

# Analysis of Porter's Five Forces Competitive Model in China's Property Rights Trading Market

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**Abstract:** In recent years, China's property rights trading market has been extremely competitive, but there are also new contradictions and challenges. This paper aims to analyze the external and internal competitive market of the property rights market through Porter's five forces competition model, then find out the problems and defects in the development, thereby promoting the better development and progress of China's property rights trading market.

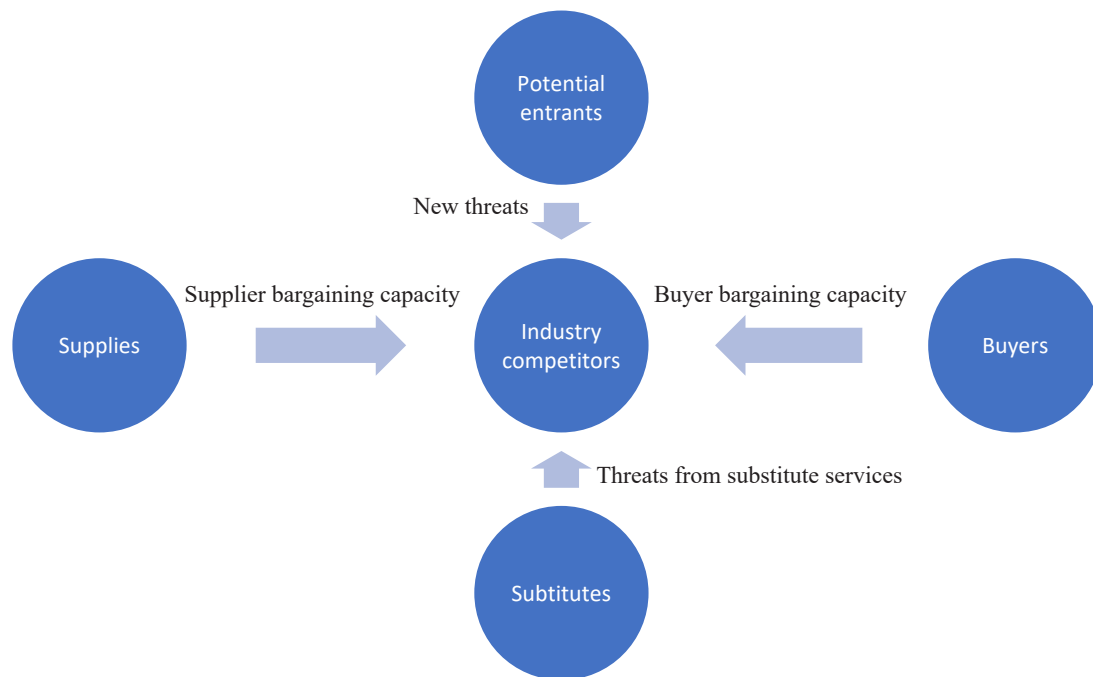
**Keywords:** Porter's five forces competitive model; Market optimization; Innovative development

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## 1. Introduction

The emergence and development of China's property rights trading market is a major institutional innovation of China's non-standard capital market and a great initiative of socialism with Chinese characteristics that have no precedent and no model outside. After more than 30 years of exploration and practice, the property rights trading market has been greatly developed, and its position and role in China's capital market have been fully confirmed and affirmed.

Currently, China's property rights trading market has faced great development opportunities, but also new contradictions and challenges. At present, the external and internal competition environment of China's property rights market has changed, and a series of new situations, new problems, contradictions, or challenges have emerged. The following is based on the five forces competition model proposed by Michael Porter, a doctor of economics at Harvard University, in the early 1980s to analyze the five forces in the competitive environment of the property rights trading market (**Figure 1**).



**Figure 1.** Five forces competition model in the property rights trading market

## 2. Threats from potential entrants

The threats of potential entrants to the property rights market mainly come from the large-scale Internet e-commerce giant platforms represented by Taobao, JD, and more.

Taobao, JD, and other Internet e-commerce platforms began to enter the judicial litigation asset disposal business in 2012, and the judicial litigation asset disposal business, which has been entrusted by the court to the monopoly of auction institutions, has been moved from offline to online Internet platforms. On November 25, 2016, the Supreme People’s Court of China issued a notice on the list of judicial auction network service providers, which standardized the establishment and management of a national list of judicial network service providers<sup>[1]</sup>. It clarified that the following five online platforms are national judicial asset auction service providers: Taobao, JD.com, People’s Court Litigation Asset Network, China Auction Industry Association Network, and Public Auction Network. On November 25, 2016, the Supreme People’s Court of China issued the “Announcement on the List of Judicial Auction Network Service Providers,” regulating the establishment and management of the national judicial network service provider list, and clarifying the following five network platforms as national judicial asset auction service providers: Taobao, JD.com, People’s Court Litigation Asset Network, China Auction Industry Association Network, and Public Auction Network. Among them, the People’s Court Litigation Assets Network is a network invested by the court itself, the China Auction Industry Association Network is a network of the China Auction Association, the Public Auction Network is a network established by the Shanghai Auction Association, and Taobao and JD.com are giant Internet e-commerce platforms. The release of this announcement further confirms the legality of the disposal of judicial litigation assets by e-commerce platforms such as Taobao and JD.com.

