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The Growth of online shopping in China

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ABSTRACT

This paper accounts for the growth of online shopping in China. Despite the challenges online shopping in China faces, online shopping in China is growing rapidly. The study mostly involves exploratory research using a qualitative approach in which materials on the subject were reviewed and online shop owners were also consulted to gain in-depth understanding of online shopping in China. Forms of payments for online product were identified. (These are Third party payment systems, Debit Cards and Credit cards, Cash-on-deposit) The paper also identified key factors that are driving the growth of online shopping in China, such as low prices, improving online payment system, Improvement of national transportation infrastructure of China, High internet usage and rapidly expanding broadband network by Chinese and challenges that China online shopping is facing (The product quality, lack of professional for online operation, online retailing is less popular in lower-tier cities, hindrance of logistics and conflict between online and offline stores). The paper also identified the major online shopping sites in China such as Taobao, 360buy, Jojo-amazon, Dangdang, newegg, M150.com, paipai, taobao-mail.

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INTRODUCTION

Over the years, the history of internet shopping has been shaped. The Web Wide Web Server created by Tim Berners-lee in 1990 was opened to commercial transactions in 1991 which online business was started by pizza and in 1994 inter-shop online system by Amazon and eBay followed.

According to Cheryl Smith (2006), online shopping is the process of buying goods and services from vendors who sell on the web. Since the emergence of the World Wide Web, vendors have sought to sell their products to people who surf the internet. Online shopping is defined by Business dictionary as the act of buying products or services online.

Online shopping is seen as a system of electronic selling whereby consumers directly buy goods or services from a seller on the internet without any intermediate service. Online Business to consumer (B2C) transaction takes place when transactions are conducted between a company and a consumer's online and these consumers tend to be the end users of the product. When transactions are administered between two businesses over the internet is also known as online business to business transaction (B2B). A situation where a consumer posts an item for sale and other consumers bid to buy it and the third party charges a flat fee or a commission is known as consumer to consumer (C2C). In China Paipai, Taobao are mainly known for consumer to consumer form of transactions. The C2C sites are only intermediaries, just there to match consumers. The quality of the product is not been checked. (Kennedy, G. 2000).

Online shopping in China:

Online shopping industry of China is huge and full of opportunities for new investors. According to Mackie (2011), China's online shopping increased every year. It has been turnover of \$80 billion which is 496,385 billion Yuan in 2010. China online shopping has grown faster than other countries. As China economy is expanding and the number of netizens is growing, online shopping sees significant growth in market size and increasing investment activities. In 2010, online shoppers registered in China is 158 million and 198 million in 2011. Consumers that go to offline stores, malls and super markets remain unchanged and the trend is steady. However, the number of consumers shopping online saw an increase.

Mostly, consumers in Shanghai and Beijing are the main contributors to the online market, with one out of two netizens in those areas shopping online. At the same time second tier cities such as Shenzhen, Chongqing,

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Tianjin and Shenyang are ranked just below Beijing and Shanghai in terms of the percentages of online shoppers among netizens {iResearch Report. 2010}.

According to Boston consulting Group, China online shoppers increase dramatically about 65 to 485 million people from 2009 to 2010. Meanwhile, the amount spend by online shoppers also raised extremely fast, it rose by 500% in six years from 2005 to 2011.

As reported by MEC research 2012, consumers spent between 5,000 to 10,000yuan online in 2012.38.7% of consumers spent their money on clothing, shoes, hats, luggage, bags and outdoor gear. And this consumer are the being attracted to online shopping through the lower marketing strategy of the online shops, this help taobao to successfully attract 1.8 billion buyers in 2010 and as days go by more and more buyers are been attracted.

As reported by Alibaba group 2013, China e-commerce has become a huge emerging economy and will experience rapid growth for a long time to come.

Online Payment system of China:

E-commerce payment systems in China have changed severely, in recent years, along with a transformation in china society's online purchasing behaviors.(Chong, S & Bauer, C (2000),The primary online payment systems of China are:

Third party payment systems: Third party payments provider is a company that is not a bank but is given authorization from the central bank of china to provide an easy and secure way for consumers and business to send and receive payments on the internet in China, often called Payment Service Provider (PSP). China pay is the leading third party system provider in China. With new payment platform launched by China UnionPay, online shoppers will have greater security, improved level of Customer loyalty and a faster payment checkout.

