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Why eBay Lost to TaoBao in China: The Glocal Advantage

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INTRODUCTION

Consumer-to-consumer (or C2C) electronic commerce involves electronically-facilitated transactions between consumers through third parties (Wikipedia, 2007). In China, a number of C2C platforms have emerged, such as eBay (China), TaoBao and PaiPai. TaoBao, established in 2003, has quickly assumed a dominant position in this market, underlined by the December 2006 decision by eBay to quit the C2C market in China altogether (Vara and Chao, 2006; Moss, 2006), merging its China operations with those of telecoms provider TOM Online. In China, C2C platforms encourage buyers to contact sellers so as to build up the necessary trust and confidence to engage in online transactions, as well as negotiate product, financial and logistical details. In this article, we focus on the way C2C platforms compete and in particular how buyers are stimulated to be both aware and trustful of sellers through buyer-seller communication channels. Following this introduction, we present brief case descriptions of TaoBao and eBay (China). These descriptions are supplemented with information gleaned from interviews with active buyers and sellers from these two platforms. The significance of the competitive issues is then the focus of discussion, where we also draw in the literature on awareness and trust. Finally, we suggest how the C2C market is likely to develop in China.

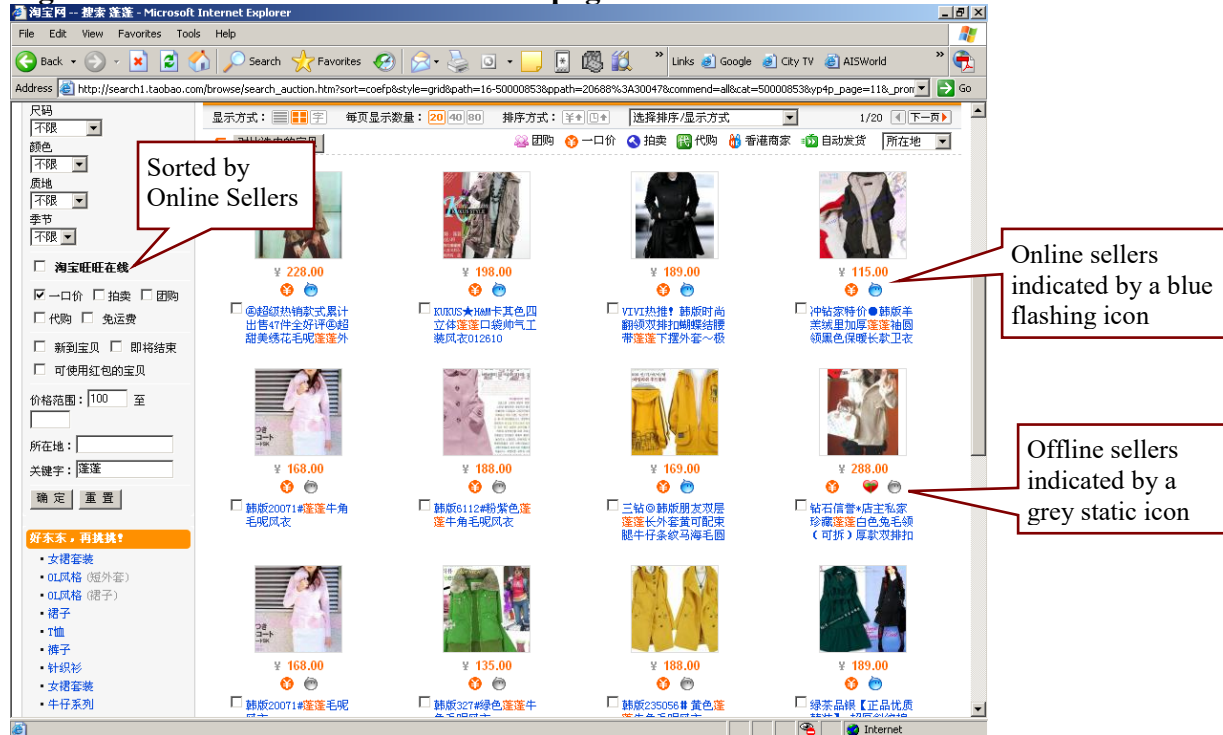
TAOBAO

TaoBao (www.taobao.com) founded in 2003, is a wholly owned subsidiary of Alibaba, China's leading e-commerce company. As a C2C trading platform, TaoBao has the highest number of product listings, the highest volume of transactions (RMB16.9 billion in 2006) and, with 30 million registered users, the highest penetration rate among the 137+ million Internet users in China¹. Alexa² ranks TaoBao as the 30th most visited website globally, 6th in China. TaoBao uniquely indicates the online status of all sellers with a bi-polar coloured icon and TaoBao's internal search engine enables buyers to list only those items whose sellers are online (see Figure 1). This means that a prospective buyer can check if a seller is online, and if so, can use TaoBao's integrated IM system, WangWang, to contact them. WangWang is an embedded, pseudonymous communications tool, sharing TaoBao's user-ids, and so is the default IM system for all TaoBao users.