After more than ten years of operation, Taobao and JD.com e-commerce platforms take advantage of strong capital strength, Internet technology functions, and big data advantages, utilize massive corporate and personal customer resources, use big data credit investigation and online payment settlement and other complete financial services ecological chain, and use the zero commission strategy for the client. It has a

subversive impact on this monopoly business in the traditional auction industry, and the judicial litigation assets have achieved 100% online trading on the Internet platform. At present, Taobao and JD.com have become the industry leader and second in the national judicial litigation asset disposal platform, accounting for 80% of the share of judicial litigation asset disposal <sup>[2]</sup>.

In recent years, such large-scale Internet e-commerce platforms as represented by Taobao and JD not only have a full series of financial licenses in addition to the authorization of state-owned equity trading licenses but also have various competitive advantages of more market-oriented platforms.

### **3. Threats from substitutes**

The threat of substitutes stems from the cost-performance ratio relative to existing players in the market, shifting costs for customers, and government policies.

The threats from substitute services in the property market mainly come from the auction industry. Auction is the sale of specific goods or property rights to the highest bidder on the basis of the principle of “three public”, and with the form of public bidding.

China’s auction industry began to recover and develop from 1986 to the implementation of the “Auction Law of the People’s Republic of China” on January 1, 1997. After more than 30 years of development, the auction legal system, theoretical system, industry standards, industry norms, training system, customer relationship, and market functions are more mature and complete than the property rights market. It has a strong first-mover advantage, comparative advantage, and professional advantage as well as vitality and competitiveness.

By the end of 2023, there were over 11,000 auction companies nationwide, with nearly 80,000 employees and over 15,000 registered auctioneers. The annual auction turnover was approximately 638.881 billion Yuan. The auction industry has achieved full coverage from the southeast coast to the central and western regions, covering public property assets, movable property, real estate, equity, debt, nonintellectual property, art market, bankrupt enterprise assets, judicial assets, second-hand car market, agricultural product market, etc. In recent years, auction companies have competed with the property rights market for state-owned asset trading projects with their advantages of good professional services, flexible mechanisms, simple procedures, and high efficiency. Their market share has steadily increased in recent years, making them the main competitors in the substitute market <sup>[3]</sup>.

To strive for survival in adversity, China’s auction industry has kept pace with the times and made giant innovations. It has explored and practiced online auctions, established two Internet auction platforms (China Auction Network and Public Auction Network), expanded its business from offline to online, and became five litigation assets auction platforms of the High Court. After more than 10 years of operation, the two major auction networks “China Auction Network” and “Public Auction Network” have become national auction platforms and realized the interconnection of national projects.

### **4. Supplier bargaining capacity**

The bargaining capacity of suppliers is generally determined by their concentration, forward integration ability, and degree of buyer information asymmetry.

The suppliers of property rights trading market projects are mainly state-owned enterprises, state-owned financial enterprises, and administrative institutions, which are mainly distributed in the State-owned Assets Supervision and Administration Commission and the Ministry of Finance. In particular, the 97 industrial central

enterprises under the jurisdiction of the State-owned Assets Supervision and Administration Commission of the State Council and the 24 financial central enterprises under the jurisdiction of the Ministry of Finance, although they do not have the capability of forward integration, they are centralized and organized, and the property rights transaction projects provided are the core business source of the property rights market, so their bargaining power is very strong <sup>[4]</sup>.

Michael Porter pointed out that the existence of a large number of competitive enterprises in dispersed industries gives service buyers strong bargaining power, often leading to constant wars between enterprises, which can be described as a struggle between the two sides and a win-win situation.

Due to the rapid growth of the number of property rights markets in China, 31 provinces, municipalities, and autonomous regions have established provincial property rights trading markets, and 329 cities have also established city-level property rights trading markets to varying degrees. Such a large number of trading institutions that provide homogeneous services appear in the face of a limited number of state-owned assets transfer projects every year in the vicious competition situation, there is a weak situation of many-to-one negotiations, and property rights trading institutions appear to have no bargaining power. As a supplier, provincial and municipal state-owned enterprises, especially central enterprises, have implemented the market-oriented bidding operation system when choosing property rights trading institutions, and are in an absolutely strong position.

