).

From its launching to the current time, Tmall has become the principal online selling channel of China having the 53% of the market share in the B2C sector. It has about 334 million active buyers and more than 70,000 stores. Both platforms are in the Chinese language. Tmall would represent a suitable option for enterprises that are already operating in the country, looking to enter the online field. Tmall makes it easy for the consumers to receive quickly the acquired products with the 72 hours delivery and 7 days returns policies. Consumers do not have to take any additional step than those they have to take with any domestic enterprise. Payments are made in the local money and the business account must be registered in China (EMARKET SERVICES SPAIN, 2016).

Tmall Global, on the other hand, represents an accessible option for enterprises that have not yet developed the necessary physical structure to establish them in China and/or want to test the performance they products would have in the Chinese market. Tmall Global allows sellers to constitute the enterprise in their country of origin and the bank account can be located there

too. Sellers are able to receive payments in their local currency thanks to the international payment system that this platform provides. Goods delivery takes more time using this platform, however, Chinese customers' interest for foreign products is steadily increasing through time, their being willing to wait for their acquisitions to arrive (EMARKET SERVICES SPAIN, 2016).

Jannet Wang, the director of Alibaba for Europe claims that Chinese customers prefer to make all their acquisitions in one platform instead of having to surf all the independent websites of the stores they are willing to buy in. Alibaba has also made available an operations team which helps international businesses to have a clearer comprehension of the Chinese market dynamics and how they can take advantage in the best way of the opportunities that Tmall provides them. There have been implemented technical and marketing tools that enable enterprises to direct costumers towards the products that best suit their interest and promote a wider participation of them. Real time data tracking tools are also available in order to help enterprises have a better understanding of the customers' behavior and give an effective response. Alipay works closely with the sellers in order to help them identify the best payment options for each one, while the logistic arm Cainiao handles shipments (Ramírez, 2015).

Both platforms Tmall and Tmall Global offer three different types of stores according to the kind of enterprise that wants to start selling its products in the platforms. Through Flagship Stores, brand owners can directly sell their products to the Chinese consumers or can give the exclusive authorization to a company that opens the virtual store. Previous to the establishment of operations in Tmall Global, the trademark should be registered in Hong Kong and in the case of authorized companies, documents proving the selling permission from the brand owners must be provided. Authorized Stores focus on enterprises that have permission to sell products of a determined brand without exclusivity and as in the previous case, trademark registration and selling permission documents are required. Finally, through specialty stores, merchants can sell several in one or two diverse products categories regardless of whether they are the owners or they have a distributor role (Ramírez, 2015).

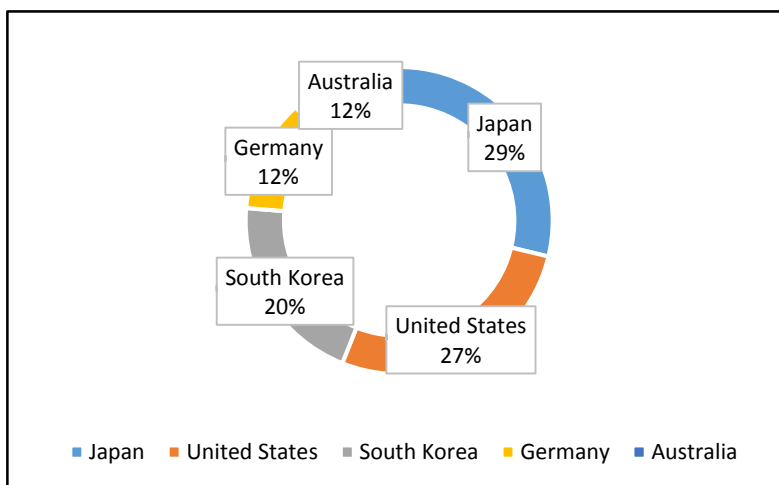
An enterprise that opens a store in Tmall or Tmall Global is required to make a security deposit as a guarantee in case the store would violate any of the platforms' regulations and procedures. This fee is returnable in case the

enterprises close their virtual store. In the case of Tmall, this security deposit varies according to the type of store and products category, ranging between 10,000 RMB and 300,000 RMB. For Tmall Global, the collected deposit is of \$25,000 USD without distinction of the store type. In the second place, sellers have to pay a yearly fee that covers technology and services activities which in Tmall's case can be of 30,000 RMB or 60,000 RMB and, for a few categories, a lower amount of 10,000 RMB or 15,000 RMB. In Tmall Global's case, this value is of \$5,000 USD or \$10,000 USD. As far as commissions are concerned, for both platforms this value ranges between the 0.5% and 5%. Additionally, Alipay charges a 1% fee for each transaction (TMALL, 2017).

