

HOW TO LAUNCH AN E-SHOP IN CHINA

CASE STUDY OF TAOBAO

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ABSTRACT

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ABSTRACT

The aim of this bachelor thesis is to clarify the development situation of electronic market in China, to show the ways to open an e-shop in Chinese largest retail website (www.taobao.com). In methodology of the theoretical frameworks, many materials which include books, articles were reading, it studies clear definitions of different types electronic business models, differences from the traditional marketing as well as the benefits it brings. For the empirical framework of this thesis, case study strategy, observations and quantitative research were used. The target group of the research was the consumers who like Scandinavia design. Research was done by sending questionnaires via e-mails and forum.

According to the result of this research, there are business opportunities for Finnish Interior Design companies to enter the Chinese market by launching an e-shop in Taobao since the people who aged from 25 to 40 years are more willing to pursuit high standard and comfortable interior environment. Most of the consumers think nature and simple as the main characteristics of Scandinavia design and take more importance on the design quality and style. With the fast living pace in China, more people prefer to do the interior design and purchase design products through the e-shop.

In conclusion, although the e-business in China is at its initial stage, legislation and technology gradually improved. China as the biggest e-business market has a huge amount of potential opportunities for international companies. Open an e-shop in Taobao is a good avenue for Finnish small and medium sized interior design companies to enter the Chinese e-market. However, to face of the fierce competition, suitable prices would be high mentioned. Counterfeit products are the greatest threat for foreign companies.

Keywords: e-shop, Taobao, Finnish Interior design, potential opportunity

CONTENTS

ABSTRACT	- 2 -
1 INTRODUCTION.....	- 4 -
1.1 Background and objectives.....	- 4 -
1.2 Innomajakka Project	- 5 -
1.3 SWOT Analysis of the Finnish interior design companies.....	- 5 -
2 E-BUSINESSS.....	- 8 -
2.1 Definition of e-business	- 8 -
2.2 E-business history	- 8 -
2.3 E-business models	- 9 -
2.4 Benefits of e-marketing	- 10 -
3 E-BUSINESSES IN CHINA	- 12 -
3.1 Development history	- 12 -
3.2 PEST analysis of Chinese e-market	- 12 -
3.3 E-commerce logistics in China	- 19 -
4 CASE STUDY	- 21 -
4.1 Company introduction	- 21 -
4.2 Services and features	- 22 -
4.3 Open stages in Taobao	- 25 -
5 MARKETING RESEARCH	- 31 -
5.1 Background of the survey.....	- 31 -
5.2 Methodology	- 31 -
5.3 Results of the survey	- 32 -
6 CONCLUSION	- 38 -
7 DISCUSSIONS	- 40 -
REFERENCES	- 42 -
APPENDICES	- 45 -

1 INTRODUCTION

1.1 Background and objectives

Along with the internet extensively use, electronic business is becoming more popular and important in global market since it is overcoming the limitation of region and geography. China ranks first in the world in terms of the number of internet and mobile phone users. With significant growth potential, e-business in China will continue to develop at rapid rate in the next five to ten years.

E-business is active in Finland. There are approximately 1000 e-businesses operational in northern Finland so the ration is high per number of inhabitants. On the other hand, recent results show that the B2C (Business to Customer) oriented web shops are geographically concentrated in southern Finland (Penttilä, 2009). China is a huge potential market for Finnish companies.

Many foreign brands like Adidas and Gap are expanded their reach into China's market by tapping the user base of the country's largest online retailer Taobao.com. Taobao is the Chinese largest internet retail website which was founded by Alibaba group in 2003. It facilitates business to consumer and consumer to consumer retail by providing a platform for businesses and individual entrepreneurs to open online retail stores that mainly cater to consumers in mainland China, Hong Kong, Macau and Taiwan.

The objectives of the thesis are to provide the Finnish SMEs, especially for interior design companies with a general view and up to date information in Chinese E-market, to show ways to open an e-shop in Taobao website, to know the local consumer demands and find the suitable business opportunities.

Taobao will be used as a case study to show the ways to open an e-shop. Case study is the strategy of this research. Case study brings understanding to a complex issue, extends experience and adds substance to the previous knowledge. Quantitative approach will be also

applied to this study. The quantitative research will be done by sending questionnaires via e-mails and forum.

As a Chinese, author understand more about the political, economic, social-culture environment in China than other foreigners. The thesis will be more directly show the Chinese e-market situation.

1.2 Innomajakka Project

Innomajakka Project is based in Oulu and cooperates to Oulu University of Applied Science, Oulu University and organizations to create innovations. It provides the researches and development and marketing ideas for companies or new services, products and technologies. One of its projects is to present insights and guidelines for developing a virtual electronic commerce center (Vercco) in Oulu. The founders of the idea Vercco saw the need for a one-site service with a link to the research on e-commerce. The aim is to create an international center of expertise in e-commerce, where comprehensive services are combined with efficient logistics and storages. SMEs in particular need support in creating on-line shopping services and maintaining e-shops (see Ahola, H., Vuorela, T & Suutari, S, 2010).

E-businesses in the Oulu region are strongly oriented towards the domestic market, which is a concern as the medium allows for global growth, but international e-business of course requires more technical ICT skills (ibid). Most of the companies do not deliver abroad and not many believe in growth in their international sales (see Ahola, H., Vuorela, T & Suutari, S, 2010). The thesis and research is interesting and informative for readers, helpful and inspiring for the Finnish SMEs, especially for the Finnish interior design companies.

1.3 SWOT Analysis of the Finnish interior design companies

SWOT Analysis is a strategic planning method used to evaluate the strengths, weaknesses, opportunities, and threats involved in a project or in a business venture. It involves specifying the

objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. (SWOT analysis 2011, referred to 12.10.2011)

