

Alibaba's Steps to Success
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Professor Quesenberry

Aiyana Huang
Xinyih

1. Alibaba's Business Model and the Role of Automation

As one of the world's biggest IPO, Alibaba strives to develop a prosperous e-commerce ecosystem by creating platforms globally and domestically to allow online shoppers and sellers to have the best experience possible. Alibaba's scale is gigantic – it owns 20 services worldwide with 6 focusing on e-commerce alone (Zeng, 2018, p.5). Thus, to analyze the business models of Alibaba in detail, this report will specifically focus on how it operates in China.

Since Alibaba's goal is to create a booming e-commerce market, their business model focuses on the complete integration between various systems to make the shopping experience more enjoyable. Hence, Alibaba covers all aspects of online shopping to provide everything a buyer might need, including different platforms, payment system, chatting system, and more. For example, one of Alibaba's biggest site, Taobao, is a specific platform for small vendors where anyone can register and sell their products. In contrast, its Tmall market is filled with branded merchants for customers who want high quality goods. To correspond with its big e-commerce industry, Alibaba also has an online payment system called Alipay. Hence, this integrated system helps Alibaba to provide a one-stop shopping experience for users, reaching Alibaba's goal of creating a prosperous and coordinated e-commerce market.

Alibaba's value chain is straightforward. Since Alibaba does not make or sell its own products, it does not make or deliver products. However, to reach its goal and provide the best customer and seller experience, Alibaba helps connect sellers with various delivery services to deliver goods on time. Alibaba has a joint logistic with five major express delivery companies to help seller find the right shipping service (Banker, 2014). Once the buyer purchases a product, the seller can use one of Alibaba's partner shipping or contact their own delivery services. After a product is delivered, the customer can still communicate with the sellers to return or exchange products through Aliwangwang. Using Alibaba's features, they can also leave reviews of the product for other customers. Hence, Alibaba's partnership with delivery and features to chat and review allow both sellers and customers to have better experiences at online shopping. In terms of marketing and sales, Alibaba attracts its own customers by advertising through word of mouth and social media. One of the most effective advertisements for Alibaba is using viral promotion through means such as word of mouth and friend recommendations. Alibaba also advertises through social media such as Weibo, the biggest social media platforms used in China. For example, before each year's "Singles Day" sell, Alibaba often display various promotions and sells for different brands on social media to attract buyers.

In order to ensure its business performs more efficiently, Alibaba uses AI and big data to develop algorithms to make important decisions. Specifically, Alibaba uses data from the markets to develop competitive strategies and sales efforts to correctly identify customer's needs and improve their system to fit the demands (D, 2018). For example, while operating Tmall, Alibaba captures live data with each customer interactions, then the algorithm can recommend products to shoppers and communicate with supplier to revise their inventory based on demands. This helps suppliers to keep a low inventory to reduce holding costs and storage spaces (Marr, 2018). Using this algorithm, Alibaba can keep customers happy by recommending specific products they want while keeping suppliers satisfied as they increase sales. Thus, the AI benefits both sides by attracting more buyers and sellers to join the platform, enlarging Alibaba's business. Aside from using disembodied AI, Alibaba also has embodied AI such as robots to make packing more efficient. For Single's Day 2018, Alibaba used 700 robots in warehouses to automatically find packages and deliver them to a part of the warehouse where they are picked up by shipping services (Kharpal, 2018). This saves a significant amount of time which makes

packing more efficient and accurate with faster deliveries. Thus, Alibaba can process more efficiently, which helps reach its goal of a prosperous market.

2. How Alibaba Demonstrates Operational Effectiveness

While there are many e-commerce giants in China such as Amazon, JD, and Pinduoduo, Alibaba stands out by demonstrating operational effectiveness including its binary business model, incentives to take different opportunities, and its integrated platform.

Alibaba provides both consumer-to-consumer platform (C2C) and business-to-consumer platform (B2C). While most e-commerce markets in China focus only on the business-to-consumer model, Alibaba offers both to expand its customer base. Taobao is C2C where individual and third-party sellers can post their products online. Hence, this gives customers more variety to choose from. Instead of being surrounded by the newest product, customers can easily find what they are looking for specifically, even if it is outdated. Thus, by offering a C2C platform, Alibaba creates a relaxing and expedient shopping experience where customers can find exactly what they need. Aside from Taobao, Alibaba also offers the Tmall platform operating on a B2C model. This gives customers the opportunity to purchase the newest items without having to go to the mall physically, adding convenience to their shopping experience. Purchasing at branded stores also maintains the high quality of the product to help shoppers avoid buying counterfeit goods. Furthermore, the fast and reliable responses of the salesperson also attract the buyers to buy from online instead of in store. Since it is much easier to multitask and chat with different customers online instead of helping one person at a time physically, the salesperson can be more efficient in answering customer's questions, thus encouraging more customers to shop online. Hence, by having a B2C model, Alibaba emphasizes on the reliability and quality of products and services, attracting more customers. Thus, Alibaba outperforms the other companies by implementing both B2C and C2C model that offer a wide range of advantages.

