

# China's Dilemma of Cross-border E-commerce Company

## Take Amazon China as an Example

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**Abstract**—With the continuous extension of information, human beings can always tap the existing business opportunities and the e-commerce platform is to flourish in the context of the globalization of the Internet. It takes the computer network as the carrier, and builds a virtual network of transactions between sellers and buyers. Since the 1990s, there are many international cross-border Internet platforms such as Amazon, Ebay, Yahoo, Ubar, etc. with the popularity of computers. They seem to be on the way of internationalization encountered difficulties in China. This paper aims to get some inspiration and suggestions about China's dilemma of cross-border e-commerce companies through analyzing problems of Amazon China as an example.

**Keywords**—*electronic commerce platform; Amazon China; China's dilemma*

### I. INTRODUCTION

In recent years, e-commerce industry is booming in the world. Many traditional businesses also fight in this channel. A lot of e-commerce platforms are rising up, such as Amazon, Ebay, Alibaba, etc. They seize the opportunities brought by Internet in different areas and different industries, and now they have become cross-border e-commerce platform. There is a very interesting phenomenon in this context. It seems that there is a Chinese curse in some foreign cross-border Internet companies. In 2006, Ebay occupies the absolute leader in Chinese e-commerce market, however with the rise of Alibaba; Ebay had to withdraw from the Chinese market. In 2012, Ebay went back to China with a new strategy. However, it was in vain. Yahoo, Google and other Internet giants had entered the Chinese market with overwhelmingly ambitious before, though they were all failed. It seems that these who performed well in the international market are struggling in this huge market of China.

Amazon is the world's largest e-commerce platform. Entering the Chinese market in 2004, it has experienced the development of the Internet business platform at the fastest time in China. However, having witnessed the rise of Alibaba, Jingdong and Suning, it gradually lost market advantage of international arena in China. Overall, reviewing its performance in the Chinese market, its performance can only be evaluated as general. This paper takes Amazon China as an example to analyze its advantages and difficulties in the

Chinese market, and eventually we could get some inspiration on that base.

### II. ABOUT AMAZON CHINA

Amazon China is the world's largest e-commerce company Amazon branch in China. Amazon China calls for the slogan which is "every day low-cost, authentic licensed", having been adhering to the "customer-centric" concept. Amazon China aims to create a reliable online shopping environment for consumers from the angles of low-cost, selection and convenience of three areas. Amazon China business concludes books, audio and video, software, movies and other 32 categories, up to tens of millions of products. Through "cash on delivery" and other payment methods, Amazon China can provide convenient and efficient online shopping experience for Chinese consumers.

### III. ADVANTAGES AND DILEMMAS OF AMAZON CHINA

#### A. Advantages of Amazon China

1) *Brand value*: Amazon China selects the appropriate products through customer positioning method. It uses simple business processes to provide customers with good service. It creates a well-known brand and enhances the value of intangible assets too. Amazon China makes full use of network technology, logistics coverage, product inventory platform, and provides customers with personalized and convenient product choices. It creates a unique business model, whose core is "customer first" philosophy. Any other method is at the service of the only core concept.

In the Chinese market, a company which can adhere to the "customers first" concept from beginning to end is not easy. From customer's perspective, many customers would praise for their purchases in the Amazon shopping mall and these users have good experience including cheap, quality trustworthy, good wrap, easy returns and so on. So Amazon won a good reputation in the customer groups. And its partners also have good evaluation. Cooperating with foreign company such as Amazon is easy, so there is no need of the dinner party, which makes these partners are more willing to deal with Amazon. Chinese employees in the Amazon also love this foreign culture. Amazon China's leadership guidelines are also being recognized by Amazon's internal staff, which creates a very good reputation for the Amazon.

2) *Core development strategy*: Amazon China's core development strategy can be summarized as innovation, speed, reality and simplicity. Amazon has its own technology department which can develop their own software, products and also can provide customers with retrieval systems to save customers' time[1]. The product called kindle brings many benefits, which can add vitality to the Amazon through continuous innovation. Amazon has its own logistics system, having failed in the Chinese market; Amazon learned a lot of logistics lessons to improve the logistics system. Reality and simplicity are reflected in the Amazon's core philosophy, "customer-centric" concept, and commitment to low-cost.

It has been reflected that in the past two years, Amazon's four strategic focuses with current market conditions: overseas purchase, Kindle, logistics and cloud computing. Overseas purchase is becoming the most important strategic focus; it has docked with the Amazon United States. Chinese users can get guaranteed merchandise through the platform of Amazon, which increases its market share.

