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AMAZON IN CHINA[[1]](#endnote-1)

Amy Ni and Anna Fu wrote this case under the supervision of Ning Su and Ming Dong solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Amazon.com Inc. (Amazon), an American electronic commerce and cloud computing company based in Seattle, Washington, was founded by Jeff Bezos on July 5, 1994. Amazon started as an online retailer of books and later grew to include seven product sections. First, the company expanded its product offerings on the Amazon website to include consumer goods such as housewares, video games, electronics, software, apparel, furniture, food, toys, and jewellery. Second, the firm established Amazon Basics as its in-house brand, sold on Amazon.com. Third, the company formed a publishing arm, Amazon Publishing, to produce content that it could sell on its retail website. Once published, the content would be sold and viewed via Amazon’s consumer electronics products, including Kindle e-readers, Fire tablets, Fire TV digital media players, and Echo smart speakers. Content such as films and television were produced at Amazon Studios. Amazon Prime was a paid subscription service that gave users access to free two-day delivery (and one-day delivery in some areas), and Amazon Prime Video allowed users to view video content generated through Amazon Studios and other producers. Last, through its Amazon Web Services (AWS) subsidiary, the company was the world’s largest provider of cloud infrastructure services: infrastructure as a service (IaaS) and platform as a service (PaaS). By the start of 2016, Amazon was attracting over 130 million customers to its US website each month.[[2]](#endnote-2)

Over the past two decades, Amazon had further expanded its company through an initial public offering (IPO), mergers and acquisitions, and development of its product lines. On May 15, 1997, Amazon issued an IPO at $16 per share.[[3]](#endnote-3) In 2015, Amazon became the third-most-valuable public company in the United States, behind Apple Inc. (Apple) and Microsoft Corporation (Microsoft).[[4]](#endnote-4) In 2017, Amazon acquired Whole Foods Market Inc. for $13.4 billion, which vastly increased Amazon’s presence as a brick-and-mortar retailer.[[5]](#endnote-5) In April 2018, Amazon reported that Prime Video had more than 100 million subscribers in the United States.[[6]](#endnote-6) For the fiscal year 2017, Amazon reported earnings of $3.03 billion, with an annual revenue of $177.87 billion, an increase of 30.8 per cent over the previous fiscal cycle. Since 2007, the company’s sales performance had increased from $14.84 billion to $177.87 billion (see Exhibit 1) due to its continued business expansions in Europe, Asia, South America, and Oceania (see Exhibit 2). Amazon’s market capitalization was valued at over $803 billion in early November 2018.[[7]](#endnote-7)

Amazon’s China Strategy

On August 19, 2004, Amazon leaped into the Chinese market with a $75 million buyout of Joyo.com Limited (Joyo)—China’s largest online book, music, and video retailer.[[8]](#endnote-8) Before the acquisition, Joyo, which was founded under Chief Executive Officer Jun Lei in May 2000, had recorded sales of $12.69 million[[9]](#endnote-9) during the first half of the year. The acquisition represented a revolution for the online business-to-consumer (B2C) model in the Chinese market. Amazon spokesperson Patty Smith said that Amazon would apply the same template for running the Chinese operation that it had implemented in other regions, making sure that it respected local customs and regulations regarding the products it sold in the region.[[10]](#endnote-10)

More than a year after the acquisition was completed, Amazon launched its own database system to replace Joyo’s previous system. This replacement process, which was intended to emphasize Amazon’s information technology (IT) systems, took Amazon three years to carry out. On June 5, 2007, Joyo officially changed its name from Joyo to Joyo-Amazon, and on October 27, 2011⎯it had taken an additional four years for the company to slowly erase the remaining traces of Joyo⎯Joyo-Amazon became Amazon China.[[11]](#endnote-11) Amazon brought not only its globally recognized brand and leading IT system to China, but also, more importantly, its business philosophy.

Bezos had always adhered to the idea of Amazon as a company that focused on customer needs—a company that was customer-centric rather than competitor-centric. During company meetings, Bezos often placed an empty chair near him to represent the most important person in the meeting: the consumer. In Amazon’s China operation, the opening remarks at executive meetings were often reminders to record and listen to customers. Executives also went to the front line to answer customer complaints from time to time.[[12]](#endnote-12) There was always a customer experience officer appointed at Amazon; before any product went on the market, it had to be approved by the customer experience officer, who could use their “one-vote veto” to stop any product from becoming available to the market.[[13]](#endnote-13)

As an e-commerce company, Amazon thought highly of its supply chain management capabilities, which represented its long-term competitiveness. The company’s focus in the Chinese market was on its complete logistics process. It strived to find the most economical and efficient way to deliver goods from its warehouses into the hands of its end-consumers.[[14]](#endnote-14) While Amazon’s competitors in the Chinese market—Alibaba Group Holding Limited (Alibaba) and JD.com Inc. (JD), also known as Jingdong—participated in price wars and rapid free delivery to dramatically increase their active user bases at the time, Amazon relied less on price-based competition.

