

EXPLORING PLATFORM INNOVATION FROM THE PERSPECTIVE OF RELATIONSHIP MANAGEMENT: A CASE STUDY OF JD.COM

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Abstract:

As new entrants in the retail industry, e-commerce companies enjoy tremendous development potential, but at the same time, they are faced with challenges from traditional offline retailers and fierce competitions from other e-commerce companies. The present work aims to answer the research question of how e-commerce companies in the retail industry manage to transform from a new entrant to an industry leader. By conducting a solid single case study of Jingdong, a comprehensive online shopping mall, we reveal that the case company encouraged continuous platform innovation by dynamically adjusting its external relationship management strategies based on different environmental conditions. Theoretically, we complement extant research on new entrants by shifting research focus from technological innovation inside a focal organization to resource integration outside the organization boundary. Practically, the external relationship management strategies, as well as the dynamic evolution path of platform innovation of the case company, offers a valuable reference for other companies.

Key words: new entrants, e-business platform innovation, role evolution, relationship management

1. INTRODUCTION

In recent years, the development of Internet in China has attracted worldwide attention, and propelled some traditional industries to produce a new business model based on the Internet platform, such as e-commerce platform in retailer industry, which generally refers to the website that the third-party companies construct to build a bridge between the suppliers and consumers in a cost-effective manner. However, the development of the e-commerce companies always remains in the keen competition environment, mainly reflected in two aspects: First, e-commerce companies have to compete for the suppliers and consumers with traditional retailers, which form a huge resistance from traditional retail channel that becomes the major hindering factor of early development of e-business enterprise (Hill & Rothaermel 2003). Second, as transfer cost is relatively low, it's free for suppliers and consumers to choose or switch a platform for trading, which is a grand challenge for building a sustainable business platform (Eisenmann et al. 2006).

In the highly competitive and complicated environment, e-commerce companies are in urgent need of feasible ways to enter the retailer industry. The literature concerning to new entrants suggests that innovation is the key for the start-ups to catch up and take over the lead (Christensen & Rosenbloom 1995). There are a series of innovation strategies that should be taken to enter the market by emerging organizations, such as technology innovation, value weighted, and product differentiation (Park & Bae 2004; Zhra & Bogner 2000). The theory mainly addresses the interior of organizations, laying emphasis on technology, knowledge and other resources allocation within organizations. Although some papers underline the external resources (such as market information) play an important role in the competition

(Song & Parry, 2009), the scholars lost their sight of the effects that external resources have on the competitive advantages of new entrants. E-commerce companies have obvious advantages in the communication and interaction among enterprises and consumers in virtue of the Internet technologies, with the inestimable space and potential to expand external relations (Rust & Lemon 2001; Tan, et al, 2009). Internet provides an important opportunity for e-commerce companies to transform external resources into innovation elements, in order to realize their competitive advantage. Thus, Internet doesn't only offer a new option for competition in practice, but also bring in a potential to expand the research perspective for the theory on new entrants. Consequently, the research on how to attract, integrate and utilize external resources in the fierce competition environment has great significance for both the research and practice.

Main stakeholders in the e-commerce platform are suppliers and consumers, whose mode of interaction and value creation would have an effect on the e-commerce platform's value and competitiveness. First, the suppliers and consumers may form a direct or indirect network effect which leads an increasing number of members in the platform and then lifts the competitiveness of the e-commerce company (Eisenmann et al. 2006); second, the platform members can help the e-commerce company who plays as the platform manager more quickly to anticipate the needs from market, thus enhancing its agility (Tan, et al, 2009). Third, the suppliers and consumers have the potential to become the valuable source of product or service innovation for the e-commerce company (Srivastava & Shainesh, 2015). Therefore, it's crucial for new e-commerce companies to form a novel platform pattern which build the dynamic interaction network with consumers and suppliers as the innovation drivers. In the study of c-commerce platform, although the existing literature believes e-commerce platform can be promoted by value co-creation (Payne & Storbacka, 2008), most of research focuses on the role of platform members in the development of e-commerce platform. For example, the diverse demands from the suppliers and consumers of Amazon promote the evolution of Amazon's business model (Isckia, 2009); the interaction from Ali's members have a contribution to enhancing the agility of Ali (Tan, et al, 2009). Thus, we can't obtain much implication about how to attract and gather platform's members from the existing research, which is lack of a comprehensive integration on the competitive strategies in the field of e-commerce. Therefore, to answer how an e-commerce company attracts others to participate in its electronic platform and develops the distinct and sustainable competitive advantages through the novel platform model, we import the relationship management theory to research on the competition and innovation in the Internet environment.

