

Analysis of Strategies for the Development of Cross Border E-commerce, Taking Amazon as an Example

Yi Zhang^{1,a,*}

¹*Department of Security and Crime Science, University College London, London, WC1E 6BT, United Kingdom*

a. zctzyzh@ucl.ac.uk

**corresponding author*

Abstract: Business platforms have now become an indispensable tool in people's lives. Amazon, a household name in e-commerce, has achieved success in markets all over the world, except in China. This paper finds that the main reasons for Amazon China's failure are the intense competition from local e-commerce giants and the cultural and consumer behavioural differences between Chinese and foreign consumers. For Amazon China, Alibaba, Pinduoduo are very challenging competitors. The cultural differences between Chinese and foreign consumers are reflected in the fact that Chinese consumers find it difficult to accept the e-commerce platform's fee-based and slow delivery service, and are unable to use Alipay and WeChat as payment tools. Moreover, the user pages of the Amazon shopping software do not match the aesthetics of Chinese consumers. In addition, the paper makes recommendations on how cross-border e-commerce business in China can be improved and adapted to the Chinese market to address these factors.

Keywords: Amazon China, failure, e-commerce

1. Introduction

E-commerce is now a hot and thriving industry. In the 21st century, with the development of the Internet and the demand for a more convenient life, people are shopping more frequently on e-commerce platforms. In the global business arena, Amazon has achieved untold success as the world's largest e-commerce marketplace.

In July 1994, Jeff Bezos established Amazon. He aimed to create a "universal shop" that would offer unlimited choice and tempting convenience at great prices [1]. The company internationalised with Amazon UK and Germany in December 1998. However, China is a notable exception in the strong rise of Amazon. The country with the largest population in the world is a huge challenge for Amazon, the e-commerce market giant.

Amazon entered the Chinese market in 2004 and generated great anticipation and excitement. The business includes 32 categories, up to tens of millions of goods, including books, audio and video, software, films, and other media [2]. The business offered Chinese consumers a wide range of shopping options. At the same time, China has a huge consumer base, a burgeoning e-commerce ecosystem and a booming economic base. The Chinese market, therefore, seems to be the ideal place for Amazon to expand. However, Amazon decided to shut down its third-party marketplace in China in 2019, as Amazon China entered the Chinese market at a time when the country's Internet business

platforms were developing most rapidly. Those platforms that have established a foothold in the Chinese market have built up a strong logistics network, fostered a high level of user loyalty and kept prices reasonable while offering a large and diverse range of products. In contrast, Amazon's service and management approach is too standardized and has not succeeded in resonating with Chinese consumers. The many competitions that existed in the Chinese market and the inadequacies of this company itself led to their unsuccessful development in the Chinese market, and Amazon eventually chose to cede its position to a local competitor. It is worth mentioning that the company still maintains a presence in China through its cross-border e-commerce business, which allows Chinese consumers to purchase products from Amazon's global platform.

In a related area of e-commerce, the literature clearly identifies that Amazon's successful strategy depends largely on the company's strong brand name positioning, the value and shopping knowledge it offers to its customers, its strong selling power, and the realization of economies of scope and scale [2]. A graph embedding framework has also been proposed to solve the scalability, sparsity and cold start problems in Taobao recommendation systems [3]. In this way, it is clear that the development of e-commerce platforms has received a lot of attention. However, there are fewer studies on the study of Amazon's exit from the Chinese market.

What are the underlying reasons for Amazon's failure to enter the Chinese market? What can be done to improve on these fatal shortcomings? Understanding and sleeve-sorting Amazon's failures in China can provide valuable insights for cross-border e-commerce businesses still opening in China and for those companies aspiring to expand globally. How they adapt and respond to the uniqueness of their target market can be of great significance to companies. Consequently, the main focus of this paper is to analyse the main reasons for Amazon China's failure in the Chinese market and to give some effective recommendations for the company's cross-border e-commerce business that still remains in China.

2. Analysis of the Reasons for Amazon China's Market Failure

2.1. Strengths and Weaknesses of Amazon China

There has been an in-depth analysis of the advantages and disadvantages of Amazon's development in the Chinese market. Amazon has a high brand value. The right goods are chosen by Amazon China using the consumer positioning strategy. It offers good customer service through the use of straightforward business procedures. This company also has an effective core development strategy [4].

Amazon China also has obvious and fatal problems. At the human capital level, Amazon's global headquarters did not allow Amazon China's management model is not the most suitable for the Chinese market as Amazon China is not independently managed [4]. Amazon China's management model is not the most suitable for the Chinese market as Amazon China is not independently managed.

