

# Comparative ebay and taobao



A Comparative Study between eBay and Taobao in Chinese Online Auction Market BSAD 415: 66 Electronic Business Prof. G. Trites Jie Yue (Kathy) 200706289 June 10, 2008 1 Introduction Being the largest online trading company, eBay has launched websites across the world, including thirty other countries in addition to its original U. S. website. China, with its large online market, is one of these countries. In 2003, after its cooperation with Eachnet, the first C2C online company in China, eBay became the largest online trading company in China, controlled 90 percent of the Chinese C2C market (Zazaian, 2006).

The success continued until Taobao, a completely free online C2C platform, established in China by the founder of Alibaba. com. Taobao quickly became dominant in Chinese online C2C market, controlling as much as 67 percent of the market in 2005, compared to eBay's 29 percent (Zazaian, 2006). According to the 2008 China Online Shopping Report, in 2007, 70. 4 percent of online customers choose Taobao, while eBay only controlled 8 percent of the market (China IntelliConsulting, 2008). Not only is Taobao attracting more and more consumers, it is also the symbol of online shopping in China.

With great success in C2C market, Taobao also launched its B2C platform in 2008, Taobao mall, which expands Taobao's business to a new level. In contrast, in 2008, eBay China's Website (Eachnet. com) has to declare that it will not charge any listing fees in order to compete with Taobao. EBay also announced recently it would partially admit Taobao users' credits (Shanghai Daily, 2008). (?????????) With the same Chinese e-business environment, eBay and Taobao differentiated significantly in their business

accomplishments; with the same strategy, eBay failed in China, while making great success in the U. S. and many other countries.

This is not just an accident. In the remaining paper, a detailed comparison and analyze between eBay and Taobao will be conducted. According to the result of comparison, we can come up with several suggestions for online business in China. In the end, a conclusion will be made. 2 Comparison between eBay and Taobao in China Online Market Considering the whole Chinese e-business environment and business characteristics of eBay and Taobao, there are several differences between these two online trading companies. Among these differences, we can easily observe the reasons why eBay was unable to maintain its early-mover advantage.

**Pricing Strategy** Pricing strategy is the most evident difference between eBay and Taobao. Taobao's service for buyers and sellers are completely free, while eBay charges "insertion fees", "final value fees" and "gallery feature fees" for listings (eBay, 2008). Though "gallery feature fees" have been cancelled since February 2008 and "insertion fees" are much lower, they are still not competitive with Taobao's completely-free-listing strategy. By offering free listings, the listings on Taobao reached 10 million in September of 2005, while its competitor, eBay China, only had 1 million listings (Wang, 2005).

Also, among online sellers in 2007, 65.7 percent sold on Taobao and only 7.5 percent sold on eBay (China IntelliConsulting, 2008). Taobao's success comes from its proper analysis to Chinese online market. Since Chinese online market is not mature to accept customer service fee, it is more important to nurture the market than to charge listing fee, and free fee

strategy is most suitable for this market. Just as Jack Ma, Chairman and CEO of Alibaba, said, “ No charges is the right business model for China's current conditions (China Daily, 2005). ”

Though free listing is an important advantage for Taobao to win over customers, it is not the only reason why customers use Taobao over all the other C2C websites. In China, there are other C2C vendors such as Dangdang. com and Paipai. com, both of which followed Taobao's free-listing strategy. However, these two companies only count for 19. 9 percent of market share (China IntelliConsulting, 2008), which is a quarter of Taobao's. Also, eBay has lowered listing fee a lot since 2005, but this didn't slow down Taobao's growth. Therefore, free listing is not the key reason for Taobao's success.

Indeed, feeling they are benefiting, customers may even willing to pay. Target Market The first action for both eBay and Taobao in China is to identify their target markets. When eBay launched in China, it identified its target customers as those “ well educated, familiar with the Internet, earning a monthly payment over 3, 000 RMB, and 20-40 years old” (Chen et al. , 2007). Indicated by Shixiong Wu, CEO of eBay China, these mainstream customers are very important to eBay as they help with the healthy growth of electronic market (as cited in Chen et al. , 2007).