Relationship management helps the organization absorb valuable complimentary resources by identifying, establishing and coordinating the relationships with partners (Shujun & Xinchun, 2008). There are various management strategies used by organizations to achieve the long-term cooperation with their suppliers, such as the antecedent supervision enhancing their control of the production and transportation process (Stump & Heide, 1996) and the communication mechanism reducing the information asymmetry between two sides (Das & Teng, 1998). What's more, the organization continuously strengthen the relationship with consumers by improving the consumers' experience with the personalized services (Rust & Lemon 2001), and even combine with suppliers to create value for consumers (Boulding et al., 2005). In addition, the relationship management strategies are supposed to be upgraded

gradually to deepen the relationship between members and promote the platform innovation (Dai & Kauffman, 2002). Therefore, addressing the process of relationship management between e-commerce companies and their suppliers and consumers, we can understand in greater detail which strategies the e-commerce company applies to absorb suppliers and consumers and how an e-commerce platform is constructed and innovated continuously.

In order to acquire more the in-depth and comprehensive understanding of the development path and innovation process of e-commerce in China, this paper aims to answer the following questions: (1) how could an e-commerce company as the new entrant to retail industry, take advantage of the resources from suppliers and consumers to achieve the lead? (2) How could the e-commerce company achieve the platform innovation in association with the suppliers and consumers, consequently creating sustainable competitive advantage; (3) how could the e-commerce company construct, develop and deepen the relationship with suppliers and consumers, in order to integrate and make use of the external resources?

2. Research Framework

Although existing research helps to understand the important role of e-commerce companies in building the platform, there are still research gaps about how to build and innovate e-commerce platform. First, scholars have largely interpreted how the startups enter the market from the perspective of interior innovation, but there is still lack of discussion on how to develop relationships with external business partners; secondly, as the theories about relationship management provide the appropriate perspective for exploring the platform innovation, the present studies concerning to electronic commerce are mostly at the stage of static study which is conducted in a certain period or focuses on a certain function performed by the companies.

In order to define the boundaries of research, and guide the data collection and analysis, this paper propose the following initial outline for the research, with the relationship management theory and the role evolution theory as the main theoretical basis (Figure 1). In different stages of development, the external competitive environment that the e-commerce company faces is different, while its resources and capabilities are also undergoing corresponding changes. Under that circumstance, the company has to accordingly adjust its relationship strategies to reform the processes about the R&D, production and transaction as a specific role of the platform, bringing new value and innovation to the platform.

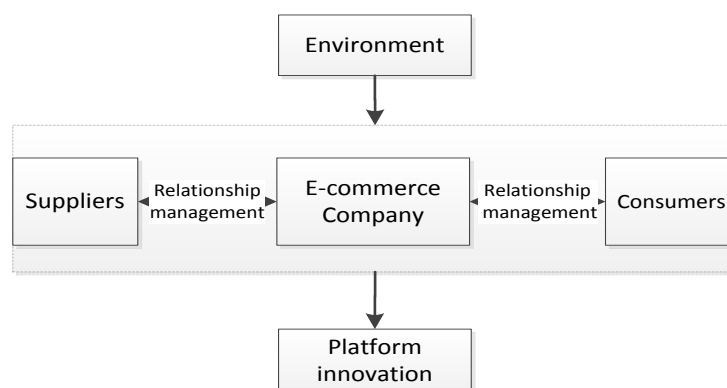


Figure 1. The initial theoretical framework for this study

3. Research methods and data sources

This paper chooses Jingdong Enterprise as the object of this case study, which is one of the B2C industry's leaders in China, based on the following considerations: (1) Jingdong e-commerce platform has been developed for 10 years, during which the role Jingdong played has transformed several times; (2) Much effort has been put by Jingdong to interact with its suppliers and consumers, achieving good results about platform innovation. Therefore, the case we select possesses the typical characteristics, which brings the unique value and implication for analyzing the e-commerce platform innovation (Pettigrew 1990).

The project team started the study in Jingdong from the beginning of October 2013 to March 2014, during which we conducted the in-depth interviews with 9 middle and senior managers. The face-to-face interviews, which took a total of 13.63 hours, were digitally recorded and later transcribed for data analysis. The interview questions were exploratory in nature, open-ended and tailored to the role of the person interviewed. All of the interviewees have the direct experience about the development of Jingdong as they have joined this company in different periods and worked at management positions concerning to relationship with suppliers or consumers. What's more, data from the interviews was supplemented and verified by newspaper articles, books, internal publications, and information from the Internet and digital library of the university.

This study uses the open-encoded method for analysis of the case, following the exploratory research (Yin, 2008). First, the data is collected with the event encoding rules, and stored in accordance with the "raw data", "first-level encoding" and "second-level encoding" approach; secondly, based on the theoretical assumptions, divide the data into several stages and organize the logic system; and finally, conduct the process analysis according to the division of the stage, and figure out the innovation and competition process based on relationship management.

4. Research finding and implication

4.1 Discussion

From the perspective of the relationship management, this paper divides the activities and decisions that transpired at Jingdong into three stages which are "start-up", "rapid development", "integration" (Table 7). In each stage, we interpret how the e-commerce company attracts, integrates and utilizes external resources to compete with the traditional retailers and other competitors, by means of summarizing relationship management strategies and identifying the role the e-commerce company played to promote platform innovation.

