Competing with Dragons: Amazon in China

- Case Analysis

TGM 515 - Navigating Global Business Environments (Asia)

Instructor: Prof. Robert Grosse

Arizona State University

<u>Problem</u>:

Amazon's expansion into China was hampered by their refusal to adjust their business model and dependence on a global technical infrastructure. Their failure in China is due to a lack of marketing, fierce local competition, and a massive cultural clash.

<u>Method</u>:

To analyze Amazon's current competitive advantages and disadvantages, we will use Michael Porter's Competitive Advantage Theory to suggest opportunities in China against local rivals.

<u>Analysis</u>:

Amazon's issue is a mix of cultural ignorance and political/economic correctness. They sought to enter China by replicating the US business model. We used the Competitive Advantage theory to determine if Amazon could have potential power over its competitors or simply, exit China.

Difference in Business Models:

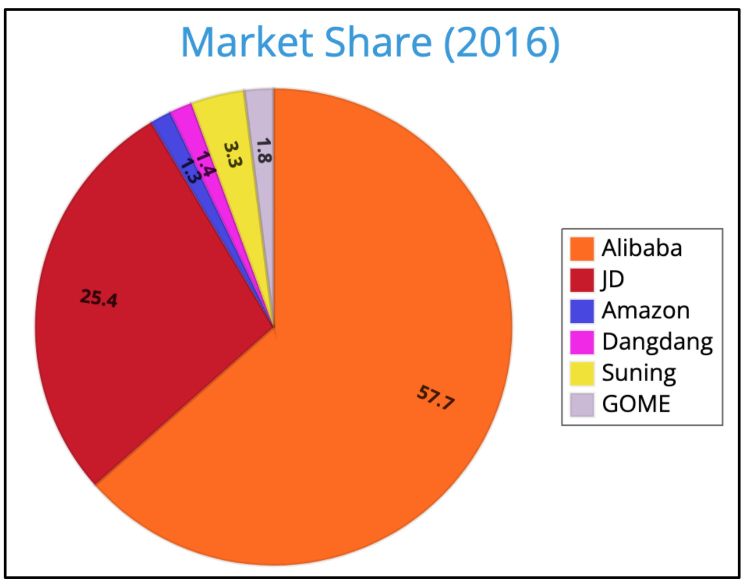

Fig 1. *Market share captured by top e-commerce giants in China (2016)*

1. <u>Amazon vs Alibaba</u>

With both the above firms being e-commerce behemoths, we have compared their competitive advantages and disadvantages through the visuals below –

a. Key advantages

AMAZON	ALIBABA
Revenue is generated through the B2C business model, AWS cloud services, and Amazon Prime streaming services, providing them a major competitive advantage.	Revenue is generated through the B2B business model. Introduced sites such as Tmall (B2C) and Taobao (C2C), as well as Alipay, broadening their revenue streams.
Massive distribution and inventory warehouses totalling 9 million square feet, which may be accessed by third-party independent merchants.	Does not involve massive warehouses since they link local vendors to worldwide buyers through their platform, eliminating the need for them to maintain their own inventory and lowering infrastructure costs.
Amazon does not only provide a marketplace for businesses to sell their wares and attract customers; for a fee, Amazon reviews and administers the majority of the production, warehousing, delivery, and client service procedures, providing a more robust service to sellers and businesses.	For an annual charge, they provide a substantial value to sellers by equipping with marketing tactics for selling products. They also found a way to efficiently utilize the local labor available and cut costs of delivery and logistics way more significantly than Amazon could.
Through a concept called Global Supply Chain by Amazon, Amazon is aiming to connect Chinese businesses to the Fulfilment by Amazon program. This would, in theory, facilitate the seamless conveyance of Chinese-made goods globally and by offering lightning-fast delivery services locally.	Alibaba has an apex understanding of the Chinese market giving them a major competitive advantage. They have shown that price is not necessarily the decisive factor, especially in a market where Chinese customers have historically distrusted online purchases, by providing independent verification services and full protection for both buyers and sellers..

Table 1. *Competitive Advantage of Amazon and Alibaba in China*

b. Key Disadvantages

Fig 2. *Disadvantages of Amazon in the Chinese Market*

c. Amazon’s Response?

