



How and why Ebay failed and Alibaba/TAOBAO had success in the Chinese market?

Lara Rodriguez Valero (s106446)

Supervisor: Ingeborg Astrid Kleppe



Master thesis, MSc in Economics and Business Administration, International
Business Profile

NORWEGIAN SCHOOL OF ECONOMICS

This thesis was written as a part of the Master of Science in Economics and Business Administration at NHH. Please note that neither the institution nor the examiners are responsible – through the approval of this thesis – for the theories and methods used, or results and conclusions drawn in this work.

Abstract

This Master thesis is about the American multinational internet C2C corporation eBay and its failure in the Chinese market. As a successful multinational enterprise with much international market share, eBay experienced a failure in the Chinese market in a short time. The aim is finding out the reasons why eBay failed and Alibaba/TAOBAO had success in the Chinese market. It will be studied the internal and external factors respectively based on the resource-based view, competition-based view, and the country analysis. The internal studies include the assessment of eBay's and Taobao's business model and international strategy. While the external studies are consisted by the analysis of the Chinese Internet industry with fierce competition as well as the institutional factors which provided the main reasons for eBay's failure. At last, based on these findings, strategy adaptation recommendations for eBay regarding both the internal and external analysis will be presented.

The findings are based on a collection and analysis of secondary data. The thesis is presented in five parts. In Part One, it provides an introduction to the thesis and background information of eBay, Taobao's and the Chinese Market, it is defined the problem statement, research aim, and research questions. In Part Two, it gives an overview of our research and data collection methodology and theories used. In Part Three, it is presented the Internal analysis through the study of each firm, while in Part Four, it is detailed the external analysis. In Part Five, it concludes by presenting the recommendations with regards to the Ebay's entry in the Chinese Market and it is recommended how eBay could be operated in this market.

Key Words: eBay, China, TaoBao failure, resources, competition, CAGE, Alibaba, international, strategy

Contents

ABSTRACT	2
CONTENTS	3
INDEX OF FIGURES	6
1. INTRODUCTION	7
1.1 EBAY AND TAobao	7
1.2 RESEARCH BACKGROUND	8
2. THEORETICAL APPROACH	9
2.1 INTERNAL FACTORS	10
2.1.1 <i>Business model designs</i>	10
2.1.2 <i>VRIO Analysis</i>	12
2.2 EXTERNAL FACTORS	14
2.2.1 CHINA ENVIRONMENT	14
2.2.1.1 <i>Importance of China</i>	14
2.2.1.2 <i>Chinese Business Behaviour</i>	15
2.2.2 PORTER: GENERIC STRATEGIES AND 5 FORCES	19
2.2.3 CAGE ANALYSIS	21
3. METHODOLOGY	23
3.1 RESEARCH METHODOLOGY	23
3.2 RESEARCH DESIGN	23
3.3 DATA COLLECTION.....	24
3.3.1 <i>Secondary data</i>	24
3.4 RELIABILITY AND VALIDITY	24
3.4.1 <i>Reliability</i>	24
3.4.2 <i>Validity</i>	24

3.4.3	<i>Generalisability</i>	25
3.4.4	<i>Expectations about findings</i>	25
4.	INTERNAL FACTORS: FIRM ANALYSIS	26
4.1	EBAY ANALYSIS.....	26
4.1.1	<i>Business model of eBay</i>	26
4.1.2	<i>EBay's product offering</i>	27
4.1.3	<i>EBay's customer service</i>	27
4.1.4	<i>Brand identity/reputation of eBay</i>	28
4.1.5	<i>International Strategy of eBay</i>	29
4.1.6	<i>VRIO analysis for eBay</i>	30
4.2	TAOBAO'S ANALYSIS	30
4.2.1	<i>Business model of TaoBao</i>	31
4.2.2	<i>TaoBao's product offering</i>	31
4.2.3	<i>TaoBao's customer service</i>	31
4.2.4	<i>Brand identity/reputation of TaoBao</i>	32
4.2.5	<i>Strategy of TaoBao</i>	32
4.2.6	<i>VRIO analysis for Taobao</i>	33
5.	EXTERNAL FACTORS: EBAY AND TAOBAO IN CHINA	35
5.1.1	<i>Chinese e-commerce market</i>	35
5.1.2	<i>Institutional view</i>	35
5.1.3	<i>Industry-based view</i>	38
5.1.4	<i>Strategy analysis comparing eBay with TaoBao</i>	39
6.	CONCLUSION AND RECOMMENDATIONS	43
6.1	RESEARCH SUMMARY.....	43
6.2	ALTERNATIVE STRATEGIES FOR EBAY	44

7. APPENDIX	46
8. REFERENCES	52

Index of Figures

Figure 1: Three leading perspectives on strategy (Peng,2006)

Figure 2: Summary of VRIO (Barney, 2006)

Figure 3: Western versus Chinese Networking (Orrù et al, 1997)

Figure 4: Porter's Generic Strategy (Porter, 1980)

Figure 5: Porter's five forces (Porter, 1980)

Figure 6: VRIO Analysis of eBay

Figure 7: VRIO Analysis of Taobao

1. Introduction

1.1 Ebay and Taobao



Ebay is an US company that offered e-commerce, e-payments and internet communication services globally, founded in California on September 1995 (Cohen, 2003). EBay.com, an online auction and shopping website in which people and businesses buy and sell a broad variety of goods and services worldwide. Via the ways to satisfy people's needing immediately, the business model run really well and eBay grew really fast. By early 2008, the company had expanded worldwide, counted hundreds of millions of registered users, 15,000+ employees and revenues of almost \$7.7 billion. With the rapid development and usage of the E-commerce platform, the attention of promoting business through the internet paced up all across the world. China was not an exception to such revolutionary phenomenon.

The **growth of E-Commerce in China** was potentiated through the increased number of internet users. The China Internet Network Center reported that the number of internet users in China reached 123 million by the end of June 2006 (Lu Ying, 2007). China was the second largest country in the world which has the highest population of internet users. The population who are engaged in trading through the internet had increased to 30 million. (Lu



Ying, 2007). The exponential rise in the number of internet users in China motivated "Alibaba" to launch the trading site website **Taobao** in 2003. Alibaba incorporated its successful strategies due to its vast market experience in the Chinese market. They endorsed on their service capabilities of promoting business to business, for seeding the successful operations of Taobao (Zhang, 2005). With successful business to business Operations, Taobao became the leader in the domestic Chinese e-market. The company became successful due to its flexibility in personal transactions, which made it the largest e-commerce trading platform in China. Currently, Taobao offers online business services to millions of clients all across the globe. Taobao became the leader in the e-commerce category within the very second year of its launch in China. And it was rated as the 18th company in the world based on its visibility and popularity of usage.

1.2 Research background

As the globalization operation process in other countries, eBay invested 180 million dollars for the wholly-owned acquisition of EachNet (China) from March 2002 to June 2003 and finally entered into the Chinese C2C market. However, in December 2006, eBay announced its plan to form a joint venture with China-based online portal and wireless operator, **TOM Online**, in which eBay would have 49% ownership. (Vara & Chao, 2006) The move reflected the serious difficulties foreign internet companies were facing in their attempts to snatch a share of the Chinese market amid fierce competition and the complicated market environment. In 2008, **eBay eventually admitted its failure in Chinese market**, and at the same time it announced its business would revive again. (Jiao, 2008).

While, in 2007, the consumer to consumer data in China reflected that Taobao occupied around 83.6% of the consumer to consumer market in China, which was far ahead of Paipai (8.7%) and eBay (7.7%), (See Appendix 1). Taobao's business process amply relied on production and operation mode, which was the key concern and need in an Asian country. The dynamics of the Asian customers were much better anticipated by Taobao compared to its counterparts Paipai and eBay (Asia Business Media, 2007). **The success of Taobao resulted into a failure of eBay.**

Hence, the present Master thesis is based on a **case analysis approach** of both the companies as competitors in the Chinese E-commerce markets. It will pivot around the analysis of international strategies that led to the success and failure of eBay in comparison to Taobao. The present thesis analysed the reasons for failure of eBay in Chinese market. The analysis was based on country analysis (CAGE theory), industry globalization potential analysis (Porter's 5 Forces with globalization drivers), and company analysis (VRIO theory).

The research aim can be divided into three parts:

- To understand the reasons for eBay's failure in China by assessing the interaction between their business model, international strategy and the market environment in China.
- To understand the reasons for Alibaba/TAOBAO's had success in the Chinese market
- Based on these findings, reasonable suggestions would be designed for eBay to revive its share in the Chinese market.

2. Theoretical approach

EBay is a typical example of multinational enterprises (MNEs), which are firms that engage in foreign direct investment by directly controlling and managing value-adding activities in other countries, often to adapt their strategies, products and services for local markets. (Caves, 1996) MNEs expansion are due to closer integration of countries, (Stiglitz, 2002) which has been brought about by the enormous reduction of transportation and communication costs, and the breaking down of artificial barriers affecting the flows of goods, services, capital, knowledge and people across borders, in other words, “globalization”. Nowadays it’s difficult to establish a global strategy since it must be adaptable to characteristics of every market, culture and institutions, and it must show an optimum point between standardization and customization strategy. Moreover, international strategies of MNE’s often face the challenge of combining the global integration of operations and local responsiveness to market.

The theoretical approach outlines an overview of theories from global strategy, which it found insightful when analysing how eBay did in Chinese market. According to Peng (2006), the analysis will be based on the three leading perspectives on strategy: industry-based competition, firm-specific resources and capabilities, and institutional conditions and transitions (Figure 1). It will study every perspective through Porter’s Five Forces framework, VRIO and CAGE analysis.