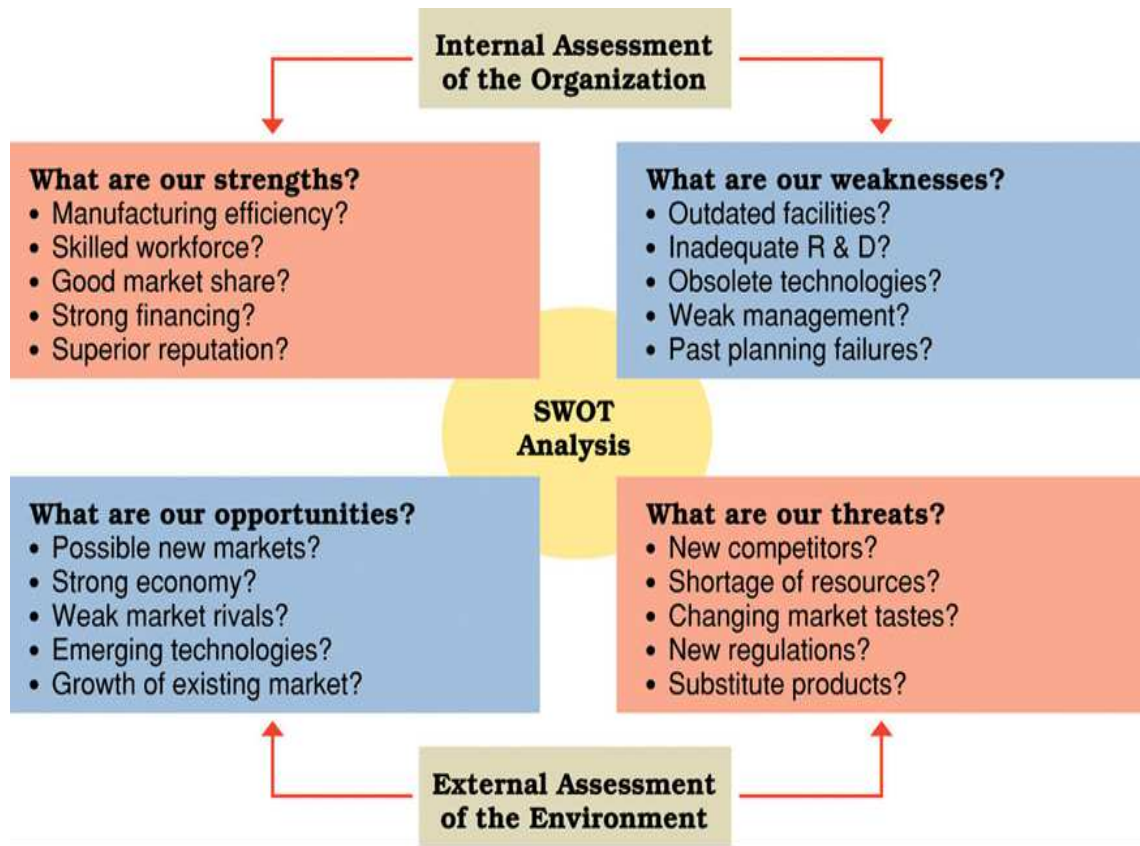


FIGURE 1. SWOT Analysis (SWOT analysis 2011, referred 12.10.2011)

Implementing e-shops allows companies to expand their customer base to a large level without considerable time or expense. Startup costs for an e-commerce retail operation are a fraction of the costs of starting a traditional brick and mortar company. This form of commerce allows the business to maintain a higher level of consumer communication. Finnish design is characterized by minimalism and clean lines. Finnish modernism from the 1950s is particularly popular. Contemporary Finnish design combines these traditions with the latest innovations. There is a large group in China prefers to unique and high quality interior design products, like Finnish ones. Taobao Mall is the biggest company's business to consumer platform in China, currently has more than 30,000 brands.

Customers have no way of gauge the business' actual level of man power and resources. The higher the store is placed on the search engine result pages, translates to more traffic and sales. Low prices make up a very high share of Taobao's sales. If Finnish SMEs are planning to do some low prices, they will need to work hard to raise prices in the future. It is not a mature platform. China is quite different from the European. If Finnish SMEs keep the same price route, the target consumer group will be relatively limited in the white-collars because of the high price.

China's B2C market is expected to reach a total sales value from \$15 billion in 2010 and \$ 99.5billion in 2013, according to Beijing-based research firm Analysis International. Taobao Mall currently has the largest share of China's b2c market at 28.5 percent. The Alibaba group aims to expand abroad in the long term but it is currently focused on introducing more foreign brands to its China platform. It will be helpful for Finnish SMEs to enter the market and build the brand awareness. Taobao has never been a primary source for pirated goods in China. It helps the foreign companies to crack down on the counterfeit products.

The low barriers and the comparatively low overhead costs allow for a relative easy entry into the market. This increases the level competition and can cause a reduction in prices and profit margins. Once the Finnish design enters the market, there will be similar ones without brand on the market, but low price. Or some merchants on Taobao will sell counterfeit products using the company's brand names. It will take a lot of energy and work to reduce the counterfeit products sold on the site. Tax policy in e-business is not mature in China; the new one maybe put in use soon and brings unexpected effect.

2 E-BUSINESSS

2.1 Definition of e-business

E-business involves marketing, buying, selling, delivering, servicing, and paying for products, services, and information across (nonproprietary) networks linking an enterprise and its prospects, customers, agents, suppliers, competitors, allies, and complements. (Weill Peter & Vitale R. Michael. 2001, 5)

E business is simply defined as using the internet to connect with customers, partners, and suppliers. But the term also implies the transformation of existing business processes to make them more efficient. To engage in e-business, companies need to be able to unlock data in their back-end computer systems, so they can share the information and conduct electronic transactions with customers, partners, and suppliers via the internet. And for some companies, engaging in e-business means adopting new web-enabled business models: auctioning off surplus goods, selling products directly to consumers, or joining in online purchasing cooperatives with their competitors.

2.2 E-business history

Business began using websites for marketing in the early 1990s. Most of these websites provide visitors basic information about a company's products and services, and contact information, such as phone numbers and email addresses, to assist consumers in contacting a company for services. With the advent of the Secured Socket Layer (SSL), developed by Netscape in 1994, websites developed the ability to encrypt sessions, thus making credit card transactions over the Internet safer. With an encrypted connection between a company's server and a client computer, credit numbers could be masked so they could not be intercepted by a third party, thus making theft of card information less likely. This security led to an increased number of businesses offering products for sale via the web.

Developments in server technology, including the ability to build websites from product databases, resulted in creation of large Internet-only businesses like eBay and Amazon. In previous product-sales websites, each product had to be manually posted on a web page. With database-driven sites, companies could use web-page templates to display tens of thousands of products on-the-fly. As the number of available products increased, so did traffic and sales on these websites.

Early SSL implementations were good, but many people still did not trust them to secure credit card payment information. In addition, it was too expensive to process micro payments -- payments of less than a dollar -- through traditional credit card systems. As a result, a number of micro payment sites came and went. Pay Pal has remained and has done very well because of its ability to transfer money from a variety of funding sources, including credit cards and bank accounts, without revealing the payer's credit card information to the merchant.

Currently, e-business ranges from simple sites providing corporate information to sites offering goods and services for sale online. Innovative uses for new voice and video communication technologies include online language tutoring. Large commercial information repositories are growing and use of the Internet for research is now common. Online sales from web-based storefronts continue to grow. (History of e-business, referred to 03.10.2011)

2.3 E-business models

The e-Business model, like any business model, describes how a company functions; how it provides a product or service, how it generates revenue, and how it will create and adapt to new markets and technologies. The main models which are operated in Taobao are B2C and C2C.

B2C is a relationship between a company and individuals. It is also called electronic commerce. It is a system that includes not only those transactions that center on buying and selling goods and services to directly generate revenue, but also those transactions that support revenue generation, such as generating demand for those goods and services, offering sales support and

customer service, or facilitating communication between business partners. As a result of this model can save time and space for both enterprise and customers, it greatly enhances the efficiency of transactions, and save unnecessary expenses.

C2C involves the electronically facilitated transactions between consumers through some third party. A common example is the online auction, in which a consumer posts an item for sale and other consumers bid to purchase it; the third party generally charges a flat fee or commission. The sites are only intermediaries, just there to match consumers. They do not have to check quality of the products being offered.

