Amazon China’s Implications for Amazon’s Development in India

Zhenghao Dai1, †, Weiwei Liu2, *, †, Shuqiong Zheng3, †

1School of Foreign Languages, Soochow University, Soochow, Jiangsu 215300, China
2Collegee Business, Johnson & Wales University, Rohde Island 02906, The United States of America
3Venture Creation, School of Cont & Lifelong Edun, National University of Singapore, 21 Lower Kent Ridge Road 119077, Singapore

*Corresponding author: WLiu01@wildcats.jwu.edu
†These authors contributed equally.

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Abstract: This study attempts to present a business analysis of Amazon India through organizational behavior theory. As is well known, Amazon has increased its investment in India. It is undeniable that Amazon has successfully developed in India, but it also faces many corresponding challenges. We try to look ahead to Amazon India by studying the failures of Amazon China and summarizing them. The purpose of this paper is to sort out the various decisions made in Amazon India, analyze the impact of the decisions, analyze the different effects brought about by the cultural differences between China and India, and propose some key and feasible future directions. The research was conducted by first reading the Amazon India-related news to analyze the decision-making, and then investigating the Indian online transaction data to analyze the success of Amazon India’s decision-making. At the same time, we analyze the failure of Amazon China, and integrate Amazon India and Amazon China for analysis. We also attempt to help analyze Amazon’s shortcomings in the Indian market through organizational behavior theory. Although the cultural and national characteristics in India determine the fundamental difference between the Indian market and the European and American markets, still the lessons learnt from Amazon’s experience in the Chinese market can effectively help analyze the potential problems of Amazon India. By predicting the problem, it can help Amazon to provide advice on the development of the Indian market.

1. Introduction

In 2004, Amazon acquired Joyo.com from Lei Jun and Chen Nian and established Amazon China, opening the way for Amazon’s commercialization in China. At this time, Ma Yun’s Taobao had just been launched, and Liu Dongqiang’s JD.com was still the “JD.com multimedia website”. No one would have imagined that in just over a decade, Amazon would eventually withdraw from the Chinese market. Since acquiring Joyo.com in 2004, Amazon, whose internationalization cannot be avoided all over the world, once grabbed around 15.4% of the B2C market share in China. However, with the strong rise of local e-commerce platforms such as Alibaba and JD.com, not only did Amazon’s plan to conquer the Chinese market become elusive, but its e-commerce market share in China was getting smaller and smaller. In the third quarter of 2018, Amazon’s market share in China was only 0.6%, compared with Tmall’s market share of 59.5%. In 2019, it was reported in April that Amazon would withdraw from China, leaving only the Kindle and overseas purchase business. In July, many hot-selling items on Amazon China were out of stock or off the shelves, and they were heavily discounted. In addition, all self-operated books are also removed from the shelves, and only products from third-party sellers can still be searched. On July 18, Amazon China officially stopped providing seller services for third-party sellers.

Now in the Amazon China’s official website, there are no products from self-operated or third-party stores. Only Kindle, Kindle e-books and overseas purchases remain. Amazon has almost officially withdrawn from the Chinese market. However, Amazon has doubled down on the Indian
market in recent years after losing the e-commerce battle to local rivals in China. So far, the online retail giant has committed $6.5 billion worth of investments in India. Over the years, the company has also expanded its offerings in the country beyond e-commerce to include digital payments, music streaming, grocery delivery, video streaming and education, among others. In July 2014, Jeff Bezos said Amazon would spend $2 billion to develop its e-commerce business in India. In February 2016, Amazon launched Amazon Now, a two-hour grocery delivery service in India. It was renamed Prime Now in May 2018 and Amazon Fresh in August 2019.

This paper will first analyze the reasons for and the lessons of Amazon’s failure in China followed by the business market environment in India, and ultimately present our opinions on how Amazon can achieve success in the Indian market in combination with relevant organizational behavior theories.

