THE NATURE OF THE EMERGING C2C ELECTRONIC MARKET IN CHINA: A CASE STUDY FROM SOCIAL NETWORK THEORY AND CRM PERSPECTIVES

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Abstract: China’s C2C electronic market has been growing very rapidly. Eachnet, which had been the largest Chinese online auction company, after merging with eBay, quickly lost its market share to a newly-launched Chinese company, Taobao. What is the nature of the market? What strategy is the most suitable to the current Chinese market and likely to lead to success? Based on the CRM process model, we conduct a case study to find out answers. By comparing eBay and Taobao in the customer relationship initiation stage and termination stage, we find out that the C2C market in China is a young and experience-seeking marketplace whose customers are willing to try new services and new vendors. By comparing eBay and Taobao in the customer relationship maintenance stage, we find out that the market is a social environment where customers’ loyalty to a vendor can be built more easily by vendor’s social relation management service than by transaction service. These findings suggest that vendors in China’s C2C market should provide functional service to acquire customers as well as develop social marketing strategy to retain customer’s loyalty. The social marketing design should be tailored to Chinese culture.

Keywords: Electronic Commerce; Customer Relationship Management (CRM); Social relation; Experience-Seeking
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1. INTRODUCTION
In the past five years, China’s C2C electronic market has been growing rapidly. The number
of online consumers reached 22.5 million in 2005, which was eight times larger than what it
had been in 2001. The total transaction volume in China C2C electronic market rose from 0.4
billion RMB in 2001 to 13.7 billion RMB in 2005 (iResearch, 2006).

China’s C2C online auction market was created by Eachnet. Launched in September, 1999,
Eachnet (http://www.eachnet.com) quickly attracted more than 870,000 registered users and
became the most popular auction site in China. By merging with Eachnet in 2003, eBay
launched its C2C business in China. Taobao.com was a Chinese C2C vendor, founded by
Alibaba.com Corporation in 2003. By 2006, eBay had invested 2.2 billion RMB in Chinese
businesses, while Alibaba had invested 0.45 billion RMB in Taobao.com and announces plans
to invest another billion.

While the growing market attracts large volumes of capital, the market competition is intense.
To compete with eBay, Taobao used free-service strategy to enter the market when it
launched its C2C business and decided to keep transactions free of charge until 2008. As a
defense, eBay (China) significantly lowered its fees. As a result, no vendor had announced
positive financial returns in 2006.

After heavy price competition, vendors now pay more attention to customer service. It is a
common belief that the large loyal customer base will be vendors’ core competence in
China’s future C2C business. To win and retain customers, vendors applied distinctive
customer relation management (CRM) strategies, and got different outcomes. Based on 71396
valid questionnaires, iResearch (2006) indicates that, in 2005, Taobao’s transaction volume
reached 58.6% of the total C2C market transaction volume, compared to 36.4% for eBay. The
two companies account for more than 95% of all transactions in China. However, in 2003,
Taobao’s market share was only 7.8% while eBay’s was 72.4% (iResearch, 2006). The ratio
of Taobao’s market share to eBay’s rose from approximately 1:10 to 2:1 in only 2 years. The
most worthwhile questions are: What is the nature of this market? How could Eachnet, after
being purchased by eBay, have lost so much market share to Taobao? What strategy can help
to win customers in Chinese C2C market? The on-going competition and actions in the
emerging market provide plentiful research materials to explore the fast-developing electronic
marketplace, particularly emerging C2C businesses in China.

This paper will contribute insightful sights to understand China’s flourishing e-business
market. Firstly, we introduce a research framework to explain vendors’ CRM-related
marketing strategies. Then we use the framework to compare and analyze Taobao and eBay’s
actions. Finally we discuss how the outcomes reflect the characteristics of the emerging
market, and predict the direction in which the market will develop. Since the sum of Taobao’s
and eBay’s transaction volume accounts for 95% of China’s entire C2C market, the
observation of the two companies can provide a good overview of the market.

2. THEORETICAL FRAMEWORK
Customer Relationship Management (CRM) theory contends that the optimal long-term tactic
for firms is to build and manage strong relationships and to develop loyalty with target
customers through creations of dual value (Boulding, Staelin, Ehret, & Johnston, 2005; Payne, 2005). The concept was formulated by Levitt (1960), who argued that firms stay in business by meeting a need, not by selling a product. Berry (1983) elaborated in this concept, shifting the emphasis from the actual exchange process to the relationship between the company and the customers. In practice, CRM has helped firms to serve their customers better and obtain core competence in the market (Boulding et al., 2005). CRM processes are longitudinal phenomena, and can be decomposed into three stages: initiation, maintenance, and termination (Reinartz, Krafft, & Hoyer, 2004). A CRM process model and strategy framework is proposed as Figure 1 shows.