2.2. Analysis of Competitors

There are two main possible reasons for Amazon's failure in the Chinese market. The first possible factor is the fierce competition from local e-commerce giants during Amazon China's development in the Chinese market.

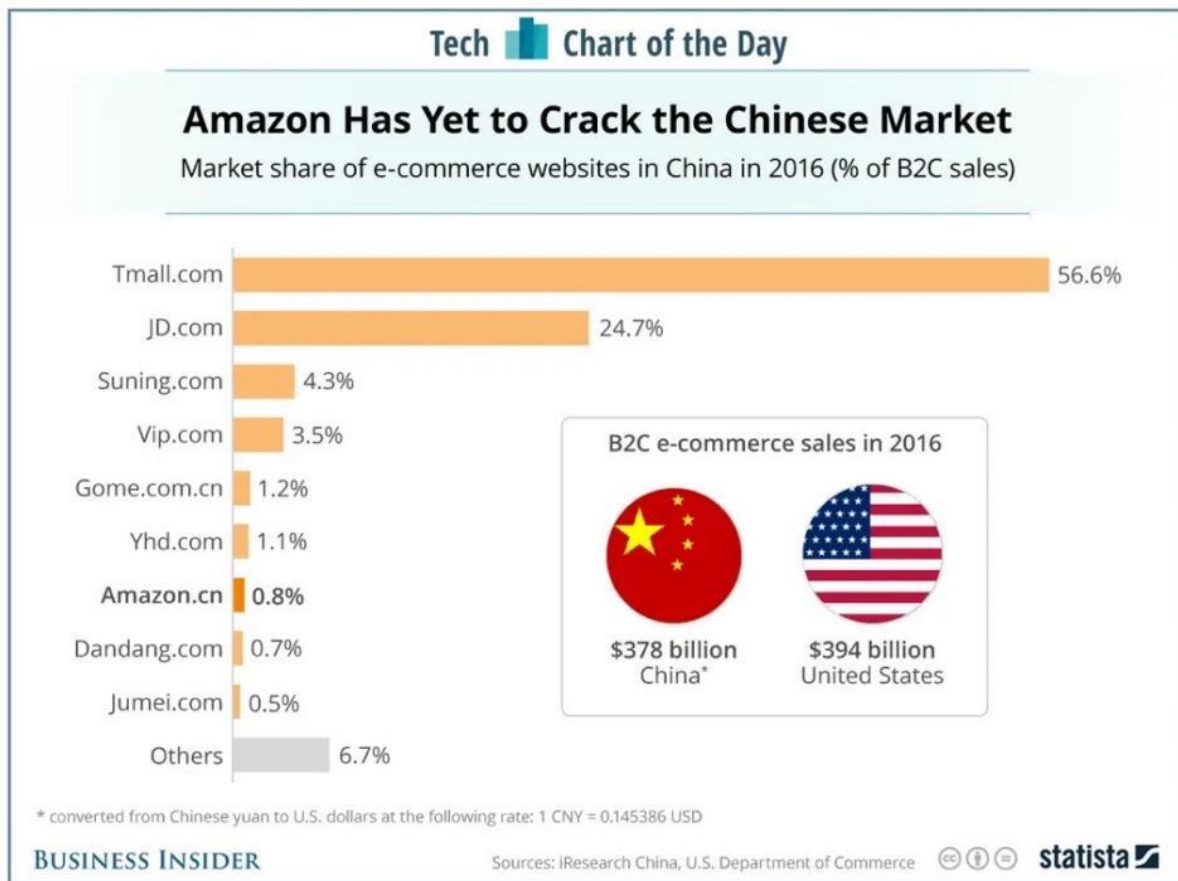


Figure 1: Market share of e-commerce websites in China in 2016 [5].

As can be seen in Figure 1, the Chinese version of Amazon accounts for less than 1% of China's \$378 billion e-commerce sector in 2016, according to an analysis from market research firm iResearch China [5].

The first of these strong contenders is Taobao. Founded in 2003, TaoBao (www.taobao.com) is a fully owned subsidiary of Alibaba, the top e-commerce business in China. According to statistics, the platform has the most transactions (RMB43.3 billion in 2007, with a Consumer to Consumer (C2C) market share of 83.99 in China), and the greatest penetration rate among the 253+ million Internet users in China [6]. As a local trading platform that opened up the Chinese market a year before Amazon, Taobao has gained a large number of loyal users and has captured the majority of the market share of online shopping in China this year. Many consumers have brand loyalty to the shopping platform. After getting used to using Taobao for online shopping, they may not try new online trading platforms, such as Amazon, which has just entered the Chinese market.