Debit Cards and Credit cards: China is now in a booming period of card and payment market demand and usage. Debit card and credit cards of china are bearing the mark on UnionPay. It is predicted that by the end of 2013, the total number of credit cards issued in china will exceed 300million.

Cash-on-deposit: Cash on deposit is another system of payment in china where couriers will collect cash on behalf of the retailer. 30% to 40% of online shoppers used this method according to China's payment service.

Research method:

The study mostly involves exploratory research using a qualitative approach in which materials on the subject were reviewed and online shop owners were also consulted to gain in-depth understanding of online shopping in China. Face to face interviews were conducted. Some online shop owners were interviewed and their responses let to the following: factors driving the growth of online shopping in China and challenges facing online in China.

Factors driving the growth of online shopping in China:

1. High internet usage and rapidly expanding broadband network by Chinese:

Because of the population of China, the percentages of consumers that shop online in China are more than other countries. That is to say, roughly one out of three netizens in China shopped online. According to MEC research, 90% of the china's population has access to broadband internet service, which helps in providing a widespread of e-commerce. This help the shops to market their product online to consumers at far places.

2. Growing consumer desire for convenience and value

China consumers are a hunt to put more green on their table and make sure that they are healthy, even if it means spending more on themselves. This shift has adjusting their shopping behavior by either paying more or making product trade-offs to be healthier and eat well.

As buyers watch their financial plan and their diets to match their lifestyle, value and convenience are necessary considerations. With the online shop, varieties of product are being offered to consumers and this makes them go in for the right product.

3. Bad access to offline retail stores in tier 3/4 cities

With the china's geography being massive and it's middle and wealthy classes are spread out all over the country, however physical stores of famous or international brands is limited to big and urban cities but with the help of E-commerce, marketers are able to market their product and service through the internet to consumer and this is helping China to grow it online businesses (MEC research, 2012).

4. Improvement of national transportation infrastructure of China

Taobao.com explains that, China transportation system has improved over the years which make transportations of goods to designated location easily. The growth of the national infrastructure of China is a wonder of the modern world. Chinese highway now traverses the country's vast interior where twenty years ago, there was nothing but countryside. Now there is high speed railways system linking cities and there are also good roads linking countryside from the cities. These help consumers to receive their product within the given period by the online shop. All of these help online shopping in China to grow.

5. Improving online payment systems in China

In the report of EnfoDesk 2012, third quarter of 2012 saw 976.4 billion Yuan made by online Payment is being made through mobile phones and internet banking. The China Internet Network Information Center also recently revealed that mobile internet shopping and mobile payments saw significant growth in China during 2012. Compared with 2011, the ratio of mobile Internet shopping increased by 6.6%, the number of users increased by 2.36 times, while the usage of mobile e-commerce applications saw an overall increase. The availability of improved mobile payment system makes it easier for consumers that do not have PCs and tablets to easily pay for product online. (Trends & Insights of China online shopping)

6. Competitive price advantage

According to some consumers of Taobao and Amazon, online shop offer competitive pricing and these make buyers think carefully before making any purchase decision. There are different online shopping sites such as taobao, suning, amazon, paipai, tuan800, VANCL, m18.com, Newegg, dangdang etc help consumer to compare prices of different stores then you don't need to worry yourself walking to the shop which you don't have the chance to check on their prices for the same product. Product online are cheaper because of different prices at different online shop, so in this you may have the access to lower price online than going to the shops.

In addition, Boston consulting group, 2012, researched in to online shopping in China and found out that, online shopping save time and simplifiers one life. Consumers also have the right to return the product back to the shop if they think they don't like the product and this is done within 7 working days. Having this as an advantage of online shopping, it helps online shops to attract more customers which will lead to the growth of china's online shopping.