In 2016, Amazon launched Amazon Prime in China, which allowed 70 per cent of its users in China to enjoy same-day or next-day domestic delivery and five- to 12-day overseas delivery. There were three options for joining Prime: a monthly subscription of $15; an annual subscription of $55; or an annual package that combined services from Amazon and Tencent Holdings Limited (Tencent),[[15]](#endnote-15) for $56[[16]](#endnote-16) (see Exhibit 3).

Despite its efforts, and in contrast to the company’s rapid development in the North American market, Amazon’s share of the Chinese market declined over the first 14 years. In 2008, the company had a market share of 15.4 per cent, which fell to 2.1 per cent in 2015, and then fell even further, to 0.6 per cent in 2018. Although there were no official financial figures reported, Amazon China was believed to have experienced an estimated loss of $600 million in 2014.[[17]](#endnote-17)

China’s E-Commerce Industry

Since 2007, China’s e-commerce industry had been experiencing exponential growth due to the increased popularity of the Internet, and the country’s modernized telecommunications infrastructure, which made it affordable for people to access the Internet. The years 2007 through 2010 saw rapid growth in the number of consumers going online. In each of these years, China gained between 73 million and 88 million new Internet users—a volume that exceeded the populations of France, South Korea, and Canada[[18]](#endnote-18) (see Exhibit 4). Chinese consumers went from having little familiarity with online shopping to having a relatively high level of comfort and adoption. From 2011 to 2015, e-commerce also rapidly expanded from major hubs to penetrate suburban and rural areas in mainland China.

Chinese consumers could be divided into four segments based on their purchasing power, which was characterized as light, moderate, heavy, and super-heavy. Annual online spending for light spenders was less than approximately $1,000–$2,000, and super-heavy spenders spent more than approximately $2,000. Although super-heavy spenders accounted for only 7 per cent of total e-shoppers, they contributed 40 per cent of the total online spending amount (see Exhibit 5). By 2015, average annual online spending was approximately $1,200 per shopper.[[19]](#endnote-19)

Chinese e-shoppers were able to access a wide range of goods through e-commerce sites, for example, apparel, appliances, skin care and cosmetics, baby products, health products, travel products, and study materials. Of these, apparel—the first and biggest e-commerce category in China—accounted for approximately 50 per cent of the total market transaction value. The majority of consumer demand in China was linked to unique brands that were not found in brick-and-mortar shops. For example, in the case of skin care and cosmetics products, 25–35 per cent of customers were shopping online because they could not find items in local retail stores. In urban centres, more cosmopolitan consumers were seeking out brands that had not yet entered China. In less densely populated areas, e-shoppers more often searched for brands with limited coverage that were not available in local retail stores. Chinese e-shoppers were relatively price sensitive, and loved to spend time looking for deals. Without the fixed costs of operating retail stores, online shopping platforms were able to offer shoppers the best deals across China.[[20]](#endnote-20)

Overall, the e-commerce market in China had grown dramatically. In 2017, the estimated market size surpassed approximately $380 billion.[[21]](#endnote-21) Tmall and Taobao, both owned by Alibaba, and JD were the three giant market leaders in China, accounting for an enormous portion of the local market share. In total, they represented approximately 88 per cent of the Chinese market in 2017: Tmall represented 38 per cent, Taobao represented 32 per cent, and JD represented 18 per cent.[[22]](#endnote-22) These companies had virtually defined the e-commerce landscape in China.

On November 11, 2018, Alibaba reported transaction volumes of $30.8 billion online over 24 hours[[23]](#endnote-23) for its Singles Day Celebration—a promotional event invented by Alibaba and held on that date because the digit “1” (in 11/11) symbolized a single person. The promotional event was meant to be about everyone—not just singles—and invited customers to treat themselves to products they had always wanted. The 2018 transaction volume was a significant increase of $25.3 billion in gross merchandise volume over the total spent by Alibaba shoppers in 2017. By now, China had the second-largest population of online shoppers—145 million, compared to 170 million in the United States—more than twice the number in Japan and five times the number in the United Kingdom.[[24]](#endnote-24)

