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## The Co-Creation of Service Value: The Case of a B2B Exchange in China

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### Abstract

*Credit largely to advances in Information Technology (IT), B2B exchanges has risen to economic prominence in recent times. Generally, these exchanges (referred to herein as Multi-Sided Digital Platforms) operate to facilitate products and services exchange between two or more groups of users through a network. Yet, we find little discourse around (1) how are Multi-Sided Digital Platforms (MSDPs) developed and (2) how are MSDPs leveraged for service value. To address this knowledge gap, we enact how a popular MSDP in China—ABC.com (pseudonym)—enables service value through standardization of processes and systems, and integration of its organizational units. Our inquiry focuses on ABC.com's strategies, the nature of its development using shared services logic, and the consequences. A process model, constructed from case data and corroborated by literature, proposes that MSDP development consists of three phases that facilitate value provision, value exchange and value co-creation.*

### Keywords

Multi-Sided Digital Platforms, E-business, Value creation

### INTRODUCTION

Credit to advances in IT, online services platforms has become more prevalent in recent years. Case in point: Online Yellow pages for consumers and advertisers, and eBay for buyers, advertisers and sellers. Accordingly, this phenomena of *Multi-sided digital platforms* (MSDPs) have risen to economic and business prominence across many industries and is fast becoming an emerging area of research (Boudreau and Hagiú 2008; Evans 2003b; Hagiú 2007). MSDPs' lineage lies in the phenomena of MSPs. *Multi-sided platforms* (MSPs) have existed for a long time- e.g. shopping centers for consumers and storekeepers, but their prominence has only recently surfaced because of advances in IT and hype of the Web. Earlier, economists refer the business landscape of tying together of two distinct but interdependent groups (of users) in a network as *two-sided markets/networks* (Rochet and Tirole 2003).

Without discounting the contributions that earlier research make towards our knowledge of how MSPs functions to attain business value, there still exists several gaps in literature-to-date. On one hand, most two-sided market literature-to-date focuses on pricing and competition between platforms (Evans 2003b; Rochet and Tirole 2003). Except for (Hagiú 2007), most articles take their existence as a given, without attempting to answer questions on the development and leverage of MSPs. Accordingly, there is increasing discourse in the principal actions undertaken by organizations during the enactment of an intended change to deliver effective service rather than strategies (Amit and Zott 2001; Vargo et al. 2008). A central concern when studying contemporary organizational change is allowing for conditions existing in an organization's external and internal environment. This includes but not limited to technological advances, forces that shape marketplace competition, growth strategies and trade-offs (Suhomlinova 2006). In the current understanding of MSDP development, this is still largely a black box.

Leveraging on theoretical underpinnings from organizational change (Ross et al. 2006), service science (Pralhad and Ramaswamy 2004; Vargo et al. 2008) and gaps in MSDP understanding (Hagiu 2007), we construct a *process* model (Similar to Pan et al. 2007) of how MSDPs develop. We will enact how a popular MSDP in China—ABC.com—create service and organizational value through converging sets of semi-autonomous subsidiaries’ functions and their markets, whilst also leveraging on co-operative and strategic relationships. This paper contributes to the existing knowledge of how MSDPs are developed, address the black-box relationship between MSDP activities (in the context of ABC.com) and service value, and prescribe actions for researchers attempting to study MSDP. On this premise, two research questions guide our activities: (1) how do MSDPs develop and (2) how can MSDPs be leveraged for service value creation?

### EXISTING PERSPECTIVES ON MULTI-SIDED PLATFORMS

According to (Hagiu 2007), an MSP facilitates transactions among two or more *constituents* (sides like consumers, sellers, advertisers, suppliers) that it serves, such that members of one side are more likely to get on board the MSP when more members of another side do so. According to Evans (2003a), multi-sided platforms can increase efficiency by acting as intermediaries between multiple customer groups. The intermediary need not be a firm but an institution- a joint venture, a co-operative, or a standard-setting body-that facilitates intermediation. At the fundamental level, there are two functions that MSPs perform: “*reducing search costs, incurred by the MSP’s multiple constituents before transacting, and reducing shared cost incurred during the transactions<sup>1</sup> themselves*” (Hagiu 2007, p5). The concept of MSPs builds on the distinction between one-sided markets and two-sided markets (See Table 1). Prior literature states that in a one sided market, there are generally potential buyers or potential sellers but not both. In a two-sided market, products and services that bring together groups of users are platforms, and platform facilitate exchanges through a network (e.g. Google.com) (Eisenmann et al. 2006). As Weyl (2010) summarizes, a platform has to choose a price for each constituent, factoring in the impact on the constituent’s growth and willingness to pay. For example, two-sided markets have a “*subsidy side*”, that is a group of users who when attracted in volume are highly valued by the “*money*” side, the other user group. If the platform can attract enough subsidy-side users, money side users will pay to reach them (Evans 2003a; Evans 2003b).