Alibaba is also very strategic in taking advantage of business opportunities. For example, the "Single Day" phenomenon was originally created by students in university for celebrating being single. Although it was insignificant at that time, Alibaba saw this opportunity to target young shoppers and decided to use this day as an event of deals and promotions. With the growing younger population and a bigger gender gap in China, more and more people are attracted to this shopping event for fun and deals. Eventually, Singles Day became the biggest shopping event of the year with Alibaba earning \$30.8 billion in sales on that one day in 2018 (Kharpal, 2018). Hence, Alibaba's strategy of targeting a specific group of shoppers and creating clever promotions helped the company to earn the leadership title.

Lastly, Alibaba's integrated system made the online shopping experience more convenient and enjoyable for the users. Unlike other companies who only offer the online shopping aspect of the market, Alibaba offers a chain of service including Aliwangwang to allow customers communicate with sellers, Alipay that ensures customers can purchase item securely, and other partnerships with delivery systems that make it easier for sellers to mail products (Pavie, 2017). This integrated e-commerce ecosystem gave Alibaba many opportunities to invest and attract users. Without having to enter and reenter credit card numbers and worry about the safety of transactions, users can simply enter their password to Alipay to make fast and secure payments. Without having to wait days for merchants to reply, buyers can get an immediate response using Aliwangwang or the chatbot. Hence, Alibaba's fused system make shopping faster, more secure, and more fun for the consumers, attracting users to revisit the site.

3. Alibaba and the IS Strategy Triangle

Alibaba, like many other businesses, uses people, process, and technology to develop their leadership in the world. In order to reach its goal of a prosperous market, Alibaba attracts users by making specific recommendations, a more convenient experience, and fast delivery systems. Thus, Alibaba's business strategy revolves around targeting users individually to meet their needs, interests, and convenience.

To support their business strategy, Alibaba uses information strategy to collect data and build algorithms that help sellers to promote their products, thus helping Alibaba to make profit. With one of the world's largest computer server to run its e-commerce industry, Alibaba's operating system can process 175,000 transactions per second, allowing them to process user's request efficiently, making the e-commerce market more convenient for the users (Erickson, 2019). Aside from big-scale computing, Alibaba also collects huge amounts of data through its 500 million active users across its websites (How Alibaba Is Leading Digital Innovation in China, 2018). Using this data, Alibaba can analyze in real-time and make accurate predictions of what the customers want based on previous searches, online browsing, and comments. This allows merchants on Tmall to forecast product demands and determine the right products to offer at the right price. In order to make e-commerce more fit to personal taste, Alibaba also developed personalized pages for their virtual storefronts. Based on the customer's age, gender, and geographic locations, Alibaba generates personalized websites on Taobao and Tmall, this resulted in a 20% conversion rate on personalized pages during Singles' Day compared to non-personalized pages (Erickson, 2019). Hence, with these data to generate specific recommendations, Alibaba can target each individual customer and make a profit.

Alibaba's organizational structure also supports its business strategy. With multiple partnerships in different areas, Alibaba strives to make the e-commerce market more effective. In 2017, Alibaba announced its partnership with multiple other delivery companies and formed Cainiao to build a global logistics network. Alibaba uses Cainiao's technology to determine the fastest and most cost-efficient delivery routes. This helps sellers to deliver their products faster, creating a better customer experience that satisfies Alibaba's goal. With Cainiao, Alibaba makes 42 million deliveries a day with a 30% reduction in travel distances, saving money for gas and making delivery more efficient (Erickson, 2019).

Hence, with the help of their technological strategy that collects millions of data each day, and their organizational strategy that combines their expertise with others to create tremendous achievements in its business, Alibaba has built a strong foundation for its business strategy of creating an integrated e-commerce system that coordinates with other sectors, opens for more development, and supports buyers and sellers.