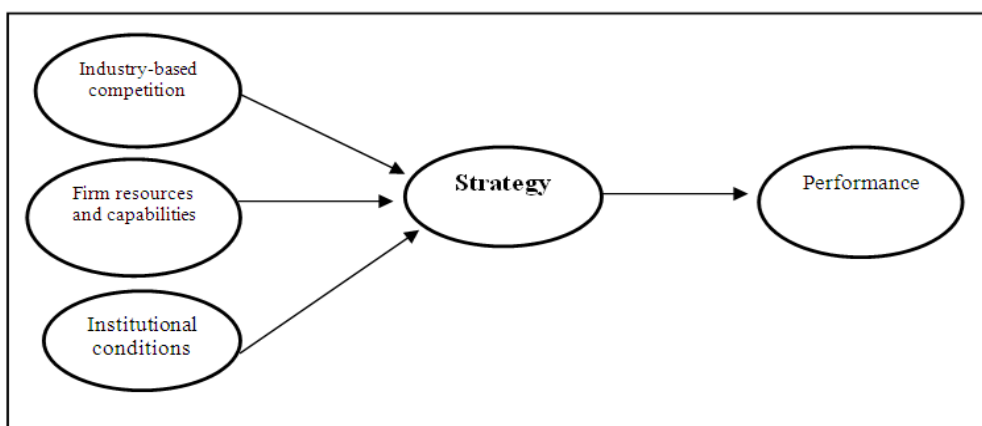


Figure 1: Three leading perspectives on strategy (Peng, 2006)

Since eBay's business model has proven to be successful in different European and American countries, it assumes that external distances factors will be at least partially responsible for the eBay's failure in Chinese market. Before analysing the external analysis of eBay, it needs to focus on the internally at eBay's business model and core competencies in order to determine whether those strengths provide them with competitive advantages and it will be compared to Taobao strategies. Then it will analyse the external factors, as well as the Chinese market environment, Porter's Five Forces framework and CAGE analysis.

2.1 Internal factors

2.1 Business model designs

The term "business models" is increasingly used in the field of E-Commerce. Such a term or concept was absent in the traditional textbooks on marketing strategies. In the past, organizations conducted businesses individually and independently. However, with the explosion in information technology and rapid growth of E-Commerce, they became interconnected to create a win-win situation for themselves and for their clients. They became interconnected based on the talents, goods and services with different organizations from different parts of the world. Hence, business models are implemented for creating value for themselves and their customers across demographical boundaries. The search for values leads to innovations and the foundation stones for strategy in respective markets. Hence, organizational transformation is the key attribute for any successful business model. It has been endorsed that logic and value are the key drivers for any successful organizational transformation, which are correlated to the success of a specific business model (Mahadevan, 2000).

A **Business Model emphasizes the process of generating value** of a business transaction in a customer driven market. Business models create a relationship between the clients and the organization. These models create logic in estimating their customers, their values, beliefs and choices and their behavior of buying.

Various types of business models are operated in the context of E-commerce. However, no single model could be considered to have been a holistic success model. This is because the mindset of the buyer and the sellers are quite different, across different continents and even from one nation to another within the same continent. Hence, a business model which is

successful in the United States may not be successful in Asian countries. Perhaps that was the logic why eBay lost its ground to Taobao. The various business models in the E-commerce category are described as below:

The B2C Model

The Business to Customer model operates where organizations sell their products directly to the retail customers through online transaction. For example, Amazon.com operates under this model. Under this model the seller has unique and vast range of services, which attracts the retail clients. Most of these models generate revenue and profitability through bulk sales and processing fees.

The B2B Model

The Business to Business model operates where companies use the internet to transact business with another. This form of business accounts for 90% of all e-commerce business processes. However, this form of business has its own complexities. The transactions through this form of business are multidimensional, and involve different individuals in the supply chain.

The C2B Model

This is a unique business model where clients or consumers drive the business and creates value for their services or products. Reverse auctions are expedited through these models and the model runs through low operational costs, However, the security of transactions are weak and cannot account for large businesses.

The C2C Model

In this model or the Consumer to Consumer model enables consumers to behave buyers and sellers through third party facilitated online marketplaces. Craigslist, eBay and PayPal bring about different buyers and customers on one platform and expedite the process of online transactions. The C2C Model generates revenue through personal and membership fees, sales commissions and transaction fees.

Business model in foreign markets:

From a discussion on the business models, it is evident that a single business model may not suffice as marketing strategies in two different countries. Therefore, organizational transformations are required for operating in different business set-ups. Perhaps this is the key reason why different multinationals thrive to get success in Asian countries. The market potential of China peaked up during 2001 when they signed the World Trade Organization (WTO) bill. With the change in the global economy, China shifted itself from the trading-manufacturing identity to an attractive market for various global brands. However, all global leaders were not successful in the Chinese market, inspite of their renowned brand expansion policies.

To be successful in a foreign market, a multinational company should align itself to the local business culture and the needs of the clients. This is the reason which made Starbucks, Maybelline and KFC a huge success in the Chinese market. These companies made their presene visible through participating in local festivals, created a high value for their products, and encouraged acquisition/merger with local companies. KFC initiated the rice bowls and condiments along with their traditional chicken product, to attract the local clients. Starbucks created a high value image from their “for the common mass” image in United States to an aristocratic service in China. It will be analyse if eBay lost its shares to local companies like Taobao due to a lack of aligning itself to the local business culture and the needs of the clients.

2.2 VRIO Analysis

Resources are all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc, controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney& Hesterly, 2006). **The resource-based view concentrates on the internal strengths and weaknesses of the firm and its specific resources and capabilities.** In order to define these core competencies as **competitive advantages or disadvantages**, a VRIO analysis must be used. The VRIO framework is a good tool to examine the internal environment of a firm through four questions:

- The question of value: Do firm and capabilities add value and exploit the opportunities?
- The question of rarity: Is a resource currently controlled by one or a small number of competing firms?
- The question of imitability: How challenging is it for competitors to imitate the resources? Do they are easy to substitute or direct duplicate?
- The question of organization: How should a firm is organized to develop and leverage the full potential of its resources and capabilities?

The positive answer from these entire questions relative to the firm would indicate a competitive advantage. A summary of VRIO can be shown in figure 2 according to VRIO's questions and competitive and economics implications.

Summary of VRIO					
Valuable?	Rare?	Costly to Imitate?	Organized Properly?	Competitive Implications	Economic Implications
No			No	Disadvantage	Below Normal
Yes	No			Parity	Normal
Yes	Yes	No		Temporary Advantage	Above Normal
Yes	Yes	Yes	Yes	Sustained Advantage	Above Normal

Figure 2: Summary of VRIO (Barney, 2006)

EBay owns large amount of resources, in which most of them are competitive advantages, this is also a reason why eBay got success in many global markets. However, combines with the external distances analysis, some of the competitive advantages would lose their sustainability or even their strength in a foreign market.

2.2 External factors

2.1 China environment

2.1.1 Importance of China

China compared to the Western world is a completely different environment. Even though it sounds blatantly obvious, numerous examples of management failures stand for themselves. Pu and Que (2004) analysed cases of Ford, Peugeot, Whirlpool, Maytag, Ericsson, Henkel, Procter & Gamble, Mercedes Benz, Mitsubishi, Toshiba, McDonald's, Philips, Fuji, Ogilvy & Mather or McKinsey prove that even top managers of successful multinationals are often not able to implement understanding of how Chinese culture, civilisation and history affect its business context. Comprehending these differences, where they come from and how they influence Chinese business culture and negotiations style, is fundamental to succeed and deal with challenges awaiting corporations willing to enter Chinese market or co-operate with a chinese-partner.

Answering the fundamental question “**why China, country often cited as the oldest continuous civilisation in the world (Jervis, 2006), is currently so important business-wise?**” should come first. Since introduction of liberating economic reforms called “Socialism with Chinese Characteristics” in December 1978, China has been successfully attracting foreign investors aggressively pursuing its economic growth (Neville, 1996). Nowadays, the following features of the Chinese economy can be noted:

- 1) **Size of the market** – China is the most populated country in the world. It has got a population of 1,4 billion people with 93% of these being Han Chinese (UN, 2010)
- 2) **Size of the economy** - Overtaking Japan as the world's second-largest economy during the second quarter of 2010 China marked another milestone in the country's transformation ‘from impoverished communist state to economic superpower’. Having economy growing at around 9% a year, some experts now expect China to overtake the United States as soon as in 2030 (Teather, 2010).
- 3) **Scope of Foreign Direct Investment** – regarded as the “Bright Spot” in World Investment Report (UN, 2010), China has attracted about \$450 billion of Foreign

Direct Investment, 90 percent of which came after 1990 (UN, 2005). Presently, China has risen to second place after the United States in 2009 amongst the largest FDI recipients (UN, 2010)

- 4) **Scope of investment in Research and Development** – currently China is the second largest investor in R&D (Grimes, 2011), while innovation is strategically regarded as a source of competitive advantage and high quality of products (Johnson et al, 2008).

Summing up, with China being such an important player on a global economic scene, it can be assumed that for most Multinational Corporations (MNCs) there is no choice of ignoring it. If one does not get in, its competitors will probably do so, since, as it was phrased by Carrefour vice-president, not to be present in China means a “huge loss” and missing a “wonderful opportunity” (Shengjun, 2004). At the same time, understanding of how to do business in China with respect to its culture and traditions is crucial, since ‘for foreign companies doing business in China, the country's booming economy by no means guarantees success’ (Fyrwald, 2011).

2.1.2 Chinese Business Behaviour

One of the dominant influences on Chinese business culture is the teaching of Chinese philosopher Confucius (551BC – 479BC) (Liu, 2009). As Bary et al (1960) describe it, ‘no other individual in Chinese history has so deeply influenced the life and thought of his people (...) as a molder of the Chinese mind and character’. The scope of implications includes the way companies are organised, operate and how negotiations are conducted. Moreover, some researchers argue that the ‘longevity of Confucian influences throughout Chinese culture is a major factor in China's resistance to Western management practices’ (Hill, 2006).

Confucianism is a dominating system of thought in China. Its foundations are laid on the principles of good conduct, practical wisdom, and proper social relationship. The complexity and interdependence of Confucian principles results in numerous ways of how researchers explain and break down the teachings into separate elements. This essay relates to the framework of the six basic values, which according to Fang (1999) have most influence on the Chinese style of business:

1. Moral cultivation
2. Importance of interpersonal relationships (Guanxi)
3. Family and group orientation
4. Respect for age and hierarchy
5. Avoidance of conflicts and the need for harmony
6. Concept of face (Mianxi)

The challenge ahead of Western managers is that all these values are interrelated and present in practice simultaneously. This complexity can be divided into single elements, however the future success depends on individual's ability to capture all at the same time and act accordingly along all six.