As e-commerce continued to be adopted in China, obstacles appeared. These included the lack of a satisfactory payment method, a low level of trust from a consumer population that was wary of counterfeit goods, and logistical challenges. However, 2003 saw the introduction of Alipay, an innovative escrow account developed by Alibaba. Alipay quickly won over consumers’ confidence and trust because it allowed consumers to pay for their orders after they received their packages. This payment solution was different from the PayPal or credit card methods commonly used in North America, which required customers to pay merchants when they placed orders through platforms such as Amazon. In 2012, Tmall began to sell branded products to effectively address the issue of inferior goods. Alibaba relied on trusted third-party transportation companies such as Cainiao Smart Logistics Network Limited, and JD established its own 100 per cent controlled digital logistics network to ensure that goods were delivered 24–72 hours after orders were placed.

Competitive Landscape

Amazon, the leader of e-commerce in the global market, was challenged by local rivals when it came to the Chinese market. In China, Alibaba had risen by using the customer-to-customer model, and JD had established a self-operated digital logistics network; Amazon began its business through mergers and acquisitions. The vastly different business models and strategies used by these three giants meant that they each achieved different results in terms of revenue growth, employees, active end-users, and stock price.

Alibaba

Founded in 1998 by Jack Ma, Alibaba took 20 years to become a business empire covering industries such as e-commerce, retail, technology, cloud computing, entertainment, and financial services (see Exhibit 6).

Revenue Growth

Based on a business model of charging web operating fees and advertising display fees from sellers, Alibaba realized exponential growth from 2010 to 2017. In 2010, its total revenue was only $6.67 million (see Exhibit 7), but by 2017 its total revenue had soared to $158.273 million.[[25]](#endnote-25) Alibaba was able to maintain a positive growth rate trend of between 32.7 per cent and 78.5 per cent. With a compound annual growth rate of 57 per cent and a gross margin that was the highest among the three competitors, at approximately 60 per cent,[[26]](#endnote-26) Alibaba crushed other online retailers in China. For example, more products were purchased on Taobao in 2010 than at China’s top five brick-and-mortar retailers combined, making it the biggest retailer in China. The site boasted more than 800 million products and sold 48,000 items per minute.[[27]](#endnote-27)

In addition to focusing on maintaining its growth trend, the Alibaba group was also dedicated to a number of other projects, including research collaborations with stated-owned research organizations into quantum computing to develop artificial intelligence (AI) technology. The company also opened Hema supermarkets—which, like Amazon Go, brought technology-based convenience to Chinese consumers—and launched FlyZoo Future Hotel, equipped with the latest leading technology, in October 2018. The hotel incorporated many futuristic features: guests were able to check in without talking to anyone, and they could walk straight to their rooms and gain entry via facial recognition at the door.

Number of Employees

Alibaba employed about 66,000 people globally in 2018.[[28]](#endnote-28) Although it had a relatively smaller talent pool than its two closest rivals, Alibaba was able to successfully attract the right talent to bring value to the business. For instance, the Alibaba Global Leadership Academy was responsible for developing unique talents and dedicated to nurturing a global mindset and the skills required for international growth.[[29]](#endnote-29)

Active End-Users

The number of active end-users was a predominant indicator of the popularity of an e-commerce company because it indicated client stickiness and loyalty. The higher the quantity of active end-users, the higher the possibility of retaining customers and increasing gross merchandise volume.[[30]](#endnote-30) As the market leader in 2018, Alibaba had approximately 5.5 billion active end-users (see Exhibit 8).[[31]](#endnote-31)

Business Strategy

As the e-commerce business gradually matured in China, Alibaba began to seek business diversification. Alibaba’s cloud services subsidiary, Alibaba Cloud, saw strong growth, with the company sharing that “for the 12 months ended September 30, 2018, revenue from cloud computing increased 90 per cent year over year to reach $825 million, driven by higher value-added services and robust paying customer growth.”[[32]](#endnote-32) Alipay became the primary payment solution when consumers made purchases online; Alibaba also built China’s first information network based on credit history, Ant Financial Services Group (Ant Financial). In 2018, the Canadian government made a strategic agreement with Ant Financial, with the two countries agreeing that Chinese tourists could provide their Ant Financial credit reports (i.e., their personal credit scores) in lieu of personal bank statements when they applied for travel visas to Canada. By 2017, Taobao’s overseas website had been introduced in 12 countries and was providing services to local customers in six languages. It became the biggest export B2C platform in China. Meanwhile, in order to resolve the issue of overseas payments, Alipay extended its strategic co-operation with Chinese merchants to accept Alipay payments; in Canada, for example, it was now convenient for Chinese tourists to buy merchandise using Alipay. In addition to the existing services, Alibaba also planned to enter the health care industry and bring value to Chinese consumers by leveraging its existing big data and technology.[[33]](#endnote-33)

