

Strategies and service innovations of haitao business in the Chinese market

A comparative case study of Amazon.cn vs Gmarket.co.kr

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Abstract

Purpose – Chinese consumers' cross-border internet shopping, so called "haitao" is an emerging popular trend in China. Haitao can be understood as service innovation process because it creates new market spaces and provides differentiated values for Chinese customers.

Design/methodology/approach – This study aims to explore the service innovation strategies and success factors of haitao business in the Chinese market. The authors selected two successful haitao sites of Amazon.cn and Gmarket.co.kr, as representatives of a global player and a niche player, and conducted a comparative case study to analyze their service innovation strategies and key success factors.

Findings – This comparative case analysis based on value chain framework revealed some common success factors such as trust, advanced system and alliances as well as their service innovation efforts. Amazon has advantages such as efficient logistics system and global sourcing, whereas Gmarket has advantages such as product category, sales promotions, and payment system.

Originality/value – This study provides some implications for managers with localization, alliances and platform strategies.

Keywords Haitao, Cross-border internet shopping, Service innovation

Paper type Research paper

I. Introduction

More and more Chinese consumers enjoy internet shopping because of strong economic growth and rapid internet penetration. Furthermore, they are enthusiastic buyers of foreign products using foreign online retailers. This cross-border internet shopping trend, called haitao (海淘), has grown at the exceptionally fast rate of 74.8 per cent annually from 2011 and reached about US\$600bn market size according to the [China Internet Network Research Center \(2016\)](#). In a recent survey by Nielsen, 32 per cent of

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Chinese respondents had experienced purchasing overseas goods online, and a PayPal survey found cross-border shopping will grow to 130 million consumers by 2018, including 36 million from China (Baker, 2014).

In effect, haitao trends has begun with Chinese consumers' behaviors but is assumed to be a long-lasting trend, not a temporary issue. Thus, a number of online sites are offering haitao service through "market-creating service innovation". The huge market size and very rapid expansion of the Chinese retailing market ensure that every internet shopping company in the world will not miss the Chinese market opportunities. With this trend, giant e-commerce companies have expanded haitao business organizations. Alibaba started operating www.tmall.hk in February 2014, which is a business-to-customer (B2C) model haitao business. Amazon.cn also started its haitao business in November 2014. Gmarket.co.kr initiated haitao service from 2013 and invested aggressively because of rapid sales growth in 2013. Haitao can be understood as service innovation process because it creates new market spaces and provides differentiated values for Chinese customers. However, comprehensive explanations and strategic analyses of haitao companies remain lacking.

Haitao trends are growing in significance as a current research topic in both academic and business fields. Academic researchers are also interested in haitao as an emerging research topic in international marketing or e-commerce area. Several studies have dealt with related areas such as Chinese customers' preference for foreign products (Betra *et al.*, 2000), the effects of Chinese national culture (Yoon, 2009), individuals' online shopping behavior (Gong *et al.*, 2013) and the oversea's retail transformation to other countries (Swoboda and Elsner, 2013). However, few academic studies have examined the strategies of haitao companies (Ritala *et al.*, 2014; Han *et al.*, 2015), and key success factors of haitao business still remains complicated and unclear. Therefore, both further theory building efforts and new empirical support for this emerging haitao phenomenon have to be provided.

In this context, this study aims to explore the strategies and success factors of haitao business in the Chinese market. Because haitao is a current and emerging phenomenon, existing data are insufficient to make empirical study. Therefore, we conducted an exploratory case study. We selected two successful haitao sites of Amazon.cn and Gmarket.co.kr and analyzed their service innovation strategies and key success factors through a comparative case study. Both companies have been successful in the Chinese haitao business, despite their very different backgrounds and strategies. Amazon.com, the biggest online shopping company in the world, based in the USA is the earliest and the most popular website in China, and over 50 per cent of the haitao trades are conducted via Amazon.cn (Amazon.cn news, 2015). Amazon.cn utilizes a global platform of Amazon.com and invests aggressively in its own logistic systems and operating centers in China. Gmarket, based in Korea, is a niche player and concentrates on Hallyu (Korean wave) products such as cosmetics and fashion items targeting mainly for Chinese young ladies. Different from Amazon, this company does not build Chinese branches and operates directly in Korea. Like this, both companies have quite different strategies that a comparative case study can lead some implications of success factors in emerging trends of haitao. In this case study, we compared the value activities of both companies using adapted value chain model reflecting on the characteristics of cross-border e-commerce and analyzed their internal competences and strategies.

Given the newly apparent and widely accepted trends of haitao, we expect this paper to make some contributions in this field. First, this study will help managers identify service innovation and success factors influencing the performance of haitao business. Comparing the service innovation strategies of a major global player with those of a niche market player will give some clues for managers to find appropriate innovation strategies for their companies considering their internal competences and market environments. Second, for academic researchers, this study will provide a foundation for conducting an empirical study about the emerging phenomenon of haitao. Based on the case study and in-depth interviews with staffs and customers of haitao shopping malls, we will postulate some propositions about the factors influencing on haitao, which will form a good foundation for future empirical study.

2. Research background of haitao

2.1 Haitao

Haitao refers to cross-border B2C e-commerce, although there is no academic definition. The definition of B2C e-commerce is used by business and consumers of the global internet for the sales and purchase of goods and services, including business services and after-sales support to consumers (Kauffman and Walden, 2001; Treese and Stewart, 2003; Ho *et al.*, 2007). Furthermore, iResearch (2014) defined cross-border B2C e-commerce as almost equal to cross-border retailing, in which transaction parties in different countries reach agreements and settle accounts through the internet and deliver/receive the goods via cross-border logistics. Deng (2015) defined haitao as the Chinese word for consumers shopping overseas or paying for third parties to buy products and ship them to China. However, third-party buying without paying tax is smuggling. Referring to the existed definition of cross-border B2C e-commerce, we define haitao here as the use of overseas internet shopping websites for the purchase of goods and services, including business services and after-sales support to consumers and delivering/receiving the goods via cross-border logistics.

