THE DYNAMICS OF INTERNET-BASED MULTINATIONAL CORPORATIONS IN CHINA: YAHOO! CHINA CASE

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Abstrak

Tulisan ini bertujuan untuk menganalisa dinamika perusahaan multinasional berbasis internet di China dengan secara khusus berfokus pada pembahasan mengenai faktor-faktor yang melatarbelakangi berhentinya operasional bisnis Yahoo! Inc. di China pada 2015. Dalam menjawab rumusan masalah tersebut, tulisan ini menggunakan metode kualitatif berbasis studi kepustakaan sebagai metode riset. Berdasarkan pendekatan teoretis yang ditawarkan oleh obsolescing bargain theory dan Porter's five forces model, penelitian ini dapat menyimpulkan bahwasanya keluarnya Yahoo! Inc. dari pasar China disebabkan akumulasi dari semakin ketatnya regulasi pemerintah China mengenai internet dan semakin kompetitinya industri internet domestik. Regulasi yang ketat merupakan representasi dari adanya "perpindahan bargaining advantage" sedangkan kompetitivitas pasar merupakan bukti kurangnya penguasaan Yahoo! Inc. atas keunggulan kompetitif.

Kata kunci: China, Internet, Perusahaan Multinasional, Yahoo! Inc.

Abstract

This paper aims to analyze the dynamics of internet-based multinational companies in China with a special focus on the discussion of the factors behind the closure of Yahoo! Inc.'s business operations in China by 2015. In order to answer this research question, this paper uses a qualitative method based on literature study as a research method. Based on the theoretical approach offered by obsolescing bargain theory and Porter's five forces model, this research conclude that the Yahoo! Inc.'s withdrawal from the Chinese market due to the accumulation of the increasingly stringent Chinese Government regulation on the internet and the increasingly competitive domestic internet industry. Strict regulation is representation of the "shift of bargaining advantage" while market competitiveness is evidence of Yahoo! Inc.'s lack of competitive advantage.

Keywords: China, Internet, Multinational Corporations, Yahoo! Inc.

Introduction

Discussing how MNCs and countries are related, it can be ignored to explain about global economy constructs today. In his scientific paper, David Harvey (Winarno, 2014) describes the current condition of the world with the term "*time-space compression*". This term refers to his view that illustrates the contemporary global phenomenon which marked with narrowing of space and time, the depletion of territorial boundaries between countries and the rapid flows of capital and goods passing between them. The present globalization process has globalized economic activities and trade between countries rapidly and resulting in many concepts and new actors in the global political-economic order. One of the actors who play an important role in the contemporary global economic order is MNC.

A massive growth rate and economic strength of MNCs today bring their impact toward global interdependence and liberalization of world economic order. Global interdependence and liberalization of world economic order are believed by liberalists as the positive impact of MNCs' emergence in the international business activities. Liberalists see the global wealth and economic prosperity only be achieved if the trade barriers between states are eliminated. A worldwide-covered operation by MNCs participates in the elimination of these trade barriers between countries and the making of "borderless world' through global interdependence.

The positive impact of MNCs and liberalization of the global economy has attracted attention from China's socialist government in the 1980s. Paramount leader of China at the time, Deng Xiaoping has implemented "economic reform" program which characterized by the opening of foreign investment and decentralization of power to the local government. The opening of foreign investment and liberalization of the domestic economy brought China to a rapid economic growth and even by the end of 2016 became the world's second-largest economy by nominal gross domestic product (GDP) and power purchasing parity (GDP-PPP) (IMF, 2017). Besides, the large population of Chinese also increasingly makes China the object of desire for every MNCs which wish to invest and open the new branch operation.

This kind of interest is perceived also by United States companies which engaged in internet things namely Yahoo! Inc. Yahoo! Inc. is one of the first internet-based MNCs which enter China mainland. Yahoo! Inc. entered China in 1999 in the form of launching a Chinese version of its website, cn.yahoo.com, with following of strategic partnership with local company namely Beijing Founder Electronic Co Ltd. (Sandeep and Dorris, 2007) which is the largest information provider in China at the time. Yahoo! Inc. makes an additional noteworthy move in 2005 with US$1 billion's investment in Chinese e-commerce player Alibaba, acquiring its 40 percent stake. The investment also includes Yahoo! China's operation handing over to Alibaba. Besides, Yahoo! Inc. also adopts some strategies and innovations used to run its business operation in China such as management changes, new products, and local tie-ups. However, during its tenure in China, Yahoo! Inc. also faces various challenges and obstacles internally and externally which impede its chance to gain the maximum benefits from doing business in the country.

