Analysis of Business Strategies of Cross-border E-Commerce under the COVID-19--A Case Study of Koala

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Abstract. In recent years, the rapid development of China's cross-border e-commerce industry has led to the birth of many cross-border e-commerce platforms, while the outbreak of COVID-19 has brought about a strong impact on both daily life and economic development. In this context, this paper mainly uses the case analysis method and takes Koala as an example to analyse its development strategy's internal strengths and weaknesses as well as external opportunities and threats through SWOT analysis. From the conclusions of the study, it is clear that as a cross-border e-commerce platform, Koala has both unique and universal strengths and weaknesses, while facing the same opportunities and threats as other cross-border e-commerce platforms. This paper not only fills the gap of relatively little research on Koala, but also proposes targeted and innovative suggestions, with a view to enhancing the competitiveness of the company and providing a reference for the future development of the cross-border e-commerce industry.

Keywords: COVID-19, Koala, SWOT Analysis, Cross-border E-Commerce.

1. Introduction

Since 2012, the development of cross-border e-commerce (CBE-commerce) in China has reached a mature stage, and various CBE-commerce platforms have sprung up. In recent years, under the influence of multiple external factors and the efforts of CBE-commerce platforms themselves, China's CBE-commerce industry has been developing even more rapidly. However, a sudden epidemic at the end of 2019 had a huge impact on the global economic situation. During the epidemic, China's cross-border trade was severely impacted by factors such as the suspension of cross-border logistics. But while the epidemic brought threats, it also brought opportunities. The import and export value of China's CBE-commerce reached 1.98 trillion yuan in 2021, up 15% compared to last year. The epidemic's boost to online trading and the change of consumer attitudes have given the CBE-commerce industry a new direction for development.

The research on CBE-commerce at home and abroad has important reference value. CBE-commerce refers to an international business activity in which transaction subjects belonging to different customs borders through e-commerce platforms make a deal, settle payments, deliver goods and complete transactions through cross-border logistics. At present, there are three common CBE-commerce models, namely B2B (Business to Business), B2C (Business to Customer) and C2C (Customer to Customer). Zhang (2015) points out that although B2B is the most common traditional form of e-commerce, with the establishment of a large number of third-party online trading platforms, the transaction barriers for CBE-commerce have been significantly reduced, more and more retailers are directly involved in the online buying and selling process [1]. The shortening of the supply chain and the reduction of intermediate steps have led to remarkable advantages. As a result, the use of the B2C model has increased significantly. Zhu (2020) argues that CBE-commerce is in line with the development trend of international trade [2]. Shen (2021) points out that the emergence of CBE-commerce platforms can meet consumers' demand for overseas products [3].

In addition, the previous studies on the application of SWOT analysis to the CBE-commerce industry are divided into the following three types: first, the study of the development of the CBE-commerce industry in a particular social context. For example, Meng and Shi (2022) use SWOT analysis to examine the impact on the development of China's CBE-commerce industry under COVID-19. They point out that China's CBE-commerce industry has the advantages of an increasing
number of people with purchasing power and a favourable system given by the state, and also argue that there are disadvantages in terms of transportation and operation [4]. Second, the development of the CBE-commerce industry in a particular city region is studied. For instance, Shi and Wen (2020) analyse the strengths, weaknesses, opportunities and threats to the development of CBE-commerce business in Yichun based on a SWOT analysis [5]. Third, to study the operation mode or development strategy of a particular CBE-commerce platform. For example, Polli, G. et al. (2019) and Deng (2021) uses Shopee as an example to explore and discuss the operation mode of CBE-commerce platforms in Southeast Asia using the SWOT analysis method [6-7].

In summary, this paper uses Koala as the subject of this study to explore Koala's development strategy in the CBE-commerce industry. Furthermore, how Koala can enhance its competitiveness can also be analysed and discussed. The research in this paper can fill the gap in relatively little research on Koala, and at the same time provide a reference for the development of China's CBE-commerce platform and industry.

