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# **Analyzing how companies respond to competition in an Industry:**

*A Case Study of two B2C e-commerce companies in China*

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## **Abstract**

Nowadays global competition has become more and more rigorous when entrepreneur operates a company in e-commerce industry. Companies, which don't acknowledge the effective ways to respond to global competition, fail to gain more market share and there is also a risk of losing their occupied market share. It is important for companies to respond to competition effectively. By using Porter's five forces model, we can analyze how companies respond to competition more comprehensive.

The purpose of this thesis is to demonstrate some of competition that companies face and analyze how companies respond to competition when operating in e-commerce industry.

In this thesis, we use a case study to analyze two companies' competition strategies so as to develop an understanding of the e-commerce competitive environment and realize the importance of responding to various competitions in e-commerce market. In order to gather the important information, we interview respondents of two Chinese B2C companies. Two B2C companies are: JD Company and Amazon China. JD Company is a domestic company and Amazon China is a multinational company.

This study demonstrates that the companies need to improve their competitiveness to respond to competition such as improving the quality of product, the logistic system, and the after-sale service. In addition, it is better for companies to make the strategies such as low-price strategy and differentiation strategy to respond to competition.

**Key words:** Competition, E-commerce industry, China, Five forces model, B2C Company.

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The authors expect that their thesis will be helpful for companies and readers.

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## 1. Introduction

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*In introduction chapter, we divide it into four parts (Background, Problem Discussion, Purpose & Research Questions and Delimitation). The first part begins with a brief presentation about the global competition. In the second part, we pay our attention on the problem discussion where it demonstrates the importance and the reason why we focus on this field. What's more, the purpose of this research will be referred. In research question part, we will put forward our main research question. Lastly, the delimitation part explains the specific conditions of our research.*

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### 1.1 Background

Nowadays global competition has become more and more rigorous when entrepreneur operates a company (Kuzler, 2012; Simon, 2004). There are a lot of factors to force competition become more and more rigorously for example the similarity of countries is growing in terms of distribution channels, available infrastructure, and marketing approaches (Harvey, 1988).

According to William H. Davidson (1987) Companies, which do not acknowledge the effective ways to respond to global competition fail to gain more market share and there is also a risk of losing their occupied market share. In addition, companies improve companies' competitiveness through responding to global competition such as improving the quality of product, the after-sale service and the enterprise executive force (Piana & Hayes, 2005). According to Rajiv Lal and V. Padmanabhan (1995) a company's managers are able to devise several effective approaches and new ideas for solving competition problem, when facing serious threats from competition.

Companies can effectively respond to competition through some measures such as offering a better product, creating a marketing advantage, prioritizing quality, targeting a niche market, adapting to new trends and so on (Gartner, 1985). Even if a company decides not to respond to competition, gradually the company will realize that the market share is decreasing, and this is because the market share changes with the competition (Shuba, Peter & Frank, 2000). On the other hand, although the global competition can be a threat to companies, it can also improve the companies' competitiveness in an industry (Porter, 1980).

As an entrepreneur, the most important thing is detecting the changes of competition situation in the industry, avoiding threats and seizing opportunity (Selbert, 2003). Any companies must focus on those changes in the industry in order to avoid the risk (Lumpkin & Dess, 2001). In particular, any negligence and slowness of response to the competition in the industry can cause serious and even destructive blow to the company.

With the rapid development of science and technology, the Internet has become an important trading channel in international trade (Afuah, 2001; Stephen, 2004). Now people have become increasingly aware of the importance of e-commerce. E-commerce which full name is Electronic commerce is a kind of industry where buying and selling the product or service through Internet system or other computer network (Fellenstein & Wood, 2000). The emergence of the e-commerce causes huge swings in the global market. Different from other industries, e-commerce is not limited by the Geographical boundaries. E-commerce covers a wide range, and generally it can be divided into four parts approximately: B2B (Business-to-Business), B2C (Business-to-Consumer), C2C (Consumer-to-Consumer) and B2G (Business-to-Government) (Visser & Lanzendorf, 2004).

Although some difficulties and barriers in e-commerce market such as e-commerce barriers which include the unavailability of credit cards and slow Internet diffusion, the e-commerce market still pay central attention to companies which come from all over the world (Nir, 2007).

The experience from developed countries markets has had a significant impact on e-commerce market. The e-commerce industry in developed countries' markets is more mature than developing countries' markets (BBC News, 2003). However, with the development of science and technology, the developing countries such as China have received more and more attention in e-commerce market and barriers in developing countries become less (Sagren & Mike, 2004).

According to research in the area of competition strategy, such as Porter (1998), the most important thing for companies is how to respond to competition in an industry especially in e-commerce industry. The number of customers in e-commerce industry has an amazing growth and more and more new entrants enter in the e-commerce industry. In order to be successful in e-commerce markets, it is momentous for companies to have a nimble response to various competition (Wang & Ren, 2012).

## **1.2 Problem discussion**

As we have mentioned before, nowadays, global competition become more and more fiercely, and compared with other industries, competition in e-commerce industry is more intense. So it is meaningful for us to analyze how companies respond to competition effectively (Russell & William, 2004). Research indicates that effective response to the competition can improve companies' competitiveness and decrease the risk in losing market share (Riita, Eric & Henning, 2012). It is beneficial to learn from other companies that have strong competitiveness to respond to competition so that companies who are considering operating can easily handle how to respond to competition (Chen, 1997). We can have a clear cognition about how companies respond to competition by using Porter's five force model. Factors that need to be taken in consideration are buyers, suppliers, potential entrants, substitutes and

industry competitors because these factors are necessary for companies to analyze how to respond to competition (Porter, 2008). This study is addressing these factors.

### **1.3 Purpose & Research question**

The main purpose of this thesis is to demonstrate some of competition that companies face and analyze how companies respond to competition when operating in an industry.

Based on the above discussion the research question is as follows:

How do companies in B2C respond to competition when operating in an industry?

### **1.4 Delimitation**

This dissertation concerns the e-commerce market. The reason for choosing the e-commerce market was because many scholars and institutions, such as Johnston (2011), AZOX (2011) and Peszynski (2003), demonstrate that e-commerce market is one of the most important markets in the world. E-commerce plays a central role in global economy. What's more, e-commerce market grows rapidly in recent years. E-commerce market is paid central attention by companies from all over the world. In our study we focus on the Chinese e-commerce market, because E-commerce environment in China become more and more suitable for companies to develop the e-commerce business. Chinese E-commerce market attracts many foreign investors, IT entrepreneurs and venture capitalists (Cavender, 2010).

According to China Internet Network Information Center (CNNIC, 2012), China market that has 513 million Internet users has become one of the largest e-commerce markets in the world. "According to the calculation of Boston Consulting Group (BCG), every year for the foreseeable future another 30 million Chinese will go online to shop for the first time. By 2015 they will each be spending \$1,000 a year--about what Americans spend online now. BCG calculates that e-commerce could rise from 3.3% of China's retail sales today to 7.4% by 2015--a jump that took a decade in America" (The Economist, 2012).

## 2. Literature review

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*In the previous research part, previous research is being raised regarding this study's subject. The competitive strategy and competitive advantage in e-commerce industry is presented. The chapter ends with the literature gap that was found of the subject.*

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Porter (1998) composed a book named competitive strategy, where he wrote about competitive environment and competitive strategy in an industry. Porter (1998) writes “competitive strategy, and its core disciplines of industry analysis, competitor analysis, and strategic positioning, is now an accepted part of management practice” (Porter, 1998, p9). This book provides a clear direction and a dynamic for entrepreneurs to respond to competition and strategy making. It implies how companies analyze the industrial competitive environment and how they respond to the competition to outperform their rivals in an industry.

