ZBJ: Building a Global Outsourcing Platform for Knowledge Workers (A)

In June 2017, Mingyue Zhu, the founder and CEO of ZBJ.com (ZBJ), the largest outsourcing platform in China, pondered the challenges his company faced in his office in Chongqing, a major city in southwest China.

In 2006, Zhu founded ZBJ, an online platform that connected knowledge workers to small and medium-sized enterprises (SMEs) that needed certain services. In its early days, the platform offered logo design services, and later on, it expanded to offering other professional services. After 11 years in business, ZBJ had grown into a unicorn (firms valued at over $1 billion by investors) with 4,000 employees. More than 6 million enterprises had purchased logo design, programming, intellectual property, taxation and other services from more than 13 million service providers (i.e., independent knowledge workers, or firms that provide services with their own knowledge workers) on ZBJ. The platform boasted a daily transaction volume of RMB15 million.

Despite its strong performance, however, ZBJ faced challenges on multiple fronts. Disintermediation, in which service providers and clients (i.e., SMEs) took transactions off the platform to circumvent the 20% commission fee ZBJ charged to service providers, was one of them. In June 2015, the platform waived commission fees to discourage disintermediation and boost transaction volume, but this commission fee waiver led to the rise of many fake transactions, which were used by service providers to boost their reputation. At the same time, the platform introduced membership fees, which introduced member management and control challenges. During the company’s 11-year history, ZBJ had launched ten transformation campaigns (see Exhibit 1). The goal of each campaign was to enhance the platform’s performance by restructuring products, business operations, and even business

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a ZBJ is the acronym of Zhubajie, a mythological figure from the ancient Chinese classic novel Journey to the West. He has half-human features.


c “Transformation campaigns” refers to intense short-term pushes to implement some significant changes.

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models. In the midst of these challenges, Zhu had to decide how to use its subsequent campaign to address fake transactions and member management dilemmas.

Organizationally, over the years, ZBJ had become more complex as it expanded its offerings. In July 2015, ZBJ introduced TianPeng (TianPeng.com), a services platform that served large enterprises. Given its history in serving mostly small- and medium-sized enterprises (SMEs), how could ZBJ ensure that TianPeng would attract and deliver satisfactory services to large enterprises whose projects were much more complex? In June 2017, ZBJ launched Zwork, a coworking space that expanded ZBJ’s services from a strictly online environment to offline options. It was the first time in the world that this kind of online platform moved to an offline space. Without any predecessor, could ZBJ successfully tackle the online to offline (O2O) challenges? How would Zwork and TianPeng help strengthen the network effects of ZBJ’s platform business? ZBJ also expanded its business globally. In February 2017, ZBJ formed a joint venture with Singapore Press Holdings Ltd. (SPH) to launch a new online platform in Singapore, a major step in establishing its global footprint. Zhu considered, what are the challenges and risks that this global venture might bring?

**History of ZBJ**

New media such as blogs first emerged in China in 2005. As a chief correspondent of a newspaper in Chongqing at that time, Zhu studied the new media forms as they emerged and the seed of an entrepreneurial idea began to take root. He said, “We journalists develop ideas and write articles. Artists produce designs. Programmers build websites. Why not create a platform similar to e-commerce platforms but for knowledge workers to sell their services?” In December 2005, Zhu launched a website, to connect enterprises looking for logo designs and designers. In October 2006, Zhu quit his job at the newspaper and founded ZBJ based on his website. In early 2007, ZBJ received angel funding of RMB5 million.

The platform had a simple concept: matching clients with service providers online. Hiring service providers was done in one of two ways: direct hiring and bidding. In direct hiring, a client would log on to the website, find the service provider they liked, negotiate the details and strike a deal directly with the service provider. The platform collected the full fee from the client, charging 20% of the transaction volume as commission and paid the service provider the remaining 80%.

In bidding, a client posted a detailed job description on the platform. Service providers would submit proposals to bid for the job. A proposal typically included the quote, time schedules, and qualifications of the service provider. The client would select a service provider as the winner. ZBJ again charged 20% of the winning bid as commission.

