Exploring Online Retailing Strategies: Case Studies of Leading Firms in the U.S. and China

By

Jian Chen

B.S. Applied Chemistry
Wuhan University, 2006

SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF SCIENCE IN MANAGEMENT STUDIES
AT THE
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

JUNE 2012

Signature of Author: ______________________________
MIT Sloan School of Management
May 11, 2012

Certified By: ______________________________
Michael A. Cusumano
SMR Distinguished Professor of Management
Thesis Supervisor

Accepted By: ______________________________
Michael A. Cusumano
SMR Distinguished Professor of Management
Faculty Director, M.S. in Management Studies Program
MIT Sloan School of Management

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Jian Chen

Submitted to the MIT Sloan School of Management on May 11, 2012 in partial fulfillment of the requirements for the degree of Master of Science in Management Studies

ABSTRACT

Online retailing has been a significant part of people's daily life. Research shows that 85% of internet users have purchased online. In China, with the increased penetration rate of internet and adoption of online payment, the online retailing is accounting for a larger percentage of overall retailing volume year by year. However, the lower barrier to entry of online retailing compared to traditional retailing makes the competition more intense than ever. In addition, several leading online retailing companies in the US experienced unprecedented obstacles when attempting to expand in China. This leaves an open question- what is the right strategy in online retailing?

The objective of this thesis is to identify to best online retailing strategies in China by examining the online business environment of US and China and distilling current strategies of successful online retailing companies in both countries.

The research has been based on case studies of leading online retailing companies. Four lenses, including operational excellence, customer intimacy, product leadership and platform leadership, have been used to explore the unique positions these companies have chosen, and the different set of activities they employed to achieve the positions.

Thesis Supervisor: Michael A. Cusumano
Title: SMR Distinguished Professor of Management

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Acknowledgements

First and foremost, I would like to thank Professor Michael A. Cusumano, my thesis advisor, for his guidance, advice, and suggestions. I also took his class, The Business of Software and Digital Platforms, in which I benefited from the valuable theory, frameworks, and brainstorming with classmates.

My thanks also go to Chanh and Julia at the MSMS office, who organized the thesis boot camp to massage us to plan and write our theses early.

I would also like to thank Robert Irwin from the MIT Writing Center, whose insights on time management and writing process were valuable. He also spent much time reviewing and editing my draft.

The thesis is dedicated to my family, who gave me unconditional love and support. My daughter, Yingke, was born at home in China while I wrote the thesis. My mother, Meigui, and my wife, Juanjuan, took care of everything at home very well, which enabled me to focus on my studies here. I very much appreciate their hard work and sacrifice, without which I could not have reached my goals at Sloan.

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Chapter 1 Introduction

1.1 Overview of E-commerce

E-commerce has a great influence in the global economy. It has created a new way for people to buy and sell products, and improved efficiency and effectiveness. As a subset of E-commerce, online retailing is playing an important role in people's everyday life. Companies like Amazon and eBay are in the Fortune 500, and they have changed the retail industry profoundly. In order to understand online retailing and the strategies of online retailing companies, it is necessary for us to review the definition of E-commerce and its history and development.

E-commerce can be defined as the transaction of tangible and intangible products and services via the Internet. It includes online retailing, company procurement, online auctions and online payment, to name a few such transactions (Carayannis and Alexander, 2007, p214).

Just 20 years ago, E-commerce did not exist. The Internet was introduced in 1960s, but Amazon.com, one of the earliest and best-known E-commerce companies, started only in 1995. The reasons for this time lag were threefold. Initially, the internet was only intended for research and education, and commercial use was prohibited. During the early 1990s, the restrictions were removed and the internet went on to a new era. In addition, the introduction and wide spread of the World Wide Web, which created a new way to effectively find and organize the content created, fundamentally lowered the bar to utilizing the internet for commercial purposes. The World Wide Web was invented by Tim Berners-Lee in 1989, and it was quickly adopted because the inventor let people use it for free. Finally, the web browsers with graphical interface enabled people without specific technical training to "surf" the Internet. Web browsers such as Mosaic, Netscape and Microsoft's Internet Explorer were introduced between 1993 and 1995, and provided an interface by which many more people could access the Internet. As a result, E-commerce started in 1995 because of the technological advance and removal of restrictions. By 2000, E-commerce had become even more popular. The introduction of security protocols and Digital Subscriber Lines (DSL) provided a more secure and faster Internet connection for users, making E-commerce more reliable and accessible.

E-commerce is superior to traditional business in several ways. First, it saves time. With E-commerce, individual consumers and corporate buyers need not walk out of their homes and offices or travel to the sellers, but need only to sit in front of computers to browse the Web to search for the products or services they want. E-commerce is also available to buyers at any time. When the transaction is done, the sellers will deliver the goods or services. In addition, E-commerce enables sellers to serve multiple customers simultaneously, which also increases time efficiency. Second, it saves space. In the case of a traditional business such as a bookstore, shelf space is limited. But in E-commerce, a seller doesn't need shelves, and can put goods on the Web with negligible marginal cost. Since E-commerce does not require a company to actually have a shop, it has greatly lowered the cost to start and run a business. Finally, E-commerce saves other resources such as human resources and investment. Since a seller can put detailed product descriptions on the Web, few if any sales people are required to explain the products. E-commerce also makes the upfront investment and operating cost much less than with traditional business because it creates a distributions channel that bypasses intermediaries, enabling producers to sell directly to end consumers.

In his research, Turner maintains that there are two types of E-commerce business, namely, business-to-business (B2B) and business-to-consumer (B2C). In addition, he maintains that there are 3 different types of B2B E-commerce, namely,

a. "Sell-side", meaning that businesses in this sector focus on directly selling goods and services to other business

b. "Buy-side", which refers to applications built to facilitate the procurement process for companies.

c. "Market-place", in which multiple suppliers and buyers are brought together to a platform by an aggregator.

He continued to indicate that several traditional sectors, such as content publishing, travel, retail banking, insurance, online share trading, automobile and retailing, would see profound influence incurred by B2C E-commerce (Turner, 2000, p50-63).

1.2 Overview of Online Retailing

Traditional retailers sell products or services directly to consumers in their physical stores. Online retailing is the opposition of this "offline" retailing. With the advent of E-commerce, the traditional retailers had the opportunity to expand their businesses online. In this sense, online retailing can be regarded as a subset of retailing, applying internet to complete the transaction between retailers and consumers. On the other hand, since online retailing is the transaction of products or services between companies and consumers, it is also considered as part of B2C E-commerce.

Online retailers can be segmented by whether they completely rely on internet sales. As traditional retailers operate in physical stores, malls or other sites, they are sometimes also known as "brick-and-mortar" companies. When they build their business online while maintaining their physical stores, they are called "click-and mortar" online retailers. In comparison, those companies which don't operate real stores and only sell via internet are referred to as "pure-play" online retailers.

For example, Bestbuy is a click-and-mortar retailer in that it runs not only actual stores worldwide, but also online stores that operate 24 hours and all year around. On the other hand, Amazon.com is a pure-play online retailer that sells products and services only via the Internet. In addition, I also consider C2C, consumer-to-consumer E-commerce, as part of online retailing. EBay.com, a internet market place that aggregate millions of individual sellers and buyers, has changed the way consumers buy goods and services. Amazon.com also has introduced similar services that allow individual sellers to utilize the platform of Amazon.com to sell their goods and services. It even allows the sellers to leverage Amazon's delivery system, providing a uniform shopping experience for consumers.

Among the early adopters of online retailing, Amazon.com was a successful icon, because it showed the world how E-commerce could grow at an exponential rate. In 1998, E-commerce became mainstreamed, and the sales revenues from some pure-play online retailers were comparable with those of the brick-and-mortar retailers. This phenomenon enticed those conventional retailers such as Barnes and Nobel, Gap, Sears and Macy's to explore the new channel of online retailing. In 1998, the click-and-mortar retailers saw their sales volume doubled over last year, and pure-play retailers had sales revenues of over $5.3 billion. By 1999, more than half of the US households had purchased goods or services online, and the online sales revenues had grown 300% each year (Tiernan, 1999, p2).

As a subset of B2C E-commerce, online retailing has the advantage of being convenient, time-saving and customizable to consumers. To traditional retailers, online retailing is a new frontier that can complement their current operations. The 24 hour online service has extended the business hours and greatly extracted consumers' demand, and the online transaction software has helped build a consumer database that provide a deep understanding of individual consumer behavior. The challenges are stock management and delivery, which greatly influence the perception of the online retailers' service. To new players, online retailing gives them an opportunity to grow fast and gain large consumer base and revenues that are comparable to conventional retailers in a short time. As a result, this new industry attracted traditional retailers, new entrants and the consumers, and it thrived quickly.

Before the burst of "dot com bubble" in 2000, internet was considered as the "New Economy", and NASDAQ index doubled during 1999-2000. During this period, hundreds of new internet companies, many of which were involved in online retailing, went IPO. "Get big fast" was the main strategy for most of these companies. The logic behind this was that they believe they could establish their position in their sector by controlling most of the market share or mindshare, eliminating the competitors. After that, they could start to make profit from their customer base. In this case, lots of companies focused on market share rather than profitability. A lot of them never gained net profit before their stocks were stopped to trade in NASDAQ. Meanwhile, there were several online retailers, which took a more steady way to grow, survived. Early online retailers like Webvan, eToys did not live up to their cash burning rate. By contrast, Amazon.com and eBay.com stood after the burst of dot com bubble (Laseter and Rabinovich, 2012, p2-7).

1.3 Thesis Objective and Structure

1.3.1 Thesis Objective and Goal

As described in the introduction, the burst of dot com bubble shocked the whole internet industry. A lot of online retailers went out of business, but some survived. For those which survived, they had taken different strategies other than those of their competitors which did not make it to the aftermath.

Even though these survivors, such as Amazon.com and eBay, are taking leadership positions in their own sectors in the US market, they are not winning in China. Chinese online retailers are holding larger market shares, and this result can be derived from multiple factors, including the strategies they are using.

In this thesis, I will explore the answers to the following questions:

- What strategies did those companies take to help them survived the dot com bubble?
- What are the strategies that the leading Chinese online retailers are taking?
- Why do US online retailers have trouble in the Chinese market and what might they do better?

By analyzing selected online retailers in the US, I can distill the strategies that helped them survive and thrive in the US market. Similarly, the analysis of successful Chinese online retailers can help me explore the right strategies to win in China. Finally, an analysis of the common strategies taken by companies from both countries can help American online retailers to understand how to do well in China market.

1.3.2 Analysis Framework

According to Michael Porter, strategy is "the creation of a unique and valuable position, involving a different set of activities." In addition, managers need to make trade-offs in choosing activities that are incompatible to each other, and create fit among chosen activities (Porter, 1996).

In this thesis, different lens are used to analyze the activities and distill the strategies of selected companies. The activities and data of the companies will be collected through public information like books, magazines, internet and other sources.

I am applying Tracy's value disciplines, namely, customer intimacy, operational excellence and product leadership, to analyze which position the companies are taking. In addition, Cusumano's platform leadership theory is another lens that adds a new dimension of the analysis.

1.3.3 Thesis Structure

Chapterl is an introduction to the industries that are discussed in this thesis. As E-commerce and online retailing are industries that emerged in recent years, researches about them are published and renewed frequently, and sometimes the researches do not agree with each other. Therefore, Chapter 1 aims to be a brief review of these two industries, covering the history, the comparison with traditional businesses and the different business types within the industries.

Chapter 2 focuses on explaining the business environments in which US and online retailers thrive, and important trends that It covers the analysis of external environment, explaining the different forces that shape the industry using Porter's five forces theory. In addition, trends such as innovation in technology and business models are discussed.

With the same structure as in Chapter 2, Chapter 3 analyzes the environment and development of online retailing industry in China.

Chapter 4 covers the analysis of strategies of selected companies in the US. An analysis of positions and companies activities through four lenses, namely, operation excellence, product leadership, customer intimacy and platform leadership, is performed.

Chapter 5 aims to analyze the strategies of selected online retailers in China. These companies are within the sectors which the analyzed US companies are playing in. The same analysis framework as used in Chapter 3 is applied.

With an understanding of the strategies of the US companies and Chinese companies, Chapter 6 distills the common strategies that help companies to succeed in both the US and China.

Chapter 7 discusses the conclusions and potential areas of future research.

Chapter 2 Market Analysis of Online Retailing Industry in the US

In this chapter, I focus on explaining the business environment and the key trends of the US online retailing industry. First, I present the key numbers that shows the market size and the industry growth. Second, I apply Porter's Five Forces framework to analyze the characteristic of this industry. Finally, I list a series of innovations in technology and business model that has changed the shape of the industry, and propose a series of possible trends that will influence this industry. The purpose is to present a clear view of the current situation of US online retailing industry, coupled with key numbers, competitive analysis and the future trends.

2.1 Market Size and Other Key Factors of Online Retailing Industry in the US

As mentioned in Chapter 1, the online retailing industry has been through ups and downs. Before the burst of dot com bubble, hundreds of E-commerce companies, many of which were in online retailing, were listed in NASDAQ. During the burst of dot com bubble, the market value evaporated 78%, many of these E-commerce companies went out of business, only a few companies survived (Laseter et al, 2012, p2). The market was cautious about internet concept companies from then on.

However, as the dot com collapse impact passed, and several key E-commerce companies such as Amazon.com and eBay started to make revenue, the market gradually recovered confidence in investing in such companies, and a lot new businesses involved in E-commerce, especially in online retailing, emerged in NASDQ again.

By 2011, the market size of online retailing had become 194 billion in the US, accounting for about 7% of total retail sales (Grau, 2012). Over the years, online retailing has been enjoying a better growth rate than overall retail industry. As seen in the chart 2.1, in 2010 and 2011, online retailing grew 10% faster than the whole industry. It is reasonable to believe that online retailing will continue to grow faster than the whole industry and become one of the most important ways for people to buy and sell products every day.

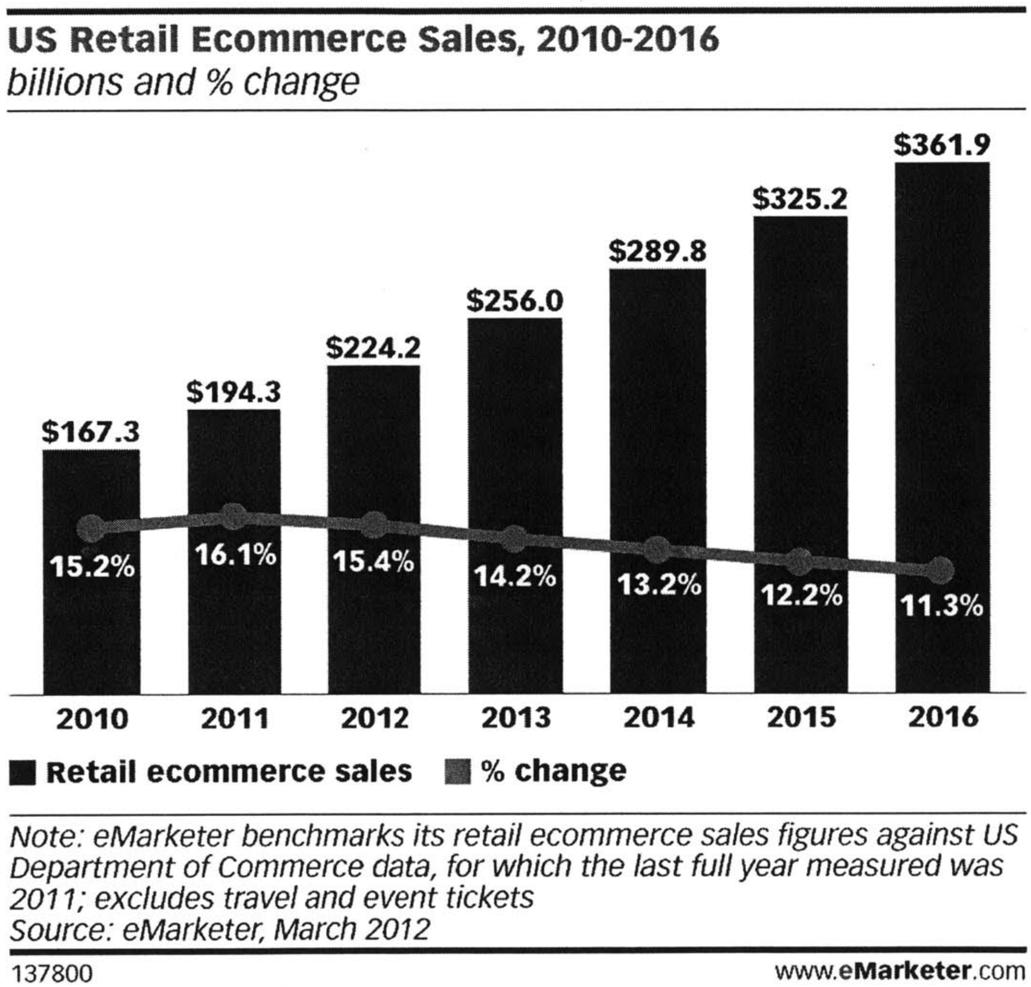

Chart 2.1 US Retail E-commerce, 2006-2012 Source: eMarketer.com

2.2 Major Players

According to internet retailer.com, which ranks online retailers according to their revenues, the top online retailers include companies in almost every major sector in retailing. There are mass retailers such as Amazon.com and Walmart.com, electronics retailers such as Bestbuy.com and

Newegg.com, and online sales websites such as Apple.com and Dell.com, which selling their own products.