Based on the fact which many of its legacy services fading in popularity outside of the United States, Yahoo! Inc. is increasing the focus on the United States' market and cutting expenses from elsewhere (Russel, 2015). 2013 is marked as the beginning of serious gradual ceasing of services in China; music service is closed in January, email in August and its primary business -web portal- is followed to be stopped from service in September. The shutting down of all of the primary services make Yahoo! China seems to wait for its final tenure is China. Finally, its tenure is over when Yahoo! Inc. decides to withdraw its China's business operation by March 2015.

Based on the background of research mentioned earlier, it raises the research question: What factors cause Yahoo! Inc. to shut down its business operation in China by 2015? Therefore, this article aims to find out more about the obstacles and barriers faced by internet-based MNCs doing business in China which lead them to the closure of their business operation in this country with Yahoo! China case as main object of study.

Theoretical Framework

Obsolescing Bargain Theory

One of the theories explaining the relationship between MNCs and host countries is the obsolescing bargain theory. This theory explains that the relation between MNC and host country is very dependent on the each of their bargaining power. This theory also states on how their bargaining advantage is strongly influenced by the goals, resources, and constraints of each party (Eden, Lenway and Schuler, 2004). The interests or goals of MNC and host country is conflictual where there is a difference between goals of the two.

When an MNC opens its business operation in a host country, it is turned out that both parties (MNC and host country) will fight and compete for their interests with the advantages possessed by each party. Initially, the bargaining advantage lies with MNCs due to its technology advance, financial strength and business experience in the related sector internationally. The host country has no choice but to accept MNC’s entry for technology transfer process so the domestic market of host country can be improved and developed. At this stage, the adopted host government’s policy toward MNC will be soft while the host country pushes to minimize of its interests. However, the bargaining advantage will not always exist on the MNC’s side as the time goes by and passes that bargaining advantage to the host country. This view named obsolescing bargain. Eden (Zulu, 2014) explains that the obsolescing bargain’s process occurs when host country increasingly tightened its policy which makes difficult for MNC to operate in the domestic market. The process of the obsolescing bargain is also influenced by the dynamics of goals, resources, and constraints owned by each party.

The obsolescing bargain theory is used to analyze the causes behind the increasingly stringent Chinese Government regulation of the internet industry. This theory considers the host country’s strict policy is caused by the erosion of MNCs' bargaining power which leads to the shift of bargaining advantage to the host country. Such tight policies have an impact on the disruption of a company's operations and lead to the exodus of the company. This theory will be applied in research by discussing the three important factors (goals, resources, and constraints) of each party (foreign internet companies and China) firstly and followed afterward with analysis of the development of bargaining power constellation that led to the host country’s advantages. Moments and evidence are included in understanding when bargaining advantage exists with external dotcoms and vice versa, being in the hands of the Chinese Government.

Porter Five Forces Model

Besides being caused by host government’s regulation, the obstacles faced by an MNC can also be seen through Porter’s five forces model. Porter’s five forces model is a framework described first by an expert of business strategic management of Business Harvard School namely Michael E. Porter in his classic 1979 Harvard Business Review article. Porter’s five forces model explains a framework consists of five external factors driving companies to gain the competitive advantages at work in their business environments. The five factors are the threat of new entrants, rivalry among existing competitors, the threat of substitute products or services, bargaining power of suppliers and bargaining power of buyers (Porter, 2008). Analyzing and mastering the strengths of these factors will further enlarge a company’s chance of gaining the competitive advantage which bringing profits from the related industry. Furthermore, Porter’s five forces model analysis can help companies assess industry attractiveness, how trends will affect industry competition, which industries a company should compete in and how companies can position themselves for success. Otherwise, lack of power in these five factors by a company can also be interpreted by the loss of competitive advantage resulting from the decrease in the market share.