4. Alibaba and Porter's Five Forces

Industry rivalry – Alibaba faces strong industrial rivalry as there are many other big firms such as Pinduoduo and JD, creating vigorous competition in the field. However, Alibaba successfully differentiated itself from the rest of the firms by having an integrated system and a unique business model. As mentioned earlier, the majority of China's other big e-commerce companies uses a B2C model. Thus, they need to spend more time monitoring big businesses to decide which merchants to include on their website and maintain their relationship with current businesses to make a profit. Hence, instead of focusing on customer experience, which Alibaba scrutinizes in, B2C platforms allocate big portions of their time analyzing the merchants instead of creating ways to improve customer experience. Furthermore, B2C markets often do not offer a

long-tail of products. Since merchants want to promote their newest items, it is hard for customers to find other products, thus, it gives customers a limited amount of selections to choose from. Unlike JD or Pinduoduo, Alibaba's business model contains both consumer-to-consumer, like Taobao, and business-to-consumer, like Tmall. Their variety of business models help satisfy buyers who want the newest products from companies and those who are looking for other products. Having a C2C model creates a long-tail of product offerings. Since ordinary sellers do not need to always offer the newest product, they often sell whatever they have in their hands, creating a wide variety of products available online. Thus, buyers who need a specific item that is not offered anywhere else often resort to Taobao. By creating a C2C platform, Alibaba can further focus their attention on customer experience instead of trying to maintain a good relationship with big merchants. This allows Alibaba to create an integrated system that satisfies buyer's needs in an e-commerce industry, motivating them to establish Alipay, Aliwangwang, and many more to better customers' shopping experience.

Threat of entry – Since Alibaba has already developed a big economic scale and brand, it is difficult for any small business to enter and immediately threaten Alibaba's business. With over 500 million active users, Alibaba gathers tremendous amounts of data every day to strengthen its company (Erickson, 2019). Furthermore, as a global leader with markets in China and America, Alibaba's international market is difficult for new entrants to replicate. Lastly, with Alibaba's big brand and scale, it attracts millions of customers each day, making it easier for Alibaba to make a profit, which in turn helps them attract more users and more scale. This network effect of Alibaba helps it to stay in power as the leader of e-commerce. Specifically, Alibaba is a two-sided market with merchants and buyers that benefit from each other. This positive-feedback loop helps Alibaba to monopolize the e-commerce industry in China, making it hard for new companies to enter. Thus, Alibaba's global connections, enormous database, and large scale network effect prevents threats from new entries.

Threat of substitutes – Instead of going to a physical mall or renting items, many customers prefer Alibaba because of its cheap price. In physical retail stores, merchants often need to consider rent, employee paycheck, and other factors which can drive price higher. However, since Alibaba operates a C2C model and does not charge any commission fees, sellers can sell their product at a cheaper price compared to actual retail stores, thus attracting more users to buy from online. Furthermore, merchants also like to sell on Alibaba because of the direct transaction that maximizes their profit. Thus, Alibaba attracts both merchants and buyers, which create a growing market that invites more people to join.

Bargaining power of buyers – Buyers have high power since they have many other choices such as JD or Pinduoduo. To prevent users from leaving Alibaba, Alibaba created databases that keep track of each user's interests through their search history, comments, and view history. Thus, Alibaba can recommend specific products to users using its AI algorithm to fit the user's preference. These recommendations are highly valued by customers as they can easily find something they like. Furthermore, this increases the switching cost for customers as they have to start over to build their profile with a different company. Also, Alibaba's integrated system adds to the switching cost. If the customer saved money in Alipay, they cannot use JD or others because Alipay is only for purchasing with Alibaba. Thus, they are less motivated to switch because it takes time and effort to take out the money. Thus, Alibaba's enormous data and its integrated system prevent users to switch to another company.

Bargaining power of suppliers – The bargaining power of supplier is very low in the case of Alibaba. Since Alibaba operates a C2C market with Taobao, the suppliers are the sellers. Due to

Alibaba's huge reputation, many suppliers want to enter the market. Thus, there are always more new suppliers who want to register at any time (Porter's Five Forces Analysis of Alibaba, 2017). Furthermore, with its two-sided network, sellers are attracted to Alibaba because of its big customer base, and Alibaba wants more sellers to gain more customers. Thus, the two-sided network keeps sellers in Alibaba.

5. Alibaba's Challenges and Solutions

Although Alibaba is currently the world's leader on e-commerce, it still has multiple challenges that must be addressed. One challenge is the continuous problem of counterfeit goods on the market. In 2015, Beijing's Xinhua news reported that 40% of China's domestic e-commerce sites were counterfeit goods (Shepard, 2018). The fake products can bring a bad reputation to Alibaba, turning customers away from the platform. Thus, to prevent counterfeit products, Alibaba can implement a database system that tracks where each product comes from. It can require sellers to fill out forms that demonstrate where and when they purchased items, including the serial numbers and contact information with the factory or merchants. Then, before seller publishes their item on the market, Alibaba can use the information in the database to track down the item's origin and make sure it is valid. Hence, this can reduce the percentage of counterfeit goods sold on Alibaba, attracting more customers to buy authentic goods.