Rank	Company Name	Category
1	Amazon.com Inc.	Mass Merchant
2	Staples Inc.	Office Supplies
3	Apple Inc.	Computers / Electronics
4	Dell Inc.	Computers / Electronics
5	Office Depot Inc.	Office Supplies
6	Walmart.com	Mass Merchant
7	Sears Holdings Corp.	Mass Merchant
8	Liberty Media Corp. (QVC, Liberty E-Commerce)	Mass Merchant
9	OfficeMax Inc.	Office Supplies
10	CDW Corp.	Computers / Electronics
11	Best Buy Co.	Computers / Electronics
12	Newegg Inc.	Computers / Electronics
13	Netflix Inc.	Books / Music / Videos
14	SonyStyle.com	Computers / Electronics
15	W.W. Grainger Inc.	Hardware / Home Improvement
16	Costco Wholesale Corp.	Mass Merchant
17	Macy's Inc.	Mass Merchant
18	Victoria's Secret Direct & Bath and Body Works	Apparel / Accessories
19	HP Home & Home Office Store	Computers / Electronics
20	J.C. Penney Co. Inc.	Mass Merchant

Table 2.2 Top 20 online retailers in the US Source: Internetretailer.com

These top online retailers account for a significant share of the total industry revenue, meaning the scale is an important factor to succeed in this industry. For example, the revenue of Amazon.com was $48 billion in 2011, accounting for almost 25% of the B2C sales in that year (Amazon.com, 2012). Although not all of Amazon.com's revenues were from retailing, the retail sales still represented a large portion of the total revenues. Amazon.com is the only one that has been in business before the burst of the dot com bubble in the top 20 list.

It can also be observed from the list that 25% of the top 20 companies are pure-play retailers while others are click-and-mortar companies. Traditional retailers have been increasingly more interested in online retailing, and many of them have become click-and-mortar companies. This number is expected to grow even greater as the traditional retailers are increasingly aware of the threat of online retailers. In addition, more traditional retailers will join expand online sales channels as the barriers such as technology and logistics are not so significant as before.

2.3 Competitive Analysis

In this part, I apply Porter's Five Forces to analyze the competition in US online retailing industry. The purpose is to present a view on the dynamics of the industry, and key factors to think of when assess the attractiveness of the industry.

According to Porter, the extent of competition and profit potential of a specific industry is determined by a combination of five competitive forces, namely, the threats of new entrants, the bargaining power of buyers and suppliers, substitutes, and the intensity of rivalry among competitors (Porter, 1998).

Threat of New Entrants

There are several factors to consider when analyzing the threat of new entrants, but they fall into two categories, which are the barriers to entry and expected retaliation.

- Barriers to Entry

Economies of scale: This concept means that as the more products are produced in a given period of time, the less each product will cost. In the context of online retailing, the economies of scale can be seen in logistics. Companies like Amazon.com have built their own storage and logistic system. Despite the large sum of investments in such systems, thanks to their large amount of orders every day, they can still significantly reduce delivery cost of each goods by putting those with the same destination on the same vehicle. By contrast, smaller companies do not sell many enough goods can hardly venture to build their own logistic system, so that they have to rely on third party delivery, which cost higher.

Economies of scope: The concept means that a wider range of product set brings more customers, and provides synergies among the products. In online retailing, the economics of scope can be very significant. Every year millions of books are published, but a lot of them can hardly be found on the shelves of bookstores because they are not popular. By providing a wide scope of books, Amazon.com successfully attracted a huge customer base, and expanded their business from books to other aspects like electronics and groceries. A new comer without economics of scope will find a hard time to attract diverse customers and fall behind those with this advantage.

Capital requirements: When new entrants come to the US online retailing industry, they need to collect enough investments to cover expenses for software and servers, sales and services, storage and marketing. As there is no significant technology barrier or skill requirement, this is not a major threat to new entrants who just want to open an online store complementing his local toy shop. But becoming a huge retailer covering all aspects, a significant amount of investment is expected, largely due to the storage and logistics system.

Cost disadvantage independent of scale: Because established online retailers have been in business for a while, they have built advantages such as relationships with suppliers, advertisers, third party delivery providers. It takes time for a new entrant to get these advantages, and some of them are hard to be replicated, such as brand value, and trust of customers.

- Expected Retaliation

New entrants should take into account the responses of the established players. Online retailers often make sure their prices are not higher than each other, and if there is a promotion, they will quickly match it. During the launch of a game console, Target, the click-and-mortar online store, introduced a promotion that allowed customers to get 1 free game if they buy two. On the second day, Amazon.com matched the promotion and a lot of customers who originally pre-ordered the games switched to Amazon.com. New comers should be aware of such fierce competition when getting into online retailing.

Overall, barriers to entry can be low if the new comer is focusing on a small scale online shop, but for those who would like to compete with the top players, barriers can be high, and the retaliation sometimes can be strong.

Bargaining Power of Suppliers

In online retailing industry, the bargaining power of suppliers depends on several factors. First, it relies on the scope of products sold by the retailer, and the scale of them. Take detergent as an example, for a brand that has ordinary quality, price and brand awareness, it has little bargaining power against the retailer, because it can always easily switch to other substitute brands. In addition, if this brand gets 15% annual revenue from a single online retailer, its bargaining power is significantly weaker than those who rely less on this retailer. This situation can be observed in the case of global retailers like Wal-Mart and Carrefour, in which suppliers can hardly raise their price, and have to accept longer collection period.

On the other hand, if the supplier group is so concentrated that there are only a few of them, and if their products are important to the retailers, it can have an advantage in bargaining power. In the case of the grocery stores, the bargaining power of Procter and Gamble is strong as it is one of the most strong consumer goods suppliers in terms of scope of products and brand awareness in the world.

Bargaining Power of Buyers

In the US online retailing industry, the buyers are mostly individual consumers. They are only able to accept the price given by the sellers rather than influence the price. In B2B E-commerce only limited numbers of buyers are served by one seller, but there are so much more individual consumers buying from one particular online retailer, and each of them only contributes such a tiny portion of the revenues of the retailer that they can afford to lose any one of them if they are not satisfied with the price. Compared with B2B E-commerce, in which each buyer purchases more, in online retailing, each consumer spends much less. However, as they bear almost zero cost to switch to another online retailer, the customers are rather strong in terms of bargaining power. This explains why companies match prices and services like free shipping even though these policies may lead to a profit loss.

Threat of Substitutes

There are several services that can substitute online retailing services. Retailing in stores and catalog retailing are two of them. But among these services, it is online retailing that substitute these services because of its convenience and efficiency. Online retailing is a disruptive new retailing channel that has dramatically changed the landscape of retailing industry. It is still to be seen whether new technology will bring about new channels that are even more superior to online retailing, but currently online retailing in the US is still on the rise, and take increasingly more revenue share of the total retailing sales.

Intensity of rivalry among competitors

There are several factors influencing the intensity of the rivalry between companies. In the US online retailing industry, there are some facts that are unique and special.

The first factor is whether there are numerous or equally balanced competitors. The industry is dominated by several major players. The competition is not equally balanced because there are several leading online retailers in their specialized areas. Amazon.com initially focused on books, then expanded to other realms like electronics and apparel, and now it sells almost everything has become literally the portal of B2C E-commerce. Some click-and-brick retailers like Wal-mart and Target are also building strong position by attracting traffic to their websites from the customers in their stores. Newegg.com focuses on electronics, computers and accessories, and together with Bestbuy.com they are the leaders in this sector. These leading companies compete with each other, making other smaller ones hard to catch their steps. This situation makes the rivalry rather intense, but not as much as in the industries like restaurants where thousands of equally companies compete.

The second is the differentiation and switching costs. For retailers, they are probably selling the same brands and mix of products, so the differentiation lies in the services. In US online retailing industry, the differentiation of services depends on the friendly interface of the shopping website, the layout of the necessary of goods description and customer reviews, the convenience of after service and the speed and reliability of delivery. The services are the key factors that determine the shopping experience of customers. A customer can be willing to afford a higher price for the same product for a better shopping experience and services like delivery. However, the switching cost among online retailers is very low. There is literally nothing that prevents a customer to switch from one online retailer to another.

The third factor is the exit barriers. In the US online retailing industry, most of the assets, such as goods, storage and servers, can be liquidated without much difficulty. There is no fix investment like factories or equipments, either. As a result, the exit barriers are not as high as those in the automobile industry or in other industries that require heavy investment in specialized assets.

In conclusion, the competitive analysis shows the US online retailing industry is an attractive one for current players. The barriers to entry are medium to high for those who want to compete with the leading companies. The bargaining power of suppliers is mostly weak, except for special industries, such as fast moving consumer goods, where there are concentrated supplier groups. The bargaining power of buyers is low because most buyers are individuals with small contribution to the revenues. The rivalry is among a few leaders rather than numerous equally balanced players. Finally, the exit barriers are low. As a result, the US online industry provides a favorable environment for those established retailers, making it difficult for followers to challenge the incumbents like Amazon.com.

2.4 Future Trends of the Industry

As new technologies were introduced and became prevalent, the consumers' shopping behaviors changed. This led to the advent of new trends in online retailing.

First, the mobile internet became an important new channel for online retailing. With the widespread adoption of smart phones, tablets and 3G network, people have spent increasingly more time on the mobile internet, and quite a few of activities, including online shopping, which were done via the PC based internet are now done via the mobile internet. According to a Forrester report, in the first quarter of 2011, 13% of the US internet adult users purchased a product with their mobile phones. In addition, it was predicted in the report that mobile E-commerce will retain an average growth rate of 39%, and become a $31 billion industry by 2016 (Sheldon, 2011).

Second, online retailers are utilizing the social media to improve their shares in consumers' minds. Many online retailers have built official pages on Facebook.com, and have attracted a large number of "fans", who are users that agree to receive the latest news or promotion information from these companies. Amazon had almost 1 million unique visitors attracted to its Facebook page, and most of the visitors come to keep updated with the latest promotion or sales information. Compared with traditional ways of marketing and advertising, which focus on "pushing" products to customers, this is a way to "pull" customers to its stores and websites at a very low cost. Social media marketing can be a very effective way to build and retain relationships with customers. However, because current social media marketing is focusing on attracting customers with promotions and sales, the long-term value of this marketing is yet to be seen (Roskill and Caine, 2011).

Third, click-and-mortar retailers are introducing new delivery alternatives to "pick-up in stores". Wal-Mart, Bestbuy and other best-known retailers are charging no shipping fees if customers choose to pick up their goods at their designated stores. For online retailers like Apple.com, which already provide free shipping, the pick-up-in-stores option provides the customers a faster way to get the goods. This can be seen as a major challenge to the pure-play online retailers, for which it is hard to offer free shipping. In addition, this will help the click-and-mortar retailers to cut a great portion of shipping costs, because their stores now act in the role of a hub, and the retailers save the cost of in-door delivery. However, this strategy depends on the availability of stores near the customers, and the customers' tolerance of inconvenience (Roskill and Caine, 2011).

Chapter 3 Analysis of the Online Retailing Business in China

This chapter aims to present an overview of online retailing business in China. First, I use key numbers to show the market size, growth and trends in online retailing market. Second, I apply Porter's five forces framework to analyze the influential factors in the industry. Finally, I analyze the special characteristics of the Chinese business environment, including infrastructure and customer preference.

3.1 Market Size and Other Key Indicators of Online Retailing Business in China

The online retailing business in China started much later than that in the US. Dangdang.com, one of the earliest online retailers in China, was established in 1999, 4 years later than when Amazon.com was established. This was due to the late development of internet infrastructure in China as well as limited means of online payment. However, the online retailing business in China has been growing very fast. By 2012, the market size of B2C E-commerce in China is estimated to be RMB 45 billion yuan (about $7.1 billion), and the growth rate will slow down from 128.8% in 2011, to 47.8% in 2013 (eguan.cn, 2012).

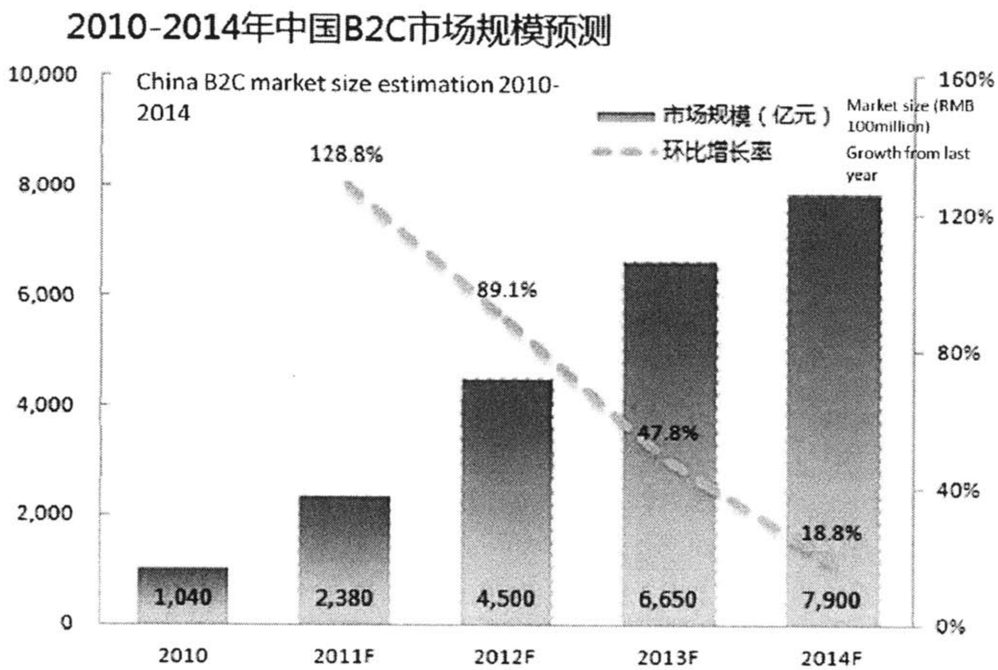

Chart 3.1: China B2C Market Size Estimation 2010-2014 Source: enguan.cn, 2012

3.2 Major Players in B2C E-commerce Business in China

According to a report from eMarketer.com, the top B2C companies in China accounted for more than 70% of the total B2C market share.

