Business Management SL IA

To what extent should Alibaba increasse their effort in fighting counterfeits

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# Introduction

## Question

To what extent should Alibaba increase their efforts in fighting counterfeits

## Background

Alibaba is a multinational conglomerate located in China. It specializes mainly in e-commerce, but also provide digital media, whole sale, logistics, payment & financial and cloud services.

## Motivation

Alibaba is one of my favorite e-commerce due to its relatively cheap price compared to other stores. However, the large number of counterfeits on Alibaba have severely affected my user experience. After doing some research, I realized that Alibaba have already tried fixing the problem. Thus, I have decided to investigate this topic to find out where and what extent should Alibaba spend more effort to combat the issue

# Methods

## Procedure

In this paper, I will be using secondary sources to investigate the problem. They will be mainly from journals and official document. I will then conduct a STEEPLE analysis to find out which way should Alibaba continue their effort and a financial analysis to determine to what extent should they increase their efforts in fighting counterfeit.

## List of Sources

#### Notorious list of USA government in 2017

#### Alibaba 2017 IPR protection annual report

#### Journal – “Fake Goods on Alibaba Hurt U.S. small Businesses”

#### News Article – ‘Can Alibaba rescue its reputation from counterfeits’

#### Journal – ‘In fighting against fakes, Alibaba and Owner of Gucci Go from Adversaries to Partners”

# Findings

## Article 1

This is a report by the federal government of USA. It is biased against Alibaba due to trade ware between China and US, but information should be reliable.

It outlines issue of Alibaba’s lack of regulation to SMEs (small to medium enterprises) and proposes Alibaba to have better communication with the companies

## Article 2

This is the IPR protection report published by Alibaba. It is biased toward Alibaba, but should have reliable information.

It outlines various development and achievement that Alibaba have made to fight counterfeit, and indicates willingness of increasing effort.

## Article 3

This is a journal from WSJ by a professional journalist, and is unbiased with reliable information.

It outlines how Alibaba investigate reports and takes a long time to remove from listing, as well as the huge number of customers that Alibaba have to deal with compared to other e-commerce’s. At the end of this article, it uses quotes to encourages Alibaba to take further actions in fighting counterfeit.

## Article 4

This news article is from a professional reporter, thus should be mostly unbiased with reliable information.

This article points out many people in China are actually looking for counterfeit when shopping. Then connects this with the large population of China to justify the cause of the amount of counterfeit. It suggests at the end for Alibaba to spend smore effort to decrease the amount of counterfeit in its market.

## Article 5

This journal is from New York Times by a professional journalist, thus should be unbiased and reliable.

It discusses the relationship with large companies of how their cooperation have eliminated a large amount of counterfeit on Alibaba, but points out that Alibaba should spend more effort protecting small business at the end.

# Analysis of Findings

## STEEPLE

### Social

Many people in China are purposely looking for counterfeit. (Smiley, 2018) This is because of their limited income of 20% of an average US citizen (Ceic-data, 2017) and the quality of Chinese counterfeits: they are usually manufactured by the official manufacturing factories of the big companies. (Chu & Lin, 2017)

While Alibaba have taken actions such as hosting charity events, and cooperating with the government in making tougher laws, there are still many Chinese citizens that are buying counterfeit from Alibaba. (executive office of the president, 2017).

### Technological

Alibaba is adopting a new strategy of detecting counterfeit with “big data”. (Mozur, 2017) They are using machine learning combined with a data base of all of their products with advanced algorithms to detect counterfeit products. (Alibaba, 2018) The goal of all of this development is to stay ahead of the technological ability of counterfeit producer and sellers.

### Economical

Alibaba’s economical environment is not looking friendly. China have recently been in a trade war with USA, which caused a recession in its economy as well as a huge depreciation of its currency. (Smith, 2019) This is especially harsh for Alibaba, as 67% of its revenue comes from its e-commerce platform in China (Alibaba, 2017), which will experience a slowdown in sales (recession) and decreased income (depreciation).

### Environmental

Alibaba have minimal impacts on the environment, since it is a company that provides internet-based services. However, it has taken actions such as funding organizations to protect water sources in China. (Alibaba, 2017) While the environmental factors do have affect on the business, it does have a direct relationship on its trade and profit.