Taobao is more like an online mall, not an auction place. Over 80% of Taobao's revenues came from advertising, mostly 'pay for performance' ads as well as 'pay for transaction' and brand advertisements. The remaining 20% of revenues were generated between commissions that Taobao charges on its new (launched in 2008) Taobao Mall – a B2C area within its C2C platform – and value added services for merchants. (Taobao beats eBay, referred to 31.10.2011)

2.4 Benefits of e-marketing

E-marketing means using digital technologies such as websites, mobile devices and social networking to help reach customer base, create brand awareness and sell goods or services. The basics of marketing remain the same - creating a strategy to deliver the right messages to the right people.

There are some benefits of e-marketing over traditional marketing. The nature of the internet means businesses have a global reach. E-marketing opens up new avenues for smaller businesses, on a much smaller budget, to access potential consumers from all over the world.

E-marketing facilitates conversation between companies and consumers. With a two-way communication channel, companies can feed off of the responses of their consumers, making them more dynamic and adaptive. It makes business hours 24hours per day, 7 days per week for every week of the year. Consumer can easily ordered a product or service within a few short

clicks regardless of normal office hours. By closing the gap between providing information and eliciting a consumer reaction, the consumer's buying cycle is speeded up and advertising spend can go much further in creating immediate leads.

The nature of the internet is that its users will tend to organize themselves into far more focused grouping. Savvy marketers who know where to look can quite easily find access to the niche markets they wish to target. Marketing messages are most effective when they are presented directly to the audience most likely to be interested. With e-marketing, responses can be analyzed in real time and campaigns can be tweaked continuously. Combined with the immediacy of the internet as a medium, this means that there's minimal advertising spend wasted on less than effective campaigns. Maximum marketing efficiency from e-marketing creates new opportunities to seize strategic competitive advantages. (E-marketing, referred to 10.10.2011)

3 E-BUSINESSES IN CHINA

3.1 Development history

E-business in China has undergone four stages: start up, boom, regulation, and growth. E-business in China started essentially in 1995, when China Telecom began to provide Internet services to the general public. In northern China, the National Planning Committee built the Chinese Goods Order System (CGOS), the first online commodity trading system in the country. In southern China, the Chinese Yellow Pages provided the first application of the Internet to business. In the same year, IBM proposed the notion of e-business. (See Liang, Chunxiao, 2010)

China's domestic Internet industry and e-business really began to boom in 1998 and 1999. Leading e-business companies, such as Alibaba, were established during that period. Government-dominated e-business platforms, such as CGOS and the Chinese commodity trading center, emerged in succession. The local government and traditional industries also started to promote e-business applications.

Similar to the global Internet, China's domestic e-business is affected by economic trends. As evidenced by the establishment of Taobao in 2003, e-business in China has rapidly evolved to feature a market orientation, domestic dependence, and innovation. Finally, the application of e-business has been widespread and comprehensive. E-service also has emerged as a new driving force for the development of e-business.

3.2 PEST analysis of Chinese e-market

PEST analysis stands for "Political, Economic, Socio-culture, and Technological analysis" and describes a framework of macro environmental factors used in the environmental scanning component of strategic management. It is a part of the external analysis when conducting a strategic analysis or doing market research and gives a certain overview of the different macro environmental factors that the company has to take into consideration. It is useful strategic tool

for understanding market growth or decline, business position, potential and direction for operations. (PEST analysis 2011, referred to 12.10.2011)

PEST Analysis Framework



FIGURE 2. PEST Analysis Framework (PEST Analysis 2011, referred 12.10.2011)

Political environment includes a country's social system, the nature of the ruling party, the principles, policies, laws and so on. It could be concluded as the following aspects: government type and stability, freedom of press, rule of law and levels of bureaucracy and corruption,

regulation and de-regulation trends, social and employment legislation, tax policy, and trade and tariff controls, environmental and consumer-protection legislation, and likely changes in the political environment. (Liu, 2006, 60)

China is the most active economy in the world, as it owns 1.3 billion people with an average annual growth rate of 9.6% in GDP. Such energy, also stimulate its online market and electronic commerce developing. Though the circumstance seems to be a driving to the e-commerce industry, it brings challenges to law and policies. In 2005, the first law, PRC E-signature was released as an attempt to provide a uniform standard for e commerce. In 2010, three regulations have been released which related to E-commerce: Network behavior of commodity trading and related services Interim Measures, released by SAIC (State Administration of Industry and Commerce). Administrative Measures for the Payment Services Provided by Non-financial Institutions, released by People's Bank of China. And the Electronic Commerce Credit Certification Rules, released by Ministry of Commerce, China International Electronic Commerce Center. (Ding, 2011)

E-signature law safeguards the legitimate rights and interests of all parties concerned through the establishment the law of electronic signatures force, standardizes the electronic signature act, so as to protect the security of electronic transactions in the legal system, hastens the development of e-commerce and e-government, creates a favorable legal environment for the development of electronic certification services industry, and lays an important foundation for China's e-commerce security certification systems and networks trust system.

According to Network behavior of commodity trading and related services Interim Measures, real-name authentication information including trading record, personal information and address, will be kept for two years by platform provider. The natural person who trade or provide service through internet should submit their personal information to online trading platform providers. And if they satisfy requirements of law as business entity, they should acquire licenses from local Administration of Industry and Commerce. It also imposes that the online platform owns a duty to audit the information of entity who registered on it. This is the first time in China a requirement to

all parties who engaging in online trading. It provides a transparent way for both customers and government access and monitor online trade and service provider. (Ding, 2011)

Experienced a few years that there no law or regulation for administrating the third party payment, with a concern that such large amount of cash flow out of regulation may use for illegal trade, such as gambling or money laundry. Administrative Measures for the Payment Services Provided by Non-financial Institutions regulates the third party payment institution. Measures will list the legal requirement for who want to run third party payment, and only when an entity could meet such requirement, it could get a license from PBC and continue online payment service after September, 2011. (Ding, 2011)

In Electronic Commerce Credit Certification Rules, a third party organization will access each website's credit level by giving credit certification from A to E. And the certification will present in each website main page for customer to easy check.

E commerce taxation policy in China is still in its infancy, no more e-commerce tax policy and the specific regulations of the authority of, the reality is the importance of the government is not enough. From the perspective history, e commerce in China is beginning in 1999, 10 years since, due to the development of e-commerce is a systematic project, construction of legal environment, online payment system, distribution system, operators and construction of internal information systems and other issues, improvement of environment of electronic commerce system still as a long way to go.

According to Liu (2006, 61), economic environment mainly include both macro aspect and micro aspect. Macro-economic environment mainly means a country's population and its growth, national income, gross national product, the changes, as well as the development level and development speed of the national economy that can be reflect in these indicators. Micro-economic environment mainly refers to consumer income levels, consumer preferences, savings, employment levels, and other factors of the business area or service areas. These factors directly determine the enterprise's current and future market size.