In this paper, Porter's five forces model is used to find out the reasons behind the operational difficulties of Yahoo! Inc. business in China in terms of market competitiveness. This model considers that the more competitive an industry is, the competition between companies will increase. If a company is not able to possess competitive advantage, it can be ascertained that the company will be difficult in improving profitability and hook market share. This model will be implemented by analyzing the "power" of Yahoo! Inc. based on the five factors in competitive advantage. From there, it can be understood about how the difficulties faced by Yahoo! Inc. in its business operations in China is caused.

Research Methodology

This article uses the qualitative method as its method to analyze the data. The qualitative method described as the type of social science research that collects and works with non-numerical data and seeks to interpret meaning from these data through the study of targeted cases (Crossman, 2017). In this article, the qualitative method is applied in form library-type research which depends more on the literature-based study.

First Factor: The Shifting of Bargaining Advantage

In order to study the bargaining relations between MNCs and host countries, it is important to know the goals of each party. MNCs usually have purposes in doing business in other countries such as market seeking, resource seeking, efficiency seeking or strategic asset seeking. Meanwhile, host countries generally focus on national welfare in the form of broader economic, social and political objectives through relations with foreign companies (Eden, Lenway and Schuler, 2004). The obsolescing bargain theory assumes that each party seeks to achieve their goals and make those goals as the foundation of the bargaining process. The more similar their goals, then the fewer difficulties happen in the bargaining process between the two parties (Eden, Lenway and Schuler, 2004).

Yahoo! Inc.'s investment decision in China is motivated by the same purposes underlying the expansion of the company to other countries; the hope to get greater market access. Even in the case of China, this determinant measures very strongly. This is evident from the company's official statement describing China as "a rapidly growing market" (Yahoo! Inc., 1999). This rapid growth even exceeded the expectations of the company at that time in which the population of Chinese internet users in 2002 reached 59 million or a significant increase from the previous prediction in 1999 which amounted to only 9.4 million (Internet Live Stats, 2016). This purpose of "market-seeking" is also a common motive of other global internet-based firms’ expansion decisions at that time (until now) which is targeting consumers in large numbers that are generally located in developing countries.

China's motive for accepting the entry of foreign dotcoms was strongly influenced by the communist government's view of the internet itself. The Chinese Government has embraced various forms of technological advancements - including the internet - as it has an impact on increasing opportunities for the development of the domestic economy and the potential of the country as a world leader in the e-commerce market (Kissel, 2007). The presence of global internet companies including Yahoo! Inc. is seen have a positive role in China's high-tech industry in terms of spillover technology, capital formation, and increased market competitiveness. However, the development of the internet also triggered a dilemma for the government because this new technology has the potential to form important social ramifications (such as social protest, political rallies, etc) in a single-party, communist-controlled country where absolute government control of information flows occur (Kissel, 2007). The presence of foreign dotcoms is considered further increasing the “political danger” of the internet due to the foreign-owned operations of those companies. From this, it can be seen that the purpose of the Chinese Government is a combination of the government's desire to utilize the benefits of the internet economy while concerned about its negative political implications.

In addition to goals, bargaining relations between MNCs and host countries are also influenced by the source of the bargaining power of each party. Obsolescing bargain theory explains that bargaining power resources come from the ownership of unique assets, market access, and technologies. Typically, capital control, managerial skills, and technology are the MNCs’ advantages in the face of bargaining power host countries. Similarly, Levy and Prakash (2003) said that power of host country comes from its ability to offer access to large markets and restricted-valuable resources.

In the case of investment in China, Yahoo! Inc.’s bargaining power as well as other foreign dotcoms derived from their control of large capital and advanced technology. Prior to its China's entry, Yahoo! Inc. is one of the dotcoms giants as well as leading web portals at the time. The traffic of the company’s web portals in September 2000 reaches more than 780 million pageviews per day (CNN Money, 2000). Even in early 2000 Yahoo! Inc. has become the number one site on the global web, according to Media Matrix (Lambert, 2005). This popularity of Yahoo! web portal has an impact on the rise of stocks of companies that reached an all-time high at $ 475 per share on January 3rd, 2010 (Holland, 2012). Driven by the dot-com boom phenomenon, Yahoo! Inc. even recorded its highest valuation at US$125 billion in the same year.