### **3.3.2. Alibaba's international market**

In the year 2016, on Tmall Global were offered products from 63 countries with 3,700 categories of products, a considerable growth in comparison to the previous year in which there was a total of 1,700 categories from 50 different countries. In January 2017, there was a total of 14,500 brands selling their products through Tmall Global and an important fact to remark is that the 80% of them are brands selling their products to the Chinese consumers for the first time. Among the countries with the major notable presence in Tmall Global figure Japan, the United States, South Korea, Germany and Australia in sales importance for the year 2016 (Tong, 2017). Tmall Global has the biggest market share among the cross-border e-commerce platforms of China, being in 2015 registered a 58.6% market share, followed by JD with a 22.8%, Vip.com with a 3.3%, Yihaodian with a 1.4%, Amazon with 0.7% and other platforms with the 13.2% (LNP CHINA, 2016).

FIGURE 27  
TMALL GLOBAL TOP-SELLING COUNTRIES 2016



Source: Tong, 2017  
Author: Solange Hidalgo

Regarding companies operating in the domestic Tmall platform, relevant examples can be analyzed from Australia and Spain. The Australian brands with the best performance on Tmall Global in 2016 were Chemist Warehouse, Swisse and Blackmores. The most popular Australian products acquired by the Chinese consumers online are health and nutrition products, dietary supplements, milk powder and coffee and instant beverages. Australian small and medium enterprises have been paying close attention to the development of Tmall Global. In 2016, Jack Ma and the Australian Prime Minister, Malcolm Turnbull, reached a deal aimed to help Australian companies to establish operations in China through the online retail platform (Koehn, 2017).

From the previously mentioned brands, Swisse and Blackmores belong to CarePlus. This company offers products on the vitamins, biscuits and health products sectors. In 2015, it was generating \$30 million USD revenues after being in China for a short period of just four years. CarePlus is headquartered in Australia, Sydney, and has established local warehouses in China in order to address the demands generated from online channels like Tmall. It offers about 100 diverse products on the Chinese market (Evans, 2015).

About the 50% of its sales involve vitamin products, however, according to its CEO, Patrick Liu, one of the categories with the fastest growth is health products, which he affirms is catching up. He stated that in 2014, the company had a 120% sales growth, being the 75% of this value generated through the

Tmall online store. One of the most important factors promoting this growth is the increasing demand of "clean and green" products from the Chinese middle-class as several contamination cases registered in previous years involving domestic sellers have raised concerns among the customers. Liu also remarks that people in China are giving attention to a healthier lifestyle (Evans, 2015). At the beginning of the year 2016, Alibaba established logistics centers in Sydney, Melbourne and Hong Kong offering delivery and inventory management services for the sellers who prefer to hire this type of activities (EFE, 2017). Later in 2017, Alibaba Group set up a new headquarter in Melbourne for the New Zealand and Australian markets with the aim to address the increasing global demand for products coming from these countries (REUTERS, 2017).

In Spain's case, the Inditex group has established several online stores selling its different brands. The group entered into China for the first time in the year 2004 when it opened its first Zara store. By October 2014 the group had set up more than 460 brick-and-mortar stores. In 2013 the group started experimenting the functioning of Tmall with the introduction of the brands Bershka and Pull&Bear. One year later, the next step was the launching of an online store for Zara too. Zara was already carrying out online sales in China through its independent website. However, it was not easy to attract customers who didn't know the brand already. Tmall in this way represents a gateway for foreign companies to gain popularity in China. The Asian market has become an important growth engine for the group as the 20% of its sales come from this continent, equaling the percentage sales contribution of Spain (Fontdeglória, 2014). In 2015, the enterprise Correos and Alibaba signed an agreement in order to facilitate the incorporation of SMEs to Tmall Global (Gómez, 2017). In May 2017, the option to establish a logistics center in Barcelona was considered as Alibaba had offered logistical services through Cainiao back in 2013, however, this process has not been confirmed yet (EFE, 2017).