2. Methods

2.1. Case Analysis Method

Harvard University pioneered the case analysis method in 1880, and the Harvard Business School later used it to train top managers and management professionals in educational practice, eventually evolving into today's 'case analysis method.' Nowadays, the case study method refers to the analysis of a single object in combination with literature to draw general and universal patterns. Specifically, it is a method of selecting classic cases for analysis, verifying the theoretical basis with practical results, identifying outstanding problems in actual cases and summarising the main points, as well as exploring the causes and laying the foundation for further solutions. The analysis of enterprise cases is one of the most common applications of the case study method [8]. Based on what is known about the business operation, an objective description of a practical situation surrounding the management problem is made and a case study is conducted. There are three basic requirements for the case analysis method: first, the research object should be clear. Case analysis is based on the events of the enterprise or industry, and the case should be representative and realistic. Secondly, the information is authentic and reliable. Case analysis papers should contain first-hand information, interview content and statistical data to reflect more comprehensive details. Thirdly, theory should be combined with practice, and from the analysis of the problem, solution measures can be proposed.

In this paper, the study of the business strategy of CBE-commerce enterprises takes Koala as a corporate case. Through an objective description and analysis of Koala business strategy, the operational details and the strength and weakness of the business strategy of CBE-commerce enterprises are derived. In addition, combined with the special background of the COVID-19, the opportunities and threats that the epidemic and other external factors may bring to CBE-commerce enterprises are derived. Finally, theory and practice are integrated to propose recommendations that are conducive to the development of CBE-commerce based on the analysis results.

2.2. SWOT Analysis

In qualitative research, this paper uses SWOT analysis to analyse the development strategy of Koala. SWOT analysis is based on internal and external conditions, which means that through a survey, the primary internal strengths and weaknesses, and external opportunities and threats directly associated to the study subject are enumerated in the form of a matrix. The numerous components are then matched and studied using the system analysis approach to arrive at a set of results., which are usually of a decision-making nature. Using this method, factors that are favourable and should be developed, as well as those that are unfavourable and should be avoided can be identified, and solutions to problems can be found and the future direction of development can be clarified. In the era of both opportunities and challenges, this paper analyzes the research literature on SWOT analysis at home and abroad. Kenneth R. Andrews (1971) firstly proposes a framework for strategic analysis.
in "The Concept of Corporate Strategy". He defined strategy as a match between what a company can do and might do, with the so-called 'can do' being the company’s strength and weakness and ‘might do’ being the external environment’s opportunity and threat, which is the source of SWOT analysis. Heinz Weihrich (1982) proposes the TOWS analysis model based on the summary of previous research results, which means the strength, weakness, opportunity and threat listed in the SWOT matrix are respectively combined, and after listing all the combinations, many strategy proposals are derived. Specifically, there are four common strategies as follows: the combination of opportunity and strength leads to the aggressive SO strategy, the combination of opportunity and weakness leads to the reinforcing WO strategy, the combination of threat and strength leads to the differentiated ST strategy, and the combination of threat and weakness leads to the defensive WT strategy. The TOWS analysis model is used to analyse the external environment and the internal state of the organisation, and to determine the appropriate survival and development strategy for the organisation. Weihrich (1982) argues in his article “The TOWS matrix: A tool for situational analysis “that the TOWS model has made it possible to better apply SWOT analysis to business warfare [9].

Based on the analysis of existing research results, Zeng (2015) points out that the research on SWOT analysis is mainly focused on three aspects: first, the use of SWOT analysis to qualitatively analyze the development strategy of enterprises; second, the criticism of the shortcomings of SWOT analysis; and third, the quantitative improvement of SWOT analysis [10]. Based on the emphasis of this paper, which is on enterprise strategy analysis, it can be found that apart from the Internet industry, SWOT analysis is also widely used in many industries such as tourism, media, education and food. For example, Li and Chen (2020) study the development strategy of tourism for the transformation of coal depleted cities [11]. JK Stoller (2021) considers the coronavirus pandemic in health care that focuses on the implications for education [12]. Song (2020) analyses the development strategy of foreign food products [13], and Hu et al. (2021) examine the development path of traditional meat products in China [14]. What can be seen is that although SWOT analysis is used in a variety of industries, its main role is still strategic analysis, just as Lin (2018) points out that SWOT is a common strategic tool in corporate strategic management reports nowadays [15].

