Dangdang

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 in November 1999, together with her husband Li Guoqing, already in charge of the 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. Today the company she set up, Dangdang.com, is now the world’s largest on-line Chinese language shopping retailer selling a wide range of other products such as digital products, cosmetics and domestic appliances with a stated policy of ‘lower prices, more choice and greater convenience to the customer’. Peggy Yu is one of China’s growing breed of successful private entrepreneurs.

Despite an 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 was based very much on the Amazon model. However, there were some significant differences 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 was available in China so Dangdang had to build its own over a two year period. The company has also faced other problems. The internet was slow to take off in China and customers were not used to shopping on-line. They were also not used to paying in advance for goods that arrive later. Nor were they used to paying for delivery. What is more the credit card market was in its infancy and even now is still not well developed. All of which meant that some two thirds of business was ‘cash-on-delivery’, concentrated in 12 large cities where books are delivered by freelance couriers. The balance of business was based on money orders and credit cards. Only slowly are these things changing.

Initially, to keep its capital spending low, Dangdang owned only one warehouse in Beijing that distributed only 15% of its sales. A bricks-and-mortar rival, Xinhua, distributed the other 85% from its warehouses around the country. Dangdang now has a world-wide distribution and collection network, with warehouses in Beijing as well as North China and South China.

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?

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?