

Analysis of Business Model, Logistics Operation and Live Broadcast of Amazon and Taobao under Epidemic

Xinjing Guo^{1,*}

¹University of Toronto, Toronto, Canada, M5H 2N2

*Corresponding author. Email: guoxj990221@gmail.com

ABSTRACT

Under the pandemic, Amazon's stock not only does not have strong fluctuations, but also global sales are soaring. Comparing two popular online shopping platforms, Amazon and Taobao, this paper analyzes their differences in business model, the logistics operation, and the live broadcast. It can be concluded that Amazon uses operation mode and live broadcast to attract more consumers, and warehouse operation lets logistics more effective. Under the influence of these factors, Amazon has the better sales and market share in the world.

Keywords: Amazon, Taobao, epidemic, logistics

1. INTRODUCTION

From 2019, Covid-19 is sweeping the world, the economy experiments downturn in this period and lots of companies' stocks fall. However, the stock of Amazon is not influenced seriously which it still has the largest market share in the world. It is worth to analyze how Amazon has a better economy under the epidemic and what actions Amazon does to keep their sales. This paper through the business model, warehouse operation, and live broadcast to compare Taobao with Amazon. For example, in business model, this paper finds out the business model of Amazon and analyzes the difference on business model between Taobao and Amazon. What's more, this paper also analyzes the impact of business models on Amazon. Also, on the logistics operation, as Amazon has own self-built logistics, how it takes advantages for Amazon on delivery. Furthermore, Amazon starts live broadcast under epidemic which is later than Taobao. However, the operation of Amazon is better than Taobao. This paper would discover these aspects and verify how Amazon gains an edge in these areas. Under analyzing, Taobao should learn from Amazon. For instance, Taobao can build own self-built logistics though it would cost a lot. The self-built logistics could not only bring convenience to consumers, but also enhance the delivery speed. Moreover, Taobao should pay more attention to live broadcast. As celebrities cheat consumers, it makes consumers lose patience and trust in the platform.

2. ANALYSIS ON AMAZON

2.1. Amazon - Business Model

According to Peipei's article [1], she notes that the e-commerce of Amazon is Business to Consumer(B2C). It means that consumers consume products online. The author jingying [3] points out that primarily, Amazon runs an online bookstore and when they have more consumers, they start developing other businesses. In July 2011, Amazon starts to launch a service that let consumers can sell products online. In this period, Amazon translates from simple B2C to Consumer to consumer (C2C).

In the beginning, Amazon used low prices and Prime to earn money and attract more consumers. Linghui shows that depending on low price, Amazon attracts more consumers and more third-party sellers pay commission to join the platform to sell their goods [2]. In addition, Amazon requires sellers to decrease the price of products. Under this situation, jingying [3] indicates that Amazon can get fifteen percent of profits from sellers which is about half of the gross merchandise volume (CGM). A strong economic foundation lets Amazon have a better economy in the beginning. On the aspect of Amazon Prime, linghui [2] points out that until January 2020, there are more than 150 million people pay for it [2]. This function started in 2005 and when people buy it, they can get their goods in two days which is faster

than others. In 2005, logistics is not as developed as now. People think it is impossible for them to finish this task, but Bezos still implemented this project. Nowadays, Amazon gets great wealth from it. Jingying [3] notes that this project's permeability reaches 50 percent. Since more people join Prime, the loyalty of consumers and stickiness for the brand increase. The achievement promotes Amazon has better development.