3. Result and Discussion

3.1. Strength

(1) Mature operation model

Since its foundation, Koala has been operating on a self-managed direct sourcing model, thus mastering all processes such as product selection, sourcing, price-setting, storage and logistics. At present, it has a mature operating model. In the product selection and sourcing stage, Koala combines shopping data from the platform and surveys, and hires a professional team to analyse shopping trends in China and around the world, so that attractive and valuable commodities with high quality can be selected. Afterwards, based on understanding the local market situation in the overseas country of origin and formulating the selection strategy, a professional sourcing team is employed to directly connect with quality brands and suppliers to ensure the professionalism of the sourcing process. At the same time, the quality of suppliers’ products is regularly checked to ensure the high quality and safety of the goods. In terms of warehousing and logistics operations, Koala has the largest bonded warehouse in the CBE-commerce industry, which in allows it to adopt the operation and management mode of bonded stock preparation as the main business, and direct purchase imports as a supplement. Moreover, Koala has been formally cooperating with Amazon Logistics for nearly six years and has an efficient overseas logistics operation layout. Its powerful warehousing capacity based on big data can improve the logistics speed and operational quality, effectively improving the customer experience. The self-managed direct sourcing model ensures that consumers can purchase high quality and cost-effective products while effectively guaranteeing the authenticity of the goods, which is well recognised by consumers and has gained a good reputation.

(2) Adequate support resources
The predecessor of Koala, Netease Koala, was backed by Netease Group, which itself has a rich asset and provides stable financial support for the development of Netease Koala. At the same time, Netease Koala makes use of Netease Group's products such as Netease Cloud Music, Netease Games and Netease News, for internal traffic conversion. By using the huge traffic group for internal diversion, it can gain the attention and entry of a large number of users and increase its visibility with a minimal cost. Now Koala is backed by Ali Group, and can benefit from Ali Group's strong financial support and internal diversion with Ali Group's products. Ali Group's huge user base provides an important user growth channel for Koala. Moreover, Koala and Tmall Global are no longer in competition. As a platform-based comprehensive CBE-commerce platform, Tmall Global will continue to be a platform-based business, supplemented by self-management, while Koala will be self-management-based, supplemented by a platform. They will play their own unique advantages respectively. The merger of the top two market share players will reduce the war of attrition between the two. Relying on Ali Group's mature operations team and technical support, it will be beneficial to the further development of Koala.

(3) Effective marketing strategies

According to the AARRR model, analysing the main marketing strategies of Koala, it can be seen that its marketing strategies can effectively expand Koala's market share. Firstly, during the acquisition stage, Koala could effectively increase the number of users by diverting traffic from other products within the group, naming popular programmes, launching promotions, establishing brand cooperation and inviting spokespeople. After acquiring users, in the activation stage, Koala activates users through special discounts for new users, community interaction and holiday promotions, so as to increase the activation of Koala users. Afterwards, in the retention stage, Koala increases user retention through its black card membership system, which is one of its most important marketing strategies. Users who acquire membership on the platform and continue to consume can enjoy a variety of membership benefits, such as exclusive products and exclusive coupons, which increases user retention and improves repurchase rates. In terms of revenue, Koala boosts the total amount of a single order by giving out discount coupons and recommending relevant products that match users’ preferences, and increases the frequency of users' purchases by giving out coupons after purchase, which in turn generates revenue. Regarding the referral, in order to guide users to actively promote, Koala adopts reward mechanisms such as inviting new users and sharing products to receive red packets, thereby continuing to increase the number of users.

3.2. Weakness

(1) Insufficient community live-streaming operation

Compared to today's extremely popular e-commerce live-streaming with goods, such as Taobao live-streaming and Tik Tok live-streaming, although Koala has created Koala Climbing Tree TV, which aims to lead users to experience global life and fashion trends through live-streaming. However, its overall influence is weak, making it difficult to achieve the purpose of motivating users to buy goods, and failing to keep up with the general trend of live-streaming with goods. In addition, Koala has launched the ‘Like’ community, designed as a content community for users to share. Users can share shopping tips, product-related information and tips on food, dressing, skincare and cosmetics in the community. However, the current publicity of this section is weak, and the design of the community itself is narrow and the channels are not rich enough, which leads to less attention to the community and lower activity of users. Besides, there are only a few categories in the community, which makes all kinds of information in the same category. The content is also less related to the products of Koala, so users cannot easily and quickly get to know the information that they want, which makes it difficult to improve user retention and motivate users to make purchases.

