

Building a Korean Fashion Platform in Taobao, China's Biggest Online Commerce: The Case of Fashion e-Commerce Company Accommate

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Abstract

In 2008, a Korean online fashion distributor, Accommate, is founded in China and it tapped into the Chinese online market with the alliance of *Taobao*, online C2C(consumer-to-consumer) commerce platform of Alibaba. *Taobao* offered free listings to attract more sellers in order to compete e-bay and introduced keyword search features which Accommate made use of as an early adopter and partner. As *Taobao* became China's market leader, Accommate secured the partner position to distribute Korean apparels and strengthened its partnership with Alibaba. Soon Alibaba introduced a new online brand mall called Taobao Mall or *Tmall* to complement the C2C platform. Accommate extended its business with Alibaba by taking charge of the Korean product sections in the online brand mall of *Tmall*. From the perspective of scales, China represented for Accommate a dynamic and fast-growing market, though it is so competitive. Moreover, it is a tough job

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to manage the adequate level of inventory for clothes which have as short lifecycle as 45 days. A number of Korean predecessors failed to manage cash flow issues resulted from the inventory.

Accommate came to encounter the management issues of both meeting the changing requirement of Chinese customers and managing the inventory level at the same time. Considering these changes and challenges, we may well think what the strategic and operational issues regarding Accommate are and how the company should grow in this fast growing electronic marketplace. This case study will help readers think about the emerging electronic market in China and form an opinion on the associated management issues and analyses.

Keywords: Online marketplace, Alibaba, Taobao, Tmall, Fashion, e-Commerce

INTRODUCTION

The rapid growth of Chinese online market for the past 10 years has astonished the world. Especially the rapid growth of online platform such as *Taobao* and online secure payment system such as escrow payment, boosted Chinese online market users up to 650 million or so. The rapid increase of Chinese market and its size attracts Korean companies to extend its business to China. As e-commerce uses its infrastructure of Internet connected all over the world, online business requires less expense and input compared to other businesses, but also offers many opportunities.

Accommate, a Korean company grown from a startup, tapped into Chinese online market with the alliance of *Taobao*, online C2C(consumer-to-consumer) commerce platform of Alibaba. Later, the company extended its business with Alibaba by taking charge of the Korean product sections in the online brand mall of *Tmall*. Accommate made exclusive contract as an only supplier for fashion item in Hangook-Gwan, which is the special site of Taobao which sells only Korean items. Not only making that contract as an success factor, Accommate is operating B2C shopping mall 'theyjamydotcom (www.theyjamy.com)' and 'gou4u(www.go4u.com)' which offers substitution of purchase business. As a bridgehead between Korean representative online shopping mall for fashion such as stylenanda, naning9, cherrykoko and Chinese market, Accommate came in to the spotlight of business. Since its foundation in China 7 years before, the company has the annual revenue of \$100 million and employs around 250 people.

Our case study on Accommate which opened exclusive fashion market for Korean fashion item (korea.tmall.com) at *Taobao* will provide intuitive and meaningful lessons for entrepreneurs and business researchers. By analyzing the case of Accommate which disseminating Hallyu fashion worldwide, we expect to develop the insight of success factors for global success in online market.