Competition in the sector was fierce. Zhu explained:

From the beginning, we had a very clear understanding that our business was in a winner-take-all market. To survive, you need to be No. 1. That’s why I used atypical competitive strategy. We ignored the conventional key performance indicators, such as web traffic, transaction volume, revenue, and profit. We focused only on the gaps between our competitors and us. At that time, ZBJ was ranked No. 5 in the industry, and our competitor K68, founded in 2003, was the top-ranked firm. We made it our goal to climb to the top of the industry in two years.

Zhu made a bar chart that showed the daily number of transactions of the industry’s top five performers on a bulletin board for his small team (fewer than ten members at that time) to see. Every
day he compared ZBJ’s transaction volume with that of K68’s. If ZBJ beat K68, he would award each member of the team RMB200. Zhu said: “The incentive was quite effective back then. It united the whole company towards one goal.”

Unlike his rivals, at this early stage Zhu refrained from burning money to build traffic. Instead, he focused on maintaining a healthy cash flow. “Many of our rivals overspent on advertising in pursuit of traffic. When their conversion rates were not high enough to cover their costs, they ran out of cash,” said Zhu. “A consumer-to-consumer (C2C) platform can build traffic by encouraging consumers’ impulsive consumption. But on a business-to-business (B2B) platform, there is far less opportunity to spur impulse purchases, and business clients typically go through complex review procedures within their firms. So B2B platforms usually grow slowly. It’s not worth spending too much on advertising before the right growth moment arrives,” Zhu explained.

“Some platforms chose to compete with us by waiving commission fees—we charged service providers 20% of the transaction value as commission fees. Going commission free could bring in more service providers, but the growth of our business was really driven by the clients. The waiver of commission fees didn’t have an immediate appeal to clients so in the end this strategy was costly and ineffective,” he added.

With these decisions, ZBJ quickly rose to No. 1 within nine months. In the following years, Zhu maintained a steady growth with investments and retained sufficient surplus before the next round of financing. In 2011, the municipal government of Chongqing invited a number of top venture capital (VC) firms and established a special technological VC fund, which helped ZBJ raise $6.66 million in its Series A round financing.

That same year, a high-level government official, who used to work in academia, predicted the promising future of Zhu’s platform. According to Zhu, “The official told me that China’s GDP per capita was about $5,000 to $6,000 at that time. At this level, Chinese would spend most of their earnings on tangible products instead of services. But once the GDP per capita surpassed $10,000, the spring of service trading would come.” By 2016, China’s GDP per capita was $8,282 (see Exhibit 2).

The platform grew over time (see Exhibit 3). In 2014, ZBJ secured $17.5 million in a Series B round and $419 million in a Series C round at a valuation of $1.8 billion (see Exhibit 4). By 2017, ZBJ had 13 million clients, and SMEs accounted for 80% of them. Regionally, Beijing, Guangdong Province, and Jiangsu Province had the largest numbers of service providers. As ZBJ gained traction in the marketplace, many service firms benefited from joining the platform. For example, Yidian, a startup that launched in 2013 on ZBJ, increased its revenue from RMB200,000 in its first year, to RMB100 million in 2016. It also expanded its business from providing just creative design services to offering a broad range of services such as logo design, image packaging, website development, app development, event planning, exhibition stand fitting, and product promotion and marketing.

From 2006 to June 2015, ZBJ maintained a single charge of 20% commission; 90% of the platform’s revenue during this period came from commission fees and the rest came from advertising revenue. By 2016, the top five service categories on ZBJ were brand design and planning, website development, app development, marketing and promotion, and e-commerce services.
Disintermediation

Although ZBJ made great efforts to grow the transaction volume on the platform, by 2014 the fill rate of jobs posted was less than 20%, and the annual growth in transaction volume was only about 20% to 30%. The exponential growth Zhu had expected did not happen. As he described, clients and service providers met and dated on the platform, but when it came to marrying and having babies, they chose to go off the platform.

“We punish disintermediation,” said Jin Yuan, vice president in charge of the platform business. “We collect evidence of disintermediation from clients’ complaints when service providers fail to provide quality service after disintermediation. We also reward clients who report when service providers ask them to disintermediate. We also conduct data analysis to uncover suspicious cases and give lower priority to these service providers when we list them on our webpages.”

Zhu elaborated:

Since its founding, ZBJ has been combating disintermediation. The mission of our platform is to match clients and service providers. After they are connected on our platform, they still need to discuss the details of the tasks and negotiate before hiring takes place. So we can’t block the two parties from communicating with each other. But when you enable efficient communication between them, there is greater opportunity for them to disintermediate. This puts us in a very difficult position. When the value of the transaction is larger, (i.e., when we can make huge revenues from commission), they have greater motive to disintermediate.