The enormous control of capital is also accompanied by company's mastery of sophisticated technology. For example, the success of Yahoo! Inc. in those days can be attributed one of them on the flexibility of its web portal where users can land on www.yahoo.com in any number of ways, from email to a web search. Such convenience for users results in the superiority of Yahoo! Inc. over its competitors such as AOL and MSN which led to an increase in corporate profits (Lambert, 2005). Besides, the various exciting services developed by companies including Yahoo! Mail, Yahoo! Travel, and Yahoo! Auctions also illustrate how advanced technological innovation becomes an important characteristic of Yahoo! Inc. in doing business in this field. The superiority of this technology also continues to be developed Yahoo! Inc. by acquiring some potential internet companies such as Flickr and Rocketmail. Coupled with large capital holdings, Yahoo! Inc. has a big bargaining power toward host countries which can be seen from the company's expansion per 2000 to various countries including Japan, United Kingdom, Germany, France, Australia, and Korea.

The source of China's bargaining power as host countries is the potential presence of large internet users. If China's internet users at the end of 1999 were in the range of 4.5 million, then the number grew by 25% per annum to reach 710 million by 2015 (BCG, 2017). Prior to achieving rapid growth, China's large population has also shown potential for widespread internet penetration. This is coupled with the great attention given by the Chinese Government to the development of the internet in the country. The large population of the Chinese population coupled with the growth of the domestic economy and the government's focus in building the internet infrastructure has an impact on the great opportunity of the larger market access which becomes the source of China's bargaining power.

The third key component in the obsolescing bargain theory is the emergence of constraints on each side. The presence of constraints may affect the bargaining power of MNCs and host countries toward each other. Constraints can be political or economic, either coming from internal or external parties (Eden, Lenway and Schuler, 2004). The more vital constraints, the less bargaining power is also possessed.

The biggest constraints faced by foreign internet firms before deciding to invest in China including Yahoo! Inc. have come from the legal restrictions imposed by the Chinese Government on the internet activity. The first Internet regulation, the Interim Provisions Governing Management of Computer Information Networks, was enacted by the government in 1996 showing early Chinese concern over control over cyberspace. This regulation at the same time is a sign of the possibility of "the coming of more strict regulations". Such constraints potentially reduce Yahoo's bargaining power Inc. as leading global internet companies where such legal restrictions have the potential to hamper the company's operations.

China as host country also faces constraints that may reduce bargaining positions in front of MNCs including Yahoo! Inc. Ramamurti explained the current role of supranational institutions can influence and provide constraints in the process of policy formulation by host country governments (Eden, Lenway and Schuler, 2004). Accession to WTO requires the Chinese Government to adhere and adapt to the principles and procedures of the international organization. This means that China recognizes the current WTO-based multilateral trading system and is obliged to implement it into its trade policy. One of the sectors affected is the foreign investment sector. In its accession commitments prior to the acceptance as a member of the WTO, the Chinese Government is committed to adopting investment guidelines in which the content and its implementation are in line with the WTO agreements (Accession Commitments Database, 2001). In addition, according to Chow, one of the changes generated by accession is the opening of domestic financial and telecommunications markets for foreign companies (Chow, 2003). The opening of these sectors is in accordance with the WTO principles in which the government must provide a competitive business climate under reasonable and non-discriminatory conditions (Martin, Bhattasali and Li, 2003). The presence of various requirements within the scope of WTO accession limits and reduces China's bargaining power toward foreign companies including Yahoo! Inc. who wants to invest in the country.

We now have three important components in the obsolescing bargain theory; goals, resources, and constraints of each party. Let's summarize the influence of each component in the bargaining relations between foreign dotcoms and China. In the bargaining relations between the two sides, foreign internet companies aim to seek greater legitimacy and economic benefits from a large market access by the offering of advanced technology, intellectual property assets and reputation as global leader firms. In contrast, the Chinese Government offers access to foreign customers as a factor triggering the competitiveness of the domestic internet industry. The Chinese Government considers the competition impacts spillover technology and improves the performance of local business firms where the majority of them are still in the pioneering stage. Regulatory harmonization efforts promoted by the Chinese Government ahead of WTO accession have an effect on China's bargaining position.