¹ <http://www.taobao.com/about/intro.php>

² www.alexa.com: June 15th, 2007.

Figure 1: Screen Shot of TaoBao's Webpage



EBAY

eBay (China) (www.ebay.com.cn) is the China arm of the US headquartered eBay. Acquired in 2003 from EachNet (founded in 1999), this was the first mover in the Chinese C2C sector. In June 2007, Alexa ranked eBay (China) 426th globally, 68th in China, by the number of visitors. Until recently, eBay (China) and TaoBao were regarded as key rivals, though since December 2006, with eBay's decision to quit the C2C arena in China in the near future, that situation has changed dramatically. While the functionality of TaoBao and eBay (China) is similar, there are some notable differences. For example, eBay (China) does not indicate a seller's online status, for instance. Also, although Skype is linked into eBay (China), it has to be downloaded and installed as a separate application. Furthermore, not many users have Skype IDs: we randomly surveyed 500 sellers in 10 categories and found that only 24.6% had a Skype ID listed. For those sellers who do have a Skype ID, there is no indication as to their online status, and in fact, of the 24.6% who do have a Skype ID, only 5.4% were actually online when we checked during the evening peak trading hours. Most buyers will therefore have to use email to contact sellers (email addresses are provided) or else leave a message on an online message board that eBay (China) provides.

INTERVIEWS WITH CHINESE C2C USERS

In order to assess TaoBao and eBay (China) from the user perspective, we interviewed 10 users of these two platforms, focusing in particular on the interface differences between the platforms, as well as the communication channels and their importance for successful transaction completion. We report these interviews in Table 1 below.

Table 1: Interview Reflections from eBay and TaoBao Buyers and Sellers

<p>Being Online >> Trust >> Seller Advantage</p>	<p>One buyer specified “when I shop in TaoBao, I only select items from sellers who are online because I like to communicate with the seller and solve transactional problems immediately”. Similarly “the icon (active blue or inactive grey) in TaoBao helps me filter sellers. By appearing online, those sellers express their readiness to communicate with customers, and so I trust them more. Online status is even more important for me if it is the first time to transact with a seller. It seems that online sellers are more willing to take care of buyers’ needs because they make the communication channel open”.</p>
<p>Buyers Need to Communicate with Sellers Before Transacting</p>	<p>One interviewee commented “searching for online sellers is critical because when consumers buy things, they must have questions to ask. The transaction intention increases a lot if the seller is online. Trust can be also developed during the conversation in WangWang. Although Skype is also used as a consumer-buyer communication channel in eBay (China), only a few sellers put it to use. Sellers’ online statuses are unknown in the web pages until you try to contact them by logging into Skype. This design creates inconvenience and reduces my communication intention with the sellers”.</p>
<p>Sellers Need to Signal their Willingness to Communicate</p>	<p>Some sellers also comment “I like the embedded WangWang in TaoBao because potential buyers always want to communicate with me directly. TaoBao provides a uniform IM for such demand for both buyers and sellers. I don’t need to switch among different IMs (e.g., ICQ, QQ, Skype). With WangWang I can easily signal my willingness and readiness for communication. That is good for me to build consumers’ first-stage confidence in transactions”.</p>
<p>Enacting impulsive purchasing</p>	<p>Both buyers and sellers pointed out that WangWang can fulfil consumers’ needs for impulsive purchasing: “sometimes people want to buy because of impulse. Under this situation, they want to communicate with sellers immediately. If the sellers are not online, the impulse may not wait for another day”.</p>
<p>What motivates the switch to TaoBao?</p>	<p>Some buyers and sellers have moved from eBay (China) to TaoBao because of the convenience provided by the embedded IM. For instance, “WangWang is the most critical determining factor for me to switch to TaoBao from eBay (China). I can save the products and the sellers in my WangWang bookmark list. I can directly select sellers in WangWang and communicate with them”.</p>

DISCUSSION

The interview data reveals that buyers have a strong preference for being able to locate online sellers so as to communicate with them immediately about potential transactions. They also prefer that the communication channel be embedded within the C2C platform so they don't need to switch among different IMs. Both of these two features are currently provided free-of-charge by TaoBao in what we term an integrated C2C model. eBay (China), in contrast, operates a disjointed model, with no indication of a seller's online status and limited opportunity for buyers to contact sellers immediately online. Rather, they have to use non-integrated channels such as email and Skype. This approach is consistent with eBay's other international operations.

Furthermore, when the interviewees were invited to compare the interface design of TaoBao and eBay, it was generally agreed that the former is a 100% indigenous platform. WangWang is perceived to be a typically Chinese product, designed by and for Chinese people. In contrast, eBay (China)'s website has a more international feel, replicating the international eBay model in China, without significant adaptation to the Chinese context. Our interview data indicates that direct communication is a must before online transactions can take place in China. For C2C users, the business model of online transactions is not a purely transactional one. Instead, it encompasses another critical step – communication, which is necessary if trust is to be built between buyer and seller. Usually the communications cover product availability, whether the seller can offer a discount, size, colour, delivery terms and payment methods. Given the “extremely high risk of fraud in China” (interviewee comment) and given buyer desire to reduce uncertainty, the embedding of an IM in the C2C platform enables such pre-transactional communication and so facilitates the development of buyer-seller trust.