Table 1: A Basic Comparison of One-sided and Multi-sided Markets

Market Type	One-Sided Markets	Multi-Sided Markets
Representative Literature	Value-Chain (Porter 1996)	Platforms and Network (Boudreau and Hagiu 2008; Eisenmann et al. 2006)
Pricing and Network Effect	<b>Direct-</b> To cover cost, supplier charges higher price in event of increasing demand from clients.	<b>Direct and Indirect-</b> To cover cost, platform reduces cost on one side to increase volume and charges higher price for other side to gain access to first side.
Example	Transport Operator and Consumers	Google Content for Web searchers and Google Web searchers for Advertisers

Yet, despite MSPs emergence and for the growing body of research, we identify a number of gaps in the literature. Firstly, statements such as ‘*platforms*’, ‘*transactions*’ and ‘*network effects*’ are relevant but less useful when describing how MSPs interact with multiple constituents and its competitors-actual and potential (Evans 2003b), in a larger business ecosystem (See Iansiti and Levien 2004). According to Hagiu (2007), MSP must first continually *identify the processes that distinguishes them competitively*, while maintaining flexibility for differentiation among constituents to lower shared costs. Yet, many articles stops short of illustrating why and how do transactions actually occur, and if they occur what are the tradeoffs? Secondly, the current literature focuses more on MSPs as a business strategy model than a process model. Although most MSP literature emphasizes the criticality of getting constituents on board and engineering internal (re)organization to handle them, few suggest how.

### THEORETICAL LENS

#### Toward Service Value Co-Creation in MSDPs

Based on the above knowledge gaps, we review literature on the co-creation of service value within economic exchanges and the process of sharing services, to build our theoretical lens. This is an appropriate starting point. There is increasing discourse in service science research around *value co-creation* as the nexus of service and as a perspective for understanding economic phenomena (Payne et al. 2008; Vargo et al. 2008). Regarding terminology; while *service* is the application of competencies (knowledge and/or skills) by one entity for the benefit of another,

<sup>1</sup> Note: Adopting a transaction cost lens (Williamson 1981, p.1544), a transaction occurs “*when a good or service is transferred across a technologically separable interface.*” We adopt this definition throughout this article.

*co-creation* centers on participants, processes and resources that interact to create value in service systems (Vargo et al. 2008). In a business-to-customer relationship, co-creation is the joint creation of value by the business and the customer, not the business trying to please the customer (Prahalad and Ramaswamy 2004).

When managing co-creation of value, Payne et al. (2008) and Vargo et al. (2008) highlights two central themes—value co-creation *opportunities* and value co-creation *process*—respectively. First, Payne et al. (2008) highlighted the importance of electronic infrastructure citing technological breakthroughs (such as mobile services and broadband Internet) as co-creation opportunities. They add that the types of opportunities for co-creation and hence the infrastructure, depend largely on the nature of the businesses’ industry. This is echoed by Prahalad and Ramasamy (2004), who highlight the importance of investing in new infrastructure capabilities that are centred on creating markets as a space for potential co-creation experiences. Second, Vargo et al. (2008) highlighted the process of value creation (in a market) is only through use (of the market). These processes include the procedures, tasks, mechanisms, activities and interactions that support the co-creation of value.

### A Working Model from Shared Services

The concept of *sharing services/processes* between e-business units and firms is one of the key models for reducing cost and service value creation (Amit and Zott 2001). Based on earlier considerations and for two reasons, we find the concept of shared services to be an appropriate lens to examine the development of MSDPs. First, shared services operations are customer-oriented where business units and shared service centres determine service levels and hence deliver service quality to customers (Bergeron 2003). Second, shared services are process-oriented and focus on specific activities within processes to support partners (business units or clients) (Schulman 1999). *Inter-organizational shared services* extends the concept of shared services to describe a collaborative strategy between competing firms (Yee 2009). On one hand, information retention through business-business and business-customer relations can be used for product innovation, constant evolution of best service practice. This allows parent firms to consider the increased flexibility of adding new business units, assimilate acquisitions and expand geographically (Kris and Fahy 2003). Second, inter-organizational shared services purports the likelihood in “*cooperative competition*” and collaborative decision-making, whereby organizations cooperate on one level, while remaining competitors on another (Quinn et al. 2000).

Table 2: Shared Services Models (Adapted from Quinn, Cooke and Kris, 2000)

Service Center	Basic	Marketplace	Independent Businesses
Goal	Objective is to reduce costs and standardize processes.	Objective is to provide clients with choice of most cost effective supplier and to improve quality.	Objective is to generate revenue and profits for service company.
Characteristics	<ul style="list-style-type: none"> <li>Consolidation of transactional/administrative work.</li> <li>Focus is on economies of scale.</li> <li>Services are charged back to recover fully loaded costs.</li> </ul>	<ul style="list-style-type: none"> <li>Services may extend to professional and advisory services.</li> <li>Services are either charged back to recover fully loaded costs or charged at market-based prices. Client choice of supplier. Possible external sales if surplus.</li> </ul>	<ul style="list-style-type: none"> <li>Separate business entity.</li> <li>Profit is retained.</li> <li>Multiple organizations as clients.</li> </ul>

At the most *basic* level, the individual organizations each having their own shared services centres, consolidating transactional processing and administrative work (i.e. payroll, accounts payable etc)- services are usually “required” services which clients have minimal choice over what they can choose to use or not use. At the *marketplace* level, the shared services centres in the individual organizations evolve their operations to allow clients to choose services which they wish to have. On top of existing services, more value-add services such as professional and advisory services will be made available to clients should they choose to engage them. At an *Independent* level, the shared services centres would operate as a separate business entity to compete with external providers. They would already possess specific knowledge and expertise in the industry that it serves.

