

Transforming Consumption: Alibaba and the Rise of Retail E-commerce in China

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Introduction

In China, the landscape of retail has undergone a significant transformation, with the decline of physical retail stores and the emergence of e-commerce as an essential retail format. Physical retailing accounted for almost all the total retail sales in China in the 1990s, and the proportion began to decrease as e-commerce increased. The proportion of e-commerce surpassed 1% in 2008 and soon thereafter entered high-speed growth. This increased by 10% in 2014 and 20% in 2017. The China General Chamber of Commerce (CGCC) began tracking e-commerce enterprises for the first time in 2012, and eight of them entered the list of the top 100 retailers. The sales of the eight enterprises accounted for 15% of the total sales of the 100 retailers, with RMB 346 billion. Their sales increased by 134% compared to 2011, far exceeding the overall increase rate (20%) of the 100. Two entered the top 10, and Tmall, Alibaba's B2C platform, ranked second.¹⁾

1) China National Commercial Information Center and China General Chamber of Commerce, China top 100 retail enterprises list 2012, <https://www.cncic.org/?paged=2&cat=16> (23 February 2019 accessed); *China Statistical Yearbook, 2000-2011 Edition*, <http://www.stats.gov.cn/tjsj/ndsj> (23 February 2019 accessed); *China Statistical Report on Online Shopping Market*, 7th-27th Edition, <http://www.cnnic.net.cn/hlwfzyj/hlwzbg> (23 February 2019 accessed). B2C means Business-to-Consumer, referring to the process of businesses selling products and services directly to consumers. B2C platforms typically refers to the platforms by which online retailers and producers sell products and services to consumers through the internet.

This study examines the history of the rise of retail e-commerce in China to address how retail e-commerce affects consumption in China from a historical perspective, and how consumption changes impact physical retailers. This study focuses on the period between the 1990s and the mid-2010s.

Existing studies on the impact of the e-commerce on traditional forms of retailing range from the almost total devastation of existing physical retailing to limited, if any, impact upon “real” retailing (Burt and Sparks, 2003). Studies predicting the total devastation of existing physical retailing have discussed the impacts of technology and the desire for social equality (for example, Sparks and Findlay, 2000). Furthermore, studies have discussed how physical retailers innovate retail processes through the implications of e-commerce retail processes. Physical retailers improve the following processes: sourcing products, stockholding, inventory and store merchandising, marketing efforts, customer selection, picking and payment, and distribution of goods (for example, Davis et al., 2000; Degeratu et al., 2000; Brynjolfsson and Smith, 2000). However, existing studies neglect consumption, which has a close relationship with both e-commerce and “real” retailing. In contrast to existing studies, this study focuses on consumption and discusses how consumption, transformed by e-commerce, impacts physical retailers to figure out the impact of e-commerce on traditional forms of retailing.

Extensive research has explored the relationship between e-commerce and consumption. Most of the existing research focuses on consumer behavior in e-commerce²). Exceptions include Fan et al. (2018) and Mittal (2013), who studied the effects of e-commerce on consumers using a quantitative approach. Both studies find that e-commerce benefits consumers. However, few studies have adopted historical perspectives to trace the dynamics of e-commerce and consumption. Beyond the restrictions of certain models and frames, qualitative historical research can focus on changes in individual corporations and specific changes at a certain stage. Chinese firms and industries grew in a transitional society (a society changing from a planned

2) For example, Munson et al. (2017) prove that online consumers spend more on fresh products than offline in the UK, contrary to popular wisdom. Fan et al. (2018) show that residents from smaller and more remote cities spend a larger share of their expenditure online.

economy to a market economy), which is rare in other countries, and thus, may have different growth patterns from those in other countries. It is necessary to explore the special aspects of growth patterns by analyzing individual corporations during certain periods. Therefore, this qualitative study uses historical perspectives to examine the effects of e-commerce on consumers.

This study chose Alibaba Group as a case study due to its consistent leadership in the development of C2C³⁾ and B2C e-commerce in China. Through subsequent analysis, it becomes evident that Alibaba has maintained its top position in the retail business while outperforming other firms in the industry. Furthermore, although some C2C firms emerged before Alibaba, they retreated in a short time. Therefore, Alibaba is a suitable case study for observing long-term changes.

This study contributes to providing traditional forms of retailing implications from the aspect of consumption to improve their situation in the competition with e-commerce. This study uses the results of interviews with e-commerce enterprises, corporate annual reports, annual reports of the China Internet Network Information Center (CNNIC), various almanacs and yearbooks, general newspapers, business newspapers, and business journals.

The remainder of this paper is organized as follows. The next section provides a contextual introduction of retail and consumption after 1978 and the foundation for the development of e-commerce. The following sections (second to sixth) analyze the historical change in Alibaba's businesses and illustrate how these business activities changed consumers' purchase patterns. The second section analyses the history of the first retail business, Taobao. The third and fourth sections analyze the category extension and payment systems. The fifth section explores the establishment of a B2C platform called Tmall, which extends brand merchandise consumption. The sixth section studies the development of merchandising tactics. Finally, the concluding remarks are presented.

3) C2C means Consumer-to-Consumer, referring to the process of consumers selling products and services to consumers. C2C platforms typically refers to the platforms by which consumers sell products and services to consumers through the internet.

