

Spotlight on LightInTheBox

Susan Lowry

Email: lowpro@bigpond.com

Mitchell Kempton

Email: mkempton@live.com.au

John B. Hammond

Email: jhammond@netspace.net.au

Abstract

In 2007, LightInTheBox.com opened an online shop selling predominantly customized event dresses made by suppliers offering value for money and true sizing. Its early success made expansion into other product offerings possible and today revenue is approximately US\$292M. Can LITB sustain this growth? Where will this small medium enterprise in China be in 2020? Western society see expansion into China as a growth market however China is closing that market with its own businesses competing against the western companies. Who will succeed in this highly competitive market.

Keywords: Lightinthebox.com, LITB, business models, e-tailing.

1. Introduction

People in the 1930s after the Great Depression would only spend money (if they had any) on basic necessities to ensure survival. People in the 2010s, particularly those aged between 20 to 40 years of age, generally buy goods that they want rather than ones they may need. This shows the extent to which consumer spending has changed markedly over the past 80 years.

However in this paper we intend to concentrate more on electronic business in the past 15 years to which we have become accustomed, and more narrowly on a small to medium business in China - LightInTheBox.com (LITB).¹

2. The Computer Era

The computer era commenced about mid 1980s for the general population in the Western world despite business use since the 1960s. As Western society has embraced the use of computers in the workplace as well as the home, there has been an even greater take up of mobile technology -

primarily mobile phones but also i-pads, and tablets.

A branch of the computer era is the increasing expansion of business away from the traditional 'bricks and mortar' business premises to the 'virtual business' known as electronic commerce, electronic business or digital enterprise.

A digital enterprise is one that operates online whereby purchases are made electronically via a website and dispatched to the purchaser from a warehouse located anywhere in the world.² One such business is LightInTheBox.com¹

3. Background of LightInTheBox

LightInTheBox.com (LITB) is a China-based global online retail company that delivers products directly to consumers around the world.³ The company was founded in June 2007 but is certainly not the first company in China to become an online retailer.³ Alibaba.com commenced from humble beginnings in 1999.⁴ LITB offers customers a convenient way to shop for a wide selection of products at attractive prices through

www.lightinthebox.com¹, www.miniinthebox.com and other websites as well as mobile transactions, which are available in 27 major languages and cover more than 80% of internet users globally³. Their business model allows LITB to offer customized products at scale through optimal merchandising, marketing and fulfilment.

4. Products on offer by LITB

When LITB commenced business in 2007, they focused on the sale of apparel (particularly customized special event dresses eg wedding dresses, cocktail dresses, bridesmaid dresses), and electronics and communication devices.³ Within a few years, LITB expanded its offerings by increasing the number of products in the electronics and general merchandise product category by including home and garden products, beauty, sports and outdoor products. in 2010, LITB introduced a new website www.miniinthebox.com⁵ for the sale of small accessories and gadgets.

Table 1 Product Offerings

	Product Listings	New listings per month
As at March 2013	220,000	14,000
As at December 2013	520,000	40,000

[Source: LightInTheBox.com Annual Report 2013]³

5. Trading Results

LITB has experienced good growth in net revenue over the past 3 years as shown in Table 2. What is noticeable is the revenue mix relying less (on a percentage basis) on apparel from 40.5% down to 29.6% in the last three years.³

Table 2 Trading Results

	Year Ended 31 December (US \$,000)			% of net revenue (just 2013)
	2011	2012	2013	
Apparel	\$46,888	\$80,274	\$86,459	29.6%
Electronics & other general merchandise	\$69,342	\$119,936	\$205,958	70.4%
TOTAL	\$116,230	\$200,010	\$292,417	100.0%
% increase		72.1%	46.2%	

[Source: LightInTheBox.com Annual Report 2013]³

Focusing on customers, there has been strong growth in the number of customers, as well as strong growth in revenue attributable to both new and repeat customers as disclosed in Table 3.

