E-commerce in China: Taobao

Group SIX

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I. Introduction

Taobao was established in 2003, as the nation’s largest network market and Trading platform established. Until the first quarter of 2008, Taobao has already gathered almost 62 million members, and created an 18.8 billion yuan transaction volume, which became as the vast majority of Chinese network buyers. And Taobao was operated as a subsidiary of Alibaba Group Holding.

As shown from the Statistics in China National Network Information Center (CNNIC) 2008, the Transactions volume of Taobao has reached 99.96 billion yuan, with an increase rate of 131 percent over 43.3 billion yuan in 2007. Up to 2011, the transaction volume reached to almost 400 billion yuan.

Table 1- Introduction of Taobao

<table>
<thead>
<tr>
<th>Company background</th>
<th>An online market auction site for customer to customer trading in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Electronic Commerce Company (C to C)</td>
</tr>
<tr>
<td>Number of employees</td>
<td>As of 2007, Taobao has been providing the community with more than 200,000 direct jobs</td>
</tr>
<tr>
<td>Turnover last financial year</td>
<td>Rmb400 billion</td>
</tr>
<tr>
<td>Founded</td>
<td>2003</td>
</tr>
<tr>
<td>Geographical markets</td>
<td>Asia</td>
</tr>
<tr>
<td>Current position/status</td>
<td>Operates as a subsidiary of Alibaba Group Holding</td>
</tr>
<tr>
<td>IT structure/CIO</td>
<td>Split into three independent companies, in each company, CEO report to Chairman, then all three together report to the CEO of Alibaba Group</td>
</tr>
</tbody>
</table>
Although Taobao had emerged as the clear leader in China’s online C2C space, it was under constant pressure to generate revenue. Thus, this report aims to research on Taobao’s web-pages, operate strategies, products and business model. Assessing its success in China on-line trading market and proposing business strategies featuring IT that help improve its performance. The report is separated into 8 sections, included information systems strategic alignment analysis, business strategies, SWOT analysis and credit evaluation, suggestions are include in the later conclusion.

II. Taobao Information Systems Strategic Alignment

In brief, alignment is a method that applying IT in an appropriate and timely way and in harmony with business strategies, goals and needs (Luftman, 1999).

Based on the top six enablers / inhibitors which identified by Luftman & Brier (1999): Enablers: Senior executive support for IT; IT involved in strategy development; IT understands the business; Business/IT partnership; Well-prioritized IT projects; IT demonstrates leadership
Inhibitors: IT/business lack close relationships; IT does not prioritize well; IT fails to meet its commitments; IT does not understand the business; Senior executives do not support IT; IT management lacks leadership

Graph 1-Strategic Alignment Model (Henderson and Venkatraman, 1999)
B. Recommendations from analysis of Taobao ---- critical success factors

In Taobao, IT should be involved at the inception of the project to ensure consistency between strategic objectives and IT project, and IT to be represented at appropriate senior level consistent with scope of project. They should understand and involvement of Senior Business Managers important for IT projects, and IT/Project full understanding of the business issues. The prioritisation of projects is at an early stage to focus resource on critical issues. Project Management disciplines and skills are as important as IT and business knowledge.

Strategic alignment is an on-going process. There is no single strategy or single combination of activities that will enable a firm to achieve and sustain alignment. Technology and the business climate are changing far too quickly. The twelve components of alignment are in constant flux and their interrelationships are as unique as the companies that follow them. However, the enablers and inhibitors to achieving alignment have remained consistent over the past five years. (Jerry Luftman & Tom Brier, 1999)

Executives should work toward minimizing those activities that inhibit alignment and maximize those activities that bolster it. They should concentrate on improving the relationships between the business and IT functional areas, working toward mutual cooperation and participation in strategy development, maintaining executive support, and prioritizing projects more effectively.

III. Business Strategies of Taobao’s E-commerce

In briefly, three main business strategies are adopted by Taobao.

- **“Completely Free of Charge” Strategy**

At the beginning, Taobao told vendors that it did not charge listing fees and transactions fees in the first three years. Providing free services is the key to gather popularity in a short time and attracts amount of sellers and customers. In order to compete with eBay China, Taobao provided free services. As a result, it successfully replaced the position of eBay China to become the biggest retailers in C2C marketplace in China in only 2 year’s time. To maintain
the status of Taobao, Alibaba announced that Taobao will continue using free model for next 3 years in October, 2005. On October 8, 2008, Taobao told at a news conference to continue free of charge.