2. Analysis of Amazon China and India Market

2.1. Reasons for the Failure of Amazon China

In April 2019, it was reported that Amazon would withdraw from China, leaving only the Kindle and overseas purchase business. In July, many hot-selling items on Amazon China were all out of stock or off the shelves. At the same time, all self-operated books were also removed, and only products from third-party sellers could be searched. In 2004, Amazon, as one of the world’s top five e-commerce giants, made a high-profile acquisition of Joyo.com and locked its next target in the Chinese market with huge commercial potential. However, after 15 years of e-commerce business, Amazon finally had to withdraw from the Chinese market due to various reasons such as “acclimatization” and “failure to fully integrate into the Chinese mainstream market”.

In general, Amazon’s failure in China boils down to the following reasons: High-level decision-making lags behind, Amazon only regards China as the operation center of the global market rather than the decision-making center. The Chinese team has a low voice in important decisions and business strategies, and cannot give full play to its own advantages, which led to the slow process of Amazon’s localization in China, and finally cannot adapted to the Chinese market. The second reason is that Amazon was too conservative strategically and missed the boat. Amazon China has always maintained a ‘Buddhist’ marketing strategy model. In 2009, Taobao started the Double 11 Online Promotion Festival. Since then, JD.com has followed suit and developed the 618 Mid-Year Shopping Festival. Nowadays, there are promotions almost every month, and there are festivals at the end of the season. Every e-commerce company is using price cuts to stimulate the nerves of Chinese consumers. However, Amazon, has almost no deals, even at the beginning. In 2014, Amazon’s market share in China dropped to 2.1%, and in 2016 it was only 1.3%. The third reason for Amazon’s failure is the lack of localization in China. From the purchase page and payment process of Amazon’s website, it can be seen that this is completely copy and pasted from Amazon in the United States, which does not actually conform to the purchasing habits of Chinese people. At the same time, Amazon’s method of copying the Prime membership system also ended in failure in China.

2.2. India Market Analysis

India is a country with huge population and spending power. With a total population of 1.38 billion, India is the second most populous country in the world after China. Driven by favorable demographics and rising disposable incomes, India’s per capita consumption levels are also rising. Secondly, India’s e-commerce market has huge potential. The Indian e-commerce market is expected to grow from $46.2 billion USD in 2020 to $111.4 billion USD in 2025. India’s e-commerce market is expected to reach $111 billion by 2024 and $200 billion by 2026. By 2030, it is expected to reach $350 billion USD. The penetration of the Internet and smartphones has both contributed significantly to the growth of e-commerce in India. The number of internet connections in India has increased significantly to 784.59 million USD by July 2021, driven by the “Digital India” plan. At the same time, India’s new digital wave technology has boosted the country’s economic development. The Finance Ministry expects India’s digital economy to grow to $1 trillion by 2022 and account for about 50 percent of the economy by 2030. Finally, it also stems from the introduction of various policies of the Indian government to
stimulate market potential. The implementation of the “One Belt, One Road” (B&R) policy has brought more opportunities to India, stimulating the potential of India’s cross-border e-commerce market and promoting the development trend of e-commerce in India and abroad. Meanwhile, since 2014, the Indian government has announced various initiatives, namely “Digital India”, “Make in India”, “Startups”, and “Skills India”, which also boost the growth of e-commerce in India.

To sum up, whether it be from the population base, potential e-commerce market, digital wave or national policy, the India market generally provides favorable conditions for the development of Indian e-commerce industry, coloring Indian e-commerce market with great development potential and high market value.

2.3. Business Analysis of Amazon India

Amazon India began its operation in June 2013. It currently offers a wide range of products such as mobile phones, computers and accessories, music, cars, motorcycles, baby products, toys, groceries, to enumerate just a few. Amazon India also operates a global store where customers can easily buy directly from sellers in the United States. Before Amazon entered India in 2013, the Indian e-commerce market had been mainly led by Flipkart (founded in 2007), Jabong (founded in 2012) and Snapdeal (founded in 2010).