Despite the significance of haitao, few academic studies have examined the haitao phenomenon. Gomez-Herrera *et al.* (2014) analyze the cross-border e-commerce in EU based on gravity model from economic perspective. According to them, internet shopping generally does not matter anymore where buyers and sellers are located because information is only a mouse click away and no longer related to physical distances. They state the language barriers and institutional barriers such as online payments facilities and cost-efficiency of parcel delivery systems might play a significant role in cross-border trade. Yoon (2009) argues national culture can affect the behavior of Chinese internet shopping customers, and Guo (2013) reports the psychological mechanisms of global orientation in Chinese customers. These studies expect the growth of haitao from diverse aspects; however, few research explores the success factors and strategies of internet cross-border shopping companies from management perspective. Ritala *et al.* (2014) analyze cooperation strategies of Amazon with Chinese companies, and Swoboda and Elsner (2013) point out the success of Amazon as transferring the retail format. Han *et al.* (2015) suggest a corporate strategy of cross-border shopping site through a case study of Gmarket and building a Korean fashion platform in Taobao.

The volume of haitao is growing very rapidly. Cross-border B2C e-commerce of USA and EU global marketplaces has grown sharply at a compound annual growth rate

(CAGR) of 17 per cent for the past five years and that of China has marked the largest market scale in the world through the growth of 50-60 per cent. The market value of Chinese online shoppers' oversea purchases has grown from RMB 12 (2010) to 140bn (2014) (China E-commerce Research Center, 2015). From an Amazon.cn survey (2015), the main haitao consumers work in large cities such as Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Nanjing, Tianjin, Hangzhou, Wuhan and Changsha. Furthermore, the young females (born after 1985) with high income have become the main target customers. The most popular products of haitao are apparel (45.5 per cent), cosmetics and beauty-related related products (35.8 per cent) and milk powder and baby-related products (23.1 per cent) (CNNIC, 2015).

In country base for haitao purchase, 58.2 per cent of haitao products came from America, followed by Korea at 34.3 per cent and Japan at 30.6 per cent in 2014 (customers' plural responses). The main channels for Chinese haitao are as follows: 59.7 per cent directly from the oversea websites, 56.7 per cent from national websites, 26.9 per cent from WeChat and 18.7 per cent from other Chinese intermediary websites (CNNIC, 2015). The stated reasons for haitao are as follows: 66.4 per cent consumers for the quality, 60.4 per cent for the fake phenomenon of Chinese web shopping mall, 50.0 per cent for price, 46.3 per cent for the only shopping originate and 34.3 per cent pursuing the rich product category. However, the main problem of haitao is the long period of delivery, as stated by 32.1 per cent (CNNIC, 2015). The main overseas online shoppers who ranked at the top are between 26 and 30 years old, having a monthly household income of more than RMB 11,000 (US\$1,800). Compared to their male counterparts, Chinese women show more enthusiasm for buying overseas products online: they make up 57 per cent of overseas online purchasers (Nielson, 2014).

2.2 Service innovation

Service innovations is defined as:

an idea for a performance enhancement that customers perceive as offering a new benefit of sufficient appeal that it dramatically influences their behavior, as well as the behavior of competing companies (Berry *et al.*, 2006).

There are plenty of literatures about service innovation from conventional descriptions of product compared with process innovation (Edvardsson and Olsson, 1996) to information system (Lusch and Nambisan, 2015). Innovation is the successful exploitation of new ideas, and this definition applies to service innovation. However, service innovations, compared with product innovations, are less easily recognized because of its intangibility. In addition, service innovations are mostly incremental improvements to service activities. These improvements are useful and indeed necessary, but they are limited in returns (Berry *et al.*, 2006). Because, it is difficult to measure the intangible service quality, customers do not express what they really want, and customers have different experiences and evaluations for the same service activities. In other words, the characteristics of service activities, such as intangibility and variability, make it difficult to make service innovation efforts.

In the unfolding knowledge-based economy, services increasingly play a pivotal role in innovation processes. Hertog (2000) suggested four dimensions of service innovation, that is service concept, client interface, service delivery system and technology. Nijssen *et al.* (2006) focuses on adapting existing innovation theories and models to fit the service

innovation context. [Lusch and Nambisan \(2015\)](#) offer a tripartite framework of service innovation, that is service ecosystems, service platforms and value co-creation. However, there are significant differences across different parts of the service sector which have an impact on the dominant drivers and management of innovation.

Cross-border internet shopping, *haitao*, offered benefits to Chinese consumers and created a new market space to internet retailers. Different from local internet shopping, *haitao* companies have different service platforms and service activities. [Chesbrough \(2010\)](#) suggested an open services innovation model as a variation of [Porter's \(1985\)](#) value chain model. He adapted the original value chain model to add platform business model, co-creation and open innovation. In this study, we examine the service innovation process of *haitao* companies using the framework of [Porter \(1985\)](#) and [Chesbrough \(2010\)](#) in detail.

2.3 Chinese haitao market environment

The popularity of *haitao* in China can be attributed to various factors of the Chinese market environment such as growth of Chinese economy and policy and low trust level on Chinese products and attention to the product's country of origin. Chinese economic development and government policy have contributed to the increase in *haitao*. China's high gross domestic product growth rate of around 7 per cent from 2013 has increased the purchase power of Chinese consumers, who consider price and product quality as well. This demand coincides with the government's increasing emphasis on consumption and its measures to encourage e-commerce. On July 4, 2015, the Chinese government released the "Internet Plus" plan and promised that the government will provide finance and tax support to "Internet Plus" projects. The free trade zone established in September 27, 2013, was extended to other cities. On July 23, 2014, Announcement No. 56 of the General Administration of Customs – Announcement on Issues concerning the Regulation of Goods and Articles Entering and Exiting China through Cross-Border Trade E-Commerce became effective and legalized *haitao*. However, the Chinese government published a new *haitao* tax policy on March 22, in 2016, which will increase the *haitao* cost.