Amazon may employ several strategies to gain a piece of Alibaba's enormous 58 percent market dominance (Fig. 1):

1. Amazon.cn can develop an app that complements their primary website. Consumers must be able to interact easily with merchants regarding products, refunds, and quality, and simplify payment methods.
2. While Amazon is a customer-centric company, they should not abandon suppliers by rebranding their items under the AmazonBasics brand. They must also relax their rules and regulations regarding vendor closures based on unfavorable responses/ratings from emotional users.
3. Amazon's Global Supply Chain plan would not only compete with Alibaba, but also UPS and FedEx, dramatically increasing their cross-border e-commerce revenues. If Amazon accomplishes this, it may significantly erode Alibaba's market share, while being inexpensive.

It's a widespread misperception that foreign businesses have limited chances of success in China. It's accurate but is not the whole truth. Amazon took too long to commit to China. It's easy to underestimate the value of design and websites in diverse locations, but a quick check at Tmall.com demonstrates what locals prefer. If producers and sellers could outsource shipping, warehousing, and logistics to Amazon, it may make sense to abandon Alibaba's services, as Alibaba is still relatively a niche business.

2. <u>Amazon vs JingDong</u>

a. Key Similarities / Disadvantages

JingDong (JD) separated itself from Alibaba by selling several of its own items online. Like Amazon, JD has raised billions of dollars to build its own logistics and delivery network. These parallels, while favorable to both organizations independently, create barriers of entry for Amazon, making it harder to compete. The shipment speed is perhaps Amazon's biggest flaw against JD. Aside from their network, JD has strong collaborations with big organizations (like Walmart) that enable faster and more dependable shipment. For example, JD can deliver throughout the city in 12 hours, but Amazon cannot.

b. Amazon’s Response?

Among other things, Amazon Prime in the US offers free delivery, movie and music streaming, which JD does not. If Amazon offered this in China, it would be a huge competitive advantage against JD. Because Amazon's China team has so few locals, market research (focus groups) is vital to their success. This type of research should help companies decide whether to keep marketing their existing products or create new ones that could shift customers' attention to them.

3. **Amazon vs PinDuoDuo**

a. **Key advantages**

Amazon, compared to PingDuoDuo, has a strong brand identity due to its long history and success in the e-commerce market in China. Until recently, Amazon has concentrated on competing with China's dragons. The implication is its increased focus through the restructuring process and providing novel product and business offerings; the company is highly likely to succeed in China.

b. **Key disadvantages.**

PinDuoDuo's logistics network (inherited from Joyo's logistics system) was confined to first-tier cities, thus, distribution to third-tier areas had to be outsourced, causing delivery issues. It also relies on technology and leaves little opportunity for human input, resulting in poor product selection. Conflicts with third-party vendors have reduced sales and increased competition from independent Amazon merchants.

c. **Amazon's Response?**

Among the strategies that PingDuoDuo employed is that the company integrated a social component within the traditional online shopping process: the team-purchase model. The model allows the sharing of product information on various social media platforms. Users can invite their other contact to purchase products as a team to get lower prices which ensures an interactive shopping experience that motivates the buyers. Therefore, Amazon can employ this strategy to increase its volume of customers and promote voluminous repeat.

4. **Amazon Vs Suning**

a. **Key advantages**

Amazon's outstanding logistics network equipped with state-of-the-art technology is one of its key advantages over Suning. Amazon has extensively invested in developing a nationwide logistics network in China after acquiring Joyo. Suning lacks Amazon's sophisticated and well-distributed logistics network.

b. **Key Disadvantages**

One of the key disadvantages for Amazon against Suning is the pace that Suning has been able to grow its retail and franchise store network. Post its acquisition of the Carrefour retail store network in China, Suning had 2756 retail stores across China by 2010. At the same time, Suning's network of franchise stores crossed 9000 in the first quarter of 2021.

c. Amazon's Response?

Amazon struggled for a long time to bring third-party merchants onto its platforms because it established policies designed for western markets that deterred Chinese third-party vendors from selling Amazon's items for extended periods of time. Rather than face the same fate, Suning decided to create a retail and franchise store network to get a larger market share. Despite this, Amazon's technology advances in logistics and supply chain offer them an advantage over Suning. However, Suning has made significant investments in logistics and warehouse management systems, resulting in a distribution network spanning 351-cities.

Conclusion:

By now it may be too late for Amazon, Alibaba along with JD.com, control more than 80% of the market. It wasn't just because of government policies that Amazon failed to grow; it is the sheer misunderstanding and underestimation of the Chinese market. A market as big as China plays by its own rules, therefore, it was critical for Amazon to adapt its business strategy and cater to the preferences of the local market. However, whether they pull off their ambitious Global Supply Chain plan that could potentially disrupt the Chinese market and explode their cross-border e-commerce, remains to be seen.