

#### ADDRESS

ESSEC BUSINESS SCHOOL  
5 Nepal Park  
Singapore, 139408  
Singapore

#### CONTACT

Prof. Jan Ondrus  
E : [ondrus@essec.edu](mailto:ondrus@essec.edu)  
P : +65 6413 9752  
[www.essec.edu](http://www.essec.edu)



# CASE STUDY

# TAOBAO VILLAGE

## CHAIR OF NETWORKED BUSINESS MODELS

#### AUTHORS

Julie Kolokotsa

E : [kolokosta@essec.edu](mailto:kolokosta@essec.edu)

Felix Ter Chian Tan

E : [f.tan@unsw.edu.au](mailto:f.tan@unsw.edu.au)



**Economics  
of Mutuality**

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# TAOBAO VILLAGE ECOSYSTEM OF ZHEJIANG IN CHINA



Source: <http://en.xfafinance.com/html/Companies/2014/23373.shtml>

## SUMMARY

Taobao Village is a story of subsistence farming villagers getting help to become suppliers on the Taobao platform. Taobao is a Chinese e-shopping website that is a subsidiary of Alibaba. Since it launched its consumer-to-consumer (C2C) operations in 2003, it has empowered individual and small community producers like these in Zhejiang to reach consumers across Chinese-speaking regions and beyond. The Taobao potential has empowered individuals to coordinate work with others including many

from socially and economically disadvantaged Chinese communities. The spark for this Taobao Village is a first mover netrepreneur who created market linkages by leveraging innovation and relationships to help locals develop online businesses and business ecosystems. He arrived in a Zhejiang village and in setting up shop, showed locals how to identify and manage their own business opportunities and in so doing overcome inequality, mobility and social exclusion challenges (Tan, Pan, & Cui, 2014). This case study is their story.

## BUSINESS ECOSYSTEM STRATEGY

The Taobao Village is the story of how one first mover netpreneur helped local subsistence farmers turn agricultural products and local specialties into fortunes connecting them to the national and global economy through Taobao's consumer-to-consumer platform. In so doing, he used a market linkage model to transform a quiet agricultural village into a multi-million-dollar e-commerce hub. He did this by walking farmers through a home-made process of developing and growing a constellation of small businesses and by seeking out and leveraging the expertise of others.

## CONTEXT AND BUSINESS NEEDS

Until the advent of Taobao Villages, the Chinese e-commerce marketplace was a story of rapid development for the middle-class city dweller (Barton, Chen, & Jin, 2013). Inhabitants of towns and villages were often left behind, creating a growing urban-rural social and economic gap. The first mover netpreneur in Qing (Ching) Yan Liu invited locals to help him and in turn helped them to become suppliers. They successively trained others on basic elements needed to sell items on Taobao. In pursuing this, he promoted inclusion and innovation, improving livelihoods and building community spirit. His efforts also encouraged reverse brain drain from big cities as better paying work gravitated back to the countryside. Brain drain had become a considerable issue in Chinese villages and towns as inhabitants sent children to university and work in faraway cities in hopes of a better life. The Government adopted legislation in 2013 requiring children to return to villages regularly to spend time with their families.

Platforms like Taobao have enabled small producers in towns and villages to participate in the Chinese and even the global economy for the first time (Hofman, 2016). Netpreneurs who transformed Qing Yan Liu into a Taobao village (minimum 10% of households working for online stores selling on Taobao) followed an interesting ecosystem development sequence that proved to be a useful model for many other Taobao villages across China.

## ZHEJIANG'S NETPRENEURS

In 2007 a first mover netpreneur arrived in Qing Yan Liu village hoping to leverage e-commerce related business experience to build an online shop to sell local products. He chose Qing Yan Liu village because it is located in an adjacent village to a large regional distribution center and already produced small commodities. He invited villagers to work with him and chose products that are convenient for them to source (stakeholder selection and securing buy-in on the purpose).

