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A Comparative Study on the E-commerce Model:

Case of Taobao and Jingdong

Bachelor's Thesis

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Tallinn 2015

I declare I have written the bachelor's thesis independently.

All works and major viewpoints of the other authors, data from other sources of literature and elsewhere used for writing this paper have been referenced.

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ABSTRACT

Peter Drucker, the famous enterprise management master, once said, “Nowadays, the competition between enterprises is not the competition of products, but the competition of business models.” In this modern society, the influences brought by business models are especially obvious in e-commerce and cyber economy. Based on the theoretical overview of the definitions and evaluation of business and e-commerce models, this thesis carries out a comparative study between Taobao and Jingdong mall from the aspects of enterprise positioning, operation system, key resource capacity, profit model, free cash flow structure and enterprise value and tries to find their similarities and differences.

At the end, this thesis also discusses the development trends of Taobao and Jingdong so as to make exploration and innovation on the business models of e-commerce companies; this may be helpful for those companies which would like to join in e-commerce market.

Keywords: E-commerce, Business model, C2C, B2C, Jingdong, Taobao.

INTRODUCTION

Research Background

Nowadays, more and more traditional enterprises enter into online retail field and the competition is heating up. Those who want to survive and make profits in such circumstance need powerful comprehensive strength and suitable business model. Peter Drucker once said that the competition among enterprises was actually the comparison of business models but not products, which had been accepted by a growing number of experts, scholars and entrepreneurs. C2C and B2C, two popular e-commerce models, have their own features and suitable companies.

Research Significance

With the theoretical reviews of business model and e-commerce business, the author carries out comparative studies of Taobao and Jingdong from the perspectives of market positioning, business systems, profit models, resource capacity, free cash flow and enterprise value and further compares the two e-commerce models, which will be helpful for China's e-commerce companies.

Many flourishing Internet enterprises went bankrupt in the Dot-Com Bubble of 2000, which made people rethink this industry and came to the conclusion that Internet companies won't make profits until they took business models into consideration. Jim Budzynski (2000) put forward that the implement of e-commerce called for effective strategies whose five key elements were user-centric concept, value-focused idea, business model, brand and channel conflict management, which highlighted the importance of business model. Scholar Lee, C-S (2001) came up with an analytical framework for e-commerce model and strategy and held that the five key steps of successful e-commerce were redefining competitive advantage, rethinking business

strategies, retesting traditional business and revenue models, redesign websites and improving customer service. These five steps stuck out the importance of business model and indirectly pointed out that e-commerce business model had both differences and connections with traditional models.

In this thesis, the author studies two representative e-commerce companies Taobao and Jingdong in terms of the two models in order to provide reference for companies which would like to develop e-commerce.

Research Methods

The research methods used in this thesis are literature research, observational method and comparative analysis.

In this thesis, the author will use the Weizhu Six Theoretical Model to analyze the e-commerce model of Taobao and Jingdong. Wei &Zhu (2007) defined business models for the first time as transaction structures that involve stakeholders, and proposed in their latest research that business models mainly comprise transaction subjects, content, modes and pricing strategies (Wei, Zhu &Lin, 2012).

The Structure of the Thesis

This thesis can be divided into four parts. The first one is a brief introduction on the research background and significance of this thesis as well as its content and structure. The second and third parts are the main body of the thesis where the author compares the e-commerce business models of Taobao and JD from the perspectives of market positioning, operation system, profit model, key resource and capability together with free cash flow and enterprise value. The last one is a conclusion in which the author summarizes their similarities and differences and then puts forward some constructive suggestions to domestic e-commerce companies.

1. MARKET POSITIONING

Market positioning is the method where companies meet the needs of its stakeholders. In a broad sense, the stakeholders include internal customers (employees), external customers (suppliers, customers, service providers, direct customers and indirect customers, etc.) and similar internal customers (franchise stores, outsourcing services, contract manufacturing, etc.). It should be noted that keywords in market positioning is the method but not the stakeholders or their needs; the methods chose by companies depend on commercial value and transaction cost.

1.1. The Market Positioning of Taobao

In May, 2003, Alibaba Group invested 450 million yuan to set up Taobao which turned to be a magic in the 20-year development of Chinese Internet industry. By the end of 2014, Taobao had nearly 500 million registered users, among which the daily active users are 120 million. With more than one billion online products, it accounts for 95.1% market share in C2C market and 85.1% market share of mobile shopping according to a digital mobile shopping report made in 2014. As its scale expands gradually, it has developed from single C2C network to a compressive retailing business circle covering C2C, distribution, auction, direct supply, crowd-funding, customization and some other e-business models; it has offered 4,677,000 employment opportunities (China E-commerce Report, Ireseach, 2014)

With year-on-year growth of 66%, Taobao's trading volume in 2011 is 610.08 billion yuan, accounting for 80% of China's online shopping; the total trading volume of Taobao and Tmall (a B2C online platform of Taobao) had reached 1,000 billion yuan by March 31, 2013. On the Tmall Global Shopping Festival (the festival is on November 11, on which most products of Tmall will be on sales) of 2014, the daily business transaction was 57.1 billion yuan (Annual Report, Alibaba, 2014). Alibaba Group Holding Limited just announced that USD 14.3 billion (RMB 91.2 billion) of gross merchandise volume ("GMV") was settled through Alipay on Alibaba's retail marketplaces on November 11,

2015, making the 2015 11.11 Global Shopping Festival the largest shopping day in history. Mobile GMV settled through Alipay accounted for 68.7 percent of total GMV. In the past, such first-tier cities as Beijing and Shanghai were undoubted leaders in China's market in terms of their prosperous business districts and rich commodities. However, the new business model represented by Taobao is changing the traditional commercial pattern: e-commerce widens the commodity circulation channel and breaks down geographical restrictions. The abundant products on Taobao provide those live in remote areas with similar lifestyle as those in big cities.

As the largest network retail platform in Asia, Taobao is committed to sell all available commodities and become an influential online trade platform in the world. It always calls for integrity and adheres to customer first, teamwork, passion and professional ethics. In addition, it pays much attention to its platform construction, such as purchase channels, product display platform, marketing channels, secure payment platform, service application apps and the interactive community for buyers. All the platforms cooperate with each other so as to bring better merchandising and shopping experience for sellers and buyers.

From the Table 1. The relevant platforms of Taobao (CNNIC, 2014). Taobao has provided lots of employment opportunities to the public while setting up a safe and efficient online trading platform. According to the Internet Retailing Development Report of Zhejiang Province, there were 1.47 million online shops in Zhejiang Province, with a year-on-year growth of 5.7%, among which there were 13,226 Tmall flagship stores. At present, most of China's express delivery business is relevant to Taobao transactions.

Target Customers

In November, 2011, China Internet Network Information Center (CNNIC) released Research Report on China's Online-shopping Market and compared the differences in users' ages, education backgrounds and incomes among various shopping websites.