As seen from Table 4, repeat customers on average spend the same as new customers.

6. Electronic Commerce/Digital Enterprise Models

In the digital way of doing business, the enterprise generally has:

- (a) both a traditional physical presence (referred to as 'bricks and mortar' business) and an online presence (thus becoming a 'clicks and mortar' business); or
- (b) a purely online presence

As LITB is a pure online business, we will focus more on this business model in this paper.

There are a number of business models by which revenue is generated by a purely online business. These include:

- (a) e-tailers - sales of goods and services electronically direct from the manufacturer to the consumer (either an individual or a company) ie B2C and B2B)
- (b) Advertising model - revenue is generated from businesses advertising on your website but may also include a fee for click-through to another site.
- (c) Brokerage model - a fee is generated where buyers and sellers are brought together in a marketplace in which transactions are facilitated in B2B, B2C, C2C as well as transactions between business and government in B2G.
- (d) Subscription model - revenue is generated by a subscription paid by members which permits additional functions viewed via a 'members only' portal.
- (e) Utility model - A metered usage or pay-as-you-go approach.²⁺⁶

Table 3 Customer numbers and growth

	Year Ended 31 December (US\$)		
	2011	2012	2013
Number of customers	948,000	2,479,000	4,291,000
% increase		161.5%	72.0%
Revenue attributable to new customers	\$95,344,000	\$150,626,000	\$194,110,000
Revenue attributable to repeat customer	\$20,886,000	\$49,384,000	\$98,307,000
Total Revenue	\$116,230,000	\$200,010,000	\$292,417,000
Growth in revenue attributable to repeat customers	138.7%	136.4%	99.1%

[Source: LightInTheBox.com Annual Report 2013]³

Table 4 Sales by repeat and new customers

	Number	%	Sales	Sales per customer
Repeat Customers	1,400,000	37	98,000,000	\$70
New Customers	2,800,000	63	194,000,000	\$70
Total Customers	4,200,000	100	292,000,000	\$70

[Source: Developed from LightInTheBox.com Annual Report 2013]³

LITB makes use of only one of these revenue models. LITB is a pure e-tailer in that the company sources items from suppliers and then on-sells them to end users. The margin earned above the cost of sales is revenue to LITB. As noted above, LITB has in excess of half a million product listings.

7. The Business Environment

There are a number of management tools that can be used to understand the business environment in which LITB competes. These include the Five Forces model developed by Porter⁷, and a SWOT. These will be presented in turn.

8. Porter's Five Forces Model of the online retail marketplace

Porter⁷ developed a framework to examine forces which may affect the performance of players within a particular industry. These forces include the bargaining power of customers, the bargaining power of suppliers, barriers to entry into the industry, the threat of substitute products or services, and rivalry among existing competitors.

8. A. Bargaining power of customers

Customers have very little power over the retailers in this online industry – the e-tailers. Being a digital marketplace, potential customers can easily change to another e-tailer with a click of the mouse. Furthermore, potential customers can search for and compare similar products and services on the Internet. There is nothing tying a customer to the retailer unless there is a subscription or membership requirement. An additional hook to an e-tailer might be the offer of free delivery.

Customers have an unlimited number of e-tailers at their disposal which they may choose to source, build, customise, purchase or use for research purposes. These range from Google, Facebook, Yahoo!, Amazon (the A to Z global leader), to eBay, Taobao, Net-A-Porter, Gumtree and through to Alibaba which accounts for over 60 percent of parcels delivered in China.⁴

Online-store review site www.resellerratings.com⁸, lists reviews for 69,517 consumer verified online stores further demonstrating that the consumer is not short of options when it comes to choice of suppliers or products. This easy accessibility of information regarding merchandise and suppliers

indubitably gives buyers an element of bargaining power.⁷

It appears that LITB's strategy is to influence all potential online shoppers from all corners of the globe, to shop at one, multiple or all of LITB's websites. In 2013, the number of internet users reached 2.71 billion users, and approximately 41.3 percent of these users had purchased an item online.⁹ LITB is attempting to target almost 1.17 billion online shoppers and has implemented aggressive marketing strategies and developed proprietary technologies to manage and optimise marketing operations, ensuring potential customers are viewing LITB's products and services via their website sites.³