JD

JD was founded by Qiangdong Liu in July 1998. The company started as an online magneto-optical store but soon diversified into selling electronics, mobile phones, computers, and similar items. It was partly owned by Tencent, which had a 20 per cent stake in the company.[[34]](#endnote-34) JD was the world’s leading company in high tech and AI delivery using drones, autonomous technology, and robots, and it possessed the largest drone delivery system, infrastructure, and capability in the world. It had recently started testing robotic delivery services and building drone delivery airports, and had unveiled its first autonomous truck for driverless delivery.[[35]](#endnote-35)

JD’s main businesses included JD Mall, JD Finance, and JD Logistics. JD Mall was a B2C e-commerce platform with self-operated business at its core, which competed directly with Tmall. JD Finance and JD Logistics were subsidiary businesses derived from JD Mall’s B2C e-commerce business.

Profit Margin

JD’s gross margin accounted for 10–20 per cent of revenue, resulting from the company’s business model of earning spreads. JD’s net revenue for 2017 was $55.7 billion, an increase of 40.3 per cent from 2016. The company’s revenue from services and other increased by 49.9 per cent in 2017. Its annual gross profit for 2017 was $7.8 billion, which was an increase of 43.7 per cent from 2016.[[36]](#endnote-36) The strong top-line growth indicated that JD’s online shopping experience continued to meet Chinese e-consumers’ expectations and that it was able to win over consumers and drive robust revenue growth. As JD implemented its vision of “boundary-less retail,” the company worked with top industry players to build China’s most advanced and comprehensive retail ecosystem to reach consumers wherever and whenever they shopped.

Number of Employees

The total number of employees at JD was 160,000, of which more than 100,000 were delivery staff.[[37]](#endnote-37) JD had the biggest talent pool among the three players. Recently, JD had been paying attention to international talent recruitment to prepare for international growth. The JD International Management Trainee program (MBA track) provided a platform for domestic and international master of business administration graduates to join the e-commerce industry.

Active End-Users

JD had approximately 2 billion active end-users,[[38]](#endnote-38) the least among the three players, though it indicated a quickly growing upward trend. JD was able to take advantage of attractive marketing strategies to retain existing customers while increasing new customer acquisition (see Exhibit 8).

Business Strategy

Traditional e-commerce business accounted for 90 per cent of JD’s revenue, and the remainder came from its services and other businesses, including third-party platform business income.[[39]](#endnote-39) Google invested $550 million in JD in June 2018, and the two made a strategic agreement “to explore joint development of retail solutions to enable helpful, personalized and frictionless shopping experiences in several regions including Southeast Asia, the [United States], and Europe.” JD.com was also “to join Google Shopping and offer a curated selection of high-quality products to consumers across multiple regions.”[[40]](#endnote-40) Internally, JD continued to invest tremendously in its digitalization logistics service. For example, the JD Logistics group provided warehousing, transportation, distribution, customer service, and after-sales integrated supply chain solution services. This was done through a nationwide warehouse distribution logistics network, which included logistics cloud, AI, cross-border logistics services, and express delivery services. Up to 2018, JD Logistics operated 15 logistics parks, more than 500 warehouses, and nearly 7,000 delivery and pickup stations. Its storage facilities covered an area of 11.6 million square metres and had more than 300,000 service centres. Self-operated distribution covered 99 per cent of China’s population in 100 per cent of the mainland administrative districts. At the same time, nearly 1,000 international transport routes covered 224 countries and regions, and JD was still in a phase of rapid expansion.[[41]](#endnote-41)

Amazon’s Challenges

It had taken 24 years for Amazon to become one of the largest Internet retailers in the world, as measured by revenue and market capitalization. (The second-largest was Alibaba Group in terms of total sales.)[[42]](#endnote-42) The five business models that drove continuous sales growth at Amazon included its online store (i.e., its e‑commerce platform), its offline stores (e.g., Amazon Go and Amazon Books), AWS (IaaS and PaaS), Prime membership subscriptions, and other services (e.g., advertisement revenue).[[43]](#endnote-43) Together with its core businesses, Amazon had aggressively developed its own logistics network, Fulfillment by Amazon, to deliver better services for end-users. The firm also invested heavily in the Internet of Things (IoT),[[44]](#endnote-44) with products such as Amazon Echo, Alexa, Kindle, and Vesta. Globally, Amazon experienced dramatic growth in North America. For instance, Amazon’s market share in the e-commerce industry in the United States accounted for 49.1 per cent in 2017—eight times more than that of the second market leader, eBay Inc., whose market share in the United States was 6.6 per cent (see Exhibit 10).[[45]](#endnote-45) AWS became the company’s fastest growing and most profitable business.[[46]](#endnote-46)

