

Research on Business Model of Self-operated Import E-commerce Based on Value Network ——A Case Study of KAOLA.COM

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Abstract

From the perspective of value network, the paper takes KAOLA.COM as an example to analyze the business model of self-operated cross-border e-commerce. It tries to propose a research framework including value proposition, value creation, value realization and value support based on the summary of relevant theory. The paper analyses the development status and the value business model of KAOLA.COM, and puts forward some advices optimizing the value network of China's self-operated cross-border e-commerce, it includes: (1) segment customer, combining online and offline. (2) control the genuine strictly, strengthening the supply chain management. (3) expand the category, achieving the third party income. (4) improve customer relationship, accelerating layout of overseas warehouse. The purpose of the research is to provide reference for optimization and development of self-operated cross-border e-commerce.

Keywords: Value network; Self-operated cross-border e-commerce; Business model; KAOLA.COM

1. Introduction

In recent years, China's economic growth slowed down. In the situation of weak import and export trade, China's cross-border e-commerce has shown an explosive growth. According to the report released by iResearch, in 2016, the scale of China's Sea Amoy (Overseas Online Shopping) users reached 41 million, a growth rate of 78.3%, and it is estimated to increase to 74 million by 2018 (iResearch, 2016). The import of cross-border e-commerce has become a major driving force for the economic development during the transition period in China. However, the flourishing development of this emerging industry also exposes many problems such as the proliferation of fakes, slow logistics and serious Homogeneity competition. Therefore, the research on self-operated cross-border e-commerce, especially the research on its business operation mode and how to promote it better and faster development, is becoming the focus of attention in the industry and academic circles.

Self-operated e-commerce provider refers platform enterprise who cooperates with suppliers and logistics providers, delivering foreign goods to customers through bonded areas and overseas warehouses, and providing standardized services to customers by self-built service teams. At present, China's representative cross-border enterprises include the JD.com global online shopping, Kaola.com, Xiao Hong book and so on. At present, the relevant scholars' research about business model mainly focuses on the perspective of factors, but the research on the value network is still not deep enough, which needs to be further strengthened (Chengwen and Wangyingjun, 2014). During the period of "Internet plus", with the trend of increasing customer consumption pattern and the increasing attention of the quality of goods, self-operated cross-border e-commerce has been growing and growing. Based on the theory of value network, the paper studies the business model of self-run cross-border e-commerce supplier, which can further clarify the operation mode and value logic of self-operated cross-border electricity supplier, on the other hand, it can effectively prevent the loss of enterprise value, create a better service experience for customers and provide new ideas for value-added and business model innovation.

2. Theoretical basis

2.1 Business model

Business model is a conceptual tool for enterprises to explain how enterprises create, acquire and transmit values by depicting the main business elements. Business model interprets the logic of enterprise value creation, and it is the inherent law that enterprises open up the market, acquire customers and gain competitive advantages in the fierce market competition, and it is also the core of enterprise operation and the foundation of strategic decision. Previous researches on business model mainly focused on the perspectives of factors and value chains and the researches objects mainly are traditional industries, analyzing the business model structure of enterprises and the competitive relationship between upstream and downstream companies. With the development of social division of labor and the Internet, simply relying on the competition in the value chain and profit extraction has been unable to adapt to changing customer needs and highly competitive market environment, and the business model of enterprises has become increasingly rigid. The value network advocates the duality of competition and cooperation, enables partners to generalize, and emphasizes the upgrading of the overall value network, which is more adaptable to the research of business model in rapidly changing Internet era.