The following figure is a SWOT analysis chart of Amazon’s entry into the Indian market, which mainly focuses on the advantages, disadvantages, opportunities and threats.

![SWOT Analysis of Amazon in India](image)

Amazon has a strong brand value, with a global valuation of $200.6 billion USD in 2020, ranking second only to Apple. At the same time, Amazon also has a strong foothold and successful brand image in its marketplace spanning 19 countries through its marketplace distribution network. Customer-centricity is Amazon’s core value. Amazon is committed to creating a 100% reliable online shopping environment for consumers from three aspects: low price, selection, and convenience. Half of Amazon’s success is due to technology and innovation. Amazon has a high-quality comprehensive bibliographic database and a convenient book retrieval system. At the same time, it has also formed strategic alliances and partnerships with suppliers such as Cloudtail India, making it extremely competitive.

What’s more, Amazon has tailored specific products to overcome India’s technological challenges. Amazon has created a stripped-down shopping app for the more than 500 million people in India who use basic phones with slow Internet connections. The app takes up less memory on the phone, and there are no stutters and delays, even on slow connections. At the same time, Amazon is using artificial intelligence and machine learning to improve positioning accuracy so that goods can arrive at designated locations. Second, Amazon has also set up distribution centers in India, with about 21 warehouses across the country. Amazon has launched two India-focused programs called Easy Ship and Seller Flex. Under Easy Ship, Amazon picks up an item from the seller’s doorstep and feeds it into the Amazon (FBA) shipping channel.

With the help of Seller Flex, Amazon provides training for sellers and helps them bring their warehousing practices up to a certain level. Meanwhile, in 2014, Amazon Asia partnered with “Catamaran Ventures” to set up an organization called “Cloudtail India”. “Cloudtail India” sells books,
mobile phones and more on Amazon. Amazon has also launched an innovative project called “The Amazon Tea Cart” —— a mobile tea cart that travels city streets serving refreshments to small business owners in India. As the world shifts to a digital economy, online retail businesses are gaining momentum, especially during the pandemic, as numerous national and local companies have established a strong foothold in the market. Amazon is often cited as a major weakness in the online retail business, and like many other companies, its near-zero profit business model has severely impacted profitability. Even if it maintains high volumes and huge revenues, it cannot generate significant profits for the company. In fact, the long-awaited Amazon Indian Day sales didn’t live up to expectations.

India has a strict foreign direct investment (FDI) policy that restricts foreign multi-brand retailers from selling directly to consumers online, which means that if a foreign company like Amazon wants to sell online in India, it can only do business as a third-party reseller of Indian products. Thus, Amazon started its business as an online marketplace connecting Indian sellers and buyers. In 2000, hackers attacked Yahoo, leading to the collapse of Buycom and eBay. Online payment and shopping can be attacked by hackers at any time, which is a threat to all online e-commerce platforms.

3. How amazon can win in the battle of India

3.1. Diamond Analysis

3.1.1. Related and Supporting Industries
Express delivery, or logistics, is an important related industry that is the part and parcel of e-commerce. The speed of express delivery is actually closely related to the warehousing inventory of e-commerce goods. In India, each federal state has its own control system, and corresponding taxes, which shall be paid whenever goods circulate through the state boundaries, prodigiously increase the cost of goods; to make things worse, due to the censorship of various checkpoints, the circulation of goods is also extremely slow. According to the International Road Organization, most of India’s inland roads are still made of sand and stones. Poor road traffic will also increase the time cost of logistics.

3.1.2. Demand Conditions
The regional development of India is uneven. Except for several major cities, most areas lack physical shopping stores, which provides an inherent advantage for the development of e-commerce in India. On Amazon India, functional and cost-effective products are the most popular among Indians. The Indian market is basically concentrated on low-priced products. For example, some low-priced products such as cheap jewelry and clothing businesses are very popular among Indian consumers.