Chinese consumers' low trust level on Chinese products has increased *haitao*. After 35 years of Open and Reform policy, Chinese have become more individualistic. Thus, individuals seize economic opportunities to improve their social status ([Zheng, 1994](#)). Meanwhile, like Hong Kong managers, Chinese managers adopted such western values ([Birnbaum-More et al., 1995](#)) as "machiavellianism" and "Chinese-style" individualism ([Ralston et al., 1995](#)). Furthermore, Chinese managers behave more opportunistically, such as misrepresentation, lying, manipulation and cheating ([John, 1984](#); [Williamson, 1985](#)) in the business with out-group members than with the in-group ones ([Chen et al., 2002](#); [Leung, 1988](#); [Redding, 1990](#)). These behaviors lead to deceptive advertising, counterfeit products and overpriced products of imperceptible low quality ([Efendioglu et al., 2005](#); [Fan and Xiao, 1998](#); [Ho, 2001](#); [Ho and Sin, 1988](#)). Especially, in 2008, the Sanlu milk powder scandal finally evolved into a nationwide dairy-industry crisis in China ([Chen, 2009](#)). These examples of China's immature market gave Chinese consumers low levels of trust on local products and local brands and increased respect for foreign products. Because of these low trust levels for local products, Chinese consumers consider the country of origin. A large body of literature proposes that consumers in emerging markets prefer foreign products to local products to obtain social status, social conformity and wealth

expression (Batra *et al.*, 2014; Ger and Belk, 1996; Wang and Yang, 2008; Guo, 2013). Batra *et al.* (2014) mention that consumers in developing countries prefer nonlocal brands because of both perceived quality and social status. Furthermore, consumers prefer the developed original brand and products having a unique lifestyle and shopping orientation and evaluate the products originated from developed countries or joint ventures highly and positively (Wang and Yang, 2008). Numerous studies have examined the initial reasons for consumers' preference to brands and products from developed countries (Guo, 2013; Xie *et al.*, 2015; Zeugner-Roth *et al.*, 2015; Swoboda *et al.*, 2012). Guo (2013) explores the psychological mechanisms of global orientation underlying the developing country consumer's attitudes toward global brands from developed versus developing countries. Furthermore, Xie *et al.* (2015) indicate that consumer ethnocentrism, national identity and consumer cosmopolitanism are drivers of consumer behavior. Most Chinese consumers are cosmopolitanism and their attitude toward foreign, especially developed-country, products and global brands are positive (Swoboda *et al.*, 2012).

We conducted in-depth interviews with the haitao shoppers and find out that global experiences and shopping experiences of Chinese consumers act to increase haitao. Offline shopping positively influences the online shopping, so the famous brand products easily attract customers' interest. Tourists and students studying in foreign countries all spread positive information about the products. Individuals whose experience is rich tend to become opinion leaders of their social circle, so that their consuming behavior can be followed by their circle, which leads to a herding effect. This result is in line with Li and Hong (2015), Chinese customers make up their channel choice based on relationship, which means that the social circle of the customers also influence their haitao intention.

Further, the customers' need more knowledge about haitao, more promotion including public activities is needed. Sometimes the customers do not know what they really want, so that educating them with more knowledge and giving them more reasons to choose haitao is essential to the haitao malls.

2.4 Haitao companies

A number of internet shopping sites are offering haitao service in China, including Chinese websites such as tmall.hk, jd.hk and suning.com and overseas websites such as Amazon.com, Gmarket.co.kr and rakuten.co.jp. Chinese websites open a special part for haitao, taking advantage of the original customers. In addition, most international companies open their internet shops in e-marketplaces such as tmall. In this study, we focus on overseas websites because buying foreign products using Chinese internet shopping sites is basically the same as buying local products.

Some overseas internet shopping sites offer haitao services for Chinese consumers in their own sites. For example, Amazon.com, the biggest internet shopping mall in the world, started business in China in 2004, following Chinese style and opening a specific part for haitao. Gmarket and rakuten support a Chinese language version of their original website for Chinese customers. A global player like Amazon.com executes a localization strategy with a global platform, whereas a niche player like Gmarket executes an international strategy by the extension of its local platform.

Table I shows the major haitao websites operating in Chinese market.

This study focuses more on international companies because 59.7 per cent of haitao trades occurred in international websites. More and more foreign websites are attempting to enter the Chinese haitao market. However, they face a dynamic environment and select international business strategy of global standardization or localization. This strategic choice of global standardization, localization or alliance with local company has been widely studied (Swoboda and Elsner, 2013; Boso *et al.*, 2013). Global standardization often fails to meet local customers' needs. The localization strategy does not always work (Swoboda *et al.*, 2012), and it costs more than global standardization. In addition, marketing alliance is a powerful strategy for firms aiming to differentiate their offering (Swaminathan and Moorman, 2009). So, foreign companies often start their haitao business in alliance with Chinese companies such as tmall (Han *et al.*, 2015).

In this study, we focus on international companies carrying out their own haitao business in their websites. To analyze successful haitao strategies further, we choose Amazon.cn and Gmarket.co.kr as a representative of global and niche players. Because the strategic difference of the two companies resulted from their internal competences, we analyze their internal competences using the value chain model to identify success factors in the Chinese haitao business.

3. Case study methodology

3.1 Case topics: Amazon vs Gmarket

Amazon.cn and Gmarket.co.kr were selected for our case analysis topics, as they are representatives of a global player and a local niche player, respectively. We analyze their internal competences using the value chain model. As a major player in the Chinese haitao market, Amazon.cn originates from USA, where it is the earliest and the most popular website. Over 50 per cent of the haitao trades occurred in Amazon.cn (Amazon.cn press, 2015). The shopping mall of Amazon, including Amazon America, Japan, German, Myhabit and Shopbop owned by Amazon, has taken 71 per cent of the Chinese haitao market. In addition, USA is the most favorite original product for Chinese (China E-commerce research center, 2015). Because of some anonymous reasons, Amazon's market share in China declined by 47 per cent from 2004 to 2013 (Song *et al.*, 2015). Nevertheless, Amazon has really succeeded in the Chinese haitao market. Therefore, our study on Amazon's story will give useful lessons for other haitao shopping malls.