Guanxi, which can be translated as 'interpersonal relationships', is a sort of implicit mutual obligations, assurances, and intimacy, cultivated by the Chinese on ongoing basis. Guanxi is the way of having things done and making progress in China. Practical implication of this principle is that in order to succeed in China, one should aim at becoming "inside" the network. As Lafayette De Mente (1994) explains, "it is important that the foreign business person dealing with or in China deliberately establishes a network of personal connections, on as many official and private levels as possible, and thereafter carefully cultivates them. This means regular contact, meetings, meals, gifts, and special favours". The relationship with the Government is particularly important since as Ambel et al (2008) argue, "every business in China has a partner in the form of Government whether it wishes it or not". Graham and Lam (2003) recommend that first entrance to the Chinese market is most effective if done via third parties ("mutual acquaintances" or "go-betweens").

At the same time, in order to understand how the Chinese behave in relationship, the concept of Mianxi (face) is necessary to be familiar with. It is related to a person's moral character and is his/her most precious possession. It is not possible to function in a society without it. At the same time, it consequently has got implications of giving face (showing respect to others e.g. through acts of generosity in terms of time, gifts or praise of others) or losing face (devaluation of an individual in the eyes of the others). Mianxi also refers to reputation and prestige and is based on personal accomplishments, political status, or bureaucratic power.

Looking at the wider business perspective, according to Dirlik (1995), Asian capitalism is based on 'human emotional bonds, group orientation and harmony'. Confucius teachings have also effect on the way the whole Chinese economy is organised. Guoqing (People's Republic of China conditions) is a 'contemporary social and institutional factor influencing the PRC' since its foundation in 1949 (Ghauri and Fang, 2001). PRC is reflected in Chinese bureaucracy characterised by centralised decision-making and internal bargaining, which can a source of difficulties be for companies entering this distinctive business environment. The American Chamber of Commerce in Shanghai notes that regulation, bureaucracy, and variable enforcement standards remain big challenges for market entrants (Fyrwald, 2011). In order to deal with these, Zhang (2003) recommends understanding common culture of these institutions and organisations, with focus on the following aspects:

- authoritarian-paternalistic state leadership
- competent official guidance
- harmonious corporate management based on personal family-like relations
- respect for authority, societal commitment to education, meritocracy and work discipline

Following indicated by Fang (1999) six values framework, the impact of Confucianism can be seen at the level of Chinese Management style. First of all, the strong sense hierarchy and cohesiveness is reflected in vertical structures and centralised decision-making style. As Sheh (2001) describes it, 'the group orientation reflects the influence of Wa (harmony) that requires individuals to subordinate their needs to those of the family, the community and the state (though individual needs should be respected)'. Thus, in the workplace, in order to show respect to the superiors and demonstrate group orientation, one should de-emphasize himself and consciously upgrade others. In order to preserve the cohesiveness of the hierarchy, employees at all levels demonstrate high tolerance and concern for harmony at the expense of own interests (Sheh, 2001). Lewis (1996) suggests that this requirement for moderate behaviour, control of emotions and harmony maintenance lead to Chinese having a reputation of 'poker-faced' stoics. Within organisations, individuals put effort to avoid conflicts (Fan and Zigang, 2004) and stay away from self-interest attitudes (Silin, 1976). Criticism is normally addressed not in front of the others to prevent somebody from losing face, which is seen as personal embarrassment (Graham and Lam, 2003).

Regarding promotions and assessment of individuals, superior's subjective view of reliability, obedience, trustworthiness and team orientation of the subordinate are amongst the main elements governing internal promotions (Graham and Lam, 2003). These traits are valued more than objective performance related criteria like Key Performance Indicators commonly used in the Western companies in all fields of business operations (IBIS Associates, 2011).

Looking at cultural implications from the senior management perspective, Redding (1990) argues that for these managers employee welfare is their primary management function and they see themselves as corporate guardians of subordinates, which relates to the concept of superior-man, which one should aim to become cultivating moral principles of his role. One's moral cultivation involves work ethics and dedication to excellence doing one's best in deference to his superiors and group members (Hill, 2006). Sheh (2001) argues that as a consequence of this paternalistic management style that encourages patience and face-saving in conflict situations, corporations function like a family, while mutual reliability, trustworthiness and loyalty are amongst the traits strengthening the internal relationships (Guanxi) (Xing 1995).

Chinese context-based culture in contrast to transaction-based western cultures has particular consequences in the way agreements are reached, sealed and executed. The relationship based on trust and long-term involvement is valued over any form of legal contract (Dongsui et al, 1998), which causes a lot concern for many Western companies. Problems arise, since for instance cultivation of Guanxi involves gifts-giving, which many Westerns find difficult to distinguish from bribery, or due to the Westerns accustomed to relationship being built as a consequence of effective execution of contract, not other way round.

Another interesting perspective to see the differences between Chinese and Western business cultures is to consider how networking is being done in both environments. Orrù *et al* (1997) *summed the key aspects of both approaches in the following table.*

Western versus Chinese Networking

<i>Networking Attribute</i>	<i>How It Is Done</i>	
	Western	Chinese
Motivation	Economic	Economic and social
Formality	Formal and defined roles	Informal and flexible roles
Individual & Organisation	Separate	Impact one another
Networked Organizations	Independence	Mutual dependence
Governing Authority	Contracts	Personal trust

Figure 3: Western versus Chinese Networking (Orrù et al, 1997)

Motivation for the networking is different – while in the Western world it is profit driven, in China social aspect is an integral part of it. It is often emphasised, that for the Chinese relationships are above all established between people, not organisations. This detail has got direct implications for the Western managers since both the negotiating team and later expatriated employees should be taking into account long-term approach expected by the Chinese. In China, the Guanxi of individuals, who are loyal to their companies, is passed on the company level, where organisations form network in parallel. This mutual dependence at the individual and organisational level impacts one another, while in the Western world it is clearly separated. Finally, as explained before, the trust aspect plays a predominant role over any form of official contract.

2.2 Porter: Generic strategies and 5 Forces

First, it will introduce the theory of generic strategies (Porter, 1980). The author claims that a firm can faces different strategy choices (Figure 4) to exploit its competitive advantage. There are three possible choices:

- Cost leadership strategy, indicates that a firm can produce at a lower cost and hence offers lower prices to customers for the same value

- Differentiation strategy focuses on delivering a different product or service that is perceived to add value. That strategy also offers market power to the firm.
- Focus strategy, suggests the firm play in a particular segment or a niche market that does not attract a large number of competitors.

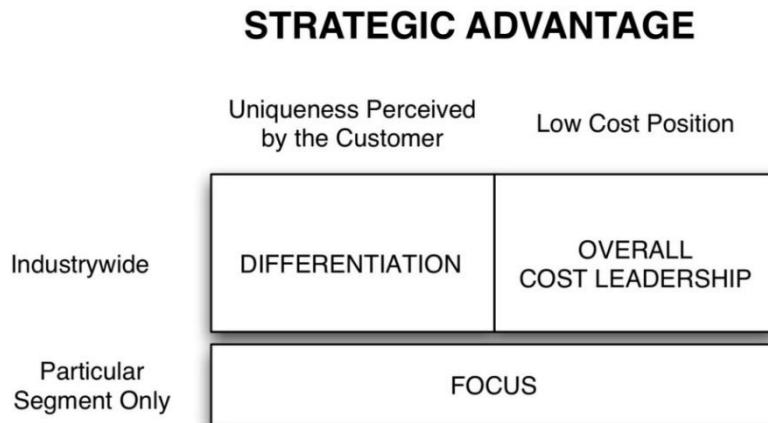


Figure 4: Porter's Generic Strategy (Porter, 1980)

According to this theory it will analyse whether eBay's strategy gives the company one of these competitive advantages.

Through the assessment of industry-based factors of the Chinese e-commerce industry, it expects to identify the context to understand it. For this analysis about industry conditions it will use Porter's 5 Forces theory (Porter, 1980), this framework is a simple but powerful tool for understanding whether the firm's strategy helps the company to strengthen its position relative to the competitive forces in the industry.

With a clear understanding of where power lies, it can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable. Porter divides five forces of industry between: (1) the intensity of rivalry among competitors, (2) the threat of potential entry, (3) the bargaining power of the suppliers, (4) the bargaining power of the buyers, and (5) the threat of substitutes (Figure 5). Among the 5 forces, it is possible to find out that three forces are most relevant to the eBay and Taobao's case, those being the competitors, the power of consumers and the threat of substitutes. It will focus on these elements and analyse them in detail. (Porter, 1980)



Figure 5: Porter's five forces (Porter, 1980)

2.3 CAGE Analysis

Finally, to complement the assessment it will be analyse the institutional factors in the international market with CAGE framework (Ghemawat, 2007). CAGE combines country portfolio analysis with evaluation of the opportunities in foreign markets and the potential costs and risks that arise from the distance between two countries. The 4 dimensions can reduce or increase the distance between pairs of countries and influence different industries in various different ways. According to Ghemawat, the analysis of those factors of distances can perceptibly change the outcome of an evaluation of markets. As a country with specific culture, language, administrative system, economic structure and geography, China is always a typical case to study the CAGE distance.

Cultural distance –This first dimension encompasses differences in attributes like religious beliefs, race, social norms and languages. The way people interact with the society and companies is driven by a country's cultural attributes. This dimension is crucial, given that “cultural attributes create distance by influencing the choices that consumers make between substitute products because of their preferences for specific features.”

Administrative distance –This dimension focuses on the potential friendly historical or political ties shared by countries. Factors such as the existence of a common currency, the existence of preferential trading agreements or a same political union membership, increase trade by more than 300% each. On the contrary, unfriendly ties as well as trade barriers or an unfavourable institutional infrastructure, for example, corrupted or instable, will deepen the distance between the respective countries.

Geographic distance –It includes everything from the actual distance to the host country, such as physical size and communication and transportation infrastructure.

Economic distance –This last dimension should be looked attacking companies' competitive advantage into consideration. Companies need to focus on markets with similar economic profiles. On the contrary, if their advantage is based on cost–and price differentials between markets, they should be concentrated on countries with a greater economic distance (Ghemawat, 2007).