Throughout this chapter, several findings have been there have been made with regards to the tendencies that have emerged in the Chinese e-commerce market. The number of sales that take place through online channels is growing at a much higher pace than the sales that are made in physical stores, being projected the online retail industry to be the principal growth engine of the retail market of China during the next years. Mobile devices have gained a central position as the majority of the customers access the internet through them, having

consolidated as the main channel to execute online payments too. This important role has turned them into the main marketing channel jointly with social media. Webrooming and show rooming show the versatility of the Chinese consumers, which is a sign of the importance and benefits that would emerge from the implementation of omnichannel approaches. Alibaba through its Big Data division is addressing this tendency in order to create more accurate customers' profiles, combining information from physical and online channels. As the rural zone emerges as the next potential e-commerce market of China, Alibaba aims to improve the conditions for its development in the zone with Rural Taobao. These conditions turn China into a potential market for international enterprises wishing to sell online to China, representing Tmall and Tmall Global suitable options to do it because of their position and reputation in the country. Based on the presented facts, it can be stated that the general objective established for this chapter which is: *"Identify the latent consumption tendencies of consumers' behavior in the Chinese e-commerce market"* has been achieved. The next section will present an analysis of the factors presented throughout this investigation that have contributed to the dynamic development of the Chinese e-commerce market.

## ANALYSIS

The general objective that guided the elaboration process of this dissertation was to: *“determine the favoring factors for the rapid growth of the e-commerce in China and its current consolidation as the biggest e-commerce market in 2015”*. The open door policies carried out by Deng Xiao Ping marked the beginning of China's economic transformation from a state controlled economy in which market forces were practically inexistent, to being the main drivers of it. With the entrance to the WTO, China had to align its economic policies to the internationally accepted guidelines, being especially relevant the openness to international trade and foreign investment and the elimination of prices control. The enhancement of private property increased the country's productivity as the economy had been historically characterized by the domination of inefficient state enterprises. The establishment of special economic zones and the tax benefits and special treatment that they offered attracted a massive flow of foreign investment with China becoming the biggest receptor of the world. Overseas enterprises set up operations in China, which had a key role for the development of the industrial sector with the introduction of new technologies. Technical improvement of manufacturing processes favored the consolidation of China as the biggest exporter. The analyzed measures boosted China's economic development to currently be the second biggest economy of the world, having a high GDP growth rate throughout the years.

The economic growth of China made it possible for the emergence of a middle-class with a higher purchasing power. In this way, consumption became the biggest GDP component in 2015, surpassing the contribution of business investments. Despite the structural change period that the economy is going through, Chinese consumers remain confident as their willingness to spend has grown at a considerable speed with a 10.7% rise between 2012 and 2015. China projects itself to become the biggest retail market in 2019, surpassing the United States. In the following years, the expansion of the upper-middle class of China is expected, which has already been reflected in an increased sophistication in the Chinese consumers' demand, as they are now more careful about what they spend their money on. In this sense, millennials will have a key role, as they are perceiving higher incomes than other segments of the population and are additionally characterized by their high knowledge and interaction with technology.

The diverse geographic conditions of the different zones of China have characterized the country for a fragmentation of the traditional retail channels, which posed an opportunity for the introduction and development of online channels. The rapid expansion of internet during the last years has favored the development of the e-commerce industry. In this sense smartphones have played a key role as in 2015, the 90.1% of the Chinese netizens accessed the web through them in comparison to a fixed-broadband penetration of just an 18.56%. Despite just half of the population is connected to the internet, China remains the country with the biggest netizens population. Under its mission "to make it easy to do business anywhere", Alibaba was created with the belief that the internet can level the playing field among enterprises.

Helen Deresky (2013) states that the mission determines the reason of being that a company has, and strategies are formulated according to it. During this process, the environmental conditions that can influence the business operations' must be considered, being these factors of different types such as economic, political, demographic, technological, legal or sociocultural. In this way, the enterprise can identify the opportunities that the external environment can provide and the challenges that it would have to face. Jack Ma, taking into account the fragmentation of the physical retail channels and the inexistence of information about China on the web, through Alibaba provided the small and medium enterprises of China with the technological capabilities to have presence on the web, creating Alibaba.com and 1688.com, which were focused on the B2B field. Kotler and Armstrong (2012) state that once an enterprise has selected a target market, the success of attracting it lies in an accurate comprehension of its needs and an adequate response to them. Alibaba has paid close attention to the creation of user-friendly platforms. This was an important aspect for adoption by Chinese merchants, as they didn't need any technical knowledge to join the platform and offer their products online.