![Figure 1. CRM Process Model and Strategy Framework](image)

The objective of the initiation stage is to acquire and regain customers (Reinartz et al., 2004). The objective of the maintenance stage is to retain customers by maintaining good relationships with them (Reinartz et al., 2004), thus delivering a higher level of customer satisfaction than competitors do (Winer, 2001). The objective of the termination stage is to economize on unprofitable or marginally profitable customers (Reinartz et al., 2004). On the premise of the three-stage CRM process model, the study compares the strategies of Taobao and eBay and uses empirical data to verify the outcomes of their respective strategies.

### 3. METHODOLOGY

This study employs case study method and qualitative data analysis following Robert K. Yin (2003). Since the issue of the C2C electronic market in China concerns ‘how’ and ‘why’ questions within some real-life context, case study method is well suited.

Data collection lasted from January to August 2006. The data collected in this study consist of documentation, interviews and direct observations. We use not only third-party search engines, such as Google.com, but also search engines provided by Taobao and eBay to collect documentation. For the first round, we used 16 Chinese keywords: “Taobao,” “eBay each,” “Ma Yun,” “Sun Tongyu,” “Wu Shixiong,” “C2C market share,” “C2C price,” “C2C promotion,” “C2C advertisement,” “preferring eBay,” “preferring Taobao,” “C2C community,” “C2C customer loyalty,” “C2C customization,” “C2C buyers,” and “C2C sellers.” For the second round, we combined several of these keywords to narrow down the search scope and obtain more accurate evidence. 310 useful web pages have been found, including news, magazine articles and third-party research reports. We also used video records on TV-shows and interview records. Since Taobao and eBay are doing business online, we recorded companies’ web content and traced their changes by direct longitudinal observations. Two researchers independently analyzed the web content and recorded websites’ design style, interfaces, functions, and business processes. Then, they described what they observed and what the observations meant. Finally, they formed up a unified understanding of companies’ CRM operations and strategies and summarized evidence into tables for further analysis.
The data analysis consists of two phases. Firstly, publicly available documentation, transcripts of interviews and observation results were used to draw a whole picture of the electronic market and to depict a detailed narrative history of the two vendors in China, condensing the large volume of data into more within-case evidence. We created a chronological event listing which can provide insight into “what led to what, and when” (Miles & Huberman, 1984). In these processes, we created what Yin (2003) calls a “chain of evidence” that allows others to “follow the derivation of any evidence from initial research questions to ultimate case study conclusions.” Such an approach increased the reliability of the entire study.

Secondly, a variation on qualitative pattern matching between theory and data was conducted (Campbell, 1975; Yin, 2003). Documentation and direct observations that appeared to have influenced outcomes were compared and contrasted with the three-stage CRM process model. Interview records were cross-checked to verify that each outcome was supported by at least two sources of evidence. Then the sequence of evidence was mapped according to the theoretical framework.

4. THE CASE

4.1. Initiation

Before appealing customers to a company’ e-business platform, the company should firstly select its target markets, then apply marketing strategy to get target customers.

4.1.1. Select target customers

In 2005, eBay segmented its Chinese market of 17 million users and identified its mainstream customers as well-educated, familiar with the Internet, earning a monthly income in excess of 3,000 RMB, and between 20 and 40 years old. As Wu Shixiong, CEO of eBay, says, “These mainstream buyers and sellers are very important to eBay” (ChinaBusiness, 2006c). eBay encourages mainstream customers to join global C2C transactions.

In 2003, Taobao took four months to analyze China’s C2C market and decided to target everyone from 20 to 30 years old. As Sun Tongyu, CEO of Taobao, says, “the majority of potential customers are those who live outside developed cities” (Sohu.com, 2005). In 2005, Taobao added older people to its target customer base.

It is clear that eBay and Taobao have tried to focus on different segments of the market. Although both target the young generation, eBay’s target customers are professionals, while Taobao’s target is more locally-based and broad.