- **Promotion Strategies**

Due to the specification of SMS, a large number of small-sized and medium-sized sites lost the profits to some extent. Therefore Taobao put advertisements in these sites at a lower cost. According to Yang and Liu (2009), Between April 2004 and April 2005, Taobao announced strategic alliances with Chinese Internet portal 21 CN, Sohu and MSN portal. The alliances establish long term win-win cooperation with each other. But Taobao is not satisfied, in recently years, it depends on commercial movies and famous TV program to expanding the reputation. The influences of media makes Taobao receive a good marketing effect.

- **Cooperation with Banks**

Yang and Liu (2009) claim that Taobao and Zhejiang branch of ICBC (the Industrial and Commercial Bank of China) signed a comprehensive economic cooperation agreement on October 27, 2003, which is used to protect against defaults and deceives. The cooperation puts the bank into the place of intermediary to connect with network and E-commerce; it creates a new way to pay money that is called online banking. The service not only increases the confidence of customers on a creditable payment and settlement, but also gives a convenient way for vendors to receive payment for goods and saves their time and energy.

**IV. SWOT Analysis of Taobao**

There are numerous advantages of e-commerce which are also applicable in taobao. The low barriers and relatively lower expenses make it easier for firms and organizations to enter this field. Companies can benefit from the establishments of e-shops with which the customer base has been expanded to a substantial level with less time and overhead costs than real stores. Meanwhile this form of commerce provides a wonderful platform for information exchange and communication between buyers and sellers by using the mature instant message software like WangWang, QQ. It also protects customers’ benefits by a safety intermediary named “Zhifubao” for making payments. Beside these common strengths,
taobao’s specific advantages such as accurate market positioning, and proper marketing strategies also make contributions to its success. Comparing to yiqu who limits its customers on mature male whilt collars, taobao put more attention on fashion, young and feminized person who are quite familiar with e-shopping. (Yang, 2010) This position is apparently more suitable for China’s reality. Furthermore, the “experience for free” marketing strategy have attracted a substantial amount of consumers in a short period.

Graph 2- SWOT Analysis

On the contrary of these strengths, weaknesses of e-commerce should not be neglected by the company like taobao who want to make profits. The immature tax policy in China has brought inconveniences to e-commerce since both consumers and buyers complaints the unfair tax treatments they ever faced. The other prominent problem of e-commerce is the increasingly weak core competence of companies including taobao who lacks technical innovations, its operating processes, platform for communication and common-used technical tools are known and copied by other counterparts. What is worse, the weak supervision of quality has led to a fake disaster. The grumbles from the violated consumers have destroyed taobao’s reputation and cause a loss of a fraction of loyal customers.
Opportunities and threats are the external elements of this analysis. The primary chance of e-commerce is the policy support. According to the two new promulgated policy articles of 2007, the development of e-commerce will be highly encouraged and protected so as to improve companies’ ability of autonomous creation and technology innovation. The popular application of e-commerce will then provide a perfect environment and opportunities for taobao’s overall development. Besides, the apparent growth of market demand will enormously expand the range of e-commerce and make it a trend in the future. As can be seen from the research report (February 2009), B2C and C2C market will reach 13.6 million and 201.3 million yuan respectively. All of this will provide generous profits to taobao which is the leader of C2C industry. In addition, China owns the largest group of internet users around the world due to its huge population and most of them are young people. The huge consumer group and purchasing power is doubtlessly beneficial to the long-term development of taobao.

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

V. Payment security

- The introduction of Taobao’s third-party payment platform

The accuracy and the reliability are two key factors of online information collection and management. Accuracy refers to the correct product information and clear shopping process. Reliability refers to the security of personal information including both customer account
security and payment security. It is often hard to make a new customer trust an intangible seller, especially to pay to the unseen strangers. So the quick and smart way is to find a third party to secure the payment process. TaoBao.com invented a special payment function called “Zhifubao”. Zhifu means to pay in Chinese while bao means something convenient and useful.

This third-party payment platform enables Taobao customers avoid to pay the seller directly online. Instead, they first pay to the Zhifubao. After they make sure of the product reception, the customers then authorize the right of payment to Zhifubao. The sellers get the bank transfer via Zhifubao. If the customer did not receive the product, he or she can transfer the money from the Zhifubao account to their bank account easily. Thus the customer does not need to argue with the seller if they want their money back.