2.2 Value Network Theory

Since the concept of value network was first put forward in the book "discovery profit area" by Adrian J. Slywotzky, a famous consultant in 1998, the connotation of value network has been continuously developing. The satisfaction of customer needs is the internal driving force of the value network, and the core company and various partners unite together to create value for customers through a close mechanism (Adrian J. Slywotzky, 1998). Chinese scholars based on the research of the related literature review, concluded that the essence of the corporate value network is the integration of multi-industry value chains and value systems, and corporate competitive strategies develop from the individual level to the network level, through the resources sharing and integrated mechanism of member network, to build the whole competitive advantage. Customer demand excitation, organization dynamic evolution, information technology integration and group collaboration response are the core of enterprise value network (Cheng liru and Zhou Xuan, 2011). In the feature description of the value network, the goal of the value network is to pursue customer value (Wilson, 2001). Value network is several business units participating in the value network with a single value module, achieving modular sharing and complementarity of competitive advantages, including outsourcing, OEM, virtual enterprises, strategic alliances and so on (Li Dianwei, 2007). The value flow in value network is multi-directional, which includes both tangible value such as goods and service exchange, and intangible value such as knowledge, experience and information exchange (Verna Allee, 2000). The application of value network theory also has many advantages: the internal members of the value network raise the barriers to entry through the establishment of exclusive rules (Geletkanycz, 1997). From the perspective of resources and capabilities, the value network realizes the transfer of the internal resources from the enterprise to the external network, expands the scope of resource allocation through information and sharing mechanisms, and optimizes the allocation of resources (Jiang Yu, 2005). From the point of view of modularity, the value network combines the heterogeneous resources of different organizations together. Through flexible production, the enterprise can quickly respond to the market demand and enhance its competitive advantage (Yu Donghua and Rui Mingjie, 2007).

However, most of the literatures that discuss business models from the perspective of value network pay too much attention to customer value or the overall value of the network, while ignore the choice of enterprises themselves (Wang Qin, 2011). Under the free economic trend of the Internet, the creation and transmission process of customer value separated from the realization process of corporate value gradually, and enterprises may not be able to profit from their flagship products or services unless they have unique and irreplaceable core resources or capabilities, which let customers rely on. Therefore, Wang Qin reconstructed the value network and put forward the innovation of business mode from the following aspects: portfolio value transfer, value addition of additional products, customer classification, expansion of network participants and so on. Some scholars proposed a business model based on value network composed by 4 elements and 7 support attributes, and value proposition, value creation, value acquisition, and value realization constitute the basic framework of the business model of the company, meanwhile, value appeal, customer interfaces, market infrastructure configurations, governance models, isolation mechanisms, revenue models, and cost structures are important attributes of business model (Li Weibin and Liu Xinran, 2015). Based on the network value elements, the business model can also include value-added activities of value proposition, value creation, value maintenance, and value acquisition, thus establishing a "1-4-8" business model framework. (Yin Liying, Miao Yanhua and Wang Xing, 2016).

2.3 Value Research Framework

Based on the related research of business models and value network theory, this paper proposes a framework of value research for self-operated cross-border electricity providers, that is, the value analysis logic of value proposition, value creation, value realization and value support. First, value proposition is a value concept that the enterprise passes to the consumer through the exploration of the real demand of the consumer and the use of products and services. All communication and marketing activities of enterprises must be carried out around the value proposition, and the unique and effective value proposition can enable enterprises to achieve better competitive advantages in the increasingly homogenization of products and services. Second, the process of value creation involves the customer, the core enterprise, the node enterprise, and the rules and agreements between them, which refers to the process of providing products and services for consumers. Third, the ability to obtain value for the companies depends on two aspects: the source of income and the cost structure. Fourth, value support is the foundation to maintain the integrity of all parts. It helps to enhance business relations and improves work efficiency, mainly including two aspects: relationship management between enterprises and customers, and relationship management between enterprises and other partners in the network.

3. KAOLA.COM and its business model status

3.1 KAOLA.COM

Kaola purchase is a comprehensive cross-border e-commerce platform launched by NetEase company in China

in January 2015. The platform focuses on proprietary strategy and quality strategy. With the NetEase of powerful portal media resources as endorsement, it quickly created advantage on users' reputation and flow. In the fourth quarter of 2016, the report, cross-border import retail e-commerce market competition, said, Kaola.com ranked fourth in the industry with 11.6% share of sales, which only 2% lower than the JD.com global purchase, and defeated many companies that have already snagged in the electric business community, such as small Red Book, Honey Amoy Global Buying, and others, and occupy the top three of self-operated e-commerce providers. The services provided by the Kaola are shown in table 1.

