

# *A Case Study on the Clothing Cross-border E-commerce Model of “NetEase Xiupin”*

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**Abstract**—In recent years, the cross-border e-commerce has been developing rapidly while the cross-border clothing industry remains the blue ocean. The “NetEase Xiupin” which focused on the field of clothing drew the public's attention at the early stage, but ended up in a failure a year later. This paper intends to study the cross-border e-commerce model which is suitable for the overseas apparel industry through the specific case study of the clothing cross-border e-commerce of “NetEase Xiupin”. The value proposition of “NetEase Xiupin” is to provide customers with a selection of high-quality and unique apparel goods while providing overseas merchants with the nanny, one-stop full-link service. But there are some challenge problems such as high operating costs, and its business model requires improving.

**Keywords**—cross-border e-commerce; clothing; business model; value proposition

## I. BACKGROUND AND SIGNIFICANCE

With high-speed development of more than ten years, the e-commerce industry entered the consolidation stage, the development speed slowed, and the e-commerce channel dividend phase ended. Cross-border e-commerce is one of the few projects available now. But the seemingly blue-ocean cross-border e-commerce industry is now facing a bloody battle. When the cross-border products become conventional categories, the platforms are homogenized, while the giants are opting for "strategic loss". The term "strategic loss" refers to a real profit after a short-time loss. But it is difficult to achieve the goal only by the standard products sales. As the largest category of domestic e-commerce categories and the first category that Sea Amoy men and women want to purchase, clothing becomes the key point that every platform wants to break through. However, due to its own characteristics, the garment industry is very different from the conventional cross-border category, which is mature now, and the platforms have not found a proper operating model yet. Therefore, finding the

suitable model first can add weights to future success, help to find a new breakthrough for the cross-border e-commerce sales growth and contribute to the benign development of cross-border e-commerce.

“NetEase”, a company studied in this paper, is one of the Internet giants that have been trying to exploit cross-border trends. On the one hand, “NetEase Koala” is established to make the layout of standard product, guide customer flows and occupy the market share; On the other hand, it chooses clothing for vertical cutting, and creates “NetEase Xiupin” to lay the foundation for future competition.

“NetEase Xiupin” fired the first shot of the clothing cross-border e-commerce. Although it failed, its value proposition, development strategy and business model are worth studying to find a suitable clothing cross-border e-commerce model and provide a pilot effect for the development of non-standard category of cross-border e-commerce.

## II. “NETEASE XIUPIN” PROJECT LANDED

### A. Operation model

#### 1) Target users

“NetEase Xiupin” mainly relies on NetEase’s traffic, so its target users are NetEase users. NetEase users belong to a group with high age, high education and high income. They are generally between 25 and 35 years old with the above 10,000 incomes and college degree. It is related to NetEase’s commodity properties. NetEase’s product has always been artistic and stylish, and the users have followed these characteristics.

#### 2) Businesses operation

In the initial stage, xiupin has established a dedicated business operation team of various languages. As long as the goods are out, xiupin will help them to operate and promote. And it is a charging project. In order to start quickly in the early stage, xiupin packed the charging items into the buckle point and raised the buckle point. Platform profit model is

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charging buckle point. If the merchants have the ability to operate in Chinese, they can operate by themselves with lower the buckle point; if not, xiupin platform can operate as an agent, and higher the buckle point. Thus effectively solve the problem of operation.

Give merchants support in early stage, even a slight loss does not matter. Make the merchants taste sweet first, and once having sales and profits, the merchants will be willing to invest more. The product is the bottom line that the platform is determined not to touch, just seen it as the input of merchants. At present most platforms charge annual fee, but xiupin change annual fee to deposit. Xiupin uses platform agent to operate and promote, which can form a systematic and streamlined procedure inside. When it grows to a certain size, we will charge for separate items, and merchants can also choose to build their own teams. This provides more efficient way for the early entry and promotion of the merchants.