### RESEARCH METHODOLOGY

Given our research agenda, we adopt the case study methodology to study MSDP. Besides being an appropriate method to examine a contemporary phenomenon in its natural setting, the case study method is appropriate, as the study is largely exploratory amid a degree of underlying rationale and direction. Specifically, we are conceptualizing “*how*” (Walsham 2006)MSDPs form, develop and leveraged for service and organizational value. Toward this goal, the application of a case method establishes a shift from a solely technological perspective to managerial and organizational issues. Given that little case research on digital platforms are MSDP specific or MSDP provider

focused, and also given that the boundaries of the case phenomenon (MSDP in this case) are not evident, a case study approach is also relevant.

In all, we conducted thirty-one interviews with management of ABC, as well as suppliers, retailers, merchants and individual users. This follows successful negotiation for research access in June 2008. Interviewees predominantly form the top and middle management of ABC and its subsidiaries. This is due partly to access and a deliberate attempt to leverage on the depth of knowledge, experience and leadership to champion IT use that managers are often associated with. We adopted a semi-structured interview approach which contains some pre-formulated (Myers 2009) questions, but we did not maintain strict adherence to them.

We rely on multiple sources of evidence to triangulate the data analysis. Newspaper articles, books, and information from ABC's corporate website are supplementary sources that we draw on subsequently as interview data analysis unfolds. Native Mandarin speakers were engaged to translate some material. We perform data analysis concurrently with data collection (Eisenhardt 1989) to compare the findings of an initial case against the initial statements. We compare the revisions with the second, third and subsequent interview data. We move back and forth between empirical data, theoretical perspectives, relevant literature and other sources to build an explanation (Yin 2003; Walsham 2006) of the MSDP phenomena. We use a combination of temporal bracketing, narrative and visual mapping strategies to organize the empirical data (Langley, 1999) to identify themes in light of our initial propositions. Based on emerging data, we discover cognitive patterns and develop further mappings of the coded responses and theory. We compare the mappings back and forth with our consolidated theoretical perspectives to shape emerging opinions of the phenomena.

## CASE DESCRIPTION

ABC.com is a global digital platform that provides e-commerce solutions (including software, Internet infrastructure and other export related services) for small businesses and is the flagship company of ABC Group. Led by John (pseudonym), its CEO, ABC.com was officially established by its (eighteen) founders in 1999 in Hangzhou, capital city of Zhejiang province in China, and a significant cultural centre for hundreds of years. The actualization of ABC.com that we know today started in April 1995, when John started a small e-business called CP.com. At a time when the knowledge and availability of commercial Internet connection was virtually non-existent, and that most citizens were predominantly Chinese educated, CP.com created value for local businesses by providing for them English-based Web presence. For approximately USD\$3000, CP and their US collaborators will translate (and index) Chinese companies' information and products to English and subsequently develop a Web presence. CP was able to provide a unique set of expertise for its clients who were mainly entrepreneurs of small businesses, to market their products globally, something they so desperately seek. Today, ABC provides B2B e-commerce services in four marketplaces: the international marketplace, the China marketplace, a Japanese marketplace and a wholesale platform. Currently, ABC.com ranks 86th amongst the world's most visited websites. The growth of the platform in recent years in terms of registered users is significant. By 2010 (June), ABC.com has reached over 53.4 million registered users in China and 13.6 million registered users internationally (ABC.com Limited 2010).

Based on our theoretical prepositions, we narrow the focus of our inquiry to three pertinent themes (1) the antecedents of MSDP development- manifested in the *strategies in ABC*, (2) the *nature of MSDP development*- using shared services logic, and (3) the *consequences of MSDP development*- in terms of service value achieved. From our inquiry and subsequent data analysis, it is apparent that ABC underwent three distinct phases in becoming a significant MSDP influence today. In organizing the data, we present each of these three phases as maintaining a temporal nature and a collective of strategic events pertinent to MSDP development, with corresponding implications for service value creation (corroborated in Table 3, Table 4 and Table 5).