Table 1. Service content provided by NetEase Kaola

Product Category	Mode of payment	Logistics service	After-sales service
Overseas brands: mother infant child, beauty makeup, apparel shoes, personal care, home care, digital appliances, etc.	Alipay, NetEase Payment, WeChat Payment	EMS, Yuantong or Yunda Express	Apply for return of the goods within 30 days after confirmation, and apply for return of the goods within 7 days after the confirmation of the receipt; Kaola will pay for it first.

3.2 NetEase Kaola's basic business model

Completely different from those of the Tmall.HK third-party platform mode and the JD.com global purchasing proprietary + platform investment promotion mode, Kaola insists on self-operated and direct-purchase. For the supplying, NetEase Kaola established branches or offices in more than a dozen popular countries or regions such as the USA, Germany, Japan and South Korea, and it goes deep into the direct bulk purchase of origin. Second, it directly docked high-quality overseas brands and first-level agents, to obtain brand authorization, afterwards, the merchants directly supply goods to the bonded warehouse of NetEase Kaola. In the six months, Kaola has basically covered the hot spots of overseas online shopping. Zhu Jingbo, a senior vice president of Kaola, said in an interview: "there are more than 80 countries, more than 5000 brands and tens of thousands of commodities sold on the NetEase Kaola platform from Japan, South Korea and Australia to Europe, the United States so far, and this number will continue to rise in the future. For a small part of high-luxury or unpopular merchandise, because of the low demand, Kaola opted for the model of overseas direct mail, some of which are sent from overseas warehouses and some are sent from businesses directly. This not only avoids the inventory backlog of bonded warehouses, but also reduces the problem of partial turnover of funds. Moreover, NetEase Kaola can also decide whether to import large quantities through the market heat analysis of such commodities after a certain period. Based on this, NetEase Kaola has a more flexible choice in the sales model.

In addition, on the drainage, NetEase, as a leading Internet company in China, has created nearly 700 million user groups through various services such as news, games, music, and mailboxes. At the same time, good word-of-mouth has improved the conversion rate of customers and has enabled Kaola gathered a large number of fans quickly in a short period of time. From the operation and supply model, the basic business model of the NetEase Kola is shown in figure 1.