3) *Operational advantages*: Amazon China has a world-class operating network. There are currently 11 operation centers, and they are responsible for manufacturers' receiving, warehousing, inventory management, order delivery, allocation of delivery, customer returns, return to factory, products' quality and safety. At the same time, Amazon China also has its own distribution team and customer service center which provides consumers with convenient distribution and after-sale service.

Amazon's logistics capability is undoubtedly at the first-class in China. Amazon has 13 operation centers, and more than 300 trunk transport networks. Amazon can provide up-to-date and next-day services for the county's consumers of more than 1,400 cities across the country through self-supporting and third-party logistics cooperation.

#### *B. Dilemmas of Amazon China*

Amazon entered the Chinese market in 2004, and it was definitely one of the China's pioneer e-commerce platforms. Later, Amazon spent \$ 75 million on the acquisition of Joyo. It was a very good decision. Unfortunately, later the Amazon China watched the rise of Jingdong, Vipshop, Suning that all went beyond Amazon China. When it had response to the complexity of Chinese e-commerce market, Alibaba had already been in an oligopoly position in the market and some local e-commerce platform like Jingdong and Dangdang were rapidly rising. It is pretty difficult to succeed in this oligopolistic market. With Amazon's official presence in Tmall international, Amazon China was placed in an embarrassing place.

Amazon China accounted for 15.4% market share in China in 2008, but then it was gradually shrinking. In 2015, its market share shrunk to 1.1%. According to Q1B2C shopping website transaction scale (GMV) market share rankings from iResearch which released in 2015, Tmall accounted for 58.6%, with Jingdong accounted for 22.8%, Vipshop accounted for 3.8%, Suning accounted for 2.8% while Amazon China only accounted for 1.1%. Amazon lost more than \$600 million every year in China.

In recent years promotional price war among e-commerce platforms intensified. The total turnover of Tmall during one day reached 19.1 billion on 11th Nov in 2012, 35 billion in 2013, 57.1 billion in 2014, 91.2 billion in 2015, and 120.7 billion in 2016. Jingdong and Jumei also performed well, so Amazon China felt the crisis. In the current market, the price war is still the mainstream. That Amazon China's not suitable for the Chinese market has been talked for a long time. Taking China's reality into account, the Chinese e-commerce market is at an initial stage. Of course, the price war can not last long, but it is undoubtedly the most brutal. In the e-commerce price war of low level, how to develop is a question to Amazon which has a label, reputation and technology.

#### **IV. ANALYSIS OF AMAZON 'S PROBLEMS**

##### *A. Strategic level*

After Amazon buying out the Joyo, it was said to be quite successful to integration and realize the sustainable growth of enterprises. Unfortunately, as an e-commerce company in China, Amazon inherited all of Amazon's genes. It leads this company to be not fully suited to the competitive environment of domestic market. One of the biggest mistakes is to consider the Chinese market as the American market. Undoubtedly, Amazon is a successful e-commerce business in the world, but when decided to enter this huge Chinese market, it should be based on local conditions and revised some strategic plans, rather than the mechanize Amazon model.

The typical strategic mistakes are the "flywheel theory". In 2001, Bezos had proposed the "flywheel theory" under the influence of WAL-MART: To attract more customers with the lower price. This means that increasing sales and more profits. And low price is a very important part of the user experience. Bezos also believes that a good reputation can play a promotional role, and the marketing costs could be saved to be used for reducing prices and enhancing the customer experience. However, the "flywheel theory" hidden premise hypothesis which is that customers are very rational, and difficult to be fooled by fancy publicity so that the good reputation will spread naturally. But, things are not so simple in China. Bezos did not take into account that China is a developing country with more than one billion people, and the customers are not always sensible. Amazon refused to be engaged in sales promotion, and refused to participate in the low price war. Amazon focuses on enhancing its strength, and wants to obey their original values. The Amazon strategy is equivalent to hand over the market in the most intense competition, so that its market share continued to decline.

Yahoo entered the Chinese market in 1999; the first step was the "copy strategy". It included copy product and user search. Then it resulted in poor user experience, and thus lost the initiative. Google was the same, it had been the favor of Chinese users when it just to enter the Chinese market. However, Google addicted to their own advantages, while ignoring the needs of more users. Baidu hit the market gradually. Its root is not localized in the strategy.