After years of unprecedented growth, e-business in China has reached a stage of widespread application and operations, as indicated by the sharp rise of e-business trading volumes and the number of e-business users. In 2008, e-business trading reached 3.1 trillion Yuan which is about \$484 billion (exchange rate 10RMB= 0.64US dollar), and then increased by 43% the succeeding year (Xinhua News 2009). According to the National Statistics Bureau, 423,480 large businesses achieved e-business trading volumes of RMB1.2 trillion (\$188 billion). Furthermore, 31% of small to medium-sized businesses find suppliers through electronic means, and 24% conduct online marketing promotions. (Liang, 2010)

In 2008, online retailing industry experienced three milestones. First, the number of online retailing consumers exceeded 100 million. Second, trading volumes went beyond RMB100 billion (\$16 billion). Third, the amount of online retailing accounted for 1% of the gross trade in consumer goods. In 2009, online retailing maintained its momentum, and trading volumes increased by 105.2%, to 263 billion Yuan (\$ 41 billion) (iResearch 2010).

As Figure 2 shows, this amount in 2009 accounted for 2.10% of the gross trade in consumer goods, an increase of 92% from the previous year. From 2007 to 2009, trading volumes for online retailing thus rose by 117% on average, or 6.5 times the average growth rate of gross trading of consumer goods over the same period. Being an e-business user clearly has become a prevalent and popular trend. (Liang, 2010)

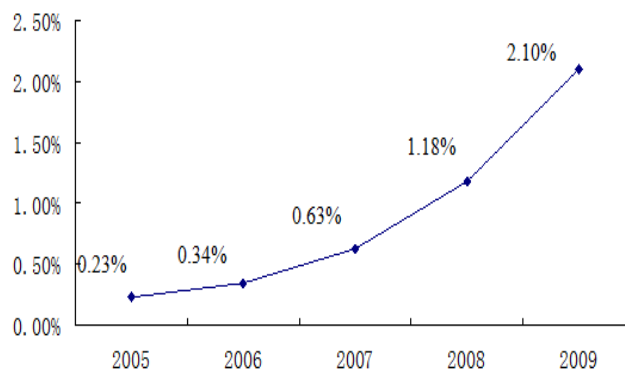


Figure 3. Proportion of Online Retail Sales to Gross Retail Sales, Consumer Goods (2005-2009) (National Statistical Bureau, iResearch (2010), referred to 02.09.2011)

In 2009, the number of e-business Web sites reached 15,600; including 9,400 were business-to-consumer sites (CNZZ 2010). This figure increases by 32.34% every year. The number of e-business platforms also rose sharply to 5,000 by the end of 2009. (Liang, 2010)

The service quality of e-service platforms also is gradually improving, which attracts more e-business users and promotes the applications of e-business. For example, 67% of online retailing operated an e-service platform in 2003, but 93% did in 2008. E-business platforms have become the main channel of online retailing, and cooperation between the platforms and their users is growing stronger.

Socio-culture environment includes the education level, religion, customs, aesthetic point of view, values, and so on of a country or a region's resident. Education level will affect the demand level for residents. Religious beliefs and customs would prohibit or boycott the carry out of some certain activities. Values will affect the residents recognized or repudiate for the organizational goals, organizational activities, as well as the organization. Aesthetic point of view will affect people's attitude on organizations, activities, as well as the results of the activities. (He, 2006, 89)

The key factors of the Socio-culture environment include: population growth rate and age profile, population health, education and social mobility, and attitudes to these, population employment patterns, job market freedom and attitudes to work, press attitudes, public opinion, social attitudes and social taboos, lifestyle choices and attitudes to these, and socio-culture changes. (Liu, 2006, 62)

The increased availability of e-commerce to a broadened customer base has lead an increased interest in the effectiveness and efficiency of e commerce system, Usually, web sites are engineered to address the majority of the population assuming socio-cultural homogenization, not taking into account socio-culturally differentiated customer groups. There are three distinct cultural impediments in China: attitudes towards off-site/online transaction systems, trust, and the belief that "debt is not good".

The idea of buying goods that one cannot see and touch, and from sellers thousands of kilometers away may take some “ getting used to “ for an ancient culture such as the Chinese, who are used to face-to-face transactions, familiarity with the other party, and getting satisfaction from winning business negotiations. All of these long standing culture traits are undermined by and are contrary to the depersonalization associated with e-commerce and business systems designed to sell products online.

Transactional trust and related issues are not only major concerns for Chinese consumers conducting online transactions but, are also amplified as a result of Chinese culture characteristics and prevailing legal system. Chinese consumers are as wary of counterfeit products as western consumers are.

China still exhibits the characteristics of a cash society and the value system that preaches “debt is not good”. It is rarely to encountered credit cards being used for any daily purchases, including some very expensive entertainment events hosted by high level managers at location where credit card payment systems were in place and hosts that had significant economic means, and, without any doubt, had multiple credit cards. (Efendioglu M. Alev., Yip F.Vincent and Murray L. William, 5)

According to development of Chinese population nowadays, the group who aged 25 to 40 years old becomes larger and larger. The main characteristics of the group are: open minded, fast living pace and survival of network.

Technological environment as a part of the organization and the industry, it is used for the creation of competitive advantage. However, technology external to the industry can also be captures and used, and this again can be influenced by government support and encouragement. Technological breakthroughs can create new industries which might prove a threat to existing organizations whose products or services might be rendered redundant, and those firms which might be affecting in this way should be alert to the possibility. Equally, new technology could provide a useful input, in both manufacturing and service industries, but in turn its purchase will

require funding and possibly employee training before it can be used. (Zhang, Wen, 2006, 117)

Development of e-commerce depends on the popularity of information terminal equipment, such as telephone, personal computer and so on. China ranks the first in terms of internet and mobile phone users, and will continue to increase in the future. Third-party online payment solution provides an easy, safe and secure way for millions of individuals and businesses to make and receive payments on the Internet. It provides an escrow payment service that reduces transaction risk for online consumers. Shoppers have the ability to verify whether they are happy with goods they have purchased before releasing funds to the seller. It greatly reduces the risk for electronic transactions.

3.3 E-commerce logistics in China

Development of e-commerce effectively promote the development logistics, payment and other related industrial chain, many logistics companies are benefit a lot from it. In turn, trade logistics all the time is affecting the further prosperity of e-commerce, it can be said that the significance of logistics to the e-commerce development is self-evident.

In recent years, the development of Business Logistics in China achieved remarkable results, at the same time; the related and supporting policies are being perfected. Moreover, trade logistics has played a lot of positive effects in the promotion of e-commerce prosperity, in the improvement of consumption environment, in the change of economic development mode.

In the past few years, despite the unprecedented prosperity of e-commerce industry, involved in the delayed development of the logistics related industries, China e-commerce has repeatedly dragged back. Especially during the holidays, logistics become constraints on the economic growth of holiday online shopping and barriers to user satisfaction.

Recently, three ministries issued "Business Logistics Development Plan", to establish a modern logistics distribution centers and efficient information management system for supporting

e-commerce logistics base, covering the major cities and rural areas with convenient and smooth network shopping distribution system to meet the needs of the rapid development of online shopping.(Logistic Problems, referred to 15.10.2011)

Now, technology innovation and application of domestic trade logistics industry has become an important guarantee for the same time, the cultivation and adaptability through the development of the market, physical networking technology is leading a new round of logistics technology revolution. Undoubtedly, the matter vigorously promote the use of networking technology, the changes will be on the trade logistics have a profound impact and improve the modernization of China's trade and logistics, intelligence level, promote the intellectual development of logistics.