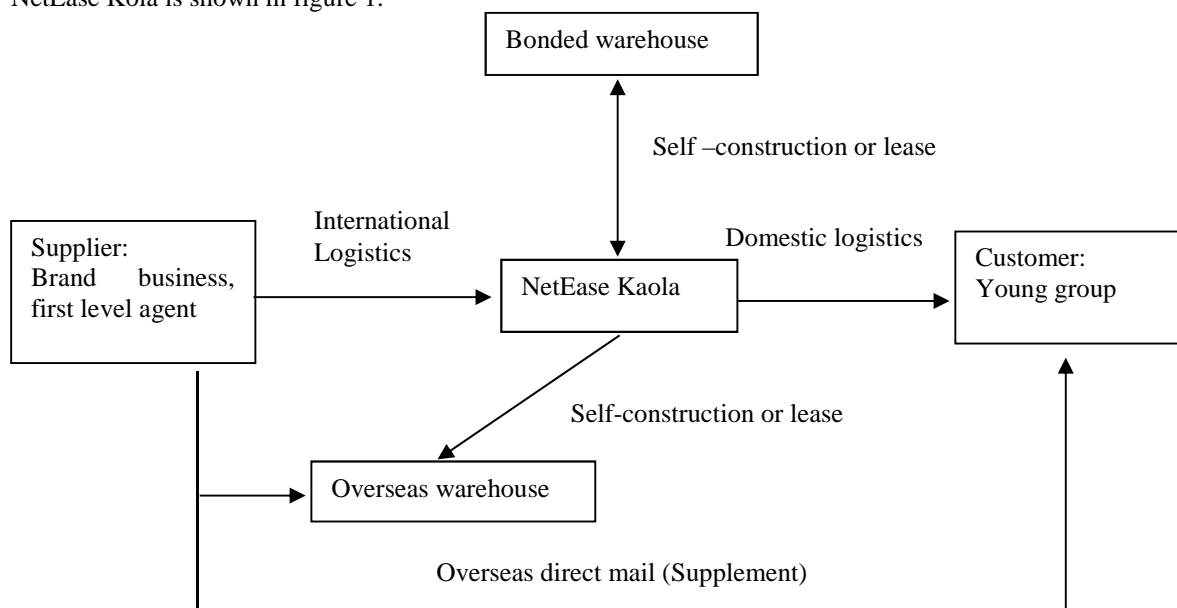


Figure 1. The basic business model of NetEase Kaola

4. Netease Kaola's Value Network Analysis

4.1 Value proposition

Kaola strives to create a brand value proposition that “use less money and live a better life”, the target customers located in 20 ~ 45 years of age of the white-collar class who have the purchasing power. This class of people chase the trend, focus on consumer experience, and their pursuit of quality of life is getting higher and higher, and the concept of consumption is escalating constantly. At the same time, the concept of low price and genuine products will attract more people who are in the pursuit of cost-effective or economically independent young people. In the category of oversea online shopping, NetEase Kaola's average daily merchandise SKU reached 54,000 in the fourth quarter of 2016. Kaola not only uses the Internet Big Data to optimize a number of explosions, but also finds potential explosions during the search period for sources of supply. Although NetEase Kaola focuses on the elaboration strategy, from the point of view of its purchase interface, there are still some niche brands, so the Kaola user group is not subdivided.

The transfer process of the value proposition is actually the marketing process of the enterprise. Netease Kaola's external marketing strategy is mainly Netease's service platform, such as Netease Cloud Music, Netease News, or other platforms such as Weibo, Tieba and so on, and is gradually infiltrating into the TV media, for example the first half of 2017 on the title of the Hunan satellite TV's "flowers and youth", to further strengthen the brand dissemination and authority. Based on platform of internal marketing methods include creating special product areas exclusively for new users, launching limited-time “seckill” activities, inviting users to participate in overseas direct marketing, showing customers the whole process of overseas procurement, inviting famous stars to help boost the fans' economy and so on. The diversified marketing channel establishes a trust relationship with customers and enhances customer's sense of participation. At present, the marketing methods of Kaola are still online, with less extension offline.

4.2 Value Creation

Netease Kaola merchandise is mainly supplied by the first-level agents and large suppliers, and the goods are delivered to the users through the platform directly, which eliminates intermediate distributor channels and creates preferential space for customers, what's more, the quality is also more secure compared to the traditional third party supplier. The overseas logistics of Kaola platform mainly depends on Sinotrans's overseas transportation capabilities. Domestic partners include Amazon, Shun Feng, EMS, Zhong Tong, Tantong, sesame open, Haicang and other express companies and cross-border warehousing enterprises. In addition, the on-line logistics cloud has realized the intelligent management of logistics services and improved the efficiency of the entire value network members. Generally, NetEase Kaola has built a relatively complete supply chain. Under the self-operating model, the supply chain's discourse power is firmly grasped in the hands of itself, and the company can adjust the stocking and logistics response speed of the product according to the demand at any time. The auxiliary partners of Kaola are mainly the some technical support platforms and the electronic payment platforms. The e-payment platform of NetEase Kaola is Alipay, Netease Payment and Wechat Payment, which are the most common payment method for young people. At present, the partners of the platform are closely related to the operation process, and there is a lack of cooperation with third parties, which is directly related to the interests but not direct interest. The partner network restricts the Kaola's ability to adapt to the changeable environment and the external coordination to some extent.

In the process of value creation, the value of the enterprise is derived from the realization of customer value. In the process of realizing customer value, consumers pay attention to two points: quality and price. The NetEase Kola has always insisted on low-cost strategies, so it is essential to ensure the quality of the authentic products. Kaola was once caught in the whirlpool of selling fake, and negative news made consumers favorability of Kaola greatly reduced, so how to ensure genuine quality has become the most important problem in order the long-term development of it.