What we didn’t expect is that clients would also encourage providers to disintermediate. At first, we didn’t think clients had motive to do this because we only charge providers. However, some clients thought they could motivate providers to perform better by giving 100% of the payments to them. We conducted surveys and learned that in many cases, clients and service providers would disintermediate after their first successful transaction. By then, they had forged a strong trust and partnership, and the platform was no longer necessary. In professional services, a few repeat clients could be enough for a provider to build a successful business. As a result, some providers would not return to the platform after they had enough repeat clients. Because of disintermediation, the actual income of these providers was far higher than our platform data. From our survey, if a service provider’s annual income based on our platform data was RMB100,000, their actual income might be RMB1 million.

Zhu realized that disintermediation had significantly slowed ZBJ’s growth. He and his team needed to address this issue to grow the company.

New Revenue Sources

By 2014, ZBJ had launched about seven to eight transformation campaigns. Zhu recalled, “We tried all possible solutions we could come up with to fight disintermediation. These solutions complicated our platform and weakened our role as an intermediary for facilitating efficient transactions. Eventually we realized that we couldn’t go against human nature. We could only change our business model. Our biggest concern at that time was that commission fees accounted for 90% of our revenue. We decided to actively explore other revenue sources.”
In 2014, ZBJ identified a promising revenue source: providing trademark registration services. Changcheng Dong, the vice president of ZBJ who led a team and discovered this revenue source at the time, said, “ZBJ had built a huge client base in the first eight years. Many of these clients had their trademarks designed on ZBJ, and they would subsequently register their trademarks. Why not provide such services to them?”

He added, “Back then, almost all trademark registration agencies provided services offline. The procedures lacked transparency. Applicants had to wait a long time to get results. Agencies often banked the service fees for a while to earn interests before filing the applications. And they wouldn’t provide a refund if the applications failed.”

“ZBJ’s expertise is in running platform businesses,” Dong explained. He continued:

We initially planned to create a separate platform for trademark registration. We invited a number of intellectual property agencies to work with us to provide trademark registration services to our clients, and we would take commissions. Only one agency accepted our invitation.

After we started to work together, we quickly noticed that when faced with many potential customers, the agency became strategic: it would raise its price when it realized that the customers had little knowledge of trademark registration. Because the agency had so many customers to serve, it had to sacrifice customer experience to serve more customer. Two months into the partnership, we had to break the contract and end our partnership with the agency. The commissions we earned in those two months barely covered our costs in handling customers’ complaints. If we let the business continue like this, ZBJ would face a serious reputation damage.

Dong then decided to use his own team to provide the trademark service. He offered two options to customers: a non-refundable service, priced at RMB1,300, and a refundable one, priced at RMB1,800. Customers would be notified of application results within three days. Customers who purchased the refundable service would receive a full refund when applications failed. In each failed case, ZBJ had to take a loss of around RMB1,100, which included the RMB800 non-refundable application fee to the government and other costs in filing the application. Traditional agencies charged RMB2,500 for each case with no refunds. Dong explained ZBJ’s decision: “According to my estimation, we wouldn’t lose money if the pass rate was above 80%.” Dong also paid great attention to customer satisfaction. He required his team to achieve 100% satisfaction rates and return all customer phone calls. Such commitment to customer service paid off: 27% of the customers came back to ZBJ to register for additional trademarks.

By 2015, ZBJ’s trademark registration service had surpassed Southwest Trademark Services Agency, the largest provider in Chongqing’s intellectual property industry at the time. In 2016, ZBJ became No. 1 in China. Its revenue rose from RMB104 million in 2015 to RMB480 million in 2016. ZBJ also expanded its services from trademark registration to patent, copyrights, and rights protection and created a subsidiary on intellectual property rights (IPR) protection to provide all of these services.