We think this special design does make sense because in online trading. There is a so called asymmetric information problem which means the seller knows more about the quality and shipping of the product. So the sellers stands on the stronger side. They need to take more responsibility of the trading smoothness. So it is reasonable to give the payment initiative to the customer.

Zhifubao cooperated with ICBC (Industrial and Commercial Bank of China), CBC (Construction Bank of China), ABC (Agriculture Bank of China) and CMBC (China Merchants Bank of China). Alibaba Ltd. Promised that the losses caused by Zhifubao will be compensated. Each one of them is big bank in China. By cooperating with them, alipay.com, the online address of Zhifubao can share the security technology with the banks. An encryption method called 128-bit Secure Sockets Layer (SSL) is used (Hong and Chen).

VI. Credit Valuation

C2C is a major transaction form of e-commerce. In the investigation of “China 2006 C2C online-trading report”, it shows that C2C online-trading grows rapidly and until March 2006, there were 2 million consumers using C2C platform with a 16.2% increasing rate (CNNIC, 2006).

As shown in previous, the C2C online-trading disadvantages caused by a variety of reasons are many, but in general is the lack of an effective e-commerce credit system.
E-commerce Credit Risk

The Society of Risk Analysts (SRA) defines risk as “the potential for realization of unwanted, adverse consequences to human life, health, property, or the environment”. Because risk can be defined as: Risk = Uncertainty * Potential loss/gain (Shi Liangping, 2003). Thus, it can define the uncertainty by the variable moral of traders and the uncertainty of media platform. Taobao as such a big media platform plays a critical role to inform an effective e-commerce trading.

Consumers in Taobao behave depends on their demands and desire, but different from traditional trade, they face a virtual platform, which is exempted from time and space restrictions. Therefore, new features generate:

- There is a close relationship between all the demand hierarchies in online trading.
- Consumer’s demands represent to not only normal demand, but also potential needs. Most potential consumers for online trading are more likely the young people, who are lack of self-control and responsive to new things (Wen Xing, 2007).

Because of these characteristics of C2C e-commerce, thus the C2C Credit Risks are more prominent. In the report, it finds out that both buyers and seller in Taobao could produce Credit Risk:

- For sellers, they could face the risk of delayed payment because most individual consumers use credit card as payment method and online malicious overdraft.
- For buyers, they could face the risk of unsatisfied products, which are different from displayed samples on the Internet. Reasons include cheating on the sample picture or exaggeration on product descriptions.

The imperfections of C2C e-commerce resulted by: 1, the internal credit problem; 2, the external imperfect society by lack of credit. In order to control the C2C e-commerce credit risk, and develop a good credit risk control strategies among the Taobao, a sound credit evaluating system is established in 2003. As the establish of credit evaluation system, a more honest and effective environment developed, thus a huge increase in transactions volume up.
to 99.96 billion yuan in 2008, and a 131 percent over 43.3 billion yuan in 2007, which accounts for about 1% of the total consumable retail sales (CNNIC, 2008).

**Taobao C2C Credit Evaluation System**

In order to evaluate buyers’ and sellers’ initial credit, several indicators gathered in register process can help to rate the credit level of each individual.

For register of buyers, Taobao gathers 7 indicators and roughly evaluate their credit level according to previous literatures (Zhao Xiaodong and Zhen Tao 2003):

- Age: an older person is more credible than youth;
- Gender: female has higher credit than males;
- Marital status: married persons are evaluated higher than singles, especially for parents, who have higher responsibility senses than no children couple;
- Educational level: higher educational level higher credit;
- Occupation: individual who has a more stable career would receive higher credibility;
- Salary: higher income states higher consume ability;
- Bank deposit: buyers who have more bank deposits are rated higher credit and trust.

For register of sellers, Taobao gathers 7 indicators and roughly evaluated them based on the report of “China’s C2C online shopping survey” 2009:

- Promised Time: the faster the more credible;
- Quality: compare the real quality of products with commitment, the closer the better;
- Price: if the price is cheaper than other sellers’ same displayed product, then more credit will be received;
- Service: better service higher credibility;
- Turnover*: more turnover transaction, higher credit level;
- Credit rating*: higher credit rank, higher reliability the seller has.