4.3 Value acquisition

The source of income is mainly about what kind of products or services the enterprise provides, and what kind of prices it sells. In this process, we should not only consider the pricing strategy and profitability of the enterprise, but also consider the consumer's psychology and actual affordability. Kaola merchandise pricing is lower than other platforms, which benefits from the advantage of self-operated model. Although the low-cost strategy has reduced the profit margin, it has greatly enhanced the appeal to users. However, Kaola has a single source of income, that is, it relies on the sale of goods too much. In addition, as a self-operated cross-border e-commerce provider, Netease Kaola can only rely on its own accumulation in the category of goods, there is still a gap compared to mass product category of Tmall.HK, which also limits its sales growth.

The cost structure module describes the cost that the enterprise produces in the whole process of operation, not only including the internal management cost, but also the external cost. Kaola itself does not produce products, its cost comes from a series of links, such as procurement, logistics, warehousing, marketing, taxation

and so on, of which the purchase cost accounts for the largest proportion, but the large scale purchase brings marginal cost down to a certain extent. In terms of cost reduction, Netease Kaola took the following measures: establish long-term cooperation with suppliers and strive for low-cost procurement; adopt a fully automated warehouse management system to reduce labor costs; start on-line scientific logistics cloud to reduce logistics costs; utilize the advantages of its own portal to save advertising costs and so on. Self-operated cross-border e-commerce mode requires enterprises to have strong capital turnover strengths, at this point, Netease Kaola has such advantage, but it also needs continuous efforts in the subsequent cost reduction.

4.4 Value support

Customer Relationship Management (CRM) refers to the interaction between information technology and customers in pre-sale, sale and after sale, which is the process of providing customers with innovative personalized services. Before the sale, a self-operated platform can build its own team to provide unified standardized services for customers, respond to customer needs in time, and help customers solve problems while making up for their own shortcomings, and these are advantages platform-based e-commerce cannot have. However, the disadvantage is that it can only provide a unified customer service, and cannot solve the customer's doubts about the single product in the purchase process. In its after-sale services, customers can apply for return within 30 days after receiving the receipt, cross border goods can be applied for refund within 7 days after confirming the receipt, in addition to personal issues, the refund of other problems will be borne by the NetEase Kaola. Kaola's self-operated return processing is more convenient, but at present, the customer service of Kaola still has some problems, for example, the customer's personalized demand is not well solved, and the queuing time is too long. In the aspect of logistics distribution in the sales process, the commodities in platforms' self-supported bonded warehouse can be delivered for 2-3 days, which is same as the ordinary e-commerce. The delivery time of the direct mail business is also gradually shortening through overseas warehouses, but in terms of supply chain responsiveness, Kaola's direct mail business still has certain gap compared with Tmall.HK and JD.com'.

In the relationship management with partners, NetEase, as one of the most influential and prestigious Internet companies in China, is undoubtedly recognized by the brand owners even more. Overseas companies can also take the opportunity to promote and achieve win-win cooperation. In addition, NetEase has a strong cash flow and can pay most of the purchase price through prepayments and interim funds. The remaining balances payment can be fully settled within 7 working days after arrival, which is far higher than the current domestic industry standard--the goods will be paid within 30-90 days after arrival. For suppliers, this will not only ease their burden, but also facilitate subsequent continuous supply. But from another point of view, NetEase Kaola's payment way requires a high turnover rate of goods, and the platform must continue maintaining low inventory and promoting sales actively, which brings certain pressure to the platform itself. In general, the good partnership created by Netease Kaola ensures stable supply of goods, and further increases bargaining chips, which has gained more value for enterprises and customers. The Kaola's Value Network is shown in figure 2.