8. B. *Bargaining power of suppliers*

Within China, there are many manufacturing companies producing a multitude of products. These manufacturers can either market their own products directly to customers or combine with other manufacturers to sell their products through the one store – whether it is a physical store or an online store. The industry, within which LITB operates, is similar to a department store. They buy finished goods from multiple suppliers and sell them in their own marketplace. Based on the early success of the e-marketplace, many suppliers actively pursue or are pursued to belong to the supply chain.

In 2012, LITB was ranked number one in terms of revenue generated from customers outside of China among all China-based retail websites that source products from third-party manufacturers.¹⁰ Being a China-based company, the bargaining power of suppliers for LITB is considered moderate to low (i.e. weak), as LITB hold a considerable number of trumps, strengthening its position against other global competitors. These trumps include: the range of supplies available to manufacture products (very high), number of product varieties made in China and surrounding location (very high), degree of supplier concentration (high), availability of substitute (very high), capacity of suppliers to produce large quantities of product (high), LITB in-house manufacturing expertise (very high),

proximity to competitive manufacture ecosystems (very high) and cost to move between suppliers (low to moderate).

Furthermore, LITB has established a number of partnerships with leading China-based manufactures, which they work closely with to re-engineer their manufacturing processes to achieve faster time-to-market with a greater variety of products, more than 520,000 as at 31 December 2013.³ The relationship between LITB and manufactures remains very strong, and has contributed to LITB's growing success.

Other reason include a clear understanding of local business requirements in China (and surrounding Asian countries), local to local dealings and not international to local. Partnered factories do not raise the price of products, supplying products to LITB at the price and quantity needed, and because LITB have already established a positive reputation and continue to increase high number of sales and revenue from \$26.1 million in 2009 to \$292.4 million in 2013.³

The bargaining power of suppliers in relation to marketing, payment and deliver of LITB goods is rather improved, in the favour of suppliers. LITB procures these required services through Google and Facebook for marketing, PayPal for electronic payments and DHL, UPS and EMS for international couriers. The strength of these suppliers is reasonably strong, as they are established global entities, servicing tens of thousands of national and international business across all continents, in almost all market segments.

Until now, LITB has been able to maintains the stability of their suppliers (one of reasons could be that LITB could have offered regular contracts to its key suppliers even though there is no evidence for that, however the increased sales revenue and product categories could provide support to some extent), and as you can see from its website LITB has always been looking for new suppliers (e.g., adding 1,000 new suppliers, and offering approx. 209,000 new items in the first quarter of 2014).¹¹ Without increased supplier numbers along with increased product offerings, there would be much

slower growth in revenue for LITB – suppliers are fundamental to the survival of LITB. If suppliers subsequently sell through their own websites direct to the public, then LITB could recede.

Even though Porter suggests that online retailers can provide manufactures new opportunities by opening up new market places,⁷ we must consider whether the heavy reliance on a competitive pricing strategy as can be seen with LITB and many of its competitors will ultimately have an adverse affect on the long term sustainability of both the e-commerce business and their suppliers.

LITB needs support from various suppliers, resellers and affiliates, logistics firms, global marketing platforms (e.g., Facebook, Twitter, YouTube, WebChat, and Pinterest), telecommunication operators, technology vendors, government agencies, industry associations, global credit card and payment firms, international couriers (e.g., DHL, UPS, FedEx) and domestic couriers, HR agencies, stakeholders of the organization's business ecosystems, among many others.