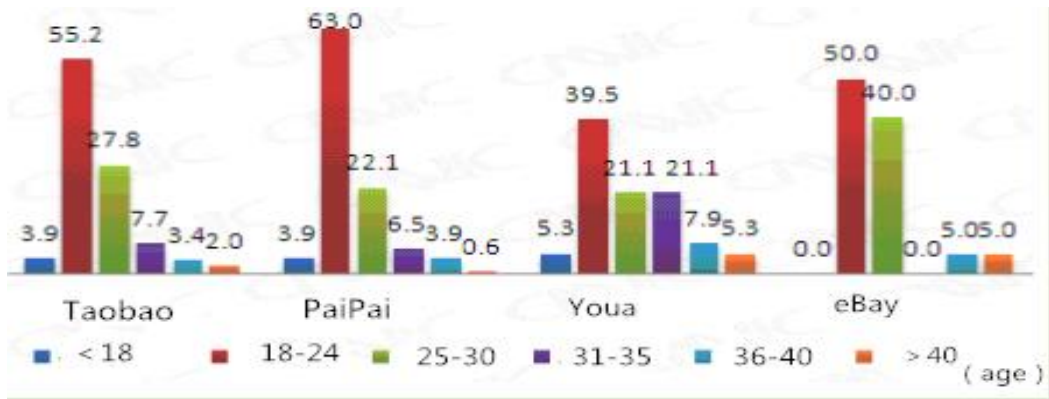


Figure 1. User's age differences (%)

Source: (CNNIC, 2012)

From the above figure we can tell that the main force of online shopping is young people of 18 to 30 who are skilled at computers and have feeling of freshness. To take Taobao as an example, 83% of its customers are young people.

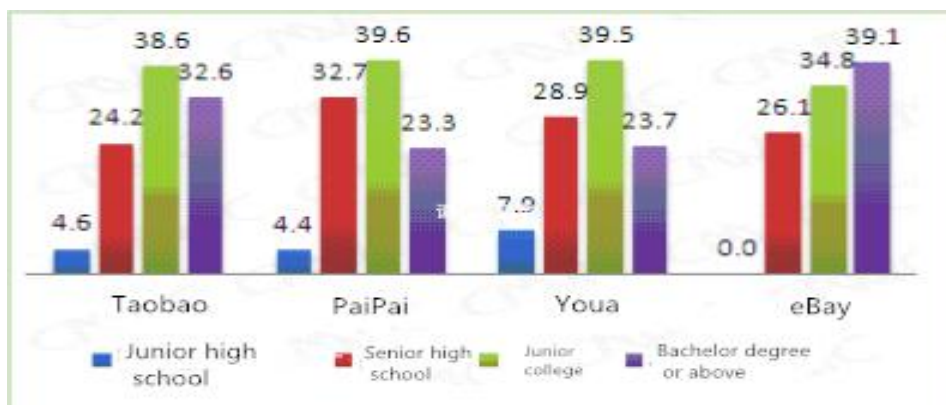


Figure 2. User's education background differences (%)

Source: (CNNIC, 2012)

Generally speaking, the majority of online customers are such mid-level educated people as graduates from senior high school, junior college and bachelor degree or above.



Figure 3. User's income differences (%)

Source: (CNNIC, 2012)

This figure shows that the monthly salary of online shoppers is about 1,501 to 5,000. People with such salary have disposable personal income which cannot afford luxury goods, so they are prone to choose online shopping.

From and compare figure 1, figure 2, and figure 3, we can find that Taobao aims to attract mid-and-low-end customers since its foundation and we can see from the figures that its main target customers are mid-level educated young people whose monthly salary is less than 5000 yuan, which makes it different from eBay, the e-commerce magnate in the world. Accounting for 90% market share of China's online market at that time, eBay choose to attract high-income groups; on the contrast, Taobao paid much attention to low-end market, which helped it develop at an annual growth rate of 800%. It took over 80% of the market share and eBay had to give up Chinese market.

Product Positioning

In general, Taobao has three kinds of users: those who want to start a business or make additional income, buyers who have favorite products or buying demands and buyers who have purchase desire but not specific aims. As is shown in Table 2, each kind of users has their own requirements.

Table 2. Demands of Taobao user

Users	User demand
-------	-------------

Buyers	Buyers with clear purchase aims and demands	<ol style="list-style-type: none"> 1. quickly find out search methods 2. have high demands on the accuracy of key words 3. can find out needed commodities in short time
	Buyers with purchase potential but not clear aims	<ol style="list-style-type: none"> 1. find their interested commodities in short time 2. the commodity classification is clear 3. have high requirements on user interface 4. share the comments of other buyers
Sellers	Taobao shopkeepers	<ol style="list-style-type: none"> 1. simple methods of registration, log in and shop management 2. convenient commodity distribution channels 3. the advertisement and promotion of commodity

Source: (Li, Zhang, Lu, Niu, Hou, Zhu. 2013. E-commerce in China:Taobao.)

It is important for e-commerce companies to understand the users' needs and design products which are suitable for them. As an online platform with a large amount of information, Taobao should continuously improve its search methods and integrates information so as to meet the needs of active users and develop new users.

1.2. Jingdong's Market Positioning

Jingdong Company was founded in 1998 and worked at the sales of magneto-optical products. In 2004, it entered in the field of e-commerce and developed to China's largest proprietary electric commercial enterprise whose market share of China's proprietary B2C online shopping reached 56.3% in the first quarter of 2015. In May, 2014, Jingdong (JD.com) officially listed on the Nasdaq Stock Exchange, making it the first large-scale integrated electronic business platform which listed in the US capital market and became one of the top 10 global internet companies along with Tencent and Baidu. JD's market turnover reached 260.2 billion yuan and net income was 115 billion yuan in the year of 2014. At present, JD has set up six logistics platforms centered with Beijing, Shanghai, Guangzhou, Chengdu, Shenyang and Xi'an, so as to offer more efficient and convenient distribution service and further expand its business space (Form F-1, Registration Statement under securities act, of JD.com, Inc., 2014).

JD's business covers such 13 classes and 31.5 million kinds of commodities as computers, mobile phones and other digital products, home appliances, auto parts, clothing and footwear, luxury goods, home and household products, cosmetics and other personal care products, food and nutrition, books and other media products, baby products and toys, sports and fitness equipment and virtual goods. According to the official data of JD, the number of its registered user reached 100 million on April 23, 2013 and it was estimated that this number increased at a growth speed of nearly 200%. Besides, the data of JD 6.18 anniversary (JD's shopping carnival) shows that consumers' shopping platform tends to be more diverse and JD model featured with high quality, safety and low price is becoming the mainstream of B2C.

Adhering to the people-oriented concept, JD is willing to cooperate with users, suppliers and investors on the basis of integrity. It is committed to provide users with all-round services and pleasant shopping environment; it sticks to single e-commerce operation model and reduces intermediate links so as to bring high-quality products and satisfactory service in shortest time.

In the Research Report on China's Online-shopping Market (CNNIC, 2012), the researchers compared users of B2C online shopping website in terms of gender, education background and income (as is shown in Figure 4).

From the Figure 4. The differences of online shopping users' gender, age, education background and income (CNNIC, 2012). What we can see from the above data is that JD has more male users, which may result from its emphasis on digital products. Its main consumers are young white-collar workers, civil servants and students who have strong purchasing power, which endows JD with great profit growth potential in the future.

1.3. The Comparison between Taobao and JD in Market Positioning

Both Taobao and JD's target customers is low-and-medium-end young people and Taobao's is a little lower than JD. The young people with lower incomes pay more attention to prices while some middle-aged people with higher incomes focus on quality. Taobao is attractive for its abundant commodities and large price fluctuation, which means that you can buy both certified products and cheap counterfeiting goods; JD is impressive for its high-quality products which are cheaper than those of physical stores.

Therefore, many consumers would like to understand commodities in person and then search them in Taobao or JD.

In addition, the two websites have great differences in terms of product positioning. Taobao is an online platform which doesn't directly sell goods but is an intermediary between buyers and sellers, so it has more goods but cannot ensure their quality. On the contrast, JD is a real online retailer which directly provides consumers with commodities. It is in charge of purchase, sell, storage, transformation, delivery and after-sales service and offers high-quality products and relevant services.