2.2. Amazon - logistics operation

From 2011 to 2018, Amazon ranked among the top five in the global supply chain for eight consecutive years and won the title of "Global Supply Chain Master" [6]. Fulfilled by Amazon (FBA) is the largest proportion of Amazon's own self-built logistics [7]. It helps third-party sellers to store products and helps them sending goods to consumers. Amazon uses FBA, which can gain more profit from sellers, and it would be more effective to deliver. The intelligent agent would receive and store goods. When goods are sent to the warehouse, computers would analyze the best path for workers to place goods orderly. Then, it would take workers less time. Moreover, Yuhan [7] notes that transportation in the warehouse also has the machines to take charge. There are more than 100 thousand warehouse robots work in the warehouse. Furthermore, the logistics system also would improve itself so that they can sort products faster and the system would always check the products whether

placed correctly. Thus, even though the system works all day, there has no mistake. Therefore, FBA truly helps Amazon with storing and sorting. Since Amazon would directly connect with consumers about after-sales service, and third-party sellers the burden to communicate. According to Linghui [2], he expresses that in the first quarter of 2017, Amazon gets 6.4 billion dollars from third-party sellers which is 25 percent of Amazon's profit.

In order to improve the utilization of warehouse, Amazon saves space in four ways. Firstly, Ziyi [10] shows that Amazon based on people's preferences to decide the demand of goods which can use the space better. Secondly, workers would put the products when there has space on the shelf. Not only save time, but also space. Thirdly, Ziyi [10] illustrates that Amazon has strict requirement for workers. They are urged to sort goods faster by timing. Lastly, for the reading materials, Ziyi [10] points out that Amazon only gets the order for books, they would print it. Since physical books need a large area to store, if Amazon store all of books in the warehouse, it would cost them huge money and the cost of books would increase. Zero inventory extremely saves money and room for the warehouse. Thus, these ways improve the space utilization and decrease the cost. And as the transportation is not affected by epidemic, the orders increase dramatically in 2020 which reaches 386.06 billion dollars [8].

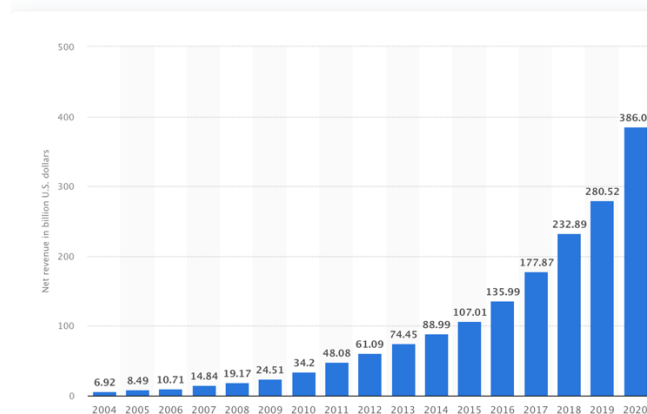


Figure 1 Annual net revenue of Amazon from 2004 to 2020 (in billion U.S. dollars)

2.3. Amazon – live commerce

In February 2020, Amazon's living streaming makes it convenient for people to buy products they need. There are three main points that Amazon followed. Firstly, Xiaolu [9] points if sellers want to live, they should register a brand. Internet celebrities would cooperate with some brands. Celebrities will cooperate with brands if the quality of goods and the after-sales service attitude are great. They also need to help brands to promote which pose their clothes on Instagram. Secondly, most internet celebrities are not very famous. Xiaolu [9] shows that Amazon would like to invest in celebrities who have

high loyalty and followers. Thirdly, Amazon would save every living video so that consumers can watch it anytime. It can generate higher sales rates. Thus, Amazon Living can let people know products better and it can increase sales during the epidemic.

3. ANALYSIS ON TAobao

3.1. Taobao - Business Model

According to Jingying [3], Taobao is based on C2C. After 2008, it started turning to B2C. At the beginning of the development, Taobao attracts people coming into the

platform and the threshold is very low so that everyone can sell their goods without any pay. However, since Taobao follows the C2C model, the poor quality of goods makes customers are not satisfied with some businesses. In order to let Taobao more formal and people can get better products online, they start developing B2C. As Taobao attracts people, it starts charges from sellers. Jingying [3], mentions that the online store needs to pay the service fee and management fee. Also, after 2008, merchants who want to join the Taobao, need to pay for them. Furthermore, Taobao would get some money from every transaction. These methods let Taobao get a large profit.