With the industry being subject to such intense competition and with an almost borderless geographic market, low pricing creates significant pressure for online retailers such as LITB. This pricing pressure flows down the supply chain and with the bargaining power of suppliers referring “to their ability “to raise prices or reduce quality of inputs”¹² and also with China accounting for one fifth of the worlds manufacturing,¹³ there is the potential to source new suppliers relatively easily if the current ones do not meet the right pricing criteria. Considering this and that many of the products are regarded as lower quality, on both counts, there is little scope for the suppliers to exercise a great deal of bargaining power.

8. C. Barriers to Entry

The threat of new entrants in the global e-tailing industry is high as the Internet reduces barriers to entry. Anyone can set up an online business with a computer, an Internet connection, and a website/webpage. It will become more so when

cloud computing becomes a normal phenomenon. Smaller and newer online businesses will be able to compete with larger and more established players in the global market. Digital businesses can be established quickly, with a small capital investment, diminished overheads and infrastructure required, compared with a physical store, therefore reducing the barriers to enter the industry.² Further to this, the cumulative competition created by smaller players should also not be overlooked. However there is considerable competitive advantage in being an already established player and having a good reputation.

With relatively low start-up costs needed to set up an online presence and the availability of platforms and other technologies that support e-commerce, there is clearly plenty of opportunity for newcomers to the industry. Also to build a firm (including its platforms/systems and its networks and global markets and large user base) like Lightinthebox.com takes time and requires fundraising at strategic stages which may not be accessible to most small to medium players.

LITB has in fact shown that there appears to be no barriers to enter the marketplace. From the original marketplace of LITB (for clothing, fashion items and other home appliances and items from China), the company has copied their own model and opened many different sites including *miniinthebox.com* (for electronic gadgets from China), *dropinthebox.com* (for wholesales from China), *onlyts.com* (fashion and clothing for both international and domestic markets), *ouku.com* (electronic gadgets from domestic market in China), and its latest acquisition of the U.S. e-commerce site – *www.ador.com*.¹⁴

8. D. Threat of Substitutes

Product substitutes can be of concern to many industries and brands, especially with the consumer's capacity to research and compare products relatively easily. Considering that many of the product offerings from LITB are in fact already substitutes for both branded and better quality products, it would seem unlikely that products can be further diluted. As such, product

substitutes might pose little threat. However, buyers may substitute and source better quality products rather than LITB's cheap lower quality offerings. Despite this, the range of goods offered are so broad and not limited to any one type of product, and therefore LITB does have an element of flexibility with the ability to add and remove products from their range as the market dictates.

8. E. Rivalry Among existing Competitors

The online retail market for products is extremely competitive. Although LITB is a large digital department store selling 60,000 products a month,¹⁵ it does not guarantee its position. Consumers have many product choices online and offline offered by global, regional and local retailers. Even in Australia there is demonstrated high rivalry among existing competitors. For example in Australian companies competing in similar markets as LITB includes: Theiconic, Kogan, Catch of the day, JB Hi-Fi, Officeworks, BrandsExclusive and Big W.

The fierce competition in the industry could lead to gains for consumers (i.e., cheaper prices, better services, and more options). The Internet reduces differences among competitors (i.e., small and large players compete in the same market place with very similar products and services) even though Lightinthebox.com has certain experience and is growing their product offerings and increasing their number of customers.

Some of Lightinthebox.com's major direct and indirect competitors include:

- www.alibaba.com
- www.taobao.com
- www.aliexpress.com
- www.hdgate.com
- www.tencent.com
- www.baidu.com
- www.jd.com
- www.yhd.com
- www.amazon.cn
- www.globalsources.com
- www.walmart.com

To remain competitive globally, LITB must anticipate and respond quickly to changing

consumer behaviour, maintain quality products and services, execute effective marketing activities and maintain favourable brand recognition, if they wish to survive and mitigate adverse effects to operations.

9. SWOT Analysis of LITB

A SWOT analysis offers further insight into the business of LITB, by identifying the organisation's internal strengths and weaknesses as well as external opportunities and threats.