2. OPERATION SYSTEM, PROFIT MODEL, KEY RESOURCE AND CAPABILITY, and Cash Flow AND Enterprise Value

In this chapter, the author will compare Taobao and JD in terms of operation system, profit model, key resources and capability as well as cash flow and enterprise value.

2.1. The Operation System

The operation system is the behavioral agents chose by companies as its internal or external stakeholders. It is made up of configuration, roles and relationships; configuration refers to the network structure of stakeholders and their connections form, role is the stakeholder with resource&capability and relationship is the mutual effect among stakeholders. An effective operation system is essential for companies to win competitive advantage.

2.1.1. The Operation System of Taobao The Shop System of Taobao

What Taobao uses is membership system and anyone can go shopping after free registration; the registered users can set up stores after real-name authentication. Taobao has two kinds of stores: ordinary ones and winports. Ordinary stores use free website templates including shop name, category, main business, logo and introductions. Taobao winport is a value-added service with customized and beautiful template.

Real-time Communication Tool

One of online shopping's disadvantages is that the buyers cannot observe commodities in person; to solve this problem, Taobao developed Aliwangwang which covered text, voice, video communication, transaction alerts, quick passage and latest information. It is customized communication software for buyers to keep in touch with sellers and get to know some details of their interested commodities and then make

reasonable decisions. Besides, with some unique business functions for electronic commerce, it is also a powerful tool for sellers.

Payment System

In online shopping, buyers are more cautious about the safe of money than the quality of goods; buyers do not want to pay before receiving the goods while sellers won't be willing to deliver before they get paid. To solve this problem, Taobao created a technology platform called Alipay to provisionally take care of the money before the buyer receive goods and feel satisfied, which is helpful to reduce the risk of online shopping and maintain the credit between the two sides.

Alipay was only a payment tool at first and Alibaba developed it to a stand-alone product providing basic services to all e-commerce websites in December, 2004. Operated by Zhejiang Alipay Network Technology Co., Ltd, it gradually turned from third-party guarantee payment to independent payment platform. Since then, it has been committed to provide “simple, safe and fast” on-line payment solutions to China’s e-commerce and regarded credit as the core of it products and service, which help it be popular in public. According to the Research Report on China’s Online-shopping Market (2012), 64.6% Internet users chose Alipay for electronic payment.

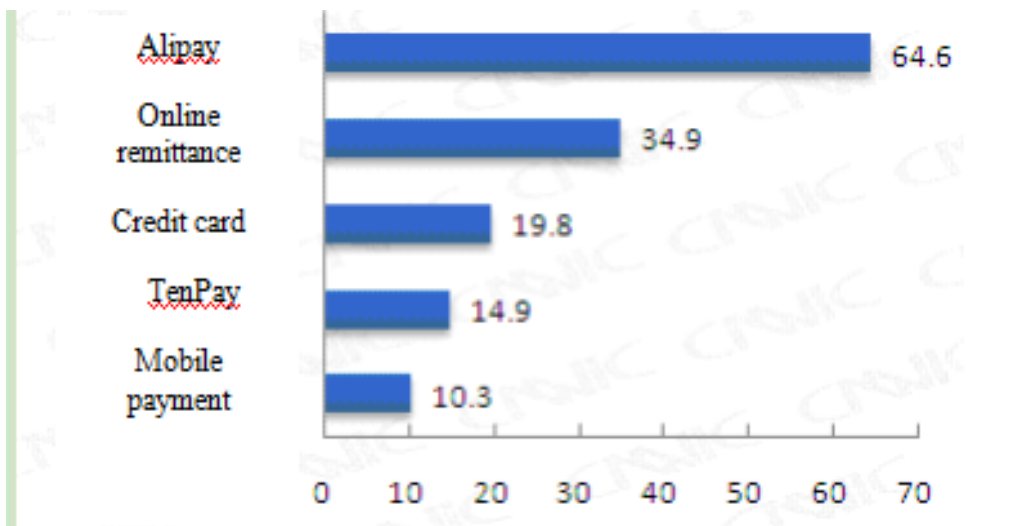


Figure 5. Top 5 electronic payment tools (%)

Source: (Iresearch, 2013)

It is estimated that only 15.5 5% chose to use Alipay in their first online shopping in 2004 and the number increased to 77.4% after nearly 10 years' development. 88.8%

online consumers regard Alipay as their frequently-used payment method, 69.0% users would not like to shop on the websites without Alipay and 88.3% users believe that the shopping websites with Alipay are safer than the others. To date, Alipay has taken over nearly fields in C2C, B2C and B2B. By the end of 2013, Alipay had 300 million real-name users and the daily mobile transaction number reached 25 million, making it the largest mobile payment company in the world.

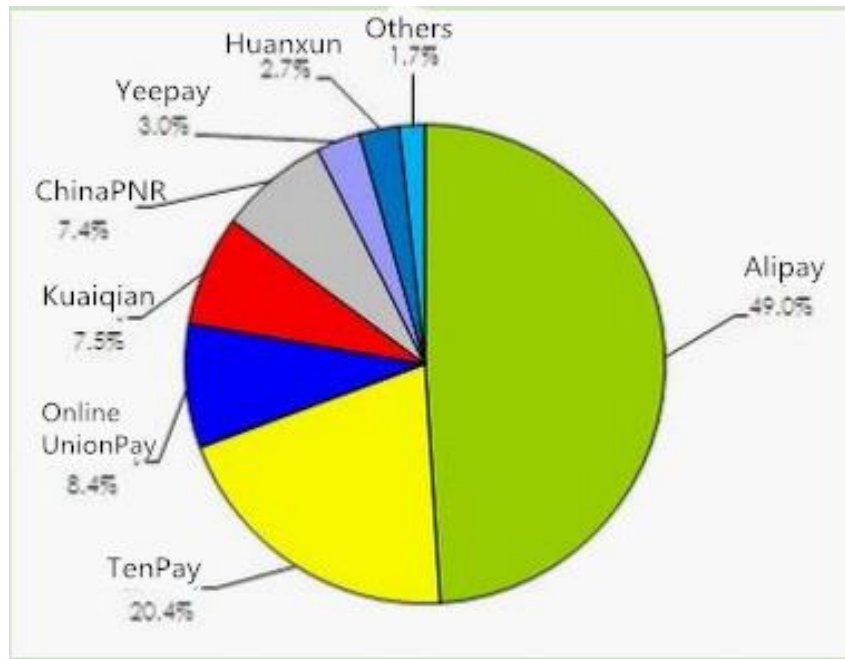


Figure 6. Alipay's market share in China's online payment

Source: (Iresearch, 2013)

Due to Alipay's innovative product technology, unique concept and large user group, more and more Internet businesses use Alipay as their online payment system. There are over 460,000 companies use Alipay, covering virtual games, digital communications, business services, tickets, etc. At the same time, Alipay has cooperated with Industrial and Commercial Bank of China, Construction Bank, Agricultural Bank, China Merchants Bank and Bank of Communications as well as VISA so as to promote this secure payment means to the world.

Credit Rating System

Taobao's credit evaluation mechanism learns from eBay but is more humanize. At present, Taobao's second-generation credit system is made up of individual appraisal rules and shops scoring rules. Both buyer and seller have rights to make assessments

within 15 days after each transaction. Besides, the buyer can grade the shop in terms of the commodity and its introduction, service attitude, delivery speed and logistics service. The shop rating and credit score are coexisted for the buyers' reference. At the same time, the system will conclude the users' credit grade, favorable rate and shop dynamic score to reflect the credit situation of the two sides. What's more, the buyers can make additional comments within 180 days and then sellers would have another opportunity to explain.

