Understanding the Emerging C2C Electronic Market in China: An Experience-Seeking Social Marketplace

JIN CHEN, CHENG ZHANG, YUFEI YUAN AND LIHUA HUANG

INTRODUCTION

In the past five years, China’s consumer-to-consumer (C2C) electronic market has been growing rapidly. The number of online consumers reached 22.5 million in 2005, which was eight times larger than what it had been in 2001. The total transaction volume in China’s C2C electronic market rose from 0.4 billion RMB in 2001 to 13.7 billion RMB in 2005 (iResearch 2006).

China’s C2C online auction market was created by Eachnet. Launched in September 1999, Eachnet (http://www.eachnet.com) quickly attracted more than 870,000 registered users and became the most popular auction site in China. By merging with Eachnet in 2003, eBay extended its C2C business to China. Another Chinese C2C vendor, Taobao.com, was founded by Alibaba.com corporation in 2003. In 2005, several other newcomers began their C2C businesses, such as Dangdang.com (the leading online retailing vendor in China) and QQ.com (the largest Internet community service vendor in China). Facing intensive competition, C2C companies have to put more effort into acquiring new customers and retaining loyal customers than ever before.

Abstract

China’s consumer-to-consumer (C2C) electronic market has been growing very rapidly. The largest Chinese online auction company, Eachnet, was purchased by eBay but faced tough competition from a new Chinese online auction company, Taobao. Now Taobao’s market share is twice as large as eBay’s. Why has eBay quickly lost its market share to the newly launched Taobao? What is the nature of this market? On the premise of the customer relationship management (CRM) process model, we conduct a case study to describe the whole picture of this market and to find out what strategies are most suitable to the current Chinese market and likely to lead to success. Our study shows that the C2C market in China is a young and experience-seeking market whose customers are price-sensitive, willing to try new services and new vendors, and comfortable with switching. The market is also a social environment where customers’ loyalty to a vendor can be built more easily by the vendor’s social relation management service than by the transaction service. The findings suggest that vendors in China’s C2C market should not only provide a functional service to acquire customers, but also foster the development of social marketing to retain customer loyalty. The social marketing design should be tailored to Chinese culture.

Keywords: electronic commerce, customer relationship management (CRM), social relation

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In 2005, over 95% of market transactions in China were dominated by two companies, Taobao.com and eBay (China), Inc. Taobao’s transaction volume reached 58.6% of the total C2C market transaction volume, compared to 36.4% for eBay. However, in 2003, the market share of eBay (the former Eachnet) was 72.4%, while Taobao’s market share was only 7.8% (iResearch 2006). How could Eachnet, after being purchased by eBay, have lost so much market share to Taobao? What is the strategy that can help to win customers in the Chinese C2C market? The competition and actions in the emerging market provide plentiful research materials to explore the fast-developing electronic marketplace, particularly emerging C2C businesses in China.

It is a common argument that its strategy of free service helps Taobao to win customers. However, two other C2C vendors, Dangdang.com and QQ.com, both follow Taobao’s free-service strategy, but their current market shares are only a quarter of Taobao’s (Analysys 2006). Taobao’s customers do not switch to new vendors, as many of eBay’s customers switched to Taobao in the past. eBay has also provided free service since 2005. However, other vendors’ efforts did not slow down the growth of Taobao’s market share. On the contrary, Taobao’s market share continues to grow. Therefore, free service is not the key to retain customers in the Chinese market.

Neither vendor reputation nor investment appears to be the open sesame to win customers in China. When Taobao was first launched in 2003, its affiliation with Alibaba was kept confidential until Taobao had achieved great success in acquiring customers (Xu 2004). Its competitors, such as eBay, Dangdang, and QQ, all are well known with high reputations. However, their reputations did not help them retain customers as successfully as Taobao. Furthermore, eBay’s 2.2-billion-RMB investment did not prevent customers from choosing Taobao, which invested only 0.45 billion RMB in the market until 2005.

A survey report revealed that ‘instant communication tools’ ranked as the most satisfying service of Taobao but did not rank as a satisfying service on eBay. Moreover, ‘community’ ranked as the third most unsatisfying service provided by eBay. In contrast, ‘community’ did not rank as an unsatisfying service of Taobao (CNNIC 2006b). Both communication tools and community are highly related to social interactions. As Sun Tongyu, the CEO of Taobao, says, ‘Chinese businessmen are used to building relations with partners through meeting, chatting, or having dinner together before making a deal. The tradition is inherent’ (Sun 2005). However, previous studies focusing on online shopping have not addressed such social relations. Most previous studies on electronic market (e.g. Gefen 2002, Gefen et al. 2003, Jarvenpaa et al. 2000, Kim et al. 2004, McKinney and Yoon 2002, McKnight et al. 2002a, Yuan and Shen 2000) and on customer relationship management (CRM) (e.g. Boulding et al. 2005, Mithas et al. 2005, Payne and Frow 2005, Reinartz et al. 2004, Srinivasan and Moorman 2005, Winer 2001) have tended to study from technological, cognitive, or marketing perspectives. Can these results be used to explain the nature of China’s flourishing electronic C2C market? Is there a way to enhance the existing studies by observation of the Chinese market? In this paper, we incorporate the social perspective into an existing CRM framework and use the framework to investigate why e-business companies reached different results with different strategies in the setting of Chinese culture.

The remaining paper is organized as follows: The second section reviews the literature on CRM theory and social psychology theory and provides a theoretical framework to explain vendors’ CRM-related marketing strategies. The third section develops research propositions, and the fourth outlines the research methodology. The fifth section is a detailed case analysis of two major C2C vendors, eBay and Taobao. Since the sum of Taobao’s and eBay’s transaction volumes accounts for 95% of China’s entire C2C market, observation of the two companies can provide a good overview of the market. The final section outlines the major research outcomes, discusses how the outcomes reflect the characteristics of the emerging market, and predicts the directions in which the market will develop.