Merchants in Taobao increase their sales by increasing exposure. As more people know their shops, more people would like to buy items. Thus, it is very important for merchants to increase exposure. However, it does not mean that sellers would get huge profits by exposing. Some consumers still have higher recognition of the official website which they would like to buy items from well-known brands. Moreover, Jingying [3] points out that for some websites which are vertical e-business is more professional. Consumers will have more choices. Thus, this website can get more people's loyalty. Therefore, although Taobao attracts more people, the loyalty is quite low.

3.2. Taobao - logistics operation

Taobao does not have its own warehouse and self-built logistics but cooperates with third-party logistics. Then, it can decrease the cost of self-built logistics. Since every day, the quantity of products bought by consumers is quite large, Taobao has a higher bargaining power so that the cost of logistics is cheap. Also, Peipei [1] mentions Taobao signed a compensation agreement with third-party logistics to protect consumers. Thus, Taobao lets consumers pay less money on logistics and get products in less time.

3.3. Taobao - live commerce

According to Wenxiu [4], from March 2016, Taobao starts promoting live commerce. Taobao cooperates with other short video platforms such as Tiktok and Kuaishou. Celebrities and famous stars on platforms would recommend items to consumers. However, Wenxiu [4] mentions since celebrities always follow stars' live patterns, and the content is simple and unattractive, people would lose patience to watch. Also, she also expresses they do not tell consumers the truth about goods. They would avoid mentioning the disadvantages of items or beautify them. Thus, when the consumer gets good, it is not as same as they described. In 2021, there are only 12 percent of consumers are very satisfied with their goods [5]. Furthermore, Xiaolu [9] presents Taobao does not save live video under normal circumstances. They cannot buy clothes based on the video. Thus, Taobao would lose some consumers.

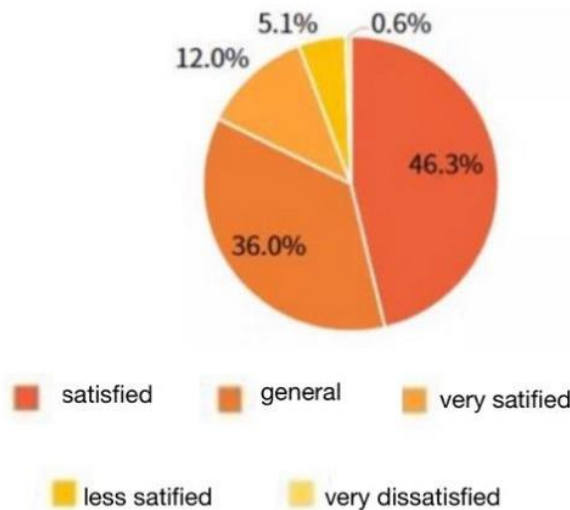


Figure 2 2021 Chinese consumers' satisfaction of shopping on wholesale e-commerce

4. COMPARED AMAZON AND TAobao

Compared Amazon with Taobao under epidemic, Amazon has more advantages. Firstly, the business model which Amazon Prime accounts huge percentage of Amazon profit. More than 100 million members can take Amazon benefits. As they buy the Prime, they prefer

to buy products on Amazon sine they can get goods faster and pay less delivery fee. It also promotes sales. However, for Taobao, the loyalty is quite low because there are a lot of online websites to sell products such as Jiangdong and some vertical e-business. Since consumers have many choices, they would not always choose Taobao. Thus, Taobao has no more advantages