The combination of China’s goals and constraints (coupled with the bargaining power of global internet giants) toward the presence of foreign internet companies “outshines” the government's concern about the political dangers of internet use, especially if the content is provided by western-based firms. Therefore, the Chinese Government “softens” the regulation while minimizing the interest in the internet’s control. The basis of allowing the presence of foreign dotcoms is the promulgation of The Guideline Catalog of Foreign Investment Industries by the State Council on December 31, 1997. One of the provisions of this guideline is the inclusion of microelectronic technology and information-communications system network technology to the list in where foreign investment is strongly encouraged (The State of Council, 1997). This resulted in the legitimacy of foreign ICP to do business in China and reap profits in China's potential internet market. Yahoo! Inc.’s entry into the Chinese internet market since 1999 became one of the consequences of the "softening" of China’s policy. It also notifies that bargaining power at this stage is in favor of Yahoo! Inc. and other foreign dotcoms as China hopes to make the most of the economic benefits of the growing global internet industry

Table 1. Initial Bargaining Power Mapping

<table>
<tr><th></th><th>Foreign Dotcoms</th><th>China</th><th rowspan="4"></th><th rowspan="4">Initial Bargaining Position favors internet-based MNCs’ side</th></tr>
<tr><td>Goals</td><td>• Market Seeking,
• Profit Seeking</td><td>• Economic Benefits,
• Domestic Competitiveness,
• Political Control</td></tr>
<tr><td>Resources</td><td>• Advanced Tech,
• Capital Inflow,
• Global Reputation</td><td>• Market Access,
• Domestic Economic Performance</td></tr>
<tr><td>Constraints</td><td>• Legal Restrictions</td><td>• WTO Accession Process</td></tr>
<tr><td colspan="5"></td></tr>
<tr><td colspan="5">Initial Outcome
Opening-Up of Foreign Investments in Internet and Tech Industries</td></tr>
</table>

The rapid growth of China's relatively young internet industry maturity (they established after 1996 and went public in the 2000s on average) has resulted in the weakening of external dotcoms bargaining power including Yahoo! Inc. Local internet companies such as Sohu.com, Sina.com, and NetEase are beginning to show rapid progress and have won loyalty from Chinese internet users (Sandeep and Dorris, 2007). Such reality shows the competitiveness of the market and the growth of the domestic industry which is the goal of opening foreign investment in the internet sector has been achieved. Even the rapid growth of internal dotcoms capable of “displacing” the existence of global giants like Yahoo! Inc. which is not able to exploit its potential as a leading internet firm due to his inability to understand the preferences and local culture of Chinese internet users. Even this “disease” also infects foreign internet companies which come after it like Google, Twitter, and Facebook.

The following table gives an overview of the "economic strength" of the web giant companies in the early days of the internet. From this data, it is briefly seen that the domestic internet industry is showing rapid growth and achieving revenues that can not be underestimated.

Table 2. The Economic Growth and Strength of Chinese Early Giants

	Sina.com	**Sohu.com**	**NetEase**
Foundation Year	1998	1996	1997
Revenue (Million USD)	114.3 (2003)	80.4 (2003)	68.8 (2003)
Total Assets (Million USD)	289.8 (2003)	205 (2003)	215.8 (2003)
Growth (y-o-y)	194%	179%	145%

Source: Companies’ Annual Reports

The reduced bargaining power of foreign external dotcoms has resulted in the increasingly strict Chinese Government regulation of the internet. This has been a common thing, given the rapid growth of the domestic internet industry and is considered to have been able to take advantage of the economic potential of the internet which exist especially in the e-commerce sector. Therefore, the Chinese Government has begun to shift its main objective to tightening regulations on the internet usage in order to protect its political interests.

The first “direct” regulation affecting external internet companies was the Public Pledge on Self-Discipline for the Chinese Internet Industry promulgated by the Internet Society of China in 2004. While optional, this pledge deal is a provision for ICP to obtain the license which is acting as a requirement to get a .cn domain. This regulation results in the implementation of monitoring and self-censorship by ICPs (including foreign-based). The provisions in this pledge also bring Yahoo! Inc. into Chinese dissidents' controversies in mid-2005-2007. Despite the promulgation of some internet regulations previously, the presence of this pledge becomes significant because censorship is now not only in the hands of the government but also “must” be imposed by each content providers.