Logistics Service

Information, capital and logistics are three key elements to e-commerce; Taobao.com and Alipay are perfect solutions for the first two factors. For logistics, Taobao carries out recommended logistics companies but not directly offer allocation and delivery service. To date, Taobao has cooperated with such over 10 logistics companies as China Post, STO logistics, YTO Express, ZTO Express, which can meet the needs of sellers and buyers. However, Taobao doesn't have mature policy on returned purchase, so the logistics in this field has many defects: low efficiency, high cost and long cycle.

In June, 2010, Taobao launched large logistics plan which consisted of Taobao logistics platform, partner system and logistics service standard. Zhan Yong, Taobao's CFO, said that Taobao will offer integrated logistics solution by connecting online platform and logistics distribution system so as to decrease sellers' costs in logistics. With this plan, companies can match suitable service resources in shortest time without large investment in fixed assets, a group of professionals and the design of logistics processes.

2.1.2. The operation system of JD

As a comprehensive website retailer, JD stands at the final phase of commodity circulation and directly sells goods to consumer. Its industry chain is consisted of procurement, sales, payment and distribution. It is important for retailers to constantly improve inventory and cash turnover; in JD.com, there are thousands of products which are 10% -20% than those in physical stores and its inventory turn is around 10 days, so it can pay suppliers in time. Compared with JD, Suning and Gome's (another two popular online retailers in China) inventory turns are 40 days and the payment period is 112 days. Therefore, JD can offer valuable space to vendors and end-users.

Purchase Process

The suppliers of 60% products in JD.com are producers or agents and distributors

designated by manufacturers while the other 40% are manufacturers, which ensure the quality of commodities. In April, 2012, JD signed 80-billion-yuan appliances purchase agreement for the following three years with more than 30 well-known home appliance brands at home and abroad; this largest-scale purchase in this field made differences in China's home appliance channel and was regarded as an important point in transferring domestic appliance distribution channels from traditional big chain stores to online retail. The appliance manufacturers choose JD for its lower costs, higher inventory turnover efficiency and nationwide channels. In addition, JD.com with over 50 million active users is also an important brand marketing and product promotion platform on which the manufacturers can hold new products presentation conferences and other activities and interact with consumers.

Marketing Process

The marketing process of JD mainly relies on its website and consumers can go shopping after free registration or use telephone ordering. Its call center can achieve all kinds of online customer service and technical support and the telemarketing center will become a major part and profit growth point of the call center. In addition, JD can provide consumers with detailed invoice for all commodities in order to ensure after-sales services. JD also increases its investment in advertisement and promotional activities so as to improve its popularity, enterprise brand image and website page views. JD set up a joint marketing alliance with several media partners to help promote products and any individual or companies would obtain corresponding advertising links after joining in the alliance. In addition, JD has held such activities as shopping spree, special promotion and cash coupon present to increase its sales volume.

Payment System

The payment of JD includes cash on delivery, online payment, postal remittance, company transfers and installment and other means, among which the cash on delivery contains cash, POS machine and check. Online payment consists of TenPay, China mobile phone payment, online UnionPay, China PNR, YeePay and some other third-party payment services. At last, JD's installment has cooperated with Bank of China, China Merchants Bank, China Minsheng Bank and China Everbright Bank and the businesses of Industrial and Commercial Bank of China, Bank of Communications, China Construction Bank and other banks will be opened in the near future.

Distribution Process

At present, JD has three kinds of distribution methods: receiving agent (JD will send commodities to the nearest service agent for the buyers to take), 211 delivery in time and express delivery. 211 delivery is JD's unique service about which it promises the goods bought before 11:00 am will arrive in the same day and those bought before 11:00pm will arrive before 3:00pm of the next day; this service has covered cities. In a word, most of its distribution can be finished by its own distribution system and some remote areas are served by outsourced logistics company.

2.1.3. The Comparison between Taobao and JD in Business System

The business systems of Taobao and JD have great differences in terms of communication, payment, logistics and credit rating.

First, Aliwangwang is a useful communication tool for Taobao to send messages and help users gain more information, which increases users' credibility. However, JD's information transfer mainly relies on online customer service which is not as good as Aliwangwang from the perspectives of timeliness and visual effect. JD pays more attention to the quality of products than communication tool, so it still has lots of users.

Second, as third-party online payment, Alipay has the largest market share in this field; but JD terminated its cooperation with Alipay due to its expensive fee, which had some negative impact on the business of JD. Later on, JD signed strategic cooperation agreement with China Unionpay to joint promote e-commerce application based on China Unionpay's online and mobile payment.

Third, Taobao carries out recommended express and takes no responsibility for the physical distribution chosen by buyers and sellers, which leads to lots of problems since the lack of standardization in China's logistics companies. Therefore, logistics is one of Taobao's serious difficulties. On the other hand, logistics is JD's another advantage besides its high quality. To date, it has six first-class logistics centers in Beijing, Shanghai, Guangzhou, Chengdu, Wuhan and Shenyang as well as dozens of second-class logistics warehouse in Jinan, Xi'an, Nanjing, Hangzhou, Fuzhou, Foshan and Shenzhen. Its self-built logistics has covered most parts of China except for some remote areas.

Forth, Taobao's credit evaluation system has been accepted and imitated by many e-commerce websites. It provides users with a trading platform that cannot make promise

on the quality of its commodities, so what it can do is to improve its credit rating system and provide users with more sense of security. However, JD has commitments on its quality and only offers a simple evaluation system for other buyers' reference; its member level is just a symbol of status but has nothing to do with JD's credit.

2.2. PROFIT MODEL

Profit model refers to the sources and methods of receipt and disbursement divided by stakeholders. A same product may have various kinds of profit sources which lead to different pricing manners.

2.2.1. The Profit Model of Taobao

Jack Ma, founder of Alibaba, promised that the shops on Taobao would be free of charge in the three years following the website's establishment and he announced that it would be free for another three years in October, 2005. Three years later, Alibaba invested 5 billion yuan to Taobao to continually carry out free policy, which facilitated its development and attracted lots of network resources and members. However, its incomes from advertising revenue, winports and commission of B2C earnings could not meet its operation maintenance expenses; this dilemma took a favorable turn after the formation of Great Taobao. The ultimate goal of an enterprise is to make profits, so Taobao tried to search for new sources of revenue while stuck to its "free" promise.

Advertising Revenue

In July, 2007, Shao Xiaofeng, Vice President of Taobao, said that its new network marketing service was to provide accurate online advertising services for some brands since it owned a large number of customers. Taobao sold its Banner advertising spaces and the right-side spaces in search-result pages, which was its first officially announced profit model. Taobao's total revenue of 2010 was nearly five billion, 80% was advertising revenue. Until 2014, the advertising revenue of Taobao achieved 375 billion (Iresearch, 2007-2014).

Taobao provides a series of value-added services for sellers to choose and the charging standard is shown in the table 3. Here's how advertising works on Alibaba's websites. Alibaba's Taobao marketplace is equipped with a search engine that allows

shoppers to look for products by entering keywords. Many merchants selling their products on Taobao participate in auctions of search keywords — much like how businesses spend money on Google’s search-linked ads. Other than search-linked ads, Taobao and Tmall, another Alibaba shopping site, charge for other ad spaces on their homepages. For example, there is a section in the middle of the homepages that usually features big photos of products or information about special discounts.