than others. Secondly, for logistics, Amazon has its own self-built logistics. Peipei [1] indicates it has a faster delivery speed. Moreover, under epidemic, Amazon has its own warehouse, it can store more necessities to prevent the outbreak. And hundreds of robots take an important role because they can store and check items without workers. Thus, during the epidemic, the logistic is not influenced. For Taobao, since it has no self-built logistics, the speed of delivery is not faster than Amazon, and Taobao does not have a warehouse, Peipei [1] mentions that the transaction costs would be higher. Thus, under epidemic, Amazon can still deliver products on time, but Taobao costs more on delivery, and people who get goods is later. Thirdly, for the live commerce, Amazon has a higher quality of brand and after-sales service attitude attract more people to consume in Amazon. Also, Amazon chooses celebrities whose followers have high loyalty, and it can create more value for Amazon. However, Taobao only chooses very famous stars who have more commission and some of them even do not know products. Moreover, they make unreal functions and performance of products to lie consumers. Then, people would buy products that do not match expectations. Thus, on live commerce, although Amazon promotes it late, the better formulate lets Amazon in the epidemic has higher benefits.

5. CONCLUSION

In conclusion, under epidemic, there are three aspects that Amazon does better than Taobao which are business model, logistics operation, and live commerce. Amazon Prime, warehouse, self-built logistic, and live commerce let Amazon keep picking goods from third-party sellers. And goods can be stored, delivered on time. These important parts let Amazon less vulnerable to facing the epidemic. The downside of this article is there are still some advantages of Amazon does during the epidemic. For example, third-party overseas warehouses. However, since Taobao does not have it, it is hard to compare them. In future research, the main direction is about Taobao. By analyzing Amazon and Taobao, it can be concluded that Taobao has some disadvantages that need to correct. However, as the platform with the most users, there must exist its own advantages. Thus, the future study would focus on how Taobao uses only decades and gets the achievement nowadays.

AUTHORS' CONTRIBUTIONS

This paper is independently accomplished by the author.

ACKNOWLEDGMENTS

I am very grateful to Ming Han, who is my thesis advisor. She gives me some really useful advice on the framework of my paper. She leads me to finishing this

paper successfully. Also, teaching assistant Yoki guides me on topic. Under their help, I have the inspiration on work and have clear framework so that I can finish my paper smoothly.

REFERENCES

- [1] Cao, P. (2015). Compare Chinese and American e-commerce from Taobao and Amazon. *E-Business Journal*, 4,3-4.
- [2] Chen, J., & Han, L. (2020). Amazon's strategic flywheel for the "store for everything". *Sales&Management*, 11, 42-45.
- [3] Deng, J. (2019). A comparative analysis of Amazon and Taobao based on user stickiness. *FUJIAN ZHILIANG GUANLI*, 7, 36-37.
- [4] Guo, Y., Zhong, X., & Ma, Y. (2021). Research on retail e-commerce under live broadcast. *Economics and Management Science*, 11,76-77.
- [5] iiMedia Research. (2021). Report on E-commerce Industry Survey and Development Trend of China Wholesale Market in 2021. iiMedia Research. <https://www.ebrun.com/20210507/432691.shtml>
- [6] Merchants Securities. (2018). Alibaba VS Amazon comparison report. Merchants Securities. http://pdf.dfcfw.com/pdf/H3_AP201809121193740921_1.pdf
- [7] Qu, Y. (2021). Research on logistics cost from the perspective of international supply chain under the epidemic situation -- taking Amazon logistics as an example. *China Storage & Transport*, 2, 115-117.
- [8] Tugba, S. (2021). Annual net revenue of Amazon from 2004 and 2020. Statista. <https://www.statista.com/statistics/266282/annual-net-revenue-of-amazoncom/>
- [9] Xu, X. (2021). Enlightenment of Amazon's live-streaming mode to China's e-commerce live-streaming -- A case study of apparel e-commerce live-streaming. *Journal of Zhejiang Textile & Fashion College*, 20(2), 47-50.
- [10] Zhu, Z. (2020). Amazon's cost management from the perspective of supply chain. *China Economic & Trade Herald*, 13, 37-38. Retrieved June 4, 2021.