4.1.2. Acquire customers

To get target customers, both Taobao and eBay provide online transaction services as their major products, and use marketing strategies such as pricing and promotion to convert prospects into first-time customers and to win back dissatisfied customers (Kotler, 1994). Table 1 compares acts between eBay and Taobao in the initiation stage.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
</table>
| Product/Service | Professional style  
|               | Canceled user payment account verification after September 2004  
|               | No security active control  
|               | 2000 RMB Loss payable  
|               | 2006, importing Skype  
|               | No offline store  
|               | 2006, mobile shopping platform                                      | Vibrant style  
|               | User can verify his bank account to get higher credit  
|               | Free online anti-virus/hacking service  
|               | Full loss payable  
|               | 2003, providing an online messenger  
|               | 2006, setting up offline store  
|               | No mobile business                                                  | Started charging in 2001  
| Price        | Free service in the first 3 years                                   |
Table 1. Comparison in the initiation stage

<table>
<thead>
<tr>
<th>Promotion</th>
<th>eBay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Llowing down charges from 2004 to 2006</td>
<td>Announcing another 3 years for free-of-charge in 2005</td>
</tr>
<tr>
<td>Only list fee now</td>
<td>No charges now</td>
</tr>
<tr>
<td>Advertised on mainstream websites and CCTV</td>
<td>Advertised on small websites and newspapers</td>
</tr>
<tr>
<td>The first one to promote in charity events</td>
<td>The first one to promote in entertainments</td>
</tr>
<tr>
<td>Direct mail marketing for sellers</td>
<td>Setting up seller’s alliance</td>
</tr>
</tbody>
</table>

During the product/service development, the two companies provide nearly the same products or services, e.g. user ID verification, credit assessment system, guideline, search engine and store assistance tools. However, eBay highlights its professional, standardized and internationalized products to meet mainstream customers’ demands, while Taobao develops localized, practical and vibrant products to meet local customers’ demands. For example, the website interface of eBay is text-rich, mostly consisting of rectangles, against a green and blue background, so that eBay looks reliable and trustworthy; while the website interface of Taobao is picture-rich, mostly consisting of smooth rectangles against an orange background, so that Taobao looks friendly. Moreover, eBay encourages customers to do global online trading, at which Taobao is not good. As Wu Shixiong says, “eBay will be known as online Wal-Mart” (ChinaBusiness, 2006c; Talentsmag.com, 2006). However, Taobao encourages customers to make product design and service suggestions, which acts are not advocated by eBay. As Taobao states, “the will of Taobao people determines Taobao’s development” (Taobao.com, 2003). In addition, when Taobao discovered that most local customers are willing to negotiate with sellers before purchasing, it developed an online messenger which was 2 years ahead of eBay’s Skype. Taobao’s online payment system was also launched 1 year ahead of eBay’s version to promote an online trust and payment system.

During the pricing process, the two companies adopted different strategies before, but now they are almost the same. eBay used service charges to guarantee high service quality, while Taobao insisted that the market in China is not mature enough to accept service charges. Shao Yibo, the CEO of Eachnet before eBay merged with it, said, “Service charge is a filter of the market.” (ChinaByte, 2004). As a result, in 2001 eBay began to charge customers a transaction service fee, product list fee and promotion fee. When Taobao went online in 2003, it promised free online transactions for the first three years. As Sun Tongyu says, “Now, it is more important to nurture the market than to charge customers service fee.” Taobao is “waiting for a more suitable timing to charge service fees” (ChinaBusines, 2005). From 2004, facing price competition from Taobao, eBay kept reducing its product list fee, product promotion fee and store fee. It also canceled transaction fees, which were the foundation of online business service charges. eBay conceded that “a lot of market surveys indicate that the Chinese buyers and sellers are indeed sensitive to charge programs and pricing policy” (EBAY EMPLOYEE 1 Anonym). Meanwhile, Taobao decided to continue its free-of-charge service until 2008. In 2006, Taobao temporarily charged a key-word promotion service, allowing sellers to buy a recommendation position in product search result. Thousands of sellers and buyers immediately protested this new service. Taobao polled Taobao users on the new policy. 61% of 200,000 thousand voters objected to the new program and it stopped at once.