Context: retail and consumption after 1978

Retail

Before the reforms and opening-up, China went through an era of a planned economy. Compared to market economies, in which decisions regarding the production and distribution of goods are the result of choices made by producers and consumers, a central planned economy is an economic system in which a government makes economic decisions. Prices, production quantities, and schedules are typically determined by a centralized government. Without a market-oriented system, the variety and amount of merchandise sometimes do not match requirements. Instead of cash, consumers must buy with stamps allocated by the State in limited quantities. In this context, consumers faced the following conditions. They could not choose what and how much they wanted, owing to limited stamps and supplies. Sometimes, they could not find a place or sufficient merchandise to buy. Even after the reforms were launched in 1978, these conditions persisted for a significant period of time. This was partly solved as the State guided some industries to increase production in the 1980s, but merchandise still lacked variety. This condition changed when the State declared that China had formally transformed from a planned economy to a market economy in 1992.

With the transformation to a market economy, department stores experienced transformation to a place had “reputation on high levels of service, amenity and even luxury” (Howard, 2015, 171), which was the same with that in western countries, and some modern retail formats emerged in the 1990s. Supermarkets emerged at the beginning of this decade, but they were middle- and small-sized stores opened by domestic firms. General merchandise stores (GMS) emerged as soon as foreign supermarkets entered China in the mid-1990s. Many GMSs emerged in China at the end of the 1990s, and warehouse stores also existed for a while.⁴⁾

Although modern retail formats emerged, consumers were still passive in shopping in

4) *Almanac of China's Commerce*, 1989 Edition, 33; 1990 Edition, II-39; 1991 Edition, XI-9.

the 1990s and 2000s regarding prices, places, and services. First, citizens living far from downtown had to spend traffic time moving there to purchase necessities in the modern retail format. Department stores worldwide are always located downtown; however, this is uncommon in supermarkets. Supermarkets in China usually chose downtown until the 2000s. For example, an account by Wal-Mart described Carrefour's attempt to find a cheap place in the downtown metropolitan area in 2008. This is more common in cities where the retail industry is less developed. Thus, consumers living far from downtown have to spend time going to a modern retail format; for rural people, instead of modern retailers, the bazaar is the main place to purchase daily necessities and even apparel.⁵⁾

Second, the low coverage rate of modern retail formats until the 2010s brought inconvenience for consumers. For example, GMS is an important retail format in many countries for purchasing daily necessities. Per million Chinese used 2.5 GMSs in 2017. Compared to 12 in the U.S., 25 in France, and 8 in Korea, it was at a low level. Conceivably, the coverage rate was lower during the 2000s. Chinese citizens had to spend traffic time going to these modern retailers; if not, they had to purchase groceries in the local bazaars, which had fewer flows of commodities and smaller areas than modern ones. This led to higher prices and fewer commodity varieties.

Third, the tiered distribution system of the 1990s led to high distribution costs, resulting in high retail prices. Brand merchandise was generally distributed by tiered agents (regional and local agents) to department stores. Food and household chemicals were circulated using tiered agents. The tiered circulation of consumer goods causes high circulation costs. On the other hand, e-commerce, which is the research object of this study, deals directly with manufacturers in general (C2C business was excluded) and thus could retail at lower prices than supermarkets and department stores (Shi, 2021).

Fourth, Chinese retailers' service levels could not meet consumer satisfaction, and the concept of consumer orientation came late. Foreigners who went to China in the 1990s

5) "Xunzhaozhongguodewoerma [Find Chinese Wal-Mart]," *Shanghai Securities News* (19 May 2008), A09.

wondered about staff attitudes. They hardly ever promoted the merchandises; instead, they always gave an image of “if you don’t want to buy, just put it down.” Although satisfying and retaining customers was one of the primary components of commerce in other countries in the 1990s, Chinese corporations lacked the concept of consumer orientation. Even in the 2010s, the China Commerce Association for General Merchandise (CCAGM) called for the improvement of services and the introduction of consumer orientation.⁶⁾ The low service level and lack of consumer orientation, which were the outcomes of the planned economy, made corporations stand in higher positions than consumers. Under these circumstances, it was difficult for consumers to make evaluations and freely make choices; in other words, they could not freely exercise their consumer rights, activism, or boycotts. Therefore, commodities and services do not compete. There is a lack of balanced relationships between consumers and corporations (Qian, 1993, 46).

Fifth, the Chinese retail industry had a low concentration ratio, which led to a passive state for consumers regarding their shopping place choice. The largest eight enterprises occupied only 0.76% of the total volume of retail sales in 1999, which increased to only 3.68% in 2005 and 3.70% in 2010. The slightly changed concentration ratio in the 2000s illustrated fierce competition in the retail industry. Big businesses were restricted by competition and could not extend their store coverage. Consequently, they could not create an environment where consumers could choose modern retail formats.⁷⁾

The low coverage rate, concentration rate, and service level, simplex store location, and high circulation cost caused passivity of consumers in purchase. They could not freely choose the place and time to buy, and had to spend much time moving to modern

6) “Zuohaofuwuyifuwucufazhanshishidaideyaoqiu [Good service, promoting development through service is the requirement of the times],” <https://news.hexun.com/2019-06-29/197684513.html> (23 April 2024 accessed).