Zhu explained, “If data is the oil in the new economy, ZBJ has been leveraging its platform data accumulated for almost a decade to drill wells to identify new revenue streams.” Accordingly, ZBJ referred to this strategy as “drilling wells,” and since then, has drilled a number of new wells. For example, the taxation service ZBJ provided to SMEs brought monthly revenue of RMB10 million. It also created leads for its IPR protection business. The financial service ZBJ provided to startups included funding, micro financing, crowdfunding and insurance and had a revenue of over RMB100
million. Not every service was successful, however. The printing service, education service, human resource management service, and legal service, for example, did not perform very well. Consequently, some of these were terminated. The rest were integrated into other services.

**Commission Fee Waiver and the Introduction of Membership Fees**

*Commission Fee Waiver*

When the trademark registration service showed its revenue potential in 2015, Zhu realized that the value of a platform was more than its commissions. He decided to do away with commission fees to discourage disintermediation and attract more service providers.

“It was not a sustainable solution for a platform like ours to profit from information asymmetry and rely entirely on commission fees and ads. Going commission free caused us some loss of revenue, but it was a move that maximizes the service providers’ and clients’ interests,” he explained.

On June 12, 2015, ZBJ announced that transactions on the platform would be commission free. In the same year, over 2 million new service providers registered on the platform (the previous annual average was 1 million). The transaction volume doubled in 2015 and tripled in 2016.

*Membership Fees*

In June 2015, in another attempt to increase revenue, Zhu decided to set up regional branches that consisted of sales teams to sell memberships. Membership benefits included priority in selecting jobs and other benefits. The task was assigned to Nan Wang, who had just joined ZBJ as the president at that time. Wang set up regional branches in 26 major cities across China in just four months, and achieved monthly membership revenue of over RMB10 million by December 2015.

In July 2015, ZBJ offered two membership levels, priced at RMB3,600/year and RMB36,000/year. On March 15, 2016, ZBJ changed its membership system to three-levels: Regular (RMB3,600/year), Diamond (RMB39,800/year), and Crown (RMB69,800/year). In April 2017, the monthly membership-fee revenue was RMB30 million.

**TianPeng.com**

By 2015, in Zhu’s eyes, ZBJ had yet to become a mainstream player in the outsourcing industry. He believed that ZBJ needed to attract large enterprises to become a mainstream player. “Many platforms started from the long tail. ZBJ is no different. To enter the mainstream market, you have to cross a chasm. And you have to be a mainstream contender to maximize network effects,” said Zhu. “Most large enterprises are not interested in buying services on our platform for fear of undermining their brands.” In light of this, Zhu decided to launch a new service specifically for large enterprises.

In 2015, ZBJ created a separate service category for large enterprises on its platform. On March 8, 2017, a new platform for large enterprises, TianPeng.com, began to operate as a separate platform with over 700 large enterprises as clients at launch.

Unlike ZBJ.com, service providers on TianPeng.com had to apply and meet minimum qualifications to join. TianPeng assessed their qualifications based on their brands, reputation, past experiences, whether they were partners of Fortune 500 companies, and their growth rates on ZBJ.com.
The development of TianPeng met many setbacks. “We took a wrong path at first. Our initial plan was simple and brutal, which is to create a high-end platform to attract big clients. However, big clients wouldn’t come to us voluntarily. Many of them have their in-house systems for outsourcing and contracting. Even when they do show up on TianPeng, our service providers may not have the capacity to work on such large scale projects because they had mostly served SMEs in the past,” recalled Nan.

“We thus changed our model. Currently, TianPeng plays the role of a general contractor. Large clients contract with TianPeng directly and TianPeng breaks down their projects into smaller subprojects and subcontracts with the appropriate service providers on the platform. TianPeng’s ability to aggregate many high-quality service providers to work on big projects is attractive to large enterprises,” added Nan.

“TianPeng needs domain expertise to be able to serve as a general contractor. ZBJ has gained this expertise by partnering or acquiring companies with expertise in different domains. For example, in the information technology (IT) domain, ZBJ has acquired an IT company that specialized in providing IT services and converted it into a general contractor for IT projects,” explained Bing Tang, vice president. Tang elaborated on TianPeng’s approach: “TianPeng wins a project of RMB3 million, breaks it down and subcontracts it to several service providers at RMB2 million. In this case, TianPeng can earn a margin of RMB1 million.” He added, “This model is much more lucrative than commission. It also increased the dependence of our service providers to our platform.”

“Going forward, I don’t think ZBJ would serve as the general contractor in all cases. Many other companies are able to play the same role. I consider them as our potential partners, not rivals,” Wang added.