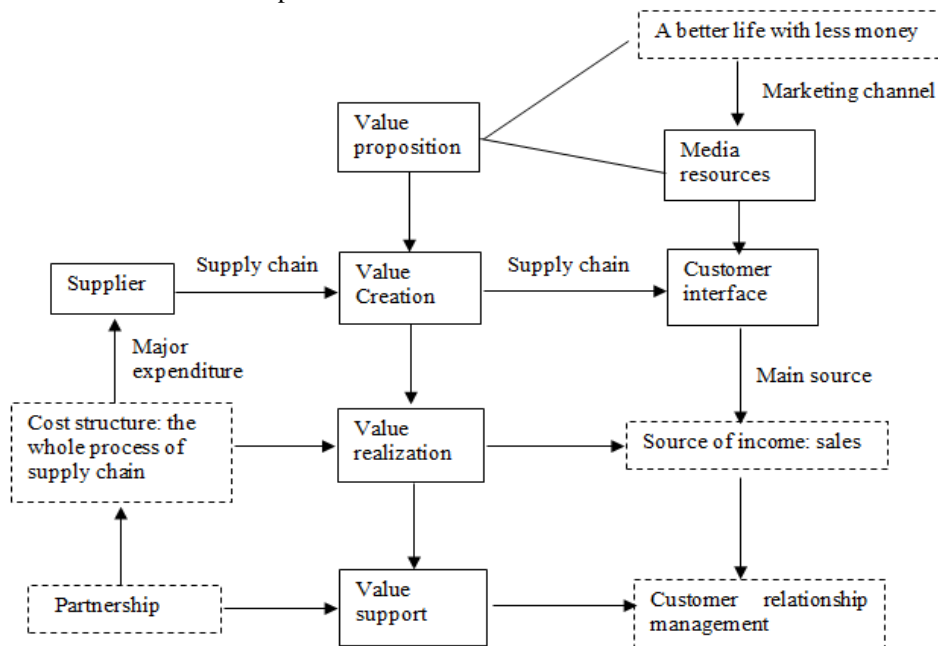


Figure 2. Value network of NetEase Kaola

5. Countermeasures to optimize the value network and business model of the Kaola

5.1 Optimize customer segmentation, combine online and offline

The commodity category of self-operated e-commerce is slow to expand, and SKU is not as rich as the platform-based e-commerce business, so it is the only way to lead the boutique route. According to the customer style and contribution ability in the segmentation model, the platform can subdivide the customers into mainstream customers and long tail customers. For the mainstream customers, the platform should satisfy the basic popular products, and select targeted products with big data and media weather indicators. In this process, the platform needs to supervise the premium categories carefully, so that consumers can be satisfied, which is far more important than expanding SKU blindly. For long tailed customers who know their needs and choices, the enterprises mainly play the role of the providers. The platform should be good at digging and discovering the individual needs of customers, layout the cool categories accurately, divert actively and create long-tail effects.

In the way of value transmission, the combination of online and offline can often get better results. NetEase Kaola is better at launching media drives, but the interaction between live broadcast interaction and community platform is relatively weak, especially the lack of effective interaction with offline customers. For instance, JD.com has set up a number of logistics distribution stations and self-promotion points across the country, so that customers can realize the brand identity from offline channels by eye-catching signs. At the same time, it has also set up experience stores to enhance the customer's consumer experience. For NetEase Kaola, in the initial stage, experience stores can be set up in major cities. Besides, optimizing the display of merchandise and the layout of storefronts to cater to the taste of young people is also a good idea. In general, Netease Kaola should infiltrate the online real-life sales into the offline physical experience, transform the sales of simple products into the guidance of consumers' lifestyles, and create a new cross-border electricity supplier ecosystem that integrates into user's full-scale life scene.

