

Analyse the Operation and Management of Taobao Platform through the Case Study Method and Make Recommendations for Improvement

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Abstract. With the accelerated pace of life, e-commerce has gradually become the mainstream of the consumer market. With its unique Internet economic system, China has developed Taobao, an online shopping platform with strong competitiveness in the Chinese market and even globally. Taobao has applied the advantages of big data and social media but has neglected some fundamental issues in marketing. The primary purpose of this study is to find out some problems of the Taobao platform through its profit model, technology application, logistics management, and product management and to make suggestions for these problems. The analysis shows that Taobao needs to allocate a small amount of attention to the application of technology and needs to pay special attention to the issues of logistics and commodity management. Regarding technology applications, Taobao can improve its software functions to give users a better experience. Regarding logistics and product management, Taobao must strengthen supervision and allocate more resources to protect users' reputations.

Keywords: Taobao, logistics management, commodity management, customer satisfaction, consumer-to-consumer (C2C).

1. Introduction

E-commerce is a business activity that involves commercial trade worldwide, with the Internet as the core and primarily telephones, televisions and computers as carriers—E-commerce to commodity providers, advertisers, intermediaries and consumers. In the decades since the emergence of e-commerce, the online shopping system has gradually matured, relying on a relatively perfect online credit system and security certification. As a new marketing model, online shopping has become the mainstream consumption mode that people will choose in today's society.

Several significant advancements in worldwide e-commerce, including the utilisation of QR codes and digital wallets, as well as the adoption of text messaging and live-streaming marketing, have emerged in China in recent years. These innovations may be traced back to the country's socialist market economy model. The substantial expansion of China's technology and online sectors can be attributed, in part, to the backing provided by the Chinese government and the conducive atmosphere it has fostered. China has established an alternative digital environment through the implementation of governmental restrictions and efforts. This includes the prohibition of popular websites such as YouTube, Facebook, Twitter, Google, and Amazon, while concurrently fostering the development of a domestic online ecosystem [1]. The Taobao platform, which was established on May 10, 2003 by the Alibaba Group, has experienced significant growth within the internet ecosystem in China. Similar to eBay or Amazon, Taobao is an online marketplace originating from China that facilitates the consumer-to-consumer (C2C) model of shopping. It provides a platform for small firms and independent business owners to establish online storefronts, primarily catering to customers in Chinese-speaking nations. Based on statistical data, it is seen that as of December 2022, over 1.1 billion individuals in China engaged in mobile shopping activities on the Taobao platform. Furthermore, as of March 2023, Taobao recorded a substantial user base of over 892 million monthly active users [2]. Taobao has successfully operated for numerous years, enabling it to achieve its current expansive scope. The online shopping market of Taobao has experienced significant growth, reaching a substantial magnitude. Nevertheless, Taobao remains a consumer-to-consumer (C2C)

oriented electronic commerce platform, hence giving rise to numerous challenges pertaining to product quality, credit ratings, and customer contentment. Establishing and maintaining purchasing intentions among internet clients becomes increasingly complicated [3]. The primary objective of a firm is to effectively acquire new clients and increase the probability of repeat purchases from existing clients, as research suggests that repeat clients generate five times more profit compared to new clients [4]. Taobao has undertaken software updates on its platform with the aim of attracting and retaining customers, gaining insights into industry competitors, formulating operational plans, and enhancing user experience. Nevertheless, there is a need for more focus on logistics and merchandise management.

This paper aims to conduct an analysis of the case study of Taobao in order to obtain a comprehensive comprehension of Taobao's market share and competitiveness within the Chinese market. Additionally, it seeks to evaluate the efficiency of Taobao's marketing approach and the underlying reasons for its success, within the broader framework of Taobao's business strategy. Through an examination of the benefits and drawbacks inherent in Taobao's marketing procedures, an endeavour will be made to consolidate and evaluate these issues. In contrast, this study aims to analyse the challenges faced by Taobao.com and propose appropriate recommendations for its growth and future marketing endeavours.