Challenges facing online shopping in China:

1. The product quality of online shops

According to Alibaba research in 2012, 65.9% of online shoppers worried about product quality and 42.6 of them worried about the reputation of online stores. Dangdang was also accused of selling counterfeit watches in June 2012. Casio accused Dangdang of selling the watches without authorization from them. Some consumers doubt the quality of the product because it can't be touch to feel the texture of it; therefore they prefer to go to offline line stores.

2. Lack of professionals for online operations

In china, employees of online shops are mostly employees who do not have any background on in depth marketing knowledge and this is not catching up with the rise in demand in the market. Some are also disrespectful and inconsiderate to buyers and in this case it makes it hard for the buyer to repeat purchase which is slowing the growth of the china's online business.

3. Online retailing is less popular in lower-tier cities

In China, online retail facilities such as payment system, transportation system is not popular in the lower-tier cities and this is making online shopping difficult for them which a challenge to online shopping in China. (Mec Research)

4. Hindrance of logistics

Many express company of China are overloaded. According to survey conducted by China online shopping on the performance of china's express delivery services, on time delivery remained dissatisfaction for over half of the respondents. 52% of their respondent's complaints were related to delay of delivery. And this is slowing the growth of the online shopping.

5. Conflicts between online and offline stores.

This is due to difference in product variety and prices. Product online may seems cheaper than the one offline and this are challenges due to the perceptions that if the price of a good is expensive than the product is of quality.

Major internet shopping sites in China:

Kim, J., Lee, J., Han, K. and Lee, M. (2002), was able to bring out the major internet shopping sites in China as follows

Taobao is the leading online site in China. In 10th May 2003, Taobao was founded by Alibaba group. It operates 6.2 million online stores, and these include business to consumer transactions and consumer to consumer transactions. Taobao provide platform for individual, entrepreneurs and business to market their product online.

360buy is the second china online shopping with a lot of buyers. 15 million users are registered with 360buy since it was established in 2004.

Joyo-amazom founded in 2000. Since it was fully acquired by the world largest online retailer online retailer, it services has also improve by providing more varieties of product to it consumers. Such as books audio and video products, software, computers and general merchandise

Dangdang.com is the fourth biggest online shopping site which deals in books, various audios and video products. Dangdang marketing site was launched in 1999.

In U.S, Newegg (新蛋中国) is the second largest online retailer stores but in China it comes fifth. Newegg mainly deal in electronics.

Newegg ((新蛋中国) is the second largest online-only retailer in the United States but is fifth in china. Newegg advertises a superior shopping experience consumers, rapid delivery and stellar customer service. It was founded in 2001 but was introduced to China.

M150.com, vancl, tuan800, paipai and taobao mall are all in sequential order.



Fig. 1: Is a picture displaying consumer to consumer and business to consumer site in China.

Table 1: Is showing the number of buyers that visited each site in February and March 2013 (china internet watch 2013).

Shopping site	February	March
	Number of visitors	Number of visitors
tmall.com	282,945,644	432,456,034
jd.com	284,404,886	311,917,568
51buy.com	93,379,147	130,461,270
yihaodian.com	79,990,079	104,629,174
amazon.cn	70,873,814	78,556,254
1mall.com	62,932,695	73,101,821
suning.com	94,658,184	70,096,761
dangdang.com	46,276,530	54,498,868
jumel.com	35,873,092	48,519,033
vancl.com	26,373,957	36,070,466
vipshop.com	24,373,957	32,797,943
m18.com	17,069,589	26,339,190
yougou.com	14,319,273	24,911,971
moonbasa.com	17,556,135	23,292,243
redbaby.com.cn	52,515,018	21,342,224

From the table above, tmall.com was the most popular B2C website in China with 432,456,034 visits in march 2013, followed by jd.com with 311,917,568 and 51buy.com.this show that tmall.com have 53% growth rate exceeding that of jd.com and the rest.(Turban, E. and King, D (2003).

Conclusion:

With the online shops expanding, china online shopping will continue to grow. Policy makers and developers may benefit from attention to the factors that drive growth of online shopping in China. More local and foreign companies are planning to set up their own stores in the growing Chinese online market and this would be a boost to online shopping in China. This will lead China to become the best online retail market in the world.

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