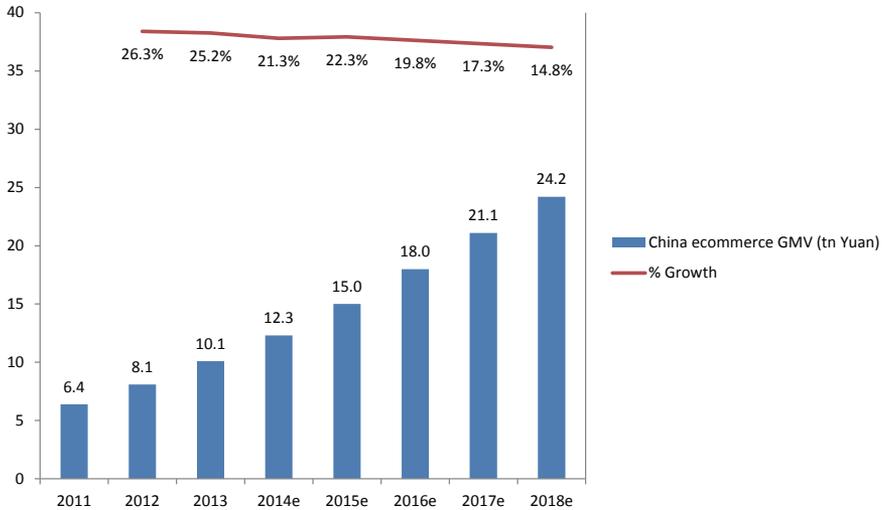
CHINESE ONLINE MARKET

The information on the development and change of Chinese online market is essential to understand the contexts for this case study. Ever since Accommate started B2B business through 'thejamydotcom' in *Taobao* in 2007, the founding team worked hard to have market intelligence which provides better insight not only to estimate Chinese online market but also to develop proper business strategy. Under the success of Accommate in Chinese market, there was a keen observation for developing diverse business models. For this analysis, this chapter is dedicated to analyze the Chinese online market and its development prospect for future business planning. In addition, we present more detailed contexts with *Taobao* which has provided the successful environment for the company. Choosing the platform of *Taobao* can be evaluated as one of the major success factors for Accommate.

Rapid Growth of Chinese Online Market

Size of Chinese online market

Chinese online market growth is remarkable in its size and speed. According to the recent report by Forrester, online spending in China will reach nearly one trillion dollars by 2019. This explosive growth is expected to be fueled by improving logistics networks and mobile apps. In 2013, China has already become the world's largest online retail market, when total sales reached \$307 billion. Forrester also estimated that e-commerce would account for 9.8 percent of total retail sales in China which can be estimated to be \$440 billion. In addition, according to the estimation that Forrester made, the number of e-commerce size will continue to grow at a compound rate of 19.9 percent every year. As a result, it is expected to reach \$1 trillion by 2019 (Forrester 2015). Another study shows similar



Data : Jan. 2015 iResearch (www.iresearchchina.com).

Figure 1. China e-commerce GMV 2011~2018

expectation for its tremendous growth of e-commerce in China. According to iResearch, in 2014, China e-commerce GMV increased 21.3% compared to previous year and it is expected to keep growth to reach 24.2 trillion Yuan in 2018 (iResearch 2014).

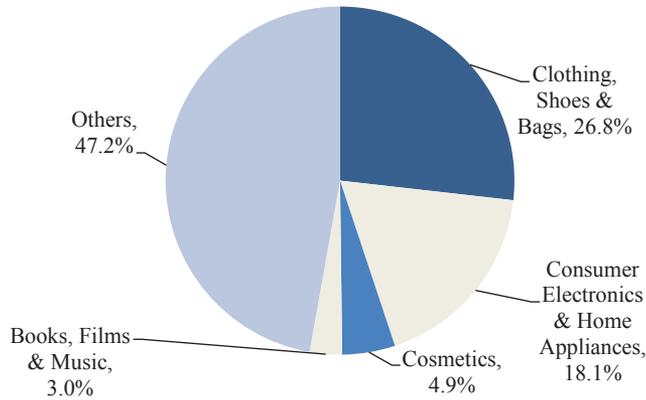
The size of Fashion market in e-commerce

According to 'thechinaobserver.com', the clothing-shoes and bags take possession of 26.8% of total market transaction (TheChinaObserver 2012). Not only considering the total market growth explained prior, but also considering the fact that fashion items such as clothing and shoes are major categories for e-commerce implies the importance and growth potential of China fashion online market.

Major Platform of e-commerce in China: Taobao

The Influence of Taobao

Taobao was established by Alibaba, one of the biggest major internet business company in China, and shows tremendous market share in e-commerce market. According to research 'China e-commerce shopping consumer investigation report' in 2010, it



Data : Q1. 2012 iResearch (www.iresearchchina.com).

Figure 2. Market Share of Online shopping Categories in China

already showed that Chinese e-commerce market has doubled its growth to exceed 267 billion RMB in 2009. Especially in November 11th, the single's day in China which is considered to score highest sales in year, Tmall generated sales record of \$5.7 billion in 2013 attracting worldwide attention (China Internet Watch 2014). Tmall is online shop market organized under Taobao. According to China Internet Watch (2014), the most popular e-commerce platform on Double 11 was *Taobao* and *Tmall*. Considering the impact and market share of Taobao, making alliance with Taobao for Accommate can be regarded as strategic action to make for successful business.

Success Factor and Business Model

It was the general opinion of experts with the skeptical view of China e-commerce market. The basic logistics and culture for catalyzing the development of e-commerce was considered to take long for development in China. However, not only the fast development of logistics in China, the culture for e-commerce has now reached to the mature stage leading development of m-commerce as well. *Taobao* has implemented several strategies which are considered to boost and utilize e-commerce in China.

