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E-Commerce in China: The Amazon Experience and its Implications

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Abstract:

This paper discusses the experience of Amazon in the rapidly expanding e-commerce market in China, with a focus on the challenges faced and the strategic decisions made. The study also explores the development of the e-commerce industry and companies in China, which are characterized by innovative business models and a strong mobile user base. Through a qualitative analysis of the strategy from Amazon, the study identifies some of key factors that lead to its gradual loss of market share that consist of insufficient localization, centralized decision making, and limited marketing adaptability. Although China experienced rapid economic growth and the success of local competitors such as Alibaba and Jingdong, Amazon struggled to capitalize on the preferences of local consumers and the highly competitive market setting. In the end, Amazon exited the local market in 2019 and redirected its emphasis to cross-border e-commerce. The study concludes on the importance of localization, flexibility, and a rich insight into the dynamics of regional markets for multinational companies seeking to achieve success in foreign markets. The findings are expected to deliver valuable inspirations for companies pursuing growth in the complicated Chinese market, and also emphasize the role of adaptive strategies and use of data to achieve sustainable growth.

Keywords: E-Commerce; China; Amazon; Localization; Strategy

1. Introduction

Accompanied by robust economic growth and advances in technology in China, e-commerce has greatly broadened the landscape of traditional retailing through innovative business models. The convenience of online shopping and the spread of mobile payment brings new chances for the retail industry, connecting e-commerce and traditional retail more tightly. Nevertheless, the competition in the market has intensified with the pace of expansion of e-commerce. Amazon occupies a considerable market share around the world, but its presence in China has continued to fall since it entered the country in 2004, due to issues including a lack of localization. Finally, it was announced on July 18, 2019 that Amazon closed its internal online store in China and shifted its focus to cross-border sales [1].

2. Basic Facts Analysis

2.1 Overview of the Chinese E-commerce Industry

In the past two decades, the Chinese e-commerce industry has experienced a fast and transformative growth. The widespread use of the Internet in China and the popularization of mobile devices have greatly contributed to the rise of e-commerce. Besides, the progress of smart technologies such as big data and artificial intelligence has laid a solid foundation for innovative e-commerce services. Trade has always been the driving force of economic development in China, while the emergence of e-commerce further satisfies the commerce demand and extends the traditional marketing channels with a convenient network platform [1-3]. China became the largest e-commerce market in the world in 2020 by accounting for more than 50% of global online transactions, and the development of e-commerce has been greatly accelerated by the fact that Chinese manufacturers are able to sell their goods nationwide through the Internet without the need for physical storefronts, and this shift has promoted the extensive use of e-commerce in a wide range of industries. The digital revolution and the availability of mobile devices have not only allowed consumers to place orders whenever and wherever they want, increasing the efficiency of online transactions, but also diminished the time and costs associated with physical storefronts for sellers, from which the online platforms improve the efficiency of communication between consumers and companies, as well as contributes to the appeal of e-commerce in sales [2-3].

According to a study, the number of Internet users in China is expected to reach 1.079 billion by 2023, with an Internet penetration rate of 76 [4-5].4%; amongst them, the number of online shopping users reaches 884 million, representing about 82% of the total number of users, which also conveys the prosperous growth of e-commerce industry in China. In the presence of such a massive consumer base, the industry is expected to see continued growth and innovation as online transactions become the most cost-effective and efficient way for small businesses to access larger markets. With this vast online consumer marketplace, for example, merchants are able to offer a wide range of goods and services, including a variety of brands, product categories and cross-border goods, to meet the diverse purchasing needs of consumers [2]. The increased variety of online trades also makes it easier for consumers to compare prices and choose the best deals. E-commerce platforms, supported by optimized logistics networks, reduce transportation costs and eliminate intermediate links, enabling them to offer competitive prices and promotions, which help retain existing customers, attract new ones, enlarge their user base, and reinforce their market share. Consumers benefit from the convenience of placing orders remotely, goods can be shipped effectively from different regions and even across continents, coupled with inherent price advantages and efficient logistics systems, e-commerce offers huge benefits to the retail industry [2]. It adds convenience, timeliness, a more comprehensive range of services, and greater affordability than traditional offline sales platforms. Thus, e-commerce has had a profound impact on the retail industry and has also augmented the services offered by the retail industry. In the future, the integration of online and offline sales is expected to grow increasingly seamless, equipping businesses with new strategies to improve their competitiveness in the marketplace.