7) China National Commercial Information Center and China General Chamber of Commerce, China top 100 retail enterprises list 1999-2012, <https://www.cncic.org/?paged=2&cat=16> (23 February 2019 accessed); *China Statistical Yearbook, 2000-2011 Edition*, <http://www.stats.gov.cn/tjsj/ndsj> (21 February 2019 accessed).

retail stores. They had to purchase fewer varieties at higher prices from local traditional retailers. They had no initiative in choosing a purchasing place with good service. This condition was particularly serious for middle- and low-end consumers, as they were sensitive to prices and purchase costs. Furthermore, fierce competition limited retailers' improvement of merchandise varieties, merchandising, and intermediate circulation. Consequently, both domestic and foreign retailers in China focused on retreats and reentries.

The foundation for e-commerce and online consumption

The proportion of consumption in education, culture, entertainment, medicine, transportation, and communication increased in the 1990s and 2000s significantly. The increasing consumption of communication laid the foundation for e-commerce. Further, there was still a large market for clothes in the last two decades, and thus, apparel merchandise was an important sector for e-commerce.⁸⁾

The low prevalence of automobiles in the 2000s limited long-distance shopping. In 2000, 200 households owned only one automobile, which increased to 26 households by 2010. However, the prevalence was still low; therefore, it was inconvenient for consumers to visit modern retail formats in downtown areas.

The rapid growth of Internet users and the increasing penetration rate of the Internet in China were the basis of e-commerce. In 2000, there were 22 million users, which exceeded 100 million in 2005, 200 million in 2007, and 300 million in 2009. The growth rate had two high tides: the growth rate in 2002 was 79%, which continuously decreased in the next four years; the second tide was 53% in 2007, which also continuously decreased later. The penetration rate in 2004 was 7%, but it increased to 34% in 2010 and reached 50% in 2015.⁹⁾

8) *China Statistical Yearbook, 2000-2011 Edition*, <http://www.stats.gov.cn/tjsj/ndsj> (21 February 2019 accessed).

9) *China Statistical Report on Internet Development*, http://www.cnnic.net.cn/hlwfzyj/hlwxyzbg/index_3.html (22 February 2019 accessed).

The high proportion of younger Internet users and the increasing proportion of low-income users contributed to the expansion of the low-end e-commerce market. In 2000, 75% of users were under 30 years of age. Although it decreased, it was still over 70% in 2005 and over 60% in 2010. A high proportion of younger users contributed to the expansion of e-commerce and tended toward low-end consumption. The proportion of low-income users increased by 30% in the first half of the 2000s and continued to increase to 40% in 2010. An increasing number of low-income users gradually became the main force behind online retail.¹⁰⁾

Daily necessities gradually became the primary commodity of online consumption by the end of the 2000s.¹¹⁾ The top six categories of e-commerce by gross merchandise volume (GMV) were apparel, household appliances, toiletries, books and DVD, mother and baby products, and food in the 2000s. In 2010, apparel ranked first, accounting for 31.8%; household appliances, second, accounting for 28.9%; and toiletries, including mother and baby products, 4.1%. Compared to 24.5%, 25.1%, and 7.4% in 2009, apparel and household appliances increased (Liu et al., 2012, 26-27).

E-commerce became one of the main shopping methods for Chinese consumers in the 2010s. Some accounts have published the total retail sales of consumer goods. For example, the total online retail sales in Shenzhen in 2011 was RMB 35 billion, which accounted for 10% of the total retail sales of consumption. Half of the Shenzhen netizens shopped online.¹²⁾

The extension of online shopping attributes to “cheap consumption,” and this feature changed consumption pattern. For example, the household appliance’s price online was 10% – 15% cheaper than physical stores in 2010. Forty-eight percent consumers chose to shop for household appliances online as it was cheaper. Moreover, fast and

10) *China Statistical Report on Internet Development*, http://www.cnnic.net.cn/hlwfzyj/hlwxzb/index_3.html (22 February 2019 accessed).

11) “Wangshangxiaofeishengji: Wanggouzhuiliuzhuanxiangriyongpin [Online consumption upgraded],” *Consumption Daily* (2 June 2009), A04.

12) “BanshuShenzhenwangminshangwanggouwu [Half of Internet users shop online in Shenzhen],” *Shenzhen Economic Daily* (22 December 2012), A04.

convenient delivery services also attracted attention.¹³⁾ These features increased consumers' likelihood of choosing e-commerce.

Alibaba Group and e-commerce

Alibaba is an e-commerce retailer, but its startup story is far from retail. It started from B2B (Business-to-Business) to provide a platform for middle- and small-sized enterprises (SMEs) that have difficulties in trade docking with foreign companies. This start-up could not have been successful without the development of foreign trade and the private sector in China. Before the reform and opening measures were launched in China in 1978, a non-public ownership economy did not exist in China, and foreign investment was no exception. After the shift to the reform and opening measures, restrictions on foreign and private capital were gradually lifted in some sectors, leading to expansion of external trade and private enterprises.