### Phase 1 (1999-2003): Core Capabilities Provision

By 1999 and after thirteen years of negotiation, China will still not enter the World Trade Organization (WTO). For John, his staff and their clients, this news gave some grief but provided an important insight towards the nature of the next venture. John was undeterred, and was quoted as saying, "*China needs the world but the world needs china. It's only a matter of time before China enters the global market, just like (ABC's) growth will only be a matter of time*" (Zheng 2008, p120). The targeting of SMEs (by ABC.com) is strategic, given two apparent reasons. First, the prices of commodities in China is very low at the time- the advantages of very competitive prices of commodities in China allowed more Chinese people to move from rural regions into cities to setup small businesses. Second, it is clear from China's negotiations with the WTO that linking Chinese business with foreigners were in the nation interests. Quietly, ABC.com positioned itself as a B2B e-Commerce company, providing a platform to SME buyers and

suppliers both in China and around the world. Coincidentally, when China eventually entered the WTO in 2001, ABC.com’s reputation as a leader in B2B provider for small businesses flourished.

Table 3: How the (ABC) MSDP developed in Phase 1 (1999-2003)

<b>Key Strategies</b>	
Lower constituent barriers of entry and increase constituents’ access to strategic resources	<i>“Traditionally companies would work for profit, our (ABC) focus is on the needy...we appreciate the volume of SMEs over providing exclusive services, and our shorter term strategy is B2B because no one else is doing it,( the goal is) to stimulate user account growth and address information needs... the rise of the internet empowers us to provide technical expertise and lower trading costs for our clients” - (Vice-president, ABC Group)</i>
Build trust in MSDP (allay suspicions of fraudulent behaviour) and critical mass	<i>“(The) first stage is to service only ABC.com. Using our rich traders’ data and unique money on delivery payment model, we first ensure insurance and trust between our sellers and buyers on ABC.com... The government has interests in a credit system, including credit settlement and loans. We prefer to listen and fulfil our customers’ needs...to them (SMEs) ABCpay is like providing warmth on a bitter winter day, we become the trusted ally in payment” - (Director of Strategic Planning, ABCpay)</i>
<b>Nature of MSDP Development</b>	
Identify and provide common core processes	<i>“(e-commerce) knowledge is low, we ask companies to post their corporate details and products via a Bulletin Board System (BBS)...As information builds and because we control the information, we can help our clients find supplier information, product specifications, trading relationships... We then inform them of where to find this information on our site, via email. Using this information, we can potentially connect buyers to sellers and vice versa.” - (Director, International Relations, ABC.com)</i>
Development of MSDP with constituent (ABC.com clients) at its Nexus	<i>“We could have diversified earlier but (John) told us to focus and place our resources just on the B2B e-business services platform for SMEs, this will be our foundation...There were other sites helping clients search for a market for their goods etc. but we will (ABC.com) offer to help setup their business...we addressed SMEs biggest desire (which is) to conduct their business online and (to connect with other SMEs) globally...” - (Director, International Relations, ABC.com)</i>
<b>Outcomes of MSDP Development</b>	
Strengthened core functions for critical mass	<i>“we educate our SMEs so that they address their own skills shortage problems...Comparing (with US), we offer education to SMEs in China and a more stable online trading structure” - (Director of Strategic Planning, ABCpay) “We addressed SMEs biggest desire (which is) to conduct their business online and to connect with other SMEs globally...the other sites slowly peeled away after realising that (B2B platform) too late” - (Director, International Relations, ABC.com)</i>

At the outset, ABC.com and its executives had a clear vision – tear down SMEs barriers of entry to the global marketplace, whilst building a large membership base. Let alone SMEs in China, SMEs in general suffer from a reluctance to invest in ICT but more importantly lack the knowledge of ICT (Kotelnikov 2007). For China’s SMEs, ABC delivered key services for e-business including online trading education, website development, transaction management and merchant information. Two standout products established the foundation for a global online trading marketplace. First, *Gold Supplier* - which delivered services such as product advertising, web training and development for registered China’s SMEs and second, *TrustPass* - which bonds merchants’ credits to their products. The biggest bait for SMEs however, was its free membership for accessing the services. This brought ABC, significant membership growth and with it, essential merchant information and business opportunities. By late 2002, ABC became the de facto company to help China’s SMEs conducting business online. As the Vice president of ABC Group aptly puts it, *“The strategy not to take on the rich but educate the poorer firms that can afford our services works.”* Soon, opportunities to diversify to other markets presented itself with the growing amount of members (1,500 new members everyday since 2001) and more importantly data.

### Phase 2 (2004-2008): Opportunistic Market Exchange

The rise in ABC coincided with the fall of eBay in China. In 2004, eBay had just entered China and was planning to dominate the China market. eBay, the mighty global giant made fatal mistakes and lost its battle to what Wang (2010) describes in her book as a *‘Chinese guerrilla’* company. EBay failed to recognize that the Chinese market and business environment are very different from that of the West. The lessons for foreign firms became the opportunities that ABC leverage on. A new Web site named Taobao—meaning *“digging for treasure”*—was launched free of charge for individuals buying and selling virtually any consumer goods, from cosmetics to electronic parts. Originally set up as a defensive strategy by John to fend off eBay from taking away ABC’s customers, Taobao soon became China’s largest online retail website (C2C) site and a one-stop platform for shopping, socializing and information sharing. By 2005, an independent study by Analysys International has confirmed Taobao.com to be the market leader in China’s online C2C market, with a 57% market share versus a 34% market share held by eBay China.