### *B. Human resources level*

Currently, the combination of strategy and human resources management is the edge management, which shows the importance and the development tendency of human resource management[2]. Amazon's global headquarters did not let the Amazon China realize management on independent, and even happened to "blind phenomenon". Hanhua Wang served as president for seven years in the Amazon Chinese and he has a "pain point" that he is only responsible for Amazon China's sales, and not responsible for operations and logistics, because its operations and logistics is always managed by the United States headquarters. Ironically, the president of China region has not the right to change a product packaging. Westernization of management and processes led the Amazon would never be able to have the most market share over the Chinese market [3].

This problem is better reflected in Yahoo. In the early era, after "copy strategy" and lost opportunities, Yahoo was fully aware of the seriousness of the problem. Hongyi Zhou began to reform in 2003, and then Yahoo was gradually entering a period of development again. But in 2005, Opinion on the development of Yahoo's long-term strategy were inconsistency between Yahoo's headquarters and Hongyi Zhou, resulting in the resignation of Hongyi Zhou. Yahoo was in crisis again.

In addition, Amazon did not set a good incentive mechanism and did not set a profit target either [4]. For the previous China area management team of Daoyuan Ge and his predecessor, Steve Frazier, were not required to reach what kind of market share, sales figures. For Daoyuan Ge, the challenge was "The Amazon is the local leader of E-commerce in other global market. We only need to follow the successful experience of the Amazon that has been established in the United States, and then we will be able to successfully execute. But in China, it is not enough to only do this." It was some incredible that the team which composed a group of very smart people in China only do what the Amazon headquarters command to, not to do what they need to.

### *C. Operational level*

1) *Marketing strategy*: The attraction of low price war for China customer is much larger than the American customer, just as popular day that 11.11 shopping carnival of Tmall and JD.COM. Amazon China's marketing strategy is too conservative. "The flywheel theory" makes them to focus on the enhancement of the quality and do obviously insufficient in the marketing, to lost faith of Chinese customers in it.

2) *The user experience of the website*: Those cross-border e-commerce platforms, such as Amazon China, Yahoo and Google, have had a bored page design. This style is more suitable for US sites. For Chinese users, it is neither beautiful nor practical.

## **V. SUGGESTIONS AND INSPIRATION**

### *A. Management strategy and model into localization*

Amazon acquired a lot of companies in the word. Amazon should make different strategies for different regions. The Chinese market is in the initial stage of e-commerce market. It is not standardized. In such a Market environment, the use of

standardized market management methods and marketing strategies does not work. From the example of Yahoo's reform in 2003, we can obtain some inspiration.

In 2016, Amazon China puts forward four strategic focuses: overseas purchase, kindle e-books, logistics and cloud computing. Obviously, great changes have been made in concepts, technology and market in the traditional enterprise's business environment [5]. It seems that unrealistic Amazon began to be realistic. In the past Amazon China lost opportunities, and now it focus on enhancing its competitiveness. Amazon turned to explore their international advantages, striving for a foothold in the Chinese market.

### *B. Localization of the management team*

In Chinese market, if you want this company to be localized, you must turn it into a real Chinese company. This company should be managed by the Chinese team. The US headquarters formulate their strategies, to reduce intervention, and to give better incentives and cooperation with the local strategic partners or financial investors. This not only makes use of the advantages of global brand, and makes the management team to keep fighting with passion, but also rapidly increases market share with the help of local partners and the government[6].

### *C. Attention to its marketing*

In its weak marketing, Amazon should recruit more talent in the field of marketing. Marketing strategic should combine the Chinese marketing approach with the Amazon model. Of course, suitable marketing strategies require a long time to explore. It must be suitable for the Amazon model, and also have a strong competitive edge in Chinese market.

### *D. Improve the user experience*

According to the customer's recommendations, Amazon China should change the design of its site, and change the appearance of its packaging.

## **VI. CONCLUSION**

In the international arena, Amazon is a successful example of e-commerce companies, but Amazon succeeds in different environmental and different cultural backgrounds.

Those cross-border e-commerce companies, such as Amazon, Yahoo and Google, want to apply the international model into the Chinese model. The results confirmed the mistake of this strategy. They ignore the characteristics of Chinese cultural. Which resulted in those reactions to the Chinese market was insensitive, and also led to some problems. Therefore, they gradually lost its advantages and market share, increasing the difficulty of surviving in Chinese market.

The analysis about Amazon China has great reference significantly for other cross-border Internet companies. There is no doubt that China's domestic cross-border Internet companies can also use for reference.

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