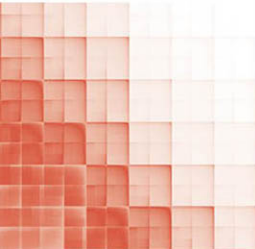




Tmall, The Sky Cat: A Rocky Road Toward Bringing Buyers and Suppliers Together

**Jianli Hu, Woodbury University;
Olivia Congbo Mao, Alibaba Group**

PEARSON CASES IN SUPPLY CHAIN MANAGEMENT AND ANALYTICS



The case is reprinted from *The Supply Chain Management Casebook* by Chuck Munson

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with Jianli Hu and Olivia Congbo Mao

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Jianli Hu[†] and Olivia Congbo Mao[‡]

Company Overview

Jack Ma, a former college English teacher, founded Alibaba Group with 17 friends in his apartment in Hangzhou, China, back in 1999. His original vision was to create a 24/7 “matchmaker” B2B platform where foreign buyers could easily communicate with Chinese suppliers. Within several years the B2B platform Alibaba.com grew significantly. When eBay entered China’s C2C market in 2002, Jack Ma felt the pressure immediately. He knew very well that in China’s e-commerce market, the difference between businesses and individual users was quite subtle (Wang, 2010), since most individual users were also small business owners. Knowing that small and medium enterprises were the main engine of China’s economy, Alibaba established the C2C platform Taobao (which means “searching for treasure” in Mandarin) to compete with eBay for the lucrative market in 2003. Despite skeptics and fierce competition, Jack Ma confidently predicted that Taobao would win the battle, “Ebay may be a shark in the ocean, but I am a crocodile in the Yangtze River. If we fight in the ocean, we lose—but if we fight in the river, we win” (Doebele, 2005).

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With a clear understanding of the market, Taobao came with features specific to Chinese users, who at that time were still grasping the idea of e-commerce. Unlike other auction websites that charged transaction fees, Taobao's no-fee and no-threshold policy let anyone possessing a computer with Internet access to operate on its platform. Its popular "Wang Wang" instant messaging services, together with the free Alipay payment escrow system, allowed buyers to communicate with sellers before placing orders online as well as to control the authorization of payment release until they actually received the items. Users' satisfaction levels greatly improved. Although a relatively latecomer, Taobao got a quick start with its free listings and took fewer than two years to overtake eBay China, the previous leader in China's C2C market.

While occupying around 75% of the C2C market share in 2008, Alibaba saw the shortcomings of the popular auction market. Because Taobao and Alipay were both free of charge, the main revenue Taobao generated was from brand advertising and "pay for performance" in its search ranking section. Additionally, fierce competition among sellers made many merchants resort to low prices to attract customers. Taobao became a marketplace flooded with substandard products and counterfeits, and intellectual property infringement issues began to hold back the further growth of the platform.

As Chinese online shoppers' tastes and expectations grew more sophisticated, the e-commerce market in China also shifted gradually from the C2C model, where items are exchanged between individuals, to the B2C model where customers buy directly from brand owners and authorized distributors (see Exhibit 1). Several other e-commerce companies including 360buy.com, operated by Jingdong Century Trading Co, and Joyo Amazon, had already started their B2C operations in China. Adapting to the trend, Alibaba Group launched the B2C platform Taobao Mall in April 2008, assessed through <http://mall.taobao.com>, as a complement to Taobao's C2C market, Taobao Marketplace. Positioned to be a virtual shopping mall consisting of internationally known brands and major retailers, Taobao Mall aimed to raise the standards of product quality and the online shopping experience for customers. The initial fee schedules for merchants to join Taobao Mall included an annual membership fee of RMB 6,000

(approximately \$940), a compulsory deposit of RMB 10,000 (approximately \$1,560) that was refundable if no disputes were filed against the seller, and commissions from each transaction.



Source: iResearch Consulting Group, 2012

Exhibit 1 Revenue distribution of the Chinese online shopping market.

Enjoying Taobao's support, Taobao Mall started with the unrivaled advantage of access to 98 million existing Taobao consumers, and its virtual shopping mall concept quickly captured China's B2C market. Many brand name merchants tested various promotions on the platform. For example, Mercedes Benz sold 200 Smart cars in about three and half hours during its group-buying campaign on September 9, 2010. Taobao Mall's transaction volume quadrupled in 2010 from the previous year, including record sales of RMB 936 million (US \$141.6 million) on its special " Singles Day " (celebrating people who are still living the single life) promotional event on November 11, 2010.