During its nascent stage, Alibaba adopted Porter's cost-effective strategy (Ahlstrand et al, 2005), which is focused on a low-cost production. Alibaba started providing its services for free, which during this stage was an especially important feature, given the high consciousness that merchants had about costs at that time. Sellers and buyers could get connected with each other, enterprises were able to cultivate the relationships with its customers through the online channel,

and buyers could find products of their interest with a wide number of options from which to choose.

Having always the customers at the center of its strategy, during the next years, Alibaba observed the needs that emerged from its users. As Kotler and Armstrong state (2012), the ability that a company has to keep its customers depends on the capability that it has to provide them with a superior value proposition. Taking these aspects into account, during its formative stage, Alibaba implemented complementary services that increased the agility of the acquisition processes that were carried out on its platforms. From this stage to the current time, Alibaba has been working under a differentiation strategy which is focused on developing of unique services for the customers, which can be achieved through a quality improvement, a better performance or the implementation of innovative features. The introduction of the TrustPass membership let, on the one side to sellers gain credibility and, from the other side, let buyers have more confidence about the seriousness of the trading partner. The third-party payment service Alipay helped overcome the people's lack of trust in online payments. The introduction of Aliwangwang enabled registered users to have real time conversations and clarify doubts about the negotiations. The development of Cainiao logistics has greatly improved the delivery of goods, especially to the distant areas of the country.

The implementation of Porter's differentiation strategy can be evidenced by the introduction of a higher quality service through the TrustPass membership, the implementation of new features with Aliwangwang and Alipay, and the improving of its performance with the establishment of the Cainiano logistics network. These measures enabled Alibaba to defeat Ebay and enter the C2C field with the creation of Taobao, which marks a related diversification approach defined by Coulter et al (2015), as the expansion of an enterprise operations to a different industry, but still holding a relation with its business scope, which in Alibaba's case, initially was the B2B field solely.

The e-commerce expansion has promoted the rise of online payments too, an area in which smartphones are having an important participation as well with the 55% of transactions taking place through them in 2015, and being expected to account for the 73.5% by the year 2018. Local third-party market platforms consolidated as the preferred channels among the Chinese consumers

to make online purchases, as they let them have access to their preferred products and brands in one place. Moreover, Chinese buyers perceive them as more trustworthy. The establishment of Tmall in 2008 marked Alibaba's entrance to the online B2C market and the beginning of its mature stage, which has been characterized by the extension of its diversification strategy to a wider scope of internet sectors. Tmall was opened in order to provide brands with a specific platform and had the 57.8% market share in 2015. Seeing the dynamism of the Chinese market, enterprises outside China got interested to sell their products in the Chinese e-commerce market. In this way, in 2014, Alibaba addressed this need through Tmall Global, intended for enterprises without physical presence in China, having a 56.8% market share in 2016.

Online retail is growing faster than traditional retail and is expected to continue growing at a 20% annual rate over the next years, in comparison to a 6% of the offline retail. However, despite the much bigger dynamism of the online segment growth, physical retail remains the biggest sales generator with the 88% of the overall Chinese retail spending. While it currently represents the 35% of the online retail market worldwide, by 2019, it is expected to account for the 50%. Based on this panorama and in concordance with the latent tendencies, enterprises have realized the potential of an omnichannel approach. Digital channels have narrowed the limits between time and space and the emergence of showrooming and webrooming as remarkable tendencies of the Chinese consumers show the opportunities and the importance for enterprises to cultivate relations with their customers in both the offline and online scope.