LITERATURE REVIEW

In this paper, we study C2C customers and vendors from marketing and social perspectives. In the marketing literature, CRM is seen as an effective and efficient way of conducting business (Peppers and Rogers 2004), and has been proven to help firms serve their customers better and obtain core competence in market practice (Boulding et al. 2005). The social literature sees customers as not isolated from their social relations. Thus, a customer’s shopping choice could be affected by social experiences (Cherrier and Murray 2004, Wang 1999). We expect that an integrated view of CRM in marketing and social studies of Chinese business could better reveal the underlying nature of China’s e-business market.

CRM theory perspective

CRM theory contends that the optimal long-term tactic for firms is to build and manage strong relationships and to develop loyalty with target customers through creations of dual value (Boulding et al. 2005, Payne and Frow 2005). Numerous previous studies have proven the link between customer loyalty and profitability (Reinartz and Kumar 2000), the link between CRM and market share development (Verhoef 2003),
and the link between CRM and firm value (Reichheld et al. 2002).

The original concept of CRM was formulated by Levitt (1960), who argued that firms stay in business by meeting a need, not by selling a product. Berry (1983) elaborated this concept, shifting the emphasis from the actual exchange process to the relationship between the company and the customers. Later, the concept of building relationships was expanded from the service sector to other domains (Boulding et al. 2005). Many scholars have studied the firm’s core capabilities to develop and maintain good customer relationships, proposing more elements of CRM, such as market orientation (Kohli and Jaworski 1990, Narver and Slater 1990) and customer portfolio management (Johnson and Selnes 2004), and formalizing the CRM concept more clearly. Meanwhile, because of an explosion of customer data in the 1980s, many firms were overwhelmed by this onslaught of potentially useful information (Boulding et al. 2005). Many vendors began using the term ‘CRM’ to refer to data collection and activities surrounding the management of the customer–firm interface, and they developed many hardware and software solutions. But CRM is not limited to data marketing; it is defined as ‘the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction (Kotler and Armstrong 2004). CRM processes are longitudinal phenomena, and can be divided into three stages: initiation, maintenance, and termination (Reinartz et al. 2004).

**Initiation.** The objective of the initiation stage is to acquire and retain customers (Reinartz et al. 2004). At the beginning of this stage, the company should first select its target markets and develop products for its target customers. Then the company uses marketing strategies such as pricing and promotion to convert prospects into first-time customers and to win back dissatisfied customers (Kotler 1994).

Product development plays a key role in marketing management (Kotler 1994). A product is anything that can be offered to satisfy a need or want, and consists of as many as three components: physical goods, services, and ideas.

Price is often a very common and effective means of competition (Kotler 1994). There are different objectives and methods of pricing. When the market is highly price sensitive, setting a low price may stimulate market growth. When the company aims to be the product-quality leader in the market, setting a high price may be optimal.

Promotion, including advertising and sales promotion, is a key ingredient in marketing campaigns (Kotler 1994). Advertising is any paid form of non-personal presentation and promotion of ideas, goods, and services by C2C vendors. Sales promotion consists of a diverse collection of incentive tools, mostly short-term.

**Maintenance.** The objective of the maintenance stage is to retain customers by maintaining good relationships with them (Reinartz et al. 2004), thus delivering a higher level of customer satisfaction than competitors do (Winer 2001). Winer developed a comprehensive set of relationship programs that consist of customer service, loyalty programs, customization, and community building (Winer 2001).

Customer service, which refers to any contact or ‘touch points’ between a customer and a firm, can be divided into reactive service and proactive service in terms of contact sequence. In the former, the customer contacts the company to solve problems; in the latter, the manager is aggressive in establishing a dialog with customers (Winer 2001).

Loyalty programs reward customers for repeat purchasing (Winer 2001), such as providing discount and conducting membership programs. It is proven that loyalty programs that provide economic incentives positively affect both customer retention and customer share development (Verhoef 2003).

Customization turns customers from product takers into product makers (Winer 2001), as in developing processes and systems for creating customized products according to customers’ tastes and desires. It is proven that by better customizing product and service offerings for individual customers, customer retention (Parasuraman and Grewal 2000, Srinivasan et al. 2002) and profitability (Oliver 1999, Sheth 2002) can be increased.

Community building programs create a network of customers that exchanges product-related information and creates relationships between the customers and the company or brand (Winer 2001). It is proven that community building increases customer trust in the vendor (Sumeet et al. 2006).

**Termination.** The objective of the termination stage is to economize on unprofitable or marginally profitable customers (Reinartz et al. 2004). Since China’s C2C electronic market is far from mature and is growing rapidly, vendors’ main concern is how to initiate and maintain customer relationships, but not how to terminate customer relationships. Therefore, this paper will focus on the first two stages of CRM.

**The perspective of social psychology theory**

In social study literature, the Chinese social network is conceived as a series of concentric circles (Fei 1948). Chinese people perceive themselves as situated at the center of this network. The extent of intimacy with others is reflected by their relative position within the
concentric circles of one’s psychological field (Hwang 2000), as Figure 1 shows.

Moreover, the Chinese people ‘tend to adopt multiple standards of behavior for interacting with different persons around them’ (Hwang 1987: 949). On the one hand, the Chinese tend to show unconditional interdependence with their family members, and conditional interdependence with other intimates (Yang 2005a); thus, they highlight the responsibility to their families, give them priority and protect them in a stranger’s presence. On the other hand, Chinese think that they have no interdependence with strangers and would underline fairness in relation with strangers. It is empirically proven that Chinese people tend to be more particular about trifles and behave more rationally when interacting with strangers than Americans (Bond and Leung 1983). Another study shows that Chinese typically tend to be less helpful to strangers than Americans (Huang and Harris 1974). However, interactions influence people’s position in this hierarchical social network, thus changing the principles of interaction and exchange with the other side (Huang and Harris 1974, Yang 2005b). For two strangers, the more social communications, such as chatting, occur, the more intimate they will become. These particular social psychology characteristics influence users in the online marketplace and the community as well.