Besides large enterprises, TianPeng’s clients also included governments. For example, TianPeng partnered with local governments and various professional agencies from the tourist industry to work on all-for-one tourism projects. “All-for-one tourism is a broad concept that involves the promotion of local tourist attractions, route planning, farm products, and bed & breakfast (B&B) marketing. TianPeng serves as the general contractor for these projects and can break an all-for-one tourism project into dozens of smaller projects. Each one of these smaller projects is still big,” explained Nan.

**Zwork: From Online to Offline**

In its interactions with local governments, ZBJ discovered another widespread pain point. In September 2014, the Chinese central government introduced a mass entrepreneurship and innovation initiative. Many local governments, in response, developed entrepreneurial parks for SMEs. Despite the policy’s support and rent and tax subsidies, most local governments were unable to attract enough companies because too many parks were established at once. Thus most parks had high vacancy rates.

In mid-2016, ZBJ began setting up partnerships with several local governments and brought its service providers to the vacant parks. In June 2017, ZBJ named its offline business Zwork, inspired in part by WeWork, a New York-based shared work space and services company founded in 2010. Zwork differed from WeWork in several key dimensions. Tang explained:

First of all, we took different paths to build offline businesses. Globally, most co-working space operators developed from offline to online. We went the other way. Many envy us

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^d Entrepreneurial parks are designated areas that support startup firms, in essence a mini version of Silicon Valley but supported by the government.
because it’s usually easier to move from online to offline, but not the other way around. Second, our target customers are different. WeWork serves entrepreneurs. Zwork serves knowledge workers. Entrepreneurs survive by raising rounds of funding and have a high mortality rate. Knowledge workers do business deal by deal, and have a much lower mortality rate. High mortality rate means high table turnover rate and high cost for us to lease the spaces. Zwork’s stable user base is also conductive to creating a positive environment. Service providers at Zwork enjoyed community activities we organized and they helped with each other on projects. Zwork insists that all leasees must be service providers of ZBJ or TianPeng. ZBJ gives Zwork’s service providers priority to select jobs on its platform. WeWork doesn’t have such resources to improve the success of their leasees.

Zwork was also an online-to-offline attempt for ZBJ to better understand its service providers. “There are great advantages to running an online business,” Tang explained, adding:

The marginal cost of serving an additional customer is negligible and you can scale up to serve customers in various locations easily. But online business is not without deficiencies. Because all activities are conducted online, you never meet your service providers. You have very low trust in them. You know nothing about their state of business, competency or integrity. Face-to-face communication forges higher trust among people than phone calls or emails. And the trust lasts longer. So although we boasted millions of service providers, we could trust very few of them. After Zwork was launched and we met our service providers offline, we found it much easier to trust them, and we felt more assured to hand projects to them.

Zwork also became an important driving force for TianPeng’s development. It increased large enterprises’ trust in TianPeng’s service providers and provided TianPeng with a large number of well-run and trustworthy service providers. “Large clients expect you to have local representatives so they can meet you in person and you won’t run away. At the same time, our high-quality service providers aspire to expand their business nationwide. It would be difficult for them to enter new cities on their own, but with our relationship with local governments, our Zwork co-working spaces, they can expand businesses into these cities with us. They also wouldn’t disintermediate because we are indispensable to them,” explained Nan.

By June 2017, Zwork had opened co-working spaces in 25 cities, including Beijing, Tianjin, Chongqing, Nanjing and Urumqi, with nearly 200,000 square meters leased office space in total and over 600 member companies.

Despite Zwork’s rapid expansion, however, Zhu knew there would still be risks ahead: “Each Zwork co-working space enjoyed a three-year rent-free policy from the local governments. What happens three years later? If Zwork wanted to renew the lease, it would face rising costs.”

To mitigate this risk, ZBJ decided to buy land itself. In early 2017, ZBJ bought 1,940 acres of land in Liangjiang New District from the Chongqing government at a reasonable price. It planned to operate co-working spaces and housing for service providers there. “There would also be entertainment facilities and schools for children. We called the new offline business Bj Town. It would be a super embodiment of Zwork. And we plan to replicate it in other cities soon,” Tang explained.
Domestic Competitions

In China, every Internet company was worried about potential competition from BAT (Baidu, Alibaba and Tencent), the three largest Internet companies in China. These three firms frequently entered new markets, and were all potential contenders in the outsourcing market. In December 2015, Alibaba introduced its own outsourcing platform - newjob.taobao.com. According to Alibaba, the platform had attracted over 1 million registered users and released over 200 outsourcing projects within the first six months of launch. Most of the projects came from Alibaba or other large companies like Haier and Disney. Alibaba also provided taxation services to SMEs, primarily those sellers on its e-commerce platform. Tencent introduced its own co-working space for entrepreneurs in 2015.

