

Management

2014-2015

Exam 16.01.2015

Read the questions carefully and justify all your answers

Respond to group 1 and group 2 in two separate sheets

The exam will take 2 hours with 30 minutes tolerance for non-native speakers writing in English

1.

The Alibaba founder combined an entrepreneur's ambition with political savvy in China to pull off the biggest Wall Street debut in history

Adapted from Time Magazine, December 8th, 2014

When the opening bell of the New York Stock Exchange rang out on Sept. 19, it marked the biggest IPO (Initial Public Offering) the world had ever seen — bigger than Facebook's or General Motors'. This new Wall Street juggernaut, based 7,000 miles away in Hangzhou, China, is Alibaba. Its founder and chairman, 50-year-old Jack Ma, is now challenging some of the most powerful companies on the Internet, including Amazon, eBay and PayPal. And he is doing so by melding Western entrepreneurship with a sharp—and sometimes controversial—sense of how to profit in the world's most populous nation.

Alibaba is used by more than a third of China—some 500 million people—making it easily one of the largest e-commerce companies in the world. Those customers come to Alibaba to shop in the electronic malls it operates, where some 8.5 million merchants, large and small, sell their goods.

With the growing economy, Chinese increasingly pay for those goods—and conduct all kinds of other transactions—using Alipay, a PayPal-like service affiliated with Alibaba that is now one of China's most important financial entities. In fiscal year 2014, Alibaba generated \$8.5 billion in revenue, nearly half of it profit. And Alibaba's \$25 billion IPO made Ma one of the world's wealthiest individuals.

But even those figures obscure the significance of Alibaba's rise and the extent to which it has been propelled by Ma's understanding of how to do business in his homeland. Since it began in 1999 by linking Chinese manufacturers with foreign and domestic buyers, Alibaba has played a crucial role in China's digital opening to the West. Having previously worked in the Ministry of Trade, Ma was able to ensure support from the Communist Party government and take on bigger competitors in China's private sector. His innovations were not just technical but also diplomatic and strategic.

Ma started Alibaba in his apartment with 17 friends. "Jack had the biggest dreams of anyone I've ever known," says Porter Erisman, an American adman who left his job at Ogilvy & Mather in Beijing to work for Ma early on. "You'd come up with a goal, and

he'd immediately ask you to triple it." Ma is full of Shaolin-monk-style sound bites. *"eBay is a shark in the ocean. We are a crocodile in the Yangtze,"* he famously proclaimed. *"If we fight in the ocean, we will lose. But if we fight in the river, we will win."*

Ma says three things are at the core of his company and business philosophy, calling them "his religion" on the show. The first is that technology isn't Alibaba's core competency, rather it's the company's culture. That first bit is the surprising part– Ma goes on and on about how un-technical he is. That's something I've never heard any executive of a tech company say, even if they aren't technical. Ma says "I know nothing about technology," adding he can't write code and the most he can do is send and receive emails. That takes some confidence as a leader to be so bold about what you don't know.

The second element of his "religion" is that shareholders come last– the most important groups are customers and then employees. He says matter-of-factly that customers are the ones who pay him and employees are the ones who stick with him but shareholders come and go. (Note: There's some interesting subtext, whether it was intentional or not. The largest shareholder is Yahoo, who Ma would very much like to go.)

The third element is that "Small is beautiful"– strange coming from the guy who built one of the largest Internet companies in the largest online market in the largest country in the world. Few things are "small" in China and fewer still are praised for being small. But Ma's platforms are powered by a network of millions and millions of small business people who couldn't do business any other way in China. He says that in the US, real world business infrastructure is so good that ecommerce is "dessert" but in China it's "the main course." He thinks the future of China is empowering lots of entrepreneurs in the classic, small-business-man sense of the word. What China needs most he says are hundreds of millions of jobs, and he thinks lots of small businesses are the answer, not more giants like Alibaba.

In 2005, Yahoo, run by founder Jerry Yang at the time, decided to buy a large stake in Alibaba for \$1 billion. The marriage fell apart, though. As Alibaba's market share took off, it became clear that Ma had given away too much of his company for far too little. He gathered together a group including local investors close to the Chinese party elite to buy out half of Yahoo's stake [to rebuy the share that Yahoo had previously bought].

Those relationships are a reminder that Ma couldn't have produced his achievements without Beijing's approval. His ties to the party apparatus are a key advantage over foreign rivals, which don't compete on the same playing field in China's closed Internet ecosystem. Alibaba operates not only in retail but also in heavily state-dominated and -protected areas like finance.