During the promotion tactics, two companies used to be different, now have few discrepancies. eBay’s promotion strategy is to use mainstream media. For example, eBay paid over 2 million RMB to advertised for just 5 seconds on several national channels during Spring Festival Evening, the largest celebration in China. eBay asserts that online promotion is the most
direct and effective tool to recruit new members (EBAY EMPLOYEE 2 Anonym), and chose portal websites, such as Sina.com, to promote its service. eBay also underlines the significant profit made via mail promotion (EBAY EMPLOYEE 2 Anonym). On the other hand, Taobao’s promotion strategy relies on small websites and traditional media. One major reason is that at the end of 2003, eBay signed one-year exclusive advertisement contracts with almost every portal website in China to force out other C2C vendors. As a result, Taobao had to advertise only on small and personal websites until June 2005. However, the result was beyond all expectations, as Sun Tongyu said (Sina.com, 2006a). What is unique is that Taobao is the first C2C vendor to employ product placement marketing in movies.

4.1.3. Outcomes

The different customer targets cause eBay and Taobao to apply different strategies to acquire customers. eBay focus on modern and professional mainstream customers who are supposed to be willing to pay a premium for high-quality service. It is said that eBay has more professional sellers and more earnest buyers than Taobao has. (EBAY USER1 Anonym, EBAY USER2 Anonym, EBAY USER3 Anonym). On the other hand, Taobao is determined to attract all young customers in China, especially those in developing regions. A seller recalls that the market on Taobao was so hot that his first transaction was finished immediately after he logged the product into Taobao’s system (TAOBAO USER1 Anonym). Taobao’s online communication tool and payment system make transactions dramatically easier (TAOBAO USER2 Anonym, TAOBAO USER3 Anonym, TAOBAO USER4 Anonym). The ratio of products selling on Taobao to those on eBay is 24:1 (TAOBAO EMPLOYEE 1 Anonym).

CNNIC(2006) revealed that buyers on eBay are most satisfied with “the search engine,” “the stable systems,” “the diversity of merchandises” and “the payment protection tools,” while buyers on Taobao are most satisfied with “the payment protection tools,” “the immediate communications tools,” “the diversity of merchandises” and “the interfaces”. The result is consistent with users’ feedback.

This summary leads to the following observation:

User-friendly and vibrant interface design, informal promotion channel and price promotion attract more potential users to experience e-business, while concise and serious interface design, formal information channel, and powerful functional service appeal to professional users. However, the largest portion of current C2C markets users is experience-seeking.

4.2. Maintenance

4.2.1. Relationship Maintenance Programs

A comprehensive set of relationship programs consists of customer service, loyalty programs, customization, and community building (Winer, 2001). Table 2 compares acts between eBay and Taobao in the initiation stage.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>All kinds of reactive services</td>
<td>All kinds of reactive services</td>
</tr>
<tr>
<td>Service</td>
<td>Few proactive services</td>
<td>Many proactive services</td>
</tr>
<tr>
<td>Loyalty</td>
<td>Coupon and club</td>
<td>Coupon and club</td>
</tr>
<tr>
<td>Program</td>
<td>No member card</td>
<td>Member card</td>
</tr>
<tr>
<td>Customization</td>
<td>Direct mailing marketing</td>
<td>No direct mailing marketing</td>
</tr>
<tr>
<td></td>
<td>Not inviting users to design eBay</td>
<td>Inviting users to design Taobao</td>
</tr>
<tr>
<td></td>
<td>Price can not be changed after the deal is made</td>
<td>Price can be changed after the deal is made</td>
</tr>
<tr>
<td></td>
<td>Forbidding price negotiation and customization</td>
<td>Allowing price negotiation and customization</td>
</tr>
</tbody>
</table>
Table 2. Comparison in the initiation stage

<table>
<thead>
<tr>
<th>Community</th>
<th>15 subject channels</th>
<th>Frequent community activities, usually sponsored by eBay official organizations</th>
<th>35 subject channels</th>
<th>Frequent community activities, usually initiated by members spontaneously</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less postings, e.g. up to 2006.8.8, in 'My store at eBay' channel, altogether 7 postings</td>
<td></td>
<td>Much more postings, e.g. up to 2006.8.8, in ‘My store at Taobao’ channel, altogether 90147 postings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No local user meeting</td>
<td></td>
<td>holding local user meeting annually</td>
<td></td>
</tr>
</tbody>
</table>

Customer service, which refers to any contact or "touch points" between a customer and a firm, can be reactive or proactive (Winer, 2001). eBay’s and Taobao both set up customer service center. Taobao’s proactive service is better than eBay’s. Top management executives in Taobao, including Ma, Yun and Sun, Tongyu, chat with customers through forums and online messages. As Sun Tongyu says, “Our customer service cannot be duplicated easily by competitors” (BusinessWatch, 2006).

