

Chapter 72

China's E-Tailing Blossom: A Case Study

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ABSTRACT

E-tailing has a dynamic ecosystem different from traditional retailing. To the best of our knowledge, there are few case studies scientifically grounded yet practical. Nonetheless, this is the authors' goal with this book chapter. A case study of China's e-tailing is needed because China is the largest emerging market as well as the largest e-retailing market in the world. Moreover, e-tailing provides one of the most effective ways for foreign retailers to enter China's impressive retail market. This case study will explore the underlying reasons for the success of China's e-tailing market by investigating the elements of China's e-tailing ecosystem. This study will further investigate the major players in China's e-tailing market, with a focus on the Alibaba Group, China's largest e-tailing company. This study will address Alibaba's e-tailing strategies and practices by comparing Alibaba and its major domestic and global competitors (e.g., Amazon).

INTRODUCTION

E-tailing, or online retailing, has experienced rapid growth globally during the past ten years. Global e-tailing sales are expected to reach \$1.92 trillion by 2016 (as cited in Statista, 2014). E-tailing is also playing a growing role in global GDP growth. It is estimated that e-tailing will account for 1.61 percent of global GDP by 2018 (as cited in Statista, 2014).

Chinese e-tailing growth is the driving force for global e-tailing growth. China's e-tailing market has been growing at a significant rate since 2009. In 2013, China surpassed the United States as the largest e-tailing market. The major force of China's e-tailing boom is e-tailing on Singles Day (11/11) in which products on retail sites such as Tmall.com are sold at deep discounts. Singles Day was launched by

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Alibaba in 2009. Since 2012 this day has become the largest shopping day in the world, exceeding the sales volumes on Cyber Monday in the U.S. In 2012, Alibaba's sales volume on Singles Day achieved \$3.1 billion, more than doubling Cyber Monday's sales for 2012. In 2013, Alibaba reached sales of \$5.7 billion on this day, nearly tripling Cyber Monday's sales for 2013. In 2014, Alibaba recorded sales of \$9.3 billion on Singles Day, an increase of 60% from 2013 sales and five times larger than Cyber Monday's sales.

In this case study, we will explore the stories behind the boom of China's e-tailing market by answering the following three, major questions:

1. Why has China's e-tailing market been growing at an astonishing rate during the past five years and is it sustainable over the next five or ten years?
2. What are the cultural and social factors that differentiate China's e-tailing success from other global players?
3. What are the effective China market entry strategies for international retailers?

CHINA'S E-TAILING BOOM

Introduction to China's E-Tailing Market

An Overview of China's E-Tailing Market

This section will provide an overview of China's e-tailing market, including the elements such as market size, growth rate, and competition. We also briefly introduce the existing literature on China's e-tailing market.

In 2013, China surpassed the U.S. as the largest e-tailing market by reaching annual sales of \$315.75 billion (eMarketer, 2014). It is projected that China's e-tailing sales will grow to \$871.79 billion by 2017 (eMarketer, 2014). Figure 1 shows China's e-tailing sales from 2012 to 2018. China's e-tailing sales contributed to nine percent of China's total GDP in 2013, an increase of seven percent from 2012 (eMarketer, 2014; The World Bank, 2015).

In contrast, the U.S.'s e-tailing sales contributed to only two percent of its total GDP in 2013 (The World Bank, 2015; U.S. Department of Commerce, 2015). Figure 2 illustrates the percentage contribution of e-tailing sales to China and the U.S.'s national from 2012 to 2014.

According to iResearch (2014), by the second quarter of 2014, China's e-tailing market has long been dominated by the consumer- to -consumer (C2C) market. However, the business -to -consumer (B2C) market has been growing much faster than has the C2C market over the past few years. Figure 3 shows the market share and projected market share of C2C and B2C e-tailing market in China from 2010 to 2017. The GMV (gross merchandise volume) of the B2C e-tailing market reached a year-over-year (YoY) growth rate of 73.1%, more than twice that of the C2C market in the second quarter of 2014 (iResearch, 2014). This suggests that Chinese consumers are becoming more mature, and thus showing more preference to branded products.

The growth rate of China's B2C e-tailing market is also much higher than that of China's overall retail market. It's estimated that China's e-tailing will account for 18% of the total retail sales in 2018, an increase of 8 percent from 2013 (Morgan Stanley, 2014).

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