As a niche player, Gmarket, which originated in Korea, is promising and has its own competitive advantages. First, Korean products are very popular in China, only ranked

Name	Nationality	Advantages
tmall.hk	China	Family sites of Alibaba.com Alipay and delivery in 7 days
jd.hk	China	Offer delivery for 82 countries in the world
amazon.cn	USA	The earliest oversea website in China
gmarket.co.kr	Korea	Hallyu (Korean wave) cosmetics and fashion items
rakuten.com	Japan	Focus on Japanese products
ymatou.com	China	Focus on North American products
kaola.com	China	Focus on Australian products

Table I.
Major haitao sites in
Chinese market

behind the USA (China E-commerce research center, 2015). Second, with the popularity of Korean series and the development of tourism industry, more and more Chinese prefer Korean style, so called Hallyu, cosmetics and fashion items. In Nielsen's survey of 1,900 Chinese women, the most popular explanation for their preference was a belief that Korean cosmetics were "new and trendy" (Jonathan, 2015). Third, the geographic advantages and long history of friendship between China and Korea make Chinese recognize Korea as the nearest and available foreign country for Chinese shoppers and tourists. Among the dissatisfactions of haitao, the most common complaint is long delivery time (CNNIC, 2015). With its geographic advantage, Korea can overcome this hindrance easily. Therefore, conducting a case study of these two companies is expected to give some clues for successful haitao business and implications.

3.2 Framework of case analysis

We adapt value chain model (Porter, 1985) and open services innovation model (Chesbrough, 2010) to analyze the two haitao company's internal competences. Porter (1985) put forward the concept of value chain, which is a chain of activities for transforming inputs into outputs, and the target is to deliver value to customers. The process of value chain analysis is to divide the supply chain channels into strategic activities, and, thereby, value chain analysis can identify competitive strength and weakness (Stabell and Fjeldstad, 1998) and propose constraints and opportunities for value creating and adding in the value chain (Weijermars, 2010).

Porter (1985) divides the value chain activities into primary and support activities. Primary activities are the production and selling activities. Rayport and Sviokla (1995) develop the value chain theory by combining the virtual value chain and physical value chain. In their theory, virtual value chain includes "gathering, organizing, selecting, synthesizing, and distributing of information". Bhatt and Emdad (2001) elaborate that e-commerce should integrate the activities in physical value chain and virtual chain. So, in the following analysis, information organizing is added into our analysis. Chesbrough (2010) adapts Porter's (1985) model for service innovation, by adding the value delivery, platform business model and open innovation.

In this study, we adapt Porter's value chain reflecting on the context of cross-border e-commerce. In the adapted value chain in this study, primary activities include inbound logistics, marketing, supply chain and sales models, operation, pricing and service. Support activities include macro environment driving factors and activities, providing assistance that enables and improves the performance of the primary activities. As Gomez-Herrera *et al.* (2014) suggested, cross-border internet shopping has different issues from offline shopping or domestic internet shopping. Thus, based on value chain analysis, we expect the success factors of two companies. As for these two companies, strategy, macro environment driving forces, macro environmental restrictions and competitiveness are analyzed. We use the adapted value chain for internet shopping malls to compare the internal competence of two companies using support activities and primary activities (Figure 1).

The two websites have similar external environments because their businesses are in the same Chinese market. Both of them benefit from the macro driving forces. First, the Chinese consumer's global orientation, cosmopolitanism and preference for developed country-of-origin products. Second, free trade areas (FTA) or other policies help the overseas websites, for example, they can get a permission very easily when they build a

warehouse. Lastly, the increase of Chinese e-commerce will expand the haitao market. Chinese online retail spending is poised to grow at a CAGR of nearly 20 per cent per year until 2019 when it is expected to exceed \$1tn (Forrester Research, 2015) and the real explosion is in mobile commerce. As mobile device availability accelerates China's internet penetration, 750 million Chinese citizens will be prospective online shoppers by 2020 (Forbes, 2015).

Nevertheless, the two websites have some different macro driving forces. For Amazon, the worldwide population of English speakers and American lifestyle positively influence the popularity of Amazon. Meanwhile, for Gmarket, the signing of the Korea-China FTA on February 25, 2015, strengthened the relationship between Korea and China. Additionally, the geography, long history of friendship, popularity of Korean product series and common culture all made Korean products become the second most popular country-of-origin.

4. Case analysis

4.1 Overview of case companies

4.1.1 Amazon in China. Amazon was one of the first companies to sell goods over the internet. The company was founded by Jeff Bezos in 1994, and launched in 1995. They started out as an online bookstore and then quickly diversified by adding other items, such as DVDs, music CDs, software, video games, electronics, MP3s, clothing, furniture, toys and even food items. Amazon.com explored its Chinese market from 2004, by buying joyo.com in 2004 for \$75m and turned it into its main China unit. The needs of haitao grew fast after the Chinese milk crisis in 2008, as numerous mothers tried to buy milk powder from oversea markets, for which Amazon.cn was one of the easiest ways for Chinese mothers. With the rapid development, in 2011, Amazon changed its brand, dropping the Joyo name in favor of Amazon China, and shortened its local Chinese website to "www.amazon.cn". Amazon.cn initiated its "True Haitao" business on November 11, 2014.