SMEs' difficulties in finding distribution channels and demand information in foreign countries provided opportunities for Jack Ma, the founder of Alibaba Group. To overcome these difficulties, SMEs required third-hand involvement. Consequently, Jack Ma and his 18-person-team established Alibaba in Hangzhou City in 1999 to provide a platform for SMEs (Liu, 2009, 49). E-commerce began in China in 1997, and some retail e-commerce platforms were set up from 1997 to 1999, such as EachNet (B2C) and 8848 (B2C). Foreign e-commerce platforms such as Amazon and Yahoo also entered China. Compared with these platforms, Ma's initial platform operated B2B, which was a new field in China (Juan, 2010, 98). Jack Ma raised the central mission of making business easier. However, the dotcom bubble affected e-commerce in China from 2000 to 2002. Thus, some e-commerce platforms exited the market (Liu, 2012, 10). Jack Ma stayed on the market, and established a retail platform after the bubble ended.

Subsequently, Alibaba extended its business. It primarily provided domestic retail, domestic wholesale, international retail, and logistics services. These core businesses

13) "Wanggouzhengzaigaibianjidianxiaofeixiguan [Online shopping is changing home appliance consumption habits]," *China Consumer Journal* (11 August 2010), B04.

accounted for over 80% of Alibaba Group's total revenue in March 2018. The retail business was Alibaba's main business, accounting for over 70% of its revenue. Its major businesses are Taobao (C2C), Tmall (B2C), Alimama, AliExpress, Alibaba.com, CAINIAO, and Ant Financial.¹⁴⁾

The platforms that operate retail businesses are Taobao and Tmall. Taobao was launched in 2003. Initially, Taobao's main area was apparel, which later expanded to various fields. It is a commerce-oriented social platform that allows consumers to enjoy personalized shopping experiences. Stores in Taobao are primarily individual and small businesses; therefore, they mainly operate under C2C and B2C. Tmall was launched in 2008. It started as a part of Taobao for B2C and was later separated and named Tmall. This caters to consumers seeking branded products and premium shopping experiences. Many international and Chinese brands have established their storefronts on it. In 2016, Tmall became China's largest third-party platform for brands and retailers in terms of gross merchandise value.¹⁵⁾ Both the platforms operate across various areas and have expanded into foreign markets. Taobao and Tmall have the highest market penetration rates in China. In 2014, Taobao had an 87% market penetration rate, and Tmall had 67%, ranking first and second on the main e-commerce platforms, compared with JD.COM's 45% (third), Weipin's 19% (fourth), and Amazon's 13% (eighth).¹⁶⁾

Both Taobao and Tmall aim to provide retail platforms for retailers rather than directly participating in retail businesses. This means that on Tmall and Taobao, the merchants could take care of their stores, and not all the goods were exchanged with Alibaba. Merchants could directly manage the promotion of their brand, delivery of their goods, and customer service. This operation is different from most e-commerce operators in China,

14) Alibaba Group Quarter Results 2014-2018, <https://www.alibabagroup.com/cn/ir/earnings> (10 May 2018 accessed).

15) Homepage of Alibaba Group, <https://www.alibabagroup.com/en/about/businesses> (9 May 2018 accessed).

16) *China Statistical Report on Internet Development*, http://www.cnnic.net.cn/hlwfyj/hlwxbzg/index_3.html (22 February 2019 accessed).

such as JD.COM, the second-largest B2C online retailer, and Amazon.¹⁷⁾

These platforms witness rapid growth. By February 2004, Taobao had become the second largest C2C platform, with a monthly average revenue growth rate of 768%. It ranked second only to eBay but surpassed eBay in May 2004. In January 2006, Taobao held a market share of over 70% in the C2C marketplace (Yu, 2006, 102). Taobao's GMV exceeded RMB 16.9 billion in 2006, which overpassed annual turnover of Lotus (10 billion) and Wal-Mart (9.9 billion) in the same year. 14 million consumers enrolled in Taobao, an increase of 116%. Per capita consumption was RMB 563. According to Nielsen, in 2006, the first choice of Taobao consumers was books, followed by DVD products and apparel products.¹⁸⁾ Until March 2006, Taobao had the largest user scale in China (67.3%), followed by eBay (29.1%) and PaiPai (2.2%).¹⁹⁾ Taobao's market share increased to 70.8% of the online retail market in 2010 and maintained its first place. The second was JD.COM (4.3%) followed by PaiPai (3.4%) (Liu et al., 2012, 26-27). From January to November 2012, the GMV of Taobao attained RMB 1000 billion, which accounts for the two combined GMV of eBay and Amazon around the world contemporaneously and 5% of the total retail sales of consumer goods nationwide.²⁰⁾ Taobao had a growth rate of 36% in 2013 and 43% in 2014, and Tmall had 101% and 60% in GMV for the same years. Accordingly, Tmall had decelerated growth, but grew faster than Taobao, as an increasing number of physical store brands extended their online retailing. Table 1 shows that Alibaba's revenue in China grew continuously from 2014 to 2017; however, the proportion of its retail business in China decreased gradually as it expanded to new businesses in recent years, such as international retail and cloud computing.

17) Deputy director of research institute of an e-commerce firm, interview by author, Beijing, 29 January 2018.

18) "Wanggouyinlingxinxiaofeizhuyilangchao [Online shopping leads to new consumption]," *International Business Daily* (5 March 2007), A06.

19) "Wangshanggouwuyinlingquanxinxiaofeimoshi [Online shopping leads a new consumption pattern]," *China Reform Daily* (24 May 2006), 005.

20) "Dianzishangwu: Yichihonghongliedexiaofeibiange [E-commerce: A vigorous consumption revolution]," *Science and Technology Daily* (31 December 2012), 004.