Besides diversifying into C2C, ABC ventured into other markets. The strategies for involving other partners were generally based on two reasons as the Vice-president, of ABC Group noted. First, it became clear that *“ABC.com cannot fulfill all the requirements of SMEs, therefore they need to refer some consumer needs to partners”*. ABCpay

was one such example. By 2004, the ABC.com brand and its payment solution had begun to gain recognition and maturity in the B2B market. Taobao.com shared in the use of the payment model to streamline payment transactions. Co-operation with Industrial and Commercial Bank (China), China Construction Bank, Agricultural Bank of China, China Merchants Bank and VISA saw ABCpay separated from Taobao to become an independent non-bank financial institution. The second reason is network expansion and potential synergies created in alliances. In October 2005, ABC Group acquired China Yahoo! (www.yahoo.com.cn) as part of its strategic partnership with Yahoo! Inc. China Yahoo! is now one of the leading Chinese-language portals with a focus on essential Internet services including news, email and search. ABC “kept” their once rivals competencies to provide platform and advisory services in the marketplace. In 2006, ABC Group makes a strategic investment in Koubei.com, which started in 2004 as a lifestyle services search engine to extend its search capabilities. At Taobao, buyers soon became sellers and demarcation of B2B and C2C structures in terms of users and services are less restrictive under the ABC banner.

Table 4: How the ABC MSDP developed in Phase 2 (2004-2008)

<b>Key Strategies</b>	
Extend common core processes (Diversify and conquer)	<i>“ABC has always adopted the attack approach to tackle competition, we established Taobao to attack eBay, we introduced ABCmama to tackle Baidu.com. All these subsidiaries are platforms that provide (ABC) indirect access to different market ... from 2006, we broken up functional units in ABC.com to form subsidiaries that operate freely...” - (Vice-president, ABC Group)</i>
Identify synergistic networks (through competition, co-operation and co-competition)	<i>“Before 2004, we have no intention of joining forces, after 2004 we have a strategy for who we want to work with...originally it was customer first, shareholders second, workers third. Now its customer first, partners second, workers third and shareholders fourth...” (Vice-president, ABC Group) “it is a co-operative yet competitive relationship. Mr John, branch president of China Merchants Bank agrees that the partnership with ABCpay is bigger than being competitors.” - (Director of Strategic Planning, ABCpay)</i>
<b>Nature of MSDP Development</b>	
Expand platform to new sides and markets	<i>“We have proposed five principles (of ABC) which represents five directions in our development, including e-marketing and business (with ABC.com B2B and Taobao), building trust (TrustPass and Evaluation system on Taobao), payment (ABCpay), searching (yahoochina) and tools (ABCsoftware)...this is because the markets will only get more saturated and the cost of transactions will only go lower, we must have... new innovations to keep our clients happy” - (Vice-president, ABC Group)</i>
<b>Outcomes of MSDP Development</b>	
Value-adding services for new constituents in extended platform	<i>“ABC has its own logistics system, (links to) many delivery companies, and also a third-party payment service called Zhifubao, these are all the compelling reasons why sellers like to choose Taobao for selling their goods.” (A Taobao.com User in Australia) “(Having) access to other subsidiaries databases is a key advantage...it is the difference (of ABCmama) with Google...we can do behaviour targeting and content match where different commercials and advertisements are available to different users depending on their profiling.” (Senior Manager, ABCmama)</i>

### Phase 3 (2008- Present): (Re) Inventing Services and Organizational Competencies

ABC’s China Marketplace continued to enjoy robust growth in the first half of 2008 in line with the increased penetration of the Internet in China. As of December 2010, the China Internet Network Information Center (CNNIC) had reported that China had reached 457 million Internet users. Despite these promising signs and demand for e-solutions, two issues still troubles ABC executives early in 2008. First, SMEs were still reluctant to commit to using IT to manage their business largely due to the perception that IT would cumbersome and exert high expenses on their businesses. Second, how should ABC risk dispersion and prepare for expansion into new territories? To address the first issue, ABC turned to establishing itself as an Application Service Provider (ASP). *“If the first wave was B2B and the second wave was C2C, then the third wave would be tools.”*- Senior Manager, ABCsoft. ABCcollege and ABCsoft were the key establishments set up to counter the low education level and immature infrastructure of its clients. ABCcollege provides e-merchants (businessmen who mainly use the Internet as their business platform) with the knowledge of business, the Internet, management, law and regulations to conduct e-commerce through a range of face-to-face and online training programs. ABCsoft on the other hand, provide a range of software based web services and solutions for customers to integrate e-commerce with their back-end systems.