## **5. Buyer bargaining capacity**

The bargaining capacity of the buyer is determined by the concentration of the buyer, backward integration ability, and the degree of information asymmetry of the buyer, and affects the profitability and competitiveness of the existing enterprises in the market through high-quality requirement abilities and high-quality services.

At present, China's property rights trading institutions are selected and determined by the government, with unique brand advantages and monopoly advantages endorsed by the government. However, from the perspective of role positioning, the constraint mechanism to provide balanced services to investors has not been fully designed. The focus of institutional design and construction of the property rights trading market is mainly reflected in the level of transferor and supervision, and the positioning of property rights trading institutions is mainly to serve the transferor to "discover buyers and prices," whose existence value is more reflected in institutional norms and the preservation and appreciation of state-owned assets. However, it is insufficient in how investors find projects, realize value, and safeguard their own rights and interests.

In this market, according to the reform strategy of state-owned assets and state-owned enterprises and the rhythm of structural adjustment, property rights trading institutions fully demonstrate the richness, quality, and price attraction of property rights projects through institutional website listing, WeChat public account promotion, roadshow publicity, and other means. On the other hand, the investors on the other side are located in a fairly dispersed location and have relatively narrow access to information, but rarely form the demand side of the same organized balance of power. In addition to passively accepting the listing information of the property market, individual investors in most cases do not have too much time and professional ability to pay attention to and rationally judge the value of the project <sup>[5]</sup>.

## **6. Competition among enterprises in the industry**

The degree of enterprise competition in the industry is generally determined by the degree of industry concentration, market segmentation and differentiation, industry growth, sunk costs, differences in enterprise

interest orientation, and government policies.

At present, China's property rights trading market is a highly internal "Honghai market." According to statistics, 31 provinces, autonomous regions, and municipalities directly under the central government have established provincial property rights trading markets, 329 cities have also established city-level property rights trading markets to varying degrees, and as many as 270 property rights institutions of all kinds operate normally in the country, providing undifferentiated and homogeneous services at the same latitude, and competition is quite fierce.

From the point of view of affiliation, the property rights trading institutions scattered around the country, some subordinate to the local state-owned assets management department, some subordinate to the development and reform department, and some subordinate to the financial department, have obvious characteristics of this kind of closed market operation, which makes the scale of the property rights trading market in the country is originally 100 trillion, but it is artificially divided. The market size has been cut off due to the influence of institutional factors such as the regional protection of administration and the segmentation of the industry, resulting in administrative-territorial protection and industry segmentation, unshared resources, asymmetric information, and vicious competition among each other. Some trading institutions confuse the functions of government affairs services granted by the government with the functions of intermediary services, acting as coaches, athletes, and referees, abusing their dominant market position, forcing enterprises to charge high transaction services, and seriously lacking supervision<sup>[6]</sup>.

China's property market is weak in dealing with the impact of the emerging Internet trading platform and auction industry. There is a huge gap in the popularity and attention of online platforms, customer traffic, technical features, and information system security, as well as in meeting user experience and improving efficiency. At present, most of our property rights trading markets are invested in and established by the local State-owned Assets Supervision and Administration Commission (SASAC), which controls and controls indispensable and unique project resources. The competitive barriers in our property rights trading market mainly rely on government policy dividends, protection and support from central and local governments, administrative orders, and monopolies, and will not face the invasion of new entrants who lack such resources and cannot obtain them in any way. However, the current laws and regulations based on the property rights market belong to the department rules, the level is not high, the core competitiveness of the operating market is not strong, and the brand advantage, cost advantage and scale effect are insufficient, which is a severe reality faced by China's property rights trading market.

Michael Porter pointed out in *Competitive Strategy*<sup>[7]</sup>: "The typical feature of a decentralized industry is that there are a large number of competitive enterprises within the industry, and these competitive enterprises have poor bargaining power when dealing with suppliers and buyers, and the situation of low-profit margin is unavoidable. In this industry environment, strategic position is very critical for enterprises. The strategic challenge is how to overcome the fragmentation of the industry by building the most successful companies." Therefore, speeding up the legislation of property rights transactions and establishing a unified national property rights transaction market is the top priority at present.

## 7. Conclusion

At present, the external and internal competitive market of China's property rights market is still fierce. If the property rights market wants to survive and develop to a new level, the only way is to evaluate the situation, prepare for the crisis, take innovation as the first priority of development, and put service in the core position

of development. Continuous organizational innovation, institutional innovation, regulatory innovation, product innovation, service innovation, and risk control innovation can better develop China's property rights trading market.

## Disclosure statement

The author declares no conflict of interest.

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