A summary of the SWOT is provided here in addition to several points discussed in more detail following Table 5.

Table 5 SWOT analysis of LITB

<p>Strengths</p> <p>Lower overheads and operational costs Local connections (Chinese company dealing with Chinese suppliers) Cheap products Online security 24/7 shopping Ability to collect data which can be used in meaningful ways Vast range of products Central shopping basket</p>	<p>Weaknesses</p> <p>Reliance on suppliers for all sales transactions Reliance on low pricing strategies Customer service Poor quality products Better terms and conditions High delivery costs Poor tracking & delivery Customer service only offered online Delays in payment confirmation Unfair order cancellation practices and policies Lack of internal integration</p>
<p>Opportunities</p> <p>Easy to add new products New generation of online shoppers Growing acceptance of online shopping Continued improvements and developments in technology Switching costs through creating customer value New technology</p>	<p>Threats</p> <p>Poor performance by suppliers Failure to perform by delivery agencies Technology failure Low barriers to entry Ongoing development of ecommerce application Bad reputation spread via third party internet sites External digital threats Customs duties and other trade barriers Legal and regulatory changes Competition from both existing and new ecommerce businesses</p>

[Source: Developed for this paper by the authors]

9. A. Strengths

In just over 7 years since LITB commenced business, it has been trusted and accepted by 4.9M customers from more than 160 countries buying from the 520,000 product listing supplied from over 3.300 suppliers to a point where annual turnover is in excess of \$292M.³

The online retail store is open 24/7/365 and uses secure trusted payment system. It can fill orders within 48 hours (except made to measure event dresses).³

9. B. Weaknesses

The 'Made in China' tag used to be a sign of cheap inferior products according to western standards. It is difficult to determine whether this perception has worn off yet.

Having nearly half a million product lines may become a logistical nightmare to control especially as LITB is actively increasing the product offerings.

Customer service is a weakness for this company in that complaints are not handled expeditiously nor reach a satisfactory conclusion for the customer.

9. C. Opportunities

There are opportunities in overseas markets. Despite selling to customers from 160 countries,³ more focused marketing efforts could be directed to North and South America (to increase customers and sales from present low levels) as well as to the Middle East and African markets.

Also opportunities exist for the use of more sales channels especially m-business and social business. LITB should look at the multi-sided digital platform opportunities as its B2C and B2B are more single-sided platforms in order to bring in more stakeholders and create more opportunities for value creation.

Additional opportunities could be to link all LITB affiliated sites into one check-out point i.e. one transaction per selling experience regardless of which sites the items are purchased from; acquire competitors; create its own single brand; improve quality; and improve customer service.

9. D. Threats

Threats will come from competitors in the form of either a take-over or merger. There are many small to medium players in e-tail (electronic retail) businesses not only in China but also around the globe. These threats may be lessened by LITB actually taking the lead and acquire competitors. LITB has already done this by acquiring www.ador.com¹⁴ and could look further afield.

10. Summary of present position of LITB

LITB operates in a very competitive environment not only from competitors in China but around the world. A business can easily become an e-tailer with minimal capital. LITB's business model can be easily copied. LITB operates in the shadow of a major competitor in China being Alibaba.com but has enjoyed remarkable growth in only 7 years of operations. Many suppliers are keen to become affiliated with LITB. Despite some big players in e-tailing (Alibaba.com, Amazon.com, eBay.com to

name but a few) electronic commerce is still growing in popularity worldwide. Therefore the future appears to be reasonably good for LITB however it is yet to make a profit despite a gross profit margin of between 30 and 43.5% during the past 5 years.³ Furthermore the leadership of LITB appear sound. Its combined experience and skills of top management team is impressive. Chairman and CEO Alan Guo's spent time at Amazon and Google before founding LITB. Similarly other senior executives have impressive track records and new talent was acquired when LITB purchase ador.com¹⁴ in America in 2014.