THEORETICAL DEVELOPMENT

The fast growth of the online market clearly reveals a large potential customer base. From 2001 to 2005, the number of online consumers in China increased with an annual growth rate of over 100% (iResearch 2006). However, this market is far from mature. In 2006, the total number of online consumers covered only 7% of existing Internet users in China and 0.6% of the Chinese population (CNNIC 2006a). That is to say, there is still a great volume of potential consumers who may be easily attracted by a vendor’s product, price, or promotion tactics in the customer initiation stage.

Since C2C business is relatively new and unfamiliar to most Chinese users, they are more likely to test any emerging services before committing themselves to them. Potential customers are likely to be open to new vendors. They are seeking more firsthand experiences before acquiring an online purchasing habit and developing loyalty to a vendor. Let us recall what Pine and Gilmore (1998: 97) stated: ‘As goods and services become commoditized, the customer experiences that companies create will matter most.’ Moreover, because current Chinese consumers are new to the C2C electronic market, they may feel at risk in trying online shopping and tend to be sensitive to price. Evidence shows that three-quarters of C2C customers are price-sensitive (CNNIC 2006b). Therefore, we come to proposition 1:

**Proposition 1: The C2C market in China is a price-sensitive, experience-seeking, young market.**

Due to Chinese social psychology, the employment of customer relationship maintenance strategy in China should accord with Chinese culture. As mentioned before, the traditional Chinese cherish hierarchical status in social networks. They emphasize employing different rules of social exchange to interact with people of different types of relationships or different degrees of intimacy (Hwang 1987, Yang 2005a, 2005b).

As the environment is uncertain and social ties are absent, the Chinese tend to act as ‘strangers’ in the virtual community. Two online strangers originally have no social relationship, and they will not show unconditional trust in each other. However, social interaction can build a kind of social relation between the two and make them no longer strangers (Yang 2005b). They enter each other’s network of concentric circles. The more social interactions that occur between them, the more one will be inside the other’s concentric circles (Yang 2005b). When interactions suffice to build a strong social relation, the two persons will be intimates and trust each other (Yang 2005b). Such trust, called reference trust, can be transferred to vendors (Sumeet _et al._ 2006). Moreover, customer trust has been shown to increase customer loyalty (Gefen 2002).

Furthermore, when the environment becomes familiar and weak online ties gradually strengthen, the Chinese readily gain a sense of membership in the virtual community. In this stage, social relationship management becomes critical. A member with a broad
information network can get more information from other members through social interaction. Information passed through social networks may be richer, more trustworthy, and more useful than information gained through other means, especially in an environment characterized by uncertainty, distorted information, and a relatively weak legal framework (Borgatti and Cross 2003, Luo 2003). Considering China’s relatively new and immature C2C market, the institutional environment is different from that in the context of the global market. Enforcement of contracts is less developed, and markets for information are imperfect, especially in mainland China (Millington et al. 2006). In such an environment, an online social network that is supported by online messengers and virtual communities can substitute for legal institutions and formal information sources in purchasing products, structuring relationships, and enforcing norms of behavior (Millington et al. 2006, Peng and Luo 2000). Therefore, we come to proposition 2:

**Proposition 2:** The Chinese C2C market is socially oriented. Social relations play a crucial role in maintaining customers in China.

**METHODOLOGY**

This study employs the case study method and qualitative data analysis of Yin (2003: 1): ‘Case studies are the preferred strategy when “how” and “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context.’ Since the emergence of the C2C electronic market in China coincides with these situations, the case study method is well suited for this study.

**Data collection**

Data collection lasted from January to August 2006. The data collected in this study consists of documentation, interviews, and direct observations. We used not only third-party search engines, such as Google.com, but also search engines provided by Taobao and eBay to collect related documentation. For the first round of information searching, we used 16 Chinese key words: ‘Taobao’, ‘eBayEach’, ‘Ma Yun’ (the name of the CEO of Alibaba.com), ‘Sun Tongyu’ (the name of the CEO of Taobao), ‘Wu Shixiong’ (the CEO of eBay until October 2006), ‘C2C market share’, ‘C2C price’, ‘C2C promotion’, ‘C2C advertisement’, ‘preferring eBay’, ‘preferring Taobao’, ‘C2C community’, ‘C2C customer loyalty’, ‘C2C customization’, ‘C2C buyers’, and ‘C2C sellers’. For the second-round searching, we combined several of these key words to narrow the search scope and obtain more accurate evidence. We found 310 useful Web pages, including news, magazine articles, and third-party research reports. We also collected data from video records on TV shows and interviews conducted by authors. Since Taobao and eBay are doing business online, we recorded the companies’ Web content and traced their changes by direct, longitudinal observations. Two researchers independently analyzed the Web content and recorded website design style, interfaces, functions, and business processes. Then, they described what they observed and what the observations meant. Finally, they reached a unified understanding of companies’ CRM operations and strategies and summarized the evidence in tables for further analysis.

**Data analysis and validation**

The data analysis consists of two phases. First, observation results, transcripts of interviews, and publicly available documentation (e.g., all searched Web pages) were used to draw a whole picture of the electronic market and to depict a detailed narrative history of the two vendors in China, condensing the large volume of data into more within-case evidence. We created a chronological list of events to provide insight into ‘what led to what, and when’ (Miles and Huberman 1984: 110). In these processes, we created what Yin (2003: 105) called a ‘chain of evidence’ that allows others to ‘follow the derivation of any evidence, ranging from initial research questions to ultimate case study conclusions’. Such an approach increased the reliability of the entire study.

Secondly, a variation on qualitative pattern matching between theory and data was conducted (Campbell 1975, Yin 2003). Documentation and direct observations that appeared to have influenced outcomes were compared and contrasted with the CRM process model. People’s words and comments reported in the 310 retrieved Web pages were cross-checked with the face-to-face interview records to verify that each outcome was supported by at least two sources of evidence. Then the sequence of evidence was mapped according to the theoretical framework.

**CASE ANALYSIS**

We analyze the cases of eBay and Taobao with the CRM framework. Our focus is on the initiation stage and the maintenance stage of customer relationship management. In each stage, the strategies and the outcomes of these two companies are compared.

