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THE CASE STUDY

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How Taobao bested Ebay in China

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The story. Taobao.com was founded in 2003 by Alibaba, the Chinese e-commerce company, as a defensive move against its US rival Ebay, which had set up in China the previous year.

The challenge. When Ebay launched in China it had global revenues of more than $2bn. As a young, domestic entity, Taobao was taking on a huge rival while also fending off many similar small competitors in the sector, where barriers to entry were low.

The strategic response. Noting that Ebay in China was charging users to list products and services, Taobao allowed them to list for free in order to build a big cohort of sellers and buyers. Critical mass would eventually attract revenue-generating activities, such as online advertisements.

Taobao also presented itself as very much a Chinese enterprise. For instance, the screen names of online moderators were derived from characters in popular Chinese kung-fu novels.

Next, Taobao aimed to be more innovative than Ebay in customer service. In 2003 Taobao started Aliwangwang, its instant communication tool, to help buyers and sellers interact.

It also introduced the online payment system Alipay a year later. Online credit card or debit card payment was very rare in China and customers usually paid cash on delivery. Alipay formed partnerships with leading Chinese banks and signed a long-term agreement with China Post, which meant customers without a debit or bank card could fund their Alipay accounts at any of its 66,000 offices.

What happened. Taobao developed into a diverse e-commerce platform where businesses sell a very wide range of items to online shop owners who then sell on to consumers.

At the end of 2006, Ebay shut its main website in China and formed a joint venture with Hong Kong- headquartered Tom Online.

Taobao continued to build a network of ventures around its core operations. In 2007 it set up Alisoft.com, where small Taobao sellers could buy customised software from independent vendors to help with functions such as customer relations or managing inventory.

In 2008 Taobao integrated Alimama.com, an online ad company with a network of more than 400,000 specialised websites where Taobao sellers could affordably post ads to reach their target audiences.

These complementary ventures formed a network, with Taobao at the centre surrounded by interlinked companies. All cross-sold and cross-marketed each other's services and offered packaged deals to Taobao sellers.

As this "ecosystem" developed it attracted other businesses to use Taobao, Alipay, Alisoft and Alimama's platforms to provide further customised services to Taobao sellers.

The extent and reach of the ecosystem became too hard for rivals to replicate.

By 2010 Taobao served more than 80 per cent of China's e-commerce market, with 170m registered users and revenues of more than Rmb20bn from online advertising and fee-paying services such as shop design and sales training.

Meanwhile, Ebay moved its business focus to cross-border e-commerce, where Chinese consumers sell to overseas consumers. It holds a leading position in that segment.

Key lessons. How Taobao kept Ebay out of the market and became China's dominant e-commerce platform in a relatively short space of time holds lessons for Chinese and western companies alike.

First, Taobao provided services and solved problems for the smaller businesses that are the driving force behind China's economic boom. For instance, Alipay enabled people to pay for goods and services easily.

Second, Taobao set up or integrated services that complemented each other and used this ecosystem to create a bar to competition.

Third, Taobao identified how to help people buy and sell. By making online shopping easy, safe and fun it helped many first-time online buyers build confidence in e-commerce.

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The full version of the case, The Business Network of the Alibaba Group, is available at www.ecch.com