2. Taobao's Background

According to available reports, Taobao has gained recognition as a highly visited website on a global scale, securing a position inside the top 12 list. Moreover, it is noteworthy that this platform is recognized as the most extensive electronic commerce platform in the country of China [5]. Taobao, an e-commerce platform, is among the three important retail websites that have been launched by Alibaba Group, a leading entity in the Chinese e-commerce business [6]. It functions in conjunction with Tmall, an e-commerce platform catering to business-to-consumer transactions, and Juhuasuan Group, a specialized platform facilitating group purchasing activities. The e-commerce platforms managed by Alibaba Group possess a significant user base, exceeding 350 million active users. In addition, these platforms have earned a substantial total revenue exceeding RMB 76.2 billion. According to a study conducted in 2015, the aggregate value of merchandise transactions on Taobao exceeded RMB 244.4 billion [7]. Taobao, as a fast growing and popular e-commerce platform, has attracted the interest of several small and medium-sized firms aiming to promote their merchandise. Based on the facts at hand, Taobao, a famous e-commerce platform, boasts a significant vendor base over 8 million. It is worth noting that approximately 50% of these dealers are primarily located in the economically developed Chinese cities of Beijing, Shanghai, Guangzhou, and Shenzhen [8]. Taobao is an e-commerce platform that integrates features from both the customer-to-customer (C2C) and business-to-customer (B2C) business models, with a specific emphasis on catering to small brand proprietors. As a result, emerging entrepreneurs are use Taobao as a platform to commence their initial business endeavours. Furthermore, due to a substantial rise in the population of young entrepreneurs, Taobao has gained widespread recognition as a key business incubator in China [9].

In the given setting, Taobao commenced a sequence of experimental endeavours by introducing the "Double Eleven" shopping event in 2009. This particular event holds the distinction of being the most significant annual sales day on the Taobao platform, surpassing the scale of the "Black Friday" shopping day by around three times. Undoubtedly, this promotional effort is positioned to yield a significant increase in Taobao's annual sales statistics. Based on the referenced source, there was a notable increase in the annual turnover of "Double Eleven" between the years 2017 and 2020. The amounts recorded were 168.2 billion yuan, 213.5 billion yuan, 268.4 billion yuan, and 467.4 billion yuan, respectively [10]. During the "Double Eleven" event in 2018, the aggregate transaction value exceeded \$1.43 billion in a surprisingly little duration of 6 minutes and 58 seconds. One of the key causes that contributes to the achievement of this significant number is the increasing reliance on the Internet in contemporary society. According to the data released by CNNIC, it is estimated that the

total number of Internet users in China would reach 940 million by the year 2020, accompanied by an anticipated Internet penetration rate of 67% [11]. Moreover, in recent times, there has been a notable increase in the adoption of internet shopping, mostly attributed to the fast-paced nature of contemporary society and the influence of the COVID-19 global health crisis.

3. Analysis of the Current Situation of Taobao

This section will analyze the effectiveness of the Taobao platform's operations and techniques. The first is the way of Taobao platform's profitability. As we all know, Taobao and Alipay are inextricably linked. Alipay is an online payment platform created by Alibaba Group and is the mainstream means of payment for Taobao, a prominent Chinese e-commerce website. Furthermore, Alipay, like PayPal, makes its profits through escrow transaction fees, value-added services, and interest generated by credit payment instalments. Alipay also charges a service fee on Taobao. Merchants are charged 0.55 per cent for each successful transaction. The system is free for withdrawals up to about \$3,000. Above this limit, users pay a 0.1% handling fee [12]. Alipay is a compelling alternative for merchants when compared to the rates provided by conventional credit card providers and payment facilitators. Furthermore, considering the substantial number of transactions and the significant value of transactions created annually by Taobao, it is noteworthy that the platform refrains from imposing transaction middleman fees on sellers or buyers. In a similar manner to Google, the platform generates revenue by providing sellers with advertising opportunities and enhanced product visibility. Due to the large number of merchants on the Taobao platform, and thus the intense competition among merchants to attract buyers' attention, Taobao offers merchants the option to pay for advertisements based on the effectiveness of the publicity [12]. Theoretically, part of Taobao's revenue comes from sellers competing for buyer exposure.