The increasingly stringent Chinese internet regulation indicates the obsolete of external dotcoms’ bargaining power including Yahoo! Inc. The government's strict regulation impacted the disruption of foreign internet companies' operations which led to the exodus of these companies from China. Google's exit in 2010 became one of the first cases in which foreign internet firms “surrendered” from the Chinese market, one of which was caused by the increasingly stringent government regulation regarding censorship that was against the company’s morale "Do not be Evil" (Lee, 2013). This shift of bargaining advantage is also experienced by Yahoo! Inc. which in this case is exacerbated by the loss of previously possessed bargaining power. The modern Chinese internet giants Baidu, Alibaba, and Tencent have more superior capital, business models, product ecosystems and technologies (through Web 2.0 utilization) than Yahoo! Inc. has. It should be remembered, however, that the increasingly stringent and harsh Chinese Government policy toward the internet (as a result of bargaining advantage’s shift) has impacted on the market condition which remains off-limits to foreign investments and contributed to the withdrawal of Yahoo! Inc. from the country.

Second Factor: The Loss of Competitive Advantage

In addition to being driven by the Chinese Government's strict policy on internet usage, especially from foreign content providers, the cessation of business operations of foreign web companies can also be viewed in terms of the lack of competitiveness of these companies. The lack of possession over competitive advantages can result in loss of profitability of a company especially when faced with highly competitive market conditions. Therefore, Yahoo! Inc.’s exit from the Chinese market can be analyzed from Porter’s five forces of competitive advantage. It will analyze the competitiveness of Yahoo! Inc. in the middle of the Chinese internet market according to these five forces.

Rivalry Among Existing Competitors

The rivalry with existing competitors is also encountered in the Yahoo! China’s case. When the company announced its business expansion to China in 1999, several internal dotcoms had expanded its business and began to show rapid growth. At that time, the Chinese internet market was dominated by the "Big Three"; Sohu, Sina, and NetEase (ICMR, 2007). Sohu becomes a company that introduces first Chinese language online directory and search engine as well as being the most favored Chinese language Web site Sohu. The beginning of the new millennium changed the market share constellation with the development of Sina which began to dominate Sohu as the number one web portal service provider. One example of Sina's success is its position as the first Chinese web companies to list its stock in the overseas stock market, Nasdaq, in April 2000, which was followed only later by its rivals (Sina, 2006). Until 2003 the economic power of these three players continued to grow rapidly while other companies including international giants Yahoo! Inc. find difficult to reach.

Porter states that competitors can pose a threat to companies if they are “more” committed to their business operations. In addition, the lack of corporate understanding of the rival’s business operations and approaches will further increase the threat to the company's profitability (Porter, 2008).

In investing in China, Yahoo! Inc. facing the fact that local companies do not stay silent and continue to innovate in order to improve their competitiveness. Sohu (in its annual report) states although companies face competition with companies such as a global-scale-Yahoo! China, they believe that they have their own advantages, one of them in terms of "exclusive focus on the Chinese market" and "the ability to offer products that suit the needs and interests of local consumers" (Sohu.com Inc., 2001). This policy direction is also implemented by other local web companies.

This is not found in Yahoo! Inc.’s business operations in China. The company does not consider its position as "a foreigner" which of course has own liability compared with its domestic counterpart; lack of understanding of local preferences and cultures. Yahoo! China just adopts a very simple localization strategy; fully translated their global portal model into Chinese. Maybe this strategy will work successfully in other countries, but this is a Chinese market that has its own unique and distinctive characteristics (Decker, 2004). For example, China's internet business industry model is not just dependent on advertisement revenues. Local companies are rapidly experimenting with new business models and revenue types that generate annual profits of up to hundreds of millions like Sohu. This does not happen with Yahoo! China’s case which still implements conservative policies - such as advertisement-based focus- which results in a low income of just a few million dollars (Decker, 2004). From here, it can be concluded that although Yahoo! Inc. has an advantage in terms of global reputation, but the company's bad strategy coupled with the growth of internal companies has resulted in the loss of that advantage.

Power of Buyers

Porter's five forces model also includes the power of buyers or consumers into factors affecting the competitive climate of an industry. The strength of consumers lies in their need for better quality products and services (Porter, 2008). This has resulted in the competition among companies to provide products and services in accordance with market demand. The strength of consumers will also be stronger if the product industry is standardized or undifferentiated (Porter, 2008). The point is, consumers will always be able to find the same product due to the nature of products offered by the industry which is general or usually lacks distinctive properties.