Given the fact that millennials are the current and future drivers of the e-market tendencies in China, it is important to take into account the principal characteristics that define them, like being aware of brands and emotionally driven. In this sense, social acceptance affects the purchasing decisions they make having big trust in their peers. In the online scope, this is translated in interactions that take place through market platforms and social media. Chinese consumers are highly prone to read feedback left by other people over products acquired before making a decision. Being mobile devices the main channel to access internet and to make online payments, they have obtained a prominent role as a sales and marketing channel, fostering the socialization of online shopping. This socializing tendency has marked an important influence over the marketing process of enterprises as it has been made evident that the strategies

adopted should favor the establishment of a dialogue with the customers, rather than be just a one-way communication channel. Furthermore, the interaction between customers has raised the sense of community between them, which in the retail sector is translated into the need of generating a more tailored offer according to the different preferences that the diverse consumers segments have. Special buying occasions have also emerged as potential sales generators, with the Single's Day the most important online buying occasion of the year with \$14.3 USD billion sold in 2015.

Alibaba's launching of the Taobao mobile app, the entrance to the digital media and the entertainment industry on one side, and the Big Data and cloud services implementation on the other, show how the company is currently addressing the emerging omnichannel and socialized commerce tendencies of the Chinese consumers. This implies what Coulter et al (2015) define as an unrelated diversification strategy, under which an enterprise extends its activities to industries that are different from those in which an enterprise traditionally operates, which in Alibaba's case, was initially just limited to the B2B, C2C and B2C scope. With its vision of "meet, work and live Alibaba", the company looks to give the platforms users an experience that transcends the mere acquisition of products. The incorporation of social networking features that let consumers interact between themselves and the introduction of other activities like gaming have propitiated the growth of the users' engagement with Taobao app, while the Digital Media and Entertainment division has worked in building a varied contents offer with several services, among which are comprised video, pictures and music.

The Big Data sector shows a big potential through the processing and analysis of the data obtained from the transactions that take place on Alibaba's market platforms and the real-time monitoring of consumers' activities, Alibaba can generate consumers' profiles and identify in a clearer way their preferences. It has been stated by Jack Ma that for the following years, the working strategy of Alibaba is highly related to the compilation of consumers' data rather than the sales volume. The importance of mobile phones is also evidenced in this sector as they could provide a big amount of information from physical stores making use of devices such as Wi-Fi sniffers, beacons and mobile apps being all the extracted data subsequently unified in the cloud system. In this way, Alibaba

looks to gain a central position in the revolution of the online-to-offline development of China.

As the explosive growth of the e-commerce market that took place in the urban area is reaching saturation, the rural sector of China emerges as the potential growth source during the next years. It represented the 22.4% of the overall e-retail industry of China and continues to develop at a much faster speed as well. The rural e-retail had a 94.3% rise in 2015, in comparison to a 33% of the overall e-retail market. The logistics services development has played an important role for the increasing of the rural e-commerce demand. The government has also given support to the sector through the formulation of several policies focused on its development. The cross-border e-commerce sector is also perceived as a future potential market. Though its size proportion in comparison to the overall e-retail industry is low, representing the 3.1% of it, its growth speed is very high. In 2015, it had a 94.3% growth rate and is expected to account for the 15% of China's total e-commerce by 2020.

Finally, it's important to note that the Chinese government has constantly been updating the legal framework in order to address market needs. Additionally, internet expansion is comprised between the most important government focuses for the next years, as it has been evidenced in the 13th Five-year program. Internet is being perceived as a source of economic growth being this the underlying reason for the implementation of "Broadband China" and "Internet Plus" strategies, which aim to expand internet penetration around the country and integrate it to the traditional Chinese industries. However, it is important to take into account the gap that remains in the application scope, especially with regards to Intellectual Property. In this sense, enterprises wishing to enter the online market should take preventive measures in order to protect it.

## CONCLUSIONS

The hypothesis formulated for the present dissertation affirmed that: China's economic reform oriented towards foreign investment and the rapid spreading of internet would favor the establishment of new companies such as Alibaba, which has currently gained an omnichannel presence in the e-tail market by implementing innovative strategies as a multisided platform. It has been found that the hypothesis is partially true, basing this affirmation on the following conclusions.

- The reforms initiated by Deng Xiaoping in 1979 guided China's economic transformation, giving market forces the principal role to guide the market. The enhancement of private property and the elimination of prices control increased the productivity of the country. With access to the World Trade Organization, the Chinese economy gave way to foreign investment and international trade, attracting a massive flow of capital and favoring the technical transformation of industries and the manufacturing sector, which boosted the exports of the country. China's economy grew at a steady pace, being today the second biggest of the world.
- The economic growth of the economy favored the emergence and consolidation of a middle-class that has boosted the consumption sector, which currently is the biggest contributor to the GDP. Millennials who are perceiving higher incomes and present a bigger willingness to spend than other segments of the population will continue to be the tendency drivers of the market in the following years.
- The rapid internet expansion was a very important condition to favor development of the Chinese e-commerce industry. Mobile phones contribution is especially important as they represent the main internet access channel in China, where broadband penetration is still low, especially in the rural areas.