Once his online shop started showing success, other villagers sought his advice. He and his village employees showed them the steps he followed, dividing the various tasks necessary in the sequence to operate an online shop (designing initiatives to address prioritized pain points). He trained them on basic information and technique sharing (including describing how Taobao and C2C marketplaces work; differences between C2C or B2C or C2B; how to sign up for an account; how to set up an online store) and showed them good practices (i.e how to market products and create awareness for the brand; basics in financial accounting; and how to find efficient distribution channels). In turn, these farmers turned netpreneurs shared knowledge and tools with others in the town. This information started them trading slowly, building a solid base.

The first mover separately established an e-commerce association with netpreneurs from Qing Yan Liu and nearby towns to help with supply and distribution, enabling greater efficiency of logistics for various villages in the region. This professionalization step allowed him and other netpreneurs to partner with other niche netpreneurs specialized in areas such as design, packaging or creating new products (Tan, Pan, & Cui, 2014).

As villagers built their own online shops, they also joined the e-commerce association as netpreneurs and scaled-up their potential. Soon many of them partnered with supply chain companies thus widening their stakeholder universe and permitting them to concentrate on building their niche role in the ecosystem. They began referring to the growing cooperative partnerships as

heaven and earth networks. Earth networks meant partnership arrangements with logistics experts and coordinators and distribution centers while heaven networks entailed virtual systems. These IT systems covered the whole e-commerce sequence to ensure the villagers could meet rising demand from Taobao customers.

Thanks to the first mover doing well and his willingness to pass on learnings to other villagers, the online potential spread. Once their items began to sell on Taobao platform, village shops were transformed “from four to five orders a day, to all of a sudden hundreds or even thousands of orders a day” (Chian Tan et al., 2014). This exponential growth brought empowerment from a digital context; kicking off a process sequence that resulted in positive social change for these villages (Phills, Deiglmeier, & Miller, 2008).

## CHALLENGES

The Taobao village is a poverty-alleviation and empowerment story. Prior to Taobao, most villagers were trying to survive on commodity farming for

\$1 a day. With the structure of the economy (i.e. powerful middlemen managing route to market), agriculture in rural China is not sustainable and farmers had been sending children to universities far away in hopes of a better life. Their first and main pain point at the beginning therefore was earning enough of a living to support their families.

Another important pain point of the villagers was brain drain. The early success of the netpreneurs helped resolve this concern, as young adults returned to the village to train locals on computer and online shopping essentials or to become netpreneurs themselves. In effect the youth returning to the village addressed yet another important pain point: the fear of not finding sufficient expertise needed to make the online proposition profitable. Between graduates returning home and the expertise found within the e-commerce association, villagers were able to take advantage of the latest tools to present, market, sell and track their products.

**Table 1.** Ecosystem Pain Points and Solutions by Stakeholders (from Taobao) - adapted from Chian Tan et al. (2014)

		Stakeholders				
		First mover “netpreneurs”	Rural farmers	Rural youth in cities	e-commerce association niche experts	Government regulators
Initiatives	First mover hiring villagers and mentoring	Manpower, trained help, products to sell	Earn living, learning how to succeed	--	--	--
	Spontaneous training	More suppliers, more partners	Learning how to succeed	--	--	--
	Reverse brain drain	More help and extra training	Return kids to village	Jobs at home, help village	--	Visiting time requirements met
	Professionalizing e-commerce partnerships	niche expertise	More expertise (heaven + earth)	--	More work for experts to scale up, more products to sell	--
	Institutionalizing training	(more time to dedicate)	Learning how to succeed	(More jobs)	(Demand for expertise)	Training rural citizens for jobs

H

## HUMAN CAPITAL

In terms of human capital, the Taobao Village is a story of spontaneous provision of training. The first mover netpreneur worked with villagers to pass along good practice, motivated by both charity and self-interest knowing that raising their prospects would raise his as well. Next, the netpreneur partnered with netpreneurs of other villagers for greater expertise. When his e-commerce association gathered sufficient strength, members used it to convince local authorities to professionalize training through schools to teach villagers across the region computer skills and other courses to advance their capacity (Ding, 2015) such as online sales and marketing. This investment in human capital also led to positive unintended consequences: reverse brain drain of youth back to villages and towns to become netpreneurs and improved compliance with a 2013 Chinese state law dictating minimum inter-generational visiting time of family members ("Taobao," 2013).