Based on the keyword exposure mentioned earlier, Taobao's use of big data and social media is also noteworthy. In the e-commerce environment of social media and live bandwagon, Taobao has upgraded its software system to some extent. Taobao has added a short video system similar to Jieyin to its original foundation, allowing sellers to post short videos related to their products to attract consumers. In addition to this, individuals have the option to decide whether or not they wish to disclose transaction details when engaging in a transaction. In the event that users opt to disclose their information, Taobao's product page will exhibit the transaction record, product link, and product-related remarks. These details will be accessible to other users, enabling them to engage with the sharer and obtain additional information. The user provided a numerical reference without any accompanying text [13]. In addition, in terms of big data, Taobao uses big data to string together product keywords to provide each consumer with adverts for items that consumers are more interested in. Such informativeness is enough to influence consumer behaviour.

In contrast to the past, where the influence of individuals was limited to one's social circle in the early days before the Internet took shape, social media in the Internet environment has expanded and strengthened the influence on individuals [14]. In such an environment, consumers can be the first to get information about the products they need to decide which product they will choose. The Taobao platform will be able to make more money from advertising as a result of the increased competition among vendors.

In addition to the Internet environment, social media and the application of big data, product planning, logistics management and user reputation is the cornerstone of Taobao's operation. First of all, as mentioned above, Taobao individual sellers have huge competitiveness, which to a certain extent, will lead to a decline in customer loyalty. Due to the nature of the e-commerce marketplace, consumers must transact without inspecting the product, so quality issues in online shopping are always present to some extent [15]. These issues affecting online shopping customer satisfaction include product quality, information presented about the product and the quality of service the seller provides. Most of Taobao's products rely on supply chain advantages to implement a high-volume, low-margin business strategy. In other words, most of the products on Taobao have quality problems

caused by low cost. This has led to some Chinese consumers having a negative view or attitude towards Taobao.

Regarding logistics management, Taobao cooperates with many logistics companies with different service quality and prices. If customers need help with logistics and distribution, they will associate them with Taobao sellers, which will affect Taobao's sales and corporate image. Taobao is an online trading platform; sellers must send their products through logistics companies. Liao also found that Chinese online consumers are more concerned about product warranty and after-sales service than American online consumers [16]. This means that the problems that can occur throughout the shipping of goods are almost entirely uncontrollable, which can affect Taobao's user reputation and customer satisfaction.

To sum up, Taobao's operational structure is a ring; Taobao has been relatively perfect in the software within the structure, technology and profit model to do. Regarding software, Taobao has followed the most popular social media and live streaming model to give consumers a better shopping experience. Regarding technology, Taobao uses big data to recommend more suitable consumer products. Nevertheless, Taobao should be doing better regarding basic operations and consumer satisfaction. Since Taobao's logistics are outsourced, if there are problems in transit, merchants and Taobao cannot offer solutions directly, which can be off-putting to consumers because it is hard for them to get compensation for damage to their goods in transit. The quality of the product also affects the reputation of consumers, as most of the products on Taobao are low-priced, low-quality, and online shopping has the problem of "not letting buyers know whether some special products are suitable for them". In order to solve these problems, Taobao provides users with the right to communicate with sellers' customer service and a return policy to ensure consumer rights. First, buyers can communicate with sellers to specify their relatively trusted logistics companies and packaging methods, giving buyers the right to customize logistics solutions to significantly reduce the probability of damage to goods in transit. On the other hand, to maximize the protection of consumer rights and interests, some sellers launched a "seven-day return and exchange" service in Taobao and sellers' negotiation. The "seven-day return and exchange" policy means customers can return or exchange goods for any reason within seven days. According to Zhou's 2015 study, sellers that adopted a "seven-day return" return policy generated an additional 0.29 per cent profit compared to sellers that did not adopt such a policy [17]. This shows that the policy can be profitable for both buyers and sellers.