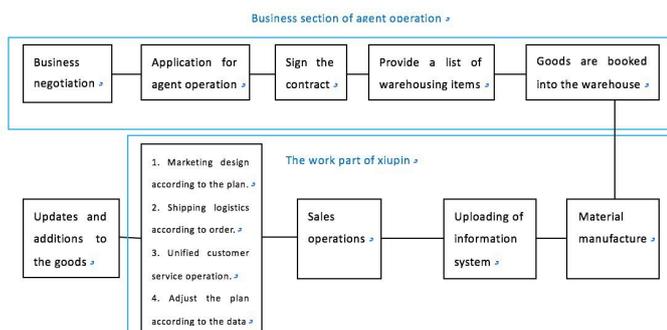


Fig. 1. Xiupin agency operation work content

**3) Cross-border logistics**

Cross-border logistics is a difficult point in the current cross-border e-commerce industry. If let the merchants deliver the goods on their own, the user experience can't be guaranteed. In addition, it's also uncertain whether merchants have the ability in consideration of the different situations in each country. In this respect, "NetEase Xiupin" can adopt the bonded warehouse, overseas warehouse and direct mail. The establishment of three kinds of warehouse distribution system can only guarantee the implementation of basic functions. The first phase prefers to the bonded mode, merchants store goods into the domestic bonded warehouse and "NetEase Xiupin" picks up goods at a certain place overseas. After that, "NetEase Xiupin" will be responsible for international logistics, bonded warehousing, customs filing, outbound and customs declaration, etc. The procedures are so cumbersome and complex that it must be difficult to carry out for overseas companies. The platform not only saves the troubles of overseas companies, but also enables logistics to be controlled and the logistics speed can be improved.

**B. Differentiation strategy**

**1) Differentiation of goods**

Currently, the major cross-border import platforms in the industry include "Tmall Global", "JD worldwide", "Vipshop global sales" and other global purchasing sections. Their main sales products are four categories: maternal and child products, cosmetics, food and bags. The cross-border clothing section is not very mature, and even many platforms have not launched

the garment business section. The main reason is that the four categories have centralized consumer demand and abundant supply of resources. From the perspective of the product itself, the traditional offline trade import price is much lower than that in China, but the cost structure has been changed by cross-border e-commerce, thus the sale price has fallen sharply to close to the foreign countries. Take the maternal and child commodities as an example, through general trade import entry, its cost constitutes "overseas supplier price+ 30% tax fee+ importer profit+ retailer profit+ logistics expense"; through cross-border e-commerce, its cost constitutes "overseas supplier price+ 10% post tax (tax exemption under 50 RMB) + e-commerce profit+ logistics expense". The decline in the cost of marketing caused by the decline in taxes and the reduction of sales links leads to a decline in total costs, resulting in a sharp decrease in the retail price and the increase in centralized purchase of consumers. Booming demand and a surge in sales will also attract more suppliers. The increase in suppliers reduces the difficulty of building the supply chain, which makes it easier to carry out the business. Therefore, many major cross-border e-commerce platforms take those kinds of product as the main sales categories. The clothing category of the positioning of xiupin, due to its wide breadth of SKU, strong timeliness and the difficulty of establishing the supply mode, many platforms have not chosen the first time to start the clothing business when they entry into the cross-border business.

TABLE I. THE MAIN CATEGORIES OF CROSS-BORDER PLATFORMS

The name of the platform	Online time	Main category
Tmall Global	2014.02	cosmetics, luxury, food, maternal and child products, daily necessities, home appliances
Taobao global shopping	2007	all categories
JD worldwide	2015.04	cosmetics, luxury, food, maternal and child products, daily necessities, home appliances
Vipshop global sales	2014.09	cosmetics, luxury, food, maternal and child products
Jumei overseas purchasing	2014.09	cosmetics, luxury

**2) Differentiation of structural form**

At present, there are two main types of e-commerce platforms' products structure: mall model and special selling model. The mall model is represented by "Tmall Global" and "JD worldwide". That model has a wide range of industries and is based on business self-operation. Therefore, the structure of the page is based on industries and the store is the infrastructure unit. The consumer takes the search box as the main shopping path, and pays attention to the recommendation of goods and stores on the homepage. The special selling model is represented by "Vipshop" and "NetEase koalas". On the page, the special selling banner is the main information flow, highlighting the sale information, and weakening the search function. Consumers use special selling banner as the main purchase route. The xiupin takes content as its main form of presentation, the page structure takes content as the main body, or takes the bloggers who generate content as the unit,

placing the goods into the content. Consumers focus on goods through content guidance. This is a form of guiding purchase.

### 3) Differentiation of market promotion measurement

The traffic entrances are a land of competition for e-commerce platforms, and the network hard advertisement is the main means of the e-commerce competition for traffic entrance, supplemented by traditional marketing methods such as SEO and EDM. "NetEase Xiupin" relies on NetEase's huge traffic sources, taking the NetEase news as the main flow entrance, using the forms like fashion information and news to promote softly; accurate delivery to the target consumers, thus avoid with other e-commerce platforms by competition for limited hard advertising entrance.

