

# Critically Discuss the Opportunities and Challenges for Amazon as It Seeks to Expand Its Range of Products and Services in China

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## Abstract

**This article is an applied article based on theoretical analysis and combined with actual data. Critically demonstrated that Amazon's fundamental problem is its insufficient grasp of China's national conditions and market. China's e-commerce market has fierce competition and high price sensitivity. Therefore, Amazon's operating model determines that its price advantage is not too great. In the end of the article, combined with the special points of the Chinese market and Amazon's own positioning in the Chinese market, relevant countermeasures are put forward.**

## Keywords

**Amazon, B2B, China, Market, Culture.**

## 1. Introduction

As the largest online retailing leader, Amazon was founded by Jeff Bezos in 1994. Its original business was bookseller and then the business has been expanded to different products, such as food, electronic goods and other daily necessities. Since 2004, Amazon started to enter Chinese B2B market after purchasing Joyo.com and it changed its name as Amazon.cn in 2011. However, the business was not successful in China and it has experienced a huge decrease in sales from 2004 to 2016 and Amazon now only accounts 0.8% of Chinese B2B online market share (Dunn, 2017). In China, in 2016, it also introduced Amazon Prime aiming to improve sales, but it does not still work well and China's e-commerce market was mainly dominated by Tao Bao from Alibaba Group with more cheap choices and T-Mall with more foreign products (Jason Del Rey 2016). There are also some other strong competitors like JD, VIP.com, and Tmall. In 2015, it had 1.1% of the market share and in 2017, it only owned 0.8% of the share (Lee, 2018). In 2019, Amazon has already canceled some businesses in China. Faced with such huge changes, it is worth to research why Amazon can not adapt to Chinese market and achieve success like other countries. This essay will conduct a detailed study about its market profile and cultural profiles to critically research its opportunities and challenges in China.

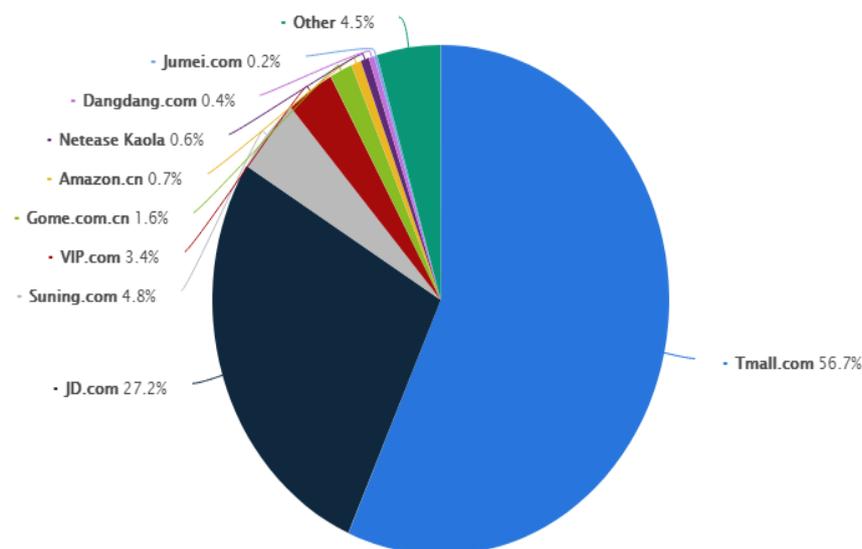
## 2. Market profile of Amazon in China

As a multinational giant, Amazon has set a comprehensive and developed marketing mix in China including product, price, place and promotion (Hollensen, 2008). In terms of products, Amazon offers Amazon websites, Electronic devices, Amazon Prime, Amazon music, Whole food, Media content and Amazon Web Services (AWS) (Dudovskiy, 2018). In terms of place, Amazon does not open have physical stores in China and all of its business depends on online sales channels and logistics of Prime and other specific logistical companies. For price, Amazon has the seasonal pricing strategy which is determined by the revenue generation. In other words, in the retailing filed, Amazon is one cost leader. Whether it is the market place, Prime or AWS,

Amazon's pricing strategy is competitive (Enkhchimeg, 2016). Meanwhile, Amazon also offers premium prices for certain products and services. For promotion, Amazon has accumulated its popularity very fast in recent years by proposing the Amazon Prime and other new services. The wide range of Amazon web in the global market is the guarantee for its high volume sales and profits. Thus, Amazon website has become its main channel for promotion (Dudovskiy, 2018).

Based on the marketing mix, this report will further explore the macro environment in China for B2B and explore the opportunities and challenges. In China, B2B market has achieved rapid development in recent years and its macro environment also greatly support the B2B market. This report will use the SLEPT model to analyze the B2B macro environment in China in terms of Social, Legal, Economic, Political and Technological (Barney & Hesterly, 2008).