ZBJ did not perceive BAT as a serious threat. Tang explained, “We have different emphases. People go to Alibaba mostly to buy goods, rarely services. Since knowledge services are not Alibaba’s main business, they wouldn’t make a huge investment in them. In China, it’s impossible to succeed if you are not dedicated and put your best people to work on it.” Yuan offered his view: “We exerted all our strengths to make ZBJ happen and put everything we had into our business. In Alibaba or Tencent, it might be an innovative project, but it’s not a life-or-death project. As we grow bigger and expand from online to offline, our stronghold on the market becomes harder to topple.” Zhu added: “Competition is another reason we started our offline businesses. The asset-heavier my business model is, the more reluctant BAT is to get involved.”

ZBJ also faced competitors from outsourcing platforms in vertical segments. For example, Tubatu.com (Tubatu), founded in 2008, was an online service platform designed to help homeowners find resources for their home construction projects. There were about 4 million daily visits to the site. The site had over 80,000 professional home decorating firms registered, a million professional interior designers, 36,000 orders every day and 18 million users. By 2017, Tubatu had become the largest domestic online platform for home renovation. Despite Tubatu’s success, Nan felt confident about ZBJ’s ability to compete in vertical business sectors. He said, “To compete with ZBJ, these vertical platforms have to expand horizontally. One approach, for example, is for these platforms from different vertical business sectors to collaborate with each other, but it’s only theoretically possible. So I’m not worried about it.”

Global Competition and Expansion

Global Competition

In 1999, Elance.com (Elance) had launched as the first online freelancer marketplace, connecting service providers to clients for network design, marketing, engineering design and other services. The service providers were mostly part-time workers and freelancers with professional backgrounds. The clients were mostly SMEs. In March 2014, Elance was acquired by oDesk, another online freelancer marketplace. In March 2015, the two marketplaces merged under the new name Upwork. By July 2017, Upwork had 12 million registered freelancers and 5 million registered clients from 180 countries around the world. Three million jobs worth approximately $1 billion were posted annually. Upwork was the largest outsourcing platform outside China.

Upwork, and its competitors such as Freelance, Fiverr and Guru all charged commissions, and each had specific commission policies. For example, Upwork charged both clients and freelancers. Clients were charged a 2.75% processing fee or a flat $25 monthly processing fee. Freelancers were charged based on their lifetime billings with each client (across all contracts they have worked with the same client). They were charged 20% when they earned their first $500 with a client, 10% for total billings with a client between $500.01 and $10,000, and 5% for total billings with a client above $10,000.
Globalization

In July 2011, in a joint venture with a Houston, Texas-company, ZBJ launched Witmart.com in the U.S. to target European and U.S. markets. Witmart used a membership system with five levels, with monthly membership fees that ranged from $0 to $210 and with corresponding rights and commissions that ranged from 20% to 5%. This membership fees and commission rate scale was set up so members who paid lower monthly fees were charged higher commission rates, and those who paid higher membership fees were charged lower commission rates. Unfortunately, Witmart’s market performance did not meet Zhu’s expectations. He attributed its poor performance to ZBJ’s lack of adequate human resources and financial resources to support growth outside of China.

Despite the Witmart disappointment, ZBJ continued its global expansion. In February 2017, ZBJ started a joint venture with Singapore Press Holdings (SPH) to develop a bilingual online outsourcing platform in Singapore. Zhu estimated that the platform would serve over 800,000 Singaporean enterprises in creative, design, and other service sectors and connect enterprises to service providers from Singapore and China.

Impact from Commission Waiver

ZBJ’s growth had been mostly linear before 2015. After ZBJ stopped charging commissions in June 2015, and with the introduction of TianPeng and Zwork, a rapid expansion followed. Its transaction volume rose from RMB7.5 billion in 2015 to RMB31 billion in 2017, and 80% of service providers joined ZBJ in less than a year after the company waived its commission fees. To support this growth, ZBJ increased its employees from 1,700 in 2015 to over 4,000 in 2017. “This growth has a massive impact on the platform’s culture and ecosystem,” said Zhu.