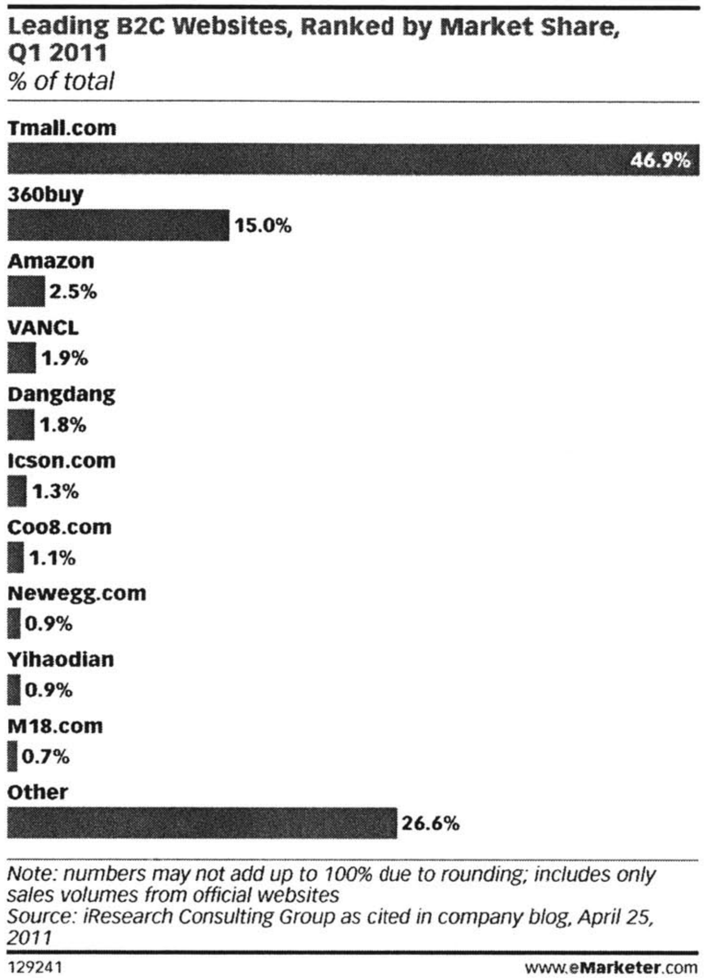

Chart 3.2 Leading B2C retailers in China, by market share Source: eMarketer.com, 2011

As seen in the chart, all major players are pure online E-commerce companies. On top of that, Tmall.com, the No.1 player, is a B2C platform that provides professional online business services to enable any business from well-known global brands to small businesses in remote regions to sell their product on the Internet. This means Tmall.com does not sell products directly to customers; rather, it is a service provider. Similarly, Amazon.cn and Dangdang.com also offer such B2C platform services to other vendors, enabling these vendors to utilize their traffic and customer base, as well as the storage and logistics systems. However, Amazon.cn and Dangdang.com get most of their revenues from selling products directly to customers, and their services and support to vendors are not as good as those at Tmall.com in terms of level of customization and vendor promotion. For example, in the front page of Amazon.cn, it is promoting products rather than brands or vendors. When the customer searches for a specific product, he will be led to a link to this product, and under the link there are several price offers from different vendors. It seems the only differentiator of the vendors is the price. When the customer clicks on the vendor's shop, he will see a site that presents all products this vendor is carrying, without any categorization, which make it very hard for the customer to browse. In contrast, Tmall.com promotes specific brands or vendors on the front page, and each vendor has its own customized shop site, with tailored categories that are easy to browse through. Even for the same product, vendors could create their unique product pictures, description and promotional set, differentiating themselves from each other.

3.3 Competitive Analysis

The B2C E-commerce business in China shares many characteristics with that in the US. However, it differentiates from the latter in terms of factors such as logistics and customer preference in price and payments.

Threat of New Entrants

The analysis of the threat of new entrants in B2C E-commerce businesses in China shares most of the factors seen in the analysis of US online retailing business. There are also several differences. The analysis includes two main parts, barriers to entry and expected retaliation.

- Barriers to Entry

Economies of scope: The range of products an online business offers is very important in China. According to the 2010 market analysis of China online shopping, Each.net, a C2C platform bought by eBay.com in 2006, suffered from a 69.5% loss rate of customers (loss rate= number of customers lost in last 6 months/(current customers+ number of customers lost in last 6 months –new customers in last 6 months)). One explanation of this high loss rate was that customers found alternative websites that could better fulfill their goals. The most important reason for switching to other websites was that the website did not carry the products they wanted. Therefore, the scope of products is crucial to an online retailer (CNNIC, 2011).

Economies of scale: Gaining economies of scale in terms of a large quantity of sales is especially important in keeping the momentum of an online business in China. As customers' primary motivation for online shopping is the price and convenience, online retailers need to sell in large enough quantity to compensate for their low profit, and lower the fixed cost invested in logistics per unit sold. The leading clothing online retailer, Vancl.com, claimed to have sold about 10 million T-shirts in 2011, a number that was nearly one-fifth of the nations' sales volume of T-shirts. A large sales quantity gained Vancl.com bargaining power to keep the price low and still be profitable, while other competitors could hardly match the price or quality, as they could not gain the economies of scale.

Other factors like capital requirements and cost disadvantages independent of scale are similar to those analyzed in Chapter 2.

- Expected Retaliation

The competition among online retailers is extremely fierce in China. Take book retailing as an example: Because of the customers' focus on price, and the undifferentiated products, the competition is almost purely in price. In order to gain market share, online retailers sometimes even offer free shipment. For example, when the leading electronics online retailer, 360buy.com, expanded its business into book retailing, the leader in this sector, Dangdang.com, immediately launched a promotion with deep discounts and free shipment. The retaliation was so intense that these companies were losing money for each unit sold. In this situation, the customers were the winners.

In conclusion, the barrier to entry into the B2C business is high as it requires a company to carry a product scope wide enough, and to be prepared to lose money to compete with major players.

Bargaining Power of Customers

As discussed in Chapter 2, the bargaining power of customers is rather strong because of low switching cost. In China market, this is even more obvious as many customers are college students and young professionals who are very price-sensitive.

Bargaining Power of Suppliers

As mentioned in Chapter 2, online retailers can be very powerful in terms of bargaining power if they are selling in large quantity and prove to be important to suppliers.

Threat of Substitutes

Online retailing is gaining popularity in China. According to CNNIC, the population of online shoppers increased from 33 million in 2006 to 160 million in 2010, and it is still expected to grow. As a fast-growing industry, it is replacing part of the traditional retailing business. As the online payment technology and logistics industry continues to improve, the penetration rate of online shopping will grow even higher.

Intensity of Rivalry among Competitors

As discussed before, the rivalry among competitors is very intense. Companies are forced to expand their business to other sectors because of the low profit margin, in the hopes of growing big fast and earning profit later. They also strive to deliver good services like website customization and delivery. These services require investments in technology, physical facilities including warehouses and vehicles, and human resources, to carry out the tasks. As the competitors are quick in learning from each other's advantages, the competition is expected to be even more intense.

In conclusion, the online retailing business in China is under very intense competition. The customers and suppliers are both strong, and incumbents will compete in price for market share. This poses a very high threat for new entrants. However, there are opportunities in services because of lagging development of online payments and delivery services.

3.4 Future Trends of Online Retailing Business in China

The external environment has been strongly indicating that online retailing will enjoy high growth in the next few years.

First, the customer base of online shoppers will continue to grow. According to CNNIC, the penetration rate of the internet in China has grown from 4% in 2002 to over 34% in 2010 (CNNIC, 2011). The development of infrastructure has enabled more people to purchase online. Over the four years from 2007 to 2010, the amount of online sales has enjoyed a compound annual growth rate of more than 100%, from RMB54 billion to RMB523 billion (about \$8.57 billion and \$83 billion) (CNNIC, 2011). In addition, a large percentage of online shoppers are with college students. As this group of people start to work, their buying power will become stronger over time.

Second, the B2C business will grow faster than C2C business. C2C E-Commerce used to dominate online business previously. It was loved by customers because of the low price and selections. However, as customers become mature, they start to consider other important factors such as services, brand and credibility, which are lacked in many C2C companies. As a result, the B2C business is expected to account for a larger share in the online business in the next few years.

According to eMarketer.com, the B2C business will account for more than 50% of the total online sales in 2015.

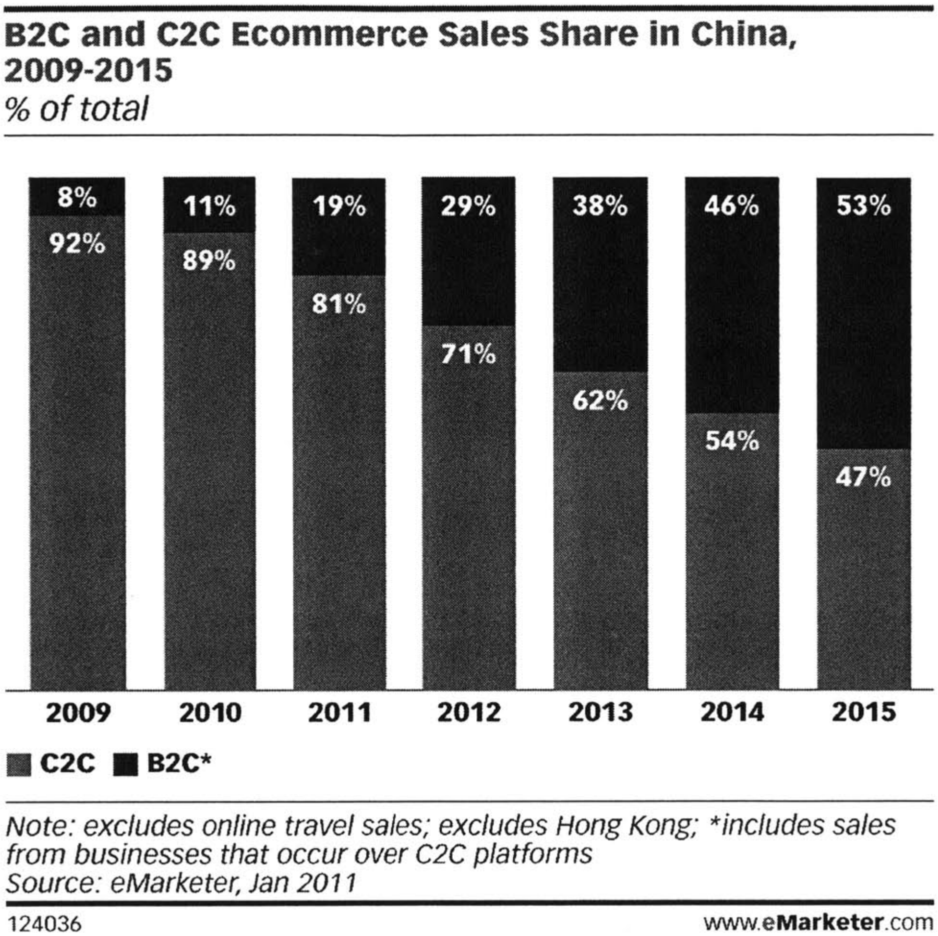

Chart 3.4 B2C and C2C Sales Share in China, 2009-2015 Source: eMarketer.com

Chapter 4 Strategies of Leading US Online Retailing Companies

4.1 Overview

This chapter aims to explore the strategies of successful US online retailing companies. Before the burst of dot come bubble, there were hundreds of E-commerce companies in NASDAQ, but a large number of these companies are out of business now. Meanwhile, some of these earliest E-commerce players survived and gained leadership in their specific sectors now. It is worthwhile for us to understand the strategies that enabled them to survive. In addition, some of the E-commerce leaders today started after the dot com bubble, and they competed head-to-head with those established players. It would be valuable to understand how they are able to survive the competition with these more experienced competitors.

The major framework is using four lenses to distill the strategies of these companies. The first three lenses are from the theory of value disciplines by Michael Traecy and Fred Wiersema. They argue that the leaders in their markets succeed because of focusing on excelling in one of the three value disciplines while meeting industry standard in the other two (Treacy and Wiersema, 1992).

The value disciplines are operational excellence, customer intimacy and product leadership. According to Treacy and Wiersema, companies focusing on operational excellence usually lead the industry by providing good products or service at competitive prices and delivery with little difficulty or inconvenience. Companies in this discipline must relentlessly pursue cost efficiency, quick delivery and service response. They can reduce the price by cutting the cost, choosing suitable suppliers and eliminating excess expenses. They can achieve superior delivery of products and services by building necessary supply-chain system. In order to improve the response time of service, they must streamline operating process and optimize resource usage.

Customer intimacy means tailoring and shaping products and services to meet the demand of customization or special requests from customers. Companies pursuing customer intimacy usually invest heavily in meeting customers' specific demand and strive to provide customized solution for each customer. In return, customers who value the importance of getting what they exactly want will stay loyal with these companies. This discipline also requires companies to allocate its limited resources to meet the demand of most valued customers.

Companies who compete for product leadership strive to produce the state-of-the-art products or services on a continuous basis. These company emphasized on creativity. They must develop great products or services internally, or acquire the ability to make them externally if they lack the capability. In addition, they renew their offerings quickly, rendering competitors' products obsolete. (Treacy and Wiersema, 1992)

The fourth lens is platform leadership. In the era of the Internet, the network effect can be instrumental to the success of the E-commerce companies. The theory of platform leadership explains the importance of taking advantage of this network effect. Network effect means that the more participators in the network, the more valuable the system becomes. For example, as more people subscribe to telephone service, the whole telephone network becomes more valuable to every user because larger number of people can be reach by phone. According to Gawer and Cusumano, platform leaders can pose a very strong influence to the direction of innovation in this industry, as well as to the producers of complementors and the customers. In order to gain and sustain platform leadership, companies need to decide what to build in-house and what to rely on external partners; how open they would like the platform to become; how should they compete and cooperate with partners; and how to make sure its internal departments work towards the same goal.

According to Michael Porter, strategy can be interpreted as the different set of activities taken to achieve a unique position. Companies need to do trade-off to choose effective activities because some activities are incompatible. In addition, the activities must fit the companies themselves. Activities proved to be successful in one company may be useless in another. Analyzing the activities of these US online retailing companies with the four lenses provides a perspective to help us understand what they have done to achieve their unique positions.

4.2 Case Study of Amazon.com

4.2.1 Background

History and Current Situation

As one of the earliest E-commerce companies, Amazon.com is best known for its wide selection of goods, customer centric philosophy and technological innovation.

Started in 1994, in Seattle, Washington, Amazon.com challenged the traditional brick-and-mortar bookstore by opening an online bookstore. Seeing the future trend, Jeff Bezos, the founder, identified 20 possible products to sell on the Internet. Between September 1993 and March 1994, the Internet became a mainstream application, and a lot of companies started to set up websites, just for information exposure rather than actual transactions.

Bezos chose online bookstore for several reasons. First, the bookselling industry was highly fragmented, meaning there was no company that had dominant power. At the publishers' side, even the biggest one, Random House, accounted only for less than 10 percent market share at that time. At the booksellers' side, the biggest bookselling chains, Barnes and Noble and Borders Group Inc, accounted for less than 25 percent market share in 1994 (Spector, 2000, pp25-30). This left open an opportunity for a new-comer to explore a new channel to sell books. Second, the market was inefficient. Publishers suffered from the return of unsold books in traditional book selling model, and this could be changed in online model because better data could be obtained. The popularity of book catalogs provided that a large number of people preferred to buy books without going to bookstores. In comparison, an online bookstore was able to offer almost unlimited titles of books, and collect information of individual customers for targeted marketing. As a result, the book retailing industry offered a great opportunity, and an online bookstore had the advantage to utilize it.