(2) Less variety and quality

With the rapid development of China's economy, consumers' standard of living has improved and the importance they attach to product quality has also increased. Therefore, more consumers in China have the need to purchase a wide range of overseas high-quality goods and luxury goods. At the same
time, compared to platform-based CBE-commerce platform, where third-party merchants are introduced to provide merchandise services, there are fewer brands that can be introduced to self-managed CBE-commerce platform, so Koala, as a B2C self-managed CBE-commerce platform, has a smaller selection of products than the platform-based Tmall Global and the self-managed + platform-based Jingdong Global. Therefore, it cannot fully satisfy consumers' demand for various overseas products. Moreover, although Koala adopts the self-managed model that helps to guarantee the quality of products, it still has the problem of inadequate control of the supply chain, and there have been negative news about fake products, such as down jacket of Canada Goose and Estee Lauder. As Koala’s own consumers are still unstable, it needs to deepen consumers' reliance on the platform. Therefore, this negative news dissipated consumers' confidence in Koala's ‘100% authentic imported products’ and ‘one for ten for fakes’, which brings a risk of losing consumers to the growing Koala.

(3) Low quality of sales service

The self-managed model of Koala determines that its sales service problems have to be solved by itself, but currently lacks an efficient back-end service system and sufficient online customer service staff. The existing customer service capacity is poor as well, resulting in Koala being complained by users on several social media platforms for its perfunctory customer service attitude and lack of timely problem solving. Furthermore, the return threshold of Koala is high. Although the products sold by Koala offer seven-day returns, they do not allow for exchange services and some of the products do not support returns. In the 2021 e-commerce 315 exposure, according to the effective complaints received by 'Electricity Complaint' from users in the CBE-commerce field, there are problems with the quality of goods, refund, fake promotions, difficulty in exchanging and returning goods, and other sales and service problems in Koala.

3.3. Opportunity

(1) Strong policy support

The growth of the CBE-commerce industry has flourished largely due to the strong policy support from the Chinese government in recent years. The following is a collection of some of the key support policies for CBE-commerce in the past three years from 2019-2021.

At the National People's Congress and the Chinese People's Political Consultative Conference in March 2019, the State Council indicated that it would reform and improve policies to support new businesses such as CBE-commerce. In December 2019, the Ministry of Finance issued “the List of Goods for CBE-commerce Retail Imports (2019 Edition)” to implement the State Council's request to adjust and expand the list of CBE-commerce retail import goods. In March 2020, the General Administration of Customs (GAC) issued “the Announcement on Regulatory Matters Relating to the Return of CBE-commerce Retail Imports”. In June 2020, the GAC issued "the Announcement on the Launching of the Pilot Project on B2B Export Supervision of CBE-commerce ", which stipulates that from 1 July 2020, the integration of national customs clearance will apply to B2B exports of CBE-commerce goods. In November 2020, the General Office of the State Council issued the "Implementation Opinions on Accelerating the Development of New Foreign Trade Patterns and Modes" to further improve the policies supporting the development of CBE-commerce. In October 2021, "the 14th Five-Year Plan for the Development of E-Commerce" was released, setting out the development goals for the 14th Five-Year Plan period and the visionary goals for 2035, as well as establishing a major indicator system of e-commerce development for the first time. In November 2021, "the 14th Five-Year Plan for the High-Quality Development of Foreign Trade" actively developed silk road e-commerce. The global layout of Silk
Road e-commerce was expanded and a large e-commerce market was built along the Belt and Road Initiatives. Moreover, as early as June 2015, when the implementation plan for the Hangzhou CBE-commerce comprehensive pilot zone was officially released, Koala was already awarded as one of the "first pilot enterprises in the CBE-commerce comprehensive pilot zone", gaining strong policy support. Now, through the policy summary of the past three years, it can also be seen that under the background of COVID-19, the government adheres to strict regulation of CBE-commerce and maintains a good industrial policy environment, while continuously increasing the opening up to the outside world and strongly encouraging the development of CBE-commerce, which is undoubtedly an important opportunity for Koala.