5.2 Strictly control product quality and strengthen supply chain management

Product quality is the lifeline of a company. NetEase Kaola once compromised the trust of customers because of the negative news of selling fakes. The vast majority of e-commerce companies have encountered this problem, and it seems to have become the norm in the electricity business community. Although NetEase Kaola has promised to stick with genuine products repeatedly and fake a penalty of 10, it still brings consumers some concerns because the internal purchase sales process is not completely transparent for the audience. Koala's warehouse model is dedicated to overseas procurement by the platform. In this process, it is necessary to strengthen the training and supervision of procurement personnel. It is essential to verify the qualifications of the merchants carefully in the early stage of purchasing, and it is best to obtain brand authorization. If some overseas brands do not support overseas agents, they must seriously look for other overseas first-level agents to establish reliable and strong supplier relationship. Generally speaking, the cost of overseas fraud is relatively high, but this situation is not ruled out. However, domestic cross-border electricity providers are hard to monitor it, which can only be solved by international cooperation and common supervision. In the process of commodity transportation and warehousing, the industry and commerce departments may also be invited to cooperate with inspections, and third-party quality inspection agencies are invited to train investment promotion, operation, and quality control, and share current trends. Reasonable use of third party resources not only controls the quality of goods strictly, but also cooperates with the government's regulatory policy, and achieved mutual benefits. For example, JD.com chooses to cooperate with international and domestic well-known third-party testing agencies to pump products regularly on the platform for inspection. For unqualified products, JD.com will immediately rectify it, to demonstrate its determination ensuring genuine products. In the process of optimizing the value network, NetEase Kaola should be good at working with third-party partners to ensure the smooth operation of the overall process and enhance the adaptability to the environment.

5.3 Expand product categories and open up third-party revenue

The future growth point of e-commerce is to break through the product category. NetEase Kaola should continue to use NetEase's fund and brand effect to cover popular categories, while looking for long-tailed commodities with growth potential. The platform should speed up the expansion construction of the procurement team, increase capital investment, and use the Internet big data to screen high-quality explosives and potential personalized demand commodities in order to clear direction of selection. Meanwhile, in the procurement process, we must pay attention to reduce procurement cost to improve the competitiveness of commodities.

In the Internet economy, the third-party market model is very important. Expanding network participants and opening up third-party revenue are the first choices for many platform-based companies to innovate in business models. For example, Taobao.com achieves profits through charging business advertising fees. Many overseas brands are facing many difficulties in expanding the Chinese market, such as the lack of channel access, and the lack of clarity on the policy and status of the Chinese market. NetEase Kaola has been committed to providing nanny services for emerging brand businesses, therefore, on this basis, Kaola can consider uniting

overseas brands with a sense of promotion and achieve win-win cooperation. For example, it can appropriately show the origin and advantage of a foreign brand on the website, let consumers know the story behind the brand and help the brand marketing, in this process, what must be paid attention to is avoid affecting consumers' shopping experience and causing the loss of customer value.

5.4 Improve customer relationship and speed up the layout of overseas warehouse

The structural improvement of the value support is mainly focused on customer relationships and partnerships. Because of insufficient understanding of overseas goods, users' demand for customer service and after-sales service of cross-border import commodities is huge, at this point, NetEase Kaola needs to further strengthen service team construction and improve the handling capacity of personalized problems. For example, it needs to record users' problems in time, summarizes and analyzes them regularly, makes a monthly review, analyzes the causes and situations of specific returns and exchange, and then directly feeds back to the sales department and quality control department for targeted resolution. It is necessary to establish a reasonable and efficient handling mechanism for rights protection, when it comes to the authenticity of products and quality and safety issues, the company should appoint relevant departments to deal with them in time, implement investigations, and strive to reduce the cost of customer complaints. Solving customer problems truly can make customers worry-free shopping and feel free to shopping, and improve the brand's overall reputation and corporate image.

In the process of communication between Chinese cross-border e-commerce companies and international brands and suppliers, one-stop services can always attract more high-quality overseas businesses to stop. These services include international warehousing logistics, the agency operation of the Chinese market, marketing and so on. Netease Kaola is working towards these directions. There is a small part of commodities of Kaola is directly mailed by the merchant, and the other part is shipped from overseas warehouses. The construction of overseas warehouses has become an important step in the strategic expansion of many cross-border e-commerce enterprises. Kaola should expedite the expansion of overseas warehouses and further optimize its overseas layout. Overseas warehousing is not only a supplement to the bonded mode, but also a solution to the policy risk of imports; in addition, it can save much time and cost of direct mail, and improve the response speed of the supply chain. At present, NetEase Kaola has initially built two major international logistics and warehousing centers in the United States and Hong Kong, which is what we call overseas warehouses. In the future, it should accelerate the establishment of overseas warehouses in Japan, South Korea, Australia, Europe, and other sea-scooping countries, and further improve overseas layout. The value network optimization of the NetEase Kaola's business model is shown in figure 3