Along with the development of the Internet, an innovative e-commerce pattern, live broadcasting, has gradually emerged in the e-commerce industry in China. This new type of online store introduces products or services in live broadcasts, which promotes e-commerce transactions on live broadcast platforms and is gradually replacing traditional TV shopping [5]. The interaction between the live stream host and the audience enhances perceptions of products and services by consumers and is often more powerful than web descriptions. Taking beauty products as an example, hosts not only show the cosmetic colors and packaging, but also demonstrate the products in real time, applying them to illustrate their effectiveness. This direct involvement allows potential buyers to more thoroughly evaluate the qualities and attractions of the product, capturing their attention and driving their desire to buy, which in turn boosts sales. Live streaming also tends to serve as a more immersive experience at times, and creates a sense of urgency and exclusivity through time-limited offers that stimulates the consumer to make a purchase on the spot. Following the popularity of major live-streaming platforms, companies are getting more and more involved in exploring live-streaming marketing strategies on e-channeling sites. The businesses not only capitalize on the high traffic platforms for live streaming, but also advertise their products through short videos and interactive content. Through video and collaboration with influencers to share the strengths of their products, businesses can tap into a large pool of potential customers, and this plan aims to inspire consumers and direct viewers to engage in purchases through fascinating and personalized content [4].

The combination of live streaming and social media also allows companies to reach out to certain crowds and tailor their marketing campaigns to the tastes of their target audience, leading to greater consumer engagement and the cultivation of brand loyalty.

The rise of the e-commerce industry has also accelerated the process of international cooperation in the field of e-commerce in China. Cross border e-commerce refers to the way of import and export transactions, remittance and trace with high efficiency through the Internet, which has the advantages of low transaction costs, simplified procedures, and may improve the profit of the enterprises compared with traditional international trade [6]. Based on the findings of a study, the scale of the cross-border export e-commerce industry in China has grown steadily over the past eight years, and is expected to exceed ten trillion dollars by 2025, which underscores the strong growth momentum of the sector in China [4]. With the continuous influx of talent and resources and expanding room for growth, cross-border e-commerce is not only anticipated to push economic growth in China, but also strengthen international trade relations.

2.2 Introduction of Amazon

In 1995, Amazon, named after the Amazon River, started as a small online bookstore in Seattle, Washington, and was one of the pioneers in the global e-commerce industry [7-8]. According to the article, founder Jeff Bezos was driven by the vision of making Amazon "the company of everything," and the company has largely achieved that goal [7]. While Amazon initially sold only books, it has since expanded into a wide variety of categories, including everyday goods, apparel, electronics, gaming, baby and motherhood products, jewelry, fitness equipment, auto parts, and industrial goods. This diversification has made Amazon the largest online retailer and a leading platform for third-party sellers [7]. As of 2024, Amazon holds the title of the world's most valuable retail brand, with an estimated brand value of approximately $185 billion [9]. Beyond e-commerce, Amazon has also established itself as a technology company, providing essential cloud infrastructure, such as storage, databases, and raw computing power through Amazon Web Services (AWS), which serves startups like Instagram, large companies like Netflix, and even U.S. government departments [10]. As of the first quarter of 2024, AWS commands the largest share of the global cloud infrastructure market at 31%, a position it has held since the fourth quarter of 2017 [11-13].