In terms of social factors, the increasing online consumption allows Amazon to have more opportunities to expand the products to Chinese consumers, as more and more Chinese people prefer to shop online. By reviewing SLEPT model in China, it can be seen that Chinese macro environment has offered many opportunities for Amazon (Tong, 2017). The increasing online consumption allows Amazon to expand the original Chinese online market. It enjoyed success in the early days with market share of over 15 percent in 2011 to 2012. However, the expanding Chinese B2B market also generates great challenges for Amazon. The growing e-commerce platforms in China urge Amazon to create more social activities to engage with Chinese consumers and enhance the consumer experience. It faces many competitors and the largest one is Tmall occupying 56.7 percent of the B2C e-commerce market GMV. It has become the leader of Chinese online shopping market. There are also other strong competitors like JD (27.2%) and Suning.com (4.8%) (Statista, 2019).



(Statista,2019)

In terms of political and legal environment, Chinese government has issued many policies to give great support for the rapid development of e-commerce websites and platforms. It has also issued regulations to build a more positive business environment by promoting cyber security and protecting buyers, sellers and logistic companies (Enkhchimeg, 2016). For Amazon, it has the opportunities to launch its products and set Amazon Prime and logistics to Chinese consumers. However, at the same time, it also continues to pose challenges for Amazon because the policies would attract more Chinese e-commerce websites and platforms in the market (Wang and Ren, 2012). When there are more and more Chinese e-commerce websites are created, Amazon will face a more competitive external market.

Technological factors also affect Amazon's opportunities. In China, new technologies are developing and updating fast which cause challenges and pressures Amazon to make more progresses for its technological systems and products (Dunn, 2017). However, this challenge can also be regarded as an opportunity by Amazon if it can adjust the business and marketing mix accordingly to get more development chances in China. Amazon's increasing investments on IT products may become one competitive advantage and help it compete with other entering competitors in B2B market.

Furthermore, for China's economy has been enjoying e-commerce advantages in recent years. However, China is still a developing economy, the citizen disposable income is still increasing per year which is a good opportunity for Amazon to catch the increasing consumption power. In the long term, these people will largely increase Amazon's revenue by selling more diverse products in the Chinese market. However, China is also experiencing an economic recession which may be a threat for Amazon to have the sustainable revenue in the short term.

By comparing other similar companies' entry strategies to China of Wal-Mart, Amazon seems to be different. Amazon's entry model was the direct foreign investment in China. It purchased a Chinese e-commerce company Joyo.com and it changed the name to Amazon.cn in 2011 (Del Rey, 2016). This entry model allowed it to enter Chinese market rapidly and used the original platform and consumers to expand the Chinese market at the very first beginning. However, in the later, Amazon attempted to continue to use its American working business model in China, but the Chinese consumer market is different which led to its failures and declining market shares. Wal-Mart has used a different market entry model in China. Wal-Mart was among the first foreign retail firms to come to China for the retailing market. Thus, it has many advantages which have guaranteed its rapid success and expansion in China. Wal-Mart also chose the foreign investment model in China and it firstly entered Hong Kong through a joint venture with a local retailing market and then it expanded the mainland business (Basker & Pham, 2008). Meanwhile, it also created a joint venture with the Shenzhen International Credit Investment Company (Basker & Pham, 2008). Further, it has made important strides through various acquisitions including Yihaodian, a fast-growing B2B business in China in 2012, also strengthened its foothold in the Chinese market.

### 3. Cultural Profile of Amazon in China

Cultural factors can affect business and business negotiations from many ways. The negotiation is viewed as one key part for the international business success. Among many factors, culture has become a powerful and influential factor which can be one impetus or challenge for the negotiation outcome (Shell, 2006). Many cultural variables are influencing the expectations, actions and response of Amazon business to business negotiations in China.

First of all, the different importance attached to interpersonal relationship can affect the B2B negotiations. This different interpersonal relationship can divide cultures into interpersonal relationship culture and non-interpersonal relationship culture. Interpersonal relationship culture refers to the importance of interpersonal relationship in interpersonal communication and business negotiation (Lustig and Jolene, 2002). It's about respect. China is a country that attaches great importance to interpersonal relationship and social status. Influenced by Confucian culture for a long time, Chinese people attach great importance to interpersonal relationships and the relationship between superior and inferior. Interpersonal relationships are highly valued in business negotiations in China. Generally speaking, Chinese people do not approve of pure business activities. They tend to put a lot of effort into the off-site negotiation and try to get to know their business partners in informal situations. Chinese people only do business with each other when they get along well with each other and trust each other. For Amazon, its business leaders show different reactions, as the United States is a typical example

of a non-interpersonal culture that does not value the role of interpersonal relationships in business negotiations. In business negotiations, Americans seek immediate benefits, not long-term partnerships. Thus, American would the maximization of interests and value time as money. Thus, in B2B negotiations, the different attitudes to interpersonal relationship would affect the final results.

