Chinese e-commerce giant opens furniture showroom

JOE McDONALD - AP Business Writer - Associated Press

China's e-commerce giant is stepping up its heated rivalry with bricks-and-mortar retailers with the launch of a five-story home furnishings showroom in Beijing.

Alibaba Group's Taobao, an Internet platform through which an estimated 3 percent of all retail sales in China pass, opened the showroom Friday for customers to try out sofas, tables and other big-ticket items before placing an order online with one of its merchants.

The mall is a new intrusion into the territory of China's real-world retailers by e-commerce rivals that are growing so fast some suggest they could become the country's leading retail force — its version of Wal Mart.

"The dominant retailer in China someday may be an online retailer," said Morgan Stanley analyst Richard Ji.

Taobao says its Beijing mall is aimed at overcoming a hurdle hampering the growth of China's Internet commerce even though online retailers offer significantly lower prices: Customers don't like to buy furniture and other major items without examining them in person.

"It's hard for people to shop for home furnishings if they haven't seen them," said Justine Chao, an Alibaba spokeswoman.

Alibaba Group also includes Alibaba.com, a giant business-to-business Internet commerce platform. The company, in which Yahoo Inc. owns a 43 percent stake, operates Yahoo's China arm.

Global e-commerce outfits have struggled to gain a foothold in China in the face of aggressive local competition. eBay Inc. entered China by acquiring a local company but handed over control to Chinese managers. Amazon.com operates through a local partner, Joyo.

The Chinese industry has produced success stories including bookseller Dangdang Inc., traded on the New York Stock Exchange, consumer electronics retailer 360buy.com and Vancl.com, a clothing outlet.

Industry analysts expect China's online commerce to grow at explosive annual rates of 30 to 40 percent in coming years, defying early fears it might be hurt by low rates of credit card use and rudimentary delivery services.

A key part of e-commerce's appeal is lower prices in a society where many families

get by on a few thousand dollars a year. With no need for an expensive chain of storefronts, Web merchants charge 30 to 50 percent less than traditional retailers.

Sales through Taobao alone totaled an estimated 400 billion yuan ($60 billion) last year, according to analysts. Taobao does not disclose its revenues from fees charged to retailers and other income.

Its platform has led to the emergence of a cottage industry of small retailers, many of them lone traders working from home, who sell clothes, shoes, toys, costume jewelry and other goods to a nationwide market.

Taobao says its 25,000-square-meter (250,000-square-foot) Beijing mall will display 22,000 items from some 300 suppliers. Orders and payment will only take place online. Taobao says it plans to open similar showrooms in other major Chinese cities.

Other Internet retailers such as jewelry seller Zbird.com also have opened showrooms to encourage customers to buy higher-priced items online.

Such outlets could help e-commerce sites compete even more aggressively with traditional retailers by boosting consumer confidence in a market where online sellers have an uneven reputation for quality, said Ji.

"By having a display room, it clearly will help raise the seller's credibility," he said.

On opening day Friday, shoppers at the Taobao Mall on the Chinese capital's east side were test-sitting sofas and flipping through channels on big-screen TVs.

"Compared with photos on the Web, I can really touch the things, so I can put more trust in them," said Yu Jingyuan, an engineer for a computer company who was looking at a stall displaying kitchenwares. "I can trust the sellers online."

China has by far the world's biggest population of Web users, with 457 million people online as of Dec. 31. But just 10 percent of them shop online, compared with the U.S. level of about 70 percent, leaving online merchants room to expand.

In contrast to the United States, Europe and other developed markets, China's online merchants enjoy the unusual advantage that they face no entrenched retail giants with decades of market dominance and strong brand names.

After decades of poverty and communist central planning, modern retailing began to replace drab, poorly stocked Chinese stores only in the 1990s. But that was followed just a few years later by the launch of online commerce.

Bricks-and-mortar retailing is fragmented, leaving competitors without the financial might of counterparts abroad. The top 20 account for less than 10 percent of China's annual sales, a far cry from the 50 percent market share of the U.S. top 20.

Alibaba and other companies have developed online payment systems to serve

customers without credit cards. In response to concerns about product quality, some release the money only after the buyer is satisfied.

In big cities, delivery services that draw on China's abundant supply of low-cost labor can get purchases from local sellers to buyers the same day.

Taobao says it has no plans to open showrooms to display other goods, but the manager of its new Beijing mall had a warning for rivals.

"In the online world," said Ye Peng, "nothing is impossible."

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Taobao.com: www.taobao.com

Alibaba Group: www.alibaba.com

Dangdang.com: www.dangdang.com

360buy.com: www.360buy.com

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