**Initiation**

Select customers: targeting the younger generation in China. eBay segmented its Chinese market of 17 million
users and identified its mainstream customers as well educated, familiar with the Internet, earning a monthly earning over 3,000 RMB, and 20–40 years old. As Wu Shixiong, CEO of eBay, says, ‘These mainstream buyers and sellers are very important to eBay. They help the electronic market grow healthily’ (China Business 2006). eBay encourages mainstream customers to join global C2C transactions.

Taobao took four months to analyze China’s C2C market and decided to target those 20–30 years old. Sun Tongyu, CEO of Taobao, says, ‘The majority of potential customers are those who live outside developed cities’ (Sohu.com 2005). In 2005, Taobao added older people to its target customer base.

It is clear that eBay and Taobao have tried to attract different segments of the market. Although both target the younger generation, eBay’s target customers are professionals, while Taobao’s targets are broader and more locally based.

**Acquire customers: intensive multi-channel effort**

As C2C electronic market vendors, eBay and Taobao regard convincing customer to do e-business on their platform as a primary CRM task.

**Product development.** For a C2C vendor, online system quality and service are its major product. Both website quality (McKnight *et al.* 2002b) and service quality (Gefen 2002) are significant antecedents of trust in an Internet store. Website quality has two dimensions: information quality and system quality (McKnight *et al.* 2002b). Information quality may be affected by search engines. System quality may be affected by website design and style (Agarwal and Venkatesh 2002). Service quality has five dimensions (Gefen 2002), including tangibles and assurance. Tangibles relate to the facilities, equipment, and appearance of those providing the service (Gefen 2002). Assurance includes legal and technological safeguards (McKnight *et al.* 2002a, 2002b).

Table 1 shows a detailed product and service comparison between eBay and Taobao.

To meet mainstream customers’ demands, eBay sees itself as a reliable and trustworthy platform for transactions and concentrates on developing professional, standardized, and internationalized products. For example, eBay provides a powerful search engine, a suite of trading assistant software, a seamless integration with the global eBay platform, a global transaction system (PayPal), and a professional communications tool (Skype). Its website interface is text-rich, mostly consisting of rectangles, against a green and blue background. Such a design makes eBay look professional. The vendor also encourages customers to do global online trading. As Wu Shixiong says, ‘eBay will be known as online Wal-Mart….We will help customers know what the real electronic commerce is when they experience eBay’ (China Business 2006, Talentsmag.com 2006).

To meet local customers’ demands and transaction preferences, Taobao develops localized, practical, and vibrant products. Taobao puts more focus on buyers than on sellers, offering special training programs and credit assessment systems for buyers, to persuade them to engage in online transactions. When Taobao discovered that most local customers are willing to negotiate with sellers before purchasing, the company quickly provided an online messager service for users. The service was offered two years ahead of eBay’s Skype. Taobao’s online payment system was also launched one year ahead of eBay’s version to promote an online trust and payment system. Its website interface is picture-rich, mostly consisting of smooth rectangles against an orange background. Such a design makes Taobao look friendly. Taobao also encourages customers to make product design and service suggestions. As Taobao states, ‘the will of Taobao people determines Taobao’s development’ (Taobao.com 2003).

**Price competition.** Table 2 compares pricing between eBay and Taobao. eBay uses service charges to guarantee high-quality service. Shao Yibo, the CEO of Eachnet before eBay merged with it, says, ‘Service charge is a filter of the market’ (ChinaByte 2004). In 2001, eBay began to charge customers a transaction service fee, product list fee, and promotion fee. This immediately resulted in a 40% decline in the number of customers. However, as reported by eBay’s marketing manager, ‘A lot of these lost-customers went back to eBay later before Taobao was launched.’

Taobao insists that the market in China is not mature enough to accept service charges. When Taobao went online in 2003, it promised free online transactions for the first three years. As its CEO, Sun Tongyu, says, ‘Now, it is more important to nurture the market than to charge customers service fee.’ Taobao is ‘waiting for a more suitable timing to charge service fees’ (China Business 2005).

Facing price competition from Taobao, eBay kept reducing its product list fee, product promotion fee and store fee. It also canceled transaction fees, which were the foundation of online business service charges. As conceded by eBay’s public relations manager, ‘A lot of market surveys indicate that Chinese buyers and sellers are indeed sensitive to charge programs and pricing policy.’ Meanwhile, Taobao decided to continue its free-of-charge service until 2008. In 2006, Taobao temporarily charged a key-word promotion service, allowing sellers to buy a recommendation position in product search results. Thousands of sellers and buyers immediately protested this new service. When Taobao polled its users on the new policy, 61% of the 200,000 voters
Table 1. Product comparison between eBay and Taobao