Profit Margin

Looking at the number itself, Amazon’s profit margin of 30–40 per cent in China[[47]](#endnote-47) was an impressive achievement. However, a thorough analysis of the market conditions suggested that Amazon had been unable to reap the benefits of its rapid growth in China. Compared to competitors Alibaba and JD, who had achieved more than 300 per cent growth, Amazon’s growth of 30–40 per cent in the Chinese China e-commerce market was relatively modest.

Number of Employee

The number of employees in Amazon China’s operations team had decreased from 2,000 initially to less than 1,000 in 2015. The procurement team had been adjusted from more than 4,000 employees during the expansion period to 1,000. Amazon China’s overall number of staff had fallen more than 50 per cent.[[48]](#endnote-48)

Active End-Users

Since the fourth quarter of 2018, Amazon’s number of users had remained flat, at approximately 3 billion (see Exhibit 8). Even though this number was a fair proportion of the market, the critical question was why Amazon had not been able to gain more users, especially compared to Alibaba and JD.[[49]](#endnote-49)

Business Strategy

Amazon’s cloud services (AWS) had already taken the lead in the world, and Amazon Prime was launched in China in 2016 to attract local customers to purchase overseas goods. However, Alibaba and JD launched similar logistics solutions in China; for example, Alibaba established a connection with the third-party logistics company Cainiao Smart Logistics Network Limited in 2013, and JD had been building up its own delivery network since 2014.

What’s Next?

By the end of 2018, China’s e-commerce industry had become one of the world’s largest and most dynamic. Facing both opportunities and challenges, what should be the next steps for Amazon? Should Amazon restructure its business in China, acquire one of its competitors, start a joint venture with local partners, or pursue other options?

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Exhibit 1: Amazon’s Revenue, Net Income, Total Assets, and Employees, 2007–2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Revenue**  **US$ Millions** | **Net Income**  **US$ Millions** | **Total Assets**  **US$ Millions** | **Employees** |
| 2007 | 14,835 | 476 | 6,485 | 17,000 |
| 2008 | 19,166 | 645 | 8,314 | 20,700 |
| 2009 | 24,509 | 902 | 13,813 | 24,300 |
| 2010 | 34,204 | 1,152 | 18,797 | 33,700 |
| 2011 | 48,077 | 631 | 25,278 | 56,200 |
| 2012 | 61,093 | −39 | 32,555 | 88,400 |
| 2013 | 74,452 | 274 | 40,159 | 117,300 |
| 2014 | 88,988 | −241 | 54,505 | 154,100 |
| 2015 | 107,006 | 596 | 64,747 | 230,800 |
| 2016 | 135,987 | 2,371 | 83,402 | 341,400 |
| 2017 | 177,866 | 3,033 | 131,310 | 566,000 |

Source: Compiled by case authors based on data from Amazon.com Inc., *2007 Annual Report*, 2008, accessed April 26, 2019, https://ir.aboutamazon.com/static-files/56afc458-02b3-4938-9918-85d610d6f146; Amazon.com Inc., *2008 Annual Report*, 2009, accessed April 26, 2019, https://ir.aboutamazon.com/static-files/e1846da7-9425-42d9-add7-84218d7ee5e7; Amazon.com Inc., *2009 Annual Report*, 2010, accessed April 26, 2019, https://ir.aboutamazon.com/static-files/f793debb-dc0a-4edf-a56d-9ff739d53b41; Amazon.com Inc., *2010 Annual Report*, 2011, accessed April 26, 2019, https://ir.aboutamazon.com/static-files/6f3c99ed-5094-4fed-a9ad-e18cdbf37478; Amazon.com Inc., *2011 Annual Report*, 2012, accessed April 26, 2019, https://ir.aboutamazon.com/static-files/02a49fbe-6860-4ed7-ade4-905bcf16a5e1; Amazon.com Inc., *2012 Annual Report*, 2013, accessed April 26, 2019, https://ir.aboutamazon.com/static-files/28bfea7a-7b18-4ab0-ba03-581c6ccaa3a4; Amazon.com Inc., *2013 Annual Report*, 2014, accessed April 26, 2019, https://ir.aboutamazon.com/static-files/1be0475a-fcab-4826-9258-17f11c208487; Rupert Neate, “Amazon Reports $89bn in Sales Last Year as Shares Jump 11% After Hours,” *The Guardian*, January 29, 2015, accessed April 26, 2019, https://www.theguardian.com/technology/2015/jan/29/amazon-reports-89b-in-sales-2014; Janko Roettgers, “Amazon Clocks $107 Billion in Revenue in 2015,” *Variety*, January 28, 2016, accessed April 26, 2019, https://variety.com/2016/biz/news/amazon-clocks-107-billion-in-revenue-in-2015-1201691106/; Ángel González, “Amazon Sales Hit $136B in 2016; Dollar Hurts Overseas Business,” *Seattle Times*, February 3, 2017, accessed April 26, 2019, https://www.seattletimes.com/business/amazon/amazon-revenues-hit-by-stronger-dollar-miss-wall-street-expectations/; “Amazon 2017 Sales Jump by Nearly a Third,” BBC News, February 1, 2018, accessed April 26, 2019, https://www.bbc.com/news/business-42911123.