4. Suggestions

By analyzing Taobao's software and marketing model, it can be found that Taobao has been trying to improve its problems and provide better services for consumers. However, Taobao still has some minor problems that need to be improved. The first is the application of big data. Although Taobao can achieve the goal of providing personalized products for all buyers, facilitating buyers' choice of products and achieving transparency of purchase information, there is still the phenomenon of sellers' "click farm" for buyers, which leaves consumers at a loss. The process of click farm does not require actual payment, in which the seller only loses a small amount of cost but wins an increase in product exposure [18]. Therefore, it is suggested that platforms can be more intelligent in giving filters to buyers' evaluation screening and shielding this "click farm" backend technology to provide consumers with the most authentic customer feedback information for product selection.

Taobao still needs to do better in terms of logistics. The logistics and distribution responsibilities of Taobao platform still need to be made clear. Taobao must first assist customers in locating proof that the goods are defective, which will consume a lot of resources and be relatively expensive. Second, logistics firms are unwilling to work together. The fact that Taobao sellers, not purchasers, are the logistics firm's consumers accounts for a significant portion of this; hence, the logistics company seldom needs to pay heed to the buyer's displeasure.

Hence, logistics companies only care a little about the complaints and grievances of buyers in logistics, and it will not have a significant impact on the development of logistics companies [19]. Therefore, even if the goods are damaged, and the buyers react, the sellers and the logistics companies will shirk their responsibilities to each other. As mentioned above, consumers will have a negative attitude towards the Taobao platform because of the problems generated by logistics. Suppose the Taobao logistics company's logistics time, service attitude and cargo damage rate are these aspects of the regular assessment. If the results could be better, Taobao can find other logistics providers to replace or with the existing suppliers. Optimize the logistics management system to increase the efficiency and accuracy of the logistics process to improve customer satisfaction. Optimize the logistics management system to increase the efficiency and accuracy of the logistics process to improve customer satisfaction.

Commodity control, in this regard, Taobao still needs further improvement. Current product quality control measures, third-party quality testing, and online shopping platform quality sampling need to be improved. As mentioned earlier, most of the goods on Taobao are profitable on a low-cost, low-margin, high-volume model. This means that most of these goods are of poor quality, which mainly affects consumers' willingness to buy poor-quality goods even if they are precisely aware that they will be buying them [20]. Although Taobao's existing policy maximizes the win-win strategy of "seven-day return and exchange" for both sellers and buyers, Taobao should still be prepared to maintain its "seven-day return and exchange" policy for both sellers and buyers. However, Taobao should still be prepared to maintain its competitive advantage. For Taobao to better regulate the market, it is recommended that Taobao increase the supervision of the goods sold and sellers and screen the quality of the goods sold to maximize customer satisfaction and repurchase rate to achieve higher profits.

5. Conclusion

The research analyzes Taobao's internal operating structure and makes suggestions on some of its existing problems by understanding Taobao's profit model, logistics management, commodity management and marketing activities. Taobao's profit methods mainly collect advertising fees from merchants and Alipay to generate profits. Taobao currently applies big data and social media to provide consumers with a better shopping experience, but the platform still has a "click farm" situation. "Click farm" will affect consumers' judgment of goods and will affect consumer repurchase rate, so it is recommended that Taobao officials use big data to filter this "click farm" false information. Regarding logistics management, Taobao chooses to cooperate with several logistics companies, which has some things that could be improved, such as unclear liability for Taobao logistics distribution. To this end, this proposal evaluates the Taobao platform and logistics companies to protect the rights and interests of consumers to the greatest extent. Finally, commodity management, because Taobao's mainstream products are low-quality, low-price products, which will inevitably make non-target consumers give negative evaluations, in order to have and better customer base, it is recommended that Taobao increase supervision and screening of goods and sellers to protect good reputation.

Taobao is the largest e-commerce website in China. Still, future studies should compare shopping websites in Western countries to make better ideas by describing the benefits and disadvantages of both sides. This study used the case study technique, so the findings may not be able to thoroughly assess the changes in the role of social factors on consumer purchasing behaviour in the cash Internet era from a dynamic perspective. Future research should be focused on collecting more data and public feedback to improve this study. Future research should examine both Western and Eastern countries to capture the strategies of the e-trade business worldwide.

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