Chinese consumers have unique characteristics when compared with their western counterpart. The majority of Chinese internet users are young people with an average age of 28 years and in contrast to the United States market whose average age of internet users is 42 years or 14 years older than their Chinese counterpart (BCG, 2017). Market conditions dominated by young users result in different internet usage patterns, such as a preference for illegal downloads of pirated music, movies, and TV shows (Barboza and Stone, 2010). Such consumer preferences are not taken seriously by foreign dotcoms and local companies like Baidu precisely which are able to accommodate them. This resulted in the increasing dominance of local companies over domestic market share. Yahoo! China actually changed its business direction by making high-end segment as their focus. Company products are directed to corporate or business-oriented consumers (ICMR, 2007). This strategy is incorrect when applied in the Chinese market where the young people who generally do not have a well-established income who dominates the internet usage in the country.

This has not been added to the dynamics of internet habit of young people where they like to adopt new technology and willingly provide feedback to developers (PwC, 2016). Such habit can be interpreted that Chinese consumers do not hesitate to move from one content provider to another content provider if the product offered is not able to meet user expectations. Again, the conservative strategy adopted by Yahoo! China has resulted in the failure of profit expectations proclaimed by the company before.

Power of Suppliers

Porter assumes the power of suppliers can affect the competitiveness of an industry with the charging of higher price, limiting the quality of products and services, and shifting costs to industry participants (Porter, 2008). Strong suppliers can affect the profitability of an industry. Their strength will increase if the participating companies are not able to outsmart the increasing cost which occurs due to the competitiveness of the industry where significant price changes impact on the loss of market share.

Internet industry, especially those who play in the field of content provision, do not know the term suppliers in business operations. This is because, in the process of providing products (internet content), they relatively do not need other parties. Instead, they become suppliers from other industries that are generally engaged in the hardware market. For example, Google and other search engine applications toward smartphone manufacturers. Therefore, the power of suppliers factor can be concluded does not give a significant influence on the competitiveness of the web portal industry and the profitability of the companies including Yahoo! China.

Threat of Substitutes

The presence of substitutes which capable of replacing products from an industry can threaten the profitability of the industry. Substitutes have the same performance as the products offered by companies engaged in the industry. Porter exemplifies the presence of travel website application providers as a substitute for conventional travel agencies (Porter, 2008). The appearance of the substitutes is greatly influenced by the invention of new technologies that automatically displace the use of industrial products using relatively older technologies.

In addition to being direct or real, substitute threats are also sometimes indirect in replacing the use of a product. Yahoo! China's case can also be described as the impact of the presence of such substitutes. At the beginning of the new millennium, Yahoo! Inc. globally began to face challenges from Google. Google is a pioneer of new technology search engine which is able to replace Yahoo! Inc's web portal model. Google's search engine technology uses more mathematical algorithms when compared to the human-fashioned web directory developed by Yahoo! Inc. previously (Lambert, 2005). The use of this more advanced technology resulted in the fading of Yahoo! Inc.'s heyday where users begin to switch to substitute products that are able to offer more extensive content. Such events also occur in Chinese markets where consumers rely more on search engine platforms (such as Baidu, Sogou, and Google China) compared to older web portal models (such as Sina, Sohu, and Yahoo! China). Although Yahoo! Inc. has developed its own search engine technology since 2004, but this is not able to overcome the defeat of market share possession that already suffered by the company previously.

In addition to search technology, substitute products can also be the presence of Web 2.0 technology. Web 2.0 provides more user-generated content compared to previous one-directional and read-only technologies. The development of Web 2.0 also resulted in the invention of social media platform. Potential of Web 2.0 is not taken seriously again by Yahoo! Inc. which resulted in the erosion of their market share from such technology-based content providers such as Facebook and Twitter. This is also true in the Chinese market where companies choose to disregard the strategy proposed by Yahoo! China's President Xie Wen who wants the company's operations to turn to Web 2.0-oriented (Sandeep and Dorris, 2007). This insensitivity toward market conditions was welcomed by their old rival Sina who launched its microblogging service Sina Weibo in 2009. Three years later Sina Weibo has reached 503 million registered accounts with growth rates reaching 73% over the previous year (Ong, 2013).

It can be concluded here that internet content is a product that is vulnerable to being threatened by the presence of substitutes thanks to the possibility of enormous technological developments. If the company is not able to adapt and even respond it with no seriousness, then the profitability and market share of the company becomes a bet. This happens in the Yahoo! Inc.'s business operations and its subsidiary in China.