Since eliminating the commission fees, many ZBJ service providers kept their transactions on the platform. Many even moved their offline transactions on to the platform to improve their profiles and online reputation, which were used by the platform to determine which service providers to recommend to clients and the order they would be displayed. Yet this system led to some service providers creating fake transactions to improve their rankings. These fake transactions became a new pain point, with negative consequences. Yuan summarized:

First, the most important value of a platform rested with its transaction data. Fake transactions would damage the authenticity of the data, which made transactions and ratings untrustworthy. Clients chose service providers based on transaction history and reviews. As a result, the matching efficiency of the platform would be significantly reduced. It would lead to deteriorating user experience and even disputes. Clients would no longer trust the platform.

Second, fake transactions could drive high-quality service providers out of the market. Service providers of low quality could then improve their online reputation with fake transactions. High-quality service providers would have a much harder time getting business. It may also trigger a serious Matthew effect: because large service providers were more capable of faking transactions, gradually they would monopolize the traffic.

Third, since ZBJ also facilitated payment transactions and paid financial institutions (e.g., banks) a small fraction of transaction for the services, fake transactions increased the firm’s cost substantially.
E-commerce platforms also need to deal with fake transactions, but they could combat the phenomenon by tracking the shipment of the products. Some service providers might mail empty packages, but it’s costly to do so. On a platform like ZBJ, however, the cost of faking transactions is almost zero. Service providers only need to fake a contract, and it’s very difficult, if not impossible, for the platform to verify that the transaction actually took place,” said Zhu.

“We have many product managers, engineers, and data scientists in our organization to support our platform business,” he added, “If they conduct analysis based on fake data, their results would be useless. Their morale would drop over time because they couldn’t demonstrate their value in our organization. Over time, the focus of the company might move away from the platform business to areas where ZBJ is the service provider. The deviation from our core business could be fatal.”

Furthermore, since it had introduced membership fees, ZBJ faced complaints from some member service providers that they could not get enough jobs. This was a tricky problem for ZBJ because the reason these members could not get enough jobs was that they were too selective in the kind of jobs they would accept. Yuan explained: “Member service providers saw job postings first. If they chose not to accept those jobs, then the jobs were shown to the non-member service providers. Some member service providers were too picky and rejected the majority, if not all, of the jobs shown to them each time. Then they would complain that they could not get enough jobs on the platform. In addition, the service quality of member service providers was also a concern. Since member service providers knew they would be the first to view newly posted jobs, many had no incentive to provide high service quality because they felt that as members, job availability was guaranteed.”

Yuan reflected on this phenomenon and said: “Although we have sufficient number of jobs posted on the platform, we still faced a shortage of jobs because many members became pickier in selecting the kinds of jobs they would accept. In the end, we were unable to guarantee that the incomes of some of our members were enough to cover the membership fees they paid. Furthermore, there were service providers who lacked qualifications to provide a service but still signed up as members and expected high earnings. When their earning didn’t match their expectations, many held grudges against us. Under these circumstances, we faced huge challenges and risks in managing and controlling our service providers.”

**Outlook**

In its 11-year history, ZBJ had launched ten transformation campaigns. Yet with new challenges such as an increase in fake transactions and difficulties in managing members, what should ZBJ do next? Should it rethink waiving commission fees and revert to its former commission model?

In addition, both Zwork and BJ Town showed ZBJ’s determination to expand offline. Would these offline services, and the associated shifts to an asset-heavy model, complicate its operations and dilute its focus on the online platform? Would the company be able to adapt to these changes?