After operating for six months, in June 2015, Amazon.cn investigated the "haitao" market and announced the further development of Amazon.cn in China with advanced supply and logistic systems. The important points of Amazon.cn are as follows: supplied by oversea stores directly, same price of product as in the American market, highly efficient logistics system, good after sale service and Chinese web design. They also found that shoes, apparel, cooking tools, baby and

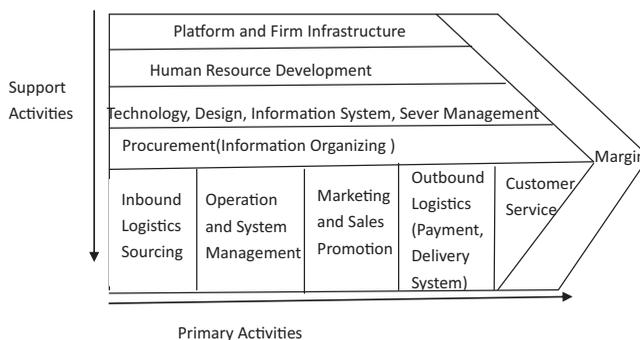


Figure 1.
The adapted value
chain model for
haitao shopping sites

sports products are the most popular products. In surveying the consumers, they found that more than 50 per cent of haitao consumers visited Amazon.cn (Amazon.cn press releases 2015.06.11). Amazon.cn attaches great importance to public relationship management. In the past, Amazon launched four reading campaigns – the Romantic Cities and Books Ranks, Loving Reading Activities, Parenting Reading and the Book Sales and Loving Reading Cities Ranking (Amazon.cn press release). Amazon.cn also organized “Worldwide Seller Seminar” in order to provide better service for the sellers all over the world.

In the beginning, in the Annual Report of Amazon.com in 1997 specified that growth was the main goal, over profitability within the business model and that it could be achieved by focusing on customers in the long term. From 1998, the company’s mission was already defined “to be Earth’s most customer-centric organization in the world” (Amazon.com Investor Relations, 2011), “to be Earth’s most customer-centric company where people can find and discover anything they want to buy online” (Amazon.com Investor Relation, 2013). As for the Chinese market, Amazon.cn retained its “Long term focus” and “customer-centric” mission, besides that attach great importance at “True product, low price”. For “haitao”, the mission of Amazon.cn is to lead Chinese customers into the “True haitao”.

4.1.2 Gmarket in China. Gmarket is one of the biggest and most successful online shopping malls in Korea. Gmarket was founded in April 2000 and listed in Nasdaq in June 2006. Ebay acquired Gmarket in 2009 and holds at least 67 per cent of all shares. Gmarket started Chinese business in 2008 by entering in Taobao and offered their own Chinese service from October 2013, by launching a website specialized for Chinese speakers. Gmarket has been successful in the Chinese haitao market by direct marketing through Chinese websites and the popularity of the Korean wave, so called Hallyu.

Gmarket’s success is because of the following reasons. First, the website design which focuses on fashionable products, low fees, seller incentive programs and agile management skills. As Gmarket CEO Mr Ku stated “our website function is better than that of eBay or Amazon” (Cho and Kim, 2014). Additionally, its clear marketing positioning, targeting at fashion, clothing, shoes and accessories attracts target customers, mostly women in their 20s. With this target, Gmarket’s price is relatively low. Gmarket was the first to sell low-priced clothing in the price range of \$10-20 (Cho and Kim, 2014). While breaking out of the prejudice that vintage clothing cannot sell online, they have achieved strong success. Last but not the least, Gmarket’s management is likely to understand Asian consumers well and possess agile management skills where they reflect the feedback from buyers and sellers to marketing and the system right away.

Second, environmental factors such as Hallyu and Korea–China FTA help. Korean entertainment and culture, including TV drama and songs, are now attracting most Chinese consumers with great popularity. More and more Chinese prefer the fashion elements such as apparel, accessories and articles for daily use. China and Korea signed the FTA in June 2015. Inspired by the close political relationship between Korea and China and close culture shared with long history, more and more Chinese prefer to take Korea as their first oversea destination. From 2012, the number of Chinese tourists exceeded Japanese to become the No.1 tourism country of origin. Usually, Chinese customers purchase cosmetic products, apparels, MP3 players and electronic products.

Many young Chinese women say the clothes sold on Gmarket.co.kr are not only pretty but also practical. Gmarket.co.kr actively uses the local events and holiday of China as they offer special promotions. For example, they sold cosmetic products and apparels at about half price on “Single’s Day” which was celebrated on November 11, 2014. They advertised their promotions on the popular Chinese websites such as Weibo and Baidu.

Then main evolution of the two websites in China are listed in the [Table II](#).

4.2 Comparative case analysis using value chain

Based on secondary data and in-depth interviews of staffs and customers of Amazon and Gmarket, we conducted comparative case analysis using the value chain model. We analyzed the two company’s value activities and compared them. Most of the value activities were similar, however, but there were some significant differences between the two companies.

4.2.1 Primary activities. Primary activities of value chain consist of inbound logistics, operation management, outbound logistics, marketing and customer service. Inbound logistics of internet shopping mall are mainly related with sourcing products from vendors. Amazon is the biggest and most advanced online shopping mall and operates in nearly 40 countries, with more than 100,000 products. While Gmarket purchases mainly from Korea and the main product is fashion-related items, the inbound logistics of Amazon is allied with the manufacture of its distributors. As a B2C player, Amazon owns its own logistics system, including information management, transportation and warehouse. While the inbound logistics of Gmarket is allied with retailers without having its own logistic system. Thus, the inbound logistics system for Gmarket is rather focused on gathering, organizing, selecting and synthesizing information than logistics of products.

The operation system of the two companies is basically B2C transactions. Amazon intermediates the manufacturers and consumers, whereas Gmarket has more portions of C2C transactions than Amazon. Currently, Amazon.cn is operating in China and has 15 fulfillment centers covering most regions of China, whereas Gmarket is mainly operated in Korea and outsources its China operations. Both companies have accommodated in tmall, operated by Alibaba, in addition to their own websites. Amazon.cn opened a store in tmall on March 6, 2015, whereas Gmarket’s store was opened on July15, 2014. Gmarket, as a niche player, does not have its own channel strategy and alliance with any partner, whereas Amazon.com, as a global platform, has to consider strategic fit when making an alliance. Alibaba including tmall is the giant of Chinese e-commerce and takes the largest share of the online market with the perfect payment system of Alipay. So Gmarket launched China business with the accommodation in Taobao in 2008.