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

Figure 2 - Taobao's Credit Evaluation System
VII. Credit rating

Taobao members can evaluate the credit of transaction partner after finishing each transaction through “Zhifubao” payment platform. The comments include “positive”, “neutral” and “negative”. If “positive” the partner will get one score (credit); if “neutral” then zero; if “negative” a negative one score will be receive. Both buyers and sellers have to pay attention to their credits, because the total credits are divided to 20 ranks with particular mark in each rank, and these marks are displayed beside their nicknames. It is without doubt that the traders with higher total credits (score), receive more trust and more partners, therefore more transactions and profits.
<table>
<thead>
<tr>
<th>Hearts</th>
<th>Credits</th>
<th>Emojis</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>11 to 40 credits</td>
<td>🌹🌹</td>
</tr>
<tr>
<td>3</td>
<td>41 to 90 credits</td>
<td>🌹🌹🌹</td>
</tr>
<tr>
<td>4</td>
<td>91 to 150 credits</td>
<td>🌹🌹🌹🌹</td>
</tr>
<tr>
<td>5</td>
<td>151 to 250 credits</td>
<td>🌹🌹🌹🌹🌹</td>
</tr>
<tr>
<td>1 Diamond</td>
<td>251 to 500 credits</td>
<td>🌹</td>
</tr>
<tr>
<td>2 Diamonds</td>
<td>501 to 1000 credits</td>
<td>🌹🌹</td>
</tr>
<tr>
<td>3 Diamonds</td>
<td>1001 to 2000 credits</td>
<td>🌹🌹🌹</td>
</tr>
<tr>
<td>4 Diamonds</td>
<td>2001 to 5000 credits</td>
<td>🌹🌹🌹🌹</td>
</tr>
<tr>
<td>5 Diamonds</td>
<td>5001 to 10000 credits</td>
<td>🌹🌹🌹🌹🌹</td>
</tr>
<tr>
<td>1 Crown</td>
<td>10001 to 20000 credits</td>
<td>🌹</td>
</tr>
<tr>
<td>2 Crowns</td>
<td>20001 to 50000 credits</td>
<td>🌹🌹</td>
</tr>
<tr>
<td>3 Crowns</td>
<td>50001 to 100000 credits</td>
<td>🌹🌹🌹</td>
</tr>
<tr>
<td>4 Crowns</td>
<td>100001 to 200000 credits</td>
<td>🌹🌹🌹🌹</td>
</tr>
<tr>
<td>5 Crowns</td>
<td>More than 1000001 credits</td>
<td>🌹🌹🌹🌹🌹</td>
</tr>
<tr>
<td>1 Gold Crown</td>
<td>500001 to 1000000 credits</td>
<td>🌹</td>
</tr>
<tr>
<td>2 Gold Crowns</td>
<td>1000001 to 2000000 credits</td>
<td>🌹🌹</td>
</tr>
<tr>
<td>3 Gold Crowns</td>
<td>2000001 to 5000000 credits</td>
<td>🌹🌹🌹</td>
</tr>
<tr>
<td>4 Gold Crowns</td>
<td>5000001 to 10000000 credits</td>
<td>🌹🌹🌹🌹</td>
</tr>
<tr>
<td>5 Gold Crowns</td>
<td>More than 10000001 credits</td>
<td>🌹🌹🌹🌹🌹</td>
</tr>
</tbody>
</table>

Table 2- Credit Rating System of Taobao

- **Web-sites Screenshot**

In each Taobao member’s profile, there are several information for the customers should gather to value seller’s credibility and liability. As displayed in the seller’s profile, buyers can know the established date, the total credit and main business of each seller. By comparing each seller’s credit and feedback, a more safe and reliable transaction is viewed be more guaranteed.
The Taobao credit evaluation system also records each member’s comment and requires feedback after each transaction made. The feedback list contains the overall ratio of customers’ positive feedback, and the separate ratios of recent one week, one month and half year, etc.