Another problem with Alibaba is fake reviews of products. Often, sellers will bribe customers to leave fake reviews in exchange for some giveaways. This causes many bad-quality items to have good reviews, increasing their visibility and attracting more customers, and good-quality items with bad reviews in hopes of decreasing competition. However, the buyers often feel scammed after receiving products with quality lower than their expectations, decreasing their trust in Alibaba. Thus, this harms Alibaba's reputation as buyers turn away due to loss of trust, and it drives away good merchants as their visibility decrease. To solve this problem, Alibaba can implement a system that detects the seller's reported abuse. Many sellers, after receiving unfair reviews, report their problems to Alibaba. However, due to large amounts of other reports, their problems often get lost. Thus, Alibaba can implement a system that detects these complaints by noticing keywords and assign human agents to assist these sellers. Using AI and example reports, Alibaba can train the system to recognize keywords. Then, the schedule of employees can be uploaded to pair available assistant to the seller. In this way, this can help sellers to prove their item's quality and reduce the number of unfair reviews. Furthermore, Alibaba can implement a stricter verified purchase system to ensure the buyers leaving reviews are legitimate. This can take form as a verifier that enables user's comment function for a specific product strictly after they paid and showed the product is delivered. Hence, this prevents anyone from reviewing the product without purchasing, thus reducing "incentivized comments".

One last problem Alibaba faces is the expansion of its international market. Currently, Alibaba wants to develop its market to other countries such as India and Australia. Hence, Alibaba must find products that satisfy potential buyers taste to succeed internationally. To do this, Alibaba should attempt gathering data of the potential customers before launching. Since different regions have a different culture, customers in India or Australia might not like the same products as customers in China. Thus, Alibaba must determine what their potential customers want before fully implementing their market. Alibaba can do so by collaborating with other companies to collect data on potential consumer's viewing histories and comments. In this way, Alibaba can gather evidence of the interests of international customers, which they can then use their AI algorithm to divide customers into different groups and uncover what each group is

interested in. Then, when Alibaba launch their international market, they can immediately recommend items that fit the group's need, reducing time wasted to guess what customers want.

6. IS Solution to Improve Alibaba's Position

As mentioned earlier, Alibaba should develop a database of all customer's interest in the international market before and after launching the platform in Australia and India. To do this, Alibaba should use a Customer Relationship Management System to track all interactions. Before implementing the platform, Alibaba should use the system to estimate what the potential customers want and import those items, thus giving them a head-start in the business (Hall, 2012). After the launch, Alibaba should maintain this system with new and updated data from customer searches and viewing histories. In this way, Alibaba can reduce the initial cost of guessing what the customers want and continue to make a profit once they gather more data.

This solution is highly feasible technically as Alibaba already has a similar algorithm in place for its Chinese markets. Thus, Alibaba does not need to buy new technologies to reuse this algorithm. However, since they are adding thousands of new data points, Alibaba might need to create more storage to store these data. Hence, they might need to expand their cloud storage to accommodate all these new data. Alibaba can achieve this by expanding their own cloud or renting cloud servers from other providers. In either case, this should be easily achievable.

Unlike technical feasibility, Economically, this solution might cost Alibaba more than expected. In order to gain information on the customer before launching the platform, Alibaba should partner with some local companies to acquire these data by looking at their customer information and purchases. Since data is highly valuable information, partnering and buying data from companies can cause Alibaba a fortune (Figueredo, 2013). However, the return on investment, in this case, is high. Once Alibaba acquires some data on the customers, it can use its own machine learning algorithm to extrapolate more data points and estimate what the customer wants, which bring them more profit. Aside from buying data before the launch, Alibaba can maintain its own CRM, which is approximately the same cost as its current one. Thus, although Alibaba needs to spend a big portion of money buying data, the amount of profit they will gain outweighs their initial spending, making this a feasible solution.

In terms of schedule, Alibaba should start buying data and starting the new CRM program months in advance of implementing the platform. In this way, it gives Alibaba enough time to gather information, analyze it with its AI, and coordinate the product to sell. Hence, if Alibaba wants to launch the market as soon as possible, this might not be a feasible solution. However, if Alibaba wants to launch a steady market, they should follow this model and allocate enough time to implement the CRM system. Once Alibaba establishes a stable online market, it should continue updating the CRM system as long as the platform runs. In this way, they can collect more information on each customer and develop customized recommendations and pages to increase profit.

If Alibaba does not adopt a CRM system, they run the risk of losing millions of profits. Without CRM, Alibaba will not know what each customer's interest is, thus they cannot provide accurate recommendations to tempt customer to purchase more items, causing them to lose opportunities at millions of profits. Furthermore, without any customer data before launching the market can cause Alibaba to spend thousands of extra dollars. Since different customers at different region have different preferences, without any customer data beforehand, Alibaba has to guess what the customers want by importing different products until they gain a large enough database to make accurate predictions.

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