Amazon	Gmarket
1994 founded by Jeff Bezos	2000 founded
1995 launched	2006 listed in NASDAQ
2004 by buying JoJo	2009 hold at least 67 per cent of share by eBay
2011 Amazon.cn	2013 Chinese web page and offer haitao business
2014.11.11 Haitao part	

Table II.
Brief history of
Amazon vs Gmarket
in the Chinese
market

The marketing activities of the two companies are somewhat different. Amazon has attracted Chinese consumers with high country-of-origin value. As Chinese consumers have very positive attitudes toward foreign, especially developed-country products and global brands (Swoboda *et al.*, 2012), Chinese consumers are enthusiastic about Amazon.cn because they can get the famous brand products very easily. In contrast, Gmarket is originally a Korean-based internet shopping mall and started to serve Chinese Hallyu fans or Chinese consumers who wanted Korea-related products. Amazon launched a special haitao website Amazon.cn to satisfy the Chinese cross-border shoppers, while Gmarket.co.kr continues to use the original Korean website translated into Chinese page.

Amazon pursues “customer obsession rather than competitor focus, heartfelt passion for invention, commitment to operational excellence, and a willingness to think long-term” (interview of Jeff Bezos, 2014). For sales promotion, Amazon uses flash sales and special events such as “Black Friday”. In addition, for specific customers, Amazon.cn use the related review history recommendations and the wish list, whereas Gmarket.co.kr utilizes more frequent sales promotions and events with attractive promotion pictures and more vivid presentations of the product. That is, Amazon uses conventional marketing with an appeal to utilitarian motives, whereas Gmarket uses rather sensual and fashionable methods appealing to hedonic motives. The following two pictures show that Gmarket stimulates more impulse purchase (Figure 2).

Outbound logistics including order, payment and delivery are some of the most important activities in internet shopping business and main part of service innovation. Long delivery time is the most frequent complaint factor of haitao customers (CNNIC, 2015). To solve this problem, both Amazon and Gmarket have built warehouse in the FTA. For example, Amazon established warehouses in Shanghai and Xiamen FTA in 2015. As for the logistics area, Amazon.cn built the second largest operating net next to USA, which owns 13 operating centers, covers 3,000 cities and 100,000 km and a same day or next day delivery service for 1,400 cities (Amazon.cn press release). However, the logistic system cannot offer service for every product on Amazon.cn. Nevertheless, the standard delivery time is 9-15 days, though there is a special delivery of 2-4 days. Given the context of Amazon’s logistic system, it not only serves for Amazon.cn but also offers service to the other global e-commerce companies, which is called “Amazon logistics+” service (Amazon release, 2015). Given the geographical advantage of Korea and China, the standard delivery time of Gmarket to China is 3-10 days. Instead of owning its own private logistic system, Gmarket delivery uses EMS, which is the state-owned delivery system of China. In addition, Gmarket is in the process of cooperating with SF, which is a successful delivery company in China.

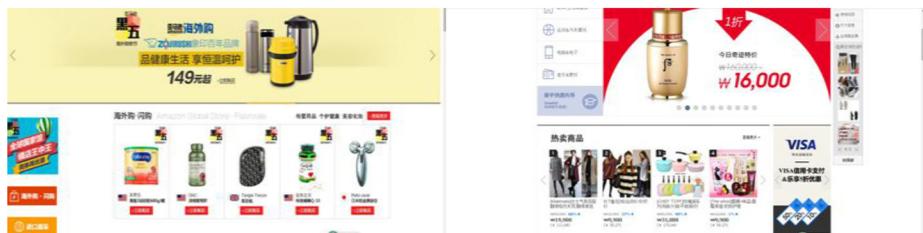


Figure 2.
Sales promotion
event page of
Amazon.cn (left) and
Gmarket.com (right)

For the payment system, Gmarket has a great advantage over Amazon. Amazon mainly uses credit cards for payment; however, the credit card penetration rate in China is under developed. Gmarket uses more various payment systems including Union Pay and Alipay. Especially, the Alipay system affiliated with Alibaba is the most popular payment system for Chinese consumers. However, Amazon, as a global platform, does not want to use a global competitor's system. Gmarket, as a niche player, can be free from such competing issue.

The customer service systems of both companies are different. The main customer service center of Amazon is located in China, whereas Gmarket's center is in Korea. In addition, Gmarket does not support returns or exchanges, except for specific reasons as wrong delivery or flawed products. However, Amazon.cn is popular in China because of its return system, through which customers can return the goods within 30 days without reason. The customer complaint solution rate of Amazon.cn is 97.0 per cent, which ranks No. 2 in China after Suning.com at 98.60 per cent (Chinese e-commerce study center, 2015). In addition, Amazon operates a 24-h/7-days-Chinese customer service and guarantees the whole process of haitao.

4.2.2 Support activities. The support activities of value chain include platform and firm infrastructure, human resource management and development, technology, design, information system and server management.

The firm infrastructure of both companies is basically different. Amazon.cn is a Chinese branch of Amazon.com with a vertical structure and longer decision-making process, whereas Gmarket China is a division of Gmarket Korea with a horizontal structure and is agile to any changes in the environment.

Amazon.cn has over 5,000 employees in China, with less than 1 per cent foreign workers. Amazon China completely depends on Chinese team's leadership and management. The first CEO of Amazon China, Wang Hanhua from 2005 to 2012, left China because of dissatisfaction with Amazon China's localization efforts. Subsequently, Steve Frazier, CEO for two years, was replaced by Doug Gurr, who had worked for Walmart UK. The new CEO has great passion for cross-border e-commerce (interview of Doug Gurr, 2015). Gmarket mostly employs Korean staffs, with only a few Chinese managers to serve Chinese market. CEO of Gmarket, Mr Ku, played key role in building Gmarket in Korea, Japan and Singapore. His expertise and experience are an important asset for the eBay's global expansion in Asia (Cho and Kim, 2014).

According to W3Techs.com, Amazon and Gmarket have similar technology scores of 61 and 59, respectively. The technology score rates a site based on its technologies in a range from 0 to 100. It consists of a popularity score (how many sites use the same technologies), a traffic score (how much traffic have other sites using the same technologies) and a version score (how many sites use more recent technology versions). Quality alerts also affect the rating.