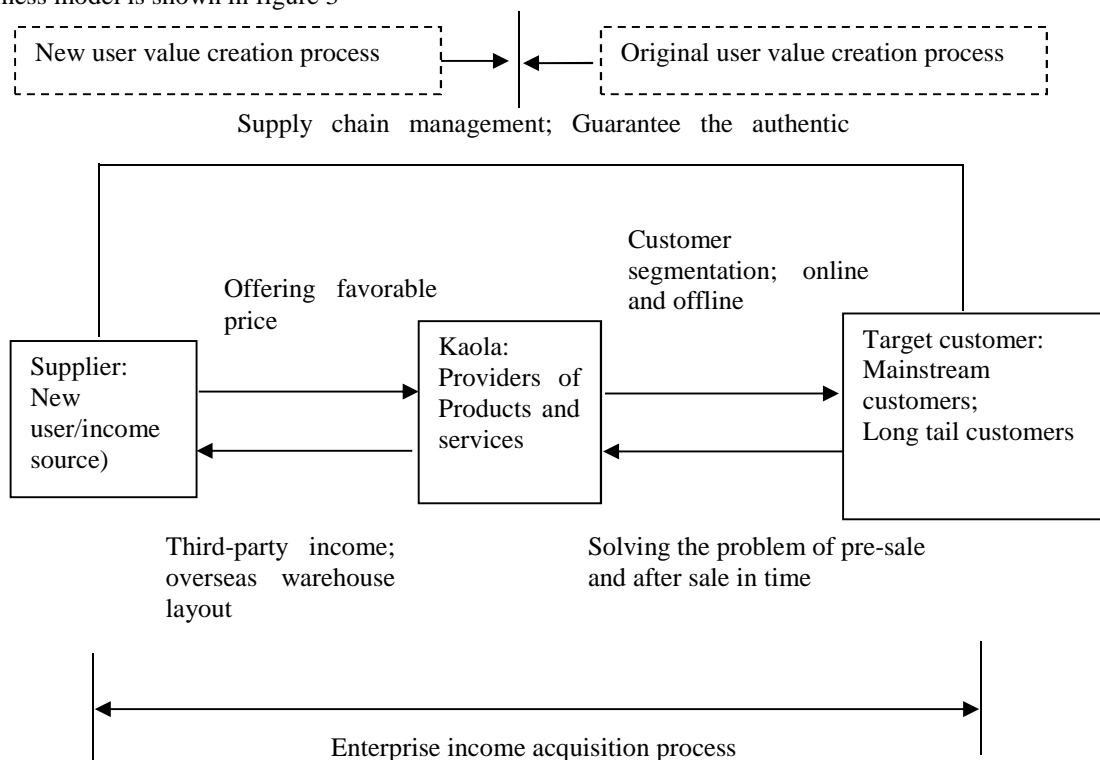


Figure 3. Optimization of Kaola business model based on Value Network

6. Summary and Prospect

By sorting out the various modules of the value network theory, the future optimization path for Netease Kaola includes: optimize customer segmentation and combine online and offline; strictly control product quality and strengthen supply chain management; expand product categories and open up third-party income; improve customer relationships and accelerate overseas warehouse layout.

The construction of the business model is not absolutely good or bad, the key lies in how to build the core competitiveness so that others cannot replace it. At present, China cross-border electricity supplier industry is facing a new shuffle, and the jungle law on survival of the fittest will continue to be implemented. NetEase Kaola uses its own boutique cross-border e-commerce platform as a differentiation entry point, relying on powerful media genes, through the optimization of the value network, so it can win a place outside the two giants of Tmall.HK and JD.com. The development of cross-border imported e-commerce is not yet saturated, the consumption of Internet users is constantly escalating, the resource endowments of overseas countries are different, and the future cross-border e-commerce industry needs to be continuously optimized in practice. The development and expansion of NetEase Kaola has provided new ideas and references for the development of self-operated cross-border e-commerce in China.

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