Leading competitors soon launched their own online bookstores. Barnes and Noble.com opened its doors in 1997, 2 years after Amazon.com started. But Amazon.com speeded up its pace, and expanded its scope from books to music and videos. This was a major motive showing that Amazon.com was aiming to become an "electronic commerce destination", as said by Bezos. (Spector, 2000, p191)

In 2000, Amazon.com extended its realm even further. It started a partnership with Toys"R"us. This partnership was mutual beneficial in that Amazon.com was able to leverage the knowledge of toys and supply chain in this industry from the experts, and Toys"R"us was able to benefit from the logistic systems of Amazon.com. On the other hand, this cooperation led to the collapse of one of the largest online toy retailer, eToys.com. (Laseter et al, 2012, p21, 94)

Amazon.com did not slow its pace of business model innovation. It introduced the market place service, which opened the doors of the Amazon.com platform and enabled a large number of individual vendors to utilize the huge customer base and traffic at Amazon.com. This new platform model helped Amazon.com enhance its position as an E-commerce portal in return.

Not only is it a business model innovator, but Amazon.com is also a technological innovator. In 2007, Amazon.com introduced an electronic book reader, or E-book reader, called the "Kindle".

Applying a state-of-the-art display technology, the Kindle was able to provide readers with almost the same reading experience as a printed book, but with more convenience as it could carry numerous books at the same time within its lightweight body. In addition, the digital books were usually cheaper than the printed ones. All these advantages prompted customers to shift to digital reading. As it eliminated the traditional process of printing and distributing books, required no shelf space and was able to deliver instantly, the digital book business opened a new pipe of revenues for both the publishers and Amazon.com. In 2011, Amazon.com announced that its E-book sales had surpassed the sales of traditional books. (Miller et al, 2011) NY times

According to the 2011 annual report, Amazon.com had revenues of $48 billion, and 56200 full-time and part-time employees globally.

Business Model and Customers

As mentioned above, the businesses of Amazon.com include:

- Online retailing, which covers the sales of consumer goods like books, music, videos, electronics, etc. It also sells digital goods like E-books, mp3, streaming videos and downloadable games.
- Marketplace, which acts as a platform allowing third party vendors to sell their own goods on Amazon.com websites. These vendors pay subscription fee or fees based on sales.
- Amazon Web Service, which is a cloud computing service aiming to provide enterprises with instant access to servers and other IT infrastructures that are essential to their business.

Each of these businesses serves different sets of customers. According to the 2011 annual report of Amazon.com, there are four types of customers, which are the consumers, the sellers, the enterprises and the publishers.

The consumers are individuals who use the retailing services from Amazon.com and the third party vendors in the Amazon marketplace. They purchase from the wide range of selections available at Amazon.com website, and they care about price and reliability of the products, as well as the convenience of purchase and delivery services.

The sellers are those who sell the products on Amazon marketplace. They can sell the same products that Amazon.com is also selling, competing on prices or other services. These sellers pay Amazon.com for the marketplace services on different bases, such as fixed fees, revenue share, per unit sales fees or combinations of the above. The sellers are attracted to the marketplace not only because of the customer base, but also the value added services at Amazon.com, such as the "fulfilled by Amazon" delivery service.

Another set of customers is the enterprises which use the "Cloud computing" services. These enterprises save a significant amount of investment on IT hardware, infrastructures and labor to set up and manage these systems by purchasing the cloud computing services which enable them to use the powerful servers or other infrastructures like the way we use electricity.

The last type of customers is the content creators. The content creators could be individuals who are the authors of books, or musicians. Amzon.com has two publishing arms, the Kindle Direct Publish and Amazon Publishing. These publishing services aim to provide these content creators with channels to publish and monetize their works (Amazon.com, 2011).

As Amazon.com covers a wide range of products and services, it faces various competitions including physical world retailers like Wal-Mart and Best Buy, and online retailers like New Egg.com and eBay.com. Amazon.com is still one of the leaders of online retailing, but it faces threats from competitors who have greater resources and better brand recognition.

4.2.2 Retailing Strategies of Amazon.com

The following section aims to provide an analysis of the retailing strategies of Amazon.com. Four lenses are used in order to interpret what activities Amazon.com has taken to achieve its unique strategic position.

Operational Excellence

Amazon.com pursues operational excellence by different sets of activities focusing on competitive price, superior delivery and process and cost optimization.

Competitive Price

When Bezos was exploring business opportunities, one he observed was that online retailing was able to gain cost advantage because it operated without physical stores. Not only did it save the investment in renting a store, but it also saved utilities and labor costs incurred. However, other "pure play" online retailers also enjoyed such benefit. In order to gain market share quickly, Amazon.com took combative pricing strategy. It rigorously managed to keep its price competitive.

In 2011, Amazon.com introduced an application on smart phones, enabling consumers to check prices of products anytime, even in the stores. This application was especially welcomed by price sensitive consumers (Meadows, 2011). Another advantage of Amazon.com pricing is the sales tax. Online retailers need not pay sales tax unless they have significant operations in a state. Bezos strategically chose states with low sales tax and abundant talents. Currently, Amazon.com charges sales taxes towards residents from only four states, Washington, Kansas, Kentucky and North Dakota (Woo, 2011). This gives Amazon.com a natural advantage over physical retailers and some online retailers, as consumers would have to pay 5% to10% more if they buy from places other than Amazon.com, even if the prices are the same.

Superior Delivery

The notion of zero inventory business is attractive to online retailers. After all, this is another major advantage against physical stores. Amazon.com was also inspired by the concept at the beginning. But as the orders increased dramatically, Amazon.com needed to open its own inventory house in order to keep up with the delivery promise. The consumers were not willing to wait for more than two days to receive the books from Amazon.com if the books were available on the shelves of any bookstore. As a result, Amazon.com started to stockpile bestseller books, and soon expanded the range from the top 25 books to the top 250 books, from 100 copies for each title to 10,000 copies. In 1996, Amazon.com leased a 93,000-square-foot warehouse in Seattle to stock enough copies of bestsellers. With the warehouse, Amazon.com was able to fulfill the orders quickly (Spector, 2000, pp138).

By 2010, Amazon.com had built 10 fulfillment centers across the US. Most of these fulfillment centers are strategically located. They are outside major urban centers where land value and real-estate taxes are far below the urban centers in which traditional retail chains operate. Although Amazon.com chose to build its own storage, it opted to contract with third-party logistics firms such as United Parcel Service to deliver the orders. Generally, Amazon.com will send orders in full truck-load shipments from the fulfillment centers, which are usually less than 100 miles away from the airports. When the orders are carried to the airport hubs by motor-transportation, the third-party provider will sort the orders according to their destinations and ship them to other airport hubs, which are usually more than 500 miles away, by air. Once the orders arrive at the hubs, the third-party provider will ship the orders in less-than-truckload to the final destination (Laseter et al, 2012, pp133-136). As a result, Amazon.com is able to deliver most of its products in 24 hours, and consumers who subscribe a membership called "Amazon Prime" at $79 a year can enjoy free two-day shipping, and $3.99 next-day shipping.

Optimizing the Process and Cost

In the earliest days of Amazon.com, the shipping time was usually four days for books that they had in stock. The shipping was slow for a reason. All books were packed by hand, and the employees had to type the ISBN into the system because they did not have the barcode scanner systems (Spector, 2000, p135). This long shipping time would be a major obstacle to attract consumers who could easily buy the same books at local bookstores. Amazon.com was determined to cut the shipping time down to 24 hours.

Through the innovation of engineers and software developers, Amazon.com turned the fulfillment centers into automated ones, and was able to meet the goal of 24-hour shipping. The goods would be scanned upon arrival, and then the inventory change would be reflected instantly on the shopping website. These products would be put in assigned locations, and be picked up by workers with carts when orders came. The products would then be packed and put on the conveyor belts leading to the dispatch area. With a carefully designed automation system that determine where to put the goods, what the best route to pick up the good is and how the conveyer belts should be arranged, Amazon.com was able to reduce the time spent on finding, packing and sorting the products, thus greatly increasing efficiency (Murray, 2011).

Besides automating the fulfillment centers, Amazon.com also optimized its usage of these warehouses by introducing a service named "Fulfilled by Amazon". The fulfilled by Amazon program helped the vendors in the Amazon marketplace to store and ship their products, enabling to them focus on sales and marketing. The vendor would ship all the stocks at the fulfillment centers of

Amazon.com, and when orders came, Amazon.com just picked the right products and shipped them for the vendors. In 2009, the vendors stocked more than one million unique goods at the fulfillment centers globally (Laseter et al, 2012, p137). Through this program, Amazon.com was able to greatly improve the facility and shipment load utilization, especially in off-peak seasons when the usage of the fulfillment center was lower. In addition, Amazon.com could generate revenue from the storage and fulfillment service it provided to the vendors.

Customer Intimacy

Amazon.com aimed to become "Earth's most customer-centric" company. The company undertook a number of activities that would improve the customer satisfaction and intimacy.

Customized Service

The first customized service provided by Amazon.com was the search engine. With the search engine, consumers could easily type in the key words of the books, or the category, and find the related results (Bitner et al, 2000). This was a great improvement because it enabled consumers to find exactly what they wanted without waiting for the service staff in bookstores to answer their inquiries, or wandering among the bookshelves and browsing numerous books to find what they wanted.

Another important customization service was personalized recommendation. With its advanced data-mining techniques, Amazon.com was able to understand each customer's consuming behavior and preference. Using such information, Amazon.com could recommend consumers with products or gifts that would interest them (Chellappa et al, 2007). One example of the application of this technology is that when a consumer completed purchasing one book, the system would post a message showing the books purchased by other consumers who also bought this book. In this way, the system helped the consumers to explore more books related to his interest without requiring him to spend time browsing and searching.

Amazon.com not only would recommend related products, but also personalized discounts. Amazon.com introduced a program called "Gold Box", aiming to provide discounts for different products at different time periods each day (Chellappa et al, 2007). The engineers built customization options in this program to make it personalized for every consumer. For example, a consumer would receive special alert information about a current discount, which is available to all consumers, according to his previous consuming record; he would also receive customized discount offers, only available to himself, for products he had browsed, or products related to his previous record.

All these customization services are valuable to consumers because they are offering relevant products and could help customers get exactly what they want by understanding them. This capability of offering the right things to consumers is key to consumer satisfaction; thus, it could improve the loyalty, and eventually life time value of a consumer.

Service Quality beyond Expectations

Amazon.com understood people liked to go to bookstores not only just for books, but also for the enjoyable experiences that an online bookstore could hardly provide. In order to compensate for this drawback, the company decided to provide different experiences that were also engaging and interesting. The solution was to provide customer service with extraordinary quality.

As a company with a customer-centric culture, Amazon.com relentlessly pursued customer service with superior quality. It would make sure that the consumers had a positive experience, regardless of immediate costs.

In the early days when Amazon.com was focusing on books, it hired customer service staff members that were knowledgeable in books. The hired very good people in customer service, and even required the applicant to at least have earned a bachelor's degree. According to a staff member who previously worked in the service department at Amazon.com, he was very impressed by the prior accomplishments of other service staff. He mentioned among them were a published book author and a former translator with the Moscow branch of the Soros Foundation. Another employee in the service department said people in the group "were very widely read. If somebody called up and wanted to know what the best edition of the Iliad is, chances are there was somebody in the group who had the answer. That was particularly so when it was a smaller group. There was a tremendous amount of sharing. People developed specialties such as children's books, contemporary literature, or science." (Spector, 2000, p149)

Not only were the customer service staffs good at answering questions about books, but they were also knowledgeable about the business process of Amazon.com. They were given training on how to search in the data base of Amazon.com to get the results they wanted quickly, and on the entire scope of Amazon.com business. They learned every detail about how the books were ordered from publishers, how they were delivered to fulfillment centers and then sorted and stocked to the shelves, what the process was like in shipping preparation and how they traveled from the fulfillment centers to the final destination. With a deep understanding of the operations, the customer service staffs were able to tell consumers confidently about status of their orders and explain what had happened and what to do.

The customer service at Amazon.com delivered services with not only superior quality, but also fast response. As the business of Amazon.com grew exponentially, the workload of customer service became extremely heavy and the employees were struggling to keep up with the customer inquiries. In order to meet the goal of fast response, the managers motivated the employees to work overtime by giving out financial incentives.

Product Leadership

Amazon.com is a company focuses on services, but it still strives to retain its leadership in terms of service and products such as the Kindle. It employed several activities to achieve these goals.

User-friendly Website

As an online retailer, Amazon.com mainly provides consumers with retailing services. There are many online retailers, and they compete around factors like selection, price and convenience. The perceived convenience is really influenced by several factors such as the user-friendliness of the website, the quality of customer service and delivery. Amazon.com leads the industry in building a user-friendly website, which leads to customer satisfaction, and is one core competence of Amazon.com.

Amazon.com introduced the check out process with simplicity. When customers decided to buy the products, they would simply click the "buy" button, and would be led to a page to provide their information such as credit card number, delivery services and gift wrap solutions. This process seems quite common today, but in 1995 it was considered very innovative and user-friendly (Spector, 2000, pp).

Amazon.com continuously renewed its functions to provide better user experience. In 1997, it introduced "one click shopping", a trademarked and patented checkout process. With the customers' information of credit card and shipping address stored in advance, this process enabled customers to complete purchasing by just clicking one button to choose shipping method. Compared with traditional ways, this process saved time and avoided repeating actions, making the purchasing more convenient. Amazon.com regarded this process as a major advantage against its competitors and filed a patent. When competitors like Barnes and Noble applied a similar process, it started a lawsuit against them (Wolverton, 2002). Amazon.com used this lead and renewal strategy to keep itself always ahead of competitors, and made it hard for competitors to catch up by getting patents.

The Kindle Series

Another area that shows the leadership of Amazon.com is the E-book market. In this market, Amazon.com is the major player that produces e-book reader hardware, acts as a market place for digital books, and publishes e-books. As mentioned previously, Amazon.com introduced Kindle, the e-book reader, at a price of $399, in 2007. The device was sold out in five and half hours (Patel, 2007). The Kindle featured an "e-ink" display technology that was able to provide display quality almost like real printed paper. Another feature that attracted consumers was that Kindle provided free mobile internet connection with the devices; as a result, consumers could purchase and download books anywhere they want. Although Sony introduced its own e-book reader several months earlier than Amazon.com, its device lacked the wireless connection, and the support of content. As a result, Kindle outsold Sony's devices and quickly dominated the market.

Aside from using the state-of-the-art technology in its devices, Amazon.com also continuously renewed its devices, rendering competitors' products obsolete, and providing customers with better user experience. Amazon.com has introduced a new version of Kindle every year since 2009. The scope of the Kindle series also expanded over time. In 2009, devices with different display sizes were introduced. In 2010, the new edition became smaller and easier to hodl, coupled with a better display technology. In 2011, the device was made even smaller, and new editions with touch screens and full color displays were introduced. With constant improvement, Amazon.com kept pressure on competitors and was always ahead in market share of the competitors, such as Sony and Barnes and Noble. In 2011, IDC, a research firm, estimated that the units of Kindle sold accounted for 48% of the 12.8 million units of e-book readers sold in 2010 (IDC, 2011).

Platform Leadership

Amazon.com has expanded from a mere online shopping website to multi platforms including the shopping website community, marketplace and the Kindle platform. It has also leveraged its platforms to gain network effects in several ways.

First, Amazon.com makes the online shopping website itself a platform that brings network effects. One important feature of Amazon.com shopping website is the review system. Each good listed on the website has a customer review section. In this section, all consumers who have bought the product are allowed to put down their comments on the products. As there are more comments for a product, people can be better informed about the pros and cons of the product, and make better decisions. This makes Amazon.com's shopping website especially valuable for consumers who do not have much knowledge, or would like to know more about the product before making their decision. Also, this review system provides customers an opportunity to communicate with each other, thus creating a virtual community that improves the "stickiness", which means longer staying time of visitors, of the Amazon.com website.