The website design of both companies reflects their marketing strategy. The website design of Amazon mainly focuses on utilitarian value, showing the products and product review, relatively flat display. The design of Gmarket is hedonically oriented and focuses more on fashion elements. Gmarket's CEO Mr Ku confidently states that "our website function is better than that of eBay or Amazon" (Cho and Kim, 2014). To compare the two websites further, in Oct, 2015, we searched the same phrase "cosmetic" on both Amazon.cn and Gmarket.co.kr to generate 297 results from Amazon and

151,441 from Gmarket. As for the server management, Amazon offers solutions to other websites by AWS. To provide more knowledge about the website to customers, Amazon uses a product review system, and Gmarket uses a comparison of similar products. In addition, Amazon guides and trains the Chinese sellers to sell their product all over the world.

5. Conclusion and implications

5.1 Conclusion

This study has investigated two internet retailers in Chinese cross-border e-commerce, haitao. This exploratory case study compared two successful haitao companies of Amazon.cn and Gmarket.co.kr in their strategies, service innovations and internal competences using value chain framework.

This comparative case analysis revealed some common success factors and differences. The first success factor in haitao business is “trust”. In fact, trust is one of main reasons that Chinese consumers buy foreign products because Chinese local products do not satisfy the trust level or even harm consumers (i.e. milk powder scandal in 2008). Both Amazon and Gmarket realize that trust is the top success factor for haitao and manage trust throughout the whole value process. With their advantages of country-of-origin effect and Hallyu, both companies try to maintain their trust by quality review in sourcing, secure payment and delivery system and customer services by operating customer service centers.

Second, both companies have taken advantages of the developed system in their headquarters. Amazon was one of the first internet shopping malls in the world, and Gmarket is successful in Korea, which has severe competition among internet shopping sites. Thus, the developed technology and cumulated know-how in operation and marketing of both companies must be critical success factors in the Chinese haitao business.

Finally, alliances with local partners are also good factors to ensure success. Amazon.com started its China business by forming an alliance with a Chinese local partner joyo.com, and Gmarket opened its shop in Tmall affiliated with Alibaba. Both companies are still accommodated in Tmall and take advantages of the vast customer base of Alibaba networks, which is an example of co-petition.

The main differences between the two companies are quite apparent because their competences and strategies are quite different. First, as the high efficiency of logistics improve customers’ loyalty and satisfaction (Lee, 2015), Amazon possesses their own cross-border logistics system, called Amazon’s logistics+ service, which not only guarantees the delivery quality of Amazon’s product but also offers services to other cross-border e-commerce companies. With its highly efficient logistic system, Amazon.cn initiated a “Flash Sale service” from August of 2015, which shortens the delivery time to 1-3 days. Amazon has the biggest global network which gives it unparalleled economy of scale and scope. Gmarket takes advantage of its geographic location close to China. Gmarket use EMS logistics system but delivers to Chinese customers within 3-10 days, which is much faster than Amazon.cn.

Second, Amazon has also built 15 fulfillment centers in China and set up its own delivery force and customer service center. The biggest internet shopping mall in the world, Amazon, aggressively evolves its expansion strategy in China besides haitao

business. Gmarket has not invested in its own system and compete directly with Amazon or Alibaba.

Third, the product categories are different. Amazon deals with almost every product category with more than 20 million items, whereas Gmarket pursues depth rather than width. Gmarket focuses on Hallyu items including fashion and cosmetics and, for example, the number of items in the cosmetics category is much more diverse than Amazon.

Fourth, regarding marketing and sales promotion, the website design of Gmarket is more flexible than Amazon. Because Amazon is a global platform, its flexibility is somewhat limited, whereas Gmarket appeals to hedonic motives for women in younger generations and has more fancy design and promotions.

Finally, both companies have different strategic positions in global e-commerce industry. Amazon has to compete with global platform players like Alibaba, but Gmarket can make alliances. Therefore, Gmarket can use the Alipay payment system, but Amazon cannot despite its widespread use among Chinese consumers.

The Chinese haitao market is rapidly growing and is a great market potential that every retailer in the world is interested in. Amazon.cn has been quite successful, but Amazon cannot dominate the Chinese haitao market because Chinese haitao market is vast market size and diverse customers' needs. The case analysis revealed that Amazon has some dilemmas between localization and globalization, such as Alipay payment, sales promotion and website design. On the other hand, a niche player like Gmarket can take advantage by focusing on product category and alliances. Gmarket took a successful market positioning as Hallyu products and young women customer base by attractive promotion events, stylish website design and diverse products in its focused product category.

5.2 Implications and limitations

This study provides some implications for cross-border e-commerce researchers and haitao shopping mall managers. First, for managers in startup haitao businesses in China should consider that customer trust is the most important issue. As mentioned, Chinese haitao mainly developed because of customer focus on product quality rather than on price. This is in line with the mainstream of trust research (Gefen *et al.*, 2003; Grazioli and Jarvenpaa, 2000; McKnight *et al.*, 2002; Pavlou and Gefen, 2004). Amazon.cn gains customer trust by offering authentic country-of-origin and famous brand products purchased from all over the world and delivered to the customers through highly efficient logistics while guaranteeing the shopping process based on smart customer service. Gmarket also gained trust by offering trustful Korean product, quality control and customer service. In addition, Gmarket benefits from Korean Hallyu and the friendly atmosphere of the Korea–China relationship.

Second, managers should consider their platform strategy in terms of whether they use a standalone platform or alliance. Both Amazon.cn and Gmarket.co.kr opened their shops in Tmall, as well as their own websites, to take advantage of Alibaba's large customer base and convenient payment system. Amazon's collaboration with Tmall is somewhat counterintuitive, but Amazon applies a coopetition-based business model, competing with others and cooperating for market growth, resource efficiency and increased competitiveness. After its Chinese business grew, Amazon fortified its own platform Amazon.cn. Gmarket did not try to make a standalone platform for its Chinese

haitao business but instead uses a translated version of its Korean website. This strategy can save costs and decrease the risk at the expense of localization. As management implications for the new entrants, cooperate with a strong competitor is an easier way to survive.