The difference in sales models between the two platforms may also be one of the reasons why Amazon is receiving a strong challenge. Initially, Amazon mainly adopted the B2C business model, or Business-to-consumer, which is a direct-to-consumer sales and service model for merchants through the Internet. However, Taobao's original business model was C2C, consumer to consumer. C2C means that anyone could open an online shop on Taobao and become a merchant without paying additional fees [7]. This policy attracted a large number of merchants to Taobao. As a result, the variety of items sold on Taobao and the number of substitutes between the same categories has increased significantly. Users can shop around and choose the most satisfactory items to buy. There is also healthy competition among merchants to improve the quality of their goods and lower their

prices. Therefore, in terms of business model, Taobao is more competitive and more attractive to consumers than Amazon.

Another competitor of Amazon is Pinduoduo, which was founded and entered the Chinese market in October 2015 in Hangzhou, China. The main customer groups of this platform are residents of small and medium-sized cities in the third and fourth tiers, as well as low-income young people who find it difficult to pay high prices [8]. On Pinduoduo, users can take a pieced order to buy. The order requires at least two people to buy together, and when the order is successful, the price of the item will be lower than the price the user would pay for the product alone. This platform mainly adopts a thin margin sales approach to attract more users with affordable prices. Pinduoduo has become the third largest e-commerce platform in China in 2018 [9], with a position that is hard to shake and a large number of users. As a result, Poundland has also become a major rival of Amazon in the Chinese e-commerce platform.

2.3. Cultural and Consumer Differences

The second main reason is the cultural differences and differences in consumer behaviour between Chinese consumers and foreign consumers. These differences may include the following factors. Firstly, Amazon cannot offer free and fast delivery. Due to its expensive and significant in-market structure and locked-in labour expenses, Amazon was unable to make the free delivery service without having a minimum purchase quantity. In addition, the way Amazon's website and warehouses are organised and the delivery system is not localised [10]. This means that the Amazon platform cannot deliver express deliveries in China as quickly. By contrast, most local e-commerce platforms in China offer free shipping, except for very remote areas. The delivery is very fast, even overnight for many items. As a result, Amazon does not fit the consumer culture of Chinese consumers when it comes to the delivery of goods.

Secondly, Amazon does not support users to pay using Alipay and WeChat. In China, WeChat and Alipay have become the mainstream payment methods. Most Chinese e-commerce platforms support these two payment methods. Paying with WeChat and Alipay is much more convenient and faster than paying with a bank card, so most Chinese consumers have gotten into the habit of paying for their online shopping orders using these two applications. Compared to paying with a bank card, WeChat and Alipay do not require the input of cumbersome information such as bank card number and the name of the cardholder, but only require the authorization of the use of the payment software to the shopping platform and the input of the password to complete the payment. However, Amazon's lack of support for these two payment methods is a testament to the difference in online shopping habits between the platform and Chinese consumers.

A final difference is that Chinese consumers prefer local brands and e-commerce platforms, as local Chinese platforms design shopping pages that are more in line with the reading habits and aesthetics of Chinese consumers. Compared to Amazon's shopping software, Chinese e-commerce platforms such as Taobao and Tmall have more vibrant colours, clearly differentiated sections and are smoother to use, with no lag. Liu Qiangdong, founder of the Jingdong Group, once said that Amazon lacked trust in the Chinese team. Amazon's China team had offered to change the user interface of Amazon's China shopping software to a version that would suit Chinese consumers' habits, but this was rejected by the head office. As a result, user pages that do not match the habits of Chinese consumers have also led to the loss of users.

3. Suggestions for the Cross-border E-commerce Business

Although Amazon is closing its third-party marketplace in China in 2019, it still retains a cross-border e-commerce business in China. There are a number of suggestions to help improve and enhance this business.

To increase the competitiveness of cross-border e-commerce in the Chinese market, firstly, Amazon could consider a strong focus on imports for China in cross-border e-commerce, reducing sales of goods produced in China. For example, if China produces a lot of tea, then it could reduce the sale of tea and focus on other imported products. At the same time, price is also a very important influencing factor. If the prices of imported goods are lower on Amazon than on Chinese e-commerce platforms, that will attract consumers to Amazon.

In order to achieve lower prices for imported products for Chinese consumers, Amazon could change its business model appropriately. The platform could add some consumer-to-consumer models as appropriate. The C2C business model will not only reduce the price difference earned by middlemen, lower the cost of imported goods and lower the selling price, but also increase the diversity of products and provide consumers with a wider choice.