Second, Amazon.com is able to balance the openness of the marketplace platform and its core benefit. After opening the marketplace service, Amazon.com has extended its position as an online shopping platform rather than a B2C shopping website. It opened a virtual shopping mall where hundreds of thousands of small or medium online business were invited to sell their own products.

Some of the products these third party vendors carried were also being sold by Amazon.com. In this sense, Amazon.com was bringing in a potential threat to its own profitability. However, Amazon.com did not restrict the products that a vendor could sell, allowing them to compete directly with Amazon.com, so that consumers would have wider range of selection in terms of price and scope of products. By doing so, Amazon.com again made the marketplace valuable to consumers, because it provided them with abundant products with variable prices. In addition, the surging number of vendors also helped Amazon.com to better utilize its fulfillment centers. The "fulfilled by Amazon" service, as mentioned earlier, benefited both Amazon.com and the vendors, because it helped Amazon.com cut the fixed cost of the fulfillment centers, and helped vendors focus on sales and marketing. Amazon.com focused on creating a win-win situation in its platform strategy, and created a virtuous cycle that continuously generated benefits for all parties.

Third, Amazon.com was building another platform, the Kindle. In 2010, Apple introduced iPad, posing a threat to the position of Amazon.com in the e-book market. The iPad was strong in terms of the wel-built iOS ecosystem that brought about significant network effects that made the whole platform valuable. In order to build such network effect, Amazon.com has introduced a Kindle development kit to developers, encouraging them to develop applications for the Kindle series. Amazon.com would give 70 percent of the income from sales of apps to developers (Malik, 2010). Concurrently with the launch of Kindle, Amazon.com was also introduced "Kindle direct publishing," enabling individuals to publish their own books and sell in the Kindle store. In this program, Amazon.com encourages people to publish books by granting them 70 percent royalty (Amazon.com, 2012). In this way, Amazon.com was able to improve the content creation side and application development side, making the Kindle platform more valuable to both consumers and third party developers and publishers.

4.3 Case Study of Zappos.com

4.3.1 The Business of Zappos.com

Background

Zappos.com is a B2C online retailer focusing on selling products such as shoes, bags, apparel and other accessories. Acquired by Amazon.com in 2009, Zappos.com still operates independently.

Established in 1999, Zappos.com was initially focusing only on shoe retailing. It started when the founder, Nick Swinmurn, was disappointed by his experience attempting to buy a pair of shoes he wanted. He went to several stores, only finding they were offering the wrong sizes or without the style or color he wanted. After an analysis of shoe catalog sales, he found that there was a huge potential market for online shoe retailing. Soon he launched the website shoesite.com, which later was renamed Zappos.com. Tony Hsieh, then a venture capitalist from Venture Frogs, invested in the company, and became the co-CEO in 2000 when he realized his enthusiasm for the company (zappos.com, 2012).

Since 2000, Zappos.com has been showing strong revenue growth. Its revenues grew from $1.6 million in 2000 to over $1 billion in 2008 (footwear news, 2009). Before being acquired by Amazon.com, Zappos.com was funded by Venture Frogs and Sequoia Capital.

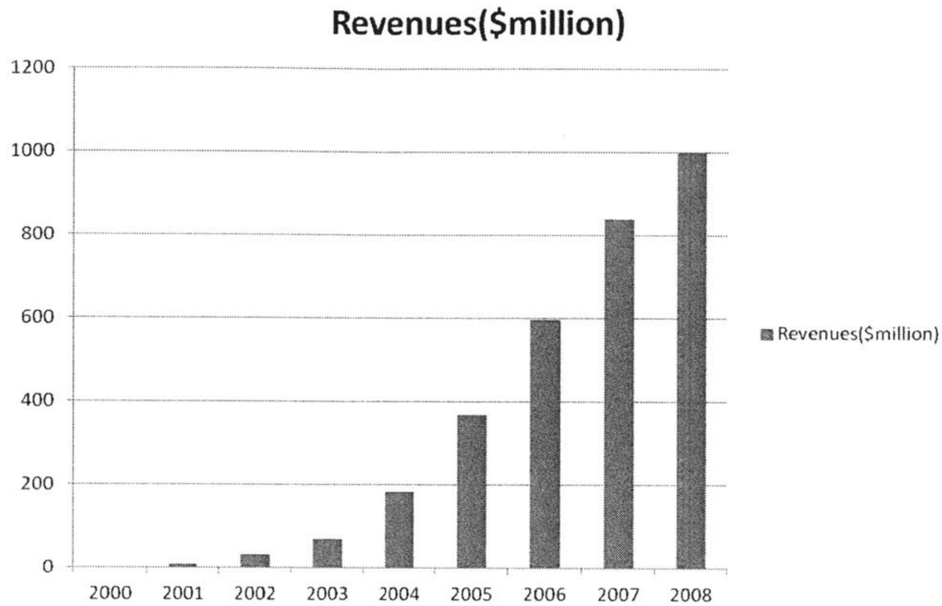

Chart 4.3: Revenues from year 2000 to 2008 Source: converted from zappos.com

In 2009, in order to avoid the risk of running out of cash, and the potential threat of being replaced because other board members were not supportive of his putting "delivering happiness" above pursuing sales, Hsieh decided to respond to the intention of acquisition from Jeff Bezos of Amazon.com. Understanding that both companies were customer-centric with different approach, Hsieh felt that Amazon.com was supportive of his delivering happiness philosophy. He went back to present the acquisition deal to the board, and got support from the board members. The deal turned out to be that Amazon.com would purchase Zappos.com by stock. The deal was valued at $1.2 billion according to the stock price that day. The venture capitalist quit the board with exit revenues, and representatives from Amazon.com joined. Now Hsieh was able to carry out his philosophy of delivering happiness without causing conflicts with other board members as Amazon.com fully support him (Hsieh, 2010).

As the philosophy was executed well, Zappos.com had been listed as one of the top 100 companies to work for (cnn.com, 2009). Hsieh continued to implement his philosophy into reality.

The headquarters of Zappos.com will be moved to Las Vegas, Nevada, in 2013, because Hsieh believed it was the location where the boundary of work and play was blurred. (Medina, 2010)

Business Model and Customers

Zappos.com aims to offer its customers with superior service and wide selections of shoes, apparel, bags and other accessories. The superior services include customer service and delivery service that bring customers satisfaction and even joy. Zappos.com is able to meet its value proposition by building a very strong corporate culture that enables everyone in the company to focus on delivering happiness not only to customers but also to themselves.

In its early days, Zappos.com was just focusing on selling shoes including brand-name ones and special ones like wide or narrow shoes. In 2007, the company expanded the product scope and started to carry apparel, bags and accessories (Mui, 2007).

As Zappos.com does B2C retailing only, its revenues are from sales of products. Unlike Amazon.com, Zappos.com did not choose to expand its product scope to cover totally different sectors; it just widened its shoe selection to relevant categories like apparel and accessories. It did not have third-party vendor plans like those seen on Amazon.com, largely because they were mostly focusing on providing superior customer service delivered by staff members with dedication and great skills, who were hard to find and train.

Zappos.com offers products at all price range levels, so the customer base is massive. However, as Zappos.com has been able to provide superior services that deliver not only satisfactory but also happiness, it maintains a large proportion of its customers. According to an interview with Hsieh, Zappos.com got 75% of its orders from repeat customers on any given day (Lake, 2008).

As a result, Zappos.com put more emphasis on improving satisfaction of repeat customers. For example, previously it provided new customers with free upgraded overnight delivery; however, they now stopped offering this perk to them, and put the resources into giving repeat customers better shipping service. In this sense, the customers at Zappos.com are those who value superior customer service more than just low prices.

Competitions

Zappos.com faces direct competition from all other offline and online retailers that sell similar or the same products. However, as Zappos.com focuses on providing superior service rather than competing on prices, its revenues continue to grow and now account for 20% of online shoe sales in as early as 2008 (sramanamitra.com, 2008).

4.3.2 The Retailing Strategies of Zappos.com

This section aims to explore Zappos.com's strategies by analyzing its unique activities through the four lenses framework used in previous cases.

Operational Excellence

Zappos.com competes not on low price, but on delivering superior customer service and fast delivery. According to an article on its website, Zappos.com does not even offer coupons to consumers because the company believes that its value lies within services such as free two-way shipping, 24/7/365 customer service and speedy delivery (zappos.com, 2012).

As a result, the operations at Zappos.com focus not on bringing down the price of products, but on keeping a reasonable profit margin, and invest those revenues in improving warehouses and delivery services.

Highly Efficient Warehouse

In the beginning of the company, Zappos.com chose to adopt "drop-shipping", that is, Zappos.com would not keep any stock, but simply take orders online and ask the suppliers to ship the goods to customers. The benefit of this model was obvious. Zappos.com need not invest in warehouses or delivery systems, or manage a huge amount of inventory, which greatly reduced the risk of the business, but needed just to focus on building a user-friendly website that could help customers to better find and purchase exactly what they wanted (Nie et tal, 2011).

However, this business model was not without problems. First, at that time there were already other websites doing the same business. For example, Shoe.com, which was also established in 1999, was an online retailer focusing on offering a wide selection of shoes. As a newly built website, Zappos.com lacked the traffic, customer recognition and sales record to convince those shoe brands to allow it to sell their products on its website. It also faced difficulty in finding wholesalers to provide the drop-shipping service. Second, even though Zappos.com convinced some wholesalers to do drop-shipping for it, it lacked control over the delivery process. That means customers would have different experiences if the orders were delivered by different wholesalers; and the speed and quality of delivery could not be guaranteed. In addition, Zappos.com did not have control over the inventory, so that they could not get the most popular styles of shoes, or as many shoes as the customers wanted.

In order to provide better selections and delivery experience, Zappos.com decided to keep its own inventory. By 2002, they had reached sales of $32 million, a great increase from $8.6 million of the previous years; they were carrying more than 100 brands, and only 25% of the orders were fulfilled by the wholesalers. As the orders covered by those wholesalers were often delayed, Hsieh decided that they needed to cut the drop-shipping completely to meet the goal of superior delivery (Chafkin, 2009).

According to its official website, Zappos.com opened its first fulfillment center in 2001, in Kentucky. Initially the warehouse was about 50,000 square feet. Later on, a second warehouse was added, accumulating the storage room to 1 million square feet (zappos.com, 2012). The warehouses were located in Sheperdsville, less than 20 miles away from UPS Worldport in Kentucky. The location made it possible for Zappos.com to ship the orders to the UPS facility quickly, which was as large as 4 million square feet and served as the world air hub for the world shipping leader (Laseter et al, 2012, p43).

Besides being advantageously located, the warehouses were also powered by state-of-the-art technologies. In 2006, Zappos.com installed in its warehouses an automation system that was only seen in 20% of the warehouses in the country. The system consisted of static shelves that were 4-stories high, and tens of thousands of feet of conveyor belts, enabling staff members to complete orders from anywhere in the warehouse within 48 minutes to three and half hours. Later, the company adopted an even more advanced technology, the Kiva system, a robot system that can carry shelves to the side of a staff member, to reduce the time of fulfilling an order to about 12 minutes. Not only does this system increase efficiency by at least four times, but it also helped Zappos.com to cut by half utilities such as air-conditioning and lighting, as robots did not need such benefits (Scanlon, 2009).

Fast Delivery

There are many accounts in praise of Zappos.com's fast delivery. For example, a customer was more than satisfied to find his order was already at his door after eleven hours he put the order (Osborne, 2011). As mentioned above, one reason for this fast delivery was that the warehouses were located very close to the UPS world air hub. In addition, the warehouses were staffed 24 hours a day, 7 days a week, 365 days a year. As a result, the products were always sent for delivery as soon as an order was placed.

Customer Intimacy

Zappos.com is most well-known as a company that aims to provide its customers with the best service. There are numerous accounts of Zappos.com's extraordinary services. It is worthwhile for us to understand how Zappos.com is able to deliver such valuable services to its customers, thus increasing the customer loyalty and the lifetime value of the customers.

Recruiting the Right People

Extraordinary services are delivered by excellent people. In order to find these excellent people, Zappos.com has designed special procedures to test the skills needed and the "fit" between the candidates and the company. Hsieh wrote at Zappos.com's blog that their recruiting process was twofold. The first part was similar to interviews one might have in many other companies. The hiring manager in the team would evaluate the candidates' education, skills, experience and fit with the team. The second part was the interview with the hiring manager in the company, who focused on testing the candidates' fit with the corporate culture. For example, candidates would be asked to evaluate how "weird" they were by ranking themselves from 1 to 10. The intention of this question was to encourage candidates to show their true personality (Bryant, 2010). Unlike in most other companies, culture fit is a priority at Zappos.com. A candidate who is so skilled that he or she can be immediately helpful to the company could be rejected because of not fitting to the corporate culture.

Instilling Corporate Culture into Staff Members

Zappos.com is special because it makes corporate culture a priority. On many occasions, Hsieh has talked about the reasons behind this philosophy.

"At Zappos, our belief is that if you get the culture right, most of the other stuff – like great customer service, or building great long-term brand, or passionate employees and customers – will happen naturally on its own." (Hsieh, 2009)

The emphasis on corporate culture was from his own experience in his first company, Linkexchange, which he sold to Microsoft for over $200 million. He was successful in terms of monetizing the companies he helped found, but he also realized that the reason he sold the company was that he did not enjoy working there as the company grew. People were hired with great skills and experience, but not enough attention was paid to maintaining the original corporate culture. This had a negative effect on Hsieh because gradually he lost the passion he had in the beginning because of the people. As a result, he sold the company. He drew upon that experience to build a strong culture at Zappos.com (Bryant, 2010). Hiring people with strong skills but no culture fit would weaken the culture. The company would bear the risk of gradually being turned into a group of people who were there merely for the paychecks. This would discourage people from being creative and doing their best, and undermine their passion for what they were doing.

In order to build a culture that can motivate people and encourage them to natural, the people at Zappos.com carefully defined their core values as below (Hsieh, 2009):

1. Deliver WOW Through Service
2. Embrace and Drive Change
3. Create Fun and A Little Weirdness
4. Be Adventurous, Creative, and Open-Minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships With Communication

7. Build a positive Team and Family Spirit

8. Do More With Less

9. Be Passionate and Determined

10. Be Humble

In order to instill the core values into the new staff member, Zappos.com requires every new employee, no matter what their job will be, to participate in a four-week training session. This lengthy training session involves two weeks' training about the company's history, vision and philosophy of the company culture. In the other two weeks, the new employee will actually work as a customer service staff member in a department. In this way, no matter in what department the employee will be working in later, he will have a very good understanding of what it takes to execute the core values.

Zappos.com not only uses the culture fit test to make sure it hires people that will be compatible with company culture, but also uses surprising ways to make sure people who get hired really would like to work there. In the four-week training session, Zappos.com offers $2000 plus full salary for the training period to encourage people, who feel that they do not fit the company environment, to quit. According to Hsieh, about 1% of people accepted the offer, but this helped the company to ensure that they let in only those who fit in with the company and were willing to commit to the company culture.

Services beyond Satisfaction

Zappos.com has been praised for its superior service. Hsieh, the CEO, even said that they were a service company that happened to be in the shoe retailing industry (Hsieh, 2006).

The unexpected high quality services are exemplified in its 24 hours, 7days a week, and year-around call center; and in its promise of 365-day product return, free of charge; and in its warehouses that also run 24/7/365 to always ship the products to customers as soon as they receive orders.

Numerous accounts from customers that claim the services of Zappos.com not only exceed their expectations, but even touched them, turning them into lifetime customers. A very well known story shows how Zappos.com redefined the meaning of customer service. A woman called to cancel the order of shoes because her husband just passed away in a car accident. The customer service employee canceled the order for her; but a few days later, the woman received flowers from Zappos.com (Chafkin, 2009).