<table>
<thead>
<tr>
<th>Feature</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guideline*</td>
<td>2005, issuing guideline</td>
<td>2006, issuing guideline</td>
</tr>
<tr>
<td>Search engine*</td>
<td>Powerful search engine, with 30 search option setting</td>
<td>Providing 15 search option setting</td>
</tr>
<tr>
<td>Communications tool*</td>
<td>· 2006, importing Skype</td>
<td>· 2003, providing an online messenger</td>
</tr>
<tr>
<td></td>
<td>· website emailing system</td>
<td>· providing website emailing system</td>
</tr>
<tr>
<td>Store assistance tool*</td>
<td>Toolbar, market analysis report, product batch login system, shop assistance, sales report, picture management tool</td>
<td>Shop assistant, sales report</td>
</tr>
<tr>
<td>Training program*</td>
<td>Both online and off-line</td>
<td>Both online and off-line</td>
</tr>
<tr>
<td>Credit assessment system*</td>
<td>Assessing selling credit and buying credit</td>
<td>Assessing selling credit and buying credit</td>
</tr>
<tr>
<td>Interface style**</td>
<td>· 11 sorting styles, customized search and sort</td>
<td>· Four sorting styles</td>
</tr>
<tr>
<td></td>
<td>· line style: right-angled rectangle</td>
<td>· line style: smoothing corner rectangle</td>
</tr>
<tr>
<td></td>
<td>· color: green and blue</td>
<td>· color: orange</td>
</tr>
<tr>
<td></td>
<td>· text-rich</td>
<td>· picture-rich</td>
</tr>
<tr>
<td>Off-line store#</td>
<td>No</td>
<td>2006, the first one is set in Shanghai; will open new shopping malls in Beijing, Shenzhen, Guangzhou, and Chengdu</td>
</tr>
<tr>
<td>Mobile business#</td>
<td>2006, mobile shopping platform</td>
<td>No</td>
</tr>
<tr>
<td>User off-line ID verification##</td>
<td>· 2001, promoting ID verification</td>
<td>· 2004, promoting ID verification</td>
</tr>
<tr>
<td></td>
<td>· 2002, limiting transaction to verified sellers</td>
<td>· ways including ID and phone.</td>
</tr>
<tr>
<td></td>
<td>· ways including credit card, cell phone, home address, or identification card</td>
<td>· different levels of verification. Requirement on business seller is more critical than individual seller</td>
</tr>
<tr>
<td>User payment account verification##</td>
<td>Canceled after September 2004</td>
<td>Users can verify their bank account to get higher credit</td>
</tr>
<tr>
<td>Online payment system##</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Security monitor##</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Intellectual property</td>
<td>IP monitoring program</td>
<td>IP monitoring program</td>
</tr>
<tr>
<td>Security active control##</td>
<td>No</td>
<td>Free online anti-virus/hacking service</td>
</tr>
<tr>
<td>Loss payable clause##</td>
<td>· 2001, 3,000 RMB loss payable</td>
<td>2005, full loss payable</td>
</tr>
<tr>
<td></td>
<td>· 2002, lowering down to 1,000 RMB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Now the amount is 2,000 RMB</td>
<td></td>
</tr>
</tbody>
</table>

*Features affecting information quality; **features affecting service quality; #features affecting tangibles; ##: features affecting assurance.

Table 2. Price comparison between eBay and Taobao

<table>
<thead>
<tr>
<th>Feature</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges at initial stage</td>
<td>From 2001 includes: transaction fee, list fee, and promotion fee</td>
<td>Promising free service in the first 3 years</td>
</tr>
<tr>
<td>Charges at adjusting stage</td>
<td>· 2004: lowering product list fee</td>
<td>· 2005: announcing another 3 years free of charge;</td>
</tr>
<tr>
<td></td>
<td>· 2005: lowering product list fee again</td>
<td>· 2006: promoted a charge service for product recommendation, but terminated it quickly</td>
</tr>
<tr>
<td></td>
<td>· 2005: cancel entry-level store fee</td>
<td></td>
</tr>
<tr>
<td>Charges at current stage</td>
<td>List fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>· 2006: cancel transaction fee</td>
<td></td>
</tr>
</tbody>
</table>
objected to the new program, and it was quickly abolished.

Promotion strategies. We group promotion activities into six subclasses, as shown in Table 3, compares promotion activities between eBay and Taobao. eBay’s promotion strategy is to use mainstream media, such as China’s national TV channels and major websites. eBay paid over 2 million RMB to advertise for just five seconds on several national channels during Spring Festival Evening, the largest celebration in China. Besides, an eBay marketing executive highlighted that eBay also paid much attention to the Internet, which ‘plays a crucial role in all promotion programs’. eBay chose portal websites, such as Sina.com and Google.com, to promote its service. eBay asserts that online promotion is the most direct and effective means to recruit new members. eBay also allows sellers to send mail to other registered users. The marketing executive states, ‘Actually, the mail promotion makes significant profit for us [eBay].’

Taobao’s promotion strategy relies on small websites and traditional media. One major reason is that at the end of 2003, eBay signed one-year exclusive advertisement contracts with almost every portal website in China to force out other C2C vendors. As a result, Taobao had to advertise only on small and personal websites until June 2005. However, the result was beyond all expectations, as Sun Tongyu said (Sina.com 2006).

Outcomes
The different customer targets cause eBay and Taobao to use different strategies to acquire customers. eBay is intent on attracting modern and professional mainstream customers, building a global trading market for them, and meeting their demands. Customers in this market segment are expected to be more willing to pay a premium for high-quality service. eBay’s value-added service, promotion activities, and price strategy are designed for this market segment. An eBay user said that ‘eBay has more professional sellers and more earnest buyers than Taobao has’, and similar statements were made by two other eBay users.

Taobao is determined to attract all young customers in China, especially those in developing regions. Taobao’s free-service policy, vibrant Web design, and localized functions encourage more people to experience online shopping. A Taobao seller recalls that the market on Taobao was so hot that his first transaction was made as soon as he logged the product into Taobao’s system. Users express their satisfaction with user-friendly Web pages and functions. A user comments that ‘the online communication tool and the payment system make transactions dramatically easier’. According to a Taobao public relations manager, the ratio of products selling on Taobao to those on eBay is 24:1. CNNIC (2006b) revealed that buyers on eBay are most satisfied with ‘the search engine’, ‘the stable systems’, ‘the diversity of