Last, ZBJ had already set its foot on the international market and had planned to expand to other countries. How should it replicate the success of its domestic business model outside of China? After all, “time differences and language barriers are nothing compared to cultural chasms,” Zhu remarked.
## Exhibit 1  ZBJ’s Ten Transformation Campaigns

<table>
<thead>
<tr>
<th>Campaign</th>
<th>Activities</th>
</tr>
</thead>
</table>
| Campaign 1  
January 2007 | Upgraded the platform from a BBS to a website. |
| Campaign 2  
September 2007 | Changed the scripting language from ASP to PHP. |
| Campaign 3  
November 2010 | Added a bidding mode to the existing mode and expanded the transaction categories. |
| Campaign 4  
May 2012 | Adopted the store system: each service provider ran a store on the platform. After finding a qualified service provider, a client could contact and hire the service provider directly. This improved the transaction efficiency. |
| Campaign 5  
January 2013 | Transformed the platform into a social networking site similar to Weibo, a popular microblogging site in China. The website was redesigned as an online community, with transaction elements significantly reduced. After the changes, registered users, transactions, and orders all dropped significantly. Campaign 5 failed, but it taught the firm a good lesson: we must design products with the users’ needs in mind. |
| Campaign 6  
September 2013 | Offered a guaranteed service. Once a customer posted a job, the platform promised to respond in 10 minutes and find the right service provider in 24 hours, or the customer would get a refund. Job posts surged after the service was launched, rising from 40 to over 100 posts per day. To create a reliable service provider base, the platform introduced a gold medal system for service providers. Criteria for receiving gold medals: a service provider had to achieve a monthly transaction volume of RMB 20,000, pass the platform’s verification, and have no record of disintermediation. |
| Campaign 6s  
November 2013 | Adjusted the ranking system to redistribute the traffic that used to be mostly monopolized by gold medal service providers and introduced advertising services and a new commission system. |
| Campaign 7  
June 2015 | Introduced a commission-free model and a drilling well mode to profit from the platform data. Upgraded the software infrastructure of the platform to SOA. |
| Campaign 8  
August 2016 | Developed solutions for mobile users for them to make transactions from mobile devices. |
| Campaign 9  
January 2017 | Introduced the dual-platform (ZBJ + TianPeng) + dual-line (online + offline) strategy. Unlike previous transformation campaigns that engaged the whole company to launch a storm fortification or upgrade project for a short period (typically around two months), transformation campaign 9 was a long-term, continuous overall upgrade that involved products, operations, developments, business model, platform strategy and corporate management. |

**Source:** Company document.

**Note:** A bulletin board system (BBS) is a computer service that allows users to connect to the system using a terminal program to perform functions such as reading news and bulletins and exchanging messages with other users. Active Server Pages (ASP) is Microsoft’s first server-side script engine for dynamically generating web pages and building web applications. Hypertext Preprocessor (PHP) is an open source scripting language designed for web development. A service-oriented architecture (SOA) is a style of software design where services are provided to the other components by application components through a communication protocol over a network.
Exhibit 2  China’s GDP Per Capita 2007-2016 (Unit: $)

![GDP per capita graph]


Exhibit 3  Overview of ZBJ’s Development (2012-2017)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction (RMB1 billion)</td>
<td>1.4</td>
<td>2.2</td>
<td>3.0</td>
<td>7.5</td>
<td>20</td>
<td>31</td>
</tr>
<tr>
<td>Registered clients and service providers (1 million)</td>
<td></td>
<td></td>
<td></td>
<td>13.58</td>
<td>16.72</td>
<td>19.32</td>
</tr>
<tr>
<td>Employees (head count)</td>
<td>258</td>
<td>241</td>
<td>592</td>
<td>1700</td>
<td>4500</td>
<td>4000</td>
</tr>
</tbody>
</table>

Source:  Company document.

Exhibit 4  ZBJ’s Financing History

<table>
<thead>
<tr>
<th>Round</th>
<th>Date</th>
<th>Amount</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel</td>
<td>Early 2007</td>
<td>RMB5 million</td>
<td>Born Group</td>
</tr>
<tr>
<td>Series A</td>
<td>April 2011</td>
<td>$6.66 million</td>
<td>IDG</td>
</tr>
<tr>
<td>Series B</td>
<td>2014</td>
<td>$17.5 million</td>
<td>IDG and Chongqing Cultural Investment Group</td>
</tr>
<tr>
<td>Series C</td>
<td>June 2015</td>
<td>$419 million</td>
<td>Cybernaut (RMB1.6 billion), Liangjiang Capital (RMB1 billion)</td>
</tr>
</tbody>
</table>

Source:  Company document.
Endnotes

1 Xunian; An enlightenment from ZBJ.COM’s Business Model in Its 10-Year Expedition; http://www.sohu.com/a/61042340_254058, 2016-02-29.