2.2.2. The Profit Model of JD Direct Sales Revenue

As a retailer, JD’s main profit comes from its direct sales revenue which is the price difference between purchase price and selling price. To attract consumers, JD carried out low-price policy for a long time and its sales revenue approximated to gross profit, so it didn’t make profit in 2010 though its sales revenue was 10 billion yuan. At that time, Richard Liu, Chairman & Chief Executive Officer, said, “Scale is more important than profits and larger scale will bring lower purchasing prices. We will make a breakthrough as long as we improve efficiency and reduce cost.” JD increases its bargaining power and realizes virtuous circle by making use of e-commerce’s short payment period. The payment period of traditional home appliance malls is around 100 days and the suppliers are worried about the cash flow occupied by retailers. JD makes preliminary judgment on products sales using the information collected by its own information system; besides, it carries out informatization management on such processes as order confirmation, storage, logistics and distribution in order to shorten payment period by the high efficiency of e-commerce. The short payment period can suppliers’ capital turnover pressure and JD’s cost of goods purchased so that it can get more stable cash flow and realize virtuous cycle. In addition, suppliers’ profit can be further increased because they don’t need to pay slotting allowances, renovation costs, promotional fees and festival fees.

JD owns more than 30,000 kinds of commodities which are 10%-20% cheaper than practical stores; its stock turnover is 12 days, its expense ratio is 7% lower than Gome and Suning and its gross profit rate is about 5%. In a word, the key to JD’s success is that it does not set up terminal experienced stores but becomes the online store of Gome and Suning and provides more economic goods than the two malls.

Charges of POP Open Platform

In December 2010, JD's POP open platform (the third-party sellers rent JD's platform to market) came into being and provided all kinds of services to merchants who could meet JD's entry conditions; for example, merchants could put their products in storage as well as enjoying logistics distribution system and logistics distribution system. At the same time, JD could collect cash deposit, platform licensing, commission, warehouse service charge, distribution and marketing charges (shown in Table 4). In 2012, its sales volume reached 15 billion yuan; in 2013, it had attracted nearly 30,000 merchants, covering garments, jewelry, sports, maternal and child products, food, drink, furniture decoration, automotive supplies and virtual products. In addition, it also opened overseas purchasing agents to meet customers' requirements on foreign goods.

Table 4. The charging standards in JD's Merchants Manual

Cash deposit	≥10,000 yuan
Platform licensing	6,000 yuan
Commission	It depends on category
Warehouse service charge	It depends on category
Distribution service charge	It depends on category
Marketing service charge	It depends on negotiation

Source: (Form F-1, Registration Statement under securities act, of JD.com, Inc., 2014)

Besides, POP open platform boasts powerful marketing ability and provides cooperative partners with accurate brand promotion and marketing platform.

1. Theme marketing, it changes meeting customers' needs into creating needs by creative theme marketing.
2. Joint marketing, it initiates cooperation among brands to promote joint marketing.
3. Platform construction, it sets up a comprehensive platform for sales, exhibition and interaction.
4. Large database, it sets large database to support precision marketing
5. Resource integration, it integrates resources and facilitates brand development by various media.

Financing Deposition Earnings

Financing deposition earning is the profit made by reinvestment which takes

advantage of the time lag between receiving customers' payments and paying the suppliers. Generally speaking, JD's payment period is 10 days and it will have 100 million yuan in its account supposing that JD's sales volume is four billion yuan. In addition, the POP open platform charges the third-part merchants for margins of 10,000 to 100,000 yuan which will be returned when they drop out from JD. The above two kinds of capital are the main sources of JD's financing deposition.

Advertising Revenue

In recent years, Internet advertising has been gradually accepted by the public, making it a main income of e-commerce companies. JD's advertising revenue of 2010 reached 10 million yuan; Richard Liu predicted that this annual income would achieve 500 to 700 million by the end of 2015. In 2013, JD's third-party platform advertising system came out, which changed its single advertising revenue model. Just like Taobao and Tmall, this platform charged in terms of page view so as to achieve best promotion effects for sellers. However, JD's advertising revenue only came from selling ad spaces and promotion fees.

2.2.3. The Comparison between Taobao and JD in Profit Model

What we can see from the above analysis is that Taobao's income mainly came from value-added services and advertising revenue before the establishment of Tmall and the income could not meet the expenses of technology development and operation maintenance. It began to make profits after it charged commission in Tmall and then formed virtuous cycle among various resources.

JD, as China's online retailer and the leader of sales-oriented B2C market, always carried out low-price policy. Its gross profit rate was similar with expense ratio and high sales revenue didn't bring profits. However, the POP open platform brought new profit sources and JD could charge cash deposit, platform licensing, commission, warehouse service charge, distribution and marketing charges. In 2012, the sales volume of POP had doubled that of self-support business, which brought new vitality and the profitability to make profits.

At present, it is surprising that JD's profit model is gradually similar to Taobao. Generally speaking, both JD and Taobao don't have self-produced commodities, but their income structure will continually change with their development process. Taobao won't

be free of charge forever and JD will eventually proud of its sales revenue when it has large scale and cost advantage. In recent years, more and more studies on the profit model of e-commerce have sprung up and some experts put forward targeted solutions. Nevertheless, few e-commerce companies have made profits and none of them would focus on a specific field because they want to take over more market share. As a result, the fierce price war and the high cost of distribution network largely reduce their profits. The e-commerce companies should clearly recognize that low price is not a long-term solution whatever the profit model is.

2.3. KEY RESOURCE AND CAPABILITY

Key resource and capability are important for supporting the entire deal structure and the symbols of an enterprise's service power. Different business models call for diverse key resource and capability and the differences among same business models result from the levels of key resource and capability. Companies can yield twice the result with half the effort when they figure out their essential resource and capability and then cooperate with relevant stakeholders.

2.3.1. The Key Resource and Capability of Taobao Abundant Commodities

It is estimated that Taobao had owned over 800 million online products by the end of 2010, covering such 15 industries as clothing, footwear, luggage, cosmetics, furniture, food, watch, outdoor sports, toys, jewelry, home furnishing, maternal and child supplies, audio-visual materials, software and health care products. There was a questionnaire investigating the commodity classification of Taobao, Dangdang, Amazon, TOM eBay and Paipai anf the full mark was 5. The customer satisfaction of Taobao is 4.47 while that of the other four websites was less than 4, which indicated that Taobao had scale effect in commodity classification.

Market Recognition

As China's largest online shopping mall, Taobao owns excellent brand image, good business credit and positive corporate culture, which endows it with better image and larger influence than other companies, "Taobao offers whatever you want" has

become a popular advertisement.

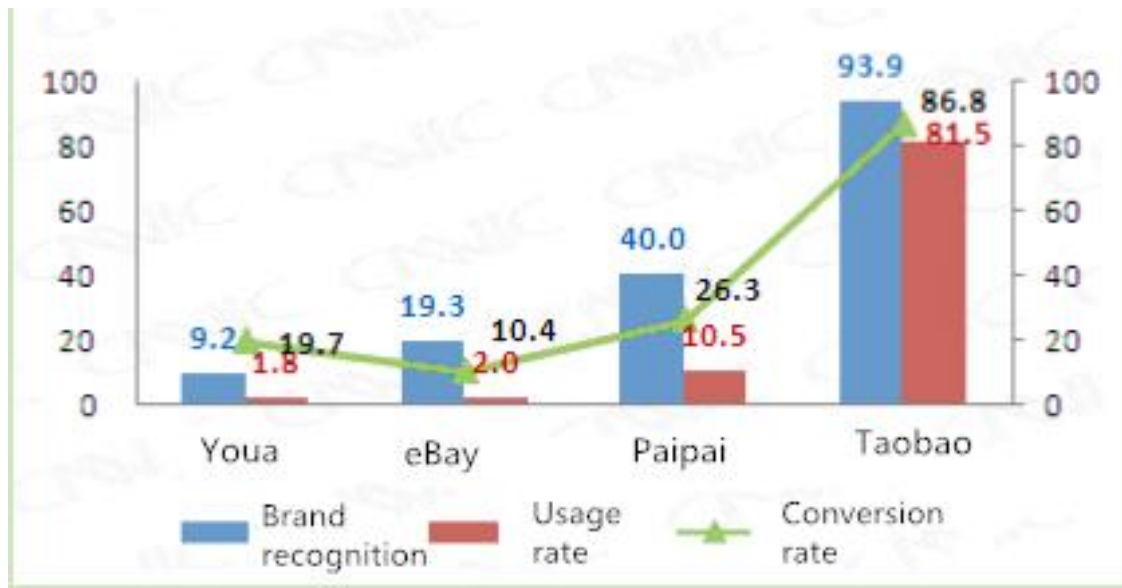


Figure 7. The brand recognition, usage rate and conversion rate of C2C shopping website
Source: (Iresearch, 2013)

According to Research Report on China's Online-shopping Market, the brand awareness of Taobao reached 93.9% and 81.5% online consumers went shopping on Taobao; its brand conversion was 86.8%.