Expanding to China can come cross some issues with the different culture and political system. For example, in China there are different government restrictions and they can significantly affect the economics; it can be complicated to persuade people to trust international companies; it is costly to overcome government regulations and currency problem. For eBay it is useful to adjust more for the local environment, and provide good customer services to attract new customers. But on the other side there are many problems such as the auction system because of the cultural differences. On the other hand, Taobao is already playing at home.

3. Methodology

3.1 Research methodology

The research design must specify which type of data is necessary in order to answer the research questions, how to get the information, and how to analyse this data (Geir, Olsson & Silkoset, 2007) Which design one should employ depends on how much existing knowledge one has about the research area and what the ambitions are with regards to analysing and explaining connections (Geir, Olsson & Silkoset, 2007).

3.2 Research design

There are three main research designs; explorative, descriptive and causal design. This project employed only one **descriptive design** on the first part where it will use mainly observations over time and cross-sectional designs and on the second part, an **explanatory design** since it extend beyond description and focuses casual explanation on the analysis part (cause-effect between a comparative element). A descriptive design require formal theory and do not extend beyond description models are more general and precise and hypotheses take the form of propositions. An explanatory research implies quantitative data as support to it. In addition, it requires formal theory, simple models and testable hypotheses.

Of this form, the quantitative part could be structured in two parts, first one related to the analysis in that way the firm analysis has influenced the failure of eBay in China (descriptive design), and the second one about the comparison between eBay and Taobao's strategies (explanatory design):

Before comparing both strategies in China, must be analyzed in that way has influenced the internal factors, the own firm attributes. For this reason, it will be studied the Business model of both brands, the product that are offering, how is offered (customer service), the own Brand Reputation and its general strategy.

To realize the comparison between eBay and Taobao's strategies in China to know the reasons about the success of Taobao and the failure of eBay, it will be used the data from different articles, papers, news and books, since it contains prestigious data and it is the

better source due to the author of that Thesis do not understand the Chinese. It could be considered like a limitation on the Research.

3.3 Data collection

It is common to differentiate between two types of data: primary data and secondary data. In that Thesis will be used only Secondary data.

3.3.1 Secondary data

It is quite common to gather information that might have been written about the subject before. Secondary data is by definition data that has already been collected by someone else for a different purpose. However, the main motivation to use this type of data is that it is less time consuming and cheaper than primary data.

3.4 Reliability and Validity

In this section it will consider reliability, validity and generalizability of that research:

3.4.1 Reliability

In order to make a study highly reliable it is important to take into consideration the different factors that might lead the data to yield inconsistent findings. In quantitative data the reliability comes from the sources used. All the data from this research are official papers, articles, books, news... for this reason, it is supposed that they have the maximum range of reliability.

3.4.2 Validity

In order to increase the probability of measuring a causal relationship between the different variables it will make sure to consider the data of these sources, of this form, all work it make after will have the same validity.

3.4.3 Generalisability

Since this is a Master Thesis with a big amount of quantitative and official data would be possible to apply the results to other settings for instance to complete a research about the Key success factors to enter in the Chinese market.

Maybe, for future research would be interesting to study how China is getting westernized and how globalization can maybe change the habits of consumers or even the external factors as the institutional factors or the cultural ones.

3.4.4 Expectations about findings

The main expectation is to find the reason why eBay failure in China while Taobao's succeed in order to answer the initial Research Question. Therefore, each variable must be analyzed to understand if it was due to the internal or external factors. It would not be surprising if some of the factors were of more importance than others. Thus, it will analyze to make a feasible solution to the question. Then, it will elaborate some conclusions and recommendations to eBay.

Moreover, a desired expectation would be to generate awareness about the importance of adapting to the location when a brand is entering in a new market.

4. Internal factors: Firm Analysis

4.1 Ebay Analysis

In this part it will be analyze the company itself by its resources as an e-commerce company: business model, products offering, customer services, identity/reputation and other international relational power. The analysis will be based on the VRIO framework. As a strange international brand, the financial capital and the human capital of eBay can be regarded as the competitive parity.

4.1.1 Business model of eBay

Weissmann (2006) defines a **business model** as being the causally connected description of the main factors that make a company successful. Totally speaking, the business model of eBay is an online person-to-person trading community on the Internet with a well-organized product offering system and customer service.

eBay has **various revenue models**. In order to trade on eBay, sellers were charged an insertion fee when they listed an item for sale. Once they successfully sold an item, they also needed to pay a percentage of the final selling price to eBay (Final Value Fee). According to eBay, such fees were still lower than traditional intermediaries (Bjornsson, 2001) eBay also earns transaction fee from owning PayPal, an online paying service system for users to buy items online more conveniently. Moreover, eBay gains sales from the service of listing customer's product to be sold to other users, as well as some advertisement fee. In generally, eBay generated most of its revenue from its three primary businesses: auctions, payments (PayPal) and communication (Skype) (Ecommerce, 2008), (see Appendix 2). Recently, on September 2014, eBay announced it would spin off PayPal into an independent company, although as the China expansion took place before it, in that Thesis the PayPal service will be treated as an integrated eBay service.

The business mode of eBay is very valuable to the organization because it is what developed the industry they are in. Because of the model they created, eBay has been one the successful player of the online auction industry. Both the buyers and sellers on eBay have open communication with each other and this creates value and because of this model was and is

successful, it is no longer rare and not costly to imitate. EBay still exploits this model and it became powerful attribute to eBay which leads to a temporary competitive advantage.

4.1.2 EBay's product offering

Through eBay, sellers could list products or services for sale while buyers could browse through these items and bid on those that interested them (see Appendix 3). The work eBay does is only to inform the seller and the successful bidder by e-mail when a bid exceeded the seller's reserve price or at the end of the auction period. At no point in the transaction did eBay take possession of the items being sold or handle the exchange of goods or services, nor did it authenticate them. Unlike traditional auction houses which acted as agents for the sellers and thus were responsible for helping the latter obtain the best prices, eBay only facilitated person-to-person transactions between buyers and sellers. Hence, the binding contract was between the seller and the winning bidder while eBay assumed no liability for the sale, thereby reducing its business risks. Risks and costs were further reduced because eBay did not need to invest in inventory since the items auctioned on the site remained the property of the sellers (Innovate, 2006). Additionally, items could be listed and traded on a fixed-price basis through the Buy-It-Now feature or eBay Express, allowing for a speedier selling and buying experience, since transactions could be completed without waiting for the auction period to expire (eBay, 2006). In addition, eBay Stores were also available where sellers could run their own online businesses by listing items on customized pages at a lower insertion but higher final value fee than regular auction or fixed-price listings.

EBay currently lists different types and immense quantity of products online which creates value within the company because it gives value and options to the consumer and hence, it is rare in any other online auction sites. EBay has a capacity to be able to support and recruit this amount of products which creates economies of scale to the organization. So, it keeps exploiting its unique product offerings to benefit their organization with the lower cost than other online auctions. EBay uses this element model to set them apart from the competition and create a sustained competitive advantage.

4.1.3 EBay's customer service

For customer service, eBay was devoted to efficient, effective and personalized customer support through various channels including e-mail, online text chat or telephone, in addition

to online self-help features. Not only did it provide an online trading platform for its global community, it also allowed for efficient exchange of information among buyers and sellers. In order to enhance user experience, eBay offered announcement and bulletin boards, customer support boards, and personal pages as well as forums that allowed for topical or category-specific information exchanges. Moreover, value-added tools and services were also available, either directly or through contractual arrangements with third parties. These included the following: Personal Shopper provided potential buyers with e-mail alerts once an item in a certain category that might be of interest to them was listed; Turbo Lister, eBay Black thorne, ProStores, Selling Manager and Selling Manager Pro automated the selling process; Picture Services allowed users to post pictures to the listings; Shipping Calculator calculated shipping costs; Shipping Labels were used to print certain postage and UPS labels; Shipment Tracking tracked shipped packages; and PayPal facilitated the secured exchange of funds online.

The company also sought to create a level playing field for all buyers and sellers through the consistent application of policies to ensure fair trading for everyone. Because of the anonymous nature of the internet, eBay users were able to hide or even fake an identity. Trading on eBay also meant that there would inevitably be some delay between payment and reception of the items purchased. eBay thus introduced the Feedback Forums whereby both parties were encouraged to submit ratings and comments on each other in terms of product quality, order processing, delivery and payment etc at the end of their transaction, which would then be posted to their respective public trading profiles. These would allow other users to assess the trustworthiness of potential trading partners. Besides, the Verified Rights Owner Program and the Safe Harbor Program also protect buyers from purchasing counterfeit products and give users guidelines respectively (eBay, 2006).

Customer's service is not costly to imitate in eBay's position and it is not rare in today's business, which leads to a temporary competitive advantage.

4.1.4 Brand identity/reputation of eBay

eBay has created a well-recognized brand because of its business model has been very successful since its establishment. So brand recognition is a core competence of eBay. Brand name creates value to the organization and however, nowadays, there are some other players such as Yahoo! Auction and Google have extreme brand identities, which illustrates that a

powerful brand identity is not rare, but it is certainly costly to imitate because it requires a substantial funding, time and success. The brand identity creates a temporary competitive advantage for eBay (Vakil, 2012). Although there were some scandals in eBay's history, with the well-established customer service system, the overall brand reputation of eBay is quite good. However, a good reputation is extremely fragile and not rare as well, which lead it also a temporary competitive advantage.

4.1.5 International Strategy of eBay

Throughout its history, eBay had adopted various expansion strategies; both locally in the US and globally in new international markets, all of which were designed under the overarching goal of localization, achieved through the following methods (see Appendix 4):

- Building new user communities through internal efforts by launching regional sites in the US or localized, global sites, all of which were managed by local management teams and supported by grassroots and online marketing programs.
- Acquisitions
- Alliances
- Joint ventures

eBay's international operations became profitable in the fourth quarter of 2001, after which they became more significant for eBay's business in general. By 2006, eBay had expanded into 35 global markets across North and Latin America, Europe, and Asia Pacific (see Appendix 5). By 2006, eBay had 221.6 million registered users worldwide and its net revenues were US\$2.2 billion domestically and US\$2.1 billion internationally; the latter amounted to 49% of the aggregate net revenues for eBay market places (eBay, 2006). By the end of 2006, eBay was boasting 14% market share in the e-commerce market globally (Devitt, 2006).