Other previous researchers, such as Zuckerman (2007), Gunasekaran, Lai & Cheng (2008) refer to competitive strategy and competitive advantage. The previous research shows the following context about the competitive advantage and competitive strategy and how companies respond to the competitive effectively.

### 2.1 Competitive strategy and competitive advantages

One of the most outstanding authorities in this area, Michael Porter, has given a clear definition about competitive strategy in this way (Zuckerman, 2007): Competition plays a core role in the success or failure of the firm. Competition determines whether the firm's activities are appropriate or not, which can be helpful to its performance, such as innovation, culture cohesion, or very good to realize. Competitive strategy is helpful to search for reasonable competitive position in relation to their competitors (Porter, 1985). “Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.” (Zuckerman, 2007, p. 66)

Gunasekaran, Lai & Cheng (2008) think that supply chain management (SCM) is an important operation strategy for improving organizational competitiveness. Effective SCM is flexible and responsive. SCM composes the whole exchange of information and transport of products between supplier and customers, including manufacturers, distributors, retailers and other companies in the supply chain. Effectively using SCM can coordinate resources and optimize activities to get competitive advantages. Companies develop agile supply chains to sell their product to market faster at a minimum cost. Youssef (1994, p. 4-6) described agile manufacturing as, “A Manufacturing system with extraordinary capability to meet the rapidly changing needs of the marketplace. It is a System which can shift rapidly amongst product models or between product lines, ideally in real-time response to customer demands.” Agile supply chain needs companies to have capability to change strategy quickly and

effectively in the markets, driven by customer-designed products and service (Gunasekaran, 1998). However, agility supply chain should focus on the cost and the quality of products and services rather than only pay attention to responsiveness and flexibility.

Several scholars such as Winton (1999) & Bengtsson (2000) and Kock (2000) indicates that successful companies use some effective techniques to respond to competition. The first is specializing in one specific area of your industry. There are a lot of companies survive in one market. One of the reasons why they can survive is that they cater to specific budgets or amenities. The second is adaption. Adaption is an important factor to influence the ability to respond to competition because if a company can adapt in different markets, it will have a swift response to the competition. The third one is cooperated with other companies. Sometimes two competitors both compete and cooperate with each other. It is beneficial for companies to cooperate with other companies in order to respond to competition. Companies can help with each other by sharing the information, technology and sources.

Porter (1980) mentions that the strongest competitiveness determines the industry's profitability, and the formulation of strategy plays greatest importance to a firm or industry. Formulation of competitive strategy can change the competitive position of a company in an industry; such as appropriate competitive strategy can make the companies to prevent potential competitors from threatening their own products. For example, even a company with a strong position in an industry unthreatened by potential entrants will earn low returns if it faces a superior or a lower-cost substitute product. In such a situation, coping with the substitute product becomes the first strategic priority (Porter, 1980).

## **2.2 Research gap in the literature**

Although there are many previous research made regarding our topic such as Gunasekaran, Lai & Cheng (2008)'s using supply chain management to improve competition, there are not many studies done that analyzing how companies respond to competition in e-commerce industry using Porter's five forces model. For example Siaw & Yu (2004) used five forces model to analyze the competition in the banking industry. The five forces model is used as a tool for entrepreneurs to fulfill a career-long desire to affect an industry in the real world (Porter, 1980). Compared with the other research, five forces analysis are more comprehensive. According to this model, companies can evaluate the available opportunities, the threats from present competitors and potential competitors, the availability of substitute products in the industry, and the bargaining power of the customers and suppliers. In addition, e-commerce industry is a rapid developing industry and the competition in e-commerce industry is more fiercely than other industries (Bakos, et al, 2005). So it is important to use Five Forces model because the model can help us to analyze the

industrial competition deeply and comprehensively. Entrepreneurs can respond to competition effectively and opportunely by using the analysis.

### 3. Theory

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*This part presents Porter's five forces model, which is this study's conceptual framework and it considers competitive strategy aspect. First the buyer power factor is presented, followed by supplier power, industry competitors, threat of new entrants and threat of substitute's aspects.*

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#### 3.1 Five forces model

Porter's five forces model which refers to several different factors in a model so as to analyze the basic competition in an industry (Kara Giannopoulos & Georgopoulos, 2004). Five forces model determines the five main sources of the competition, which are buyer and supplier power, industry competitors, the threat of entrants and the threat of substitutes (Porter, 1989; 1996; Kara Giannopoulos, Georgopoulos & Nikolopoulos, 2005).

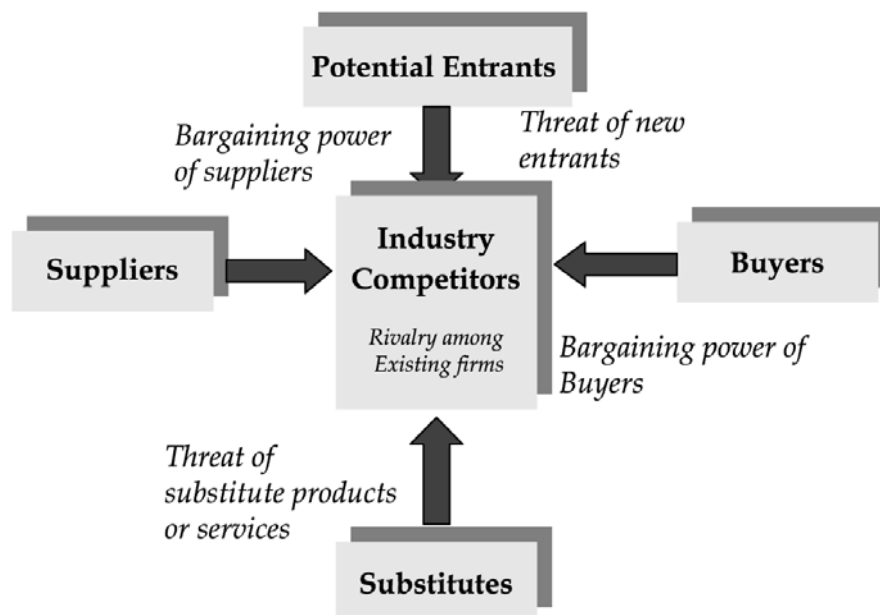


Figure 1 Porter's five forces model (Karagiannopoulos, Georgopoulos & Nikolopoulos, 2005. p68)

##### 3.1.1 Buyer power

The buyer power means that buyers always want to drive down the price of the product and need good service requirements to improve the quality of products and services in the industry (Yao, 2010). "Buyers can threaten the industry by bargaining down prices or raising the costs by demanding better quality suppliers" (Lee, Kim & Park, 2011, p. 1784). Power of buyers is the mirror image of power of suppliers (Hill & Jones, 2004). "Buyer power is one of the two horizontal forces that influence the appropriation of the value created by an industry. The most important factors of buyer

power are size and the concentration of customers.” (Kara Giannopoulos, Georgopoulos & Nikolopoulos, 2005, p. 69).