There are two overarching objectives of these strategies. First, it is to (re) invent services and competencies as the (ABC) MSDP matures and as the other constituents become familiar with its MSDP capabilities. On the other hand, ABC is presently seeing a changing of guard. Second generation leaders such as CFO Mary (pseudonym) highlighted that in the next 10 years, they will not only continue the work of building a marketplace where small businesses could ‘meet’ at ABC, but also help them to ‘work’ at ABC. Regarding expansion, ABC underwent a transition from B2B and C2C to providing integrated services through enhancing the capabilities of existing companies. ABC’s transition not only builds its capability as an MSDP, but the capabilities enabled prepare it for venturing. A clear reflection of this is in ABC group’s “Big Taobao” strategy in 2009, which merges acquired cross-businesses like China Yahoo! with ABCpay and Taobao to create a one stop e-commerce service. By 2010, a social networking service (Taojianghu), a consumer-focused magazine (Taobao Tianxia) and an aggregate data sharing service (Taobao

Data Cube) were some of the services that were added to enhance the user experience of Taobao. In early 2009, the CEO announced that lifestyle website Yahoo Koubei will merge with the Internet shopping platform Taobao.com. In addition, in October 2009, ABC (China) Education Technology Co., Ltd (informally known as “ABC-Institute”) became a subsidiary company of ABC.com officially.

Table 5: How the (ABC) MSDP developed in Phase 3 (2008-present)

<b>Key Strategies</b>	
Integrate/ demarcate constituents to co-create value	<i>“From a technical perspective, it is easy to open up the B2B and C2C market but from a business perspective how do we get ABC.com and Taobao to open up? So (the strategy was) from 2008 we withdraw ABC.com to enterprise level and reallocated resources and operations from there, the impact was minimal.”- (Vice-president, ABC Group)</i>
Analyse expansion plan and risks	<i>“China is big enough, we don’t need to be international yet, we cannot move on until we do well in the Chinese market ...our (Taobao’s) competition is not ebay, its Walmart, they are currently on 3.5 billion (RMB) per year and has 50% market share. Internationally ebay has 5 times more transactions but in Asia Taobao is number 1, the next step to be world’s best!”- (Director of Public Relations, Taobao)</i>
<b>Nature of MSDP Development</b>	
(Re)invent service infrastructure	<i>“from 2008, we transformed Taobao (rather than have a separate platform) from solely a C2C to a B2C platform to help customers with the product brand and type...where C2C are for the price conscious customers, B2C are for consumer who want product care and service...At the moment our clients trade on ABC, we want them to be able to ‘live’ on ABC in future”- (Director of Public Relations, Taobao)</i>
Pooling in joint operations	<i>“In June (08), the operations of ChinaYahoo and Koubei were integrated, forming KoubeiYahoo. The results were a massive, convenient and trusted lifestyle service platform, (that operated) on the back of Koubei’s lifestyle services resources and YahooChina’s leading web search capabilities and significant member base. The platform now collaborates with other communities and media to serve sole proprietary build their own lifestyle e-business.” - (Customer Relationship Director, KoubeiYahoo)</i>
<b>Outcomes of MSDP Development</b>	
New and co-created services and organizational value	<i>“Now, Taobao is a community. Taobao is also a retailer. The original intention for Taobao was a place for buyers to meet, now (it’s more)...” - (Director of Public Relations, Taobao)</i> <i>“In the longer term, when SMEs grow, they become our partners and our source of innovations...they give back to us...”- (Vice-president, ABC Group)</i>

## DISCUSSION

By integrating strategies, nature of development, key activities and consequences discussed in previous sections, we construct a process model (See Figure 1). The model, constructed inductively from case (ABC) data and corroborated by established literature, proposes that MSDP development consists of three phases that seek to facilitate *value provision* (See Figure 1, Panel 1), *value exchange* (Panel 2) and *value co-creation* (Panel 3).

### Phase 1: Establishing Core Service Competencies and Building Critical Mass

Our process model of MSDP development suggests that to reach effective service value co-creation, companies must identify strategies to focus on establishing its core service competencies and build a sizeable following.

The first strategy to developing an MSDP is *lowering the barriers of entry* for its constituents. SME owners have a very cautioned approach when it comes to making investments in ICT, citing cost as the single biggest factor (Kotelnikov 2007; Levy and Powell 2005). John and his team realized that many of their China SMEs clients generally suffer from the following barriers of entry: Internet connectivity, few progressed beyond trading online and very few achieved the e-business stage. Therefore, ABC offered free membership for accessing crucial services such as online trading education, website development and transaction management. Secondly, MSDPs should become a *source of strategic information* for its constituents. MSDPs must develop feedback loops between multiple sides and constituents to aid them in reducing searching costs. This generates knowledge to respond appropriately to the market (Hagiu 2007). Unlike search engines, ABC.com are owners of the information and ABC was able to empower SMEs with vital technical and client knowledge. Thirdly, *trust* in an MSDP is important for its development. From a service dominant perspective, while firms propose value, customers continue value creation process through its trusted use (Vargo et al. 2008). ABC quickly became a trusted ally and insurance during transactions. As a result of lowered barriers to entry, access to strategic information and most importantly trust between members, ABC.com was able to build a significant *critical mass*.