Secondly, to accommodate the cultural differences and behavioural differences between Chinese and foreign consumers, Amazon should focus on localising its management team. If a business wants to be localised in the Chinese market, the operator must make it a legitimate Chinese business [2]. The management team could do some market research as a way of gaining a deeper understanding of the Chinese market's consumer habits and culture. After learning about Chinese consumer preferences, Amazon HQ in the US should also strengthen its trust in the China management team by allowing reasonable changes. For example, allowing consumers to pay using WeChat and Alipay, and adapting the user interface of the shopping software to better match the aesthetics and habits of Chinese consumers. Amazon's marketing cannot be completely homogenised by the Chinese market either. It needs to maintain its own unique identity. Therefore, a marketing strategy that combines the needs of the Chinese market and its own characteristics is the most suitable for Amazon.

4. Conclusion

Through research, this paper finds that Amazon's failure in the Chinese market is attributed to two main reasons. The first is the fierce competition in the Chinese market. Amazon has to face many local Chinese e-commerce platforms and all of them have their own unique advantages that make it difficult for Amazon to shake their position. The second reason is that there are major differences between the consumption habits and concepts of Chinese and foreign consumers. These differences can be detailed into three categories. Firstly, in terms of product delivery, Amazon cannot do free delivery and also the delivery speed is slower compared to local brands. Secondly, Amazon does not support the most common and popular payment methods in China, WeChat and Alipay. The more cumbersome payment methods make Chinese consumers feel uncomfortable and inconvenient. Finally, the user interface of Amazon's shopping software is not in line with Chinese consumers' habits and aesthetics. And the user interface issues were then fed back to the head office and not approved for change. The combination of these two major problems, therefore, led to Amazon's failure in China and was the reason why the company eventually chose to withdraw from the Chinese market.

The findings of this paper fill a gap in the root causes of Amazon China's failure in the Chinese market. As the world's number one e-commerce market, Amazon's failure experience provides a good counter-example to its own cross-border e-commerce business that remains in the Chinese market and to other broadview e-commerce platforms that want to enter and grow in the Chinese market.

And it reminds these platforms to learn from Amazon China's failed decisions to avoid the same problems that brought about the failure and repeat the same mistakes.

However, there are still some shortcomings in this paper. The current study only analyses the reasons for Amazon China's failure and gives recommendations based on the current Chinese market, but as society and the Internet develop, consumers will demand more and more from their e-commerce platforms. Future research should analyse the problems of cross-border e-commerce platforms in the context of the latest developments and make the most constructive recommendations.

References

- [1] Raw, L. (2015) *The Everything Store: Jeff Bezos and the Age of Amazon*. *The Journal of American Culture*, 38, 194.
- [2] Sadq, Z. M., Sabir, H. N. and Saeed, V. S. H. (2018) *Analyzing the Amazon success strategies*. *Journal of process management and new technologies*, 6.
- [3] Wang, J., Huang, P., Zhao, H., Zhang, Z., Zhao, B. and Lee, D. L. (2018) *Billion-scale commodity embedding for e-commerce recommendation in alibaba*. In *Proceedings of the 24th ACM SIGKDD international conference on knowledge discovery & data mining*, 839-848.
- [4] Zhao, L. and Jin, S. (2016) *China's Dilemma of Cross-border E-commerce Company-Take Amazon China as an Example*. In *2016 International Seminar on Education Innovation and Economic Management (SEIEM 2016)*, 382-385.
- [5] Dunn, J. (2017) *Amazon is still getting dominated in China*. *Business Insider*. Retrieved from <https://www.businessinsider.com/amazon-market-share-china-alibaba-jd-chart-2017-2?r=US&IR=T>
- [6] Ou, C. X. and Davison, R. M. (2009) *Technical opinion Why eBay lost to TaoBao in China: the Glocal advantage*. *Communications of the ACM*, 52, 145-148.
- [7] Cao, B. B. (2015) *Comparing e-commerce in the US and China from Taobao and Amazon*. *E-Business Journal*, 2, 3-4.
- [8] Chang, Y., Wong, S. F., Libaque-Saenz, C. F. and Lee, H. (2019) *E-commerce sustainability: The case of Pinduoduo in China*. *Sustainability*, 11, 4053.
- [9] Lee, E. (2018) *The incredible rise of Pinduoduo, China's newest force in e-commerce*. *Tech Crunch*, 27.
- [10] Inc.com. (2019) *Amazon's amazing failure in China*. Retrieved from <https://www.inc.com/howard-tullman/chinas-amazing-failure-in-china.html>