- Payment Platform “Alipay”

Basically, the one major weakness of China e-commerce was

the lack of 'trust' between sellers and buyers. There were diverse troubles in the first stage of development including fraud or misuse of personal information. Credit card usage was considered to be dangerous and lots of other costs including tax among different states also hampered the vitalization of e-commerce. Taobao implemented the 3rd platform, 'Alipay' that stores the money of purchaser for a while and send it to seller after it is confirmed that the product is delivered. This process not only ensured both seller and buyer in Taobao to make transaction, but also brought interest earnings from temporary storage of cash.

- Communication messenger "Aliwangwang"

Taobao also introduced real-time communication messenger service in its platform; Aliwangwang. Aliwangwang service covers basic text, voice and video communications and also provides transaction information including real-time delivery status alarm and recent service update. Therefore, consumers in Alibaba and use the messenger 'Aliwangwang' to require additional information in real-time without any additional cost and even negotiate with sellers. In addition, all the message and transaction record in Aliwangwang can be saved to be used as objective legal record when there is dispute between sellers and buyers. This helped to strengthen the 'trust' among the platform efficiently.

- Commission Free Policy

Taobao is an open market platform which is constructed that, if the more seller and buyers gathers, the more benefits are generated for both parties. Considering that nature, Taobao designed commission free policy. This was a quite different policy from other open market platform providers. For example, "eBay" requires basic open fee, registration fee for product, transaction commission, fee for escrow. Taobao made a drastic commission free policy to lower the entrance barrier for sellers to vitalize e-commerce market overall. It only requires additional fee for service such as seller advertisement or main page registration.

ADVANTAGE OF CHINA E-MARKETPLACE

Bounded Korean market

Local Korean online market has already reached the mature stage compared to those of China, which means it reached the saturated status. In fact, lots of Korea internet companies have concerns about the limitation of domestic market place regarding its size and growing rate. On the contrary, as it is explained in the prior chapter, China e-marketplace has scored remarkable accomplishment in both size and its speed of growth. The chart below is the comparison between China e-marketplace and Korean e-marketplace presented by China e-commerce research center and Korea Statistic center.

As it can be seen in the table 1, Chinese e-marketplace is 4 times larger than that of Korea and the growth is much more noticeable. In fact, there are research results that carefully expect that Korea e-marketplace has reached to the mature stage with less growth since 2000 (Korea Internet Corporations Association 2011). Korea had rapid e-commerce infra construction than any other countries, therefore it had reached the saturation stage earlier. On the contrary, e-marketplace had not even emerged until 1997 in China and began to develop its tremendous growth nowadays.

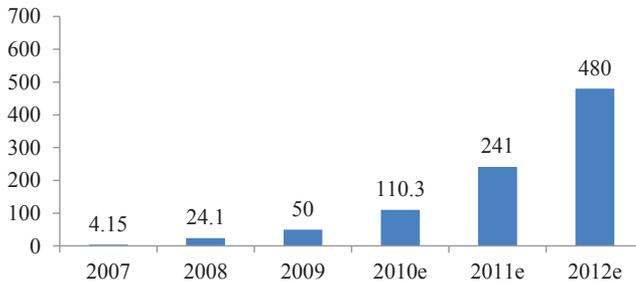
Diverse transition of China e-marketplace

Increase of Abroad substitution of purchasing

The size of abroad substitution of purchasing was 64 million USD in 2007, however, it exponentially increased approximately 20 times from that and reached 1300 million USD in 2010. In spite of the legal modification on "individual taxation system" which allowed

Table 1. Comparison between Korea and China for e-marketplace

	Korea	China
Online market total transaction (2010)	200 trillion USD (estimate)	868trillion USD (estimate)
Percentage of B2B	97%	88.7%
Percentage of B2C	3%	11.3%
Growth rate (compared to previous year)	32.5%	83.5%



(Scale: 100 million CNY)

Data: China Internet Network Information Center (<http://www.cnnic.net.cn/>).

Figure 3. Chinese Abroad substitution of purchasing

limitation for individuals to purchase abroad without additional taxation increased to 50 CNY from 500 CNY, abroad substitution of purchasing has increased as below.

Increase of Korean product preference: Hallyu

Once every year at the night in December 31th in China, “Gwanyeonchong” which is the music festival consisted with famous singers from main land of China, Hong kong, and Chinese Taipei is opened with great attention. It is similar with New year’s eve Festival in Korea, and only famous singers can make performance there since it is one of the most primary ceremony in China. In this “Gwanyeonchong”, Korean singers stood stage with great applause and cheer. Famous group EXO-M made great performance, and even the Korea idol group ‘Boyfriend’ made the first stage after the countdown in 2013.