Table 3. Comparison of promotion activities between eBay and Taobao

<table>
<thead>
<tr>
<th>Feature</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>· Advertising on mainstream websites</td>
<td>· Advertising on small websites and traditional medias, including BBS and newspaper</td>
</tr>
<tr>
<td></td>
<td>· putting a 5-second advertisement on CCTV channel during Spring Festival Evening Show, which cost 2 million RMB</td>
<td>· 2005, becoming the partner of Microsoft on MSN shopping channel</td>
</tr>
<tr>
<td>Promotion via sports</td>
<td>Designing a special website called ‘2006 football carnival eBay shopping site’</td>
<td>· 2005, naming the World MotoGP, China branch</td>
</tr>
<tr>
<td></td>
<td>· 2005, holding SuperGirl Product sales on website</td>
<td>· 2005, cooperating with ESPN in Lawrence Awards ceremony</td>
</tr>
<tr>
<td></td>
<td>· 2005, finding ‘lover’ for famous singers on eBay</td>
<td>· 2004, employing product placement marketing in several films.</td>
</tr>
<tr>
<td></td>
<td>· 2006, collaborated with Lycar ‘GoodBoy’</td>
<td></td>
</tr>
<tr>
<td>Promotion via festivals</td>
<td>2006, providing free coupon on Women’s Day</td>
<td>· 2006, on Women’s Day, voted for ‘Women Taobao Flower’ by writing articles and showing women’s accessories</td>
</tr>
<tr>
<td>Promotion via charity</td>
<td>Having special area online for charity: charity activity was recorded from 2003, such as 6th anniversary for eBay, donating school building in Xizang</td>
<td>Holding charity activity frequently, such as charity sales after Indian Ocean tsunami</td>
</tr>
<tr>
<td>Other promotions</td>
<td>Direct mail marketing to seller</td>
<td>Setting up sellers’ alliance</td>
</tr>
</tbody>
</table>
merchandise’, and ‘the payment protection tools’, while buyers on Taobao are most satisfied with ‘the payment protection tools’, ‘the instant communications tools’, ‘the diversity of merchandise’, and ‘the interfaces’. The result is consistent with users’ feedback.

This summary leads to the following observation. User-friendly and vibrant interface design, informal promotion channels, and price promotion attract the most potential users to experience e-business, while concise and serious interface design, formal information channels, and powerful functional services appeal to professional users. However, the largest portion of current C2C market users is experience-seeking.

Maintenance

We analyze eBay and Taobao’s customer maintenance strategies in four aspects: customer service, loyalty programs, customerization, and community building. We then compare their outcomes.

Customer service. Table 4 summarizes differences in customer service between eBay and Taobao. In 2005, eBay’s customer service center was integrated with its global platform to provide contact by telephone, email, forums, and live-chat methods. Taobao’s customer service center, built in 2005, supported contact through email, fax, and forums. What is special is that top management executives in Taobao, including Ma Yun and Sun Tongyu, directly chat with customers through forums and online messages. As Sun Tongyu says, ‘Our customer service cannot be duplicated easily by competitors’ (Business Watch 2006).

Loyalty programs. Table 5 summarizes the differences in loyalty programs between eBay and Taobao. eBay encourages buyers to return by offering coupons and discounts. Furthermore, eBay encourages sellers to organize their own super-seller clubs. Besides coupons and discounts, Taobao provides special rewards to loyal buyers and sellers. With accumulated transaction volume, customers can upgrade their level of membership and enjoy higher discounts. In addition, Taobao offers a ‘super-buyer’ program to encourage loyal buyers.

Customization. Table 6 compares customization services between eBay and Taobao. eBay provides professional, customized management tools to sellers, such as customized mail promotion. According to an eBay marketing executive, ‘We can segment customers accurately by their purchase behavior and online profiles, and provide targeted email promotion service.’ Most customization services provided by eBay are for sellers. Taobao often invites customers to design its website and

Table 4. Customer service comparison between eBay and Taobao

<table>
<thead>
<tr>
<th>Feature</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reactive service</td>
<td>Call center, email, community posting and replying, live chat, online payment system</td>
<td>Call center, email, community posting and replying, online messenger, online payment system</td>
</tr>
<tr>
<td>Proactive service</td>
<td>None</td>
<td>Top management frequently communicated with customers through forum and online messenger</td>
</tr>
</tbody>
</table>

Table 5. Loyalty program comparison between eBay and Taobao

<table>
<thead>
<tr>
<th>Feature</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount coupon and cash back</td>
<td>Coupon for shopping</td>
<td>· Coupon</td>
</tr>
<tr>
<td></td>
<td></td>
<td>· lucky draw for cash back</td>
</tr>
<tr>
<td>Member card*</td>
<td>None</td>
<td>2006 promoting member card</td>
</tr>
<tr>
<td>Member club</td>
<td>Super-seller club</td>
<td>Super-buyer club</td>
</tr>
</tbody>
</table>

*Member card: an identification of a buyer to a specific store. As long as the buyer shops in the store, the seller will give a member card to record the buyer’s shopping behavior. The seller will divide members into VIP, senior members, and normal members, and give them different discounts.
service functions. As Sun Tongyu says, ‘Our Taobao is customized for Chinese users’ (Alibaba.com 2005). Taobao allows sellers to adjust prices after negotiating with buyers, but eBay prohibits this.

**Community building.** Table 7 lists differences between the eBay and Taobao communities. eBay actively organizes and sponsors online and off-line community activities. The members of the eBay community are more willing to share information than emotional experiences. Taobao also underlines the importance of community building, because, as Sun Tongyu explains, ‘When running a business, Chinese people care about not only how much they could earn, but also how they feel’ (XinhuaNet 2005). Taobao fosters a stronger and more active community and encourages customers to share their knowledge, personal stories, and feelings. Most of the activities in the Taobao community are initiated and organized by the members themselves.

**Outcomes**

By targeting mainstream customers, eBay provides global customer service systems, discounts, and sponsored community activities. An eBay user says that she keeps shopping at eBay mainly because of coupons. Another user says that ‘eBay members are more reliable than Taobao members’, and similar statements are made by two other users. However, some sellers argue that eBay’s ban on negotiation between sellers and buyers is too rigid and that Taobao does better in this field. They wish eBay would permit price negotiation. Some customers think that eBay’s community lacks interaction and ‘warm feelings’, while Taobao’s community is more active. ‘You can receive more warmhearted and quick replies in Taobao’s community.’

Taobao provides a more localized service, such as flexible discount systems, a negotiation policy, and emotional sharing in communities. One buyer says that

Table 6. Comparison of customization service between eBay and Taobao

<table>
<thead>
<tr>
<th>Feature</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store design</td>
<td>Can design freely</td>
<td>Can design freely</td>
</tr>
<tr>
<td>Store management</td>
<td>Direct mailing marketing</td>
<td>None</td>
</tr>
<tr>
<td>User participation</td>
<td>None</td>
<td>A lot, e.g., encouraging users to contribute to the design Taobao’s credit system</td>
</tr>
<tr>
<td>Member card design</td>
<td>None</td>
<td>Yes</td>
</tr>
<tr>
<td>Guideline design</td>
<td>None</td>
<td>Yes</td>
</tr>
<tr>
<td>Price changing**</td>
<td>None</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Guideline design: inviting users to design guideline styles, such as terms, interfaces, and icons. **Price changing: Price can be changed after the deal is agreed on and before the money is paid. It allows sellers to customize different prices for different customers. For example, sellers can provide a lower price as a surprise for frequent buyers or to encourage prospects.