Exhibit 2: Amazon’s global expansion

|  |  |  |  |
| --- | --- | --- | --- |
| **Region** | **Sovereignty** | **Domain Name** | **Since** |
| **Asia** | China | Amazon.cn | September 2004 |
| Japan | Amazon.co.jp | November 2000 |
| India | Amzaon.in | June 2013 |
| Singapore | Amazon.com.sg | July 2017 |
| **Europe** | Germany | Amazon.de | October 1998 |
| UK | Amazon.co.uk | October 1998 |
| France | Amazon.fr | August 2000 |
| Italy | Amazon.it | November 2010 |
| Spain | Amazon.es | September 2011 |
| Netherland | Amazon.nl | November 2014 |
| Turkey | Amazon.tr | September 2018 |
| **North America** | USA | Amazon.com | July 1995 |
| Canada | Amazon.ca | June 2002 |
| Mexico | Amazon.com.mx | August 2013 |
| **Oceania** | Australia | Amazon.com.au | November 2013 |
| **South America** | Brazil | Amazon.com.br | December 2012 |

Source: Compiled by the case authors based on data from Aimee Goodsall, “Amazon Worldwide: A Complete List of International Amazon Sites,” Linnworks (blog), accessed April 26, 2019, http://blog.linnworks.com/amazon-global-international-sites.

Exhibit 3: Amazon—Prime Plan in China

|  |  |  |
| --- | --- | --- |
| **Prime Annual (¥288/year)** | **Prime Quarterly (¥79/quarter)** | **Prime + Tencent Combo Package (¥299/year)** |
| Free delivery over **¥**200/overseas order | Free delivery over **¥**200/overseas order | Eligible for all Prime member benefits + Tencent |
| Free delivery over **¥**0/order in China | Free delivery over **¥**0/order in China |
| Prime member discount | Prime member discount |
| Free e-book for Prime members | Free e-book for Prime members |

|  |  |  |
| --- | --- | --- |
| **Type of Order** | **Prime Member** | **Non-Prime Member** |
| Overseas order | Delivery options depending on the physical address of recipients   * Standard delivery: 7−12 business days on average if the order is over ¥200 * Rush delivery: 5−9 business days on average if the order is over ¥200 * Prime members need to pay import duty fees | No matter the order total, non-Prime members must pay a delivery fee   * Standard delivery: 7−12 business days on average if the order is over ¥200 * Rush delivery: 5−9 business days on average if the order is over ¥200 * Prime members must pay import duty fees |
| Domestic order (China) | Free delivery inside China (no minimum spend amount) | Free delivery inside China if the order is over ¥99 |

Note: ¥ = RMB = Chinese yuan renminbi; US$1 = ¥6.8785 on December 31, 2018.

Source: Compiled by case authors based on data from “Prime” [in Chinese], Amazon.cn, accessed April 26, 2019, https://www.amazon.cn/amazonprime?\_encoding=UTF8&ref\_=nav\_logo\_prime\_join.

Exhibit 4: E-Commerce Market and Growth in New Internet Users in China,  
2005–2015

|  |  |  |
| --- | --- | --- |
|  | New Internet Users  (Millions of People) | New e-shoppers  (Millions of People) |
| 2005 | 17 | 11 |
| 2006 | 26 | 10 |
| 2007 | 73 | 12 |
| 2008 | 88 | 25 |
| 2009 | 86 | 29 |
| 2010 | 73 | 36 |
| 2011 | 61 | 43 |
| 2012 | 48 | 38 |
| 2013 | 50 | 38 |
| 2014 | 47 | 34 |
| 2015 | 40 | 31 |

Source: Adapted from “Exhibit 1. China’s Rapidly Expanding E-Commerce Market Follows an Era of Exponential Growth in New Internet Users,” in Jeff Walters, Youchi Kuo, Waldemar Jap, and Hubert Hsu, *The World’s Next E-Commerce Superpower: Navigating China’s Unique Online-Shopping Ecosystem*, 7, Boston Consulting Group, 2011, accessed April 26, 2019, https://www.bcg.com/documents/file91905.pdf.