Table 1 Alibaba's China Commerce Retail Revenue in the Quarter Ending 31 December.

	2014	2015	2016	2017
Total Revenue (RMB Bn)	21.3	28.7	40.8	60.1
Proportion of Retail Revenue (Domestic)	81%	83%	77%	72%
YoY%	–	35%	42%	47%

Source: December Quarter Results of Alibaba Group of 2014-2017.

Alibaba's beginning of retail

Compared to department stores' high-end operation principles, Alibaba's retail business started from grassroots retail. Grassroots retail means that Alibaba retailed to low-income earners, the youth who first shopped by themselves, and consumers in local places and the countryside who lacked various physical retail stores. This business idea was implemented using the Taobao platform.

After experiencing difficult times at the beginning of the 2000s, e-commerce enterprises faced a turning point in 2003, which led to Taobao's rise. The Chinese experienced a disaster called SARS in 2003. The virus prevented Chinese people from functioning normally, including shopping. Taobao was founded in that year. For both consumers and suppliers, Alibaba's platform became an appropriate way to avoid SARS. In the three most serious months, 52% of the stores on the Taobao platform achieved growth. This disaster acquainted Taobao with both its consumers and suppliers.

Retail stores are important for Taobao, and its strategy of attracting them laid the foundation for its early growth. Taobao provides a platform for retailers to earn commission fees. E-Bay, the largest e-commerce platform in China before the emergence of Taobao, also earned commission fees. However, Taobao waived commission fees for stores until 2008. The exemption from fees caused it to defeat other platforms, such as eBay in China. This model attracted an increasing number of merchants who began online businesses, and accordingly, Taobao provided more shopping

opportunities for consumers.²¹⁾

The increasing number of retail stores on the Taobao platform provided more diversified merchandise and shopping places. The distribution revolution in America was indicated by the development of supermarkets and marketing (Zimmerman, 1955). At that time, shopping in supermarkets as a new lifestyle changed consumption and diversified merchandise and chain stores provided more abundant choices for consumption. However, the shopping environment in which there was diversified merchandise and various choices of shopping places did not appear at the end of the 1990s in China when e-commerce emerged. New physical retail formats, such as supermarkets, appeared for only a few years and were rare in local cities. Prior to this, only department stores and small-scale retailers existed. Therefore, the less diversified physical shopping places and merchandise gave Chinese consumers fewer choices by the end of the 1990s. Alibaba exploited this opportunity and Taobao provided more choices for shopping places and merchandise.

In addition to diversified merchandise, low prices successfully attracted consumers from an early stage. Taobao's low prices catered to the low consumption standards at that time. A low wage level induced low consumption at the time; therefore, consumers were sensitive to prices. In 2003, Taobao was established, with an annual per consumption expenditure of 893 dollars, which was only 18% of the average world consumption expenditure of 4911 dollars.²²⁾

Taobao has continuously extended its variety of categories, making shopping online a part of daily life. An account in 2005 evaluated that shopping on the Taobao platform not only was an image of fashion hunting, but also became part of Chinese daily life, as Chinese could buy everything they wanted on the platform staying at home. Drawing on holidays and festivals, consumers could purchase tourism goods and gifts to fulfil trip

21) "Taobaoshinian: Zhongguoxiaofeishengtaishanbian [The ten-year consumption change promoted by Taobao]," *Beijing Business Today* (10 May 2013), 005.

22) The World Bank, Household final consumption expenditure per capita (constant 2010 US\$), https://data.worldbank.org/indicator/NE.CON.PRVT.PC.KD?end=2016&start=2000&year_high_d_esc=false (7 June 2018 accessed).

plans and visit friends or relatives. Furthermore, Taobao provided a variety of Hong Kong (a special administrative region of the People's Republic of China) merchandise. Chinese preferred to go to Hong Kong to shop, as branded merchandise in Hong Kong was cheaper at the time.²³⁾ Moreover, the apparel sold on Taobao was highly cost-effective and always accounted for by the media.²⁴⁾

Taobao's diversified retail stores, merchandise, and online systems obviously changed the shopping environment, providing convenience for finding desirable merchandise. An account described passivity of rural consumers when buying in physical stores. To buy a new apparel product for celebrating the New Year, the rural population had to wait for a market day, and if fashion goods were needed, they had to take a bus for over one hour to downtown. The expanded merchandise varieties and online shopping system of Taobao have notably transformed the consumption style in local cities and rural areas, where physical retail facilities were less developed than those in metropolises, and the brands and merchandise richness were inferior. The accounts on Taobao in the 2000s were filled with "convenience for merchandises comparison" and some accounts even taught consumers to search for good-quality cheap goods on Taobao. This especially provided convenience to rural people. A rural person said in an interview: "Though the quality of merchandise on Taobao varied greatly, we can compare easily through the search engine and evaluation under the merchandise page; we should make more effort to select if we went to the rural market; the varieties of merchandise on Taobao were far more than rural market; we can also return goods." According to an interview with a newspaper, rural people thought the apparel products sold on Taobao were more fashionable than those sold in the rural market, and Taobao made them follow the urban fashion trend.²⁵⁾ Convenience and fashion definitely made rural people give more thought to Taobao than physical retailers.

23) "Wangshanggouwujiangchengweixiaofeichangtai [Online shopping will be normalized]," *China Audit Newspaper* (16 May 2005), T00.