- Millennials are characterized by being web-savvy and having a high interaction with the technological sector. Moreover, they are brand conscious and emotionally driven. In this way, they have favored the socialization of commerce, with cellphones and social media playing a key role, which has turned them into the main marketing channels.
- Alibaba's success lies in the early and accurate response to the customers' needs and the emerging tendencies of the market. During its initial stage, Alibaba entered the B2B sector under a cost-leadership strategy. Alibaba gave merchants the opportunity to have online presence without needing technical knowledge. In this way, it could generate a high perceived value. The implementation of complementary tools according to the emerging needs of the customers let Alibaba establish its competitive advantage in China adopting a differentiation strategy. In this way, Alibaba was able to continue expanding its business scopes during the next years entering the C2C and B2C sectors and, more recently, the digital media, entertainment, Big Data and cloud computing areas.
- Special celebrations show potential to generate sales being Single's Day the best example with \$14.3 billion USD sales achieved in 2015.
- The versatility of the Chinese consumers has been reflected in interaction with both online and offline channels when looking for products, which can be reflected in tendencies like showrooming and webrooming. These factors have revealed the importance of an omnichannel approach. Though Alibaba is working in this scope through its Big Data and cloud computing sectors, the initiatives implemented are still at an early stage, being this the variable that makes the hypothesis partially true.
- The Chinese e-commerce industry in China has entered a mature stage and saturation is being reached in the urban zones. However, the rising demand from rural areas and foreign products

shows the potential of rural and cross-border e-commerce over the next years.

- The dynamic growth of the Chinese e-commerce industry defines it as a potential market for foreign enterprises, which is evidenced by their presence in Tmall and Tmall Global.
- The Chinese government is giving important support for internet penetration and the development of e-commerce, which can be evidenced in the government 13th five-year plan. In this way, it has constantly updated the legal framework in order to address the needs of the market, and has implemented strategies like the "China Broadband" strategy and "Internet +". However, there still remain legal application gaps, being counterfeiting one of the main challenge that sellers and buyers face.

## RECOMMENDATIONS

- Given the versatility of Chinese consumers, enterprises should give attention to the implementation of omnichannel strategies, being in this way able to build the relationships with their customers through both online and offline channels and also having the possibility to create more accurate customer profiles with the data collected. In this way they will be able to respond in a more accurate way to their needs and desires generating a more tailored offer.
- Being millennials driven by emotions and a high interaction with technology and taking into account the emergence of socialized commerce as a result, enterprises should develop marketing strategies aimed to transform the process of shopping online into an interactive experience.
- Being evident the potential that the rural and cross-border e-commerce sectors present, enterprises should work on strategies to address those markets.
- Mobile phone strategies should receive particular attention as the main internet access, online payments and marketing channel.
- Tmall Global would represent a suitable option for foreign enterprises who want to enter the Chinese e-commerce industry but don't have physical presence in the country. Having this platform the biggest cross-border e-commerce market share, new enterprises have access to a wide exposition.
- Being counterfeit one of the main challenges faced by sellers, new enterprises willing to enter the Chinese e-commerce market must take preventive measures to protect their trademarks, being highly recommendable to register them not only in Chinese but also in English.

- The measures taken by online sellers in China would be a reference for enterprises in other countries and regions. In this sense Latin America is emerging as a potential market as it currently is the region with the second fastest e-commerce growth behind Asia Pacific. According to forecasts, by 2019 it would generate a sales value of \$85 billion USD, being Brazil, Mexico and Argentina the best performing e-commerce markets.
- Ecuador's e-commerce market is still at an early stage. In 2015 it registered an \$800 million USD sales value. At the current time, according to the Ecuadorian E-Commerce Chamber, Ecuadorian customers when buying online prefer to do it through international platforms, being Amazon the most preferred one. A closer analysis of Alibaba's and the Chinese sellers' strategies would provide them with a reference to address in a more accurate way the customers' needs.

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