### Political

Alibaba does not have a good relationship with the federal government of USA, due to the trade war between USA and China but more importantly the large amount of counterfeit of USA products that it has in its market. (executive office of the president, 2017)

This makes it hard for Alibaba to enter other markets such as the USA, due to the lost in its reputation internationally, which discourages new customers. (Smiley, 2018)

### Legal

#### In China

Chinese laws lack regulation on the production and sales on counterfeit problem. However, Alibaba have been cooperating with the Chinese government in improving the regulation and enforcing the law. (Alibaba, 2017)

#### Outside of China

Alibaba have been sued by multiple companies due to the number of counterfeits on its e-commerce platform. This makes it really hard for Alibaba to expand to other countries since there are strict laws regarding selling counterfeit in most countries. (Mozur, 2017)

### Ethical

#### Consumers

Counterfeit have worse quality than the original products. Many customers on Alibaba have been tricked by the low price and the use of official product images due to lack of awareness of the product. To fix this, Alibaba have implemented refunding policies of counterfeit products and methods to report counterfeit. (executive office of the president, 2017)

#### Producers of original product

Counterfeit products are a form of stealing: stealing IP, which is an intangible asset. While Alibaba have done a good job removing counterfeit of big companies with their alliance program (smiley, 2018), many SMEs are still severely affected by the counterfeit sold on Alibaba. (executive office of the president, 2017)

## Financial Analysis

### Ratios

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2016 | 2017 | 2018 |
| Gross profit margin | 66.0% | 62.4% | 90.5% |
| Net profit margin | 70.5% | 26.0% | 24.5% |
| ROCE (return on Capital Employed) | 22.8% | 10.0% | 10.6% |
| Current ratio | 2.576 | 1.944 | 1.891 |
| Total revenue growth |  | 156.5% | 158.1% |
| Other income growth |  | 16.4% | 356.3% |
| Market development expense growth |  | 123.7% | 133.4% |

(See appendices)

### Analysis

The gross profit margin is experiencing an increase, which it has increased by 28.1% from 2017 to 2018. This is caused by the near 160% growth in the total revenue, as well as some slight increase from other incomes. However, the net profit margin has been decreasing significantly, as it had a 44.5 decrease from 2016 to 2017. This is likely caused by the significant decrease in other income from 2016 to 2017 (16.4%) as well as the increase in taxation from the government. The result of this shows in the Return on Capital employed, where there was a big drop in 2017 by 22.8%, but started increasing in 2018 by 0.6%.

The current ratio has become “healthier” as it is best between 1.5 ~ 2 (Stimpson & Smith, 2015). At 2016, it was 0.576 above the suggested ratio, but it decreased into the range in 2017 to 1.944. However, it still remains in the higher portion of the suggested range, which means that there are still room for Alibaba to spend more money in development expense. It has been growing by around 125% for and 2017, and 2018, but it still has significant room left for development as the revenue for Alibaba is increasing for a near 150% each year.

# Conclusion

## Direction

|  |  |
| --- | --- |
| Problem | Solution |
| Lack of social awareness | Cooperate with government to spread awareness against counterfeit |
| Slow takedown process | Technology development to create efficient autonomous takedown process |
| Lack of law regulation | Encourage Chinese government to develop tougher laws |
| Customer scammed by counterfeit | Improve rating system to make it more obvious |
| Large amount of counterfeit of SMEs in market | Increase regulation for SMEs |
| Lack of trust from producers | Improve communication with other companies to provide more information. |

## Extent

Because of the slowdown in Chinese economy and the decrease in profitability in the business, Alibaba need to actively try to increase profitability which can be achieved by increase their revenue without significant increase in cost. One of the ways to achieve this is to focus more in the international customer, as it is not as developed as the Chinese market (Alibaba, 2018), and is a huge market.

Since their counterfeit problem act as a great barrier between them and the international market, fighting counterfeits should be one of Alibaba’s priorities. Considering Alibaba’s current ratio, Alibaba should be spending significantly more effort in fighting counterfeit, as this problem should be solved as fast as possible.

# Appendices

## Financial calculations:

### Chart

#### Information

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2016 | 2017 | 2018 |
| revenue | 101143 | 158273 | 250266 |
| cost of revenue | 34355 | 59483 | 107044 |
| gross profit | 66788 | 98790 | 143222 |
| net profit | 71,289 | 41,226 | 61,412 |
| Other income | 52245 | 8559 | 30495 |
| current asset | 134035 | 181864 | 256855 |
| total asset | 364245 | 506812 | 717124 |
| current liability | 52039 | 93564 | 135810 |
| total liability | 114356 | 93564 | 135810 |
| capital employed | 312206 | 413248 | 581314 |
| product development | 13788 | 17060 | 22754 |

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#### Calculation

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2016 | 2017 | 2018 |
| gross profit margin | 0.660332 | 0.624175 | 0.572279 |
| net profit margin | 0.704834 | 0.260474 | 0.245387 |
| ROCE | 0.22834 | 0.099761 | 0.105643 |
| current ratio | 2.575664 | 1.943739 | 1.891282 |
| Revenue growth |  | 1.564844 | 1.58123 |
| product development |  | 1.237308 | 1.333763 |

### Formula:

Gross profit Margin:

Net profit Margin:

Capital Employed:

ROCE:

Current ratio:

Percentage growth:

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