S

## SOCIAL CAPITAL

The original social capital investment came from the first mover netpreneur, who spread the seeds of collective action among villagers across the region to enhance their capacity and scale-up different parts of the supply chain. In time, Taobao Villages like Qing Yan Liu have enabled social and economic empowerment of marginalized individuals and building of trust and identity among members. In a country with 1.4 billion people, there is an adage that you will do well if you're known for something; hence the importance of belonging and identity. Playing a part in one of the most successful Taobao Villages has done a lot for village morale and has broadcast the villagers' story (Li, 2017).

F

## FINANCIAL CAPITAL

While it does not appear that Qing Yan Liu village involved in cross-subsidization of financial capital, numbers emanating from various studies do demonstrate the poverty alleviation potential of Taobao Villages. See below for numbers.

## RESULT

Qing Yan Liu village grew from a quiet agricultural community in the year 2000 to having 2000 on-line stores and reaching \$328 million sales in 2013. The village's population also grew to 6000. The following year, the entire village collectively earned a combined 4 billion yuan (\$635 million) (Ding, 2015). Considering the village suffered from poverty and social marginalization previously, this is certainly a modern success story.

## PERFORMANCE BEYOND PROFIT

Qing Yan Liu village is primarily a story of social and human capital development that leads to financial benefits. It began with a simple case of human capital, as the first mover netrepreneur began with on-the-job and then village training to explain route-to-market details. Later, these trained villagers assisted others and organized collective action, through which they helped establish government-assisted training programs. In terms of the social capital contribution, the capacity building carried out across Qing Yan Liu village enabled social and economic empowerment and enhancing of trust among members.

The unintended consequence of the ecosystem's investment addressed their brain drain problem by attracting young people back from cities to villages to become netrepreneurs.

Later interviews with villagers across Zhejiang confirmed the role of technology and netrepreneurs in empowering marginalized individuals and communities in the region (Chian Tan et al., 2014). The spontaneous step-by-step approach illustrates a purposeful aim to build the capacity of these farming communities using the strength of their social capital.

## ABOUT THE FOUR CAPITALS

At the moment, it does not appear that the performance in the four capitals is measured (beyond financial) and integrated by entrepreneurs to help guide future decisions. Yet if the ambition existed, it seems like it would be straightforward. Taobao and

Alibaba both put out public statements about the importance of ecosystem growth (Huang, Hu, & Lu, 2009) for distributing wealth along the entire supply chain. On social capital, an indicator to measure the extent of village identity (top Taobao village) would help determine how beneficial the Taobao Village affect has been on Qing Yan Liu's community as a proxy for measuring belonging and identity. On human capital, a percentage of villagers trained in computers and online selling would speak volumes of the Taobao Village impact.



Source: [http://www.chinadaily.com.cn/cndy/2015-02/18/content\\_19616192.htm](http://www.chinadaily.com.cn/cndy/2015-02/18/content_19616192.htm)

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## ADDITIONAL INFORMATION

### Location:

China

### Year created:

2007

### Sector of activity:

e-commerce (supply of various commodity goods)

### Purpose & Mission:

Leverage digital innovation to address growing social and demographic challenges

### Employees:

Qing Yan Liu village went from quiet agricultural community of 2000 to having 2000 online stores

### Stakeholders in the ecosystem:

"First movers", rural farmers, e-commerce (Taobao shop) associations, supply chain partners (packaging and control, distribution, virtual sellers), e-commerce schools, government authorities, consumers

### Key Financial Performance Indicators:

Developing trust and working relationships from mentoring and training. Supplying on Taobao empowers villages to rise out of poverty. In 2013, the village worked together to produce sales of \$328 million