The attainment of critical mass at ABC.com signifies the acceptance of its core B2B e-commerce services. This phenomenon typifies that for early stages of MSDP development, where consolidating for a core and value service is key. A unique proposition of MSDPs—where ABC.com is an archetype—is that the burden of infrastructure for B2B e-commerce should be removed from the clients including the *hardware aspect* and *software aspect* (Rogers 2003). The consolidation of services allows ABC.com to leverage on the economics of scale created to specialize on more customer-oriented and valued services rather than serving the whole e-commerce process.

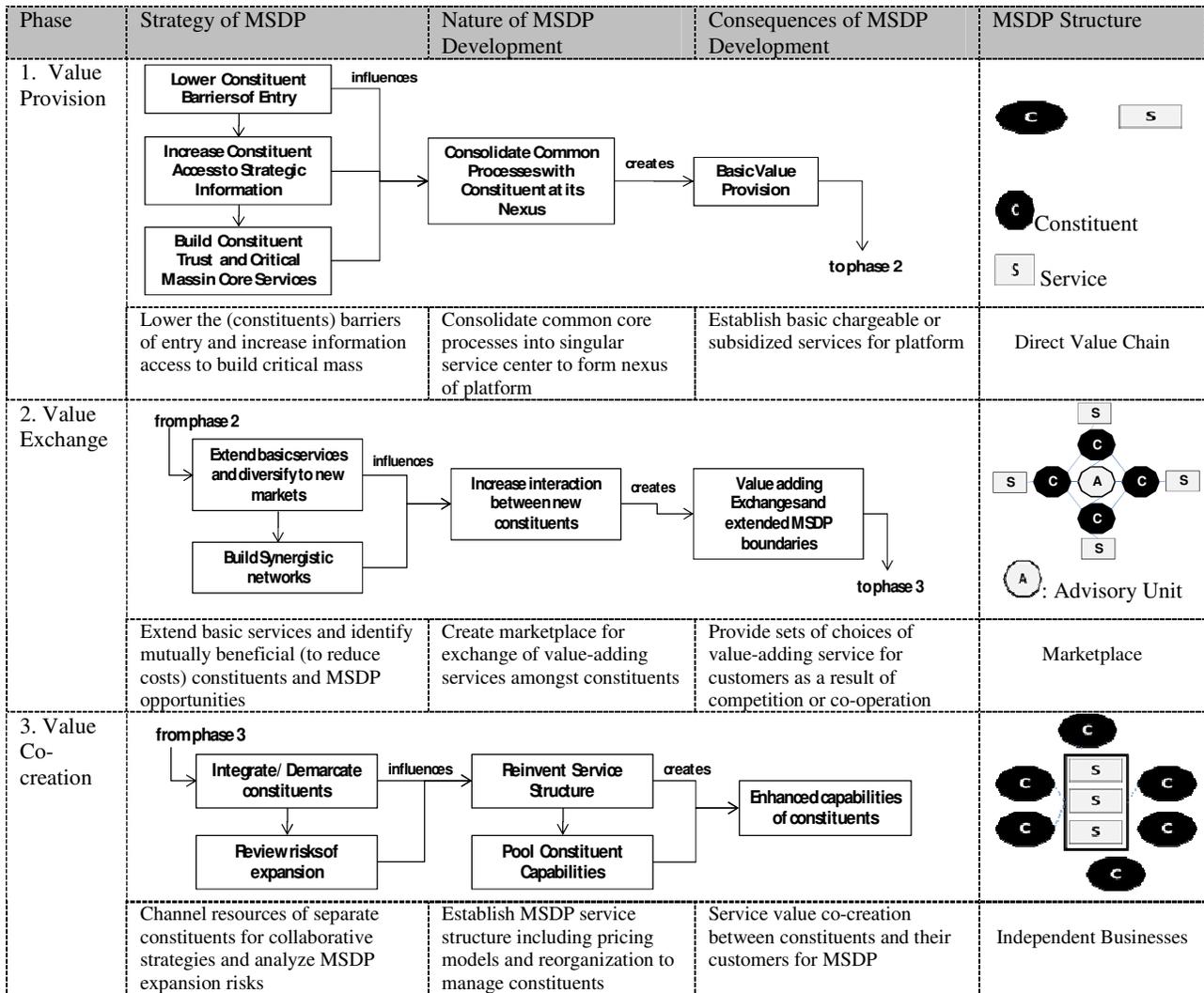


Figure 1: Process Model of MSDP Development and Value Creation

### Phase 2: Expanding Marketplace Boundaries of MSDPs for Value Exchange

In the second phase of MSDP development, the goal is to extend basic consolidation of transaction activities by including more professional, customized and advisory services.