Although eBay reached large market share globally, its international expansion plan was not without obstacles. Besides the failure in Chinese market, it also had to retreat from the Japanese market because of competition from Yahoo in 2002 (Schonfeld, 2005). The main reasons include two aspects: aggressive competition and country distances. In conclusion, eBay's international strategy is also a temporary competitive advantage, since it always faces strong competitive environment and complicated market environment that is not appropriate for the original company resources and strategies.

4.1.6 VRIO analysis for eBay

Based on the analysis of the following resources, business model, products offering, customer service, identity/reputation and international strategy, the VRIO Analysis of competitive resources of eBay can be presented as Figure 6.

Type	Resources	Valuable	Rare	Costly to Imitate	Organized	Competitive Implication
Organizational Capital	Business model	YES	NO	NO	YES	Temporary CA
Physical Capital	Products offering	YES	YES	YES	YES	Sustained CA
	Customer service	YES	NO	NO	YES	Temporary CA
Relational Capital	Identity/Reputation	YES	NO	YES	YES	Temporary CA
	International strategy	YES	NO	NO	YES	Temporary CA

Figure 6: VRIO Analysis of eBay

4.2 TAOBAO's Analysis

In this part it will be analyze the TAOBAO itself by its resources as an e-commerce company: business model, products offering, customer services, identity/reputation and other international relational power. The analysis will be based on the VRIO framework.

4.2.1 Business model of TaoBao

The business model of Taobao was based on B2B model. The Business to Business model operates where companies use the internet to transact business with one another. Although this form of business has its own complexities, it secures the transactions through different players of the supply chain. This model addresses the safety and quality concerns of customers. Therefore the legal and Federal litigations placed on this system were viewed as a great checks and controls for buyers and sellers, especially in an atmosphere of mistrust or fraud. Taobao acts like a middleman and connects buyers with sellers, for facilitating transactions between them. By acting as a middleman and offering free services for such transaction, it has attracted the Chinese clients into the world of E-Commerce.

4.2.2 TaoBao's product offering

Taobao declared an alliance with the Chinese internet portal 21CN and launched a huge shopping platform. The concept was that offering products and services like messaging text-chats, voice-calls provided a stronger visibility of the products of 21CN. Apart from such strategic alignments, Taobao has around 760 million product listings from 7 million sellers. Taobao do not charge clients for using such services (see Appendix 6). However, Taobao generates revenues from the advertisements which are promoted by different companies in their website. Advertising makes up 85 percent of the company's total revenue, allowing it to break even in 2009 (*Zhe 2012*).

4.2.3 TaoBao's customer service

Taobao made a strong market survey regarding the mindset of the Chinese customers. The Chinese customers needed to be assured of the feel and the quality of the product, before committing any financial transactions. The buyers were highly apprehensive regarding online payment or online services and it was difficult to change the mindset of the Chinese customers, compared to their US counterparts. Anticipating these barriers Taobao launched two important business tools "Taobao Wangwang" and "Alipay". "Taobao Wangwang" is a communication tool which creates a convenient platform for buyers and sellers. By using the Wangwang system the customers could decide to take a decision on the quality and accurate price of the commodity. Wangwang system provided the opportunity to enhance the confidence of buyers and sellers. It also provided the trouble shooting platform whereby a client could meet his seller on quality issues and operability as soon as possible. Thus the

timely communications with the prospective clients enhanced the e-commerce operations of Taobao leading to its profitability and increased market share (Lu Ying, 2007).

On the other hand “Alipay” was a secured payment gateway which primarily focused on the credibility of online transaction. The forum included various players like the Industrial and Commercial bank of China, Agricultural Bank of China and the China construction Bank and various financial instruments which secured the reliability of a transaction or a probable transaction. By using the “Alipay” platform Taobao shifted its role to a credit intermediary.

4.2.4 Brand identity/reputation of TaoBao

Alibaba incorporated its successful strategies of its vast market experience in China and its service capabilities of promoting business to business, for seeding the successful operations of Taobao. Therefore, Taobao operated under the reputation of Alibaba and C21N. (See Appendix 7).

4.2.5 Strategy of TaoBao

a. Decision to capture the market without any transaction fees

Anticipating the customer mindset of the Asian market, Taobao decided that it will not charge any transaction fees from the clients during its first three years of business operations. Taobao wanted that the clients should first have a feel of the internet business and trading, before they are engaged in financial implications. Taobao really wanted to extend the benefits and the feel of online transaction to their customers, which helped them to gain goodwill and trust amongst its target customers. This was the reason why Taobao captured 60% of the E-commerce market during its first two years of its launch.

b. Strengthened the positive co-operation with the banks and other stakeholders

The next step Taobao focused was to build a comprehensive co-operation with the banks and other stakeholders. This is because offering free transaction services imposed huge investments on the future probable customers. Therefore, a strong backup was required by Taobao from the Chinese financial instruments. During 2003, Taobao and the Zhejiang Branch of the Industrial and Commercial bank of China signed an agreement which was a potent treaty against fraud and default. Taobao could win the confidence of the Zhejiang Branch of the Industrial and Commercial bank of China. This was a revolutionary step which ensured the integrity

of online transactions and payments. This initiated the formation of the online bank. The introduction of such a service increased the credibility and faith on online payment options.

c. Merging with strong enterprises for building a robust shopping platform

During 2004, Taobao declared an alliance with the Chinese internet portal 21CN and launched a huge shopping platform. The concept was that offering products and services like messaging text-chats, voice-calls provided a stronger visibility of the products of 21CN from a single click of the internet. Such a service potentiated the consumer psychology of assessment, comparison and consensus on a product or service before it is purchased. After the successful alliance with 21CN, Taobao opted for another alliance in 2005. This time they joined hands with Sohu (sohu.com). This was a strategic alliance and the two sites decided to share their larger customer base and user groups with each other for promoting e-commerce business in China. This growth was a promotional strategy to popularize the concept of E-commerce amongst the Chinese customer base.

d. Establishing a secured trading platform

Perhaps the greatest foresight of Taobao was to win the trust of their clients by establishing a secured trading platform. This was because the customers in the Asian countries are more dependent and have more faith in Federal financial instruments due to the amount of fraud and illegal money laundering which occurs in Asian countries. Therefore, in 2004 Taobao made a licensing agreement with the Ministry of Public security. This helped them to create a national citizen identification number enquiry service centers. These centers provided an additional trust and reliability on the mindset of the customers. Taobao would submit such identification particulars to the Ministry of Public security for validating the authenticity of the client and once such identity is assured from the Federal databases the transaction would be satisfied.

4.2.6 VRIO analysis for Taobao

Based on the analysis of the following resources, business model, products offering, customer service, identity/reputation and international strategy, the VRIO Analysis of competitive resources of Taobao can be presented as Figure 7.

Type	Resources	Valuable	Rare	Costly to Imitate	Organized	Competitive Implication
Organizational Capital	Business model	YES	YES	YES	YES	Long term CA
Physical Capital	Products offering	YES	YES	YES	YES	Long term CA
	Customer service	YES	YES	YES	YES	Long term CA
Relational Capital	Identity/Reputation	YES	YES	YES	YES	Long term CA
	Strategy	YES	NO	YES	YES	Temporary CA

Figure 7: VRIO Analysis of Taobao

5. External factors: eBay AND TAOBAO in China

In the research background part it has been introduced the failure process of eBay in China. According to the above firm analysis, Taobao had some competitive advantage versus Ebay. But how the external factors perhaps also influenced on this failure? In order to analyse it, following it will be studied the Chinese market by the Porter's 5 forces and CAGE framework. In hindsight it is possible to see that eBay either ignored or misjudged several industrial and institutional factors in China.

5.1.1 Chinese e-commerce market

China had also caught on to the popularity of e-commerce. As more and more Chinese consumers had access to the internet and began to buy online, the potential market of e-commerce in China became immense. In 2002, the population of Chinese internet users was around 59.1 million, representing a 4.6% penetration rate. The internet usage penetration rate continued to double in 2003 to 6.2% with 80 million users. Among these users, 8% had shopped online during fiscal year 2002 as well as 2003. The amount spent on C2C e-commerce was US\$106.3 million, US\$144.9 million and US\$471 million from 2002 to 2004, respectively (iResearch Consulting Group, 2004) (XinhuaNews Agency, 2007). By 2006, China already had 137million internet users amounting 10.5% penetration rate (Lee, 2007) –about 43.1 million (31.5%) of them have shopped online. (Xinhua News Agency, 2007). By the end of the year, transactions from C2C e-commerce had reached US\$2.9 billion (see Appendix 8) (Analysys International, 2007). iResearch Consulting Group predicted that there would be a steeper increase in the number of users and transactions made on C2C online marketplaces in China, and competition would also become fiercer. As more and better services became available, fees would inevitably be charged on some and a variety of e-commerce models–B2B, B2C and C2C–would be integrated in order to offer consumers a seamless and comprehensive online shopping experience. In addition, the emerging internationalization trend would become more distinct (iResearch Consulting Group, 2005).

5.1.2 Institutional view

China is a country with very different institutional factors (both formal and informal) compared to most of the markets that eBay had previously entered. As described, it is

interesting to view these institutional factors through the CAGE distance framework. The CAGE framework covers the cultural, administrative, geographical, and economic distances between the foreign market and the entering company's home market.

Cultural

At the first glance, one can easily state that the cultural gap between the US and China is wide. Every cultural attribute separates them from each other. Firstly they don't share the same language. Even though, according to China Daily, more than 300m Chinese are studying English, they are still at the beginners' level. What is also important to underline is that ethical business procedures are really divergent: Where as western standards are strictly law-oriented Chinese standards tend to be more laissez-faire-oriented. To extend the analysis of how big the cultural distance is between China and the US, it can have a look at Hofstede's (1980) most important cultural dimensions. Except from the masculinity/femininity dimension where scores are balanced, there are several big differences. Since China is a long-term orientation country, customers are more accepted domestic brands other than foreign brands. The US is a typical country with individualism features, while China prefer collectivism, which leads to the Chinese customers to purchase popular products in same prices. In China, the strong uncertainty avoidance cognition and the high power distances results in many problems in the auction system, because Chinese people like face to face purchases, and they are used to see the prices decreasing instead of increasing. In addition, they would like to purchase everything in the same price with others.