Table 7. Community comparison between eBay and Taobao

<table>
<thead>
<tr>
<th>Feature</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community design</td>
<td>15 subject channels</td>
<td>35 subject channels</td>
</tr>
<tr>
<td>Community postings</td>
<td>e.g., up to 8 August 2006, in 'My store at eBay' channel, altogether seven postings</td>
<td>e.g., up to 8 August 2006, in 'My store at Taobao' channel, altogether 90,147 postings</td>
</tr>
<tr>
<td>Community encouragement</td>
<td>Virtual currency*</td>
<td>Virtual currency</td>
</tr>
<tr>
<td>Community activity</td>
<td>Frequently</td>
<td>Frequently</td>
</tr>
<tr>
<td>Blog</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Local user off-line-conferences</td>
<td>None</td>
<td>Once a year</td>
</tr>
</tbody>
</table>

*Virtual currency: a kind of currency valid only in the community. Community users can change it into promotion opportunities in online stores or amusing functions in the community, such as giving flowers or cakes to other users. The currency is calculated according to the user’s participation in the community.
she likes the coupons in Taobao and will continue
shopping there. The difference from eBay’s discount
system is that sellers on Taobao can design coupons for
every transaction, while, in eBay, the coupon is only
issued by eBay officials. Taobao also allows sellers to
negotiate with buyers before making a deal and paying
through the vendor’s payment platform, while negotia-
tion is strictly forbidden at eBay. The discount system
and negotiation policy at Taobao are a typically localized
design that suits the purchase habits of local consumers.
Since the negotiation can be carried out via telephone,
online messenger, and postings, the service helps cus-
tomers increase contact and product knowledge before
transactions. Furthermore, many users believe that they
are esteemed by others because their articles receive a lot
of replies, even from Taobao’s top management team. A
user says, ‘(Taobao.com) brings me a sense of welcome
right away and encourages me to become more involved.
I really feel that I am a member of the community.’
Several other users also feel that ‘members treat each
other honestly’. One customer recalled that she was so
moved by a birthday party held for her by Taobao that
two thirds (62.9%) of Taobao respondents are price-
sensitive (CNNIC 2006b). Comparison of the
customer relation initiation strategies of eBay and
Taobao shows clearly that Taobao’s free service with
localized design provides more chances for customers to
experience the new business, and therefore is signifi-
cantly more appealing to Chinese customers. Furthermore,
potential customers are open to new
vendors. Although Taobao’s initial marketing advertise-
ments were blocked by eBay’s exclusive contract, and
Taobao was forced to use small websites as promotion
channels, more than 100,000 customers were still
attracted by the new vendor and quickly gravitated to
its service (Sina.com 2006).

Considering Taobao’s quick success and the fact that
the market was not aware of Taobao’s affiliation with
Alibaba when Taobao was launched in 2003, it is clear
that Chinese customers are willing to try new services.
The fact that eBay is a globally reputable vendor, and
had mastered C2C for quite a long time before Taobao
entered the arena, did not prevent customers from
switching to new vendors. The finding may encourage
vendors to think more about marketing strategy when
developing a new business service. Experience is more
likely than reputation or history to predict future
success.

The market is far from mature. Consequently, vendors
should be patient with customer growth, provide
experience-promotion programs to nurture the market,
and design value-added services carefully in the customer
maintenance stage.

Secondly, the market is also a social environment where
customers’ loyalty to vendors can be built more easily by
vendors’ social relation management service than by the
transaction service.

Taobao’s customer service strategies, such as allowing
online communication and price negotiations among
users, and providing a more emotionally oriented virtual
community, are very attractive to Chinese customers. A
survey has found that these strategies affect customers’
purchase decisions and increase their will to engage in
transactions on Taobao (CNNIC 2006b).

When Eachnet started its C2C business in 1999, it
sponsored many social activities to boost the market
(Yuan and Shen 2000). However, after merging with
eBay, its practice became less competitive than the

DISCUSSION AND CONCLUSION

This paper uses a case study method to explore the
emerging C2C market in China. We adopted a CRM
theoretical model, incorporating Chinese social psychol-
ogy studies, as an analytic framework. Following the
framework, detailed comparisons between the largest
two vendors are conducted, with case evidence mapped
according to the theoretical framework. Finally, impor-
tant observations about the market are made.

Firstly, the C2C market in China is a young and
experience-seeking market whose customers are price-
sensitive, willing to try new services and new vendors,
and comfortable with switching.

The fast development of eBay and Taobao clearly reveals
a large potential customer base. Since C2C is still new to
most Chinese users, they are quite willing to try any
emerging services before committing themselves to
them. On the other hand, the majority of customers are price-sensitive (CNNIC 2006b). Comparison of the
customer relation initiation strategies of eBay and
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experience the new business, and therefore is signifi-
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When Eachnet started its C2C business in 1999, it
sponsored many social activities to boost the market
(Yuan and Shen 2000). However, after merging with
eBay, its practice became less competitive than the
Chinese style of Taobao. After Taobao, two more famous vendors entered the market, all supported by big and well-funded companies. In September 2005, Dangdang.com, the leading online retailing vendor in China, and QQ.com, the largest Internet community service vendor in China, both announced their launch of C2C business. Although they followed Taobao’s free-service strategy, they failed to get market share as successfully as Taobao did. Given the same free-service competition, Taobao’s efficient social relationship management service, which is well-tailored to China’s culture, may provide a reasonable explanation for its success. From the social perspective, customers may stay more readily with a vendor that has a social relation management service than one that offers only a transaction service.