### 3.1.2 Supplier power

The power of the supplier is a mirror of buyer power (Kara Giannopoulos, Georgopoulos & Nikolopoulos, 2005). The supplier is mainly through its input elements to improve price and reduce the ability of unit value quality, to influence the industry existing companies' profit ability (Porter, 1998, 2001). The strength of the supplier mainly depends on what they have to offer to the purchaser (Porter, 1998, 2001). When the supplier provides the value input elements to constitute the buyer of the total cost of the products, and a larger percentage of buyers' process is very important. The supplier for the potential buyers bargaining power is greatly enhanced. *“The bargaining power of suppliers refers to the ability of suppliers to raise prices or reduce quality of inputs”* (Lee, Kim & Park, 2011, p. 1784). Thus, powerful suppliers are a threat (Porter, 1980). Generally speaking, if meet the conditions as following, the supplier group will have more bargaining power of the supplier:

- A. The supplier industry that has relatively stable position of market has many buyers of product. Thus, each individual buyer cannot become the supplier of the important customer.
- B. The suppliers' products of each company have their own certain characteristics. Thus, the buyer is difficult to transform, because the conversion cost is too high. It is difficult to find alternatives that could compete with the suppliers' products.
- C. The supplier can easily implement forward joint or integration, the buyer is very difficult to combine or integration.

### 3.1.3 Industry competitors

This force explains that an industry has intensive competition between existing companies (Kara Giannopoulos, Georgopoulos & Nikolopoulos, 2005). In an industry, most benefits of companies are closely related to each other. The goal of competitive of each company is in order to improve more competitive advantage in the industry (Porter, 1989, 1996). Therefore, the companies will conflict with each other in order to increase competitive advantage or market share. These conflicts form the intensity competition among the companies. The competition among companies usually generates in the price, advertisement, introduction of products and after-sale service. Lee, Kim & Park stated that the intensity of competition depends on some factors such as competitive structure in industry, industry demand and differentiation among companies (Lee, Kim & Park, 2011). Competition will be high when meet the conditions as following:

A: There are many companies with similar firm size.

B: Companies have similar competitive strategies.

C: The differentiation between companies and their products are not much. Then it will lead to product price competition.

D: The market growth rates are low. It shows that it is impossible for one company to occupied most of market share in an industry.

### 3.1.4 Threat of new entrants

Both potential and existing companies will influence profitability in an industry. The entry barrier is the key factor to analyze the threat of new entrants (Kara Giannopoulos, Georgopoulos & Nikolopoulos, 2005). New entrants will not only bring new producing ability and new resource, but also occupy the market share, which belongs to other existing companies (Dagmar R, 2001). So it will lead to the conflict of production materials and decrease the companies' profit level. The levels of the threat of new entrants depend on two kinds of factor. One is the new entry barrier. The other is the reflection of existing companies to new entrants (Dagmar R, 2001). "The threat of new entrants is a function of the height of entry barriers. The higher the entry barriers are, the weaker is this competitive force" (Lee, Kim & Park, 2011, p. 1184). "*The sources of the entry barriers include economies of scale, brand loyalty, cost advantages, customer switching costs, initial capital requirement regulation, etc.*" (Lee, Kim & Park, 2011, p. 1184). The main entry barriers include scale economy, product differences, capital demand, sales channels development, government behavior and policy and so on. Some barriers are hard to break, using coping and imitating way. Whether a new company will enter into an industry or not depends on the potential profit, expense and the risk of being a new entrant (Porter, 1989, 1996).

### 3.1.5 Threat of substitutes

The substitute products form a threat when a product's demand is influenced by the price change of a substitute product. The more substitute products exist, the more alternative customers have and then the demand of products and the price of products will become more elastic (Kara Giannopoulos, Georgopoulos & Nikolopoulos, 2005). "*Lee, Kim & Park indicate "the degree of the threat of substitute products and services is determined by the number and closeness of substitutes as well as existence of other technologies"*" (Lee, Kim & Park, 2011, p. 1784). The main factors that influence the threat of substitute products are that:

A: The price competition of substitute: the existing price of products and profit potential is restricted by the substitute.

B: The switching costs of buyer: The competition of substitute depends on the switching costs of buyer. The low price of substitute and the good quality of substitute decrease switching costs of buyer, which increase the competition of substitute.

C: Number of substitute products in the market.

### **3.1.6 Contemporary relevance between Porter's Five Forces**

With the five forces, Porter demonstrates the most important and most influencing forces to the companies' profitability and existence (Dobbs, 2012). The five forces are used to analyze competition that is related to external factors from the industrial environment. Companies' managers can use five forces model to compare the influence of forces on their companies with other competitors. Through analyzing their own and competitors' five forces, companies' managers can make strategy to improve their own position, such as the differentiation of products or new positioning. Five forces also offer the details on how companies prevent the new entrants as well as the details on how to cope with the substitute products (Kara Giannopoulos, Georgopoulos & Nikolopoulos, 2005). Bargaining power of supplier and buyer is very important to the companies, which refer to the companies' cost and profitability. If the competitors' bargaining power is strong in the industry, our bargaining power will decrease relatively because bargaining power of the companies is changing with the bargaining power of industry competitors. (Porter, 1979)

## 4. Method

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*This chapter begins with research approach, research design and research process, the selection of sample and data collection is presented. Subsequently this studies data analysis, validity and reliability is demonstrated.*

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### 4.1 Research approach

Generally speaking, there are two methods that can be used for scientific research: qualitative and quantitative research (Bryman & Bell, 2007). Qualitative research can be constructed as a research strategy and it emphasized data analysis and stressed the relationship between theory and research. Qualitative approaches include an understanding and explain the significance of the social phenomenon. It allows us to choose more in-depth and detailed research questions (Patton, 1990). Therefore, qualitative research reveals and explains the behavior. In order to analyze these works, the human is the main source of data in qualitative research; therefore, the interview is a very popular method of data collection (Merriam, 1998).

In this research, the empirical data of study is about B2C e-commerce industry in China. The aim of our research is to analyze how companies respond to competition in an industry and how to improve competitiveness in order to succeed in e-commerce industry. Thus, the qualitative method was chosen in order to get a more detailed and deep understanding about B2C e-commerce companies.

### 4.2 Research design

The research design is considered to be a blueprint for the study of the development process (Yin, 2003). It describes how to conduct the analysis, including the methods and procedures needed to obtain the desired data. In addition, research design could control the study progress and establish an effective research direction. Furthermore, there are also some constraints such as limiting time and money, which will be displayed in the research design (Ghauri & Grønhaug, 2005).

According to Yin (1994), It has been seen that the case study design is considered to be the most suitable for the study of empirical analysis project. The case study of its nature can be divided into explanatory, exploratory and descriptive study. Case studies provide researchers the opportunity to challenge or confirm the phenomenon, as well as their own experience and knowledge (Gummesson, 1998). A case study is an empirical experience that asked to investigate contemporary phenomenon and the context boundaries between phenomenon and competitions in real life.

In this thesis, we only chose two e-commerce companies as the main research object and research design so that we could get a deeper and more detailed study in our cases rather than based on a broad concept. This method allows us better to compare or find

the similarities and differences through the interview and investigation in two companies. It is better for us to understand their situation and also increase research results (Bryman & Bell, 2007).

### **4.3 Research process**

The research process is based on our research purpose and research problem. Based on the analysis of the process, it is better to guide us answer the research question. The process of research includes the following steps:

- 1) According to our research purpose and question discussion, we develop our research question, which is more concentrate on the competition that companies have to meet in an industry. In addition, we chose the qualitative approach as our research method, which is more suitable and reasonable due to our research purpose.
- 2) We collected an extensive review of previous researches about the competition in an industry as we mentioned before. Then, we found Porter's five forces model was more suitable for us, we put it as the basis of the analytical framework.
- 3) We have to choose appropriate samples as the research object to examine the practicability of it. Due to our research was focus on the Chinese E-commerce industry. The selected samples should be important and big in Chinese E-commerce industry, which we could learn from theirs pattern or behaviors in e-commerce industry in China and give us a good example to study.
- 4) Then, the next stage is data collection and data analysis. We chose two B2C e-commerce companies. One is JD Company. The other one is Amazon China. We conducted two semi-structured interviews. We also collected a large number of high-quality secondary data to enrich the primary data. All the data was classified into each part of our theoretical model. More details of the collection and analysis of relevant data will be given in the following section.