## III. "NETEASE XIUPIN" PROJECT SHUTDOWN: BASED ON BUSINESS MODEL ANALYSIS

Even with the combination of multiple advantages, "NetEase xiupin" announced the suspension of its service after one year, the improvement of its business model deserves further discussion and analysis. According to the business model canvas construction method, "NetEase xiupin" includes nine sections.

**Customer segmentation**, this is a multilateral market, where there are overseas clothing brand merchants that want to enter the Chinese market and customers that want to buy clothing with a sense of design and quality, which can be defined as the new middle class. As one of the non-standard products, the brand of clothing is various, covering a wide range of customers. The difference between mass fashion and niche fashion and the conceptual difference of different ages requires the platform to have a higher level of selection ability and a clear positioning. If there are not adequate buyers with some selective purchasing habits, it's very likely to become the second Vipshop – can only sell general brands. The goods sold in Vipshop are old and lacking in sense of design, which is difficult to meet the aesthetic taste of young people in tier one or tier two cities, hence the similar model to Vipshop will inevitably fail. In terms of customer segmentation, "NetEase Xiupin" still fails to specify market scope and market demand. The pursuit of Korean fashion is mainly for students, and the student group is more sensitive to price. In addition to the students, the main customer base of NetEase also has white-collar workers with a higher consumption capacity who prefer the clothing of simplistic line design and elegant style. Besides, price is also a status symbol in that group. People's preferences are hard to unify and the platform often lacks experienced and discerning buyers in the early stages of construction, which makes it difficult to expand the market.

**Value propositions**, for the customers, "NetEase Xiupin" is a platform providing a selection of high-quality and unique apparel goods; for overseas brand merchants, "NetEase Xiupin" is a convenient and labor-saving Chinese clothing sales channel. It's difficult to ensure product proper to each one, and the users lack loyalty to a new platform. One or two unsatisfactory experiences of shopping will result in a rapid loss of users. Therefore, it's hard to keep the customer retention rate if the platform is difficult to achieve the quick update of the selected fashion content. The value proposition of "NetEase Xiupin" is extremely demanding for the quality of

content and the speed of update, so that there is pressure to achieve it. The competition of cross-border e-commerce is fierce and there is no long time to cultivate users' loyalty. The agent operation mode is convenient and labor-saving for the overseas brand merchants, while it has brought huge operating load and pressure to the platform. High operating cost makes the platform less profitable. Besides, there is a drop in the efficiency and quality under high pressure.

**Channels**, are mainly website and APP. This is the main channel of the information Internet era, which can meet the operational demand of high traffic and efficiency.

**Customer relationships**, the acquisition and maintenance of individual users and the development and maintenance of overseas clothing brand merchants. The unit price and the customer cost of "NetEase Xiupin" are high, and its competitors cover the global scope. The geographical advantage is not obvious when several well-known fashion e-commerce giants in China and abroad have launched Chinese websites and offered free direct mail, alipay payment. "NetEase Xiupin" also has the disadvantage of the supply chain. The popular fashion brands are mostly from abroad, even the platform which enjoys a good reputation abroad needs repeated negotiations about the brand licensing and entry. It creates resistance to the sustainable development of "NetEase Xiupin".

**Revenue stream** is sales commission. But compared with the operation costs, the income at the early stage is hard to make up for its huge expenses.

**Key resource** is NetEase's flow base, which creates a good starting condition for the beginning of "NetEase Xiupin".

**Key activities** are the development, management and promotion of platform and high quality brand and products selection. For fashion e-commerce platform, content is king. Fashion contains too much content. If show too much, undoubtedly to the energy is a great expense, secondary screening and processing difficulty will also increase; too little, it will lack of useful information and fashion features to keep users in the long run. And if the original content is too much, the requirement of the editor will be high; too little, will cause users to question the platform's professionalism. Producing content and promoting brand completely by platform would put pressure on platform, and it is difficult to grasp the user's pain point to produce content.

**Key partnerships**, investment agent, third-party warehousing logistics company, government department, payment tool company, fashionistas and Internet red economy company. Expanding the fashion resources, enhancing the fashion force, producing high-quality content is the key to the sustainable development of "NetEase Xiupin", and the entry threshold must be carefully controlled to ensure the quality.