3.1.3. Strategy, Structure and Rivalry
Continuous localization while innovating is the main strategy of Amazon India. In the Indian market, Flipkart is the most important competitor of Amazon India. Both Amazon India and Flipkart have more than 30% market share in the Indian market. Amazon India has the first market share by a narrow margin, which means that Flipkart is likely to overtake Amazon India again. For Amazon India, pressure from local competitors is also a market boost.

3.1.4. The Role of Government
The Covid-19 pandemic has completely changed the way business is done in India. The e-commerce order volume in India continues to grow rapidly in 2020, 2021. The Indian government is constantly trying to reform the e-commerce regulations in India in order to create a level playing field among the major players in the Indian market while protecting consumers’ interests. Indian government-led campaigns such as “Digital India”, “Make in India”, are constantly educating people about online e-commerce models.

The Confederation of All India Traders (CAIT), which launched a one-month investigation into Amazon India and Flipkart in September 2021, claimed that overseas e-commerce companies were adversely affecting India’s economy and retail market. The Competition Commission of India (CCI) said that the 2019 deal between Amazon India and Future Group “should continue to be on hold” until
a new round of scrutiny was completed, citing Indian NGOs who have initiated allegations of overseas e-commerce platforms and India’s Protests against unfair competition between SMEs.

3.1.5. Chance

If Amazon can successfully acquire Future Retail, it can complete the overall shopping experience in India for Amazon, which has a good online shopping experience. There are a large number of users in rural areas in India, and the lack of logistics services for these users can be compensated by a large number of offline outlets. Amazon has a good online ecosystem, such as Prime Video and Prime Music, which can attract more loyal e-commerce customers to Amazon India.

3.2. Strategic Situation Analysis of Amazon India

India had 624 million internet users in June 2021 with an Internet penetration rate of 45.0%. From 2020 to 2021, the number of internet users in India increased by 47 million (+8.2%). According to the 48th “Statistical Report on Internet Development in China” released by China Internet Network Information Center (CNNIC) on August 27, the scale of Chinese netizens and the Internet penetration rate reached 1.011 billion and 71.6% respectively. India, with a large number of potential Internet users, is undoubtedly a huge emerging market.

Amazon India hopes to increase customer stickiness with more Indian users joining the Prime. India’s OTT video streaming market has grown rapidly during COVID-19, with companies like Disney and Netflix aggressively moving in the country, and Amazon likewise seeking to maintain its lead in the field. Amazon’s Prime Video service is estimated to have captured a 19% share of the Indian video streaming market in 2021. While well below Disney+Hotstar’s 50% market share, Prime Video is significantly improving its quality to attract more subscribers. Take a live cricket game as an example, helping Amazon stay ahead of the competition for market share. Amazon India acquired the streaming rights to New Zealand’s national team’s cricket matches in India in 2020 for a period of five years, from 2021 to 2026. Also, given the popularity of cricket in India, Amazon is willing to acquire more cricket streaming rights. The Broadcast Audience Research Council says cricket attracts 93 percent of the country’s sports audience. When Disney’s current Indian Premier League rights expire in 2023, Amazon will naturally join the fray. According to Media Partners Asia (MPA), Amazon Prime Video in India has 18 million subscribers as of June 2021. Based on the popularity of cricket in India, it is expected that once Amazon doubles down on cricket streaming in India, the number of Prime members will increase rapidly. The video streaming business can also attract more potential customers for Amazon’s e-commerce business because Amazon Prime membership not only includes access to video content, but also allows users to access other services such as faster free shipping, music and games, and more. Prime members spend an average of $1,400 a year on Amazon, compared to $600 for non-Prime members, according to surveys conducted in the US. It can be expected that the addition of popular video content, such as cricket, will increase subscriptions for Prime members in the next few years and help Amazon e-commerce improve customer stickiness.