### **4.4 Data collection**

In general, data collection can be distinguished between primary and secondary data. The former one is directly obtained by knowledgeable individuals while secondary data originates from already published research conducted by third parties (Bryman & Bell, 2007).

#### **4.4.1 Sample selection**

Sampling is one of the important steps of the researchers in the quantitative and qualitative research (Bryman & Bell, 2007). The main purpose of this research is to analyze how companies respond to competition in e-commerce industry. We only

chose two cases of e-commerce companies. Therefore, the choice of sample is very important and should be learnt from their pattern or behaviors in e-commerce industry in China, which could give us a good example to study. In addition, due to the review of qualitative methods are too subjective and difficult to replicate, the choice of respondents is based on the principles of research that should be to reduce the subjective influence on our result (Bryman & Bell, 2007).

In order to be able to make our data more convincing, the number of our sample, the sample must be representative of Chinese e-commerce industry (Bryman & Bell, 2007). According to our study, the selection criteria of company are as follows:

- The company is in the Chinese E-commerce industry, especially in B2C market;
- The company in Chinese e-commerce industry is representative, and the company's development and operation is relatively good;
- The company has its own normal and effective operation mode and a certain brand influence;
- The company expands their existing market, has a certain size and strength.

Thus, based on the above criteria, we chose the two companies as follows:

**JD Company** is the largest integrated online network of retailers, is the most popular consumer e-commerce and one of the most influential e-commerce website. (JD Company HP, 2012). **Amazon China** is a famous B2C e-commerce company in China, formerly known as Joyo. (Amazon China HP, 2012)

The reason for choosing the selected companies was that both of them are in B2C industry, and they are well known and big enough in Chinese e-commerce industry. They were typical and representative examples for us to study. We only chose two e-commerce companies as the main research object and research design so that we could get a deeper and more detailed investigation in our cases.

#### 4.4.2 Secondary data

According to Bryman and Bell (2007), secondary data collected for another purpose other than by the researchers, on such occasions. Secondary data, however, tend to be of good quality, so it is used for another purpose than the main reason. In our thesis, we mainly use the semi-structured interview as our primary resource so as to acquire the necessary information. But secondary data was also demanded to use, which is mainly from the company's annual report, the official website online, or articles on this topic and so on.

### 4.4.3 Primary data

A case study method is inseparably linked to the collection of the primary data, because the scope of it is consequently to do this research project (Yin, 2012). In practice, there are a variety of possible ways to collect primary data. Such as direct observations, annual report, documents (e.g. newspaper articles, letters, e-mails, reports), participant observation and qualitative interviews.

As a result, qualitative interviews to obtain relevant data for this research study, further explanation are limited to the main data source. The qualitative interviews unlike the quantitative follow strict and structured interview at the facts behind the guidelines. Qualitative interviews were more structured and a lot of interest in the details of the candidates' point of view is given. In addition, qualitative interviews choose to leave the previously defined guidelines to follow commitment and unexpected path (Bryman & Bell, 2007).

There are three major kinds of qualitative interviews, which are structured, unstructured and semi-structured interviews. In this thesis, we mainly use the semi-structured interview as our research method. In the semi-structured interview, the interviewer has a pre-defined interview guide that covers a specific topic. These questions do not have to ask in full accordance with the interview guide, the interviewer can follow a different direction in order to get a better understanding of the whole subject (Bryman & Bell, 2007). According to Churchill and Iacobucci (2005) the questions differ from interview to interview when using this way. By giving the representatives capability to communicate more freely, this was of importance for them. The purpose of this kind of interview is to reveal the case study. Participants built and evaluated specific circumstances reality rather than predefined specific questions. In this study the cost was a problem because the two companies' geographical location was far away from Sweden, which both of them are in China. The free Internet program (Skype) was used for the telephone interview or video interview. We contacted two respondents whom we chose from the selected companies, which one is the technology manager in Amazon China, Jun Wang. And the respondent from JD Company is the marketing manager, Mingyuan Wu. Because of the interview objects are both Chinese, the language is Chinese that we think it is more convenient for using our mother language to communicate with each other. The interview with JD Company lasted for 42 minutes and the interview with Amazon China lasted for about 58 minutes. In the next part of empirical data, we will give detail content about the interview result and finding.

### 4.5 Data analysis

After sampling, we conducted two semi-structured interviews to collect data. Then, the information that acquired from interviewees would be organized. All interviews were recorded, which was listened repeatedly to ensure that no valuable information

was lost. We summarized the interviews and classified the data into several parts. Moreover, some key factors should also be discovered in the process of summarizing data. In addition, we looked at the secondary data to complement some crucial events that interviewees mentioned. During the interviews, the topic was related to the competition that the companies have to respond in e-commerce industry. Finally, all these data was directly abstracted from the primary data and the secondary data. We would not add any personal opinions during the process of data and combining the primary and the secondary data.

## **4.6 Reliability and Validity**

In qualitative research, many researchers advised that we should provide for the establishment of qualitative research and quality assessment, which provides an alternative to the validity and reliability of the conditions and modalities (Bryman & Bell, 2007).

### **4.6.1 Validity**

According to Christensen et al (2001), Validity is judgment of a measurement for how the study influences the reality. And there are three types of validity: Construct validity, is mainly used in quantitative research. Internal validity is about to establish a causal relationship between two or more variables. The third type of validity is external validity, this is about whether the findings from the study can be generalized or not (Bryman, 2002; Churchill & Iacobucci, 2005; Yin, 2009). In our thesis, the author gathered the information from the answers of the respondents' interview and also got from previous research done by famous and authoritative scholars. In addition, the content of interview was all recorded with high quality and translated into English.

### **4.6.2 Reliability**

Reliability is about whether the results can be repeated or not. For example, the data should be collected to produce the same results (Bremen, 2002, Yin, 2009). Reliability objective is to minimize the error of the study (Yin, 2009). Participation in this study is well documented, including every step, from the outset, in the University Library's search engine to summon the literature search, to interview the company. This is a general method based on Yin (2009), close to the reliability issues. In addition, the case presented research methods increase the reliability of the present study, because it shows a more detailed structure of the process of the research report.

In order to guarantee the reliability of the interview, to not neglect any information from the respondents due to noise or other factors, we adopt the way of recording an interview in all the interviews. There are two tape recorders in it. All records also were transcribed, this means verbal dialogue into written text (Kvale & Brinkmann, 2009). Those researchers that transcribe their own interviews already have a good

picture of the conversation, which makes it easier to understand the conversation (Kvale & Brinkmann, 2009). In order to get the high reliability of the study, the transcribed documents from interviews was sent to the respondents, so that they could give feedback and correct if there is anything unclear or misunderstood. When respondents answered a confirmation of accuracy, the analysis began.

## 5. Empirical data

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*This part starts with a presentation of the JD Company and the information obtained from the interview, and then Amazon China is presented.*

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### 5.1 JD Company

JD Company was founded in 2004. Its full name is JD Online Shopping Mall. JD.com is one of the largest online shopping mall in China ([www.jd.com](http://www.jd.com)). Currently JD has 6 subsidiaries and over 20 thousand employees all over the world. The headquarters of JD is in Beijing. The first level logistics centers of JD are in Beijing, Shanghai, Guangzhou, Chengdu and Wuhan, and the second level logistics centers of JD are in Shenyang, Jinan, Xian, Nanjing, Hangzhou, and Fuzhou. JD has been established in north China, east China, south China, southwest, central China, northeast six logistics center, at the same time, more than 360 cities in the country to establish the core urban distribution station ([www.jd.com](http://www.jd.com)).