With the tremendous popularity of Korea TV drama; “Winter Sonata”, Korean TV drama, songs has now attracting most Chinese with great popularity which is called “Hallyu”. This “flow” has affected not only the consumption of public contents, but also the consumption of products as well in China. According to the research from Marketing and Broadcasting contents association (2006), the image of Korea in China has improved significantly after “Hallyu” became one of the main cultural stream in China, and it also lead to the preference of Korean products(Oun Yeong Lee 2006). This turned up higher if the product is high involvement product.

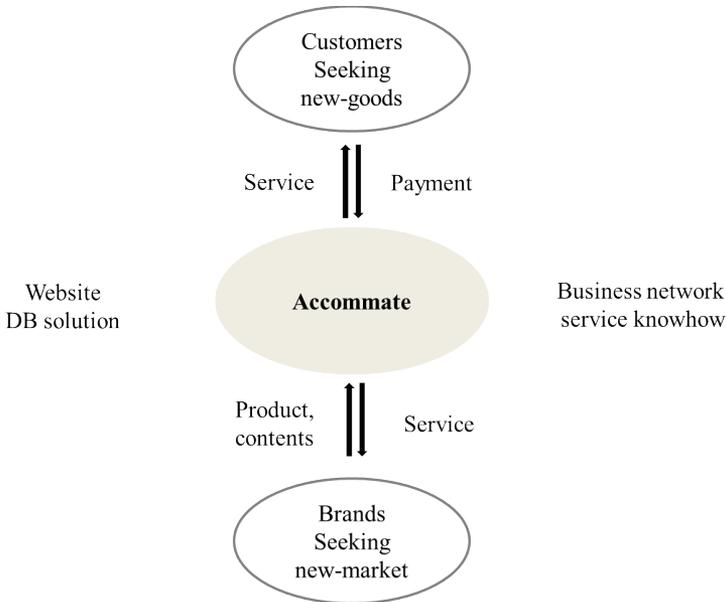
ACCOMMOATE

Business contexts

Accommate has a vision to be a global e-commerce service platform. At the beginning of the business, Accommate had a strategy to buy cheap Chinese products in Korea, and resell it with additional profit. However, this went into a big failure not even reaching the break-even point. Therefore, Accommate tried a different point of view for business strategy. Chul-young Kang, the CEO of Accommate explains that the new idea started with the question, "What can we do to help the consumers who want new products and enterprises which want to find to customers?" After the alternation of strategy based on that question, on the opposite of the way it was before, Accommate purchased Korean garments in Korea and sold it to China, and now Accommate has developed to be one of the most popular Korean fashion websites. This transformation of Accommate was not guaranteed to be successful since the price of Korean garment were much more expensive than those of China, it was doubtful that if Chinese consumers will choose to buy that expensive fashion items. However, Accommate gave attention to the size of China e-commerce market, and the growth of consumers who are much more trend sensitive but less price sensitive. In addition, Hallyu was one of the main trends in Chinese society which played important factor to increase Korean fashion preference and intention for purchase as well, therefore, ultimately boosted the popularity of Accommate. Figure 4 illustrates the business structure of Accommate (Accommate Website).

History

Accommate was established at 2006, based on B2C business model. Firstly, it started to sell interior clocks and accessory bracelets in Gmarket, the online market in Korea, based on cheap price strategy. However, those items were fragile that occurred refund and re-delivery fee often increasing the expense for company so much. Making some other failure with diverse items, Taobao got started at China, and Accommate has started a totally different new business strategy as explained.



Adapted from Accommate Website (<http://www.accommate.com/en/index.html>).

Figure 4. Business structure of Accommate

Business Model and Strategy

Co-work with Taobao

Firstly, Accommate has worked with the best online enterprise in China-Taobao. As the prominent growth trend of Accommate was stabilized, Taobao offered the exclusive selling contract for fashion items in special shopping mall for Korean products; Hangukgwan, and Accommate accepted the offer.

Platform for Chinese market for Korean fashion companies

Accommate also made alliance with the numerous representative Korean fashion companies, and provided the bridgehead role for Korea fashion enterprises to expand its market to China. Recently, not only the online fashion shopping mall but also the enterprises based on off-line market is also trying to make work with Accommate as they can meet new customers in China. Cheil,

the most biggest fashion enterprise in Korea is planning to build an online site for China and assign the operation to Accommate for successful communication and logistics.