Administrative

It is obvious that there are scoring differently in this dimension between China and US. They use different currencies; they have totally different social institution and political system, etc. However, the Chinese entrance in the WTO in 2001 has largely participated in decreasing the administrative distance between China and the US. Nevertheless, the intensity of government intervention in the country's economy is still high in China. Because China has an authoritarian regime with heavy censorship, the Chinese government has an incentive to foreclose the domestic Chinese market for internet-based services. According to eBay's report, the Chinese government is not welcoming non-Chinese Internet companies. The government wants to retain control and regards Internet as a weapon in national security. Furthermore, in e-commerce business, the regulations and laws are defective, which makes

some leaks for unfair competition and regional protectionism. The complex registration and authorization is also a barrier for eBay to explore into the market deeper.

Geographic

When analyzing the geographic distance, generally the main factors considered are the “physical” ones that largely influence industries’ decisions to enter a new market when transportation costs are an important driver in their businesses. In the case of eBay, since it is an internet-based services company those attributes are less relevant. However, one point it cannot ignore is that the logistics problem, since the physical geography is quite complicated in China, to establish a well-organized logistic system with Chinese local logistics companies is costly. What is still interesting to look at is the Chinese communication infrastructure. Based on the Central Intelligence Agency’s World Fact Book, (2012) China is ranked first with respect to the number of telephone main lines in use (285.115 m), mobile network’s subscribers (986.253 m) and Internet users(389m), the US being No.2 .Regarding Internet hosts, China is ranked sixth. With those figures we can conclude that the geographic distance in regard of internet-based services industry is relatively small. But the infrastructure establishment in different regions in China is imbalance, which makes large amounts of people don’t have chances to access to e-commerce service.

Economical

In order to determine the economic distance between China and the US for the eBay case, we are looking at the following factors: the GDP per capita and the Gini index. China has become the world’s second largest economy in 2010 thanks to its rapid growth during the last three decades. Its GDP per capita of \$8,500 (2011) has conferred it the status of upper middle-class income country, at the same time Chinese customers’ consumption level is developed rapidly. However, the actual income of people is extremely imbalance. When we look at the Chinese Gini index—a measure of the level of inequalities in the income distribution among households within an economy— it is fairly unequal when it comes to the income’s dispersion. In China, the middle-class occupies most of the population, which means the winner of the cost leadership in the middle-class level would get the most market share.

5.1.3 Industry-based view

For an e-commerce company, it finds out three forces are most relevant to eBay, those being the competitors, the power of consumers and the threat of substitutes. Generally suppliers not have very much power over Internet companies; however, the competition environment is very cruel among competitors, and customers are price-sensitive and service-demanding, in addition, the threat of substitutes is also serious. In this section, we will analyze these forces in Chinese market.

Competitors

Nowadays, cost of entry into the e-commerce market is low, due to technological development and easier and cheaper access to broadband with servers and software. These costs are now decreasing thus lowering the barrier of entry. However, the costs of marketing, promoting and advertising are still very important and thus large sums are needed to enter the competition. eBay doesn't lack capital assets and human resources, but it still faced obstacle of increasing competition from local market rivals, as it has been analysed above. Just like its search-engine counterpart, Google, lost out to domestic competitor, Baidu. eBay EachNet did not escape the fate of seeing its market position encroached by domestic competitors, the most significant of which was TaoBao. By the end of 2006, eBay EachNet had seen its market share declining each year, until it had only a staggering 29%, compared to TaoBao's 60%. (Analysys International, 2007).

Customers

Customers can be divided into two groups: visitors and advertisers. Both groups have considerable buying power. Visitors have power due to the easy access of similar sites of competitors, which are just a click away, thus loyalty is low and so is cost of switching to competitors. Besides the low customer loyalty in e-commerce, the buying behaviour of Chinese customers is also different with in western countries. Chinese customers are more price-sensitive, that makes their bargaining power even stronger. The Internet portals, such as eBay, are thus very dependent on income from advertisers, allowing them to push prices down.

Substitutes

There is a great amount of substitutes threatening the Internet portals. Similar sites offering more or less the same product are the most intuitive substitutes, but buying in physical stores, using blogs and groups of interest on social websites to sell products are also substitutes threatening to gain parts of the market.

In conclusion, strong competitors, rising buyer power and a great number of substitutes combined make the industry a very competitive and high rivalry one. Customers must be tempted with low prices and exiting products leading to large investments from the companies. Competitors unable to adapt and change are eliminated quickly by those who can. Unfortunately, eBay didn't position in any of the strategy choices: cost leadership, differentiation, and focus. With the threat of the competitive power of TaoBao, eBay quit the e-commerce business market soon.

5.1.4 Strategy analysis comparing eBay with TaoBao

eBay's biggest competitor, TaoBao, established in May 2003, soon gained the hearts of Chinese consumers and beat eBay EachNet in China's C2C online auction market. Its service offerings were later extended to include B2C e-commerce. By 2006, the company had become the leading C2C and B2C marketplace in China (Wikipedia, 2016) (See Appendix 9).

As it has been introduced in the eBay and Taobao's business model part, eBay charges the insertion fee and the final value fee from the sellers. TaoBao, on the other hand, offered free services. For such a price-sensitive marketplace, it is obvious that customers choose TaoBao instead of eBay. Even though eBay removed its listing fee in early 2006 in order to stay competitive, it was too late to gain customers' preference. (Rein, 2007)

Chinese consumers preferred to buy from big-named, foreign companies which had a long-established presence in China and tended to hold those that were new in distrust. However, given a choice between a new foreign company and a domestic one, they would opt for the latter. Trust was particularly important in China, due to the lack of an adequate legal system or other formal means of dispute resolution. Since trust was normally nurtured over time, eBay fared worse than its rival TaoBao. The problem was that eBay, as a foreign company founded in 1995 with less than ten years of history when it first set foot in the Chinese market in 2002, was fairly new to Chinese consumers. On the other hand, TaoBao,

although founded much later than eBay, was a subsidiary of Alibaba—an online B2B marketplace founded in 1999, which had a more established presence in China. (Wikipedia, 2016)

The fact that Chinese consumers felt that eBay EachNet had not made much effort in building trust both towards the company itself and between buyers and sellers further exacerbated the problem. Companies need to provide security every step of the way during a sales transaction to ensure that consumers feel comfortable making their purchases. eBay failed to do this when it first entered China. When eBay entered China, it did not incorporate an escrow into its online payment system—PayPal. TaoBao, on the other hand, made it an important component of its AliPay system. An escrow helped ease consumers' concern by introducing third-party monitoring throughout the transaction process. In this way buyers felt confident about paying and only released the funds after they received their purchase in good order while sellers were assured that they would be paid as long as they fulfilled their obligations. Although eBay EachNet introduced an escrow later, it was notable to regain its lost market share.

While eBay EachNet did not initially allow direct interaction between buyers and sellers until a sale had been confirmed, TaoBao enabled them to communicate directly and haggle over prices in real time, which helped in building trust between both parties.

Poor customer service also contributed to eBay EachNet's flagging business in China. In a survey on young Chinese consumers conducted by the Chinese Market Research Group, respondents cited the lack of a customer service hotline on eBay EachNet as one of the reasons why they had switched to TaoBao. Other TaoBao features that had appealed to them were its AliPay and instant messaging systems. Nevertheless, respondents overwhelmingly agreed that eBay EachNet did a better job than TaoBao in monitoring and protecting its users from purchasing counterfeit items from its site (Rein, 2006).

Furthermore, decision-making at eBay EachNet became centralized, even for matters such as office expansion, leading to inflexibility and a lag in response to the ever-changing Chinese market. In a study conducted by the China Market Research Group, interviews with former EachNet and eBay EachNet executives revealed that senior management had not felt respected by their US headquarters, which had not given them enough autonomy and had directed them from a far instead.

Like many of its predecessors, eBay entered China with the assumption that its brand image in the US as an industry leader would transfer to the Chinese market without any modification. eBay had done a good job in localizing its websites—creating market-specific websites in local languages and currencies and providing location-specific information, among other things, and it attempted to protect its brand image worldwide. Although this strategy might have worked in some markets, the company's loss of market share to Taobao proved its inapplicability in China (Rosenlund, 2005).

It was possible to attribute online traffic to a brand's goodwill—a hard-won value based on trust among customers and business partners that a company nurtured over time. A company had to ensure correct and consistent representation of its brand attributes across its target markets. But at the same time, it also had to adapt the brand to each market if necessary while taking care to avoid inconsistencies in the underlying brand message (Rosenlund, 2005). eBay applied its American model to China and used a similarly simple interface, which was different to other local websites that were loaded with information, links, graphics, banners and multimedia. eBay's website was therefore considered “too empty” by Chinese consumers. In applying a consistent brand image to its Chinese market, eBay emphasized automation throughout the auction and transaction processes. Thus, instead of a customer service or technical support hotline, eBay provided topic-specific guidelines and links to Frequently Answered Questions, both of which were meant for self help. It also provided users' community bulletins/forums to enable users to help each other if they could not resolve their problems by themselves. This was considered bad service by consumers in China where do-it-yourself was not as popular as in western countries.

The reason why eBay failed in the Chinese market was attributed to various reasons. The company had no appeal in the mind of the clients and they could not align themselves to the culture of the Chinese customers. Taobao was customer centric, while eBay was product centric. eBay maintained the corporate privacy strategy with which they operated in United States. They never allowed sellers to talk to their buyers directly. This issue was viewed as a breach of transparency by the apprehensive Chinese customers, and they became attracted to Taobao. The Chinese meaning of “Taobao” is “Digging for Treasure”. Taobao could successfully capture the apprehensive and price sensitive Chinese market, through their name and the mode of operations. The other reasons for failure of eBay included the identity of the management. The eBay management had foreigners who were unaware about the

needs of the local market. Moreover, they promoted their products with a wrong strategy (Wang, 2010).