JD is one of the largest online retailers, is the most popular B2C Company and one of the most influential e-commerce website in China. It supplies home appliances, digital products, computer, daily supplies, apparel, mother and baby products, books, and food. It covers 12 categories, tens of thousands of brands, and countless kinds of high-quality goods ([www.jd.com](http://www.jd.com)).

According to Chinese website statistics (JD help, 2012):

- ✚ *JD currently has almost 51 million registered users and 8000 suppliers.*
- ✚ *The average daily page views (PVs) exceed 100 million.*
- ✚ *The average daily unique visitors (UVs) exceed 10 million.*
- ✚ *The number of orders per day exceeds 500,000.*



Figure 2 The logo of JD Company

Source: [www. Jd.com](http://www.Jd.com).

## **5.1.1 Competition and Competitiveness: JD Company**

### **5.1.1.1 Buyer power**

Mingyuan Wu said buyers always want to drive down the price of the product and need good service requirements to improve the quality of products and services in the industry. Low price is the main competitive method of B2C companies, because consumers' conversion cost is low. In addition, online shopping is not the main consumption model to consumers. Mingyuan Wu suggested that B2C companies have to decrease the price of products in order to get more market share. Therefore, the consumers' bargaining power is relatively strong.

One of the biggest competitiveness is that JD has low price. However, with the development of e-commerce platform, increasing of B2C website, and more and more categories of products, the differentiation of products will decrease. Nowadays, JD provides the same products as other companies. If the price of product is similar, JD will lose the competitive advantage. In this kind of situation, consumers' bargaining power will be strong. In order to respond to competition, JD Company meet customers' need and reduce the price of products, Mingyuan Wu indicated.

### **5.1.1.2 Supplier power**

Although B2C e-commerce industry is a booming industry, the scale of B2C e-commerce is low. So it is hard to have strong bargaining power to large suppliers such as Unilever, Lenovo. In particular, suppliers are gradually involving e-commerce business, and begin to build the self-employed sector of e-commerce business. According to Mingyuan Wu's experience, if suppliers can explore their suitable e-commerce business, they will decrease the dependence on B2C companies, and then the bargaining power of B2C companies will become low.

Nowadays, the main suppliers of JD Company are large traditional manufacturing companies such as Lenovo, Canon, and Philips. Due to great sales ability of JD Companies, supplier is willing to provide preferential products. However, due to the increasing number of online retailers, the bargaining power of suppliers is increasing. It is an unfavourable factor to JD Companies' sales, because of JD's low-price strategy, Mingyuan Wu said.

### 5.1.1.3 Industry competitors

The industry competitors' force is one of the major factors of influencing competition. In the industry, most of companies' profitability is closely linked with each other. The goal of them is gaining more benefit and competitive advantage compared with their rivals. According to Mingyuan Wu, JD Company as a B2C e-commerce company focusing on 3C electronic products (Computer, Communication and Consumer Electronics) is now transformed into comprehensive online shopping mall gradually. The industry competitors are listed:

Category	Main industry competitors	The advantage of JD
Online retailers which focus on 3C electronic products	GOME; SUNING.com; Newegg	The categories of products are richer.
Comprehensive online shopping mall	Tmall.com; Dangdang.com; Amazon.com	JD's products has cheaper price, and the logistics distribution system is more perfect.
Group-buying websites	Meituan.com; Lashou.com; Manzuo.com	The brand of JD is more influential and the number of target customer is more.

Table 1 The industry competitors of JD Company

Source: Access from <http://www.doc88.com/p-890907216679.html>

According to the table 1, we can see that there are 3 categories of companies in the industry that are the industry competitors of JD Company. The first category is 3C (Online retailers which focus on 3C electronic products). For example, GOME is one of the biggest 3C companies in China. Mingyuan Wu states that the advantage of JD is that JD has more categories of products, meanwhile GOME only focus on 3C electronic products. The second category is comprehensive online shopping mall. For example, Tmall.com is the largest B2C companies in China that occupy 41.5% B2C market share in China (www.eguan.cn, 2012). The advantage of JD is that JD's products has cheaper price, and the logistics distribution system is more perfect. But the weakness of JD is that Tmall.com has more brand influence. The third category is group-buying websites. "Group buying offers products and services at significantly reduced prices on the condition that a minimum number of buyers would make the purchase" (Wikipedia, 2013). Group-buying websites are relatively small scale. But the number of group-buying websites is large. It still has strong competitive threat to JD. The advantage of JD is that the brand of JD is more influential and the number of target customer is more. In order to respond to competition in e-commerce industry, JD Company use low-price strategy in long term to gain more market share and undermine competitors. Though low-price strategy, JD Company gain more market share successfully. Price war (2012) between JD Company and Suning.Com reflects

the way that JD Company responds to its competitors. Through price war, the share price of Suning.com fell by more than 8% on the day.

#### **5.1.1.4 Threat of new entrants**

The levels of the threat of new entrants depend on two kinds of factors: one is the new entry barrier; the other one is the response of existing companies to new entrants (Dagmar R, 2001).

There are three main types of potential competitors. Mingyuan Wu mentioned that the first is the large traditional companies such as Lenovo, Li Ning and Haier. They preliminary develop e-commerce business, and build their own online sales platform, which is a great threat to JD. Secondly, portals, search engines, community website take advantage of platforms to involve in e-commerce industry. For example, Baidu.com officially announced that it would enter into the e-commerce industry on October 17, 2007. Baidu.com is the largest search engines website in China. Baidu.com has a strong brand reputation, search engine and online community as a new entrant. So it is the big threat to JD. Finally, the number of newborn e-commerce websites is increasing rapidly and these new forces will intensify market competition. Facing with the threat of new entrants, the strategy of JD Company is that increasing the categories of products and taking advantage of the diversification of products to respond to competition. What's more, it is the reason why JD Company as a B2C e-commerce company focusing on 3C electronic products is now transformed into comprehensive online shopping mall gradually.

#### **5.1.1.5 Threat of substitutes**

Mingyuan Wu thinks that compared with online dealing, traditional dealing methods are still the main dealing methods to consumers. The advantage of traditional dealing is that traditional dealing is safer than online dealing, and consumers can decrease the risk of differentiation of products, because of the differentiation between the pictures of products online and real products.

Mingyuan Wu said during the interview: TV shopping has been enduring thrive in recent years due to the strong traditional media advertising effects as well as the powerful support of group companies and the big scale of operation. TV direct sales and online shopping is an indirect way to sell products, and TV shopping using telephone as ordering tools. It is also convenient for consumer to buy products. In addition, the TV shopping has perfect and safe system of funds. Therefore, the TV shopping has a stable group of customers. Facing with the threat of substitutes, JD Company takes advantage of lower price because of online-sales saving a lot of cost, perfect logistics system, and good after-sales service to respond to competition.

## 5.2 Amazon China

Amazon.com was founded in 1994 under the name of Amazon.com by Jeff Bezos. Amazon.com is an American multinational electronic commerce company with headquarters in Seattle, Washington, United States. It is the world's largest online retailer ([www.amazon.com](http://www.amazon.com)). Currently Amazon.com has 10 separate retail websites and 88,400 employees all over the world. Amazon.com has separate retail websites in United States, Canada, United Kingdom, France, Germany, Italy, Spain, Brazil, Japan, and China ([www.amazon.com](http://www.amazon.com)).