3. Development of Amazon China

Besides the development of its market, Amazon has also pursued a globalization strategy. It entered the Chinese market through the acquisition of Joyo.com in 2004 during the early stage of internet growth in China. Under the financial and technical support of the U.S. parent company, Amazon China was able to replicate the strategic layout and advanced logistics system of Amazon and expand rapidly. With the prior successful experience and early access advantage, Amazon China initially gained a large share of the e-commerce market [11].

Amazon upholds the principle of "customer first" to focus on providing quality customer experience and establishing trust among consumers through reputation spreading, which strengthens customer loyalty and improves the brand image of the company. In order to fit into the local market environment better, Amazon China carried out a series of localized marketing strategies, including an online shopping store and digital products [12]. Significantly, it introduced innovations such as cash-on-delivery services and registered unique domain names customized for the Chinese market to enhance promotional effectiveness [14-15].

In recognition of the underdeveloped logistics infrastructure in China at the time, Amazon took proactive steps to build its distribution network. By 2017, it had established 15 distribution systems across the country, supplemented by an advanced inventory management system, state-of-the-art product packaging lines, and a sophisticated order fulfillment system [12]. This self-built logistics system has enabled Amazon China to provide a reliable delivery and after-sales experience, differentiating itself from its competitors in the early stages of the development of the Chinese delivery industry. Eventually, the strategic focus of Amazon on logistics plays a key role in expanding its market reach and influence in China.

However, Amazon faces great challenges in China due to differences in consumer behavior influenced by cultural factors, intense competition within the booming e-commerce market, and complex regulatory restrictions, which have collectively hampered its capacity to get a firm foothold in China [11, 14]. Since its entrance into the Chinese market, the market share of Amazon fell continuously over 14 years, from a peak of 20% to only 0.6% [10]. As a result, Amazon announced in July 2019 that it withdrew from the Chinese domestic online retail market and stopped serving the third party sellers on its Chinese website. The rise of cross-border e-commerce, regardless of these setbacks, has resulted in renewed opportunities for Amazon in China. As Chinese merchants have achieved a large market share on both domestic and international e-commerce platforms including Amazon.com, the company has shifted its emphasis in China to facilitating cross-border exports following the strategic shift of Amazon [10]. Amazon has also developed specialized platforms to support small and medium-sized e-commerce businesses in China, allowing them to connect directly with international customers, particularly in the United States [13]. Taking advantage of its brand reputation and operational expertise, Amazon aims to attract Chinese sellers to its global marketplace, so that it can remain a player in the Chinese e-commerce system, with the new focus on international trade rather than domestic retails.

4. Discussion

4.1 Analysis of Causes

Competition in the e-commerce retail industry has intensified with the advancement and widespread adoption of technology. The rapid rise of local competitors has squeezed the market share of Amazon in China. For instance, Amazon China held 15.4% share of Chinese e-commerce market in 2008, this figure plummeted to a mere 1.1% as of 2015, with an annual loss of more than $600 million, but Tmall and Jingdong (JD.com) accounted for a joint 81.4% of the market in the first quarter of 2015 [14]. One of the main challenges facing Amazon as it struggles to compete with local giants is the centralized decision making structure typically found in large multinational companies such as Amazon. The management team of Amazon in China has limited power because the key operational decisions are made at the company's headquarters in the U.S. [15]. This centralization complicates the localization of the sales strategy of Amazon and obstructs the ability of the company to react promptly to variations in the Chinese market. For this reason, Amazon China lags behind its competitors in terms of timeliness of decisions, widening the gap with leading local companies such as Jingdong and Alibaba [12].