Loyalty programs reward customers for repeat purchasing. eBay offers buyers coupons and discounts, and encourages sellers to organize their own super-seller clubs (Winer, 2001). Besides coupons and clubs, Taobao give buyers member cards by which accumulated transaction volume is recorded, so that customer can upgrade their level of membership and enjoy higher discounts.

Customization turns customers from product/service takers into product/service makers (Winer, 2001). eBay provides professional customized management tool to sellers, such as customized mail promotion. According to an eBay executive, “We can segment customers accurately by their purchase behavior and online profiles, and provide targeted email promotion service” (EBAY EMPLOYEE 2 Anonym). Most customization services provided by eBay are for sellers. Taobao doesn’t have such mail promotion, but it often invites customers to design its website and service function. As Sun Tongyu says, “Our Taobao is customized for Chinese users” (Alibaba.com, 2005). Taobao allows sellers to adjust price after negotiation with buyers. In contrast, eBay forbids such behaviors. What’s more, Taobao also allows sellers to negotiate with buyers before making a deal or before paying through the vendor’s payment platform. Such price negotiation and customization is strictly forbidden at eBay. Differences also exist between eBay’s discount system and Taobao’s: sellers on Taobao can design coupons for every transaction, while on eBay, the coupon is only issued by eBay officials.

Community building programs create a network of customers that exchanges product-related information and creates relationships between the customers and the company or brand (Winer, 2001). eBay actively organizes and sponsors online and offline community activities. The members of the eBay community are more willing to share information than emotional experiences. Taobao also underlines the importance of community building, because, as Sun Tongyu explains, “when running business, Chinese people care about not only how much they could earn, but also how they feel” (XinhuaNet, 2005). Taobao provides a more powerful community and encourages customers to share their knowledge, personal stories and feelings. Most of the activities in the Taobao community are initiated and organized by the members themselves.

4.2.2. Outcomes

eBay provides global customer service systems, discounts, and sponsored community activities. Some users think that eBay members are more reliable than Taobao members (EBAY USER4 Anonym, EBAY USER5 Anonym, and EBAY USER6 Anonym). However,
some sellers argue that eBay’s ban on negotiation between sellers and buyers is too rigid and that “Taobao does better in this field” (EBAY USER7 Anonym, EBAY USER8 Anonym). Some customers think that eBay’s community lacks interaction and “warm feelings,” while Taobao’s community is more active. (EBAY USER9 Anonym, EBAY USER10 Anonym, and EBAY USER11 Anonym).

Taobao provides a more localized service, such as flexible discount systems, negotiation policy and emotional sharing in communities. The discount system and negotiation policy at Taobao is a typical localized design that suits the purchase habits of local consumers. Since the negotiation can be carried out via telephone, online messenger, and postings, the service helps customers increase contact and product knowledge before transaction. Furthermore, many users believe that they are esteemed by others because their articles receive a lot of replies, even from Taobao’s top management team. “[Taobao] brings me a sense of host for the first time and encouraging me to involve more, I really feel that I am a member of the community” (TAOBAO USER5 Anonym, TAOBAO USER6 Anonym, and TAOBAO USER7 Anonym) and that members treat each other honestly (TAOBAO USER8 Anonym).

CNNIC (2006) found that “community” ranked as the third most unsatisfying service provided by eBay. In contrast, the “community” did not rank as unsatisfying service on Taobao. 22.5% of eBay respondents were frequent buyers while the comparable percentage at Taobao was 55.4% (the “frequent” is defined as more than 12 purchases in 2005). More than a third of respondents (38.2%) reported that they planned to increase their shopping at eBay, while the number is about two thirds (62.9%) at Taobao. When asked about business plan, 63.2% of eBay respondents intended expanding business on eBay while 75.7% of Taobao respondents did on Taobao.

From this summary, we arrive at the following observation:

Customer involvement in online community helps vendors retain customers. The Internet is a new way for the top management team to get in touch with customers, which is an efficient way to increase customers’ loyalty.

4.3. Termination

eBay is confident in the growth of global electronic commerce. Wu Shixiong predicts that the China’s C2C e-business market will have a more than 60% annual growth for the next three years and consumer’s annual spending online will exceed 30 billion US dollars (ChinaBusiness, 2006b).