Diverse business strategy

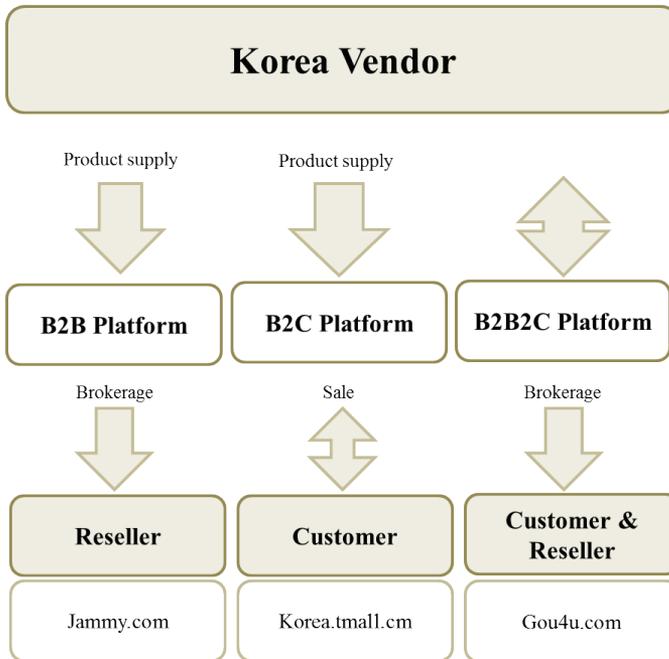
Accommate operates three different firms based on three different business model; thejamydotcom, Hangukgwan, and gou4u. 'thejamydotcom' is based on simple B2B model, as a role for platform between Korean online shopping mall and Chinese local consumers. 'Hangukgwan' is Korean item specialized shopping mall in Taobao, and Accommate has contracted as exclusive provider for fashion item in 'Hangukgwan'. Lastly, Accommate has made alliances with G-market, Auction, and 11st which are most popular online markets in Korea and plays the role as platform for providing selling service to Chinese local consumers; B2B2C for 'gou4u'. Figure 5 shows the business model for Accommate (Accommate Website).

- Hangukgwan: B2C business model

As explained before, "Taobao Hangukgwan" is a Korean product specialized mall in Taobao the China's largest e-commerce market. It covers not only shoes, bags, and fashion items including diverse garments but also fashion items, furniture and even household electronics. The special feature of Hangukgwan is that the user interface is designed based on the actual structure and interior design of department store. This enriches the consumer experience by offering the similar convenience and atmosphere of purchase experience in Korean department store. The first mover advantage; the fact that "Taobao Hangukgwan" was the first Korean product specialized online shopping mall, also played an important role for success of it. Accommate has 130 employees only in Shanghai office which makes the exclusive contract in fashion part for "Taobao Hangukgwan" and generalizes the site technology development.

- thejamydotcom: B2B business model

Accommate is one of the primary customer for Taobao the China e-commerce market which encompasses 80% of market size, selling Korean fashion product in 'thejamydotcom'. In addition, 'thejamydotcom' offers individual consumers to make their own purchases, leading much more profit.



Adapted from Accommate website (<http://www.accommate.com/en/index.html>).

Figure 5. Diverse Platform provided by Accommate

- gou4u: B2B2C business model

“gou4u” covers broader range of alliance with online shopping mall such as with G-market, Auction, 11st which in one of the biggest online shopping mall in Korea. ‘gou4u’ plays as a platform between the online shopping mall in Korea and Chinese local individual customers.

Core competency

One of the most outstanding challenges with the apparel business is that clothing is seasonal in nature. As China has distinct four seasons, the normal product life cycle is as short as 45 days. The business profitability depends on the sales generated during the peak periods of seasons. Furthermore, the apparel industry is influenced by rapidly changing customer preferences and trends. If



Figure 6. Main page of thejamydotcom



Figure 7. Mainpage of gou4u

the company fails in identifying changes in customer preferences, lower sales, excess inventories, decreased earnings are expected.

Accommate has made contracts with over 50 Korean representative online shopping malls like stylenanda, naning9, and cherrykoko, offering the link between those sellers and Chinese local customers individual or companies as well. It spreads the Korean

fast-fashion brand over the world easily through online business model. Further, through successful strategic brand management and marketing, Accommate can play efficient and successful platform role for Korean enterprises to expand their business market globally.