The strategies and factors affecting marketplace expansion influence the development of the MSDP. The nature of MSDP development in the second phase is therefore to expand MSDP to new sides and new markets. From our data, the expansion of the marketplace can result from *responding to competition*, *co-operation* and *co-opetition*. Regarding *competition*, Taobao.com was first established as a defensive mechanism in response to competitors Eachnet.com and eBay (China) in the market. Leveraging on e-competence and the maturity of transaction platforms (in phase 1), Taobao.com could deliver subsidized services to clients during C2C transactions. Regarding *co-operation*, ABC acquired China Yahoo! (in 2005) as part of its strategic partnership with Yahoo! Inc. This relation can be described as a *hand-over/acquisitive joint venture* (Stafford 1994, p67) where one partner (ABC) acquires partial interest of the other, and the partners work together with joint management teams and joint-owned assets. As means of extending into related Internet services industry, ABC hands over the distinctive competency (provision of email, search and news) to Yahoo! Inc. Finally, *co-opetition* occurs when firms knew that the recognition that firms may benefit in terms of knowledge sharing, from working together (Brandenburger and Nalebuff 1996). The management of banks agree that as ABCpay becomes an independent non-bank financial institution through their partnership, the mutual benefits in terms of new services provision outweighs being competitors. For example, when ABCpay eventually moved away from Taobao (in 2004) as a third-party payment service, it typifies a move towards

the commercialization of internal services to capitalize on new opportunities and generate revenue (Quinn et al. 2000). As a result, competition between internal and external service providers for (service) creates value for money and clients have a greater choice of services they want based on the marketplace rates.

### **Phase 3: (Re) Inventing Constituent Competencies for Service Value Co-creation**

In the final phase of MSDP development, existing constituents build a distinct competitive advantage in their own field, as they would have gained the specific knowledge and expertise of it. From an inter-organizational shared services development perspective (Quinn et al. 2000), this is the most matured form of MSDP when it has evolved to provide products and services to a range of constituents and clients beyond where they first started.

At this final phase, one of the platform's strategies is to integrate existing constituents that are currently operating on their own. The goal is to channel their resources and expertise. The advantages for a fully integrated e-business platform include improved co-ordination between service users, reduced call backs (for clarification and/or reconfirmation) and increased economies of scale (i.e. headcount and labor) (Kris and Fahy 2003). Although the benefits are apparent, Quinn et al. (2000) highlights the resistance factor: for some business units, it will be hard to argue for change unless the company has a strategic vision to operate as a fully integrated enterprise (Quinn et al., 2000). ABC executives used several aphorisms to describe the platform's key operating strategies: "*Three waves of ABC*" - first wave is B2B, second wave is Taobao, third wave is tools. In the case of ABC, executives explained that the firm would prefer to invest resources locally (into Taobao.com) and concentrate on a sufficiently large local market than moving (Taobao.com) to the international market. A question/factor to answer when considering expansion of MSDPs is '*how they address conflict of interest between constituents*' (Hagiu 2007, p25). The above strategies influence the development of MSDPs. As service centers mature, *new service infrastructure* are commissioned. As a result of the new service infrastructure facilitated through an integrated platform, *pooling* typically evolves among the firms with similar strengths, weaknesses and objectives (Stafford 1994).

We expect new and co-created services to be outcomes of the last stage of MSDP development. To reach service value co-creation is when there is joint value by customer and company (Prahalad and Ramaswamy 2004). A case in point: ABC institute combines ABCCollege, ABCCertification to offer training and certification in e-commerce for SMEs and B2B clients. In turn, ABC expects SMEs to become partners and source of innovation in the longer term. At this stage, we expect clients to assume control over certain resources, systems, tools and/or processes.

### **CONCLUDING REMARKS**

In concluding, we conducted a case study of an MSDP archetype—ABC.com—to investigate and address the "black box" of how MSDP constituents operate, interact and co-operate to deliver quality service for themselves and their customers. For knowledge, we extend (Hagiu 2007)'s theoretical propositions for designing and expanding an MSP; to address the first research question. Informed by the recent stream of MSPs literature (Boudreau and Hagiu 2008; Hagiu 2007; Weyl 2010), we propose a process model (Pan et al. 2007) of MSDPs development (See Figure 1). The process model is constructed inductively from case study data, and includes three inter-related phases (each phase informed by strategy, the nature of MSDP development and the direct consequences). Furthermore, we contend that the goals of each phase corroborates with both activities of ABC and existing literature on service center evolution, thus enhancing our knowledge of MSDP leverage for service value delivery. For scholars, our investigation of the development of ABC.com as an MSDP presents a useful case study for researchers and recommends a set of prescriptive actions for executives of e-service platforms. The model provides a reference lens to analyze, explain and prescribe action with which to specify and validate the MSDP phenomena. This study is not without its limitations; The obvious criticism is directed towards the transferability and generalizability (Walsham 2006) of the findings. Although we acknowledge multiple cases are useful as they provide rigor to the study method through strengthening the precision, the validity and stability, our findings can be generalized or transferred to other settings to a degree. We will argue that our process model is not only grounded in the empirical reality of our case study, but is supported and confirmed (Trochim 2006) by theoretical propositions in established literature. Nevertheless, future research can be directed towards replication across multiple organizations (and across different periods and/or phases of development), a longitudinal design and further statistical validation.

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