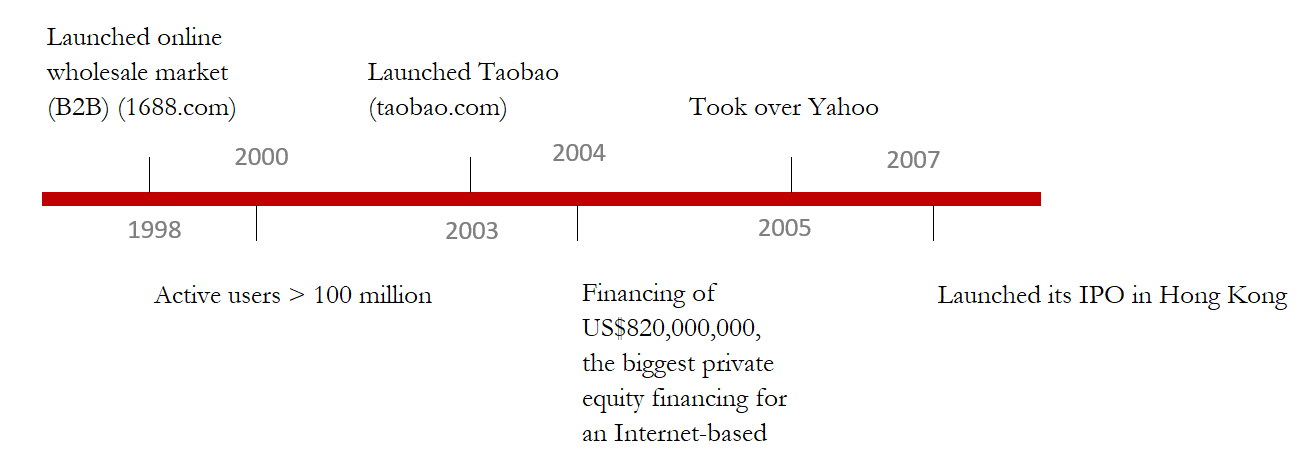
Exhibit 5: Chinese e-shopper segments

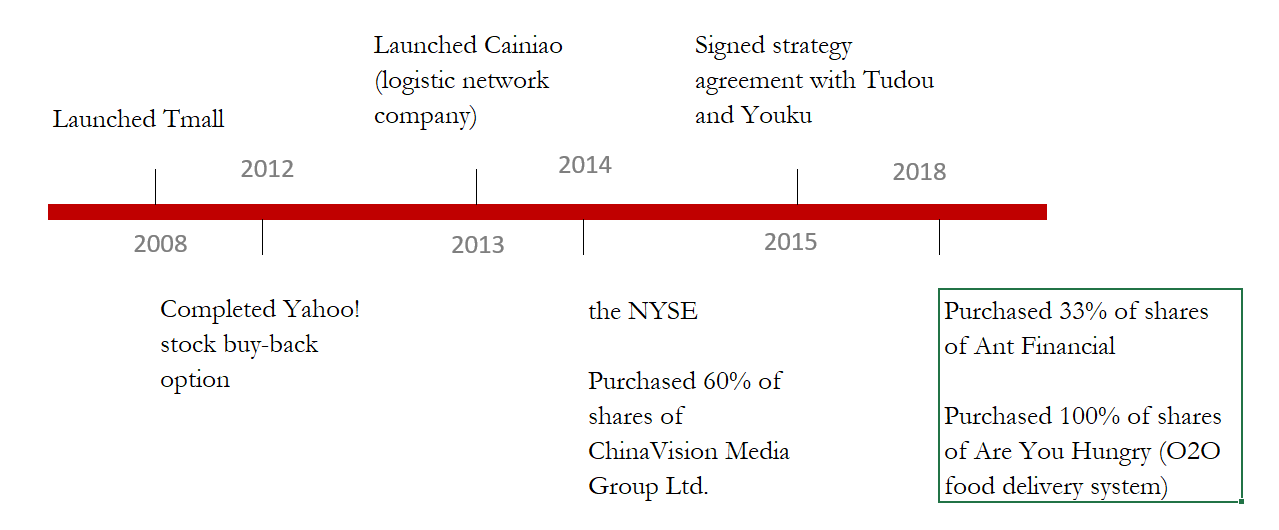
|  |  |  |  |
| --- | --- | --- | --- |
| **Segment** | **Annual Online Spending (in** ¥**)** | **2010 Distribution** | |
| Percentage of  e-shoppers | Percentage of Spending |
| Light Spenders | < 2,000 | 57 | 14 |
| Moderate Spenders | 2,000–5,000 | 24 | 21 |
| Heavy Spenders | 5,000–10,000 | 12 | 24 |
| Super-Heavy Spenders | < 10,000 | 7 | 40 |