Recently, Ma Yun announced that the number of registered members on Taobao has exceeded 22 million, the number of online products has exceeded 30 million, and the highest daily spending on Taobao has exceeded 47 million RMB (ChinaBusiness, 2006a). Ma Yun says that Taobao will focus on helping customers, particularly those aged between 23 and 28 (Sina.com, 2006b), to realize profit and will keep “retaining customers, including those from competitors” (Xu, 2004).

This summary leads to the following observation:

China’s C2C market is a young and attractive market with a potentially huge customer base. The market is far from mature at present. With the rapid addition of new customers, vendors’ focus is now on acquiring and retaining customers.

5. DISCUSSION AND CONCLUSION

The paper uses a case study method to explore the emerging C2C market in China. We collected case materials from multiple sources and adopted a three-stage CRM theoretical model as an analytical framework. Following the framework, detailed comparisons between
the largest two vendors are conducted, with case evidence mapped according to the theoretical framework. Finally, important observations about the market are drawn.

Firstly, the C2C market in China is a price-sensitive, experience-seeking young market.

The fast development of eBay and Taobao clearly reveals a large potential customer base. Since C2C is still new to most Chinese users, customers are more willing to test any emerging services before committing to them. By comparing the customer relation initiation strategies used by eBay and Taobao, it is clear that Taobao’s free service with localized design provides more chances for customers to experience the new business and, therefore, is significantly more appealing to Chinese customers. The market is far from mature.

Furthermore, potential customers are open to new vendors. One important background issue is that, when Taobao launched in 2003, the market was not aware of Taobao’ affiliation with Alibaba. Ma Yun kept the affiliation confidential until Taobao achieved great success in acquiring customers (Yang, 2005b) (also stated by Ma Yun on several TV shows). Even Taobao’s initial marketing advertisements were blocked by eBay’s exclusive contract and Taobao was forced to use small websites as promotion channel, more than 100,000 customers were still attracted by the new vendor and quickly gravitated to its service (Sina.com, 2006a). Given this background, it is clear that customers did not come to Taobao for its reputation. From Taobao’s quick success, it is clear that Chinese customers are willing to experience new service. Although eBay is a global reputable vendor and had mastered C2C for quite a long time before Taobao entered, it didn’t prevent customers from switching to new vendors. The finding may encourage vendors to think more about marketing strategy when developing a new business service. Experience, not reputation or history, has a greater chance to predict a future success.

Secondly, the market is socially-oriented. Social relation plays a crucial role in online transactions in China.

Taobao’s customer service strategies, like allowing online communication and price negotiations among users, and providing a more emotion-oriented virtual community, are more embraced by Chinese customers. A survey has found that these strategies affect customers’ purchase decision and increase their will to engage in transactions on Taobao (CNNIC, 2006).

When Eachnet started its C2C business in 1999, it sponsored many activities to boost the market (Yuan and Shen, 2000). However, after merging with eBay, its practice became less competitive in comparison to the Chinese style of Taobao. After Taobao, two more famous vendors entered the market, both supported by big and well-funded companies. In September 2005, Dangdang.com, the leading online retailing vendor in China, and QQ.com, the largest Internet community service vendor in China, both announced to launch C2C business. They follow Taobao’s free-service strategy. However, Taobao’s customers do not switch to new vendors as many as eBay’s customers switched to Taobao before. On the contrary, Taobao’s market share keeps growing. Given the same price competition, Taobao’s efficient social relationship management service, which is well-tailored to China’s culture, may provide a reasonable answer. In the social market, customers can stay with a vendor more easily when the vendor has a social relation management service, not a transaction service.

Why does the localization approach encourage transactions? Factors from social network theory and institution theory are part of the answer. In the social literature, the Chinese network is formed as some concentric circles (Fei, 1948). Chinese people experience themselves as situated at the center of this network. The extent of intimacy with another is reflected by the relative position of that other person within the concentric circles of one’s psychological field (Hwang, 2000). Moreover, “the Chinese people tend to adopt multiple
standards of behavior for interacting with different persons around them” (Hwang, 1987). Kinship and interactions will influence people’s position in this hierarchical social network (Yang, 2005a). For two strangers, the more social communications, like chatting, occur, the more intimate they will be. The close relation will cultivate trust between them. As Sun Tongyu says, “Chinese businessmen are used to building relation with partners through meeting, chatting, or having dinner together before making a deal. The tradition is inherent” (Sun, 2005). Tools for immediate communication, provided by C2C vendors can quickly establish such relations between two online strangers. After chatting or negotiating, they are no longer strangers. This kind of relation helps build trust between buyers and sellers, and culminates in transactions. Executives of C2C vendors can establish similar relationships with users by using the online communications technology to converse with them. This kind of chatting will reinforce the users’ trust in the executives, and in turn to trust the C2C vendor.