**Cost structure**, platform development, maintenance and promotion cost, warehouse cost, staff salary. The operation mode of "NetEase Xiupin" brings the high maintenance and promotion costs, difficult to fall in the short term, even has not yet found the effective way to maintain long-term lower operating costs. Once we undertake a large number work of merchants, is difficult to return these burdens to the merchants.

It just like hot potato, pick up hot but also temporarily couldn't throw back, in a dilemma.

On the whole, "NetEase Xiupin" earns commission by providing the new middle class with high quality selection of overseas clothing, and builds their own differentiated service process by providing the overseas brand merchants nanny, one-stop services. However, there are still plenty of problems in that business model. Customer segmentation is unclear, difficult to cover all aspects; the content production is difficult, and the customer acquisition cost is high and the retention rate is low; the supply chain has disadvantages and it is difficult to attract investment; high operating costs, high pressure and low profit margin. These problems eventually became the last straw that killed "NetEase Xiupin".

#### IV. CONCLUSIONS AND COUNTERMEASURES

##### A. High quality selection

Only by strengthening the construction of the buyer team can the reliability of the selection and the quality of the fashion content be ensured. For recruitment, raise the entry threshold, strengthen the admittance assessment and build a cross-regional team that combines overseas buyers with local Chinese buyers. In this way, we can keep the overseas style while taking the acceptable style factors in the Chinese market into consideration, thus ensuring the diversified and unique style of the goods. For cultivation, in order to maintain a keen sense of market touch and fashion sense, making buyers attend more trade shows, industry forums and so on. In addition, a hierarchy could be established to encourage buyers to study independently. For motivation, link the sales result to the selection process and set the relevant disciplinary system.

The advisory panel has both authoritative content and decentralized content which is close to customers. Introduce fashion bloggers to produce more authoritative content constantly. In the section of decentralized content, we can introduce the network popular person and street shooting team to generate the content that is close to the customers. Besides, "NetEase Xiupin" can also cultivate its own internet red person, so that the content can be exclusive. And "NetEase Xiupin" can rely on its own commodity library to link sales with content.

##### B. Optimize operational model

The nanny, one-stop all-link service for merchants is convenient and labor-saving, therefore increases their willingness to enter. But that mode also adds to the burden and operating costs of "NetEase Xiupin". So how to control the cost is the key to the future profitability of "NetEase Xiupin". As a strategy to preempt the market in the early stage of market development, it's a good choice to rely on NetEase's capital strength. But in the long run, the profitability is worrying, making it necessary to keep tweaking the model. For the sake of quickly start, lower the entry threshold and make the model simple and easy to understand, we can adopt the unified commission model (see Table 2). When the business volume increases and the merchants have the trust of the platform, we can gradually cultivate the merchants to operate from agency to

own. At the same time, the value-added service can be separately charged, thus reducing the negative profit risk.

TABLE II. CONDITIONS FOR MERCHANTS TO ENTER OF "NETEASE XIUPIN"

Operation model	Buckle point	Warehousing	Logistics	Generalization	CS	Settlement	Sales return
Own operation	15%	XP	Brand merchant	Brand merchant	XP	Once a month	Back track
Agency operation	35%	XP	XP, FCA	XP	XP	Once a month	Back track

Since basic operations are used in the way of human labor, it can be considered from process and system to improve efficiency and reduce costs. Basic operations are fragmented and complex, and standardized operation procedures can be established to minimize the mistakes caused by human labor. In addition, it is necessary to develop a series of tools and systems which are automated, and people only should review the final part. Finally, the incentive mechanism can be introduced into the basic operation work to achieve the quantization management, the rate of making error and hitting the shelves is linked to the performance, thus increasing the sense of responsibility of the operators and improving efficiency.

The further development of the show can be focused on the docking between overseas garment enterprises and domestic supply chain. In other words, it refers to make overseas brands licensed to Chinese clothing companies to produce and operate through "NetEase Xiupin", achieving the method that designed overseas but produced and sold locally. It not only ensures the design sense and quality of the product, but also reduces the operational logistics link, so that the logistics and warehousing operation costs are greatly reduced. Only in this way can we effectively control most of the cost of the current model, increase the sense of worth for merchants to "NetEase Xiupin", reduce the possibility of merchants switching to other platforms, and keep differentiated and competitive.

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