(2) Rapidly developing technology

The development of internet technology is the basis for the fast-growing maturity of CBE-commerce, and the two are inextricably linked. In recent years, internet broadband rates have grown rapidly, the popularity of the internet has increased, and a sound infrastructure has spread across China. According to "the Statistical Report on the Development of the Internet in China", by December 2021, the number of Internet users in China reached 1.032 billion, with an Internet penetration rate of 73.0%. Online retailing has become a new consumption engine, and the size of Chinese online shopping users reached 812 million, accounting for 80.3% of all Internet users. The data shows that the development of Internet technology has facilitated the expansion of the scale of online shopping in China, which has built a technical foundation for the development of the CBE-commerce industry. At the same time, CBE-commerce involves the cross-border movement of logistics, capital flow and information flow, so the development of technologies such as warehousing and logistics, blockchain, big data and mobile payment can enhance users' CBE-commerce shopping experience. Firstly, commodity access, delivery and picking systems have been automated, the informatisation process of warehousing and logistics has been significantly accelerated as well, so mature logistics service enables favourable protection of commodity transportation chain and ensures users get intact commodities quickly. Secondly, the development of big data technology is conducive to CBE-commerce platforms' accurate and efficient matching of massive information and users. Using the results of data analysis to make relevant predictions can bring a more convenient and pleasant shopping experience to users. Finally, the traceability and immutability of blockchain can help cross-border logistics to check and trace product quality issues, so that consumers can clearly understand the entire process of goods from production, sales to transportation. Finally, the technology development of video streaming and live streaming also provides more opportunities for the growth of CBE-commerce platforms. The mutual addition of short video, live streaming and e-commerce has breathed new life into the marketing of goods, which can further attract a wide range of user groups and expand the scale of CBE-commerce consumers.

(3) Promotion of the COVID-19

Due to the impact of the COVID-19, traditional offline trade has suffered a serious hit, and online shopping has become the major shopping method. The overall trend of users' online purchase quantity and frequency has increased. Meanwhile, the previously active small-scale proxy shopping, and other cross-border shopping methods are limited by various restrictions such as international logistics and port closures. They cannot well meet the needs of massive users to buy imported goods, so more domestic users choose online CBE-commerce platforms. Based on this background, China's CBE-commerce platforms have vigorously utilised the characteristics of online marketing transactions, contactless payments, large stock levels and policy support to actively cultivate new advantages for participation in international cooperation and competition, which has resulted in continued rapid growth in the scale of imports and exports. In addition, due to the impact of the epidemic, people live at home and work remotely for long periods of time, and become more concerned about personal hygiene and physical and mental health. Therefore, the demand for high-quality protective and sterilizing items, such as masks and disinfectant water, as well as daily necessities, such as food and oil, and health products, has increased significantly, which is a critical opportunity for Koala as it focuses on high-quality imported goods. Live streaming has also become a new hotspot for CBE-
commerce, helping to attract more national and regional brand owners at a period when offline communication is extremely limited.

3.4. Threat

(1) Numerous competitors in the industry

The CBE-commerce industry is developing well with a large number of competitors. After the acquisition by Ali, the market share of Koala has fallen behind that of Tmall Global, followed by competitors with a certain market size such as Jingdong Global, Suning Global and Vipshop Global. And although Koala and Tmall Global are both owned by Ali, they still need to stagger their competition to avoid homogenisation. Besides, because of the large number of CBE-commerce platforms, the prices of imported goods are gradually becoming clear, low platform gross margins and high operating costs make it difficult to reach profitability without strong capital chain support.