Apart from the issue of Alibaba's independence from Beijing, a more fundamental question looms: Can Ma replicate his Chinese success elsewhere? While it's unlikely that many Americans or Europeans will do their Christmas shopping on one of Alibaba's websites anytime soon, Ma is almost certain to use some of his cash surplus to start acquiring Western media and entertainment properties. Alibaba will also try to grab the dominant market position in other emerging economies like Brazil, India and Russia. Back in China, Alibaba is planning to launch a Chinese version of Netflix and has announced expansions into consumer credit, insurance and mobile apps. That puts Alibaba in competition with basically all the U.S. Internet heavyweights. Ma says he want to build not an empire but rather an ecosystem, which is less likely to be toppled.

a) Analyze the macro environment (PESTEL) where Alibaba operates. (4)

Theory	Application to case study
<p>1. (25%) Macro environment and what PESTEL is for.</p> <p>Brief explanation of each trend:</p> <p>Political, economic, social, technological, environmental, and legal</p> <p>NOTES:</p> <p>The responses should clearly focus on the macro environment. Describing what Alibaba does and does not is incorrect. Many students characterized what Alibaba did, and not the macro, external environment.</p> <p>Some students keep saying there is no information for each of the six trends. Students should read the text again if they find no information to answer the question in the exam.</p>	<p>Alibaba was able to take advantage of a unique favorable macro environment</p> <p>(20%) Political: closed regime, tightly controlled by the communist party elites. However, China wants to gradually open economically. They favor Chinese companies that go international + (- for foreign companies entering the Chinese market)</p> <p>(15%) Economic: booming Chinese economy, very large economy + Chinese people are increasingly using the internet +</p> <p>(15%) Social: with the booming economy, millions of small businesses and families want to do business and consume – huge opportunity +</p> <p>(15%) Technological – boom of electronic commerce and e-commerce technologies/platforms +</p> <p>(5%) Environmental – not much information about this.</p> <p>(5%) Legal – not much information, but we can see this is a very closed and controlled legal environment, hard to master by foreigners (+ to Chinese companies, - for foreign companies)</p> <p>Overall, there is a very favorable macro environment for e-commerce overall, but especially for Chinese companies</p>

b) Identify Alibaba's core competences? How do these competences enable Alibaba to deal with the macro environment? (3,5)

Theory	Application to case study
<p>1. (33%) Explain what core competences are, and how the base for competitive advantage:</p> <p>Resources and capabilities :</p>	<p>2. (33%) The core competences of Alibaba are:</p> <p>Not technology</p> <p>Culture – customer orientation,</p>

<p>Contribute decisively to customer perceived relative to the product or service offered by the company.</p> <p>Are unique and differentiating against the competition.</p> <p>Are hard to imitate by competitors</p>	<p>employee orientation</p> <p>In-depth understanding of the chinese market – development of a solid reputation</p> <p>Network of relationships established with local players: merchants and especially the Chinese government</p> <p>3. (33%) with these competences, Alibaba used the e-commerce technology developed by its partners (namely Yahoo and PayPal), and was able to build a differentiating positioning in the Chinese market through its unique understanding of the Chinese society, culture, and rules, and key ties to the dominant political party.</p>
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- c) Based on the information provided in the text, how do you characterize Alibaba's organizational structure? Why do you think it is suitable to Alibaba's strategy?(3)

Theory	Application to case study
<p>(40%) Explain what organizational structures are</p> <p>Explain the network organization:</p> <p>Web of strategic relationships established between companies, which together offer a more complete solution to customers, and is coordinated by a central body which aims to maximize the whole network performance.</p>	<p>(60%) Alibaba is the central coordinator of an e-marketplace and therefore only succeeds with each huge network of millions of small and large retailers and financial players. Students can also mention the partnerships with Yahoo and Paypal, which provide key assets to Alibaba.</p> <p>(30%) (alternative answer, with half grade) with the Alipal and the financial branch, and with the expansion to new product and geographical markets, Alibab can also develop a divisional structure (by products and geographical markets).</p>

- d) Based on the information in the text and what you know of marketing segmentation, how do you characterize the customer segments that Alibaba and eBay target? (2,5)

Theory	Application to case study
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<p>(50%) Explain what market segmentation is.</p> <p>Explain different market segmentation variables: geographical, socio-demographic, psychographic, behavioral</p>	<p>(50%) Explain that the main differences in terms of Alibaba's and eBay's market segments are geographical and socio-demographic:</p> <p>Geographical: China (Yangtze), rest of the world, especially western markets (Europe and US)</p> <p>Socio-demographic: Chinese culture, income and social characteristic differ also</p> <p>Other segmentation variables can also be used, but they are not required because there is no information in the text</p>
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----- Answer the following questions in another sheet -----

2.