On the other side of the Chinese online market, Taobao decided to focus on Chinese customers who are between 20 and 30 years old with good education levels, after analyzing China's C2C market for four months. They believe that in a decade, these online shoppers will become mainstream consumers who will influence the buying habits of the whole country

(Alibaba, 2006). Comparing the target markets of eBay and Taobao, it is clear that though they all target at young people, Taobao's target market is much broader and includes students, while eBay's target customers are professionals who have salaries.

Shown by the survey results, in 2007, student buyers made up a quarter of all customers, and they made 10 percent of online purchases (China IntelliConsulting, 2008). Taobao's first move was successful, since it well segmented the Chinese online market. Web Design According to an "Online Customer Experience in Mainland China" survey conducted by GCCRM in 2007, Taobao was top among sites people "mostly loved", while among those people "mostly hated", eBay China rated high. It also indicated that when being asked the reason they "hated" any e-commerce web, most customers chose the web design.

Comparing their websites, eBay China is more product-centric, while Taobao build the website according to customers' likes and dislikes. Take listings as an example. Taobao organized its listings into categories that are convenient for customers, such as "Men", "Women", etc. On the contrary, eBay refused to change its website after its establishment in China until 2007. Also, eBay's website is text-rich, while Taobao's website is picture-rich. Ebay's style makes it look professional, but for a website targeted at young people, friendliness should be considered. Taobao is doing very well in making its website look cute, beautiful and friendly.

It also encourages customers to make suggestions about the web design, which enables it to adapt to customers' requirements. In addition to the web interface, eBay lost a lot of customers because of the loading speed. When

launching in China, eBay used its server in the US to run the website, and the distance slowed down the loading speed. This also brings the problem of occasional errors such as “ server not found”. eBay has learned this lesson and copied Taobao’s style to its new website in China, Eachnet. com, in 2008. However, this action without any innovation only causes “ disgust” among loyal customers of Taobao.

**Customer Service** As third parties involved in online C2C markets where trading places are virtual shops, it is significant to provide good customer service. A phone number shown on the website is necessary, to which customers can turn when they have problems. Taobao provides kinds of customer service, including reactive service and proactive service. Besides email and mailing address, there is a call center available 24 hours a day, answering any questions and accepting any suggestions. It is promised that any complaints will be settled within seven workdays.

Customers can also enter the “ Taobao Helping Community” to help other users or be helped. In addition, top management executives in Taobao frequently communicated with customers through forum and online messenger, which is unique in Chinese online market. In contrast, eBay China do not provide such customer service. There was even no phone numbers shown on eBay’s website before 2005. Customers can only email questions or join online discussion groups, which is weak in handling urgent problems (Rein, 2006). As often complained by consumers, eBay did not care about both buyers and sellers, and they view this as a major lack of customer service.

This is the main reason for that Taobao has higher customer satisfaction than eBay China. According to iResearch, the user satisfaction level was 77% for Taobao versus 62% for eBay (Wang, 2005). Security The key factors, which let customers make purchase decisions, are trust and security. Security issues are most related to payment process. Both eBay and Taobao have their own payment system. eBay has introduced its traditional payment method, Paypal, while Taobao has introduced a similar one, Alipay, which was developed by Alibaba.

Before 2007, the difference between Paypal and Alipay is the process of payment. Through Paypal, buyers pay directly to sellers, without any middle transaction, but Alipay has an extra “ stop” for the money. If buyer A is willing to pay seller B for an item, the money will first be put in his/her account in Alipay, and B will be informed to send out the item. After A receives the item, he/she will confirm the payment in Alipay, and the seller will receive the payment (Alipay, 2008). Though Paypal has also introduced this method to China after 2007, it is difficult to win customers back.

Taobao also has free online anti-virus/hacking system and user payment account verification, while eBay do not. In addition, eBay’s Paypal did not integrate into the sales process seamlessly when it entered Chinese market (China Market Research Group, 2007). As a 22-year old consumer said, he felt more “ confident paying money to Alipay and then only releasing the money after they had their purchase in-hand”, in contrast, “ using Paypal mad the whole process “ nerve-wracking”” (China Market Research Group, 2007). Communication Communication is an aspect that Taobao always has its advantage in.