As mentioned before, another customer wrote that he was very surprised that he received the shoes just 11 hours after he placed the order, and that made him a lifetime customer. By 2012, there were over 9,000 threads of customer testimonials from customers who showed gratitude for Zappos.com's service at its website.

The customer service representatives had no scripts when talking to customers, making customers feel that they were not talking to people bound to rigid company rules but to unique and lively individuals. There was no time limit for a service call, and it was said that the longest service call was over 5 hours, from a woman searching for a pair of shoes using barefoot technology (Jacobs, 2009).

Free shipping and returning in 365 days is also an ambitious action that is rarely being matched. Initially, Hsieh found that one issue of buying shoes online was the difficulty to get the right size. Different shoes might provide a totally different wearing experience even they were the same size. As a result, many people chose to buy two or three pairs and return those that did not fit. However, the trouble for return delivery in terms of time and money was a barrier to many people. As Hsieh offered free shipping and free return, people had less concern about choosing the right size and return issues, which in return increased sales (Lake, 2008).

Without investment in culture building and establishing a service-centric philosophy, all these extraordinary services could not be delivered to the customers. The superior service helped build a reputation that was hard to reach by advertising. From satisfied customers, Zappos.com enjoyed great word-of-mouth, and those customers told their families and friends how amazing the service was. In addition, the satisfied people became loyal customers, which contributed to the 80% repeat purchase rate at Zappos.com (Cerny, 2009)

Product Leadership

As an online retailer, Zappos.com does not carry its own branded products, but emphasizes extraordinary service. In this sense, it could leverage its strong capability in services and sell other products. It could probably copy its success in shoes retailing as long as it could cater to customers who care about superior services rather than other factors such as price.

As a result, Zappos.com expanded to other categories such as clothing, bags and other accessories in 2009. Zappos.com had been very careful to tap related categories so that customers would not be too confused about the brand image as Zappos.com was originally merely a shoes retailer.

The strategy to go for clothing is natural. Zappos.com has already acquired a large and loyal customer base, but the "wallet share" of Zappos.com is still limited. Expanding its business will enable the company to gain a new source of revenues.

In 2009, the clothing category only accounted for 7 percent of annual revenues, while footwear sales accounted for more than 85 percent. As people usually buy clothes more frequently than they buy shoes, the sales for this category is expected to grow faster. Zappos.com expects the clothing category will account for 40 percent of revenues in the future (Young et al, 2009).

In conclusion, Zappos.com does not have product leadership in that it does not produce its own brands. This is due to its nature as a service company, which focuses on sales, but most importantly on delivering satisfaction and happiness. However, it has a valuable customer base that enables it to expand to other categories such as clothing, bags and accessories. Therefore, Zappos.com still has strong potential to grow and expand to other potential categories.

Platform Leadership

Zappos.com is a pure B2C business. It does not have a marketplace platform in that it would like to make sure the customers receive top service from itself. Any uncontrolled process is a potential threat to its valued service, and its unique culture and excellent service are hard for third party vendors to imitate.

However, Zappos.com is actively leveraging the network effects brought by the Internet. It has been a long-time user of social media to broadcast the superior services and other advantages of Zappos.com. Customers can follow Zappos.com staff at Twitter to see their latest updates. Zappos.com blog features articles from press release, staff interview, to customers' feedback, showing transparency within the company. Lively videos at youtube.com let people see the working environment and what interesting things people at Zappos.com are doing. At Zappos.com's website, there are over 9000 customer testimonials in praise of the company's service. All of these have created a strong "word of mouth" effect.

In conclusion, Zappos.com is not a platform, but it is utilizing social media platforms as a means of marketing and is benefiting greatly from it

Chapter 5 Case Studies of Leading Chinese Online Retailing Companies

5.1 Overview

This chapter aims to explore the strategies of leading players in China's online retailing market. The China E-commerce market took off much later than that in the US because of lags in infrastructure and availability of hardware. However, the E-commerce companies in China have applied unique strategies that are suited to the Chinese economy and consumers. On the other hand, some Internet companies that succeeded in the US have been unable to gain the same market position they attained in the US. The chart below shows that, in China B2C market, most market share is dominated by local internet business, and a global leader like Amazon.com only accounts for slightly more than 2 percent of the market revenue.

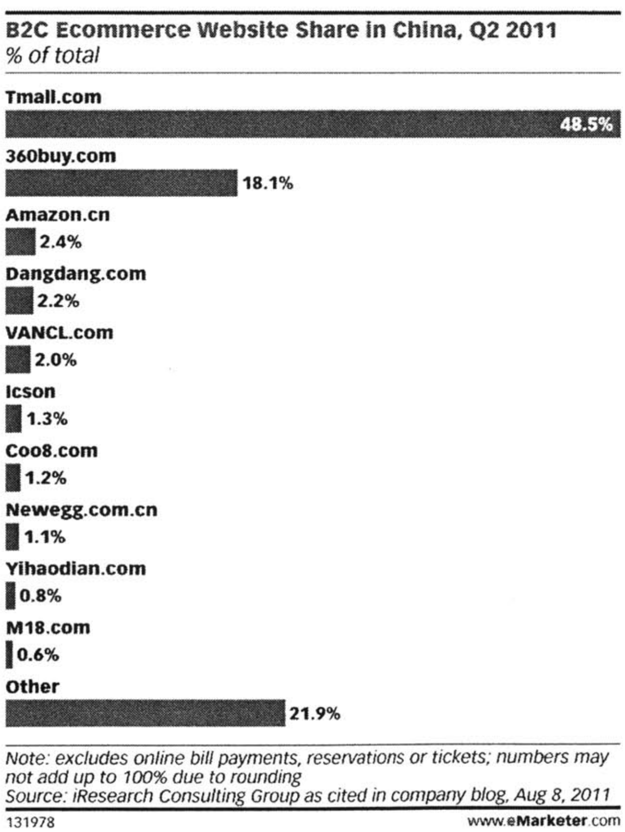

Chart 5.1: B2C E-commerce Website Market Share in China, Q2 2011 Source: www. Emarketer.com

As mentioned above, Chinese online retailing companies like 360buy.com, Dangdang.com and Vancl.com started much later than their US counterparts, but they are able to understand the China market and Chinese consumers better than overseas competitors such as Amazon.com and eBay.com, and are able to compete with tailored strategies. In this chapter, Dangdang.com and Vancl.com, two leading online retailers, are analyzed to explore their specific sets of activities that have led to their current unique strategic position. The same four lenses as in Chapter 4 will be applied to analyze these activities.

5.2 Case Study of Dangdang.com

5.2.1 The Business of Dangdang.com

Background

Dangdang.com is a Chinese B2C online retailer listed on the New York Stock Exchange. According to Dangdang.com's company website, it is now the largest book retailer in China, online and offline, in terms of both revenues and selection, and it is offering more than 670,000 books and other media products, most of which are in Chinese, and 800,000 stock keeping units, or SKU, part of which are offered by Dangdang.com, and the rest offered by third-party vendors (ir.dangdang.com, 2012).

Dangdang.com was established in 1999 in Beijing by a couple, Peggy Yu and Guoqing Li. According to the report in Shangjie magazine, a news magazine in China, Dangdang.com was established because the couple met each other in the US. Before Dangdang.com, Guoqing Li worked for the State Council, and then worked as the president of a publishing company focusing on science and education. Peggy Yu earned her MBA from New York University and was working in the US before meeting Guoqing Li and coming back to China for the marriage. While Guoqing Li was struggling with his business using catalogs and advertisements in newspapers, Peggy Yu realized that the returns on the investment in these marketing methods were not good enough. Recalling that she herself usually bought books from Amazon.com, she advised her husband to pursue the online book retailing business (Cao, 2011).

The couple's skills complemented each other very well. Guoqing Li, with his experience in publishing and book retailing channels, was in charge of operations. Peggy Yu was specialized in financing, public relations and human resources. As a result, Dangdang.com was able to secure an investment of $6.8million from IDG, Luxemburg Cambridge and Softbank. According to a report in *21st Century Business Herald*, the couple fought to control the company. In order to gain majority control over the company, the couple even informed the investors they would resign and start another online bookstore to compete with Dangdang.com, if the investors would not agree to let them have more equity. As a result, the original investors could not afford the risk to lose the core management team, and gave in. After securing another round of funding of $11million from Tiger Management in 2006, the management team owned 51% of the equity and was able to control the company firmly (Hou, 2010).

The founders were very careful about the development of Dangdang.com. They chose a cautious path to make sure they had sufficient cash, and chose to expand step by step. In this way, they were able to survive the burst of the internet bubble in 2000, when quite a few competitors went out of business. However, their conservative strategy made the company fall behind other competitors in expanding product scope. According to *21st Century Business Herald*, by 2009, the book retailing business only accounted for less than 50 percent of the annual revenue of Amazon.cn (then Joyo Amazon.com, the Chinese subsidy of Amazon.com). In comparison, book retailing accounted for more than 80 percent of the revenue of Dangdang.com. However, as Dangdang.com was conservative in its pace of expansion, it was able to announce a net profit in 2009, before its competitors (Zhang, 2009). On December 8, 2010, Dangdang.com was listed on the New York Stock Exchange.

Business Model and Customers

From its inception, Dangdang.com aimed to provide a mass readership with books, featuring wide selection and low price, fast delivery and a convenient payment service. They made this goal achievable because of their deep understanding, knowledge, and experience in publishing and book retailing channels, as well as the partnerships with online payment services and third-party logistics providers.

As mentioned previously, Dangdang.com offers a wide range of book and media selections. Since 2008, Dangdang.com has expanded its product offerings from books to other products including six categories of general merchandise: beauty and personal care products; home and lifestyle products; baby, children and maternity products; electronics; apparel and accessories; and footwear, handbags and luggage. As Dangdang.com focused on book retailing previously, it knew little about how to sell other merchandise. This lack of knowledge made it difficult for it to deal with problems like high turnover rate and storage. As a result, Dangdang.com started to build the expertise it needed by recruiting professionals with experiences in these specific areas. Dangdang.com also launched a "shopping mall platform" service, which was similar to Amazon.com's marketplace service. In this new service, Dangdang.com recruited third-party vendors to sell their products on Dangdang.com's website. As mentioned in Amazon.com's case study, this new business model helped the B2C online retailers like Amazon.com and Dangdang.com to utilize their traffic and customer base to identify consumers' needs for products the B2C retailers did not carry. In addition, recruiting well-known brands such as China Post will further improve the credibility of the platform. Becoming a platform that offers much more selection would enable Dangdang.com to become a one-stop E-commerce portal rather than a mere online bookstore.

There are two sets of customers in Dangdang.com's business, which are the consumers and the third party vendors. The consumers are ordinary Chinese people who purchase on Dangdang.com's website for different benefits such as low price, fast delivery, wide selection, convenient payment, or combinations of the above. The vendors range from well-known brands like Apple, Lenovo, and Acer to non-brand sellers. These vendors use the interface of Dangdang.com to create their own shop at Dangdang.com's website. In return, the vendors pay a subscription fee and other expenses for value-added services.

Dangdang.com faces strong competition from other E-commerce websites, including B2C companies like 360buy.com and Amazon.cn, and C2C companies like Taobao.com. Dangdang.com has already become the largest book retailer in China, and it aims to become the foremost E-commerce portal in China. It needs to keep improving its delivery system, adding more selection, and shifting its brand recognition from a book retailer to a one-stop E-commerce website.

5.2.2 Retailing Strategies of Dangdang.com

This section aims to explore Dangdan.com's strategies by analyzing its unique activities through the four lenses framework used in previous cases.

Operational Excellence

Balanced Pricing

Starting from the advantage that E-commerce could eliminate the cost of renting physical stores, Dangdang.com initially planned to offer low prices and wide selection to consumers. However, other E-commerce competitors could easily copy the low price strategy and beat Dangdang.com with lower prices. Initially, Dangdang.com tried to match every low price that competitors had. However, this greatly reduced Dangdang.com's ability to make profit.

Realizing that they only wanted to build the low price image, but not to drain their profit, the managers decided to proceed differently. They are now taking a pricing mechanism that is more balanced and less passive. Instead of matching every low price, Dangdang.com has now changed the way it decides prices and the scope of price matching. Unlike before, the current scope of price matching focuses prices on "strategic" products, which mean products important to the company's perceived image of low price. These products include their promotional products, seasonal products, some products in selected categories, and some promotional products at competitors' websites. Even though Dangdang.com is matching price on these specific spectrums, it is not simply matching the price cent by cent. Rather, it has switched its way of changing price to a "price index" method, which takes sales volume and weight in the whole portfolio into consideration. The new method matches price index instead of mere price, and this new mechanism aims to ensure that Dangdang.com always has a lower price index for those strategic products than the competitors. For example, according to *21st Century Business Herald*, Tenghua Chen, the Vice President of Marketing at Dangdang.com, said that some products' price index was adjusted to below 95% of those at competitors (Zhang, 2009). On the other hand, Dangdang.com allows itself to have the same price index when it comes to products where the company holds advantage, such as books and media products. As a result, the balanced pricing changed the company's original way of price matching, which was passive, and emphasized strategic products that could help build the website's image as a low-price provider. In addition, the balanced pricing method enabled Dangdang.com to enjoy better overall profitability.

In December, 2010, just after Dangdang.com was listed on the NYSE, its competitor 360buy.com launched a price war against it. 360buy.com offered discount on all the books it was carrying, leading to strong retaliation from Dangdang.com. Both companies spent tens of millions of RMB, or several million dollars, to fight this price war. This showed that Dangdang.com was determined to leverage its resources to protect its core business, but it also showed how Chinese E-commerce businesses emphasize on pricing (Li Bing, 2011).

Outsourced Delivery

Although China has an established national delivery provider, the China Post, the company offers services not comparable to those of companies like UPS and FedEx. Although its service reaches even the most remote regions in China, the quality of its service in terms of speed is far from satisfactory, and the prices are much higher than that of private held delivery providers. As a result, many private delivery providers have emerged to complement China Post's services in terms of speedy delivery. Most of the private delivery providers are regional, and the few national providers could not guarantee the delivery speed and quality because of inadequate management skills. As a result, Dangdang.com chose to partnership with over 100 national or regional logistics providers to deliver its goods to consumers. Dangdang.com's scale made itself powerful in delivery price negotiation. According to an interview with the CFO, Dangdang.com sent out over 100,000 packages each day, giving Dangdang.com a bargaining power on price. As a result, the third-party vendors in its shopping mall platform could also benefit from Dangdang.com's scale, receiving favorable pricing in delivery. For example, a vendor would have paid RMB 15 yuan (about $2.4) for a package, but now it only need pay RMB 10 yuan (about $1.6) (Xie, 2011).

The third-party delivery providers were instrumental, as they were the physical contact during the transaction. In addition, Dangdang.com offered a Collection-on-Delivery service, or COD, which is preferred by a large number of Chinese consumers (Noble, 2011). Selected partners would conduct the collection service, and their efficiency on collection was vital to Dangdang.com. According to an interview with Jiahong Yang, Chief Finance Officer at Dangdang.com, the collection period from delivery partners to Dangdang.com was less than 3 days (Xie, 2011).

The outsourced delivery model helped Dangdang.com to focus on its core competencies like supplier relationships, pricing, and product selection, and helped numerous delivery providers grow their own businesses.

Frugal Cost System

Dangdang.com has been relentlessly pursuing cost-effective management. It reduced costs by lowering purchasing prices and leasing warehouses.

As mentioned previously, Dangdang.com has already become the largest book store in both online and offline categories. According to Qingdao News, a regional news website, Dangdang.com has become the largest sales channel for almost every major publisher in China. In addition, the sales on Dangdang.com sometimes account for 30% of the annual sales for these publishers. This gives Dangdang.com a very strong position in obtaining a low price in procurement. With this strong bargaining power, Dangdang.com was able to participate in price wars without great detriment to its bottom line. For example, in April 2011, Dangdang.com announced a 35% off discount campaign for all of its 600,000 book titles, a promotion never seen in the book retailing history in terms of scope (Qingdao News, 2011).