- The Comparing of E-bay and TaoBao credit system

<table>
<thead>
<tr>
<th>The evaluating rules of buyer to seller</th>
<th>E-bay</th>
<th>TaoBao</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The evaluation of sellers</strong> that from the buyer who has been passed the identify authentication will get the scores in seller’s credit system,</td>
<td>The evaluation of sellers that even from the buyer who did not pass the identify authentication will get the scores in seller’s credit system,</td>
<td>All the evaluation of sellers that even from the buyer who did not pass the identify authentication will get the scores in seller’s credit system,</td>
</tr>
<tr>
<td>The effecting time</td>
<td>otherwise will not</td>
<td>credit system</td>
</tr>
<tr>
<td>--------------------</td>
<td>--------------------</td>
<td>---------------</td>
</tr>
<tr>
<td><strong>The effecting time</strong></td>
<td>When buyer has been auctioned a commodity, he/she can evaluate and immediately have effect</td>
<td>When buyer has been auctioned a commodity, he/she can evaluate, but the results will show after both of the traders have been evaluated</td>
</tr>
</tbody>
</table>

| Credit scoring system | As long as the evaluation finish gets the scoring, deals get one evaluation. ‘Positive’ get 1 score; ‘neutral’ get no score ‘negative’ get -1 | Only get the score when have been evaluated and finish the transaction through ‘Zhifubao’ payment platform, deals get one evaluation, with same method. |

| The transaction between some users | In the second or more transaction between the same traders, traders can make a evaluation but cannot get score | To the same traders, they can evaluate and get score six time in one month, over transaction cannot get score |
VIII. Decision support function of Taobao

Bhargava and power (2007) as cited by Xue and Holsapple (2010), believed that many firms used web as a medium to convey information about DSS (decision support system) products or to distribute DSS software. Taobao and other ecommerce websites themselves can be regarded as systems which will support decision making of their users about what and how to buy quickly and safely.

- Registration and Feedback

In registration aspect, as the other online shopping websites, users need to create a new account by giving website personal profiles and website hardly required any certification to prove the information. However, Taobao requests the users to give scanned copy of ID cards to certificate the real identity of the person if anyone who want to open a store in Taobao. After being checked for several business days, users will receive an identification number which could let them pass the registration steps and then having an account. By checking real identity by checking their ID card information, could be regarded as a way of control the user of the system and obviously can raise the security of the website.

The same as other online shopping websites such as eBay Amazon, Taobao’s seller and buyers can also gain reputations by getting feedbacks from person they traded with. Taobao lists reputations of selling and buying separately, whereas eBay adds them together. This may because a good buyer may not be a good seller. We better neutrally evaluated them separately. Taobao performs as a DSS which intelligently gives users information about the reputation of buyers and sellers that will support the
users to make better decision of trading with them or not. (Xue and Holsapple, 2010)
Xue and Holsapple (2010) concluded that Taobao gives as a bi-select control function,
not only users can choose whether to use Taobao, Taobao can also choose whether to
accept user by checking ID information.

- **Wangwang**

Taobao Wangwang is an instant message tool, provides a convenient platform of
buyers and sellers also support the private instant message exchange. When buyers
have any doubt about goods or services they are interested in, they can immediately
ask the seller, and the sellers can explain the problems by sending text or picture
massages, buyers can ask as many sellers as they want at the same time which operate
exactly the same as MSN messenger. Consequently, wangwang can support users to
share knowledge and make better decision, and especially for seller, by
acknowledging the needs of buyers, they won’t loss any chance of making money.
Obviously, Wangwang has a decision support function.

The chart below shows how Wangwang works during online-trading process:
Figure 3- Taobao online-trading process

Later wangwang will remind both sides to give feedback to each other. All trading processes dates will be recorded by wangwang have a legal power. If there are any problem occurs, the record of Wangwang can be a powerful evidence to help solving the problem.

Wangwang is developed by Taobao itself and provides to users for free, it can keep changing to meet needs of users and assists better decisions. Using third party communication tools like google talk, Msn may be cheaper at the beginning, there is no more growth space and hardly any implementation could be made to provide better service.

- **Satellite Problem Processing System (online department store and ebanks)**

A problem-processing system is the DSS’s software engine which tries to recognize and solve problems. (Holsapple,2008) Taobao being treated as a focal problem processing system and the big sellers and banks which own their own real stores or websites and especially those banks are members of Alipay treated as the satellite problem processing system.