Financing Capacity

From the Table 5. The financing process of Alibaba (Qin, Chang, Li&Li. 2014. E-Commerce Strategy): Taobao owns larger financing capacity advantage than other e-commerce websites. Depending on Alibaba Group, the magnate of e-commerce industry, Taobao can carry out internal financing. In 2012, Alibaba spent \$6.3 billion and less than \$800 million newly-increased preferred stock to counter purchase 50% of Yahoo's Ali share and had the right to purchase the other 50% during its IPO. On 19, September, 2014, Alibaba Group's U.S. IPO priced its shares on Sep 18 and began trading on Sep 19. Alibaba's filing with the U.S. Securities and Exchange Commission revealed that the Chinese e-commerce company offered 320.1 million American depository shares at a price between \$60 and \$66 per share. At this price band, Alibaba would be valued at about \$160 billion at the mid-point of the range, making it the largest U.S. IPO ever.

In addition, Taobao also conducts risk financing. Covering 90% market share, Taobao has established dominance in C2C field, making it a good consumer of venture capital firms.

Registered User and Consuming Behavior Database

By the end of 2014, Taobao had nearly 500 million registered users and its daily active users reached 120 million, bringing it with incomparable advantage. Besides, it built large consumer database for such important information as on-line shopping, online dating profile as well as the age structure and geographical distribution of consumers; to study these resources could help understand consumers' purchase behavior and the dynamic change trends of consuming behavior.

2.3.2. The Key Resource and Capability of JD Financing Capacity

JD.com, Inc., the largest online direct sales company in China, visited the NASDAQ Market Site in Times Square in celebration of its initial public offering (IPO) which occurred on The NASDAQ Stock Market on May 22. In honor of the occasion, Richard Liu rang the Opening Bell. In May, 2015, JD's board approved a 10-year pay plan for Richard Liu whose basic wage would be one yuan without cash bonus, which connected his personal interest to JD so as to inspire the staff.

Table 6. The financing process of JD

Round	Tine	Amount	Source
1	August, 2007	\$10 million	Capital Today
2	January, 2009	\$21 million	Capital Today, Bull Capital Partners, Francis Leung Private Company, etc
3	April, 2011	\$1.5 billion	Russia DST, Tiger Fund and Sequoia Capital
4	November, 2012	\$400 million	Ontario Teachers' Pension Plan and Tiger Fund
5	February, 2013	\$700 million	Ontario Teachers' Pension Plan, Kingdom Holdings Company, etc
6	March, 2014	\$214 million	Tencent

Source: (Form F-1, Registration Statement under securities act, of JD.com, Inc., 2014)

From the above table we can find that JD has such stable and powerful investors as Capital Today, Tiger Fund, which reflects that it owns tremendous development potential. JD accepted the last investment from Tencent in order to be shared the entrance from social network of Wechat.

The Supporting Capacity of IT System

Richard Liu once said, “It is easy to put commodities on line and pay attention to the quantity of goods is meaningless; what counts is that whether the back-end systems can deal with the orders you get.” At first, JD’s transaction included placing an order, remittance and posting, which would take 10-15 days. At present, it deals with over one million orders everyday and realizes wireless POS payment. Its IT system’s support ability has undergone qualitative change. The improvement of IT system owes to such factors as huge investment, the development of hardware and software system, process optimization, especially the self-developed ERP system used for internal management and inventory management. The staff can master the details of every product by ERP system in order to help shorten inventory turnover and improve the overall operational efficiency. In a word, JD put huge human, physical and financial resources in the construction of network server, data architecture and office automation, which can support the entire backstage and ensure the efficient, smooth running of online shopping.

Logistics Service Capability

JD has such two main logistics systems as self-established logistics system and the combination between self-established system and third-part logistics.

To begin with self-established logistics system. At present, JD has set up six logistics platforms centered in Beijing, Shanghai, Guangzhou, Chengdu, Shenyang and Xi’an as well as several second-level logistics storerooms in Jinan, Nanjing, Hangzhou, Fuzhou, Foshan, Shenzhen, etc. Besides, it set up delivery terminals in more than 200 cities and agent points in most of China’s universities. In addition, its storage centers in Beijing, Shanghai and Guangzhou was expanded to 80,000 square meters and their storage throughput had been improved. In March 2009, JD invested 20 million yuan to set up Shanghai Yuanmai Express for the logistics distribution for East China. On May 15, 2010, covering an area of 200 acres, the East China logistics and Warehousing Center came into use; it could undertake half of its logistics and deal with nearly 50,000 orders. Later, JD built a ultra-large storage center in Jiading with an area of 150,000 to 180,000

square meters and it was equals to eight Bird's Nest (the stadium of 2008 Beijing Olympic Games and could hold more than 91,000 spectators).

The second one is the combination between self-established system and third-party logistics. Nowadays, JD's business has expanded to secondary cities or tertiary cities from several metropolises with the improvement of popularity. However, it is expensive and unworthy to set up large transport companies in every secondary city since the profits there cannot support the operation and management of logistics centers. As a result, JD chose to cooperate with local express companies to finish distributions in cities except Beijing, Shanghai and Guangzhou; it joined hands with producers when transporting bulk merchandises since they had own after-sales service stations in every city and logistics partners. For example, Haier has its own warehouses and logistics company partner in Taiyuan (capital of Shanxi Province) and JD can gain credibility and solves problems in capital flow and information flow by cooperating with Haier. Besides, its third-party logistics service providers are ZJS Express.

Service Innovation Capability

Since 2009, JD has provided users with logistics, cash on delivery, mobile POS payment and home delivery service in order to simplify customers' shopping process. Besides high-quality products, printed invoices and after-sale service, JD puts forward price protection and prolonging guarantee period so as to eliminate customers' fear of disturbance in the rear and protect their right. JD sets a good example for China's e-commerce companies in integrity management by meeting the different requirements of its customers.

2.3.3. The Comparison between Taobao and JD in Key Resource and Capability

Key resource refers to companies' competitive advantages on the persistence of some specific business and the resources based on abilities. It can be both material and immaterial. A company's resources cannot realize their expected effects and become key resources until they are matched with some capabilities. Each company has accumulated various key resources and abilities in its development and it should carefully consider whether the original resources can meet the development in the future when it reconstruct business model; and then give up inadaptable ones and reform those which need to be improved.