Unlike its US counterpart, Amazon.com, which built its own fulfillment centers, Dangdang.com chose to lease warehouses for product storage. In addition, Dangdang.com only leased warehouses that met the needs for the next 12 months, so it did not have much idle storage room (unlike the case of Amazon.com). Dangdang.com clearly chose to expand its warehouse system step by step; it never over-invested in warehouses. By 2010, Dangdang.com had operating warehouses in six different cities, covering different regions. Dangdang.com was able to get support from local governments, such that it could ask them to build warehouses with specific requirements for the lease. This renting model greatly helped Dangdang.com to get facilities and warehouse capabilities at a low price.

Customer Intimacy

Dangdang.com has been best known for its price and wide selection; however, it is also delivering a good performance in terms of customer intimacy. This can be shown in its pursuit of a mass customized webpage and its free and fast delivery campaign.

Mass Customized Webpage

Every registered consumer at Dangdang.com receives the following customized services:

When the consumer searches for a product he is looking for, the results can be ranked by popularity (or sales volume), reviews and price. This allows the consumer to customize his own preference and finds exactly what he wants.

The system will automatically show the consumers possible relevant products, which could be complement or similar products. For example, when a consumer browses the page of a cell phone, the system would probably show him related types of cell phones, or accessories like earphones and batteries. This is done by Dangdang.com's data analysis ability. Dangdang.com is able to collect and analyze the actions of tens of thousands of registered consumers simultaneously and recommend relevant products to them.

The system will analyze consumers' search and purchase record, and recommend similar products accordingly. Furthermore, sometimes the system will even offer the consumer an exclusive discount on relevant products he is interested, discount only available to the specific consumer.

These mass customized services are not rare, and other competitors are doing the same. However, if Dangdang.com does not provide the same features, the consumers will probably be attracted to competitors.

Collection-on-Delivery and Free Delivery

One special effort Dangdang.com has made is COD and free delivery. According to the CNNIC report, the number of consumers who use online payment was decreasing, while that of those using COD was increasing (CNNIC, 2011).

One reason could be that online payment by credit card and debit card is complicated. As the financial security issue is very important in China, the banks are designing very complicated procedures to help customers avoid fraud. On the other hand, these procedures make online payment through credit or debit card difficult. For example, a customer needs to go to a local bank office to register for online transaction, and he needs to go to the bank's website to complete the transaction every time he chooses to pay online. Even so, there is a limit for daily and monthly online transaction amount. The transaction amount limit makes online payment very inconvenient when it comes to purchase of high-value merchandise like cell phones, laptops and some home appliances. In addition, there are quite a few people who are not familiar with computers and software, and online payment is simply too complicated for them. However, wire payment via bank is inconvenient, too. As a result, COD payment is especially welcomed by Chinese consumers, especially for those who do not have the skills to complete the complicated online payment transactions. In addition, COD can better guarantee customers' satisfaction. A customer can simply refuse to pay and return the goods if he is not satisfied with the goods upon delivery. This is a hassle-free experience for him. However, if a consumer chooses to pay online, he needs to pay in full in advance before he receives the goods, and will need to wait for at least 2 weeks for the refund.

As discussed previously, Dangdang.com introduced COD service, which was made possible by the partnership with hundreds of third-party delivery providers. These firms helped Dangdang.com collect payment by cash, credit cards or debit cards from consumers upon delivery, and sent the payment to Dangdang.com in 2 to 3 days. The COD service lowered the barrier of online payment, allowing people without much knowledge about complicated online payment procedures to buy products from Dangdang.com and improved the satisfaction of consumers by reducing their risk of receiving defective or unwanted products, and of the likelihood of waiting a long time for refund.

Free delivery is another important service of Dangdang.com. As mentioned before, two important factors in Chinese online shoppers' mind include convenience and low price. The online shopping experience already exemplifies convenience; consumers do not need to walk out of their rooms and go to stores, and they can buy products that are not available in their locations. However, when it comes to low price, problems appear. For example, even though Dangdang.com is able to offer discounted books, online books shopping means little value to consumers if the delivery expense exceeds the discount. Considering it will take several days to get the book at the same or slightly lower price, consumers would sometimes prefer to buy books in local stores. In order to solve this problem, Dangdang.com started to introduce free delivery service in 2008 when its warehouse system was finally able to support such campaign. According to Dangdang.com's website, consumers in major cities can enjoy the free delivery if they buy products valued over RMB 29 yuan (about $4.6), and in other cities those need to spend over RMB 99 yuan (about $15.7). Otherwise, the customers need to pay RMB 5 yuan (about $0.8) for each order. RMB 29 yuan equals the price of 1 to 2 bestseller books in China. This free delivery service has greatly encouraged consumers to buy products online, and forced competitors to either copy this service or undertake the risk of losing users. As a result, the free delivery helped Dangdang.com to gain new consumers as well as to challenge its competitors.

Product Leadership

Unlike Amazon.com, Dangdang.com is still positioning itself as a retailer rather than a combined retail and technology company. It does not provide products like the Kindle series, but it does take actions like introducing private brands and building an E-book distribution channel to protect its position and leverage its current advantage in book retailing and in attracting customers.

Private Labels

Dangdang.com has introduced private labels in both books publishing and clothing. In publishing, its private label has a great presence in children's and adolescents' books. Guoqing LI, the CEO of Dangdang.com, said in the 2011 online retailing conference in Chengdu, China, that the children's and adolescents' books private label accounted for a 40 percent market share in this category (Fu, 2011).

Dangdang.com has also started to build its own private label in clothing, a sector it just started to enter. According to a report from China Radio, Dangdang.com will introduce its own private label apparel in April, 2012 (cnr.cn, 2012).

Private labels enable Dangdang.com to introduce products with its own designs. The private labels also allow the company to have better control over cost, pricing and marketing. With its strong traffic and customer base, Dangdang.com could gain significant sales and profit on private labels.

E-book distribution

In December, 2011, Dangdang.com led the B2C industry in launching its E-book sales website. Over 50,000 book titles were available, and the prices were much lower than those of printed books. For example, on Dangdang.com's E-book website, a bestseller book is usually at 10% to 20% of the price of a printed one. According to an article in *Nanfang Weekly*, the split between Dangdang.com and the publishers was 40% versus 60%. The author further mentioned that a major competitor to Dangdang.com, 360buy.com, also launched its E-book website, offering over 80,000 book titles, and a better revenue policy of 30% versus 70% for the website and the publishers, respectively (Zhang, 2012).

The new entrant is a major threat to Dangdang.com's new E-book business. As 360buy.com offers a wider selection to customers and a better revenue return for publishers, Dangdang.com undertakes a great risk of losing customers and publishers, which are suppliers. Other uncertainties of Dangdang.com's E-book business are the lack of hardware control and full support from publishers. As Dangdang.com does not sell its own E-book reader, it can hardly control the users' experience and the issue of content dissemination, which poses a great threat to the health of the E-book industry. In addition, the publishers are not yet convinced that the sales of E-book will compete with the sales of printed books. As a result, most of the E-books now available are not popular titles in China's market.

Platform Leadership

Like Amazon.com, Dangdang.com opened its door to third-party vendors as the means to expand its scope of products, serve more customers, and extract more value from current customers. Dangdang.com has chosen a platform strategy that enables it to utilize its core competencies and benefit from the network effects. There are several reasons that this strategy has been successful. First, it has carefully defined its scope of products. Dangdang.com started its business with book retailing and has expanded its scope to media, electronics and apparel. As it aims to be the foremost E-Commerce portal, it needs to expand its scope of product selection. In this sense, the complementary assets for Dangdang.com to achieve the goal are the products that it does not carry, and the customer base that it has not covered. Instead of entering other categories, Dangdang.com has chosen to open a platform to widen its current offering. By doing so, it is able to offer a very wide selection of products so that it can attract more customers and increase the purchasing volume of current customers. Second, Dangdang.com's platform design is favorable to vendors. Dangdang.com's platform is very different from Amazon.com's. Amazon.com's platform is product-centric. When a customer searches for a product, he will find only 1 specific page for the product, with descriptions, pictures, reviews and prices from each vendor all in one page. Although a vendor has its own "mall", it is without very good customization function. For example, a vendor could not categorize its products; all products in its mall are listed with alphabet sequence, making it difficult for a customer to browse the mall. In contrast, Dangdang.com's platform is more "mall-centric". It is offering full customization features for vendor malls. The vendors can categorize their products to make it easier for customers to browse, upload their unique pictures and descriptions, and promote its own campaigns. This is valuable to vendors because it makes it easier for a customer to buy multiple products in its mall and enable the vendors to differentiate themselves. Third, Dangdang.com is collaborating with vendors closely. It is using the front page of the website as advertising space for vendors to promote their stores, products or brands, which is not seen in the case of Amazon.com. In addition, it is bringing many brands to open their malls, further adding value to this platform. In this sense, Dangdang.com has moved further to help vendors grow, which means that the platform is more open.

5.2 Case Study of Vancl.com

5.2.1 The Business of Vancl.com

Background

Vancl.com is a leading B2C E-commerce company in China. It sells Vancl brand apparel including shirts, T-shirts and casual fashion apparel. It also sells related products such as footwear and accessories.

Vancl.com was established in 2007, in Beijing, China. Nian Chen, the founder, also co-founded joyo.com, an online bookstore which was acquired by Amazon.com and later became Amazon.com's China website. Chen used to be an expert in book retailing, and joyo.com was one of the most successful online bookstores at the time it was acquired. However, Chen had no experience or knowledge in the apparel industry, not to mention selling apparel online. The reason for entering online apparel sales was that in 2006, a company named Perfect Product Group, or PPG, was extremely successful in selling men's shirts via it call center and website.

PPG sold quality shirts with its own brand at a price much lower than prices for those brands available in shopping malls. It gained brand recognition very quickly by actively investing in advertising in newspapers and on TV. Meanwhile, it did not carry its own factory or distribution center, so it was agile. Its success gained the attention of venture capitalists, and it received tens of millions of dollars in funding just one year after it started.

Having studied PPG's business model, Chen found that it focused more on heavy investment in TV and newspaper commercials, which were expensive. Compared with sales acquired by the call center, sales from the website were rather small. This situation posed the question of sustainability. However, PPG validated its business model of selling shirts without physical distribution channels like shopping malls or resellers. Believing the shirt market was large enough, Chen quickly started his own shirts B2C E-commerce company, Vancl.com.

Chen did not completely copy what PPG was doing. Initially, Vancl.com carried similar products, and did advertising on TV and newspaper, too. But soon the company found the market potential of young professionals who were frequent Internet users. The company put more resources in Internet advertising. As it paid advertisement publishers on the basis of actual purchases, the investment was more cost-effective that that in traditional media.

While PPG, the leading figure in this business, went out of business in 2008 because of its non-sustainability, Vancl.com proved to be growing healthily, and became the leader in B2C apparel retailing in China, in 2009. It realized sales of RMB 1.2 billion yuan (about $200 million), accounting for over 30% of the total B2C apparel sales that year (Qingke Research, 2010).

Vancl.com innovated in advertising. Its sales have been largely advertisement-driven, so the coverage of the advertisement is very important. Its advertisements could be seen in almost every major portal website such as Sina.com and Netease.com. It also launched an advertising coalition, which enabled thousands of small and medium size websites to carry its advertisement. The websites would receive a revenue share for purchases guided from them. This advertising campaign was cost-effective because Vancl.com paid only for advertisements that created actual sales, and did not need to pay for advertisement that did generate revenues. In addition, Vancl.com invested in advertising in traditional media such as newspapers and billboards. Its recent advertising campaign, featuring a young writer and a rising actress, created popularity among young people.

Vancl.com announced it invested RMB 1billion yuan (about $158 million) in advertising, half of which went to online advertising (Caijing.com, 2012).

To this day, Vancl.com is not making a net profit, as it is continuously expanding its market share and revenue size. It aims to establish a solid leadership position in online apparel retailing sector. According to a report in *China Business News Weekly*, Vancl.com has received funding accumulating to $420 million from several venture capitalists. In 2008, it only made sales of RMB 100 million yuan (about $15.8 million); however, in 2011, the number was estimated to be RMB 35 billion yuan (about $5.5 billion), a huge leap in just 3 years' time (Zhu, 2011).

Business Model and Customers

Vancl.com provides young adults who are frequent internet users with quality and fashionable apparel, footwear and other accessories at a low price and with fast delivery. It is able to meet this goal with its capabilities in product design, partnerships with first-tier manufacturers, and its own logistics arm that ensures fast and quality delivery. Quality delivery means that not only the delivery itself is always on time, but the staff members who send the packages are well trained to give customers good service. Quality delivery is especially important in China as many customers complain about the service they receive from the delivery staff members. As a B2C E-commerce company, Vancl.com receives all revenues from its sales from the website and the call center.

In 2008, Vancl.com was selling only men's shirts and polo shirts. Today, its products also include women's clothing, footwear, bags, and accessories. Expansion of product scope enabled Vancl.com to extract more revenues from its current customer base and to acquire a new customer base that was not served by its original product offerings.

As a B2C clothing retailer that carries its own brand, Vancl.com aims to provide low-priced products, but not "cheap" (i.e. low quality) products. Chen did not have experience in the clothing industry, but he understood the importance of quality. Aside from acquiring good designing, he also sought to provide good quality by partnering with manufacturers that were producing clothes for first-tier international brands like Armani and Zegna. This partnership ensured the quality of the shirts Vancl.com was selling, and avoided the products being perceived as "cheap" ones.

Initially, Vancl.com claimed its targeted customers were middle-class people. However, it realized its low-priced products were more popular among young people who were price sensitive. In addition, Vancl.com benefited greatly from its online advertising. As people who purchase online were mostly young people with good education, it became clear to Vancl.com that its target customers were the young people who were well educated but price-sensitive. As a result, in 2009 the company launched a campaign featuring celebrity endorsements. These stars were portrayed as ordinary people trying to lead ordinary lives, just like most other ordinary people. Previously, Vancl.com was more branding itself as a Western-style brand, but after the campaign, it was more referred to as "fanke," its Chinese name, meaning "ordinary people." It conveyed the idea that the brand was intended for every ordinary but unique person. This brand image appealed to the mass consumers and greatly improved Vancl.com's brand recognition.

Competition

As a B2C clothing retailer, Vancl.com is facing competition from other B2C and C2C E-commerce companies that are also involved in sales of clothing or other products it carries. Integrated online retailers like Amazon.cn and Dangdang.com are posing a threat to Vancl.com by selling similar product sets. Other B2C clothing companies differentiate from Vancl.com by offering different product sets, thus catering to a more niche segment. M18.com, for example, is also carrying its own brand and operating physical stores, selling women's fashion clothing. C2C platforms like Taobao.com also compete with Vancl.com for clothing sales. However, vendors at Taobao.com are much smaller in terms of scale; and they do not carry their own brands, or design their own products. The delivery experiences are dependent on third-party logistics and there is no try-on service, either. As a result, the total sales of clothing on Taobao.com may be large, but the sales are shared among thousands of vendors, and users' experiences may differ greatly. As a result, Vancl.com can still sustain its current advantage in the B2C clothing retailing segment.

5.2.2 The Retailing Strategies of Vancl.com

This section explores Vancl.com's strategies by analyzing its unique activities through the four lenses framework used in previous cases.

Operational Excellence

As a brand that focuses on delivering low-priced fashionable apparel to young people, Vancl.com faced challenges such as cost control, designing, and prompt delivery. The influence of these factors could pose threats to its brand image and value proposition, and discourage people from buying clothes online. Vancl.com was able to address these problems by operational excellence.