Table 2: Seller Awareness-Attitude Structure (adapted from Twedt, 1967)

Seller Awareness-Attitude Continuum	Arbitrary Scale Value	Verbal Description of Value	Description of the Awareness Driven Trust and Action
Seller Insistence	+4	This is the only seller I would consider buying from.	Long-term trust is stable. Customer loyalty has developed through repeated communication with the seller in the IM.
Seller Preference	+3	This is one of my preferred sellers.	Long-term trust is developed. List the seller in the IM as a friend to keep in touch with.
Seller Acceptance	+2	This is not one of my preferred sellers, but it would be acceptable if my preferred sellers are not available.	The initial trust is built. List the seller in the IM as a friend.
Seller Awareness	+1	I have noticed this seller online, but I have no information about him/her.	The swift trust is created. This seller is in the interested group and to be added in the IM list.
Seller Ignorance	0	The seller is not online and thus ignored. I know nothing about this seller.	No trust intention. No further contact interest.
Seller Rejection	-4	I would never willingly buy from this seller.	Distrust exists. Blacklist this seller in the IM.

The importance of these findings should not be underestimated. In the Chinese context, it is critical that buyers be in a position to trust sellers before engaging in transactions. This trust is necessary given that concerns about security and the potential for fraud are paramount, not to mention the lack of a well established legal infrastructure to protect online transactions (Quaddus et al., 2005). Indeed, in China there is a propensity to distrust unknown others (Ou et al., 2007), such as those that one encounters in the context of C2C transactions. In this respect, it is useful to consider the theoretical construct of swift trust, first suggested by Meyerson et al. (1996) in the context of temporary, zero-history work groups who need to work together with minimal opportunity to develop a trust-based relationship. We suggest that buyers and sellers in the virtual C2C context also need to develop swift trust in order that they can develop sufficient confidence to engage in financial transactions online. Indeed, the evolution of buyer-seller trust over time can usefully be depicted in a multi-stage process (see Table 2), with an initial state of ignorance evolving through one or more higher (or lower) stages.

While reputation systems (which essentially rate the reliability of sellers) are important contributors to this trust development, we argue that they are insufficient - a Chinese buyer will much prefer to build up a relationship based on (swift) trust with a seller, not merely view others' ratings of a seller, in order to develop sufficient confidence to engage in a transaction. In order to build that swift trust, some form of direct communication is critical, hence the importance of embedded communication systems. TaoBao's success in the C2C market appears to be founded not only on the explicit indication of a seller's online status, but also on the embedding of WangWang directly into TaoBao. A buyer is thus able a) to identify a seller as being online, and b) to contact the seller, without leaving the TaoBao platform to use other tools.

More importantly, a comparison of TaoBao and eBay (China) suggests that a key determinant of TaoBao's success is its free-of-charge business model. Over the last four years, TaoBao has successfully developed a critical mass of buyers and sellers, spiralling from a small sized new-entrant to a very large and dominant player in the marketplace. Although TaoBao is planning to charge fees for Alipay users³, the change of business model is not anticipated to have a negative impact on TaoBao's position as market leader because the users have already been locked in, as indicated by our interviewees.

Nevertheless, on March 13th, 2006, PaiPai, another new-entrant with the same business model and website design as TaoBao, joined the marketplace. PaiPai has already won a slice of the C2C market, building on the success of QQ, the first instant messenger in China, and the mature QQ community. According to Alexa, PaiPai is now ranked as 364th globally⁴ and 56th in China. Its entrance has raised the level of competition in the C2C marketplace and further increased the turbulence of this environment.

This comparison of the major players in the C2C market in China is instructive for a number of reasons. First, it is apparent that TaoBao, as an indigenous Chinese platform, has been able both to enter the C2C market successfully, and indeed to push out an existing major competitor. We suggest that it has done this by adopting a glocal perspective: learning from global standards (e.g. those practiced by its rivals) and adapting them to local preferences (i.e. reflecting the specific characteristics of the Chinese context). We assert that there is a critical need for a greater appreciation of local values and characteristics: to ignore them means to plan for failure. As one Beijing-based Western commentator has opined, "The road to Internet riches in China is paved with corpses of American giants, and the body count

³www.chinatechnews.com/2007/03/16/5116-taobaos-alipay-will-charge-fees/

⁴www.alexa.com: June 15th, 2007.

continues to grow” (Moss, 2006). The need for Chinese buyers to communicate directly with sellers in order to develop trust that will underpin later transactions cannot be denied (cf. Ou et al., 2007). Companies that wish to succeed in their e-commerce ventures in China must pay attention to local cultural norms and preferences in their interface design, customer relationship management facilities and business models if they are to realise the fabled riches (cf. Martinsons, 2002; Davison and Ou, 2007). TaoBao has done precisely this and so it is no surprise that it has, for the time being, won the C2C battle.

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