Furthermore, "open" networks, with weak ties and social connections are more likely to offer access to a wider range of information and opportunities than “closed” networks (Granovetter, 1973). These “open” networks provide ways for users to gather information. Since Taobao’s vibrant virtual community enables customers to collect information about product and improve trust, customers are more willing to make transactions on Taobao.

From an institutional perspective, in an environment characterized by uncertainty, distorted information and a weak legal framework, information passed through social networks may be the richest, the most trustworthy, and the most useful (Borgatti & Cross, 2003; Luo, 2003). In light of the newness and immaturity of the market, the institutional environment of Taobao is different from that of eBay. The enforcement of contracts is less sophisticated, and markets for information are imperfect, especially in mainland China (Millington, Eberhardt, & Wilkinson, 2006). In such an environment, an electronic social network, supported by online messengers and virtual communities, can substitute for legal institutions and formal information sources in purchasing products, structuring relationships, and enforcing norms of behavior (Millington et al., 2006, Peng & Luo, 2000). The institutional theory may also help illuminate the distinct outcomes of eBay and Taobao’s customer maintenance services.

These analyses lead to a new finding on China’s C2C e-business market. It is a socially-oriented marketplace in which social relationships play a key role. Managing the social relation is the most important customer service. Vendors should take care to use the social property of the market and recognize its importance in influencing purchasing intentions. The strategies and outcomes of eBay and Taobao are worthwhile examples of China’s evolving e-business market.

Finally, involvement in the community is a significant factor of loyalty building in China’s C2C. The more involved the customers are in the community, the more loyal they are to the C2C vendor.

The result can be also explained by social network theory. A social network can be an affective or an information one (Krackhardt, 1992). In an affective network, people share their feelings with others. This sharing offers them affective support and satisfaction. The social network also cultivates trust and social relationship among players. This kind of trust, reference trust, can be transferred to vendors (Sumeet, Kim, & Zheng, 2006). Therefore, if customers’ involvement in the community is high, they will feel more loyal to the community, be reluctant to leave this network, and have greater purchase intent on vendors’ websites (Sumeet et al., 2006).

Taking as its premise a three-phase CRM process model, the study has explored the distinctive characteristics of the Chinese electronic market. The phased framework also
provides insightful suggestions on strategies that can help to win customers in the emerging market. In light of price-sensitivity and experience-seeking, a free-service strategy, in conjunction with a trustworthy payment function, localized service, and social marketing promotion work well for vendors hoping to enter the market. Chinese customers are receptive to and curious about trying out new services and new vendors. Brand may not take priority over customers’ will to experience new services in the situation.

However, customers’ loyalty is accumulated while experiencing C2C services. As other new vendors offer free-service to knock on the door of the market, how can vendors retain customers? When Taobao is compared to eBay, the most obvious difference is their social marketing design. Taobao’s social marketing approaches incorporate social community building, top management involvement, emotional-oriented activities, and a customized transaction negotiation system. The CRM strategies fit China’s culture well and, therefore, are readily accepted by customers. The set of strategies provides meaningful suggestions on second-stage CRM and how to win the loyalty of customers in China. Vendors in China’s C2C market should not only provide functional service to recruit customers, but also foster the development of social marketing to retain customer loyalty. The social marketing design should be tailored to Chinese culture and social interaction behavior. The emerging electronic market in China is an extension of real society, where social factors are still in play.

The ultimate objective for C2C vendors to foster a huge loyal-customer base is to become profitable. Since transaction service in China’s electronic market is provided for free, it is still challenging for C2C vendors to generate profits. Following social relation development logic, maybe vendors can charge on new services. With social relation reinforced, customers’ trust can be better transferred to the C2C vendor. After customers have fostered trust and loyalty with a specific C2C vendor, customers may commit more to support vendor’s newly charged service and not switch to other vendors for the sake of security and trust.

6. REFERENCES AND CITATIONS


YANG, Z. (2005b) Ma Yun and his 'Taobao'. *OBSERVER*.


**APPENDIX: INTERVIEWEES’ CODING**

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