Note: ¥ = RMB = Chinese yuan renminbi; US$1 = ¥6.8785 on December 31, 2018.

Source: Adapted from “Exhibit 2. Seven Percent of E-Shoppers Are Responsible for 40 Percent of Total Online Spending,” Jeff Walters, Youchi Kuo, Waldemar Jap, and Hubert Hsu, *The World’s Next E-Commerce Superpower: Navigating China’s Unique Online-Shopping Ecosystem*, 8, Boston Consulting Group, 2011, accessed April 26, 2019, https://www.bcg.com/documents/file91905.pdf.

Exhibit 6: Alibaba—historical timeline





Note: B2B = business to business; IPO = initial public offering; NYSE = New York Stock Exchange; O2O = online to offline.

Source: Rongcong Xu, “Ali Chronicles: From B2B to the Ecosphere, Innovation Leads Business Progress and Builds a Global Retail Ecosphere” [in Chinese], CMS Research on Alibaba, June 19, 2018, China.

Exhibit 7: Alibaba—total revenue and net gross profit, 2010–2017

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Revenue ($ Millions) [a]** | **Net Change ($ Millions) [b]** | **Growth rate (%)**  **[b]/[a]** |
| 2010 | 6.67 | - | - |
| 2011 | 11.903 | 5.233 | 78.5 |
| 2012 | 20.025 | 8.122 | 68.2 |
| 2013 | 34.517 | 14.492 | 72.4 |
| 2014 | 52.504 | 16.987 | 49.2 |
| 2015 | 76.204 | 23.700 | 45.1 |
| 2016 | 101.143 | 24.939 | 32.7 |
| 2017 | 158.273 | 57.130 | 56.5 |

Source: Rongcong Xu, “Ali Chronicles: From B2B to the Ecosphere, Innovation Leads Business Progress and Builds a Global Retail Ecosphere” [in Chinese], CMS Research on Alibaba, June 19, 2018, China.

Exhibit 8: Active End-User comparison chart

Billions of People

Note: Q = quarter.

Source: Adapted from “Ten Pictures to See Who Is the Most Profitable Model among Ali, Jingdong and Amazon” [in Chinese], DigitalING, March 9, 2017, accessed April 26, 2019, https://www.digitaling.com/articles/35530.html.

Exhibit 9: stock performance of Alibaba, JD, and Amazon as of November 28, 2018

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Ticker** | **Market Cap**  **($ Billions)** | **IPO Price** | **Day Price** | **Stock Price Increase (%)** | **Beta (3-year monthly)** | **PE Ratio (TTM)** | **EPS (TTM)** | **1-Year Target (Est.)** |
| AMZN | 784.455 | $18 | $1,604.00 | 8,800 | 1.94 | 89.89 | 17.8480 | $2,136.36 |
| BABA | 401.324 | $68 | $156.08 | 130 | 1.74 | 44.62 | 3.5 | $203.49 |
| JD | 29.620 | $19 | $20.50 | 8 | 1.38 | N/A | −0.06 | $30.67 |

Note: IPO = initial public offering; PE = price/earnings; TTM = trailing 12 months; EPS = earnings per share.

Source: Compiled by the case authors based on data from Yahoo! Finance, <https://finance.yahoo.com>.

Exhibit 10: U.S. E-commerce market shares, 2017

|  |  |
| --- | --- |
| Amazon.com Inc. | 49.1% |
| eBay Inc. | 6.6% |
| Apple Inc. | 3.9% |
| Walmart Inc. | 3.7% |
| Home Depot Inc. | 1.5% |
| Best Buy Co. Inc. | 1.3% |
| Qurate Retail Inc. | 1.2% |
| Macy’s Inc. | 1.2% |
| Costco Wholesale Corporation | 1.2% |
| Wayfair Inc. | 1.1% |

Source: Renwen Yang, “Amazon (AMZN.O): Self-Promoted Infinite Expansion” [in Chinese], Amazon Research Report, Founder Securities, October 23, 2018, China.

ENDNOTES

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