4 CASE STUDY

Taobao is the Chinese largest internet retail website. Many foreign brands like Adidas and Gap are expanded their reach into China's market by tapping the user base on Taobao.com. It is a good example to show the ways to open an e-shop in China.

4.1 Company introduction

Alibaba group (2011, referred 14.10.2011) is a privately owned Hangzhou-based family of Internet-based businesses that includes online marketplaces that facilitate business-to-business international and domestic China trade, retail and payment platforms, shopping search engine and service of data-centric cloud computing. There is a story which describes Alibaba is a kind, smart business person, and he helped the village. Alibaba group wants to open sesame for all small- to medium-sized companies.

Alibaba group and its affiliated entities now have more than 22,000 employees across some 70 cities and regions, including China, Hong Kong, India, Japan, Korea, Taiwan, the United Kingdom, and the United States.

Taobao is a Chinese largest web site for online shopping, similar to eBay, operated in the People's Republic of China by Alibaba group. It facilitates business to consumer and consumer to consumer retail by providing a platform for businesses and individual entrepreneurs to open online retail stores that mainly cater to consumers in mainland China, Hong Kong, Macau and Taiwan. The mascot of Taobao is the ant which is a symbol of strength and hard working. They believe the organized ants can defeat the elephant.





FIGURE 4. Taobao Mascot (Taobao, referred to 14.10.2011)

4.2 Services and features

Taobao was launched in May 2003 after eBay acquired each net, China's online auction leader at the time, for US\$180 million and became the major player in the Chinese consumer e-commerce market. To counter eBay's expansion, Taobao offered free listings to sellers and introduced website features designed to better cater to local consumers, such as an instant messaging tool for facilitating buyer-seller communication and an escrow-based payment tool, Alipay. As a result, Taobao became the undisputed market leader in mainland China within two years. Its market share jumped from 8% to 59% between 2003 and 2005, while eBay China's slid from 79% to 36%. eBay had to shut down its own site in China in 2006. After that, Taobao still implemented free strategy to keep the leader status.

If one wants to open an e shop in Taobao, the real name certificate should be done beforehand. There are free personal authentication and free business authentication options after landing Taobao. Fill in the required information and provide documents within the validity periods. And Taobao query with the National Identity Card Center under the Ministry of Public Security to check. Once Taobao user registration information in main content is false, Taobao may terminate the service agreement with the user.

Taobao established an open and transparent credit rating system. After a successful transaction, the two sides will both do a credit evaluation. Evaluation is divided into three levels: excellent, satisfactory and bad. One excellent can increase one point, one bad can decrease one point. Taobao credit system counts the points and give the user's credit rate which from the lowest level of a heart  to the most advanced of five crown .

Alipay (www.alipay.com) is China's leading third-party online payment solution, providing an easy, safe and secure way for millions of individuals and businesses to make and receive payments on the Internet. As of December 2010, Alipay had more than 550 million registered users and facilitated around 8.5 million transactions daily. Alipay provides an escrow payment service that reduces transaction risk for online consumers. Shoppers have the ability to verify whether they are happy with goods they have purchased before releasing funds to the seller. Alipay was a key

catalyst in the growth of the online retail market in China from RMB 1 billion in gross merchandise volume (GMV) in 2003 to RMB 248 billion in GMV in 2009.(Alipay, referred to 14.10.2011)

Alipay partners with more than 65 financial institutions, including 19 leading national and 45 regional banks across China, as well as Visa and MasterCard. In addition, Alipay also facilitates offline value-added services through a strategic partnership with China Post, which has coverage of rural areas and university campuses.

In April 2010, Alipay announced that Alibaba group will invest a total of RMB5 billion (USD732 million) over the next five years to enhance infrastructure security; develop products to improve ease of use and convenience for customers; continue to grow a massive number of consumer accounts; build a comprehensive network of merchants; and retain and attract top-tier talent from the payments industry.



FIGURE 5. Alipay (Alipay, referred to 14.10.2011)

In eBay system, buyer can contract with the seller only after capturing the goods. It does not comply with the Chinese habit of doing business. A distinctive feature of shopping on Taobao is the pervasive communication between buyer and seller prior to the purchase through its embedded proprietary instant chat program, named AliWangWang. It helps both sides of the transaction convey their ideas timely and accurately, promotes exchanges efficiently and supports for the favorable deals. Its application is very simple, so the majority of users love. If dispute happens, the saved communication record in Aliwangwang will be the electronic evidence.



FIGURE 6. Aliwangwang (Aliwangwang, referred to 14.10.2011)

Taobao finds it difficult to meet the enhanced consumer demand only by C2C model. Taobao Mall was first introduced by Alibaba group in April 2008 as a dedicated B2C platform within Taobao. Since then, Taobao Mall has established itself as an online gateway for leading local and global brands to reach out to the growing Chinese consumer base as well as the destination for domestic online shoppers to purchase quality, brand name goods.

In November 2010, Taobao Mall introduced an independent web domain, tmall.com, to differentiate listings by Taobao Mall merchants, who are either brand owners or authorized distributors, from Taobao's C2C merchants. Meanwhile, it kicked off a US\$30 million advertising campaign to raise brand awareness among consumers. It also announced an enhanced focus on product verticals and improvements in shopping experience.

Brands that have established flagship stores on Taobao Mall include P&G, adidas, UNIQLO, GAP, Nine West, Reebok, Ray-Ban, New Balance, Umbro, Lenovo, Dell, Nokia, Philips, Samsung, Logitech and Lipton. (Taobao, referred to 14.10.2011)

4.3 Open stages in Taobao

A registered account in Taobao

Login Taobao (<http://www.taobao.com>) top of the page click on “free register”.



FIGURE 7. Taobao (Taobao, referred to 14.10.2011)

In the page that opens, enter the member name, password, e-mail and other information, click the “agree to the following terms of service, submit registration information” button. Then the registered e-mail will receive a confirmation e-mail, open the link, confirmed, and completed the user registration.



FIGURE 8. Taobao (Taobao, referred to 14.10.2011)

To ensure the security of transactions, the password is recommended to use the combination of English letter, number and symbols.

Taobao provides only through real name certification. Therefore, registered users should make appropriate certification, including personal real-name authentication and Alipay certification. Specific steps are as follows:

The first step, log on Taobao, top of the page click on “My Taobao”.



FIGURE 9. Open stages (Open stages, referred to 14.10.2011)

In the opening page, click “real name authentication”.



FIGURE 10. Open stages (Open stages, referred to 14.10.2011)

The third, click on “apply for the alipay real name authentication”.



FIGURE 11. Open stages (Open stages, referred to 14.10.2011)

After reading the agreement, click “agree” bottom.