- a) Alibaba seems to be profiting a lot ("Alibaba generated \$8.5 billion in revenue, nearly half of it profit") still, Jack Ma resorted to an IPO (Initial Public Offering) to raise cash. Having profited so much, why do you think Alibaba needed a cash inflow? (3)

Referir a diferença entre profit e cash

O facto de ter lucro não quer dizer que tenha dinheiro disponível. Ele pode estar sob a forma de dividas a receber e, em último caso, pode nem ser cobrável se o cliente falir. (50%)

O dinheiro é necessário para fazer face ao crescimento. Permite contratar pessoas, comprar infra-estruturas, etc... a existência de lucro por si só não permite à empresa crescer (50%)

Alibaba is looking for suitable expansion opportunities and is interested in launching its own MMORPG (Massive Multiplayer Online Role-Playing Game). Called Chinese Dragon, Jack Ma's initial plan is to take advantage of his experienced software engineers and have them develop the game. After that, Jack's team estimates that maintenance and support costs will average \$750.000 per month, independently of the number of players. His marketing department thinks that players would pay \$20 per month to play the game. Average costs per added player for server load and customer support will be \$1 per month. The Chinese Government was also very enthusiastic with the patriotic game theme (it also included Giant Pandas as main characters) and decided to give Alibaba a monthly support of \$100.000.

Meanwhile, an American company approached Jack Ma and offered to host the game servers for half the cost (\$375.000 per month). In exchange this company will keep 50% of monthly subscriptions fees. In this case, since the servers will be outside the country, the chinese government will not support the game.

b) Analyze the two alternatives in terms of profitability and risk. (4)

Resolução:

- **Hipótese A (20%)**

$$CF=750000 / RF=100000 / cv=1 / rv=20$$

$$\text{Break-even} = 650000/19 = 34210,5 = 34211$$

- **Hipótese B (20%)**

$$CF=375000 / cv=1 / rv=10$$

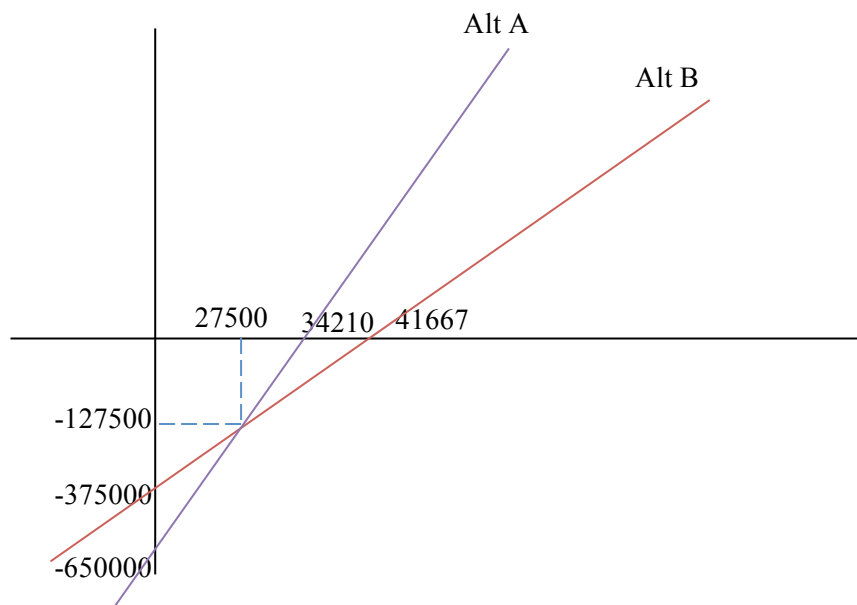
$$\text{Break-even} = 375000/ 9 = 41666,66$$

- **Calcular ponto de igualdade entre as alternativas (20%)**

$$19x - 650000 = 9x - 375000$$

$$X = 27500$$

- **Representação gráfica (20%)**



- **Conclusão (20%)**

É necessário referir que a alternativa A será melhor a partir das 27500 subscrições e que esta tem um risco inferior por ter um ponto crítico menor (34210 jogadores versus 41667 jogadores)