Secondly, the different attitudes in different cultures to time also affect B2B negotiations. The concept of time and how it determines people's action plans have a broad and intangible impact on business negotiations. The most obvious manifestation of this difference is the discrepancy in time compliance as reflected in daily negotiating activities (Shell, 2006). For Japanese people and Americans, they think time is quite important, and they tend to be more punctual in negotiations. Japanese people may come to negotiations a few minutes in advance. For people in the Middle East and Latin America, time is for enjoyment and their negotiations are not so punctual. Chinese people are the same and some negotiators may come late.

Thirdly, the way to communication would be affect by cultural factors. In terms of verbal and nonverbal communication, there are two kinds of cultures: high-context culture and low-context culture. In high-context culture, the verbal communication is usually indirect and implicit. At the same time, the nonverbal communication is also generally used, such as eye contact, gestures, and distance. In low-context culture, the verbal communications is more direct and clear (Lustig and Jolene, 2002). The United States and Germany are typical countries of low-context culture. The United States tends to express ideas in clear, specific language and speak clearly without ambiguity. China, on the other hand, is a typical country with a high-context culture. Chinese people not only use implicit language, but also have a hidden meaning within words. It will communicate with non-language like eyes and posture.

In sum, cultural differences can determine the final success of B2B negotiations in different ways. Thus, when conducting B2B negotiation, negotiators need to observe particular attitudes, behaviours and negotiation styles throughout the entire negotiation (Lustig and Jolene, 2002).

#### 4. Conclusion

In summary, even though Amazon has operated in China for years and it had fewer restrictions on its entry into China than other foreign Internet companies. Amazon still faces huge challenges in the face of fierce competition from many local rivals, its performances are not satisfied. However, due to Chinese rapid e-commerce development, there are also many opportunities for Amazon to catch and gain more market shares. This report will propose 3 recommendations including cooperating with local Chinese companies, expanding business scopes and promoting more investments on localization. Firstly, Amazon can cooperate with one Chinese internet company to expand the IT could service in 2021 and ensure it can increase the IT service revenue for 10 % in China by the end of 2021. Secondly, Amazon can expand one or two promotional activities in China per year to engage with Chinese consumers via Wechat aiming to increase 15% new Chinese consumers. Thirdly, Amazon can also open two physical stores based on local Chinese consumers' preferences to attract offline consumer flow by the end of 2020 in Shanghai and Beijing. in this way, it can increase the localization and adjust its strategies based on Chinese consumers' demands and win more market shares.

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## Appendix

### SLETP Model

Social	<ul style="list-style-type: none"> <li>● China is witnessing a culture of online consumption and the consumerism promotes the development of e-commerce platforms in China.</li> <li>● Social media development including WeChat and Weibo promotes the social activities which requires Amazon to use these social media platforms to create programs to enhance the social experience.</li> </ul>
Legal	<ul style="list-style-type: none"> <li>● The Chinese government has shown great support for e-commerce websites in China, both foreign and domestic, by cultivating business conditions in enhancing cyber security, the buyer, seller and logistic services can rely on the e-commerce platforms...</li> <li>● The Chinese government is restricting new regulations on cross-border e-commerce activities to secure trade safety and this only limits third-party sellers to join Amazon's Chinese platform.</li> </ul>
Economic	<ul style="list-style-type: none"> <li>● China's economy has been enjoying e-commerce advantages. As it is still a developing economy, disposable income is on the rise, this opportunity for Amazon is valued especially for the long-run as it will surge the company's revenue.</li> <li>● However, an economic recession in China is very likely, a threat that would unravel Amazon's efforts in trying to penetrate the world's most developing e-commerce market.</li> </ul>
Political	<ul style="list-style-type: none"> <li>● It is a foreign company facing Chinese born competitors such as Alibaba, the Chinese government has shown to ease regulations by supporting the Chinese e-commerce companies.</li> </ul>
Technological	<ul style="list-style-type: none"> <li>● In China, new technologies are rapidly altering and developing which pressures Amazon to progress its technological systems.</li> <li>● However, Amazon's investments on IT may increase a competitive advantage and defend itself from new entering competitors in the same e-commerce market.</li> </ul>