Why does the localization approach encourage transactions? Social psychology factors are part of the answer. The literature in this field reveals that the Chinese people heavily emphasize social interactions and are used to adopting different standards of behavior in interacting with people variously situated in the social hierarchy (Fei 1948, Hwang 1987, 2000). Interactions influence people’s position in this hierarchical social network (Yang 2005b). Communication tools are highly related to social interactions and provide opportunities for online strangers to quickly establish weak social ties. For two strangers, the more social communication, such as chatting, that occurs, the more intimate they will become. After chatting or negotiating, they are no longer strangers. This kind of relationship helps build trust between buyers and sellers, and culminates in transactions. Executives of C2C vendors can also establish similar relationships with users by using the online communications technology to converse with them. This kind of chatting reinforces the users’ trust in the executives and, in turn, trust in the C2C vendor. With social relation reinforced by communication networks, customer trust can be better transferred to the C2C vendor (e.g. Sumeet et al. 2006). Therefore, it is possible that in the social market, customer loyalty to a vendor can be built more easily by the vendor’s social relation management services than by transaction services.

Furthermore, ‘open’ networks, with weak ties and social connections are more likely to offer access to a wider range of information and opportunities than ‘closed’ networks (Granovetter 1973). These ‘open’ networks provide ways for users to gather information. Since Taobao’s vibrant virtual community enables customers to collect information about products and improve trust, customers are more willing to make transactions on Taobao.

In light of the newness and immaturity of the market, the institutional environment of Taobao is different from that of eBay. The enforcement of contracts is less sophisticated, and markets for information are imperfect, especially in mainland China. In such an environment, an online social network, supported by online communications tools and virtual communities, can complement legal institutions and formal information sources in purchasing products, structuring relationships, and enforcing norms of behavior (Millington et al. 2006, Peng and Luo 2000). The distinct outcomes of customer satisfaction and purchase decision at eBay and Taobao clearly illuminate the important role of online social relation in electronic markets. These analyses lead to a new finding on China’s C2C e-business market. It is a socially oriented marketplace in which social relationships play a key role. Managing the social relation is the most important customer service. Vendors should investigate the social property of the market and recognize its importance in influencing purchasing intentions. The strategies and outcomes of eBay and Taobao are worthwhile examples in China’s evolving e-business market.

Finally, community involvement is a significant factor in loyalty building in China’s C2C market. The more involved the customers are in the community, the more loyal they are to the C2C vendor.

The result can be explained by social network theory. A social network can be an affective or an information one (Krackhardt 1992). In an affective network, people share their feelings with others. This sharing offers them affective support and satisfaction. The social network also cultivates trust and social relationship among players. This kind of trust, reference trust, can be transferred to vendors (Sumeet et al. 2006). Therefore, if customers’ involvement in the community is high, they will feel more loyal to the community, be reluctant to leave this network, and have greater purchase intent on vendors’ websites (Sumeet et al. 2006).

In conclusion, taking a CRM process model and Chinese social studies as its premise, the study has explored the distinctive characteristics of the Chinese electronic market. The phased framework also provides insightful suggestions on strategies that can help to win customers in the emerging market. In light of price sensitivity and experience seeking, a free-service strategy, in conjunction with a trustworthy payment function, localized service, and social marketing promotion, works well for vendors hoping to enter the market. Chinese customers are receptive to and curious about trying out new services and new vendors. Brand may not take priority over customers’ will to experience new services in the situation.

However, customers’ loyalty is accumulated while experiencing C2C services. As other new vendors offering free-service to knock on the door of the market, how can vendors retain customers? When Taobao is compared to eBay, the most obvious difference is their social marketing design. Taobao’s social marketing
approaches incorporate social community building, top management involvement, emotionally oriented activities, and a customized transaction negotiation system. The CRM strategies fit China’s culture well and, therefore, are readily accepted by customers. The set of strategies provides meaningful suggestions on second-stage CRM and how to win the loyalty of customers in China. Vendors in China’s C2C market should not only provide functional services to recruit customers, but also foster the development of social marketing to retain customer loyalty. The social marketing design should be tailored to Chinese culture and social interaction behavior. The emerging electronic market in China is an extension of real-world society, where social factors are still in play.

The ultimate objective for C2C vendors in fostering a huge, loyal, customer base is to become profitable. Since the transaction service in China’s electronic market is provided for free, it will be hard for the market to accept pricing strategy in the future. How can a vendor turn its customer-loyalty advantage to profit-making advantage? There may be two methods by social relation development logic. The first is to charge on value-added new services. With social relation reinforced, customer trust can be better transferred to the C2C vendor. After customers have developed trust in and loyalty to a specific C2C vendor, they may pay more to support that vendor’s newly charged service. For example, users may accept a charged fee on online payment service between individuals after building up trust in the vendor’s online payment system. For the sake of security and trust, they may not switch to other payment systems provided by other vendors.

The second method is to help loyal customers develop their online business and convert them to professional online businessmen. For instance, a vendor can convert loyal C2C sellers to professional business-to-consumer (B2C) or business-to-business (B2B) sellers. If so, the trust relation between customers and the vendor becomes more of the guanxi (relationship)-based type, described by Bian and Ang (1997) as a system of personal connections that carry long-term social obligations. Under this type of close relationship, individuals not only aim to achieve personal and business goals, but also emphasize the importance of achieving collective goals such as the survival of a (virtual) community (e.g. Bell 2000)). This regard for collective welfare is an important feature of the interaction between customers and the vendor. Given this feature, customers are more concerned with the continued survival of the C2C electronic market platform and the network of online businessmen. When the ancient Chinese concept of guanxi (relationship) works in electronic markets, customers are most willing to pay the vendor as a return for the social capital of guanxi (relationship) (Lin 1999).

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References


Current


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**APPENDIX: SUMMARY OF INTERVIEWEES**

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>eBay</th>
<th>Taobao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business managers in marketing and public relations</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Users</td>
<td>16</td>
<td>11</td>
</tr>
</tbody>
</table>