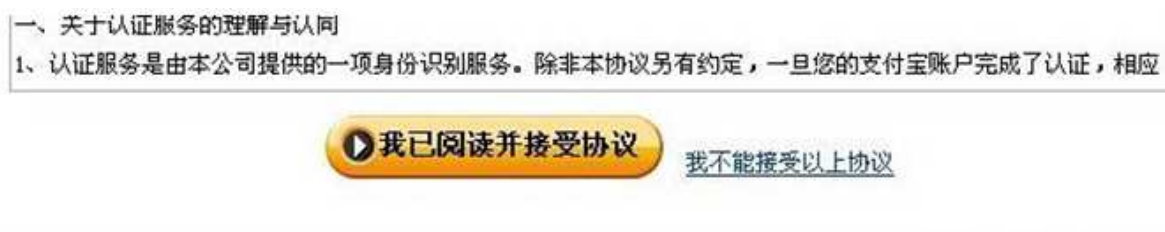


FIGURE 12. Open stages (Open stages, referred to 14.10.2011)

One can complete the real name authentication by applying to confirm the amount of bank transfer. Right information should be put in the forms, such as identification card number, bank account number etc.



FIGURE 13. Open stages (Open stages, referred to 14.10.2011)



FIGURE 14. Open stages (Open stages, referred to 14.10.2011)



FIGURE 15. Open stages (Open stages, referred to 14.10.2011)



FIGURE 16. Open stages (Open stages, referred to 14.10.2011)



FIGURE 17. Open stages (Open stages, referred to 14.10.2011)

One day later, open “my Taobao” again. Click on the appropriate link to open the “Alipay certification” page in the authentication area. In the “bank account verification” area click “confirm remittance amount”, then enter the amount of capital injection which Alipay put in your bank account.

If one company wants to open an e shop in Taobao, the business license must be shown to Taobao. The scope should be the same with the one which indicates on the business license. Company should pay Taobao a sum of margin which is different from 10,000RMB (1,142euros) to

150,000 RMB (17,142euros) and technical service fee which is 30,000RMB (3,429euros) or 60,000RMB (6,857euros) per year (exchange rate is 10RMB=1.142EUROS) Taobao put much more advertisements and search results for Taobao Mall users. Taobao Mall sellers must sign the consumer protection agreement 🌻 and accept buyers return products within seven day without any reason 🇨🇳 . In the meanwhile, all the products which are sold in Taobao Mall are supervised by Taobao.

5 MARKETING RESEARCH

5.1 Background of the survey

In the theoretic part, the situation of e-business in China has been introduced. Although there are some limitations in the market regulation and policy, the market itself is still attractive for foreign companies, especially for SMEs. Taobao is a good avenue to enter the Chinese market since it is the largest and famous internet retail website.

Chinese market is different from the European. To understand the consumer is also an important factor driving businesses growth. The survey is concentrated on the consumer demand for the Finnish interior design.

5.2 Methodology

Based on Kotler's (2006, 102) opinion, there are six steps in marketing research: analyze the information, present the findings, and make the decision. The most important steps are: define the problem and research objectives, develop the research plan, collect the information, and present the findings, play a decisive role.

Quantitative research was used in this survey, and to describe the data collected in numbers. Content of the survey and data is summarized and analysis by quantitative method. Quantitative research produces numbers and figures. Quantitative method could be used in a large and variety situation especially when there is a large number of data involved. Quantitative research method is not pursuit of accurate result, but it force to understand where the problem is. (Proctor. 2000, 231)

The purpose of the research is to understand the Chinese consumer demand for Finnish interior design so that the Finnish company can make better marketing strategies. The target group is the

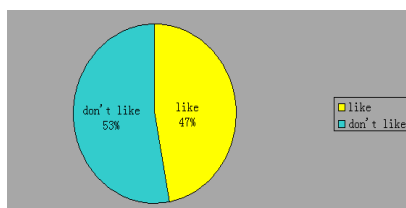
consumers who like the Finnish design. To address the research objectives, I developed a 12-questionnaire, developed in Chinese and translated to English. It contained questions designed to collect information on gender, age, income and the demand for Finnish interior design, including budget, style etc.

The questionnaires are sent by e-mail and forum. The forum is an online discussion site where people can hold conversations in the form of posted messages. The advantage of the online survey is that it can have a very wide sample distribution people in China. There is no time limited of the online survey, people can respond when they are not hurried or pressured. The problem of the online survey is that the response of people is depending on the website audience. It often suffered from limited responses since the audience itself may be rather small. Thus, you have wait weeks to get enough responses. But, generally, the results are reliable. (Doman et al. 2006, 78-81)

The questionnaires were put on the Xici forum which is famous in China. In addition, 300 e-mails were sent out. The survey lasted for about one week, which began on 10th of October and ended on 18th of October. The questionnaire's English version can be found at Appendix 1. There were 96 persons answered the questionnaire by e-mail and 23 replied on the forum.

5.3 Results of the survey

Among the 119 answers, there are 56 persons like the Scandinavia style for interior design. The figure 7 shows the percentage of how many people like the Scandinavia design.



FIGUTRE 18. The percentage of people who like the Scandinavia style (n=119)

Age

According to the result of the survey, the consumers' demands were influenced by the age and incomes. According to the figure 8 showed, ages between 25 to 40 years old consumers were absolutely becoming the biggest part with the percentage of 68. The age groups less than 25 years old and 40 to 55 years old are rank the second with the same percentage rate.

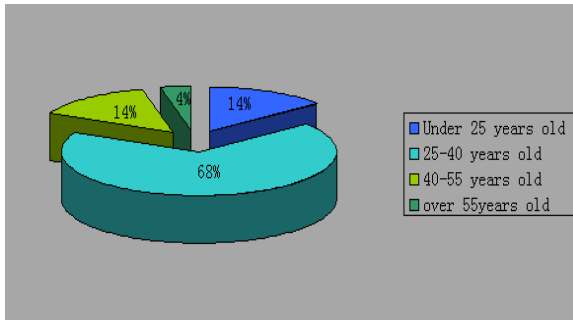


FIGURE 19. The target group with different ages (n=56)

Salary

The income influences consumers' buying behaviors. As the figure 9 shows, people from 25 to 40 years old have much higher salary than others. The main characteristics of the group are: open minded, fast living pace and survival of network. (The exchange rate was 10RMB=1.14 EURO)

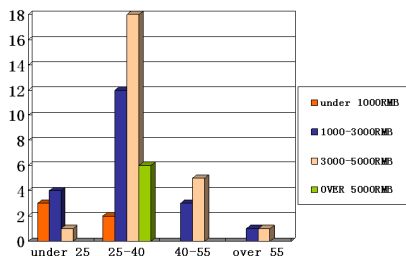


FIGURE 20. Salary level of different age groups (n=56)

The features of Scandinavia design

Most Chinese think simple is the main feature of Scandinavia design. Nature ranks the second.

There are not many Scandinavia design products in Chinese market; most people do not understand the functions of the design clearly.

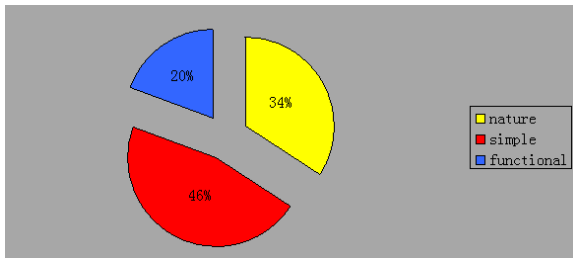


FIGURE 21. The features of the Scandinavia design (n=56)

Interior design factors

When referred to interior design, most people in this sample think space layout first and then decoration. Most of the new houses in China are empty inside, even without compartment. Space layout seems to be the first step for interior design in China. As figure 12 showed, most Chinese prefer to stay in a comfortable interior environment. Elegant appearance and safe materials used inside are also emphasized.