24) "China's online shopping Mecca," *The New York Times* (10 August 2009), B1; "Bingcheng Taobao wangdianchaoguowanjiaxiangbaodianyitianyingyeda10wanyuan [Taobao stores exceeded physical stores in Harbin]," *Life Daily* (9 June 2013), B02.

25) "Cunlixingqinianhuowanggoure [The Spring Festival online shopping craze in the village]," *Beijing Morning Post* (1 February 2014), A06.

Furthermore, the evaluation function provided Chinese consumers autonomy and was a significant step forward in the history of Chinese consumption. As analyzed in the section *Context: retail and consumption after 1978*, there was no balanced relationship between consumers and corporations; corporations lacked the concept of consumer orientation. The evaluation function developed by Taobao turned this around. Consumers were empowered to freely point out mistakes and poor service attitudes, thereby gaining control over their own shopping experience.

Category extension

There were e-commerce firms operating C2C businesses before the emergence of Taobao, but their merchandise categories were limited. These e-commerce firms imagined men with a high level of educational experience as their main targets. They focused on three categories that were attractive to them: books, audiovisual products, and digital IT products. The first C2C platform, 8848, operated only digital IT products; eBay, which emerged in 2000, also attached importance to electric appliances; and Dangdang.com operated books.²⁶⁾

However, Taobao's categorical differentiation made it competitive. Rather than books, audiovisual products, and digital IT products, Taobao initially operated clothing, shoes, and cosmetics. It catered to the needs of online shopping. According to a consumption survey by the CNNIC, in 2005, 75.6% of respondents purchased apparel merchandise online, accounting for the largest proportion. The next position was cosmetics, with 45%, and the third was digital IT products, with 43%. However, digital IT products were still the main category on most C2C platforms, and the rapid growth of Taobao made them reconsider their categories. Amazon and Dangdang.com began operating apparel merchandise in the mid-2000s. This change indicated that Taobao's

26) "Wangluogouwu: Huangjinshidaidejiyuheyinyou [Online shopping: Opportunities and pitfalls in golden times]," *The Beijing News* (29 July 2010), A02; *China Statistical Report on Online Shopping Market*, November 2013.

category was more in line with public demand (Xu, 2008, 37).

In addition to apparel merchandise, Taobao's stores expanded their novelty in the 2000s. Promotional advertisements declared that consumers could purchase creative goods that were nonexistent in supermarkets in the 2000s. For example, a Taobao merchandiser advertised alerts on a laptop. This merchandise was designed to guard against theft (Xu, 2008, 37).

Taobao increased the number of new categories of daily necessities in the second half of the 2000s, and the extension of these categories allowed Taobao to present more choices of merchandise and convenience. They became closer to GMSs, which also had abundant daily necessities. However, they did not stop there and had a richer quantity of commodities in each category. The display of commodities in the GMS was limited by the store area. For example, a store could display only five types of biscuits. However, Taobao had no limitations; thus, this category had a much more abundant quantity of commodities. This means that there were more choices in Taobao stores than in physical stores. Taobao also provided more choices for novelties than GMSs, as novelties are not main business of GMSs. Furthermore, consumers could choose commodities using less time from Taobao than from physical stores. Instead of driving to physical stores downtown, they only needed to enter keywords of the categories, and within seconds, a large number of choices appeared.

The development of payment system

Chinese consumers' concerns about online shopping prompted Alibaba to develop its payment system. The severity of fake problems in commerce made it difficult for consumers to trust petty dealers in China. State and commercial associations were devoted to reducing the fake commerce problem in the 2000s. Particularly, at the time of payment, consumers were highly vigilant. Consumers were more anxious about e-commerce payments. They were fearful of being cheated out of their money online, as most online sellers were petty dealers. They worried that petty dealers would not deliver

commodities if they paid before the deliveries. E-commerce platforms established before Taobao also had the same problems, but they did not develop their own payment systems. Taobao's payment system, Alipay, which emerged in the first year of Taobao acted as a third party. The money was temporarily stored by this system after consumers paid, and it was transferred to merchants only after consumers received satisfactory goods (Wang, 2006, 21).²⁷⁾ This eliminated consumers' concerns about paying for, but not getting, commodities. Alibaba's development of its own payment system not only promoted the popularity of Taobao and e-commerce but also changed consumers' status. Alipay's mechanism embodies Alibaba's act of satisfying and retaining customers, changing the stereotype of Chinese commerce and lacking the concept of consumer orientation.

The unpopularity of card payments also prompted Alipay to emerge. Before Alipay emerged, e-commerce firms depended on bank transfers, card payments, and cash deliveries. Bank transfers were inconvenient, as consumers had to go to banks to transfer money because of the lack of an online banking system. Cash was the main means of payment at the time, and credit cards were still in the initial stages of development. Before 2002, credit cards already existed in China, but Chinese had to pay an expensive fee. Therefore, it was difficult for them to accept this payment. This changed when Union Pay, the main system for card payments today, was established in 2002. Thus, Alipay developed almost simultaneously with the expansion of card payments. The inconvenience of bank transfers, cash delivery, and start-up card payments limited the expansion of Taobao; thus, they developed their own payment system (Zheng, 2015).