Since its establishment in China, Taobao has been providing an online instant messenger called Aliwangwang, which is ranked as the most satisfying service of Taobao. In contrast, there was no instant messenger and direct communication between two parties was not allowed in eBay before 2006 when it just began to adopt Skype (Chen et al. , 2007). Rather than going through the third party, real-time and direct communication is preferred in China. Taobao's Aliwangwang provides instant communication between buyers and sellers, and enables buyers to get enough product knowledge in a short time and chance to negotiate before they decide to purchase.

This is an important tool makes virtual trading real. According to Tongyu Sun, the CEO of Taobao says, “ Chinese business men are used to building relations with partners through meeting, chatting, or having dinner together before making a deal. The tradition is inherent”(as cited in Chen et al. , 2007). Besides providing instant communication between buyers and sellers, Taobao provides all users an online community where people can exchange shopping information and other emotional experiences. Though eBay also has a discussion board, it is far less active than Taobao's.

There are 27 subject channels in eBay, while Taobao has 76 big channels and in each big channel there are 10-20 small channels. Up to 7 June 2008, in “ Buyers” channel of eBay, there are altogether 3, 540 postings, while in “ Buyers” channel of Taobao, there are 162, 300 postings (Taobao and eBay, 2008). With a team of loyal customers, Taobao fosters a much stronger community than eBay, and its users are able to share their trading knowledge, personal feelings, and all other things they would like to share.



Many users feel Taobao brings them “ a sense of welcome right away” and encourages them “ to become more involved”, and some even say that Taobao offers not only transactions, but also a culture (Chen et al. , 2007). Auction Structure Taobao has an auction structure that is more suitable for Chinese market. In 2005, Taobao has only 10 percent of its listings for auction, while auction accounts about 40 percent of eBay’s listings in China (Wang, 2005). Taobao’s trading structure is better accepted in China, where customers are not familiar with auction trading yet

For other companies, it is never late to innovate and bring fresh air to the market. Also, since it is not mature yet, this market is very sensitive to price. Considering the success of Taobao’s free-listing strategy, low price will be an entering strategy for new businesses, and can also provide opportunity for eBay to win over customers. Companies should also be patient with market growth, and contribute to nurture customers’ experiences in this young market. Second, CRM should be implemented to increase customers’ awareness and loyalty. Learning from Taobao’s experiences, customer service strategies are very effective for companies to attract Chinese customers and succeed in Chinese online market.

Taobao provides customers with exceptional services such as professional calling center and instant messenger, which make customers “ feel good” while doing business. Considering this, eBay and other companies should developing their CRM process and accumulate customers’ loyalty while they experiencing customer services. Third, social network and emotional strategy is necessary to enhance customer loyalty. This can be seen from Taobao’s active community, online communication and allowance for price

negotiation. These strategies, when experienced by customers, can be regarded as customer-centered and make positive effect on their transactions on Taobao.

According to Fei (1948), Chinese people heavily emphasize social interactions, which can affect their actions and emotions. Communication tools, especially instant communication tools, are recommended since strangers can quickly establish short relationships and in turn accelerate transactions. Also, in order to build loyalty among customers, community involvement is significant. This involvement can increase trust and social relationship among customers, and as a result, let them have greater intent to make purchases. 4 Conclusion While it is usually conceived that online auction market is a winner-take-all market, Chinese market has demonstrated some different features.

First-move advantage is relatively more difficult to sustain in China since we have seen the failure of eBay in China. eBay's failure has a lot of reasons when we compare it to Taobao's success, but the basic one is that eBay didn't pay much attention to Chinese market, and it simply carried the original strategy to China without analyzing this special market. Learned its lessons, eBay began to struggle in 2008, implementing different strategies such as cancelling its listing fees. However, as the Chinese economy and online C2C market become more mature, the current dominant company, Taobao, will have more stable position, because imitating resource positions will be more difficult.

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