Threat of Entrants

This threat of entrants is interpreted when newcomers bring new capabilities and desires which put pressures and threats on the profitability of the earlier-established companies. Porter (2008) added that the threat of entrants will increase as barriers to entry levels (such as government policy) are low.

The term entrants here is defined as those companies that when Yahoo! Inc. start investing in China, they have not established or had a low market share and profit. These companies may be either domestic or foreign. The threat of entrants is reinforced by the Chinese Government's restrictive policies that limit the operations of foreign dotcoms business while encouraging the prosperity of local companies. While such restrictive policy reduces the threat of foreign entrants, it actually strengthens the economic power of the domestic industry that encourages the birth of new giants in China's internet market. Cho-Wen Chun's research shows that internet regulation imposed by the Chinese Government can be interpreted as a form of economic protectionism where external dotcoms business obstructions such as Google, Twitter, and Facebook have paved the way for local companies such as Baidu, Sina Weibo, and Renren to dominate China's internet market share (Chu, 2017). This impacts on the emergence of entrants which are able to threaten and even displace the market share of foreign companies including Yahoo! Inc. If in the early days Yahoo! Inc. get into trouble in the face of old giants like Sohu and Sina, then the passage of time leads to the emergence of a new generation of powerful entrants like Baidu and Tencent thanks to their effective business strategies capable of achieving profitability and dominant economic power.

Table 3. The Annual Revenue Comparison of Chinese Earlier and Current Internet Giants (in USD million)

	Sohu	**Sina**	**NetEase**	**Baidu**	**Tencent**	**Yahoo!**
2003	80.4	114.3	68.8	39.5 (2005)	138.1 (2004)	1,625
2014	1,673	768.2	2,011.4	7,905.7	12,899	4,618.1

Source: Companies' Annual Reports and Financial Press Releases

The mentioned data show the comparison of annual revenue among the past giants (Sohu, Sina, and NetEase) and the today's giants (Baidu and Tencent). Baidu and Tencent transformed into the rulers of China's internet market by noticing their fantastic revenue since 2014. Their revenues (which focus only on the domestic market) even surpassed Yahoo! Inc. which actually depends its profitability also on the international market. So do not be surprised if Yahoo! China is unable to meet its expectations amid these giants.

Implementation of Porter's five forces shows the exit of Yahoo! Inc. can be seen from the aspects which shape the competitive advantage of industry. The strength of these forces has an impact on the increasingly competitive industry. This can be interpreted, if a company is not able to master these factors of competitive advantage, then its profitability and market share will be threatened as the competition increases. According to this discussion, except the power of suppliers, other competitive advantage factors in Porter's five forces model presents a threat to the existence of Yahoo! Inc. in China that led to the exodus of the company in 2015.

Conclusion

Yahoo! Inc. decided to discontinue its subsidiary business operations in China with the closing of its research and development office at Haidan, Beijing in March 2015. This closure is a continuation of previous company decisions that chose to shut down major local services such as online music, e-mail and web portal in 2013.

Based on the research with applying the obsolescing bargain theory and Porter's five forces model, the author can conclude that Yahoo! Inc.'s shutdown of business operations in China is the impact of the tight Chinese Government policy on the internet and the harsh competition in the domestic internet market. These two reasons led Chinese internet-based industry to be off-limits markets for Yahoo! Inc. and gave difficulties to the company's business operation. These difficulties have influenced Yahoo! Inc. to shift and change its direction to close China's business amid local internet market huge potentials. In this research, China's strict government policy is seen as a form of the shift of bargaining advantage to host country and Yahoo! Inc.'s failure to compete in the midst of domestic market competition is the impact of its inability to possess competitive advantage factors.

Suggestion

The main theme of this article is the discussion about the dynamics of foreign internet companies in China by taking the experience of Yahoo! Inc. in China as the main portrait. Therefore, there are at least some parts of this study that can be explored and studied more deeply in subsequent research, including; *First,* Yahoo! Inc. only one of the internet-based MNCs operating in China. Therefore, the author would love to see other companies become the main object of discussion. *Second*, internet discourses about China mostly focus on issues of censorship and protectionism. It will be better if future research focuses on other aspects such as the characteristics of China's internet industry that the author think it needs to be a separate discussion.

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