Amazon.com (Nasdaq: AMZN) is one of Fortune 500 companies. Currently Amazon.com has become the world's largest online retailer by varieties of goods and they are the second largest Internet companies. Having a good relationship among all; company, consumer and supplier, which is the Amazon.com policy ([www.amazon.com](http://www.amazon.com)).

Amazon China is a part of Amazon.com global network and offers the same services and quality as all the other Amazon.com separate retail websites. Amazon China formerly Joyo.com and Joyo Amazon, is a Chinese shopping website located in Beijing. Amazon.com acquired it in 2004 ([www.amazon.cn](http://www.amazon.cn)). Amazon China is one of the largest e-commerce companies in China. Their business concept is based on the customer's need and offers relatively lower prices, quality goods. Their goal is to build a reliable environment of online shopping ([www.amazon.cn](http://www.amazon.cn)).

Amazon China is a B2C e-commerce website. They have combined the world's leading online retail expertise of Amazon.com with deep market experience of Joyo to further enhance the customer experience, and promote the growth of e-commerce in China. Their focus is on e-commerce customers, which provide consumers with books, music, film, television, digital phone, home appliances, home, toys, health, beauty make-up, watches, jewelry, clothing bags, footwear, sports, food, mother-to-child, outdoor and leisure products (Jun Wang, Amazon China).



Figure 3 The logo of Amazon China

Source: [www.amazon.cn](http://www.amazon.cn).

## 5.2.1 Competition and competitiveness: Amazon China

### 5.2.1.1 Buyer power

According to Jun Wang, the bargaining power of buyer is still very strong. One of the biggest competitions that Amazon China had to face in China was the price and differentiation of product. The competition in e-commerce market is very fierce. Especially in the B2C industry, this is something that is very important for the company. With the development of e-commerce, consumers can get more and more kind of ways of shopping and the shopping website.

Facing these competition and pressure, Jun Wang said that we must start with a low price to attract more consumers, increase the market share. However it was not so easy to reach this step, Jun Wang said. It took lot of effort at the beginning to try to meet consumers' need or interest and it also requires some improvement for gaining an even better result (Jun Wang, Amazon China).

One of the competitiveness in Amazon China is the price and the big growth potential. Price is still the main way of competition in e-commerce industry, mainly because the switching cost for consumer from one company to another one is low. Online shopping is not main consumers' consumption pattern. The B2C industry is still at the beginning stage, which its potential is very huge. In order to gain more market share, Amazon China will compete to reduce the price, which still have certain advantages compared with competitors. So the bargaining power of consumers is still relatively high. China also has a massive population of consumer, which brings a large group of potential consumer groups for the company according to Jun Wang.

### 5.2.1.2 Supplier power

The supplier power in Amazon China brought some competitiveness for the company in e-commerce industry. Amazo.com is an international enterprise and they have many suppliers, which is fairly stable. And they can buy goods from all over the world. Amazon China also can buy goods from South Korea, Japan and other countries for purchasing fashion clothing and electronic products, so there is a broader supply market for Amazon China. With the rapidly development of e-commerce market, many suppliers will be more and more like to cooperate with Amazon in order to expand their market sales. Because customers pay attention to the quality of the products and services, Amazon China also has high requirements about the quality of goods that is brought from supplier. World famous companies such as Apple.com have chosen Amazon.com as their appointed online retailers. And they also have many other suppliers, such as Unilever.com, Lenovo.com and so on. So the bargaining power of supplier in Amazon China is not so big (Jun Wang, Amazon China).

Jun Wang stated that the logistics system is a big competition in e-commerce industry in China. The e-commerce industry must rely on the Internet and logistics system. The maintenance of logistics system needs strong information technology as the foundation. So the threshold of e-commerce industry is higher. But now there are a lot of communities and web portals, which are beginning the e-commerce business with the help of powerful consumer group, which also should be pay proper attention to Amazon China.

For the pressure and competition, Amazon China also has their own solutions, Jun Wang said. It is important to set up long-term cooperation relationship with world-renowned manufacturers. And it is a big potential in e-book market. So appropriate to sell e-books firstly, then occupied this part of the market share is very wise and useful (Jun Wang, Amazon China).

### **5.2.1.3 Industry competitors**

The industry competitors are one of the major competitions for Amazon China. To have a good result in this industry, Jun Wang suggested that it is necessary to understand the customers' needs as well as to understand the competitors in same industry and the way that the company operates.

Regarding the competitors of Amazon China, Jun Wang said that the company had some pressure in the industry. One of the most significant pressures is the industry competitor. With the popularity of e-commerce in China, the Internet has greatly promoted the development of the e-commerce industry. Online shopping became a kind of fashion. Dangdang.com, JD Company and Amazon China etc. become the popular web sites among net users. In the field of books and audio-visual, Amazon China behind dangdang.com, ranking the second. In the field of clothing, infant & mom and electronic products, Amazon China met the powerful competitor of others. So Amazon China is facing fierce competition environment in e-commerce industry.

Another competition Jun Wang mentioned is the growth of enterprises in the industry. According to him the number of industry companies is growing rapidly in the Chinese market. Industry growth rate is more than 90%. The industry competition is greatly increasing. Especially under the condition of industry shakeout stage began. A large number of small and medium-sized enterprises had to be eliminated; integration of industry and market segmentation in this phase is complete.

According to these competitions as mentioned above, Amazon China has to adapt themselves to the changing circumstances, Jun Wang said. The first thing is to change the strategy of advertisement. Changing the advertising strategy, which help to enhance the brand influence. The second thing is to strengthen the cooperation with suppliers. Compared with other competitors, guarantee the quality of products, improve the pre-market and after-sales is a very important link. It is also very

important for Amazon China to ask for the consumers' feedback when they sold the goods according to Jun Wang.

#### **5.2.1.4 Threat of new entrants**

When it comes to the threat of new entrants, Jun Wang said that they did not have a lot of the problem of new entrants. Amazon China as a comprehensive e-commerce company, they have their own competitiveness. Their industry barriers are higher and higher, which is very hard for new entrants into this industry. For other companies, no matter financial strength, product category, logistics systems, technology or talent advantages are hard for them to catch up or replace in a short time. In contrast, the differentiation of e-commerce companies will face more threat than comprehensive ones. Especially, the consumer loyalty of comprehensive website is higher than that of professional website (Jun Wang, Amazon China).

Although Amazon China has not many problems from new entrants, there is still some competition. As Jun Wang said before, it also should be pay proper attention for Amazon China that there are a lot of communities and web portals, which are beginning the e-commerce business with the help of powerful consumer group.

Facing these new entrants, Jun Wang said that the one thing is to keep prices low at the same time, ensure quality goods. Online shopping is based on credit and reputation. It had made consumers worry about the quality that the quality of product levels was unevenness. So Amazon China should be more on the quality control. The second thing is to guarantee the picture of the truth and implement a liberal return policy, which could continue to improve their competitiveness for the company.

#### **5.2.1.5 Threat of substitutes**

Regarding the competition of substitutes, Jun Wang said that the substitute of book market is general bookstores and book functions on mobile phones and other digital products. With the development of science and technology, the competition in general bookstores are declining and the competitiveness of the e-book is increasing. So appropriate to sell e-books is also a good measure. Secondly, the substitute of non-book market is general market. General market brings the fun of shopping and the pleasure of shopping. So Amazon China is trying to improve the user experience and more emphasize on customer interaction method, which aims to give different consumers a different experience.

## 6. Analysis

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*In this chapter the case study is compared with previous research and theory model. By examining the empirical data gathered from the interviews and the previous research the analysis was achieved.*

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### 6.1 Buyer power

The buyer power means that buyers always want to drive down the price of the product and need good service requirements to improve the quality of products and services in the industry (Yao, 2010; Porter, 1989, 1996, 1998). Indeed, this was something JD Company's representative said. In the case of JD Company these aspects were one of important things for the company. In order to succeed, it is of great importance to know the consumer's need and what kind of product they really want.