Taobao’s online mall organizes many big sellers, most of which own real stores; some of them are certified retailers of some famous brand products such as Sony, Canon. Being informed of the addresses of real store and trading authorization from famous brands will give customers more credit safeguard. Customers could easily get things online, if there is any problem, they can turn to the real store for after-sale service. Since, Taobao is a focal problem processing system which gives the platform to the products from the big retailers, and the satellite systems are the big retailers. The
satellite systems can enlarge Taobao’s knowledge database, benefits from lowering cost by no technology effort to build by Taobao itself, and add more credit power. (Xue and Holsapple, 2010)

Furthermore, over the past decade, organizations have spent billions of dollars implementing enterprise resource planning (ERP) systems. From EPR perspective, Taobao just like a huge ERP system which has transaction (alipay), record-keeping (wangwang), decision making and other functions that ERP also has. (Holsapple and Sena, 2005)

- **Online Forum and Community/SNS**

Taobao had put a lot of effort to develop & expand community & forum. A social networking service (SNS) set up named Taojianghu.com which is a platform for users to share information and make friends. Users could earn Taobao Virtual Coins by sharing Taobao items or by visiting the website (Taojianghu.com). Most of the information section is edited by the employees of Taobao where collects the most popular information of the word. Consequently, this information section can be seen a knowledge share database for both sellers and buyers and give more information to the users of the website in order to support future decision. Community involvement may be an ascription for royal users, then may attract new users to participate in more transactions.

**IX. Information asymmetry in e-commerce**

- **Introduction of Pre-Trade and Post-Trade Information Asymmetry**

As mentioned earlier, there is a problem of information asymmetry in C2C e-transaction. So it is reasonable to introduce a third party. This particular problem
E-commerce in China: Taobao can be divided into three dimensions: market analysis, e-commerce credit and consumer relationship maintains.

In the article of QIN and ZOU, the problems can be concluded as follows:

- **Pre-trade Information Asymmetry**

  “Merchants owning the information advantage” It means the seller knows more.

  “The information asymmetry between sellers’ supply and the buyers’ demand ” It means sellers cannot fully understand what buyers want and they need time to adjust the marketing strategy and stock. What is more, adding new information to the online system also needs time. So there could be extra supply or extra demand of some goods in a certain period of time.

  “Consumers are difficult to confirm the identity of the merchant “ It means consumers may doubt about the credit of online sellers. Since the cyber shop owners do not need to pay for rent, heating and so on , the running cost becomes lower. So we can see a large number of small and medium sized companies on the list. As to TaoBao.com, the solution is to trust the “royal crowns”.

- **Post-trade Information Asymmetry**

  “A number of bad faith business do not delivery goods in the right time, defraud money from customers without sending out goods or the quality is less than a pre-agreed standard”

  It is not surprising in China. Unlike online shopping in UK, in which case you can refund the product with a period of time without a specific excuse, turning back is almost difficult in China.
“The goods quality is inferior or does not consistent with the description on the web”

This is not rare in the online transactions in China. In fact, in some tangible shops, the quality of goods is not always that satisfying. The protection of customer rights is quite a serious topic in Chinese law field.

X. Conclusion

Using Taobao’s successful operation as the leading C2C E-commerce company in China, we conclude that the business strategies and structure are the main accurate market position. The design of web-pages and shopping process provide the customers a convenient platform and it is attractive and suitable for Chinese customers. The particular credit evaluation system and creation of Zhifubao & Wangwang are competitive advantages, which delivers more value creating outputs.

However, several disadvantages include:

1. The evaluation system would somehow force the buyers comment “positive” feedback, as the role of an escrow service, Taobao does not ensure the after sell services and the disclosure of transaction;

2. In the process of register, real name and email authentication system bring disturbance to customers, such as junk email and advertisements;

3. As the on-line trading market was flooded with counterfeit merchandise, the problem of cheating occurs, especially in categories such as clothing and accessories;
4. Very few online sellers were authorized vendors of branded goods, it is hard for customers distinguish between authorized products among unauthorized ones;

5. Since always, Taobao is limited in Chinese market only;

6. Immature tax policy in Taobao payment system does not provide official receipts and invoice to customer;

The report suggests the Taobao company should take the opportunity of e-commerce development and make rational use of information technology and internal and external resources, working as a bridge linking the buyers and sellers. As an e-commerce company, adequate and transparent information should be provided with safety, scientific system. The limited payment system requires improvement and diversity. However, it is still a successful model for e-commerce, and Taobao IT strategies help improve its performance.
XI. Appendix

Homepage of Taobao website in 18 March, 2012

Buyer’s “Zhifubao” payment profile
E-commerce in China: Taobao

You received it  You have not received

Select:  

Reason for the refund:

Amount you want back: 70.00 元

Amount seller would receive: 0.00 元

A short explanation:

Password: Please enter the correct payment password.

立即申请退款  Cancel payment
“Zhifubao” refund panel

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