In 2019, Amazon tried to bridge the integration of online and offline shopping with the acquisition of Future Retail. Future Retail operates more than 900 stores and owns several hypermarket brands. If the investment is successful, Amazon will be able to adopt a hybrid retail model that combines the localization of brick-and-mortar stores in India with its own e-commerce experience for market success. Meanwhile, Amazon Fresh in India offers online grocery sales. Need to know those food and groceries is the largest retail market in India and 55% to 60% of Indian household spending is still spent on groceries. Without food and groceries, it would be difficult for Amazon to succeed in India. In India, Amazon offers a completely different strategy from China, focusing more on rural Indian users. Nearly 80% of Amazon India’s users live in rural areas, so Amazon provides small convenience stores in India’s vast rural areas to help potential customers how to use their mobile phones to shop on Amazon. An alternative version of the Amazon app is also available to run smoothly on budget phones, and a Hindi version is available on the website.
3.3. Challenges Amazon May Encounter in India

Although the prospect for Amazon India is positive, Walmart-owned Flipkart is a strong competitor to Amazon, there has been a fierce battle for supremacy in India. Flipkart has captured the hearts of Indian consumers in this year’s holiday sale (ending October 2021). It surpasses Amazon in several dimensions including cost performance, satisfaction, delivery experience, and distribution accuracy. (Source: Redesser Report 2021)

Amazon wanted to block the merger of Future Retail and Reliance Retail based on the 2019 deal, but Future Group said Amazon could not block the deal. Reliance Retail is an omni-channel retailer in India with operations in various verticals. If Future Retail, which owns multiple supermarket brands, merges with Reliance Retail, Reliance Retail will have no rival in the offline retail market in India and will eventually lead the online channel. It is understood that Reliance Retail has already started to build an online shopping application.

4. Recommendations and applications based on organizational behavior theory

4.1. Introductions to Organizational Behavior theories

To begin with, we will concentrate on procedural rationality. According to Simon, the founder of bounded rationality, rather than behaving as utility maximizers, economic agents follow some reasonable procedures, or sequence of thoughtful steps when they decide on whatever issue. The behavior of economic agents is governed by a “procedural rationality” rather than being the product of some “substantive rationality” (1986). From the failure of Amazon China, it is not difficult to find that the management of Amazon also fell into the trap of procedural rationality, because of which Amazon changed little of its website design, paying methods and logistics mode when it went into the market of China and failed to localize. As a result, to avoid the reappearance of the problem in India, it is essential to realize that Amazon needs to make some adjustments to the originally fixed procedure, stress more on initiative and creativeness instead of rules, and thus break the trap.

The second theory is called culture transfer. Culture is a system of shared beliefs and assumptions implicitly held by members in a group. Based on the research of Kim Yeun Joon and Toh Soo Min, leaders are likely to create group cultures based on the cultures they have experienced in the past (2019). Woefully, the culture constructed by “culture transfer” fails to take into full consideration the role of functionality, and may not be suitable for a new environment. For example, back in America, the culture of “people should be paid with high salary” is well-acknowledged. However, in China, people generally don’t have such a high salary when Amazon first entered the market of China. Conveying the culture of “high salary” to China, Amazon actually failed to utilize the low-cost labour of China. Now, when Amazon entered India, it needs to study and research on the general culture of the Indian workers, and form a most suitable culture catering to India’s situation.

Last but not least, we will rivet on group cooperation, in which conflict of interest and the diffusion of responsibility will be concerned. A ‘conflict of interest’ (‘COI’) is a situation in which a person or organization is involved in multiple interests, financial or otherwise, one of which could possibly corrupt the motivation or decision-making of that individual or organization. When Amazon cooperated with third-party sellers, it didn’t trust them at all and was afraid that those sellers would leak the key information to other growing E-commerce platforms like Alibaba and Jingdong. As a result, it never shared the consumption data with the third-party sellers. Moreover, diffusion of responsibility also harms the group cooperation. Amazon didn’t shoulder the responsibility of censorship and scrutiny to reduce the cost, while the third-party also believed they could cut the cost by throwing the job of censorship to Amazon. In the end, the quality of the goods reduced a lot, so was the quality of the group cooperation. As a result, it is important to solve the problem of conflict of interest.
4.2. Suggestions

Firstly, the leaders and managers of Amazon should tailor a whole new “procedure” concerning the website design, pay methods, logistics mode and many other aspects to cater to the characteristics of Indian market. This “procedure” is supposed to have the following features: 1) It must be based on the result of detailed market research and audience analysis to find what attracts Indians the most; 2) it should not be fixed and unchangeable; instead, flexibility and creativity should be encouraged and attached importance to; 3) It is required to respond instantly to the actions of the local competitors and make adjustments accordingly; 4) it should always in the process of optimization and never reach perfection.