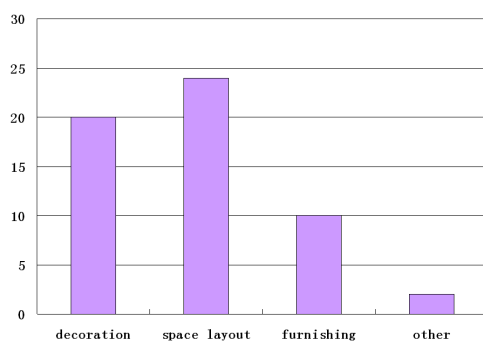


FIGURE 22. The first factor concerning to interior design (n=56)

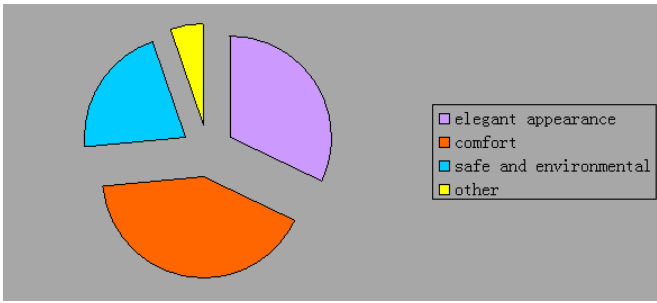


FIGURE 23. The most important factor in interior design (n=56)

Budget

Income influenced the purchase power greatly. According to figure 13, the higher the salary they get, the more the budget they put. The people who have over 5,000 RMB salaries per month are more willing to pay more in interior design. However, the most acceptable budget for the interior budget is between 100,000 to 150,000 RMB, which is about 11,429 to 17,143 euros. (Exchange is 10RMB=1.14EURO)

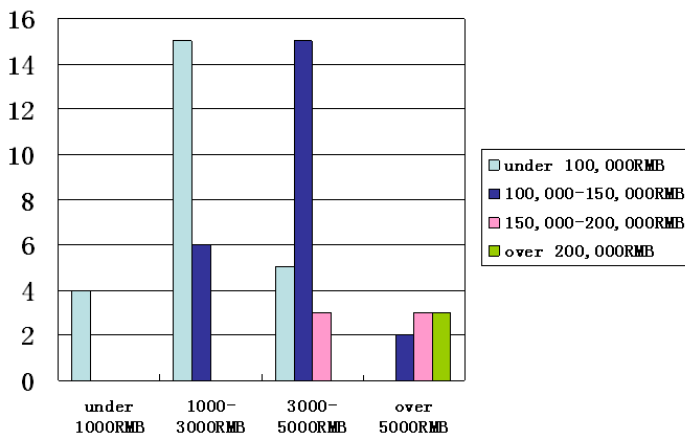


FIGURE 24. Budgets for different income groups (n=56)

Materials standard

Materials are essential in implementing interior design. Most Chinese consumers prefer to the materials with good brand. They take more important in the material safety and environmental. They think good brand usually means good quality.

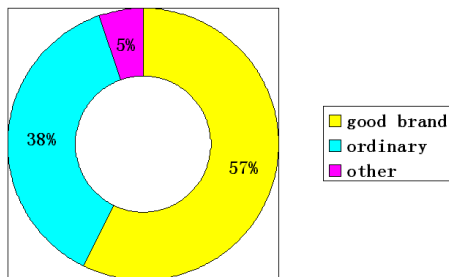


FIGURE 25. Material standard (n=56)

Interior design products

As figure 15 and 16 shows, the Chinese does not buy such kind of products very often. Quality is the most important factor in choosing the interior design products. Then they will consider whether the style is fit for the decoration style and the price is affordable or not.

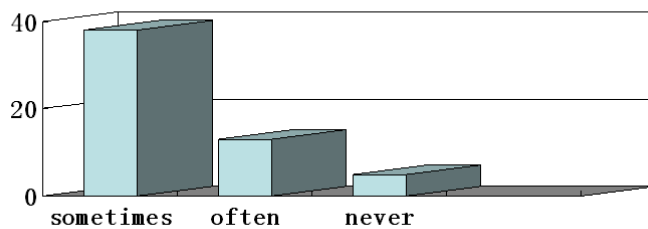


FIGURE 26. Frequency of buying interior design products (n=56)

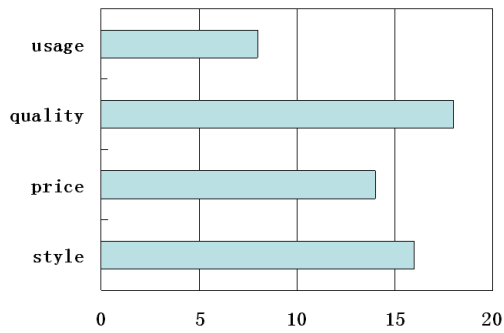


FIGURE 27. Important factor for interior design products

The attitude to the online shop for interior design

According to figure 17, there is 54% of people in this group are willing to visit the e-shop of Finnish interior design in Taobao, 32% of them will make the decision depends on the situation. Only 14% are not willing to do.

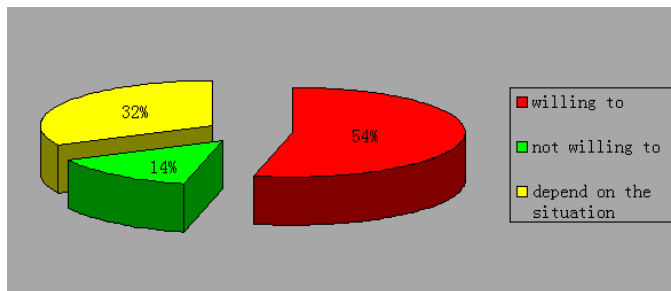


FIGURE 28. The attitude to the online shop for interior design (n=56)

6 CONCLUSION

The aim of this bachelor thesis is to clarify the development situation of electronic market in China, to show the ways to open an e-shop in Chinese largest retail website (www.taobao.com). For the empirical framework of this thesis, a quantitative research was used. The target group of the research was the consumers who like Scandinavia design. The purpose of the research is to understand the Chinese consumer demand to the interior design.

According to the result of this research, 47% of people like Scandinavia design among the 119 answers. In the 56 samples, the main group who aged 25 to 40 years old has much higher salary and is more willing to pay more on the interior design budget than others. However, the average budget for interior design is about 12,000 euros. Chinese do not purchase interior design products, such as furniture very often, in the result; they take much more importance on the products' quality, and then consider the style and price. The decoration materials, products with good brand are usually chosen by Chinese because of the safety reason. With the development of e-commerce in China, more and more people prefer to visit the online shop. 54% of people in the survey are willing to visit the Finnish interior design e-shop in Taobao, while 32% of them will decide depend on the situation.