Specialized Service

Accommate not only has specialized service customization for Chinese online market, but also had made alliances with other major firms to shorten the delivery time to 4-5 days average, which is much faster than those of competitors. In addition, through APR/API system, Accommate is connected to the Korean sellers in real-time, therefore, can provide better service to Chinese consumers. In last, Accommate provides unconditional refund and exchange for the customers, which decreases the risk of online shopping especially considering the substitution for purchasing. It allows the consumers to buy online without taking much risk which costs a lot for refund or exchange.

Business partnership

Accommate has preoccupied a better position than other rival companies regarding business partnership. Not only Accommate has cooperated with Korean famous online shopping mall, but also has made tight alliances with Chinese local companies including Taobao. This two-sided stable business partnership became one of the most intangible assets for Accommate which consist core competence. Accommate also made alliances with global companies such as Baidu, Alipay, Tencent, therefore strengthens the overall business partnership.

Specialist and Independent web system operation

Accommate was started by young entrepreneurs, with other specialists who are not only passionate but also armed with real experience. These specialists have developed a local-specialized web operation solution, which leads to independent technique skill of Accommate. Dealing with the technical challenge by themselves, allows more independence which allows Accommate provide better technical service to customers.

One of crucial success factors can be explained by the employee relationship. Even though most of employees work full time for the

company, they have their own websites or blogs to promote the products of Accommate, to be paid commissions from the sales performances of their own channels. These 'half employed' channels play key roles in sales and customer services.

CONCLUSION AND IMPLICATION

Through analyzing the success of Accommate in China e-marketplace, the study have made multilateral analyze of China e-marketplace to present insights and implications of it. Nowadays, China e-marketplace has come into the spotlight of world market with explosive growth rate and size among overall e-marketplace. Accommate made successful position in this huge competitive marketplace with several important strategies, which can give implication for other business firms.

First, Accommate made exclusive contracts for Korean products with number one e-market platform in China-the Taobao. It did not try to make a stand alone platform, but instead used the major platform the decrease the risk and maximize the exposure of itself. Therefore, Accommate was available to earn the first-mover advantage regarding Korean product in Chinese e-marketplace. Second, Accommate played diverse business strategies such as B2B in 'thejamydotcom' and B2B2C in 'gou4u' which connects Korean sellers and Chinese buyers. Finally, Accommate is not only trying to expand and strengthen its superiority in Chinese e-marketplace with diverse specialized services, but also trying to expand its market segments to East Asia such as Indonesia.

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Appendix A. History of Accommate

2011

2011.04 Open www.madanba.com [SNS purchase site]

2011.01 Operation of www.Korea.tmall.com

2010

2010.09 Exclusive Contract with TAOBAO for Korean Fashion Item

2010.08 Beta Open test (www.baju24.com, Indonesia)

2010.01 Open www.gou4u.com (B2B2C)

2009

2009.12 jamy Conference

2009.09 Establish Accommate Korea (Korea Branch)

2009.08 Contract with 20 Brandmall and KT

2009.07 Contract with Baidu B2C Cooperation

2008

2008.12 Establish ACCOMMATE CO.LTD (Hong Kong Branch)

2008.12 Establish Accommate China (China Branch)

2007

2007.07 Open www.thejamy.com

Appendix B. Chinese Internet Usage

Internet Applications	Users (millions)	User Penetration	Growth Rate % (Compared to Dec 2011)
Instant Messaging	445.1	82.8%	7.20%
Search Engine	428.6	79.7%	5.20%
Music	410.6	76.4%	6.40%
News	392.3	74.0%	6.90%
Blog	353.3	65.7%	10.90%
Online Video	350	65.1%	7.60%
Online Gaming	331.1	61.6%	2.10%
Microblog	273.6	50.9%	9.50%
Email	258.4	48.1%	5.10%
Social Networking Websites	250.5	46.6%	2.60%
Online Shopping	209.9	39.0%	8.20%
Online Banking	190.8	35.5%	14.80%
3rd Party Payment Services	187.2	34.8%	12.30%
Online Discussion Community	155.9	29.0%	7.70%
Group Buying	61.9	11.5%	-4.40%
Travel Reservations	42.6	7.9%	1.20%

Note: 1. User penetration=Number of Internet Application Users/Total Chinese Internet Users. The number of Internet users in china was 528 million as of June 2012.

2. Travel reservation includes plane tickets, hotels and other services provided by travel agencies.

Source: China Internet Network Information Center