One of the biggest competitions in e-commerce industry in China is the differentiation of products according to JD Company. With the development of e-commerce platform, increasing of B2C website, and more and more categories of products, the differentiation of products will decrease. Lee, Kim & Park (2011) state that, Buyers can threaten the industry by bargaining down prices or raising the costs by demanding better quality. Nowadays, JD Company provides the same products as other companies. If the price of product is similar, JD Company will lose the competitive advantage. In this kind of situation, consumers' bargaining power will strong. Furthermore, Hill and Jones (2004) write that power of buyers is the mirror image of power of suppliers; Amazon China also thought that the bargaining power of buyer is still very strong. The competition in e-commerce market is very fierce. Especially involve in the B2C industry, which is something that is very important for the company. With the development of e-commerce, consumers can get more and more kind of ways of shopping and the shopping website. The cost of consumers' changing is low, which is easier for customers to change the e-commerce companies.

Facing these competition and pressure, according to Amazon China, they quickly develop strategy for the company to respond the competition. They started with a low price to attract more consumers, increase the market share, which is the same as Lee, Kim & Park states (2011) that for being successful, bargaining down prices or raising the costs by demanding better quality is very important. So they would compete to reduce the price. And it still has certain advantages compared with other competitors. However it was not so easy to reach this step. It took lot of effort at the beginning to try to meet consumers' need or interest and it also requires some improvement for gaining an even better result. By contrast, JD Company found that low price is also the main competitive method of B2C companies, which the two companies have the same competitive strategy to cope with competition. Because consumers' conversion cost is low. In addition, online shopping is not the main consumption model to

consumers. So B2C companies have to decrease the price of products in order to get more market share.

For both JD Company and Amazon China, in order to gain market share and improve competitiveness in e-commerce industry, they take advantage of their own competitive strategies. The price is still the main way of competition in e-commerce industry according to Lee, Kim & Park (2011), mainly because the costs of consumers' changing are low. Online shopping is not main consumers' consumption pattern. The B2C industry is still at the beginning stage, which its potential is very huge.

## 6.2 Supplier power

The power of the supplier is a mirror of buyer power (Kara Giannopoulos, Georgopoulos & Nikolopoulos, 2005). According to JD Company, nowadays, the main suppliers of JD Company are large traditional manufacturing companies such as Lenovo, Canon, and Philips. Due to great sales ability of JD Companies, supplier is willing to provide preferential products. As Porter (1980) stated that powerful suppliers are a threat, due to the increasing number of online retailers, the bargaining power of suppliers in JD Company is increasing. It is an unfavourable factor to JD Companies' sales, because of JD Company's low-price strategy. By contrast, World famous companies such as Apple.com have chosen Amazon.com as their appointed online retailers. So the bargaining power of supplier in Amazon China is not so big, which compared to JD Company, it is not a big question for Amazon China to handle the bargaining power of suppliers. However, the logistic system and many other new communities and web portals also gave a lot of competition on Amazon China, which also should be pay proper attention to them.

In order to improve competitiveness and succeed in e-commerce industry, Amazon China began to set up long-term cooperation relationship with world-renowned manufacturers. As Porter (1998, 2001) said that the strength of the supplier mainly depends on what they have to offer to the purchaser. For Amazon China, it is also a good way to let more suppliers build brand stores on Amazon China's website and expand more kinds of goods, which could improve profit margins for the company. And it is a proper and useful way to explore the new market of e-book, which is a new market and has a big potential in Chinese market. So appropriate to sell e-books firstly, then occupied this part of the market share is very wise and useful. Hanwang.com, which sell electricity paper books, have occupied a large proportion of the e-book market share, and also in United States, a lot of selling Kindle has become a trend; In China, because the price of e-books is high, the market share is not big. So there is a big market potential.

### 6.3 Industry competitors

In the case of JD Company the industry competitors is an important factor, which can influence the companies' competitive strategy and competitive advantage. This is due to the reason that companies which don't gain the effective ways to respond to industry competition may be fail to get more market share and has a risk of losing their occupied market share (William H. Davidson, 1987). Also according to Amazon China, it indicated that it is necessary to understand the customers' needs as well as to understand the competitors in same industry and the way that the company operates. Two companies use their own competitive advantage to respond to competition.

From the JD Company point of view, one of the biggest threats for JD Company is the industry competitor. Competition will be high level when the differentiation between companies and their products are not much, and then it will lead to product price competition (Dagmar, R, 2001). JD Company has many kinds of competitors in the e-commerce industry such as 3C companies, comprehensive online shopping mall and group-buying websites. Lee, Kim and Park stated that the intensity of competition depends on some factors such as competitive structure in industry, industry demand and differentiation among companies (Lee, Kim and Park, 2011) There are a lot of competitors in the e-commerce industry such as GOME, and Amazon.com. Each company has its own way to compete, which we already mentioned in empirical data part. Facing the competition, the advantage of JD is that JD Company has more categories of products, cheaper price, more influential brand and more perfect logistics distribution. The weakness of JD Company is that the capital chain may be facing crisis because of the low-price strategy. Also Amazon China has many competitors in the e-commerce industry such as, dangdang.com and JD Company. Facing with competitors, the similar competitive advantage as JD Companies is that Amazon China has rich categories of products, cheap price of products and perfect logistics distribution. The differentiation of competitive advantage is that Amazon China has outstanding software system that includes fast products information retrieval system, E-card service, and Your Amazon Home.

In order to improve competitiveness and succeed in e-commerce industry, E-commerce Company use different competitive strategy to gain competitive advantage. JD Company use low-price strategy in long term to gain more market share and undermine competitors. As Lee, Kim and Park said, the rivals in industry keep a strong threat of profitability (Lee, Kim and Park, 2011). So JD Company uses low-price strategy to gain more market share successfully. Price war (2012) between JD Company and Suning.com reflects the way that JD Company responds to its competitors. Through price war, the share price of Suning.com fell by more than 8% on the day. Although JD Company put Suning.com down, and it reduced a lot of profit due to low-price strategy. On the other hand, Amazon China uses changeable advertisement strategy to promote personalized experience such as E-card service, and Your Amazon Home.

## 6.4 Threat of new entrants

For JD Company, there are three main types of potential competitors for them. The first one is the large traditional company such as Lenovo, Li Ning and Haier. The second one is portals, search engines, community website, which take advantage of platforms to involve in e-commerce industry. For example, Baidu.com had entered into the e-commerce industry on October 17, 2007. Baidu.com has a strong brand reputation, search engine and online community as a new entrant. Dagmar R (2001) states that new entrants will not only lead to new producing ability and new resource, but also occupy the market share, which belongs to other existing companies. So it is the big threat to JD Company. As Kara Giannopoulos, Georgopoulos & Nikolopoulos (2005) mentioned that the entry barrier is the key factor to analyzing the threat of new entrants. An interesting result from Amazon China's study is that even though the threat of new entrants, such as the communities and web portals, is a big competition, the case companies did not complain much about it. As Lee, Kim & Park (2011) write that the threat of new entrants is a function of the height of entry barriers. The higher the entry barriers are, the weaker is this competitive force. So this shows that Amazon China did not have a lot of the problem of new entrants. This is due to that the entry barriers of Amazon China are relatively higher than other competitors. It seems that Amazon China in this study sees more attractiveness in the Chinese market rather than difficulties. For other companies, no matter financial strength, product category, logistics systems, technology or talent advantages are hard for them to catch up or replace in a short time.