The decline of Amazon in the Chinese market also highlights the failure of its localized marketing strategy in aligning itself with the consumption behaviors and habits of Chinese consumers. Unlike the Alibaba market-centered business model, the customer-centered approach of Amazon suffers from a lack of both the ability to judge the dynamic market situation and the innovation to adjust operations to the needs of the market [14]. Alibaba utilizes big data analytics algorithms to perceive consumer preferences, predict future trends, and deliver pertinent advertising campaigns [16]. This strategy has greatly increased platform traffic by attracting customers through precision marketing. In contrast, the approach of Amazon in China focuses more on the importance of reputation promotion rather than aggressive marketing and advertising. Even though Amazon has invested in advertising, it is not enough to penetrate the fast growing e-commerce market in China. Another factor that hinders its success is the choice of new media to publicize and advertise Amazon [15]. Back when the new media in China was still underdeveloped, Amazon neglected the traditional marketing channels such as newspapers and television programs, missing an important opportunity to expand its customer base and strengthen its brand influence. Nowadays, the local e-commerce platforms have actively cooperated with the mass media and adopted creative strategies such as celebrity endorsement and live broadcasting on the platform to engage customers. This dynamic approach allows competitors to capture the attention of end consumers, while the traditional marketing approach of Amazon results in a gradual decline in the fiercely competitive environment [15-16]. In addition, the logistics system of Amazon brings another challenge. Amazon prioritizes availability over delivery time, and keeps goods always in stock, but it cannot match the expectations of Chinese consumers for fast delivery services, and the mismatch between the logistics strategy of Amazon and prevailing tastes of consumers provides another barrier to its competitiveness in the Chinese market [12].

4.2 Inspiration from the Amazon experience

It is an important part to pursue market share through localization to achieve stable development in the Chinese market. Localization is a marketing strategy frequently adopted by multinational enterprises, as the degree of localization directly impacts brand recognition within the market, which in turn influences development prospects [16]. The reason that Amazon struggles in China is largely because it is not sufficiently aware of Chinese consumers and the local market. Although supported by its headquarters, Amazon China has basically imitated the U.S. model in terms of product selection, website design, and price setting, which does not constitute a fully localized strategy. In addition, the complexities of the Chinese market, such as economic disparity across different regions of China and the diverse cultural backgrounds, not only create differences in consumption levels and preferences, but also further complicate the localization process for multinational corporations. Therefore, companies are expected to have a comprehensive understanding of current development status and market conditions in China before advancing their localization strategies, as well as to effectively customize their products by understanding local consumer behaviors, preferences, and regional economic dynamics and thereby enhancing their brand awareness and navigating through the intricacies of the local market.

In the second place, flexibility in strategic planning is important for success in dynamic markets. Alibaba, one of the strongest competitors of Amazon China, has developed a business model that is more consistent with the preferences and habits of Chinese consumers. For example, in an attempt to attract price sensitive consumers, the Taobao platform under Alibaba implemented a competitive pricing strategy and offers a wide range of products from various sellers, positioning itself as a consolidated online trading platform [14]. Furthermore, Alibaba launched Alipay, a secure payment system that improves customer trust in online transactions and reduces the risk of financial loss. This extension to financial services further strengthened its e-commerce business. Hence, the flexible localized approach of Alibaba proved to be more effective in the Chinese market. Although the inventory centered strategy of Amazon gained success in other regions, it lacked the adaptability needed to thrive in the Chinese retail sector, where timely response to evolving market demands is vital, leading to a declined market influence. Consequently, there is a greater need for strategic planning along with innovative business operations to ensure flexibility in adapting shifts in consumer behavior in the unpredictable market environment of today [16-17].

5. Conclusion

In conclusion, the experience of Amazon China implies the challenges that multinational companies face when they are entering a complex and rapidly developing market. Despite its global success, Amazon struggled to adjust the business model for aligning with the preferences and behaviors of consumers within the fierce environment, but a lack of effective localized marketing, inflexible business models, and limited adaptation to regional economic and cultural differences contributed to its declining market presence. In contrast, the local competitors such as Alibaba thrived by implementing innovative strategies which catered to the preferences among consumers. Prospectively, in order to succeed in China, the multinational companies have to prioritize localization, gain a thorough understanding of the market, and maintain the agility to respond to the changing environment and pursue innovation to meet market demands so that they can compete effectively and stay competitive in the intensely contestable landscape.

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