Secondly, we highly recommend the introduction of “dialectical inquiry” and “devil’s advocacy” for managers of Amazon India during the process of decision-making. They both divide the original group into 2 subgroups with the first subgroup responsible for the primary and crude proposal; but the second subgroup is responsible for offering alternatives and criticisms respectively. As is shown by the study of David, William and Paula, both of these two approaches will improve the performance of the group with the difference between the two insubstantial, given that they successfully and warmly welcome debate, the presence rather than the format of which formalizes and legitimizes conflict and encourages critical evaluation (1989).

Thirdly, to avoid the trap of cultural transfer, Amazon should ensure the socialization of the American expatriates into the local Indian culture, and the most effective way to do this is to employ more local people as the leaders and managers, and let those local leaders to help the socialization. The socialization generally has three stages. 1) During the first stage, namely the prearrival stage, native leaders need to have a long talk with expatriates and elaborate on the existing culture within the sales department to them. The former shall convince the latter that the current local culture is necessary and irreplaceable. 2) The second stage, or the encounter stage, is critical and crucial. The company is supposed to provide training, coaching or mentorship for American employees, with a view to telling them and making them experience the taken-for-granted approaches to doing things here. Time-consuming though it may seem, it actually enables a quicker way of adapting to the new environment. What’s more, undertakings from the artifact aspect should also be made the most of. For instance, the native leaders can tailor some new rituals according to the current culture, and the implementation of these rituals itself may enable them to feel how culture works here. Uniforms and symbols matter too, and the frequent exposure to them may unconsciously influence newcomers. If all the measures we propose above effectively work, then in the third stage, which is called the metamorphosis stage, the efforts will pay off and the expatriates will successfully be socialized into the current group culture.

At last, the conflict of interest and diffusion of responsibility should be addressed. It is of vital importance for Amazon India to clarify the segmentation of responsibility of every entity, ensure that both entities all have their own specialized responsibility, and establish an accountability and motivation system. The obligation of both entities should be clearly added into the terms when they sign contract with each other. Moreover, Amazon should share the consumption data with the third-party sellers, and at the same time stress the consequence of information leaking to them and seek law protection if the worst situation truly takes place.

5. Conclusions

In this paper, we first analyze the reasons for Amazon’s failure in China and draw accordingly some lessons from this. We find that Amazon’s decision-making was relatively slow and lagged behind a lot, given that Amazon China was deemed more like an operation center instead of a decision-making center. It was also strategically conservative, and as a result missed a lot of opportunities to battle with other e-commerce platforms in China. The localization of Amazon China also was far from satisfying. Next, we analyze the Indian business market environment with the help of the SWOT mode. These weakness of Amazon should be stressed: 1) Amazon’s business model is easy to imitate; 2) It is facing losses; 3) It has limited brick-and-mortar store presence; and 4) it confronts the dangers of product
flops and failures. Moreover, there are also some threats that Amazon should take into consideration: 1) the Internet crime; 2) the fierce competition and litigation; 3) fake products; and 4) government regulations. Finally, Amazon should draw the lessons of its failure in China, and cope appropriately with the difficulties concerning: 1) corporate culture; 2) leadership style; and 3) staff management. Last but not least, we present some suggestions to Amazon India based on the organization behavior theory. We highly recommend that Amazon India 1) form a whole new procedure, 2) introduce “dialectical inquiry” or “devil’s advocacy”, 3) avoid consciously the trap of culture transfer and 4) address the conflict of interest and the diffusion of responsibility.

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