Competitive Price

Online clothes retailing faces inherent problems. Usually, people choose to buy clothes in physical stores because they can see and touch them, and more importantly, try them on and try different combinations. Given that online apparel retailing can hardly meet these requirements, using low price to appeal to them is a natural choice.

Vancl.com attracted people's attention by selling shirts at a price as low as RMB 69 yuan (about $10.9), a price much lower than that of leading brands like Youngor. The low price offset some concern about the problem of trying on and other issues. In addition, Vancl.com introduced a free shipping policy for any purchase over RMB 99 yuan (about $15.7), further reducing concerns about total costs. Finally, Vancl.com had an on-delivery try-on service in major cities including Beijing and Shanghai. This service reduced the concerns about buying the wrong sizes or wrong colors, as it was possible to reject the products after try-on, creating a hassle-free online purchasing process.

Vancl.com was able to provide customers with low-priced products because of its strong relationships with outsourced clothing manufacturers, and its aim to keep the price low by sacrificing short-term profitability.

When it first started to sell shirts with its own brand, Vancl.com chose manufacturers that also produced shirts for global brands such as Zegna. That did not mean that the Vancl shirts had the same quality of global brand ones, as the quality of shirts is determined by many factors including materials and manufacturing equipments; however, it did assure the customers that Vancl shirts were not cheap shirts produced by factories that just produce low-quality products. As customers trusted the quality of

Vancl shirts, the number of shirts sold was increasing very fast. With the large volume of orders, Vancl.com clearly held a stronger position in bargaining power, which contributed to the low cost of the shirts. Similarly, when Vancl.com sold more than 10 million t-shirts in 2010, at the price of RMB 39 yuan (about $6.19), it gained a very strong bargaining power over the suppliers (Xiang, 2012).

Another reason that Vancl.com could sell products at a low price was that Chen, the CEO, was determined to build Vancl as a brand for mass customers, who are price sensitive. Low price could send a persistent signal to the customers the brand is aiming for. As a result, Vancl.com is giving up short-term profitability to keep its brand image. In an interview, Chen said the company could easily get positive net income by raising the price, or cancel the free shipping policy, given it has already gained a large customer base, but it would be contradictory to the value proposition of the brand.

Free and Fast Shipping Service

As mentioned previously, shipment costs could be a major impediment to online shopping in China. In order to remove the barrier, quite a few B2C E-commerce businesses have been offering free shipping services. There are different approaches to achieve this goal, and currently most companies choose to work with third-party delivery service providers. However, this approach has brought issues such as different quality of delivery service. The third-party delivery service providers varied from each other, and could sometimes fail to deliver on time, or offend customers with unprofessional behaviors. As the delivery service is associated with the brand and considered as a part of the whole purchasing process, failing to deliver a quality shipment may lead to loss of a repeat customer.

Vancl.com is not the first company to offer free shipping services, but it has led the industry in building its own shipping service. The drawback of building a self-run delivery service is mainly a matter of cost. It may take years for the company to recoup the fixed investment in vehicles, training and other aspects. In order to solve this problem, Vancl.com used a combination of third-party service and its own shipping service. It uses its own shipping arm to serve major cities like Beijing and Shanghai where most orders are from. In these cities customers are sensitive to delivery services as well as shipping cost, because they have access to local apparel stores which could potentially substitute for online clothes stores. High cost or bad quality of shipping would lead them to buy at a local store.

An issue with the free shipping service is that customers may abuse the service, e.g., buying low-valued products that could barely compensate for the shipment cost. In order to avoid this trap, as mentioned earlier, Vancl.com has restricted the free shipping policy to purchases above RMB 99 yuan (about $15.7). This price setting is able to help Vancl.com at least keep a reasonable profit after the shipping cost.

Customer Intimacy

On Delivery Try-on Service

E-commerce has made it possible to sell almost anything online. However, unlike customers buying from businesses like book retailing where products are standardized, those who buy clothes need to make decisions such as the correct size and the right color, which is hard to get right, given limited information on the website. Therefore, customers tend to buy clothes in stores. In addition, even if the customers are willing to buy online despite the uncertainty of these factors, they will find that it will cost much time and energy to return them if they bought the wrong ones or the clothes did not meet their expectations. This will greatly discourage a customer from continuing to buy clothes online.

Vancl.com decided to encourage customers to buy clothes from it by offering try-on services on delivery. Customers could try the clothes on and return the unwanted ones. This has reduced the risk of buying the wrong size, color, or unexpected design. Vancl.com is the only online retailer that provides such service, thanks to its own delivery subsidy. As it would be difficult for Vancl.com to negotiate with third-party delivery services for an on-delivery try-on service, it has made a good decision to open its self-run delivery service, which is easier to control and delivers the required service quality.

Collection-On-Delivery service

COD, or collection-on-delivery, is another service that removes the barrier to online purchasing by Vancl.com. It gives people who are not knowledgeable about online payment methods such as Alipay (a service like Paypal) or online credit card or debit card payment. As previously mentioned, online payment with credit cards or debit cards is inconvenient because of bank security measures such as complicated procedures and maximum amount of daily or monthly transactions. In addition, the online payment is not available to all banks in different websites, which is another barrier for the customers to use bank accounts for online payment.

As a result, COD service was introduced to solve these inconveniences. The delivery staff member will collect the payment upon delivery, by cash, credit cards or debit cards. However, using third-party delivery to do the collection will stretch the collection period as the payments first go to the delivery services and then to the online retailers. This is an important issue that influences the cash flow of an online retailer. Vancl.com has solved the problem by employing its own delivery arm to collect the payments, therefore ensuring the cash flow. Currently, the COD service has covered main cities all over the country. In major cities like Beijing and Shanghai, the COD service is carried out by

Vancl.com's own delivery service; in other cities with far fewer orders, the service is conducted by partner delivery services. According to iresearch.com, Vancl.com has established its own delivery service in over 20 major cities, and maintained partnership with more than 100 third-party delivery service providers all over the country, making it possible to carry out COD service in more than 1000 cities in China (iresearch.com, 2011).

Not only has the COD service removed the bar of inconvenience of online payment for customers, but it has also reduced the obstacle of receiving a refund. If the customer paid online, but decided to return the goods after delivery, it would take several days for him to get the refund (vancl.com, 2012). In comparison, if a customer chose COD, and if he was within the major cities that on-door return service was available, he would be refunded immediately when the delivery staff member came to retrieve the returned goods. This service makes shopping at Vancl.com risk-free and convenient to customers, and it further improves the shopping experience at Vancl.com.

In addition, the product returning and exchanging service was excellent. According to a report by *China Business Herald Net*, the on-door return service at Vancl.com is faster than other major B2C E-commerce companies. In the report, the journalist found that Vancl.com delivered the products the next day he placed the order. When he requested to return a product and exchange it to another one in the morning, the delivery staff member arrived in the afternoon on the same day, took back the returned products, and brought with him the product the journalist wanted (Jiang Yongxia, 2011).

Product Leadership

As discussed before, Vancl brand appeals to customer not only for its low prices, but also for its quality and variety of designs.

Since its earliest days, Vancl.com cooperated with suppliers well known for their quality of materials as well as quality of manufacture.

The company relies on in-house and external designers, who designed many hit products. The in-house designers that Vancl.com has recruited are an experienced designer team which previously worked for international brands such as Nike, Kappa and Converse. It also outsources some designing tasks to outside designers who are located all around the world. Thousands of designers would create designs for Vancl.com, and they would be paid upon the adoption of their designs. For example, the best selling canvas shoes series, which sold more than 5 million pairs in 2010, were created by a studio in Spain (news.vancl.com, 2012). With the outsourcing model and in-house designers, Vancl.com is able to offer products that are very fashionable and attractive.

One example to exemplify the impact of Vancl.com's designs is the popularity of its T-shirt series. In 2011, Vancl.com sold around 10 million T-shirts. It was estimated that the total number of T-shirts sold in 2011 was about 50 million. This means that Vancl.com accounts 20% of domestic T-shirt sales in terms of volume, making it the brand that had sold the most T-shirts in 2011. Vancl.com also announced that in 2012, it would make contract with more than 200 designers, and introduce more than 2000 different designs of T-shirts (Xiang, 2012). The various different designs make Vancl.com's T-shirts different from those of other brands, and the low price and good quality makes it appealing to young people who like fashion trend but are also price sensitive.

Platform Leadership

Like Zappos.com, Vancl.com is a B2C E-commerce company selling products by itself. So far, it has not opened its door to third-party vendors; therefore, it is not a platform. Vancl.com's sales have been largely driven by advertising, leading to questions of sustainability. As mentioned previously, Vancl.com has been pursuing a "get big fast" strategy, investing heavily in advertising and increasing market share and customer base quickly. As its market share in apparel becomes larger, the growth rate of revenue, customer base, and market share may stagnate, and measures should be taken to keep the momentum. Vancl.com has a strong brand, a large customer base with various needs. It will not be surprising if Vancl.com chooses to open its platform to other vendors in the future, extracting the buying power of customers by offering wider selections, and utilizing its large customer base by involve in third-party vendors.

Chapter 6 Conclusion: Distilling Strategies of US and Chinese Online Retailers

This chapter aims to distill the strategies of the companies analyzed in the case studies, and find out best practices from the ways these companies achieve their unique market positions.

6.1 The Unique Market Positions of Companies Studied

According to the case studies done in previous chapters, the companies studied took different sets of activities in order to achieve their desired market positions. With the help of the four lenses used in the case studies, it is that these companies are pursuing different market positions:

	Operational Excellence	Customer Intimacy	Product Leadership	Platform Leadership
Amazon.com	√	√		√
Zappos.com		√		
Dangdang.com	√			
Vancl.com	√		√	

The four lenses indicate that a company needs to strive to be the industry leader in one of the four aspects, and offer services good enough in the rest of the areas. It can be observed from the case studies that all these companies have achieved at least one of them. Particularly, Amazon.com has been building up its leading position in three of the areas, making it especially strong versus other competitors.

It can also be observed that both of the US online retailers chose to develop leadership in customer intimacy in different ways. Both Chinese online retailers first developed operational excellence in low prices and quality of delivery.

As discussed in previous chapters, Amazon.com achieved leadership in customer intimacy by providing customized website to consumers and recruiting knowledgeable staff to satisfy customers' various preferences. Zappos.com achieved customer intimacy in a very different way. It has been putting corporate culture on top of all activities, making sure that every customer is served by a staff member who really loves to help and cares about the feeling of the customers. It carefully recruited and trained excellent service staff that offer services beyond satisfaction, retaining a high rate of repeat business.

The Chinese online retailers have been focusing on operational excellence. Low prices and other costs usually help the online retailers in China gain advantage quickly. As a result, both companies studied worked on operational excellence to cut product price. However, it is the quality of products and services that determines whether the first-time buyers will stay with the online retailers. As a result, these companies need to go a step further to develop customer loyalty. Dangdang.com did so in terms of moving further in operational excellence. Its wide range of product scope, promise of free shipping and COD services has catered to customers' need for convenience, keeping the customers with the company. Vancl.com chose to develop a product leadership by offering abundant unique and fashionable designs under its own brand, increasing customer loyalty.

6.2 Best Practices in Different Value Disciplines

All the companies have adopted activities that best suited their own capabilities. However, these successful companies have employed several common or unique activities that worth to draw upon for other companies that would like to enter or grow faster this industry.

Operational Excellence

One theme in operational excellence is improving the efficiency and effectiveness of logistics. One of the advantages of online retailers is limitless shelf space. However, this has also posed a challenge to the logistics operations in terms of stock keeping and delivery.

Amazon.com improved its logistics operations by building its own fulfillment centers, which are close to shipment partners' delivery centers, and are powered with automated facilities like conveyor belts. With the fulfillment centers, Amazon.com can control its inventory and shipment time precisely, making the delivery process visible to customers.

The Chinese companies have moved further. As the express delivery service by China Post, the nation's biggest post service, do not completely satisfy the need of online business in terms of price and speed, much of the market share goes to regional shipment providers, making it difficult for online retailers to deliver a uniform delivery experience to all customers. To address this issue, Vancl.com has build its own delivery service, providing services including on-delivery try-on, COD, and door-to-door return and refund services which can hardly be done by third-party delivery providers, greatly increasing the reliability of delivery service and customers' willingness to buy goods online.

Customer Intimacy

As mentioned in previous chapters, the customer service offered at Zappos.com has set a benchmark for online retailers. The key to achieving such customer intimacy lies in Zappos.com's unique corporate culture. Zappos.com claims itself first as a service company, then an online retailer. In order to make sure it provides the best service, it puts emphasis on hiring staff with the culture fit, providing them with intense training, and encouraging staff to satisfy customers' need at all costs. When people hear stories that Zappos.com staff spent 5 hours talking to a customer on the phone, or sent flowers to customers on important dates, they will feel strongly that this company puts customers' satisfaction on top of anything else.

Product leadership

Product leadership is best exemplified by Vancl.com's pursuit of various design and brand building. In order to differentiate itself from other apparel brands, Vancl.com cooperated with top material suppliers and clothing manufacturers to ensure the quality; it has also recruited a top international designer team as well as hundreds of outside individual designers to improve the variety of its designs. As a result, Vancl.com is able to provide clothes with abundant designs, good quality, and low prices, features that can hardly be matched by its competitors.

For online retailers that do not carry their own brand, expanding the scope of products could improve the position of the website. Inability to provide the products customers wanted could result in their switching to competitors. Amazon.com has expanded into areas like electronics and home appliances that are very different from its original book retailing business, leveraging its customer base and other resources and increasing its share of customers' wallet. Zappos.com, on the other hand, has entered related areas such as clothing, bags and accessories.

Platform Leadership

Amazon.com has been using its website as a platform. It has opened its doors to third-party vendors, allowing them to open their own shops on Amazon.com's site and to sell the same or different products the online retailer carries. It has also allowed the vendors to utilize Amazon.com's resources in storage and fulfillment. This platform strategy has been a win-win to both parties. On the one hand, Amazon.com has broadened the range of its product scope with the complementary products from the vendors, making the website more valuable to customers. The strategy has also helped Amazon.com to better utilize its unused resources in fulfillment center. On the other hand, the vendors can utilize the large customer base of Amazon.com, and the "fulfilled by Amazon" service, which helps them to focus on sales.

6.3 Conclusions

We have discussed the common points and difference between the US and China markets for online retailing. They are both highly competitive, growing very fast, and changing quickly. However, the infrastructure and customer behaviors are different. For example, online payment in China is not as popular as in the US because of the low adoption rate of credit cards and the lack of support from financial institutions. The delivery services in China are conducted by various national and regional firms, which provide different speed and service quality. As a result, US firms need to adopt corresponding strategies in China.

The cases of Amazon.com explained how Amazon.com survived the burst of dot com bubble. When most companies in that era try to be the first mover and spent large amount of money in order to get big fast, Amazon.com chose to pursue operational excellence. It maintained a healthy cash flow by expanding step by step, and outlived most of its competitors.

Through the framework of four lenses, I have observed that online retailers in both US and China are adopting a combination of different unique activities in order to achieve their strategies. Each of them has achieved extraordinary success in at least one of these four aspects. Pursuing customer intimacy, Zappos.com has won the loyalty of its customers by providing extremely good services that can hardly be copied by its competitors. Striving for operational excellence, Dangdang.com has become the nation's largest book retailer by providing low prices and wide selections that are hard to match. Vancl.com has quickly become the leader in online apparel retailing by pursuing operational excellence and product leadership.

Finally, it is not easy for foreign online retailers to succeed in China if they simply apply the strategies successful in other markets. The business environment is so different that the companies entering China need to conduct fundamentally different strategies. Customers are generally price-sensitive, but they also care about product quality and services. It requires foreign companies to take time to understand the market and listen to local talents and customers. It also requires them to adjust their strategies to accommodate the complementary resources such as delivery and payments.

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