To promote this payment system, Alibaba developed Alipay as a third-party platform for public utility payments in 2004. Alibaba noticed consumer complaints regarding Alipay. Therefore, Alipay's executives sought to connect Alipay with public utility payments to change its image. Although it originally belonged to Taobao, Alibaba

27) "Buliangshangfanshedupianxuesheng [Bad petty dealers cheated students]," *China Consumer News* (11 June 2002), A01.

separated it into a single business sector to develop public utility payments.²⁸⁾ This embodies Alibaba's concept of customer orientation again.

Alipay's extension to public utility payments provided convenience for the general public and thus promoted the popularity of this payment system. China's large population has made it difficult to develop public utility payments. The general public usually paid utility fees at the halls of property companies and office halls of electricity, water, and gas companies in the 2000s. They had to line up in the halls after a long walk. Alipay's introduction of public utility payments changed the situation. Alibaba provided not only convenience but also more payment choices. Moreover, choosing Alipay as a way of paying public utility meant a change for consumers from passive acceptance of inconvenient payment to choosing a convenient payment method.

Alipay has been used as a payment system in various fields since the early 2010s. It became a payment system for railway and airline tickets, and thus changed the situation of standing in a long line in the ticket hall. This eventually penetrated every field that required payment. Alipay became the main payment method in physical retail, replacing cash. It played an important role in giving consumers the initiative to choose a payment method.

Establishment of Tmall

Tmall is a B2C platform, and its predecessor is Taobao Mall. The establishment of Taobao Mall stemmed from Jack Ma's expectation of expanding the B2C business. Simultaneously, brand producers and dealers sought to sell their branded products online. However, they did not want to choose Taobao as their platform because the petty dealers on Taobao were not at the same level as them regarding scale and brand awareness. The petty dealers on Taobao may even jeopardize brand image as they often sold fake goods. Furthermore, Taobao's grassroots image was different from the high-end images of the

28) Deputy director of research institute of an e-commerce firm, interview by author, Beijing, 29 January 2018.

brands. Brand merchandise was generally sold in department stores; thus, consumers had inherent consciousness in the retail space: it must have a reputation for high levels of amenity. However, Taobao, as an online platform, did not provide a shopping environment full of high-level amenities. High-level services provided by department stores were also difficult for Taobao (Erisman, 2017).

Taobao started a new channel called Taobao Mall to distinguish brand producers and dealers from petty dealers. Large-scale brand producers and dealers could develop their online stores through this channel. This distinguished channel dispelled brands' misgivings (Erisman, 2017).

In addition to developing a new channel, the nonprofit declaration also played a role in attracting brand producers and dealers. Brands must pay fees when opening branded stores on this channel. However, Taobao's non-profit declaration meant that fees were waived in the first few years. The brands were willing to make attempts at no cost.²⁹⁾ Freely opening a store resulted in lower prices than department stores and attracted more brands and customers to realize Taobao's B2C business.

The emergence of Taobao Mall meant the expansion of quantities of searchable merchandise. In addition to daily goods, Taobao began providing branded goods. It provided brand merchandise that could only be purchased in department stores before. This provided consumers with more choices.

With an increase in brand stores, Taobao Mall departed from Taobao and became an independent platform called Tmall. The image of the independent platform was completely distinct from that of Taobao, which attracted brands worldwide. It became an important profit source for Alibaba, as brand producers and dealers spent more money on advertisements and promotions and paid more commission fees than Taobao stores because of their large trade scale (Erisman, 2017).

The mutual evaluation function and profit model further transformed consumption. The evaluation function evolved with the emergence of Tmall. Customers could not

29) "AlibabashifouchuangzaoB2Cyinglixinmoshi [Whether Alibaba could create new profit pattern]," *China Business Times* (15 May 2006), 006.

only evaluate the commodity but also integrate with other customers. Moreover, the brands could provide feedback for the evaluations. In addition to text, Tmall allowed picture and video evaluations. These functions transformed consumers' passive conditions. Consumers gained more rights over their brands. Their evaluations promoted brand improvement and affected other consumers' purchases. Consequently, Tmall became a consumer-oriented shopping mall and consumers gained balanced relationships with brands. Furthermore, Tmall provided opportunities for consumers to purchase brand merchandise at a lower price than in physical stores and on other B2C platforms. Tmall charged brand producers and dealers less than physical stores and other B2C platforms. They also earned a part of their sales, but this percentage did not exceed 10%. They charged appliance brands only 2% of their sales. Compared with department stores and other B2C platforms, they did not gather any rent fees, and the sales deduction rate was lower than department stores (20% – 30%). Lower deductions resulted in lower prices. Tmall provided consumers with a wider range of pricing options, thereby changing the previous condition where consumers were restricted to choosing from physical retailers offering commodities at uniform prices (Erisman, 2017).

Discount-centric merchandising tactics

Like department stores, Alibaba developed merchandising tactics and services that tied them closely to the everyday practices of modern life. For example, the 11.11 shopping festival developed by Alibaba was related to an unofficial Chinese holiday called Bachelors' Day.

