

Dangdang.com

Peggy Yu studied for an MBA and worked on Wall Street in the USA until she decided to move back to China in 1997, aged 32. It was at this point, together with her husband Li Guoqing, already in charge of Science and culture Book Information Co., that she decided to set up her own business and, impressed by the success of Amazon in the USA, she decided to try online bookselling. Launched in November 1999, today the company she set up, Dangdang.com, is China's biggest online bookseller and Peggy Yu is one of China's growing breed of successful private entrepreneurs. The company also sells CDs and DVDs.



Despite a 86% literacy rate - compared to 99% in the USA - and a population five times that of the USA, China has only 77,000 bookstores and 10% of these are part of the state owned Xinhua news agency. However, book sales, at some 43 billion yuan, are only one eighth that of the USA where they topped \$40 billion in 2002. Often there is a limited range of titles particularly of foreign books.

Dangdang is based very much on the Amazon model. However, there are some significant difference in the business model to suit China's particular circumstances. For example, Amazon's key asset is its huge database of titles that it licences from book wholesalers. No such facility is available in China so Dangdang had to build its own, which currently stands at some 210,000 titles. The company has also faced some high problems. The internet was slow to take off in China and customers are not used to shopping on line. They are not used to paying in advance for goods that arrive later. Nor are they used to paying for delivery. What is more the credit card market is still in its infancy. All of which means that some two thirds of business is still 'cash-on-delivery', concentrated in 12 large cities where books are delivered by freelance couriers. The balance of business is based on money orders and credit cards.

To keep its capital spending low, Dangdang owns only one warehouse in Beijing that distributes only 15% of its sales. A bricks-and-mortar rival, Xinhua, distributes the other 85% from its warehouses around the country. Dangdang also monitors developments on Amazon's web site so it can copy the best ideas. The latest to be introduced were multiple delivery addresses and customer wish lists.

Dangdang claim to take some 4,000 orders a day, generating sales of 35 million yuan in 2002 at a gross margin of 25%. However, this represents less than 0.1% of the market. The book market is gradually being deregulated and sales are growing rapidly but Dangdang face stiff competition. One of the fastest growing is the 500 store franchise chain of Xi-Shu. And there are online competitors such as Joyo.com and the German run Bol.com. The question is, when will Amazon enter the Chinese market?

Case questions:

1. What are the strengths and weaknesses in Dangdang's business model?
2. What are the elements of the company's competitive advantage? Can it be sustained in the face of competition?
3. What are the dangers facing Dangdang?
4. How could it compete against Amazon in the Chinese market?
5. What are the opportunities facing the company?
6. How might it grow?

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Dangdang.com, China's largest online Chinese book retailer, who turned down Amazon's takeover bid hoping to get higher prices, is regretting that decision, after its rival, Joyo.com, announced its merger with Amazon, said the latest edition of International Herald Leader.

"Unless Dangdang is able to get huge funds soon, it is doomed to lose to the competition," said Fang Xingdong, an e-commerce analyst, predicting that the competition in the Chinese on-line book selling market will pose more challenges to Dangdang.

Earlier in April, Amazon offered 150 million US dollars to buy a 70 to 90 percent stake in Dangdang. But after four months of talks, the Chinese book seller officially announced they were turning down the offer. They claimed that the company needed an investor but not a buyout.

Only two weeks after the announcement and unbeknownst to Dangdang, Amazon bought Dangdang's long-time rival Joyo with 75 million US dollars.

"Actually, Dangdang insisted on not taking the offer with the thought that Amazon might raise the price, but this trick busted the chance," the newspaper quoted an insider as saying.

Actually, Joyo, the paper said, contacted Amazon early this year about acquisition. Lei Jun, Joyo's president.

But Dangdang was not optimistic about the union of Amazon and Joyo, and it said the companies would need years to adjust to each other's very different management and operation styles.

The company said it has stepped up plans to seek an initial public offering on the NASDAQ stock market in 2005, two years earlier than its original plan.

However, more experts are worrying about Dangdang's future.

"As B2C (business-to-customer) model needs big investment for warehousing, Joyo will seize the advantage against Dangdang with strong capital support from Amazon," said Fang Xingdong.

"Even Dangdang goes listed next year as it plans, it does not hold any big advantage compared with Joyo," said another analyst who declined to be named.

Dangdang's yearly online sales in 2003 reached 80 million yuan (9.6 million dollars), while Joyo's Jan. to Sept. sales last year, mostly online business, were 105 million (12.6 million).

E-commerce, including online book shopping, is quickly catching on in China. Market researcher IDC reported that Chinese consumers spent 4.8 billion US dollars in online shopping last year; the figure is expected to grow to 14.6 billion US dollars by 2005.

Besides Amazon, global giant Google.com, Yahoo!, E-Bay and others also have announced deals aimed at earning profits from the increasing number of Chinese Internet users, which now number at more than 87 million, according to official statistics.