THE WALL STREET JOURNAL. ONLINE

August 21, 2006

China's Web Retailers Beat U.S. Rivals At Their Own Game

By JASON DEAN
August 21, 2006; Page B1

BEIJING -- As China's Internet booms, homegrown businesses are often reaping the biggest rewards -- a departure from many other consumer industries in China where foreigners have dominated.

Peggy Yu and her husband, Li Guoqing, founded online bookseller Dangdang.com in 1999, when online commerce in China was more hope than reality. Today, China boasts 123 million Internet users -- second only to the U.S. -- and a growing share of them are using the Web to shop. Dangdang has expanded into a range of new products and claims to be China's biggest online retailer. Its success has enabled Ms. Yu and Mr. Li to fend off competition from a deep-pocketed foreign rival, German media giant Bertelsmann AG, and to rebuff a takeover offer from **Amazon.com** Inc., which later bought Dangdang's chief Chinese rival.

Historically, foreign companies have taken the lion's share of many of China's consumer-focused markets, like those for cola, cars, and cellular phones. Dangdang's story -- and others like it -- demonstrates how local competitors in Internet businesses are battling back or even beating foreign rivals such as Amazon, **Yahoo** Inc., **Google** Inc., and **eBay** Inc.

Part of the reason for the locals' success is that China's Internet regulators have made it difficult for foreigners to participate in Internet businesses -- setting limits on foreign ownership, for example, and forcing companies that provide online content to adapt to Chinese censorship rules. Equally critical to success, analysts and executives say, is the ability of domestic companies to understand and adapt to some of the other peculiarities of China's market. Ms. Yu says Dangdang had to make adjustments to the model pioneered by Amazon.com and others. For example, the vast majority of Dangdang's Chinese buyers of books pay cash on delivery -- a result of the fact that credit cards still are relatively uncommon in China.

A typical buyer is Sandy Liu, a 27-year-old accountant with a trading company in Shanghai. She started using Dangdang in March based on a colleague's recommendation and has shopped there several times since. This month, she paid cash for two books and a tray table. She likes Dangdang because "it's very convenient," Ms. Liu says.

Edward Yu, president of Analysys International, a Beijing technology-research company, says foreign Internet companies sometimes don't give local managers enough leeway to adapt their businesses to local customs. Web companies from abroad also can find it difficult to establish local partnerships and distribution channels, he says. Those factors "definitely hurt their market performance when they are trying to compete head-to-head in the local market."

Google, which launched a major expansion into China last year, has continued to lag in popularity well behind **Baidu.com** Inc., the Nasdaq Stock Market-listed Chinese search-engine company. EBay, which bought a Chinese company in 2003, still trails rival site Taobao.com, which has dominated eBay in large part by offering its service to sellers free. After resisting that model for years, eBay late last year started offering free service to sellers, too.

Yahoo, one of the earliest foreign Internet companies to invest in China, announced a year ago that it was handing over control of its China operations -- along with a $1 billion investment -- to Alibaba.com Corp., the company that owns Taobao.

Ms. Yu, who is 41 years old, got her start in business in the mid-1980s when she was a university student in Beijing and worked part time as a translator at a foreign joint venture in China. After a later stint in the Ohio headquarters of the venture's U.S. partner, she earned a master's degree in business administration and then ran her own small investment-banking practice in New York for several years.

In New York in 1996, Ms. Yu met her future husband, Mr. Li, who ran a publishing business. She moved back to China to live with him, and they soon began laying plans for Dangdang. The business was attractive, Ms. Yu recalls, in large part because the shopping experience at the time in China often was frustrating. State-run department stores were dominant at the time, with poor customer service, long lines and uninspired merchandise.

Competition was intense from the start. Bertelsmann launched its online bookselling service, BOL, the same year Dangdang was established. A Chinese rival, Joyo.com, was set up the next year. Dozens of other companies started peddling books or other consumer products online.

Dangdang faltered early because of a failure to recognize the uniqueness of China's market. Ms. Yu, a longtime credit-card user from her years in New York, felt they were essential to selling products online. But credit-card use in China was paltry, meaning many prospective customers couldn't pay. "We didn't get much business," Ms. Yu says now.

So Dangdang switched to two other payment methods: cash on delivery and postal money orders. Now, only about 15% of Dangdang's transactions are paid for with credit cards.

"Don't try to change consumer behavior," Ms. Yu says she learned from that experience. "If consumers don't want to pay with credit cards, then ask them how they want to pay. If they want to pay cash, then figure out a way to get their cash."

Another obstacle: China's fragmented delivery system. To ensure that Dangdang could reach well beyond the big cities where its three warehouses are now located -- Beijing, Shanghai, and Guangzhou -- the company has struck separate deals with nearly 50 delivery companies that operate in about 170 cities across China.

In 2004, Ms. Yu was approached by executives from Amazon who wanted to buy Dangdang, she says. She and her husband were willing to sell only a minority stake. Amazon insisted on control, because that was its practice elsewhere. The talks fell apart, Ms. Yu says. An Amazon spokeswoman didn't respond to requests for comment.

Later that year, Amazon bought Dangdang's Chinese competitor Joyo for about $75 million. Today, Dangdang and Joyo are by some accounts neck and neck, but Dangdang is edging ahead. Reliable market-share data are hard to come by, since none of the major companies are publicly traded. Shanghai iResearch Co., another Chinese market-research company, estimates Dangdang sold about $55.2 million of goods on its site last year, slightly less than the $56.4 million sold by Joyo. IResearch also estimates that Dangdang's sales nearly tripled last year, compared with 50% for Joyo. Dangdang "has the momentum to become the dominant player in the market," says Mr. Yu of Analysys.

Dangdang doesn't disclose its sales volume. Ms. Yu says revenue doubled last year and is on track to more than double this year, with Dangdang expected to turn a quarterly net profit by the end of 2006. She believes the company is bigger than Joyo. Joyo, which also doesn't divulge revenue, is "one of the biggest online retail companies in China," says Tony Tian, a Joyo spokesman.

Bertelsmann expanded its BOL site shortly after launching it to sell audio and video products, gadgets and small gifts. In 2003, however, the site was repositioned as a sales channel for its Bertelsmann Book Club, says Klaus Markus, a Bertelsmann spokesman.

Write to Jason Dean at jason.dean@wsj.com[1]

URL for this article:
http://online.wsj.com/article/SB115612758912240782.html

Hyperlinks in this Article:
(1) mailto:jason.dean@wsj.com