It showed clearly that there are business opportunities for Finnish Interior Design to enter the Chinese market by launching an e-shop in Taobao since the people who aged from 25 to 40 years are more willing to pursuit high standard and comfortable living environment. Most of the consumers think nature and simple as the main characteristics of Scandinavia design and take more importance on the design quality and style. With the fast living pace in China, more people prefer to do the interior design and purchase design product through the e-shop.

Although the e-business in China is at its initial stage, legislation and technology gradually improved. In 2010, three regulations have been released which related to E-commerce. Three ministries issued "Business Logistics Development Plan", to establish a modern logistics distribution centers and efficient information management system for supporting e-commerce logistics base.

China as the biggest e-business market has a huge amount potential opportunities for international companies. Taobao is the Chinese largest internet retail website for individual and business entrepreneurs with reliable system and good service. Open an e-shop in Taobao is a good avenue for Finnish small and medium sized interior design companies to enter the Chinese e-market.

7 DISCUSSIONS

Based on the thesis, although the e-business in China is at its initial stage, legislation and technology gradually improved. China as the biggest e-business market has a huge amount of potential opportunities for international companies. Open an e-shop in Taobao is a good avenue for Finnish small and medium sized interior design companies to enter the Chinese e-market. However, the language in Taobao is totally in Chinese. It is better to employ local people to do the marketing and after-sales tasks. Chinese prefer to do much more communication before the transaction.

There are many foreign brands which have already established the online shop in Taobao, but they are about clothing, digital products or food. There is no interior design company to enter the market, especially foreign one. If Finnish SMEs opens an e-shop there, the early comer will gain the market shares more easily.

Taobao's low prices make up a very high share of the sales. If Finnish SMEs are planning to do some low prices, they will need to work hard to raise prices in the future. It is not a mature platform. China is quite different from the European. If Finnish SMEs keep the same price route, the target consumer group will be relatively limited in the white-collars because of the high price. To face of the fierce competition in China, suitable prices would be high mentioned. Counterfeit products are the greatest threat for foreign companies.

There was a little depressed during the research because of the limited time. There is 300 questionnaires were sent out, 96 responders got back and 23 messages posted in the forum. In the 119 samples, only 56 are useful for the survey. However, it is at the safe side to continue the quantitative research. The responses are not so reliable. According to the Chinese culture, people are more likely to give "white lie" which means the positive answers to make others happy in order to show his or her friendly.

Taobao is used as an example to show the ways to open an e-shop in China. There are some questions to think about in the future. Are there the same rules used in other Chinese platforms?

How much effect will it bring when the new taxation policy released?

Most of the Finnish companies do not deliver abroad and not many believe in growth in their international sales (see Ahola, H., Vuorela,T & Suutari,S, 2010). The thesis and research is interesting and informative for readers, helpful and inspiring for the Finnish SMEs. As a Chinese, I think from my point of views, I can show the Chinese e-market situation more directly and realistic. Hopefully Innomajakka Project can use this survey as a basis for its Vercco project. With the rapid development of e-commerce in China, I think more and more foreign companies will enter the market.

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APPENDICES

APPENDIX 1/1

SURVEY FOR TAOBAO CUSTOMERS FEATURES

Hello! Thank you for participating in this survey. This survey aims to know the consumer demands for the interior design products to help the Finnish companies make better marketing strategy. The target group of this survey is the consumers who like Scandinavia design. (If you are not belonging to this group, please only answer the question number 1-4). To fill out the whole questionnaires will take about 10 minutes, please do not jump over any question. Thank you.

1. Your gender

A Male

B Female

2. Your age

A Under 25 years old

B 25 to 40 years old

C 40 to 55 years old

D Above 55 years old

3. Your monthly salary (exchange rate is 10RMB=1.14EURO)

A Under 1000RBM

B 1000--3000RMB

C 3000—5000RMB

D Above 5000RMB

4. Do you like Scandinavian design?

A Yes

B No

5. What is your impression of Scandinavia design? (Multiple)

A Nature

B Simple

C Functional

6. If one refers to the interior design, what will you think first?

A Decoration

B Space layout

C Furnishing

D Other

7. What do you think the most important for the interior design?

A Elegant appearance

B Comfort

C Safe and environmental

D Other

8. What is your budget for the interior design? (Exchange rate is 10RMB=1.14RMB)

A Under 100,000RMB

B 100,000—150,000RMB

C 150,000—200,000RMB

D Above 200,000RMB

9. How will choose the products or materials for decoration?

A Good brand

B Ordinary

C Other

10. How often do you buy the interior design products?

A Sometimes

B Often

C Never

11. What do you think the most important when you choose the interior design products?

A Style

B Price

C Quality

D Usage

12. If a Finnish interior design company opens an e-shop in Taobao, will you be willing to visit?

A Yes

B Depend on the situation

C No

消费者对芬兰室内设计需求的问卷调查

您好！感谢您参与这次问卷调查。这次问卷调查的目的是了解消费者对芬兰室内设计的需求，以便公司做出更好的销售策略。目标群体是喜欢芬兰设计风格的消费者。（如果您不属于这个范围，请您回答问题 1-4）。整个问卷的填写大概需要 10 分钟，感谢您的耐心作答，不要跳答。

1. 您的性别

A 男

B 女

2. 您的年龄

A 小于 25

B 25-40

C 40-55

D 55 以上

3. 您的月平均收入

A 1000RMB 以下

B 1000—3000RMB

C 3000—5000RMB

D 5000RMB 以上

4. 您喜欢北欧的设计风格吗?

A. 喜欢

B. 不喜欢

5. 您对北欧风格的印象是

A. 自然

B. 简约

C. 实用

6. 请问提到室内设计,您首先想到什么?

A. 装修装潢

B. 空间布局

C. 室内陈设

D. 其他

7. 请问对于室内设计您最注意的是什么?

A. 外观典雅

B. 室内舒适

C. 居住安全环保

D. 其他

8. 请问室内投入预算是多少钱？

A. 10 万以下

B. 10-15 万

C. 15-20 万

D. 20 万以上

9. 请问在装修时，使用的产品或材料你会怎么选择？

A. 品牌好的

B. 普通的

C. 其他

10. 您是否购买过室内陈设品？

A 偶尔

B 经常

C 没有

D 不清楚什么是室内陈设品

11. 室内陈设品您最为看重什么

A 风格

B 价格

C 质量

D 用途

12. 如果淘宝上开一家芬兰室内设计店，您愿意去吗？

A 愿意

B 看情况

C 不愿意

Logistics Companies in China

EMS

<http://www.ems.com.cn/>

It is the state-owned company. It is slow and expensive.

Shunfeng Express

<http://www.sf-express.com/tabid/41/Default.aspx>

The price is slightly expensive, but the fastest. General use of air, accessible to the main cities in China, and every city has a distribution range. More service fee will be charged if destination beyond the distribution range.

STO

<http://www.sto.cn/index.asp>

It is slightly similar to SF delivery network. Country-level cities cannot reach. Price is acceptable, but speed and service are in general.

HT express

<http://www.htky365.com/>

It is about the same with the mode of STO. Prices are lower, but the speed and service are not very satisfactory. The network is not perfect.

Yunda Express

<http://www.yundaex.com/www/index.html>

The price is low but speed is slow.

FedEx Express

www.fedex.com/cn/

It is cheap but slow.