As mentioned before, the level of the threat of new entrants depends on two kinds of factor: one is the new entry barrier. The other one is the reaction of existing companies to new entrants (Dagmar R, 2001). Facing with the threat of new entrants, the strategies of JD Company are that increasing the categories of products and taking advantage of the diversification of products to respond to competition. In addition, it is the reason why JD Company as a B2C e-commerce company focusing on 3C electronic products is now transformed into comprehensive online shopping mall gradually. From the case of Amazon China, for potential entrants, the most important measures to do is to keep prices low at the same time, ensure quality goods. Lee, Kim & Park (2001) indicate that the sources of the entry barriers include many kinds of ways. For instance, it is a good way to respond to the competition that keeping prices low at the same time, ensuring quality goods. And online shopping is based on credit and reputation. It had made consumers worry about the quality that the quality of product levels was unevenness. So Amazon China should be more on the quality control. In the other hand, Amazon China should guarantee the picture of the truth and implement a liberal return policy. For most small and medium-sized e-commerce companies, it is only allowed to return the goods when having the quality problems. But in many cases, the size of inappropriate or uncomfortable situation can also occur. These are common and serious problems for consumers. So the beauty and truth of the photos online is very important.

## 6.5 Threat of substitutes

Kara Giannopoulos, Georgopoulos and Nikolopoulos (2005) indicate that the substitute products form a threat when the more substitute products exist, the more alternative customers have, and then the demand of products and the price of products will become more elastic (Kara Giannopoulos, Georgopoulos and Nikolopoulos, 2005). Both two companies in this study have substitutes. The main substitutes of JD Company are TV shopping and large traditional companies. Lee, Kim and Park indicate “the degree of the threat of substitute products and services is determined by the number and closeness of substitutes as well as existence of other technologies (Lee, Kim and Park, 2011).” Traditional dealing methods are still the main dealing methods to consumers. The safer dealing model and more real products are big threat to JD Company and other e-commerce companies. TV shopping also is a threat to JD Company because of the strong traditional media advertising effects as well as the powerful support of group companies and the big scale of operation. Facing with the threat of substitutes, JD Company takes advantage of lower price because of online-sales saving a lot of cost, perfect logistics system, and good after-sales service to respond to competition.

On the other hand, the main substitutes of Amazon China are general bookstores and book function because the book is the main product in Amazon China. The strategies of Amazon China to respond the threat of substitutes are that Amazon China holds the activities about community interaction, invites famous writers to communicate with consumers online and cooperating with large community websites such as Renren.com, Tencent.com, and takes advantage of partners’ huge user groups to increase market share. In addition, cooperating with world famous companies, Amazon China establishes the Online Brand Stores to broaden the categories of products, and improve the profitability.

As Porter said, the main threat of substitute impacting an industry is price competition (Porter, 1998). In e-commerce industry, the threat of substitute is small because of the lower transaction costs, lower inventory cost (Meng, 2012). But it still is a threat to e-commerce companies. It is better for e-commerce companies to improve their own competitiveness such as lower price, better service and more perfect logistics system to succeed in the e-commerce industry.

## 7. Conclusion

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*In this last section the conclusions, regarding competitions and respond to the competitions in an industry, will be presented and the last chapter is about limitations and further research.*

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### 7.1 Conclusion

Regarding the buyer power, one of the biggest competitions in e-commerce industry in China is the differentiation of products according to both JD Company and Amazon China. Because the switching cost for consumer from one company to another one is low, which is easier for customers to change the e-commerce companies, the bargaining power of buyer is still very strong. Facing this competition and pressure, the case companies thought that the price is still the main way of competition in e-commerce industry to gain market share and improve competitiveness in e-commerce industry.

Another competition regarding the supplier power is that the bargaining power of suppliers in JD Company is increasing. This may be due to the increasing number of online retailers. By contrast, World famous companies such as Apple.com have chosen Amazon.com as their appointed online retailers. So the bargaining power of supplier in Amazon China is not so big. In order to improve competitiveness and succeed in e-commerce industry, Amazon China began to set up long-term cooperation relationship with world-renowned manufacturers.

In this study, the rivalry among existing firms is an important factor. For both JD Company and Amazon, they have many kinds of competitors in the e-commerce industry. Facing the competition, the advantage of JD Company is that JD Company has more categories of products, cheaper price, more influential brand and more perfect logistics distribution. Also Amazon China has rich categories of products, cheap price of products and perfect logistics distribution.

For JD Company, there are three main types of potential competitors for them. For instance, Baidu.com has a strong brand reputation, search engine and online community as a new entrant. Facing with the threat of new entrants, the strategies of JD Company are that increasing the categories of products and taking advantage of the diversification of products to respond to competition. However Amazon China did not come across much this kind of problem. This is because the entry barriers of Amazon China are relatively higher than other competitors. For other companies, it is still hard for them to catch up or replace in a short time.

In e-commerce industry, the threat of substitute is still a problem for e-commerce companies. Both two companies in this study have substitutes. The main substitutes

of JD Company are TV shopping and large traditional companies. Facing with the threat of substitutes, JD Company takes advantage of lower price to respond the competition. On the other hand, the main substitutes of Amazon China are general bookstores and book function because the book is the main product in Amazon China. The strategies of Amazon China are that Amazon China holds the activities about community interaction, invites famous writers to communicate with consumers online and cooperating with large community websites.

This study shows that the selected companies, for this study, are generally satisfied and successful when operating in the e-commerce industry in China. Porter's five forces model was used to analyze how companies respond to the competition in e-commerce industry.

## **7.2 Implications**

Although there are many previous researches regarding our topic such as Gunasekaran, Lai & Cheng (2008)'s using supply chain management to respond competition, few studies analyzed how companies respond to competition in e-commerce industry using Porter's five forces model. This study researched five different aspects of competition that companies face in e-commerce industry and how companies respond to competition, which can contribute to the academic implication for other e-commerce companies in the future. Furthermore, the results of this study can help other owners of e-commerce companies obtain knowledge when they decide to go into the e-commerce industry.

## **7.3 Limitation and Further research**

For obtaining a more detailed and comprehensive result regarding analyzing how companies respond to completion in an industry, more research must be conducted. We only chose two companies in e-commerce industry, which is not enough to show the whole e-commerce industry. It would give richer and depletive information if more companies were interviewed in this study.

The respondents that were interviewed were all men, which may influence the operation process. It would be interesting and livelier if it were women instead. Also, it is important that this kind of study should be made from other industries to make a more legitimate result. This study only shows from the B2C e-commerce industry and thereby it cannot be applied in whole industry. In the further research, it is interesting to conduct a study focusing on other industries.

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## Appendix

### Interview guide

The main purpose of this thesis is to analyze how companies respond to competition and how to improve competitiveness in order to succeed in e-commerce industry.

#### ➤ Background information

1. Name:
2. Work Title:
3. How long have you worked there?
4. Why did you choose the JD/Amazon.cn?
5. How many employees are working there?
6. How big is the market share?
7. What kinds of product do you sell?

#### ➤ Questions

1. What kind of target customers does your company focus on?
2. What are the main competitors in your industry?
3. What are the main suppliers of your company?
4. What are the main substitutes of your companies' products?
5. What are the main new entrants in your industry?
6. Compared with other companies, what's your competitive advantage in the industry?
7. How does your company take advantage of competitive advantage to respond to competition in your industry?
8. How does your company make strategy to respond to competition in your industry?

9. Which problems did your company face? Why do you think these problems occurred? How did your company manage to solve these problems?

10. Do you have other advice to us?

Thank you!