Stage	Environment	Supplier relationship management	Consumer relationship management
Start-up stage	External • Technologies • Markets Internal • Existing resource	weak-weak cooperation keep a low profile • Active communication • Polite and timely clearance Value guidance	Cater to demands • Cash on delivery • Expand communication channel Low price

	• Online experience	• Differential pricing lines	
Rapid development stage	External • Competitive pressure • Disadvantages of online Internal • Financial support • Promotion in sales	Suppliers screening Regulatory system • Consumers' feedback • Suppliers evaluation	Enhancing service quality • Products ranking based on sales • 211 time-limit delivery • Authorized repair center Two-way communication • Products knowledge education • Encourage consumers' feedback
Integration stage	External • More market demands • Innovation pressure Internal • More complementary resources	Joint R&D Joint first-release	Precision marketing • "consumer portrait" • EDM e-mail pushing Develop products ideas

Table 1. E-commerce Company's relationship management

By integrating the different patterns in which Jingdong platform was developed across the three distinct phases, the relationship management strategies and the role evolutionary path of the e-commerce company can be developed and leveraged by platform managers who are eager to take advantage of their business networks (Figure 5). In the early, by virtue of Internet technologies Jingdong played the role of a transaction intermediary that provided a marketplace to present the commodities produced by suppliers to the consumers who wanted to purchase conveniently and economically. The relationships with suppliers were set up firstly by Jingdong as a result of its foregoing resources accumulated in its period of brick-and-mortar, thus forming the foundation to attract the attention from the consumers. As the consumers increased, Jingdong set about supervise the platform with the consumers experience as the orientation. On the one hand, the purchase experience was enhanced with the effort of every process about the online purchase; on the other hand, the products and services offered by suppliers were strictly regulated with the help of the feedback from consumers. The network effect has been enhanced continuously through the growing interaction between two sides, which presents a new chance for the platform manager to perform a role of value importer. By a feat of IT capability, the transaction data and other business information, such as the consumer characteristics, can be mined to develop the anticipation for the market trend which comes into the innovation suggestion to the suppliers for new products. The combination between the two-side relationship management strategies becomes the promising competence which helps to realize the unity of Jingdong, suppliers and consumers, eventually driving the innovation of the entire industry.

With the accumulation of external resources and the upgrading of internal capability, the platform manager gradually enhances his ability to promote the platform innovation. At the beginning of building the platform, Jingdong addressed the platform structure which could be enlarged by expanding the product categories in the platform. After achieving a certain position in the retail market, the platform shifted the focus of innovation to the platform management which should be designed to improve the quality of the resources in the platform

by strengthening the regulation of the suppliers and cultivating the consumer loyalty. With the development of Jingdong's business experience and IT capabilities, the platform function has begun to be concerned and enriched to make new value to the platform members. With that analysis of sales data accumulated in the platform, Jingdong can develop the forward-looking ideas about the potential market segments, the consumer preference and the market trends, to respond to and even lead the development of the market.

4.2 Research Implication

By addressing the research questions set forth at the beginning of this paper, this study makes several important theoretical contributions. First, by addressing how the start-ups construct and manage their external relationship to enter an existing market, this paper extends the research viewpoints on new entrants and provide important indications for firms that endeavor to set up their platforms. The Jingdong case is indicated that the integration capability of the external resources is one of the key competences for new entrants to achieve a success in the existing market. In this study, Jingdong's ability of product control is attributed to its in-depth cooperation with the suppliers and the quick response ability to market demand is developed through the exploration of consumer data. The information sharing among the three sides in the platform forms a virtuous circle which ultimately establishes a competitive advantage of the platform.

Second, by examining how the business partners are integrated and cooperated to improve the platform quality, this study contributes to the relationship management theory which lacks of the exploration about how to build and utilize the business relationships to innovate the e-commerce platform. This article argues that as the relationships with the suppliers and consumers are being deepened, the platform manager has the chance to align consumer relationship management with supplier relationship management to unite all the interests of platform members. The relationship management can be regarded as an important way to excavate and activate the potential resources of the platform to achieve the platform innovation sustainably.

Third, most of the analysis of the roles played by the e-commerce companies is conducted with a relatively narrow view which focuses on some certain functions the companies performs in the process of interacting with a certain groups such as suppliers or consumers (Dai & Kauffman 2002; Bodendorf & Zimmermann 2005; Zwass 2010). By depicting the role evolution path in which the e-commerce company interact and cooperate with others, this study supplies the role theory from the perspective of dynamic evolution, suggesting that the interaction with all the members should be taken into account when we try to identify the role played by e-commerce companies, which contributes to understanding the overall effects the e-commerce company takes on the platform operation. In addition, the diverse roles summarized by this study on the e-commerce company enrich the results of the literature on the e-commerce.