11. The future of LITB

Recently (June 2013) LITB had a initial public offering (IPO) on the New York Stock Exchange. The IPO was for US\$74M.¹⁶⁺¹⁷ From the LITB Annual Report for 2013³⁺¹⁶, the company disclosed the use of these funds being:

- approximately US\$15M for investment in fulfilment and technology infrastructure;
- approximately US\$15M for expansion of product offerings and categories;
- approximately US\$15M for customer acquisition and brand building;
- approximately US\$1.1M for payment of interest accrued for the convertible notes issued in March 2012; and
- the balance (approximately US\$27.9M) for general corporate purposes.

It is noted that the IPO of LITB was small compared to a competitor - Alibaba.com which had an IPO of US\$25Billion in September 2014.¹⁸

The capital raised is predominantly being ploughed back into the business and focusing on fulfilment (shipping), product expansion, branding and customer relations.

But will customers buy from LITB in the future? LITB has created value for customers. This value is in the form of a large selection of cheap quality products from China which may not be available locally to the customer or could be available locally but at a higher price. LITB has also created value for suppliers. LITB has helped its suppliers and

partners to find markets for their products through LITB and its affiliated sites. This assists suppliers to better understand the needs of global customers via LITB's large customer base and the data generated from this customer base.

LITB not only has established a successful internet-based business, but also has made a window and platform for connecting Chinese manufacturers with the rest of the world, and it has developed innovations, technologies, talent, and systems which will provide future growth and indirectly future leaders of the company. The only negative is that LITB has not turned a profit since it commenced trading over 7 years ago. This might reflect the highly competitive nature of e-tailing however with continued growth and strength and a focus on the customer, hopefully profits may appear in their next balance sheet.

References

1. LightInTheBox, www.lightinthebox.com
2. E. Turban, D. King, J. Lee, T.P. Liang, D. Turban, *Electronic Commerce 2012*, Pearson Education, London 2012.
3. LightInTheBox Annual Report 2013, <http://ir.lightinthebox.com/phoenix.zhtml?c=251137&p=irol-irhome>
4. Wikipedia, http://en.wikipedia.org/wiki/Alibaba_Group
5. Miniinthebox.com, http://www.miniinthebox.com/index.php?main_page=affiliate
6. M. Rappa, Business Models on the Web, *Managing the Digital Enterprise*, May 16, 2007.
7. M E Porter, 'The Five Competitive Forces That Shape Strategy', *Harvard Business Review*, pp24-41.
8. www.resellerratings.com, http://www.resellerratings.com/store/Light_In_The_Box
9. Statista.com 2014, www.statica.com/statistics/261676/digital-buyer-penetration-worldwide
10. New York Stock Exchange, Lightinthebox Holding Co. Ltd. - Company profile, www.nyse.com/quote/XNYS:LITB/company
11. LITB Press Releases <http://ir.lightinthebox.com/phoenix.zhtml?c=251137&p=irol-newsArticle&id=1933136>
12. Lee, H., Kim, M.S. & Park, Y. 2011, An analytic network process approach to operationalization of five forces model, applied mathematical modelling, 36(2012): 1783-1795 (p1784)
13. The Economist, 2013, www.economist.com/node/21549956
14. www.ador.com
15. Yahoo Finance, Business Wire, LightInTheBox Holding Co., Ltd. Reports Second Quarter 2013 Financial Results, article, <http://finance.yahoo.com/news/lightinthebox-holding-co-ltd-reports-200100619.html>
16. Graphical Financial Analysis - LITB www.gaskinsco.com/litb.pdf
17. GeoInvesting - LITB http://geoinvesting.com/companies/litb_lightinthebox_holding_co_ltd/research
18. Alibaba files with SEC to offer 65.9 million shares <http://www.reuters.com/article/2014/10/03/us-alibaba-group-stocks-idUSKCN0HS1C020141003>