The festival, which began in 2009, was a merchandising tactic developed by imitating "Black Friday." However, the reason they chose this day was related to sales quotations rather than targeting bachelors or celebrating the day. Retailers had the highest revenue in the fourth quarter, and China was no exception. They chose November of this quarter when the season changed from autumn to winter and the temperature changed significantly; thus, consumers were more willing to purchase than in other seasons to cope

with seasonal changes. Furthermore, October and December were also good choices, but the seven-day National Day Holiday in October and Christmas were generally promotion periods for department stores; therefore, they had to choose another month. Consequently, they could choose only November. Bachelors' Day was the only special day in November, which was a domestic day just for youngsters; therefore, they chose this day for the annual promotion activity. Most stores sold at high discounts during this festival.³⁰⁾

The festival provided opportunities for consumers to purchase branded merchandise at a lower price than at department stores. High-end consumers with abundant brand merchandise consumption experience and more means of obtaining information tended to mature regarding consumption consciousness; thus, they also attached importance to prices. Furthermore, middle- and low-end consumers also wanted to purchase high-end merchandise at a lower price. This posed a challenge for retailers that sold branded goods, particularly department stores. Department stores' increasing price wars through discount promotions partly settled this problem, but their discounts were still unable to attract consumers because of their high circulation costs under any circumstances (Shi, 2021). The brand merchandise had to pass through tiered agents, and was deducted as part of the revenue by the agents. In addition, brand producers have to pay high rent and admission fees if their products are sold in department stores. This has caused them to raise their retail prices. Moreover, there is almost no price difference among department stores; a store changes to the same price when others begin to change their price. This leaves consumers passively accepting prices. However, commodities operated on Alibaba's platforms were mostly sold by brand producers and were sold without paying intermediate circulation costs or rent fees. The lower selling cost provided conditions for holding more discount-centered merchandising activities. Brands could even sell at higher discounts. Therefore, commodities were sold at lower

30) Deputy director of research institute of an e-commerce firm, interview by author, Beijing, 29 January 2018; Deputy manager of an e-commerce firm, interview by author, Jinan, 1 February 2018.

prices on Alibaba's platforms than in department stores.³¹⁾

Consequently, this shopping festival attracted consumers and quickly became the largest physical retail and online shopping event in China in short time. Alibaba's sales in the first year were RMB 50 million during the festival, but this increased to 940 million the next year and had a nearly three-fold increase in 2011 and a nearly five-fold increase in 2012. The rapid growth due to this festival provoked department stores to introduce it on the same day. The New York Times not only argued that it was a nationwide festival but also a worldwide festival.³²⁾

In addition to Double 11, Alibaba's other merchandising activities also centered on discounts, providing opportunities for consumers to purchase commodities at a lower price than those in physical retail stores, and further changing consumers' passive conditions regarding price choices. The June 18 mid-year festival introduced by Alibaba is also a discount-centric event and had no precedent among physical retailers. Alibaba also operated daily discount promotions for low-end consumers. Juhuasuan, an everyday sales platform for flash sales, helped Costco sell approximately 20,000 jars of mixed nuts in a single two-day promotional campaign.³³⁾

Conclusion

Before the emergence of Alibaba's retail e-commerce, Chinese consumers faced challenges such as low coverage rate of modern physical retail formats, low concentration rate and service levels in the retail industry, simplex store location, high circulation costs, and an unbalanced relationship between consumers and corporations, leading to passive consumption. Corporations lacked consumer orientation. Consumers could not

31) "Quanguojindingbaihuodianlianheqianshuchengxincuxiaoxuanyan [Prominent department stores jointly signed the declaration of fair promotion]," *China Market* (15 March 2007), 78-79.

32) *Alibaba Fiscal Financial Reports 2009-2012*; "Alibaba, amid intense hype, confronts a slowdown on Singles Day," *The New York Times* (11 November 2016), B2; "Singles Day in China draws new suitors: foreign sellers," *The New York Times* (12 November 2015), B1.

33) "Tianmao618yinlingxiaofeishengjixinzhongchanchengxiaofeixianfeng [Tmall 18, June shopping festival leads consumption upgrading, and the new middle class has become a consumer pioneer]," *Chongqing Economic Times* (17 June 2017), A06.

choose shopping places on their own, and merchandise was less optional. They passively accepted the price and service and found it hard to affect corporations through their evaluations.

Alibaba, which led to the growth of e-commerce in the 2000s, transformed consumers' passive situations and the relationships between consumers and corporations. The establishment of retail e-commerce platforms and continuous category extension provided more choices of both daily necessities and branded merchandise, and some merchandise they offered was unavailable in physical stores. They provided convenience to consumers who lived far from downtown and faced difficulty choosing shopping places. The B2C platform and discount-centric shopping festivals provided lower prices for branded merchandise. They provided an initiative to choose prices for consumers to purchase branded merchandise, thus avoiding the high prices caused by high circulation costs in physical stores. Further, the payment system not only played an important role in providing consumers with convenience for online shopping but also in changing consumers' passive conditions in their daily payments. The mutual evaluation function helped establish balanced relationships between consumers and corporations and promoted corporations' concept of consumer orientation. Consumer voices began affecting corporations. Therefore, in line with prior researches, the results suggest that e-commerce benefits consumers.

The shopping environment established by Alibaba's retail platforms affected physical retailers. More convenience and abundant merchandise, lower prices, lower shopping costs, and the consumer-oriented shopping environment provided by e-commerce platforms kept consumers away from the physical ones that made them passive.

In addition to consumption, the development of retail e-commerce also resulted in the further evolution of other aspects such as marketing in the retail industry. How retail e-commerce changed other aspects is a crucial topic for further research. These researches will play a role in explaining the decline of physical retailers and the growth of e-commerce in China.

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