Taobao's key resources are its abundant commodities, huge user group and the enormous consumer behavior database built in long-term development, which is unparalleled in e-commerce industry. On the other hand, JD also has some advantages which Taobao doesn't have. Its ERP system has become the operation center and manages the information of supplier, logistics and distribution so as to shorten inventory turnover, reduce cost and thereby improve the overall operational efficiency. In the above analysis, it is obvious that financing capability is their common resource and they are well-matched in strength; however, JD is more powerful than Taobao in actual operation.

The two companies took over the top two seats in e-commerce industry since they have special and unsurpassable resources and capabilities. Nevertheless, key resource and capability will change as the development of companies and their competitors. For example, Taobao's logistics service is inadequate and the services provided by some third-party logistics enterprises are hysteretic and poor, which brings bad influences to its customer loyalty. Though Taobao doesn't plan to set up its own logistics system like JD, it may build fourth-party logistics and become the intermediary agent between third-party logistics enterprises and customers. This method calls for less investment and can cover larger areas. In conclusion, only if the e-commerce companies insist on innovation can they hold their advantages and make new progress.

2.4. Cash Flow and Enterprise Value

2.4.1. The Cash Flow and Enterprise Value of Taobao

Cash flow structure is the cash inflow and outflow structures divided in terms of stakeholders and the relevant cash flow patterns. It can be designed and a single profit model can correspond to different cash flow structures. On one hand, if clients have to invest large amounts of capital at initial stage, they can draw support from financial instruments, installment or finance lease, which will reduce their pressure of payment and attract more clients. On the other hand, if clients have to repetitively pay small amounts of money, the company can carry out advance payment while offering high-quality services so as to win clients' satisfaction as well as releasing cash flow pressure.

Enterprise value is the temporary lodging and evaluation criterion of business models. Generally speaking, a company's value can be assessed from three aspects,

namely, return on total asset (the more return on total asset, the higher value), profit ratio of sales (a reflection of competitive structure) and compound growth rate of sales (focus on the company's sustainability).

Free cash flow is a company's surplus cash after meeting the needs of reinvestment and it is the maximum amount of cash assigned to capital suppliers without affecting its sustainable development. Before 2008, Taobao was at a loss and didn't have free cash flow to allot corporate profit. Later on, it began to make profits, but it still had to invest a lot of capital to integrate resources and increase the kinds and quality of cash inflow so as to gain adequate free cash flow.

According to Weizhu Six Theoretical Model, a company's value can be assessed from three aspects, namely, return on total asset, profit ratio of sales and compound growth rate of sales. Being different from traditional companies, Taobao's main strategy is free policy, which helps it to develop from a little company to business legend. Though its current free cash flow is not optimistic, it has advantages in development and market share if its rapid growth is taken into consideration. In a word, its enterprise value will largely increase in the future.

2.4.2. The Cash Flow and Enterprise Value of JD

Though financing solve JD's cash flow problem, it spent most of its capital on the construction of logistics problem. Besides, its low-price hindered the increase of profits. According to ABR Investment Strategy (ABR), the valuation of JD was about \$31-44 billion in 2014. However, this number would decrease if it was estimated in terms of cash flow. It was estimated that JD's free cash flow would be 9.4 billion yuan in 2017, so its valuation was about \$21-29 billion.

JD's profit is not very high since its gross profit is similar with expense ratio; however, JD could gain financing under such circumstance. The official of Tiger Global Fund said that China's e-commerce industry had huge potential; they chose to invest in JD because its excellent team and profound understanding in e-commerce and retail industry and it had broad business prospect. The investors believed that sales revenue would be its biggest and most fundamental profitable point and enterprise value would be greatly improved when it when developed to a certain scale and the cost advantage gradually emerged.

2.4.3. The Comparison between Taobao and JD in Cash Flow and Enterprise Value

Both Taobao and JD aren't rich in free cash value since they carry out free and low-price policy. Taobao began to make profits after the foundation of Tmall in 2008 and gained free cash value. JD has enough cash flow, but cash flow doesn't equal to free cash flow.

On one hand, their enterprise value is reduced because the inadequate free cash flow; on the other hand, investors hold optimistic attitude to their future by considering their growth speed and development prospect. That is to say, their enterprise value will gain large increase when they improve profit model.

CONCLUSIONS

According to ABR, JD is China's Amazon while Alibaba is eBay. Just like Amazon, JD has own inventory and sell products; Alibaba provides an online platform for third-part merchants to conduct direct selling. In this thesis, the author compares the e-commerce business models between Taobao and JD in terms of positioning, operation system, profit model, key resource and capacity, free cash flow and enterprise value and finds that they have both similarities and differences.

Similarities

The two companies focus on mid-and-low-end users; this crowd's consumption level is not very high but their purchasing power is strong since they are main force of China's domestic market. Besides, in the current C2C and B2C market, Taobao and JD carries out low-price policy to attract consumers; as a result, they have difficulty in making profits. To gain more profits, e-commerce should change such price policy as well as find out new profit point.

Differences

Using two kinds of business models, the two companies choose different products. Taobao is a platform and intermediary agent between sellers and buyers while JD is a online retailer. In addition, they use different operation systems. Taobao have to offer third-party shop system, communication tool, payment system, credit evaluation, and logistic since both buyers and sellers are its customers. Just like traditional companies, JD's business processes include purchasing, sales, payment and distribution. At last, Taobao's key resource is abundant commodities and vast customer base while JD owns unparallel logistics system. The two e-commerce companies cannot gain such development and enterprise value without their key resources and improving services.

The rapid development of electronic commerce in China facilitate more and more manufacturers and distributors join in this field and set up online malls on the basis of their existing offline distribution channel. Under such circumstance, it is critical to find suitable business models for companies so as to survive in the fierce competition. This

thesis analyzes the business models of Taobao and JD and put forward some advices to domestic e-commerce companies.

The first one is to have clear market positioning. The companies should select proper target customer according to its own characteristics, product and service. Any improper positioning may result in negative effects. Besides, it also has to make accurate positioning on products (to set up an online platform, carry out direct selling or a combination of the two channels), which has great influences on its operation system and product marketing. Market positioning is the foundation of a company's development.

The second one is to have unique key resource and capacity. Most of companies have accumulated all kinds of key resources and capabilities in their development and they should conduct careful and comprehensive inspection on the company in order to judge that whether the existing resources can meet the requirements of business model and promote the company's development; and then give up inadaptible ones and reform those which need to be improved. In the above analysis, it is obvious that the success of Taobao and JD largely owe to their unique resources and abilities. Therefore, it is of great significance for e-commerce companies to find and set up thwir own key resources.

The third one is to seek out profit model which can make profits. Profit is a company's goal and the necessary condition for its sustainable development. Most companies' profit models are spontaneous in the initial stage and they begin to keep a watchful eye on this field with the increase of market competition. The model of Alibaba can be regarded as evolving profit chain and dynamic model, which is difficult for other companies to copy in enterprise strategy and core competitiveness. In recent years, some experts and scholars have put forward a series of countermeasures to the profit problems of e-commerce companies. Therefore, what the entrepreneurs should ponder over is how to apply these methods to their business and build up their own proper profit models.