Third, sales promotion is growing in importance for the Chinese haitao business as competition is getting harder. Chinese haitao customers are relatively young and price-sensitive. So that price-related promotions positively affect the impulse buying process (Park *et al.*, 2012). Gmarket attracts these customers by interesting events such as Single's day and incredible price down. Although the more utilitarian-oriented Amazon.cn seldom uses price-related promotion events, appropriate sales promotions are helpful to increase sales and improve communication as well.

Fourth, website design and presentation of products are also crucial for the Chinese haitao business. According to a manager of Nielson (2015), "Chinese customers spent 2-3 times longer on product comparison and search than German customers", and, similarly, Dung Gurr also said in an interview that "Chinese customers, especially the younger ones, like searching for information online without knowing what they really want to buy" (CCTVnews, 2015). The website design should show more about the product categories, the presentations and the sales promotion. Then and DeLong (1999) emphasized the importance of the layout and design of apparel web sites and suggested that the more information a retailer can offer through the visual display of apparel, the more interested the consumer will be in purchasing apparel online.

Haitao is a process of online shopping for customers who want good quality products and a meaningful shopping process as well. Asian consumers require a more entertaining experience than their Western peers to make their transaction online. They pay attention to authenticity and want more signals that the goods are genuine and that they can trust the brand. They demand a level of content and storytelling that Western customers are just starting to ask for. Sometimes Chinese consumers go shopping to enrich their knowledge of the fashion or other product knowledge. Amazon tried to satisfy the Chinese customers by making Amazon more convenient for Chinese customers, so the website focuses on exhibiting the popular products. Gmarket's website is more vivid not only showing the products but also displaying the fashion elements. As Amazon.cn offers a product review every day, offering more product information is important. Like this, managers of internet shopping malls can try to provide fun and meaningful shopping process as well as good quality products.

In addition, product merchandise is another important issue. Gmarket focuses on cosmetics and apparels with very diverse items prepared in these categories. With these many items of specific product category, Chinese customers perceive Gmarket to be more specialized and authoritative in this field, and, finally, the product recommendation can be more effective.

Lastly, localization is also one of the most important strategic issues. Amazon.cn is localized specifically for Chinese shopping, whereas Gmarket.co.kr is using a translated version from Korean. Chinese prefer foreign products partly because they carry an "exporting" culture and an aspiration to live in a global consumer community (Batra *et al.*, 2014). Thus, when people are shopping on oversea websites, more Chinese like shopping in the same website other than the website especially for Chinese. This

conclusion is in line with Swoboda *et al.* (2012) and Yuan *et al.* (2012), who stated that adaptation is not always good for customers and enterprise. Gmarket, not localized, is not very familiar for Chinese customers. Nevertheless, many consumers prefer Gmarket to Amazon because they are tired of specific localized websites just for Chinese customers.

This study also offers some implications for Amazon and Gmarket managers. Amazon.cn is one of the most successful e-commerce players in the Chinese haitao market. Amazon places stress on “long term” and “patience” (CCTVnews interview with Chinese CEO Dung Gurr), but it seems relatively conservative. Interesting promotions or discount events can attract more Chinese customers and provide more fun in the shopping process. Second, Amazon.cn website is specific for Chinese customers, but the content and format are similar with western Amazon.com. Although Amazon.com is very popular in the western world, they should consider Chinese customers’ needs. However, Chinese haitao customers’ needs are ambivalent in that they prefer more information and a hedonic-oriented website design while simultaneously wanting to experience a similar shopping context with the developed country customers. So, Amazon must balance between Chinese customers’ globalized needs and Chinese specific needs.

Gmarket has been successful as a niche player but still has room for improvements. First, as analyzed above, customer service should be improved foremost. Gmarket needs to build a customer service center in China to speed up its customer service and allow customers to exchange or return products easily. Second, product quality standard should be improved and guaranteed. Sometimes Chinese customers buy lower quality products on Gmarket, as Gmarket is an e-marketplace for retailers. Thus, Gmarket should listen to customers’ opinions and feedback more carefully and increase the customer service level to control the product quality.

Following on from this exploratory case study about haitao, more research is needed on this emerging and important issue. Given the limited samples and dynamic environment with its short history, some caution should be exercised when using the present study findings. These are limitations of this study and implications for future research. Making an empirical study needs to be conducted to validate the present study findings. First, theoretical background of haitao or cross-border internet shopping phenomenon should be analyzed more thoroughly. Only a few study such as Gomez-Herrera *et al.* (2014) analyzed drivers and impediments for cross-border e-commerce, but academic research on haitao from various aspects is needed. Because haitao is very new and emerging phenomenon, theory building efforts from academic perspective need to be built up for future research. For example, with a growing trend of cross-border internet shopping, research on whether haitao is Chinese specific phenomenon or universal trend and how Chinese haitao is different from other countries’ cross-border shopping will shed light on this topic. Second, this case study has analyzed two companies, but research with more companies will help to find important variables affecting success in haitao business. Growing number of global companies are entering into the Chinese haitao market, and Chinese companies such as Alibaba take large market share of the Chinese internet shopping market. Therefore, analysis with more cases or longitudinal study will provide more valuable implications for the market. Third, this study investigated two companies mainly focusing on internal competency, but future research should consider external factors and market

dynamics. This study assumed two companies are in common with external environment because they are in the same industry and the same market; however, environmental effects on their strategies might be different. Thus, environmental factors' influence on their strategies and adaptation strategies will be good research topics in this area. In addition, research focused on haitao customers will be complementary to this study. Research topics such as what influences haitao behaviors, which factors of haitao sites lead to purchase intentions and which factors influence haitao satisfaction can be proposed for future empirical study. Despite these limitations, we expect this study to serve as a foundation for a more complete understanding of the emerging trends of haitao.

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