6. Conclusion and Recommendations

6.1 Research summary

At the time eBay planned its expansion into China, it had seen its business model succeed in every other country that it had entered. Managers had little reason to believe that entry into China would go any differently, especially since that at that time in China there are not any strong competitors who can compete with eBay. However, as it has been shown, eBay's entry into China did not go as planned. China proved to be a very different market than those in which eBay had previously found success due to a unique combination of industrial and institutional factors. The competitive advantage of eBay was not big enough to overcome the barriers of 5 forces and CAGE in China. In another word, eBay didn't adjust its resources to the new marketplace nor its main competitor Taobao.

EBay has almost copied its American business model directly in China. With the special market environment, especially in the cultural and administrative aspects, eBay's competitive advantages were hard to apply due to the fact that Chinese people have totally different value cognitions and consume habits. EBay did not study Chinese CAGE facts sufficiently, which leads to an inadequate choice in the way of communication and customer service. Even though the potential increase in volume is huge in the Chinese market, eBay did not succeed reaching and satisfying the critical mass with its American business model. Not to mention that there were strict regulations, policy constraints, and censorship. Even on this occasion, eBay didn't try to create any innovation in order to cater to Chinese customers. EBay's executives also do not pay attention to adopt the management style to Chinese conditions.

EBay's arrival in the Chinese market triggered a fierce competition from the established incumbent firm Alibaba controlling the B2C market. Alibaba rapidly created a competitive firm named Taobao, in the C2C market with the sole intention of competition and restraining eBay from increasing market shares. This response was not anticipated and should have been considered as a possibility upon eBay's entering. However, eBay lost its cost leadership advantages since Taobao offered services free of charge and gave better customer value. EBay responded this situation in a very slow way, which resulted in the lost of the possibility in establishing the differentiation advantages or focus advantages.

6.2 Alternative strategies for eBay

Although it has identified the main reasons of eBay's failure, it's too late for eBay to correct its mistakes or improve its strategies, since TaoBao has already occupied the Chinese B2C and C2C market. However, it also not wise to quit Chinese e-commerce market as there are still huge potential markets. **What should eBay do is to focus on alternative strategies?**

Chinese context-based culture in contrast to transaction-based western cultures has particular consequences in the way agreements are reached, sealed and executed. The relationship based on trust and long-term involvement is valued over any form of legal contract. Such mindset increased the visibility of Taobao in China. Perhaps the greatest foresight of Taobao was to win the trust of their clients by establishing a secured trading platform. This was because the customers in the Asian countries are more dependent and have more faith in Federal financial instruments due to the amount of fraud and illegal money laundering which occurs in Asian countries.

The alternative strategies that eBay has initiated and should endorse upon are:

- Enhancing the E-commerce Awareness of Businesses to its customer with increased visibility and as per the market.
- Ensuring the payment security of clients either way and incorporating stringent controls to avoid fraud or hacking.
- Standardized logistics systems must be in place to assure the client regarding a purchase or a transaction to reduce the apprehension of clients.
- Improving relevant policies with regard to regulations driving the electronic transaction systems.
- With these strategies eBay is trying to increase its market share in China. On the other hand, Taobao is also losing out to new E-Commerce companies who have engaged their clients through the mobile apps like JD.com, Inc (currently holding 15% share in Chinese E-Commerce market).









It is obvious that eBay is required to restart an overall, deeper marketing research for Chinese market, especially in the research of CAGE and competitive environment. EBay

should choose at least one leading perspective on strategy, which we recommend focus strategy. EBay could focus on the luxury products and overseas purchasing, which are still blank space in Chinese e-commerce market, and it also integrates the international advantages of eBay. Furthermore, eBay should improve its website establishment, marketing communication and customer service with more localization factors. In addition, eBay also need to enhance the integrity degree, provide safe and simple trade process that is easy to be accessed by Chinese customers.

7. Appendix

Appendix 1: E-commerce Market Share: Taobao vs Ebay EachNet


Source: iResearch, Company Information

E-commerce Contenders	Logo	Launch Date In China	Parent	Estimated 2008 Market Share
Taobao		2003		82.1%
Paipai		2006		9.9%
Eachnet		2002		8.0%
Youa		2008		N/A



Appendix 2: EBay's revenue model

Source: <http://ecommerze.wordpress.com/2008/06/13/revenue-models-of-google-ebay-amazon/>

	US \$ (in thousand)	Percentage
REVENUE MODEL		
Transaction fees	4,203,340	70.4%
Marketplace	1,401,824	23.5%
Payments	192,756	3.2%
Communications		
Advertising and other	171,821	2.9%
Total Revenue	16,593,986	100%

Appendix 3: EBay's business model (Dropshipping Business Cycle – Online Auction)
Source: <http://dropshippnetwork.com/blog/start-your-business-now/membership/what-is-dropshipping/>



Appendix 4: eBay's global expansion strategies

Source: eBay Worldwide website (ebay.com) and country/regional websites; eBay.s InvestorNews at <http://investor.ebay.com>; DSN Retailing Today (9 September 2002) .eBay to buy ecorpstake in eBayAustralia, http://findarticles.com/p/articles/mi_m0FNP/is_17_41/ai_91486234(accessed 28 May 2007); Regan, K. (25 October 2001) .eBay Singapore Joins Web Auctioneer's Empire., E-Commerce Times, <http://www.ecommercetimes.com/story/14395.html> (accessed 28 May 2007); Associated Press (24 May 2007) .eBay Partner MercadoLibre Could Be Rival., Yahoo! Finance, http://biz.yahoo.com/ap/070524/mercadolibre_ipo.html?.v=1 (accessed 28 May 2007).

Year	Country Added	Expansion Strategy (Market Entry)	Global Presence (including US)
1999	Germany ¹²⁶	Acquired alando.de to form eBay Germany	5 markets
	UK	Launched eBay UK	
	Australia, New Zealand	Joint venture ¹²⁷ with ecorp to form eBay Australia and eBay New Zealand ¹²⁸	
2000	Japan ¹²⁹	Joint venture with NEC to form eBay Japan	8 markets
	Austria	Launched eBay Austria (part of eBay Germany)	
	Canada	Launched eBay Canada	
2001	South Korea	Acquired majority stake in Internet Auction; operated under Auction.co.kr	26 markets
	Singapore	Launched eBay Singapore	
	Ireland	Launched eBay Ireland ¹³⁰	
	Switzerland	Launched eBay Switzerland	
	France, Italy, Spain, Sweden, Belgium	Acquired iBazar ¹³¹ to form: eBay France, eBay Spain, eBay Sweden, eBay Belgium	
	Brazil, Argentina, Columbia, Chile, Ecuador, Mexico, Peru, Uruguay, Venezuela	First acquired Brazilian subsidiary of iBazar; later acquired by MercadoLibre ¹³² and operated under the brand MercadoLibre in these countries	
2002	China	Acquired EachNet to enter China under the brand name EachNet ¹³³	27 markets
	Taiwan	Acquired NeoCom Technology to form eBay Taiwan	
2003	Hong Kong	Launched eBay Hong Kong	28 markets
2004	Malaysia	Launched eBay Malaysia	32 markets
	Philippines	Launched eBay Philippines	
	India	Acquired Baazee to form eBay India	
	The Netherlands	Acquired Marketplaats to form eBay Netherlands	
2005	Poland	Launched eBay Poland	33 markets
2006	Dominican Republic, Costa Rica, Panama	First acquired iBazar; later acquired by MercadoLibre and operated under the brand MercadoLibre in these countries	36 markets

Appendix 5: eBay's global presence (31.12.2006)

Source: eBay main website: <http://www.ebay.com>



Appendix 6: Alibaba Services

Source: <http://infizia.blogspot.com/2014/12/alibaba.html>



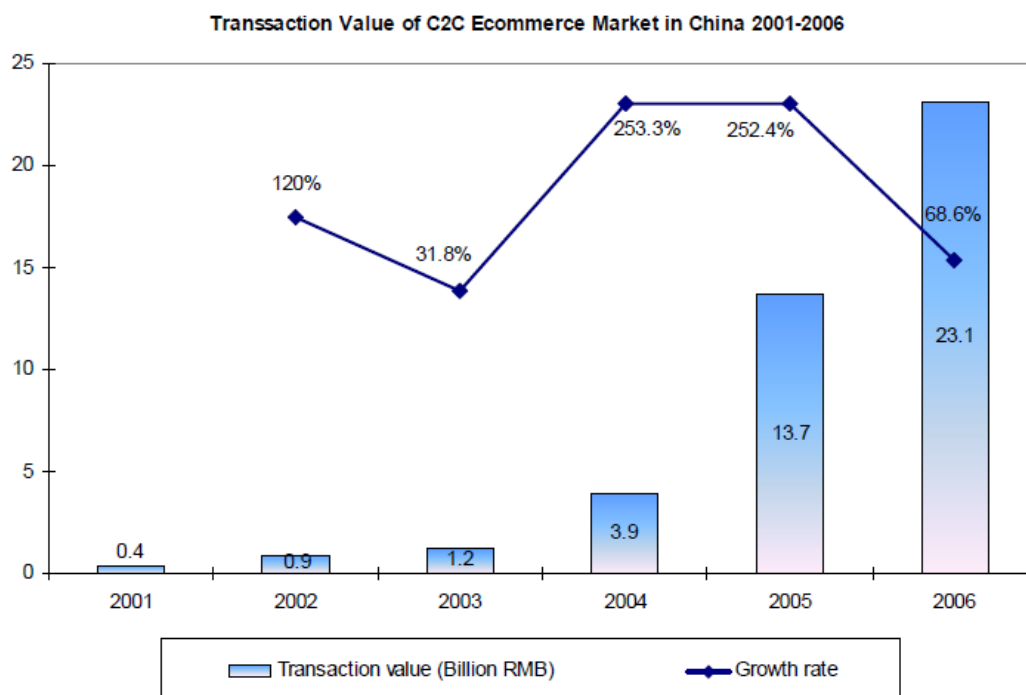
Appendix 7: Alibaba Group – Brand Reputation