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APPENDICES

Appendix 1. The relevant platforms of Taobao

Names	Services	Advantages
Purchase channels	Alibaba purchase channels or merchants' own channels	Ensure ample supply
Product display platform	Taobao.com	Provide sales platform to individual and small-scale e-businessmen as well as shopping platform to customers
	Tmall/Taobao Home Appliances Store	Provide sales platform to medium-scale e-businessmen or brand owners as well as shopping platform to customers
Marketing channels	Alimama promotion platform	Encourage netizens to propagandize commodities and provide them with extra incomes
	Offline Taobao stores	Attract the public and increase the market share of online shopping
	Guiding websites of Taobao	Advertise commodities for Taobao so as to increase

		click rates and click rate
Secure payment platform	Alipay	Provide users with safe and convenient services by cooperating with dozens of banks and offer such life services as paying water rate, electric charge and telephone bill
Service application apps	Ali Apps Store (like Apple Store)	Provide users with apps services through the third party
	Winport (namely member shops of Taobao) (paid service)	Provide shops with membership management, discount services by increasing their pageviews and picture storage space
Interactive community for buyers	Tao Community (SNS product)	Advertise commodities by sharing comments of sellers and buyers
	Yahoo Koubei.com	Increase commodities and shops' reputation by public praise so as to improve purchase rate
Education & training platform	Taobao University	Provide training platform to e-businessmen, such as knowledge on e-commerce
	Alibaba Research Center	Offer successful experiences to e-businessmen

Source: (CNNIC, 2014)

Appendix 2. The charging standards of Taobao.

Value-added Services	Charging Standards	Yearly Fees (yuan)
Winport	Supporting version: free Standard version: 30 yuan/month Upgraded version: 98 yuan/month Flagship store: 2400 yuan/month	30*12=360
Consumer protection plan	Pay 1000 yuan as cash deposit and can get full refund after unsubscribing	1000
Picture space	Winport owners can get 30M space for free The other charging standards: 30 M 3 yuan/month 50 M 5 yuan/month 100 M 10 yuan/month 300M 30 yuan/month 500M 50 yuan/month 1 G 100 yuan/month	
Taobao interlinkage	The sellers set bid amount, bid ads and spending limit and Taobao will charge them in terms of pageview.	Consumer credit can be decided by sellers.

Taobao promotion	The sellers set commission rate and pay commission to Taobao after transaction.	Pay according to volume of business.
Super sales	Taobao will collect some products and show them together in a special theme or activity and promote them with superior ads. In addition, it will track click rate and trading volume so as to help sellers' real-time analysis and maximize their profits. It charges in terms of page view.	
Mixed-shopping Services	The sellers can set mixed sales made up of several commodities. 15yuan/time	
Buy one and get something free	Buyers will get such services as coupons, presents and free shipping under certain conditions. 24 yuan/time	
Store statistics	Taobao provides statistics of page view and analysis services. 10 yuan/month 25 yuan/season	25*4=100
Data service	Taobao provides comprehensive and accurate statistical data to help sellers improve business	

	<p>performance</p> <p>10 yuan/month 25 yuan/season</p>	
Senior booth	<p>It is customized for sellers with high promotion demands by offering best booths. Its high cost performance is suitable for brands. It charges in terms of page view.</p>	

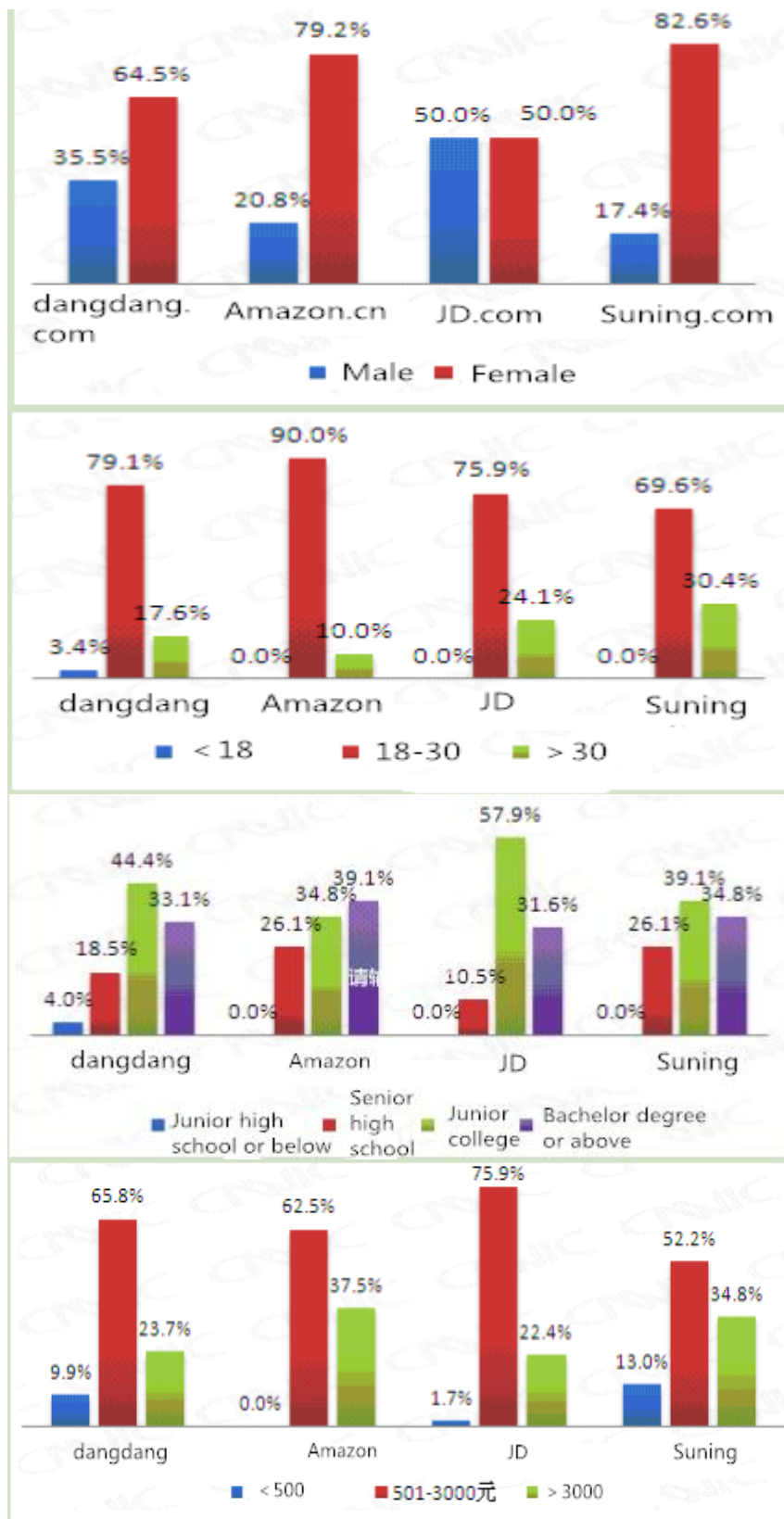
Source: (Li, Zhang. 2013. E-commerce in China:Taobao)

Appendix 3. The financing process of Alibaba

Round	Tine	Amount	Source
1	October, 1999	\$5 million	Goldman Sachs, Transpac Capital Investor AB of Sweden, Technology Development Fund of Singapore, etc
2	2000	\$25 million	SoftBank, Fidelity, Transpac Capital, TDF, Sweden Investment Bank
3	February, 2004	\$82 million	SoftBank invested \$60 million
4	August, 2005	\$1 billion & capital of Yahoo (China)	Yahoo changed 40% of Alibaba's common stock and 35% of its voting right
5	2011	\$2 billion	Silver Lake, DST Global, Yunfeng Capital and Temasek
6	February, 2012	\$3 billion	Bank consortium (ANZ Bank, Credit Suisse, DBS Bank, Deutsche Bank, HSBC Holdings and Mizuho Financial Group)
7	September, 2012	\$2 billion	China investment corporation, CDB Capital

Source: (Qin, Chang, Li&Li. 2014. E-Commerce Strategy)

Appendix 4. The differences of online shopping users' gender, age, education background and income.



Source: (2011-2012 China Online Shopping Research. IResearch, 2012)