(2) Difficult to explore sink markets

At present, CBE-commerce users are mainly located in first and second-tier cities, and the existing cross-border consumers have almost been divided up by major e-commerce platforms, so it is difficult to continue to expand the scale of users. The proportion of third and fourth-tier cities is small, so it is urgent to explore the sink market, but it is a big difficulty to explore the sink market of the CBE-commerce industry. Firstly, the needs of users in the sink market are scattered and have a diverse and fragmented character. Although the total amount of the sink market is huge, it is distributed in a vast area, so there is the phenomenon that the needs of users vary depending on the region. According to statistics, the total population of the sink market exceeds 1 billion in 2020, but the proportion of urban and rural population is half and half. Compared to urban residents, rural residents have uncertain economic conditions, affected by housing, demolition, harvest and many other aspects. Their economic uncertainty also leads to uncertainty of demand. Secondly, competition in the sink market is fierce, and imported goods are difficult to replace domestic goods. According to the data, from January to September 2020, the net increase of e-commerce users in the sink market exceeded 90 million, but practical household goods are still the main purchase products in the sink market, and affordable prices are often the first factor for users in the sink market to purchase goods. Therefore, although e-commerce consumption has become widely popular in the sink market, it is very difficult for Koala, which mainly focuses on middle and high-end imported goods, to explore the sink market.

(3) International logistics hit by the epidemic

COVID-19 has caused a huge impact on the supply chain of CBE-commerce, with large fluctuations in the supply and demand of commodities, and many cross-border logistics channels have been forced to terminate, which seriously affects the timeliness of cross-border logistics. As a result of the epidemic, firstly, in the field of international air logistics, the transport capacity of the entire international air sales market was reduced by more than 60% in the first half of 2020 compared to the normal level, which led to many import and export enterprises facing difficulties in transporting goods and a sharp increase in air freight costs. Take China Post for example, in April 2020, affected by the spread of the epidemic around the world, China Post's international freight flights were cut and suspended, and transportation costs rose significantly. Secondly, international shipping has suffered a huge attack. As the main means of transport in international logistics, international shipping is the first to be hit when orders fall sharply. As the epidemic spreads, companies will reduce or stop their logistics operations if the pandemic is found among their crews, staff at ports, terminals or warehouses. Moreover, more and more countries and ports will make stricter controls on the entry and exit of crews, for example by enforcing a 14-day quarantine on arriving cargo ships, which considerably increases the cost of freight and makes the form of international logistics even more serious.

4. Conclusion

Through the analysis of this paper, in terms of internal conditions, the development strategy of Koala has the strengths of a mature operation model, adequate support resources and effective
marketing strategies, but also the weaknesses of insufficient community live-streaming operation, less quality and variety of product and low quality of sales services. In terms of the external environment, policy support, technology development and the promotion of the COVID-19 bring opportunities to Koala, but there are also threats of numerous competitors, difficulty in exploring sinking markets and international logistics suffering from epidemic.

Based on this, this paper gives some suggestions for the development of the e-commerce platform. Firstly, CBE-commerce platforms should develop a unique competitive advantage by establishing its business model. In the case of Koala, its self-managed direct sales model gives it strengths that are different from other platforms when it comes to product selection and warehousing logistics. Secondly, CBE-commerce platforms mostly sell high-quality imported goods, but the problem of poor quality and variety of goods is widespread. Moreover, compared to the giants of e-commerce platforms that mainly focus on domestic goods, CBE-commerce platforms often lack sufficient after-sales service staff. Therefore, a consumer feedback system should be established. Consumers who are dissatisfied with the quality or variety of the product, the quality of after-sales service and other issues can complain in the system, so that the platform can in turn make effective improvements based on the complaints. Thirdly, as the impact of the epidemic continues, there is still a high demand for online shopping and specific types of commodities such as protective items and necessities, while the long hours in the home give consumers a higher level of interest in live streaming. CBE-commerce platforms should boost their efforts to promote and sell these types of goods, as well as use live-streaming to advertise them.

In summary, this paper uses the SWOT analysis to analyse the internal strengths and weaknesses as well as the external opportunities and threats of Koala's development strategy. Theoretically, it fills a research gap in the academic analysis of this CBE-commerce platform and enriches the practical application of SWOT analysis in the analysis of corporate development strategies. Practically, the objective analysis of Koala's development strategy in this paper can provide some reference for investors and industry analysts when making investment decisions and value judgments on the company, and targeted suggestions based on analysis can also improve its competitiveness. As one of the CBE-commerce platforms, the strengths and weaknesses of Koala's development strategy as well as the opportunities and challenges it faces can serve as a reference for other CBE-commerce platforms, thus promoting the development of the CBE-commerce industry.

References