Source: <http://infizia.blogspot.com/2014/12/alibaba.html>



Appendix 8: E-commerce growth in China

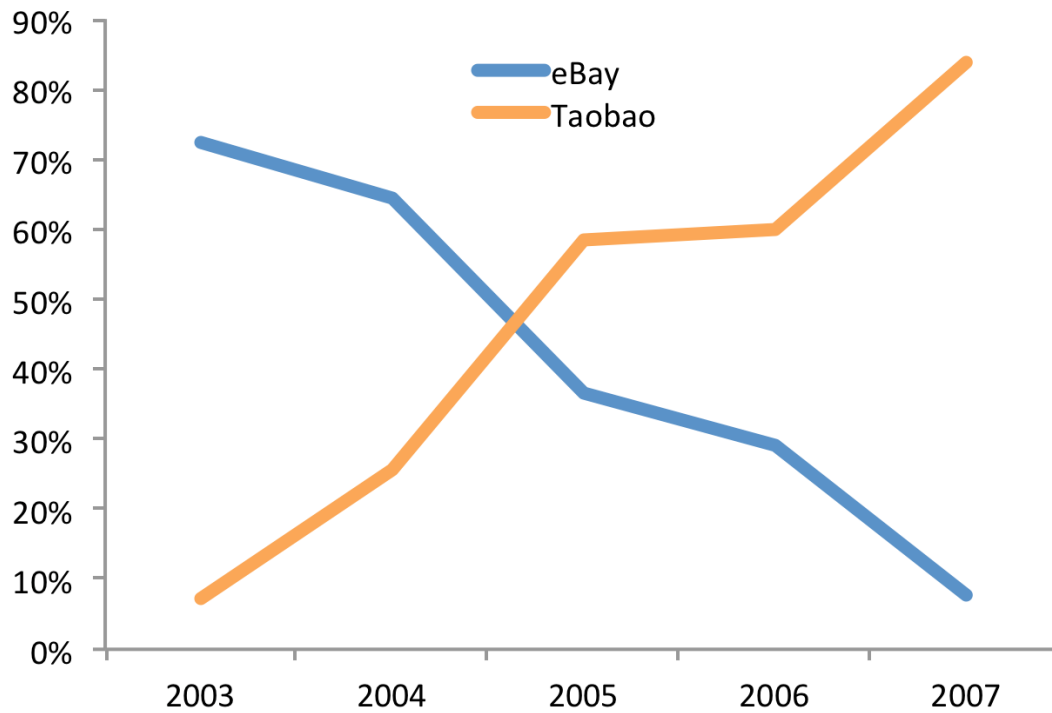
Source: *AnalysysInternational; iResearch Inc*



Appendix 9: eBay and TAOBAO

Source: Data collected from EASGLE Alpha and iResearch

eBay and Taobao C2C market share, eBay exit the market in 2007



8. References

Analysys International, (2007) “*Analysys International Says Taobao, eBay and Paipai Rank Top 3 in China C2C Market in Q4, 2006*”,

Available from the Internet:

<http://english.analysys.com.cn/3class/detail.php?id=267&name=report&FocusAreaTitleGB=&daohang=Internet&title=Analysys%20International%20Says%20Taobao,%20Ebay%20and%20Paipai%20Ranks%20Top%203%20in%20China>

Asia Business Media, (2007) “*Taobao is Bigger than Walmart*”, **Available from the Internet:** www.bsgasia.blogspot.com

Barney and Hesterly, (2006) “*Strategic Management and Competitive Advantage: Concepts and Cases*”, Pearson/Prentice Hall

Bizning Vakil, (2012) “*External environment of EBay within the framework of Porters Five Force analysis*”, Wikinut Business,

Available from the Internet: <<http://business.wikinut.com/External-environment-of-EBay-within-the-framework-of-Porters-Five-Force-analysis/15qyvbgr/#VRIO-Analysis>>

Bjornsson, M. (2001) “*eBay: A Concise Analysis*”,

Available from the Internet: <http://www.cs.brandeis.edu/~magnus/ief248a/eBay/>

Caves, R. (1996) “*Multinational Enterprise and Economic Analysis*”, 2nd edition, New York: Cambridge University Press, p.1

Center Intelligent Agency, (2012) “*TheWorldFactbook*”,

Available from the Internet:

<<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>>

CIA, (2004) “*The World Factbook: China, 2001-2004*”

Cohen, Adam (2003) “*The Perfect Store*”. Boston: Back Bay Books

Devitt, S., (2006) “*Sell-Side Reaction to eBay Earnings*”, SeekingAlpha,

Available from the Internet: <<http://internet.seekingalpha.com/article/9257>>

EBay, (2006) “*Annual Report: 2006*”

Available from the Internet: <<http://investor.ebayinc.com/annuals.cfm>>

Ebay, (2012)“*eBay Inc: Reports Strong Fourth Quarter and Full Year 2012 Results*”,

Available from the Internet:

<<http://investor.ebayinc.com/releaseDetail.cfm?ReleaseID=733959%20>>

EBay. (2012) “*eBay: Who we are*”,

Available from the Internet: <http://www.ebayinc.com/who_we_are/one_company>

Ebay, (2010) *EBay And PayPal Formally Split On July 20*". **Available from the Internet:** *ebay.com*.

Ecommerce, (2008) “*Revenue models of Google, eBay, Amazon*”,

Available from the Internet: <<http://ecommerce.wordpress.com/2008/06/13/revenue-models-of-google-ebay-amazon/>>

Ghemawat, (2007) “*Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*”, Harvard Business School Publishing Corporation, USA

George, Jijo and Anandkumar, Victor. (2015) *Branding in China: Lessons from the Foreign Brand Success and Failure Stories* (November 24, 2015). **Available at SSRN:** <http://ssrn.com/abstract=2695066> or <http://dx.doi.org/10.2139/ssrn.2695066>

Gripsrud Geir, Ulf Henning Olsson & Ragnhild Silkoset, (2007): “*Methodology and data analyse*”, page 53 and 58

He Yongming, “*Chinese C2C Websites: Their Existence and Development*”, Journal of Beining Union University (Natural Sciences), 2005. Vol 2.

Hofstede, G. (1980). “*Culture's consequences: International differences in work-related values*”, Newbury Park, CA: Sage.

Innovate, (2006). “*EBay: The Global Electronic Souk*”,

Available from the Internet:

http://www.korekalibre.com/index.php?option=com_magazine&task=show_magazine_article&magazine_id=11

Infizia blogspot (2014) *Chinese e-commerce giant - Alibaba Group*

Available from the Internet: <http://infizia.blogspot.com/2014/12/alibaba.html>

IResearch Consulting Group, (2004) “*China Online Shopping Research Report 2004*”

IResearch Consulting Group, (2005) “*China C2C E-Commerce Research Report 2005*”

Jiao, J. (2008) “*eBay admitted the failure in China*”, The Beijing News

Keen & Qureshi (2006), Organizational Transformation through Business Models: A Framework for Business Model Design. Delft University of Technology **Available from Internet:**

http://ieeexplore.ieee.org/xpl/login.jsp?tp=&arnumber=1579713&url=http%3A%2F%2Fieeexplore.ieee.org%2Fxppls%2Fabs_all.jsp%3Farnumber%3D1579713

Lee, S. (2007) “*Mainland Net users at 130m as revenue tops 276b Yuan*”, Hong Kong Standard

Lu Ying, “*The comparison of C2C marketing strategies between ebay Yiqu and Taobao*”, Journal of Fujian University of Techonology, 2007.Vol 2.

Mahadevan, B. “*Business Models for Internet-based E-commerce.*” California Management Review, Vol. 42 No. 4 pp. 55-69, 2000

Peng, M. (2006) “*Global Strategy*”, South-Western, Thompson, USA

Porter, M. E. (1980) “*Competitive Strategy: Techniques for Analyzing Industries and Competitors*”, Free Press, New York

Rein, S. (2006) “*EBay Faces a Tough Road in China*”, SeekingAlpha,

Available from the Internet: <<http://china.seekingalpha.com/article/19322>>

Rein, S. (2007) op. cit.

Rosenlund, D. (2005) “*E-Commerce Companies Must Globalize to thrive*”, E-Commerce Times, **Available from the Internet:** <<http://www.ecommercetimes.com/story/46841.html>>

Schonfeld, E. (2005)“*The World According to eBay*”, CNN.com,

Available from the Internet:

<http://money.cnn.com/magazines/business2/business2_archive/2005/01/01/8250238/index.htm>

Stiglitz, J. (2002) "*Globalization and its discontents*", New York: Norton, p.9

Vara, V. and Chao, L. (2006) "*EBay's China retreat highlights a tough market*", Wall Street Journal.

Wang, H. H. (2010) "*How Ebay Failed in China*", Retrieved March 23, 2012, from Forbes

Available from the Internet:

<<http://www.forbes.com/sites/china/2010/09/12/how-ebay-failed-in-china/>>

Weissmann, Arnold. (2006) "*Die großen Strategien für den Mittelstand*",

Available from the Internet: [http://books.google.de/books?id=x7KuYAHw6-AC&pg=PA3&dq=Weissmann,+Arnold+\(2006\):+Die+gro%C3%9Fen+Strategien+f%C3%BCr+den+Mittelstand,#v=onepage&q=&f=false](http://books.google.de/books?id=x7KuYAHw6-AC&pg=PA3&dq=Weissmann,+Arnold+(2006):+Die+gro%C3%9Fen+Strategien+f%C3%BCr+den+Mittelstand,#v=onepage&q=&f=false)

Wikipedia, (2013) "*Wiki: TaoBao*",

Available from the Internet: <<http://en.wikipedia.org/wiki/Taobao>>

Wang, H. H. (2010, September 12). How EBay Failed In China. Retrieved March 23, 2012, from Forbes: <http://www.forbes.com/sites/china/2010/09/12/how-ebay-failed-in-china/>

Xinhua News Agency, (2007) "*Internet Use in China Jumps By Almost 25 Pct in 2006*", China Market Information Center,

Available from the Internet:

http://chinamarket.ccidnet.com/pub/article/c1834_a140171_p1.html

Xiaojuan Ou & Davison (2009) *Why eBay Lost to TaoBao in China: the Glocal advantage*

Available from Internet: <http://cacm.acm.org/magazines/2009/1/15683-why-ebay-lost-to-taobao-in-china/abstract>

Zhang Runtong, "*Electronic Business*", Science Press, 2005

Zhe, Sun (2012). "*From Stall to Mall*". News China.

